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Banking To The Poor: Different Models And Lessons for India

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Introduction

Micro Banking is an initiative for banking services to the poor and economically marginalized people who otherwise don't have access to the banks. It is characterized by small size of loans and small saving mobilization among the low income groups. Micro finance is emerging globally as an effective and popular means in the struggle against poverty. It lies on the principles of client friendly procedures, highly disciplined clientele and workforce, service delivery and banking services at the client's door step. It includes provision of financial services to microenterprises, but mainly to 'low-income segments of the population'. This includes individuals and households as well as enterprises. Institutions providing micro banking services include formal and informal entities, and regulated and unregulated ones. The subject of micro banking has suddenly caught attention in both developing and developed countries. In developing economies, microfinance mainly in the form of micro banking offers more hope for the poor compared to the developed economies.Moreover, the term 'Financial exclusion' has been the main concern in many international forums that has drawn attention towards Micro banking. India being an agrarian economy where more than 58% people depend on agriculture and more than 70% people stay in villages with least access to banks, micro banking has to play a very critical role in poverty alleviation and livelihood creation.

Review of Literature

Different researchers have propounded different theories and models of Microfinance that can benefit the poor. Based on the definition of microbanking, the household, and not the individual or the microenterprise, is the most appropriate unit of analysis. Households may be both units of production and of consumption. The household-based microenterprise is the most numerous business entities and the greatest source of employment. Microbanking in developing countries can raise the productivity of households as producers as well as increasing the welfare of households as consumers (Conroy, 2002). Most of the microfinance models are based on groups for financial intermediation. There are two very different ways of using groups for financial intermediation. One is the Bangladesh Grameen Bank method, which is normally referred as theGrameensystem, and the other is the called Self Help Group, or SHG

system. There are many variants of each system, and they are often referred to as the 'solidarity group'(Harper, 2003). Both systems are dominated by female clients, but they differ in many other fundamental respects, which have important implications for their clients and for the institutions which offer them. The systems are also implemented in many different ways, depending on local circumstances.

Grameen Bank Model

Muhammad Yunus first conceptualised the Grameen Bank -originally Bank of the Poor - system in Bangladesh in 1976. Believing that credit is a human right, and disagreeing with conventional banking systems that exclude the poor from receiving this right on the assumption that they will not repay loans, he created a methodology and institution centred around the unique circumstances and needs of the poorest of the poor (PERSGA, 2007).The Grameen Bank model works on the concept of joint liability. Here Micro finance institutions (MFIs) organise borrowers into 'Groups' of five members which are in turn organised into 'Centres' of around five to seven such Groups. The members make regular savings with the MFI, according to a fixed compulsory schedule, and they also take regular loans. They each have individual savings and loan accounts with the MFI, and the main function of the Groups and Centres are to facilitate the financial intermediation process.

Banks for the Poor in the Arab Region

The Grameen Foundation has collaborated with the Abdul LatifJameel Group of Saudi Arabia, for microfinance opportunitiesin the Middle East and North Africa. TheGrameen-Jameel initiative provides assistance to other MFIs through capacity building, directfinancing, loan guarantees, technical support, translation of microfinance manuals andpublications into Arabic, and has sponsored many practitioners to receive training on bestpractices exhibited through the Grameen Bank example(PERSGA, 2007).

Micro Banking in Bolivia

The cooperative system of lending to small business has existed in Bolivia for long time. But the start of microfinance industry in Bolivia could be associated with the first twentyloans to four market women in La Paz made by PRODEM (the leading Microfinance NGO in Bolivia) in 1985 (Malamute, 2006). Microfinance in Bolivia originated with donor support to NGOs that later transformedinto formal financial institutions. In this process NGOs created spin off Microfinance Institutions. These MFIsaccessed commercial capital, mobilized localsavings, improved customer service, and expanded outreach. Today BancoSol, one of the best performing banks in Bolivia has added to the credibility to the notionthat microfinance NGOs could become part of the regulated financial landscape and reach the poor who didn't have an access to finance.

The SHG System in India

The Self Help Group (SHG) system is mainly found in India, where it is used by both MFIs and banks. The SHGmodel also exists in Indonesia, parts of South East Asia, Africa and elsewhere. The SHG system in India was initiated by NGOs, and is used for financial intermediation both by commercial banks and by MFIs.The average membership in each SHG is around fifteen to seventeen people.The total SHG members in India are well above the number of beneficiaries in any micro finance model including Grameen bank. The formation of SHGs for savings and credit, and their linkage to commercial banks, was initiated in India by MYRADA in the mid-1980s. NABARD management had around the same time had some exposure to similar experiences in Thailand and Indonesia, and they responded favourably to MYRADA's suggestion that this could be a useful way to bring formal financial services to the rural poor. Since that time, SHG linkage has been vigorously promoted by NABARD. The Indian SHG system normally involves a bank and a NGO. NGOs do not play any financial role. They promote and train the groups, and assist them through the qualifying process of saving and internal lending. The groups are introduced to a bank to open a savings account, and later to take a loan. The NGO may remain heavily involved, assisting the members to manage their affairs, and possibly promoting higher level clusters and federations of SHGs, or it may withdraw and work with other groups(Harper, 2003). However some NGOs can transform themselves as MFIs and can directly act as financial intermediaries.

Lessons for India in Micro Banking

India is a vast country with certain differences between Northern and Southern India, and the requirement of borrowing can be different in different states as per the income level, cropping pattern, occupation and culture of the place. At the same time we have to contemplate a model that is sustainable over a long period time. Though SHG system is deep rooted in the MFI structure in India, not necessarily we have to adapt or replicate the same structure throughout the country.

Conclusion

Commercial banking was mainly concentrated with industrial finance in earlier days, which took a shift towards retail banking in the last decade. The next buzzword in the banking industry has to be Micro banking. Here the loan size may be small, but the vast number of borrowers will make up for the volumes. Unlike the traditional banking, micro banking has a developmental objective in addition to the interest income by the banks. The SHG led Micro banking model has been successful in certain patches in India, but we can learn the different other forms of Micro banking from rest of the world, modify to our requirement and implement to benefit larger masses in India.

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