

New Financial Products: Experiments at the ISED Centre for Financial Education and Research

While the last three decades have witnessed significant innovations in the areas of informal finance and micro lending, the key problems of finance among micro enterprises remains significant. More so, in 2016, there has been an apparent tendency of the problem getting augmented, because of two key developments : 1) the general credit crunch that has affected the micro enterprises; and 2) demonetization, that has resulted in a temporary crisis in micro sector. The situation is likely to remain for a longer period, because of an enhanced need for formalization of these enterprises. Given the reality as it prevails in rural India, this cannot happen with the help of institutional finance. It has to happen through a more formalised window of informal finance, such as, Trade and MSME associations, community groups etc.

The objective situation, as it prevails in India need to be understood in terms of the wide gulf between commercial loans offered by the public sector banks, and the so called personal loans offered by cooperative banks and gramin banks. In the case of commercial loans, the MSME logic of operation is often scarcely presupposed. On the other hand, in the case of personal loans, the difference is largely in terms of the ease of getting a loan and not in terms of the cost of credit.

It is in the above context, one has to examine the system of 'private loans' and 'family loans'. These loans are often offered and taken by the family members. But the principle of finance still remains strong. In India also some business community practice this but in the case of micro entrepreneurs it is not very much practiced.

It is necessary to examine the role of Trade associations and MSME associations offering informal finance to members in order to meet contingencies. The question then is, whether the contingencies themselves can be categorised, and development banking policy can be tuned to encourage these institutions to meet business- related contingencies on a priority basis. On the basis of a detailed analysis, one could also explore the possibilities of incentivising such trade bodies to meet business related contingencies. This would have a dual effect on micro units. On the one hand, credit is ensured to the tiny units; secondly the cost of administration of a large number of tiny accounts by the larger banks, will be brought down

There is also a possibility and need to make the above exploration in relation to the 'right to credit legislations' that have been introduced by some countries recently.

The above observations are based on a continuous scan of recent developments. ISED small Enterprise Observatory .The Institute would be happy to develop this into a larger project proposal.

