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The State of Microfinance in India: Emergence, Delivery Models and Issues

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Abstract

In the recent time microfinance has received increased attention among the researchers and financial service providers, as a good alternative in the rural credit market. Various studies revealed that microfinance is a powerful instrument for poverty alleviation, enabling the poor to accumulate the assets, boost their incomes, and reduce their economic vulnerability. There are various opinions about the micro credit demand in India. M-CRIL, a leading micro-credit rating agency provides a conservative estimate for the annual demand at Rs. 480 billion based on 60-70 million poor families with an average household credit demand of Rs. 8,000 (less than $160). In the growing market, to meet this huge demand we require the systems and approaches with comprehensive financial inclusiveness. Within this context, the Self-Help Groups (SHGs) movement in India and particularly the SGSY, SHG-Bank Linkage Programme (SBLP) of the National Bank of Rural and Agriculture Development (NABARD), various MFIs and community based organizations present the rich experience. The present paper explores the role of and performance of various delivery models of microfinance in India. Further the paper explores some issues like outreach, impact, efficiency, sustainability and financial inclusions.

Key words: Microfinance, MFIs, Credit models, financial inclusion

JEL Codes: O16; G21; G210

1.0 Introduction

Finance is one of the most crucial inputs for economic activity, growth and development. Provision of services to the poor and underprivileged sections of the society has always been in focus of various programmes initiated by the Governments since independence (Dasgupta, 2001). Despite encouraging policies and having a wide network of rural bank branches in India which implemented specific poverty alleviation programmes that sought creation of self-employment opportunities through bank credit, a very large number of poorest of the poor continued to remain outside from the field of formal banking system. A World Bank-NCAER Survey (2003) on 'Rural Access to Finance' indicates that 70 percent of the rural poor do not have a bank account and 87 percent have no access to credit from a formal source. Informal sector lenders remain a strong presence in rural India, delivering finance to the poor on frequently extortionary terms. Access to other financial services such as savings accounts, life, health and crop insurance also remains limited for the rural poor. The failure of India's rural banks to deliver finance to the poor may be attributed to a combination of factors. From the banks' perspective, serving the rural poor is a high-risk due to uncertainty about the repayment capacity, high-cost proposition, with high uncertainty (Basu, 2006) , and transactions costs related to small loan size, frequent transactions and government policies which contribute to a financial climate not conducive to rural banking. From the poor rural borrower's perspective banks do not provide conveniently accessible and flexible products and services, high transactions costs including cumbersome, costly procedures, hefty bribes, and long processing times and lack of collateral, steady employment, income and a verifiable credit history. Further, various studies (World Bank, 2003; Basu, 2006; Deshpande and Niraj, 2003; Robin *et al*, 2004; Nair 2000; Yunus, 2003) also revealed that in India, generally, banks are for the people with money; not for the people without. The National Sample Survey Organization (NSSO), 59th round data reveals that, in highest income quartile, 92.4 per cent have savings and 86 per cent have bank account. By contrast, only 34.3 per cent of the lowest income quartile has savings, and only 17.7 per cent have a bank account. In short, government failed to deliver financial services to the majority of poor citizens. To overcome poverty, they need to be able to borrow, save and invest money to protect their families from adversity. Therefore, a need was felt for alternative policies, systems and procedures, saving and loan products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest rural in India. The microfinance[1] as a tool in poverty reduction and empowerment particularly in rural areas, has gained credence in development dialogue the world over (Joy and Murthy, 2007). It puts credit, savings, insurance and other basic financial services like fund transfer (Robert *et al*., 2004) within the reach of poor and low income households and their microenterprises. Through microfinance institutions such as credit unions, financial non-governmental organizations (NGOs) and even commercial banks, poor people can obtain small loans, receive money from relatives working abroad and safeguard their savings. These loans are

[1] Micro-credit and Microfinance are relatively new terms in the field of development. In the literature, the terms micro-credit and microfinance are often used interchangeably, but it is important to highlights the difference between both terms. Micro-credit as defined by the Grameen Bank, symbolizes small loans extended to the poor for undertaking the self employment projects that would generate income and enable them to provide employment for themselves and their families. In fact, micro credit is a part of microfinance.

generally offered without any collateral and the loans made to poor are typically short term in nature and in a small quantity. Microfinance has proven to be a powerful instrument for sustainable poverty reduction, enabling the poor to accumulate assets, boost their incomes, and reduce their economic vulnerability[2]. It can also help to combat the temporary poverty generated by crisis situations.

A Brief History of Microfinance

In the recent time microfinance has received increased attention among the researchers and financial service providers, as a good alternative in the rural credit market. It is estimated, however, that about 80% of those who are in need of financial services, about 400-500 million people worldwide, are yet outside the mainstream of formal financial systems. The concept of microfinance is not new. Small, informal savings and credit groups have operated for centuries across the world, from Ghana to Mexico to India and beyond. In Europe, as early as the 15th century, the Catholic Church founded pawn shops as an alternative to usurious moneylenders. These pawn shops spread throughout the urban areas in Europe throughout the 15th century. Formal credit and savings institutions for the poor have also been around for generations, offering financial services for customers who were traditionally neglected by commercial banks. The Irish Loan Fund system, started in the early 1700s, is an early example of this kind. In the 1800s, Europe saw the emergence of larger and more formal savings and credit institutions that focused primarily on the rural and urban poor. The financial cooperative was developed in Germany. It aimed to help the rural population break from their dependence on moneylenders and to improve their welfare. The movement emerged in France in 1865 and Quebec in 1900. Many of today's financial cooperatives in Africa, Latin America, and Asia find their roots in this European movement. Another early example is the Indonesian People's Credit Banks (BPRs) that opened in 1895 and became the largest microfinance system in Indonesia. In the early 1900s, variations on the savings and credit theme began to appear in rural Latin America and elsewhere. These rural finance interventions aimed to modernize the agricultural sector, mobilize idle savings, increase investment through credit, and reduce oppressive feudal relations that were enforced through indebtedness. Between the 1950s and 1970s, governments and donors focused on providing agricultural credit to small and marginalized farmers in hopes of raising productivity and incomes. These efforts to expand access to agricultural credit used state-owned development finance institutions, or farmers' cooperatives in some cases, to make loans to customers at below-market interest rates. These subsidized schemes were rarely successful. Rural development banks were unable to cover their costs with subsidized interest rates. Customers had poor repayment discipline, because they saw their loans as gifts from the government. Consequently, these institutions' capital base eroded and, in some cases, disappeared. Meanwhile, the 1970s saw the birth of microcredit. Programmes in Bangladesh, Brazil, and a few other countries began lending to poor women entrepreneurs. Examples of early pioneers

[2] Microfinance is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor....charity is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty

include Grameen Bank in Bangladesh, which started out as an experiment by Prof. Muhammad Yunus; ACCION International, which began in Latin America and then spread to the United States and Africa; and the Self- Employed Women's Association Bank in India, which is a bank owned by a women's trade union. In the 1980s, microcredit programs throughout the world improved on the original methodologies and defied conventional wisdom about financing for the poor. First, well-managed programs showed that poor people, especially women, paid their loans more reliably than better-off people with loans from commercial banks. Second, they demonstrated that poor people are willing and able to pay interest rates that allow microfinance institutions (MFIs) to cover their costs. MFIs that cover their costs can become viable businesses that attract deposits, commercial loans, and investment capital. They can reach huge numbers of poor clients without being limited by a scarce and uncertain supply of subsidized funds from governments and donor agencies. The 1990s saw growing enthusiasm among international development agencies and networks for promoting microfinance as a strategy to alleviate poverty. In the early 1990s, the term "microfinance" rather than "microcredit" began to be used to refer to a range of financial services for the poor .Over the past 10 years or so, microfinance has rapidly evolved and expanded from the relatively narrow field of microenterprise credit to the more comprehensive concept of microfinance which includes a range of financial services for poor people, including savings, money transfers, and insurance. Now microfinance has demonstrated that poor people are viable customers, created a number of strong institutions focusing on poor people's finance, and begun to attract the interest of private investors. To reach ever larger numbers of poor clients, MFIs and their networks increasingly began to pursue a strategy of commercialization, thus transforming themselves into for-profit corporations that could attract more capital and become more permanent features of the financial system.

Development of Microfinance System in India

Microfinance, in the sense of small loans to the poor, is of ancient origins in India. The informal financing systems can be traced to the era of Koutilya in the fourth century B.C. Since long time, traders and moneylenders have traditionally provided credit to the rural poor, usually at exorbitant rates of interest leading to considerable hardship and impoverishment of borrowers, including undesirable and illegal practices like bonded labour. The first effort in institutionalizing rural credit was made by the Government of India in the first decade of the last century with the passing of the Co operative societies Act in 1904 to support the country's predominantly agricultural economy. The creation of a nationwide network of rural cooperative banks in the 1950s was an attempt to improve financial access for India's poor, 75% of whom are concentrated in rural areas. This was followed by introduction of social control in 1967 by the Government of India and later nationalization of major Commercial Banks in 1969; these banks were also directed to involve themselves in rural lending. There were several objectives for the bank nationalization strategy including expanding the outreach of financial services to neglected sectors (Singh, 2005). Though the country witnessed significant growth of the commercial banks since then, their involvement in rural lending was negligible till the mid-sixties. But, the process of institutional credit delivery was intensified with nationalization of commercial banks and

Later in 1975, Government of India also introduced a specialized state sponsored, regionally based and rural oriented Regional Rural Banks (RRBs) with the objective of accelerating rural economic development of the identified target groups i.e., weaker sections comprising small and marginal farmers, agricultural labourers, artisans, small entrepreneurs etc. In India, institutional credit agencies (banks) made an entry in rural areas initially to provide an alternative to the rural money lenders who provided credit support, but not without exploiting the rural poor. Despite having a wide network of rural bank branches in India, a very large number of poor especially women continued to remain outside form the formal banking financial system. Therefore a need of financial inclusion was felt with alternative systems and procedures, saving and loan products, other complementary services and new delivery mechanisms, which would fulfill the requirement of the poor. The Regional Rural Banks (RRBs) were set up in 1976, especially with a view to meet the credit requirements of the weaker sections of the society living in rural areas, such as small and marginal farmers, agricultural labourers, rural artisans and people involved in petty trades, etc. In India it began in the 1980s with the formation of pockets of informal Self Help Groups (SHG) engaging in micro activities financed by Microfinance. But India's first Microfinance Institution 'Shri Mahila SEWA Sahkari Bank' was set up as an urban co-operative bank, by the Self Employed Women's Association (SEWA) soon after the group (founder Ms. Ela Bhatt) was formed in 1974.The National Bank for Agriculture and Rural Development (NABARD) came into existence in 1981 and initiated new approach in the area of rural finance. In 1982 RBI transformed its agricultural credit department into the NABARD[3], with responsibility eventually for some 160,000 rural financial outlets, among them around 100,000 credit cooperatives (Seibel, 2005). In the early 1980s, the government of India launched the Integrated Rural Development Program (IRDP), a large poverty alleviation credit program, which provided government subsidized credit through banks to the poor. It was aimed that the poor would be able to use the inexpensive credit to finance themselves over the poverty line. In 1991, government reforms allowed for an increase in commercial banking in India. The country now has a wide-spread and efficient banking set-up with around 100,000 bank branches nationwide. The expansion of commercial banking has also led to a more favourable financial environment for the poor in India. It was following these reforms that the *"Self-Help Groups (SHGs)–Bank Linkage"* model grew to become a key part of finance for India's poor (Basu, 2006). In January 1993, SHGs registered or unregistered were allowed by the RBI to open savings bank account with banks. Further, to study the potential of microfinance movement, the RBI constituted in 1994, a Working Group on NGOs and SHGs under the chairmanship of Shri S. K. Kalia. Small Industries Development Bank of India (SIDBI) started operations in the field of microfinance in 1994 with a view to strengthen SHGs and provide micro credit to the rural poor and women taken up industrial activities at micro level.

To further promote the SHG movement in the country, banks were advised by the RBI in 1998 that SHGs which were engaged in promoting the saving habits among their members would be

[3] On the basis of the 1981 survey NABARD concluded that, while India had one of the most complex rural financial infrastructures of any developing country, that system had failed to attain its objective of reaching the rural poor. Among the reasons identified were a sole emphasis on production loans, prohibitive transaction costs for lenders and borrowers, failure to mobilize savings, and overly complicated procedures.

eligible to open saving bank accounts and that such SHGs need not necessarily have availed of credit facilities from bank before opening saving bank accounts. Subsequent to the Monetary and Credit Policy announcement for the year 1999-2000, banks were advised that interest rates applicable to loans given by banks to micro credit organization or by the micro credit organizations to SHGs/member beneficiaries would be left to their discretion. A Task Force on Supportive Policy and Regulatory Framework for micro finance was set up by NABARD in 1999 of which the RBI was a member. Recognizing the growing importance of micro finance the RBI constituted a micro credit special cell in banks in 1999 to suggest measures for mainstreaming micro credit and accelerating flow credit from MFIs[4]. In the same year, the government of India merged various credit programs together, refined them and launched a new programme called Swaranjayanti Gram Swarazagar Yojana (SGSY). The mandate of SGSY is to continue to provide subsidized credit to the poor through the banking sector to generate self-employment through a self-help group approach and the program has grown to an enormous size. In order to promote micro finance, in January 2000, all NBFCs and residuary non banking finance companies (RNBCs) were advised by the RBI that those Non Banking Finance Companies (NBFCs) which were engaged in micro financing activities, licensed under Section 25 of the Indian Companies Act 1956, and which were not accepting public deposits were exempted from the purview of Section 45-IA (registration), 45-IB (maintenance of liquid assets) and 45-IC (transfer of a portion of profits to Reserve Fund) to the Reserve Bank of India Act, 1934. On 12th July 2002, Prime Minister Atal Behari Vajpayee outlined an 8 point agenda to push the economy on a growth path of

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[4]The different organizations in this field can be classified as "Mainstream" and "Alternative" Micro Finance Institutions (MFI).

Mainstream: NABARD, Small Industries Development Bank of India (SIDBI), Housing Development Finance Corporation (HDFC), Commercial Banks, Regional Rural Banks (RRBs), the credit co-operative societies etc are some of the mainstream financial institutions involved in extending micro finance.

Alternative: These are the institutions, which have come up to fill the gap between the demand and supply for microfinance. MFIs were recently defined by the Task Force as "those which provide thrift, credit and other financial services and products of very small amounts, mainly to the poor, in rural, semi-urban or urban areas for enabling them to raise their income level and improve living standards."

The MFIs can broadly be classified as:

- NGOs, which are mainly engaged in promoting self-help groups (SHGs) and their federations at a cluster level, and linking SHGs with banks, under the NABARD scheme.
- NGOs directly lending to borrowers, who are either organised into SHGs or into Grameen Bank style groups and centres. These NGOs borrow bulk funds from RMK, SIDBI, FWWB and various donors.
- MFIs which are specifically organised as cooperatives, such as the SEWA Bank and various Mutually Aided Cooperative Thrift and Credit Societies (MACTS) in AP.
- MFIs, which are organised as non-banking finance companies, such as BASIX, SKS, CFTS and SHARE Microfin Ltd.

eight percent during the 10th plan. Mr. Vajpayee assured that it would be government's endeavour to ensure that *"the poor and the unorganized sector have access to savings, credit and insurance services"*. This statement itself is a great boost to the microfinance sector, as one can see the changing perception of the people influencing the policies, toward it. However, it is still a beginning and to make the sector vibrant, the efforts have to be still on. In order to examine issues relating to rural credit and micro finance, an internal group was set up in 2005 under the chairmanship of Shri H.R.Khan. In 2005, the government of India introduced significant measures in the annual budget affecting MFIs. Specifically, it mentioned that MFIs would be eligible for external commercial borrowings (ECBs) which would allow MFIs and private banks to do business thereby increasing the capacity of MFIs. Also, the budget talked about plans to introduce a microfinance Act that would provide some regulations on the sector (Reddy and Manak, 2005). In 2005-06, a pilot project for 'Promotion of Microenterprise' were launched among members of matured SHGs. NABARD launched the 'Micro Enterprise Development Programme' for skill development in March 2006. The Union Budget of 2008-09 announced that banks would be encouraged to embrace the concept of total financial inclusion. Consequent upon this, in April 2008, banks were advised by the RBI to meet the credit requirements of SHGs members, as envisaged in the Union Budget (Mahajan and Laskar, 2009).

Apart from the government efforts, some organizations like Self-Employed Women's Association (SEWA) has introduced some different kind of innovative methodology in microfinance. Though started as a Trade union for women in the unorganized sector, today SEWA boasts of running the first Women's Bank in the country. SEWA has also networked many co-operatives and emerged as the largest federation of co-operatives in the country. Today there are many diverse players in the field of microfinance. In nut shell there are three main factors that count to the bringing up of Microfinance as a Policy in India viz. nationalization of banks, Integrated Rural Development programme and reforms in financial and banking sector.

Demands for Microfinance Services in India

In terms of demand for micro credit, there are three segments. At the very bottom, there are landless agriculture labourers and manual labourers. The next market segment is of small and marginal farmers and rural artisans' weavers and self- employed informal sectors such as hawkers, vendors and workers in household micro-enterprises. The third market segment is of other farmers who have gone in for commercial crops and other engaged in dairy farming, poultry, fisheries etc. Tea shops, provisional stores and other manufacturing activities are example of non farm activities in this segment. There are various opinions about the micro credit demand in India. M-CRIL, a leading micro-credit rating agency provides a conservative estimate for the annual demand at $9.6 Bn (Rs. 480 Bn) based on 60-70 million poor families with an average household credit demand of Rs. 8,000 (less than $160) . Another estimate says that the current annual credit demand by the poor in the country is between Rs. 15,000 and 45,000 crore (Mahajan and Ramola, 2003).The number of households needing microfinance services ranges between 70 and 80 million (Sa-Dhan, 2004).

Supply of Microfinance Services in India

The Indian Microfinance sector is characterized by a variety of microfinance service providers. These include apex financial institutions like the National Bank for Agriculture and Rural Development (NABARD), Small Industrial Development Bank of India (SIDBI) and government owned societies like Rashtriya Mahila Kosh (RMK), formal sector financial institutions, Commercial Banks, Regional Rural Banks (RRBs), member-based institutions like Co-operatives, Mutually Aided Co-operative Societies (MACS), SHG Federations, private sector companies, specialized Non Banking Financial Corporations (NBFCs), Societies, Trusts, etc. For commercial banks, priority sector lending targets and good returns are the major incentive. While their current exposure to microfinance is too small to make a difference to their overall portfolio, or even their priority sector lending portfolio, these new banks are pursuing new and innovative approaches to microfinance – as a potential business and not merely as a social or priority sector lending obligation. Encouraged by the early results, the new private sector banks, most notably ICICI Bank, but also AXIS Bank and HDFC Bank, are actively seeking exposure in the microfinance sector. Different kinds of MFIs are also scaling up their activities with product diversification[5]. These MFIs are working with a strategy to upscale their service for financial inclusion on commercial basis. International banks such as ABN-Amro, City Financial etc. are also showing interest in microfinance in the region. These banks enter microfinance with ambitions to grow in the emerging sector and are willing to invest in medium or long-term projects. The now-popular concept of the 'Bottom of the Pyramid'[6]- entering low-end mass markets in poor regions that may bring substantial corporate growth fuels such ambitions (Prahalad, 2002).

Delivery Models of Microfinance in India

In case of India, the banking sector witnessed large scale branch expansion after the nationalization of banks in 1969, which facilitated a shift in focus of banking from class banking to mass banking. Government of India and the RBI has taken several initiatives from time to time, such as prescription of priority sector lending and confessional interest rate for weaker sections. But, notwithstanding the wide spread of formal financial institutions, these institutions were not able to cater the need of most of poor. This led to a search for alternative models for reaching out to the poor to satisfy their credit needs. In response to this requirement, microfinance moment was started in India with the introduction of SHGbank Linkage Programme (SBLP) in early 1990s. The SBLP model has emerged as the

[5] Recently, on March 25, 2010, BASIX has entered in the micro housing in collaboration with micro home solutions; SKS Microfinance is coming up with an issue in the capital market with the objective to scale up its operations.

[6] The theory of the Bottom of the Pyramid (BoP) depicts the distribution of purchasing power in the world, with the bottom representing the 4 billion poorest people. Of course, the purchasing power of the poor cannot be compared with that of the developed nations, but by their numbers, the poor represent a significant latent market. The theory states that providing products to this market in an innovative way can be a solution to poverty. Corporations play a significant role in this development. An example of selling products to the BoP is providing microfinance products in developing economies (C.K. Prahalad & Hart Stuart, 2002).

dominant model in terms of number of borrowers and loan outstanding. In terms of coverage this model is considered to be the largest micro finance model in the world. In India, a range of microfinance model exists. Microfinance services are provided in India through a variety of delivery models ranging from very popular Self Help group (SHG) and co-operatives and adapted models like Grameen methodology and for- profit corporate models. But, at present there are two main models of microfinance delivery in India: SBLP and MFIs model. The SBLP model which is basically an initiative of NABARD has emerged as the dominant model in terms of number of borrowers and loans outstanding. The developments relating to various models of microfinance are given as under:

NABARD SHG-Bank Linkage Programme (SBLP): The SHG-bank Linkage Programme has its origins in a GTZ-sponsored project in Indonesia. NABARD has set up a Task Force with the Asia Pacific Rural and Agriculture Credit Association (APRACA) to identify the existence of SHGs and undertake a survey of a sample of such groups, draw up a plan of action for channelling the flow of savings and credit between the rural poor and banks through SHGs, and identify concrete projects for action research in the field. The Bank Linkage programme was started in the year 1992. The Pilot phase was followed by the setting up of a Working Group on NGOs and SHGs by the Reserve Bank of India in 1994, which came out with wide ranging recommendations on the internalization of the SHG concept as a potential intervention tool in the area of banking with the poor. The Reserve Bank of India accepted most of the major recommendations and advised the banks to consider lending to the SHGs as part of their mainstream rural credit operations.

SHG-Banking is a programme that helps to promote financial transactions between the formal rural banking system in India (comprising public and private sector commercial banks, regional rural banks and cooperative banks) with the informal SHGs as clients. The programme also provides a model of cooperation between NGOs and banks that is claimed to build on the value added of both of them (Wilson, 2003). While the programme has no bias-by-design to either men or women, 90 per cent of the self-selected members turned out to be women. Operationally, the programme works in two different ways first under the SHG-bank linkage model and second under MFI-Bank Linkage Model. SHG-Bank linkage involves the SHGs financed directly by the banks viz., Commercial Banks (Public Sector and Private Sector) and Regional Rural Banks (RRBs) and Cooperative Banks and MFI-Bank linkage covers financing of Micro Finance Institutions (MFIs) by banking agencies for on-lending to SHGs and other small borrowers covered under the microfinance sector. In the first sub-model, bank themselves finance and nurture the SHGs. In the second sub model, NGOs, Farmers' Clubs, Individual Volunteer and formal agencies other than banks in the field of micro finance, act as facilitators. Banks give loans directly to these SHGs. Under the MFIs linkage model, NGOs, SHG Federations, etc. take the ad-on role of financial intermediation. Banks finance these MFIs, federations who in turn finance their member SHGs.

Progress of the Linkage Programme: The Self Help Group Bank Linkage Program is by far the dominant model of microfinance in India, in terms of both number of borrowers and loans outstanding (Ghate, 2006). The programme exhibited significant growth in terms of coverage and outreach of credit to the rural poor. Beginning with a modest number of 255 SHGs in 1992-93, a total of 4145191 SHGs were credit linked with banks in 2008-09. The cumulative disbursement of bank loan was Rs. 0.29 crore in 1992-93, which increased to Rs. 480.87 crore in 2000-01 and further Rs. 16999.9 crore in 2007-08. Total refinance increased from Rs. 0.27 crore in 1992-93 to Rs. 394.98 crore in 2000-01 and Rs. 9682.02 crore in 2008-09 (Table 1). SHGs. Studies revealed that the on-time repayment of SHG loans to banks was over 90 per cent and highly profitable for the banks relative to other financial products despite interest rates which are among the lowest in developing countries (Seibel & Dave, 2002).

Table 1: Self-Help Group-Bank Linkage Programme (Amount in Rs. Crore)

Year (End - March)	No. of SHGs Financed by Banks		Bank Loan		Refinance	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1992-93	255	255	0.29	0.29	0.27	0.27
1993-94	365	620	0.36	0.65	0.19	0.46
1994-95	1502	2122	1.79	2.44	1.67	2.13
1995-96	2635	4757	3.62	6.06	3.53	5.66
1996-97	3841	8598	5.78	11.84	4.99	10.65
1997-98	5719	14317	11.92	23.76	10.74	21.39
1998-99	18678	32995	33.31	57.07	30.67	52.06
1999-00	81780	114775	135.91	192.98	98.07	150.13
2000-01	149050	263825	287.89	480.87	244.85	394.98
2001-02	197653	461478	545.47	1026.34	395.26	790.24
2002-03	255882	717360	1022.33	2048.67	622.47	1412.71
2003-04	361731	1079091	1855.53	3904.2	705.44	2118.15
2004-05	539365	1618456	2994.26	6898.46	967.76	3085.91
2005-06	620109	2238565	4499	13397.46	1067.72	4153.63
2006-07	1105749	2894505	6570	12366.49	1292.86	5446.49
2007-08	1227770	3625941	8849.26	16999.9	1615.5	7061.99
2008-09	807905		4585.45	-	2620.03	9682.02

Note: Data for 2008-09 are provisional;Data relates to Commercial Banks, RRBs and Co-operative Banks; From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of 'Swarnajayanti Gram Swarozgar Yojna' (SGSY) SHGs and exisiting groups receiving repeat loans; Owing to this change, NABARD discontinued the publication of data on a cumulative basis from 2006-07; Figures for 2006-07 and 2007-08 are outstanding number of SHGs and outstanding bank loans to SHGs as on 31 March of respective years.
Source: SHG-Bank Linkage, Status of Microfinance, Various years, NABARD.

There exists no uniformity with regard to its progress across the regions. It has had good success in southern regions whereas in the northeast and northern region, its progress is very low. It is also very low in case of the central region. The growth of the program has been overwhelming in the south. The southern region continues to lead in terms of share in client outreach as well as loan disbursement and outstanding. Calculation from the absolute data in Table 2 shows that the share of the southern region was 68.58 per cent in 1999-00 and still it has a larger share of 55.05 per cent in 2008-09[7]. The top five states in terms of loans outstanding accounted for 74 per cent of total loans in the country. Andhra Pradesh with 36 per cent share and Tamil Nadu with 14 per cent share of total loans left little for other states. In terms of average loans out standing, Karnataka occupied the top position with Rs 1,10, 300 per group which was 88 per cent more than the national average of Rs 58,370 per group. In recent years, NABARD has initiated special measures in some of the low growth states[8].

Table 2: SHG –Bank Linkage Programme –Regional Spread of Physical Progress (Cumulative)

Region	Northern Region	North Eastern Region	Eastern Region	Central Region	Western Region	Southern Region	All India
1999-00	3,222	196	9,398	15,256	7,983	78,720	114,775
2000-01	9,012	447	22,252	28,581	15,543	187,690	263,825
2001-02	19,321	1,490	45,892	48,181	29,318	317,262	461,478
2002-03	34,923	4,069	90,893	81,583	42,180	463,712	717,360
2003-04	52,396	12,278	158,237	127,009	54,815	674,356	1,079,091
2004-05	86,018	34,238	265,628	197,365	92,266	938,941	1,618,456
2005-06	1,33,097	62,517	394,351	267,915	166,254	214,431	2,238,565
2006-07	1,82,018	91,754	5,25,881	3,32,729	2,70,447	15,22,144	29,24,973
2007-08	1,34,783	1,03,424	7,53,048	3,26,763	4,46,550	18,61,373	36,25,941
2008-09	1,66,087	1,17,609	8,93,126	3,26,602	3,57,775	22, 83,992	41,45,191

Source: SHG-Bank Linkage, Status of Microfinance, Various years, NABARD.

Agency-wise Distribution of SHGs:

NABARD has been instrumental in the formation and nurturing of quality SHGs by means of promotional grant support to partner agencies. The partners include Commercial Banks, Co-operative Banks, RRBs, Farmers' Clubs, NGOs and individual rural volunteers and development departments which have effectively taken up the role of promoting and nurturing SHGs. Almost all Public Sector

[7] Southern Region the progress was impressive because the movement was facilitated in the State and region-specific strategies developed by NABARD in consultation with banks, NGOs and the State Governments.

[8] A project for promoting and credit linking 22,000 groups is underway in Uttar Pradesh, with a network of 1100 cluster level and 44 block level federations. The project is designed on the lines of the Andhra Pradesh model. More than 7800 groups have been formed and 2900 groups financed under the project. A series of initiatives were also taken for propagating micro finance in the less-developed KBK Region in Orissa *(Kalahandi, Nuapada, Subaranpur, Koraput, Malkangiri, Rayagada, Nawarangpur districts of Orissa is officially known as KBK districts)* and the North Eastern Region. In Arunachal Pradesh, support has been extended to the state government to implement its Microfinance Vision 2011. In Tripura, linking of 11,500 existing groups and formation of 35000 new groups over a 3-year period has been envisaged under a state Support Project by NABARD.

Commercial Banks (27), Private Sector Commercial Banks (28), Regional Rural Banks (86), State Cooperative Banks (31) and District Central Cooperative Banks (371) participated in SHG-Bank linkage programme. Further, Self-Help Promoting Institutions (SHPIs) over the years resulted in the expansion of the programme throughout the country.

Commercial Banks and SHG Linkage Programme:

Commercial banks have had a larger share in the linkage programme right from the initial years. The percentage of SHGs linked with the banks was 55 per cent in 1999-00 which increased to 67.1 per cent in 2008-09. In 1999-00 its share in total loan amount to SHGs was 66 per cent, which increased to 69.6 per cent in 2008-09. Public sector banks have been in the forefront of SBLP. The State Bank of India (SBI) has consistently led the client outreach and portfolio volume charts riding on the back of its large network. HDFC bank among private sector banks has been very active in SHG financing. By March 2009, HDFC bank had linked 41,680 SHGs with loans of about Rs 5.5 billion (Table 3).

Regional Rural Banks and Linkage Programme:

While being more liberal than the cooperative banks, RRBs were conservative compared to commercial banks. RRBs had share of 30 per cent of groups which were disbursed loans in 1999-00 and 23 per cent of loans disbursed during 2008-09. RRBs coverage to the SHGs was 41 per cent in 1999-00 and in the year 2008-9, it was 23.1 per cent (Table). RRBs have been functioning as Self-Help Promoting Institutions (SHPIs) with grant support from NABARD. Ninety-three RRBs have targeted formation of more than 35,000 groups with grant sanctions of Rs. 27.7 million (Table 3).

Co-operative Banks and Linkage Programme:

Co-operative banks have been late entrants to micro-finance through SHGs. The performance of co-operative banks has to a large extent been influenced by the state government policies[9]. Co-operative banks had a share of 16 per cent of SHGs that saved, but accounted for a share of only 14 per cent of volume of savings. In 2008-09, the share co-operative banks in lending groups were 5.8 per cent and total coverage of the SHGs was 9.8 per cent (Table). Co-operative banks also act as SHPIs. They form an important link to SHGs and monitor their performance with their own staff or the staff of Primary Agricultural Credit Societies (PACS). Four state cooperatives, two cooperative societies and sixty district central cooperative banks act as SHPIs, with plans of promoting 32,000 SHGs (Table 3)

[9] States like Rajasthan, Orissa, West Bengal, Maharashtra, Karnataka, Kerala and Tamil Nadu have provided a supportive environment for cooperative banks in financing SHGs. In other states, co-operatives have not made much progress.

Table 3: Agency Wise Distribution of Number of SHGs Financed (Cumulative) Progress in India loan outstanding

Years	Cooperative Banks			
	No. of SHGs		Bank Loan	
	No.	%	No.	%
1999-00	4,028	4	76.9	4
2000-01	12,773	5	250.33	5
2001-02	39,906	8	795	8
2002-03	78,959	11	1,720	8
2003-04	134,671	12	3,711	9
2004-05	211,137	13.04	6,398.47	9.28
2005-06	310,501	13.87	10,879.47	9.54
2006-07	272234	9.4	8043.50	6.5
2007-08	371378	10.2	11300.90	6.5
2008-09	415130	9.8	13060.00	5.8

Years	Commercial Banks (CBs)				Regional Rural Banks (RRBs)			
	No. of SHGs		Bank Loan		No. of SHGs		Bank Loan	
	No.	%	No.	%	No.	%	No.	%
1999-00	51,619	55	1,278.33	66	38,998	41	574.59	30
2000-01	124,246	53	2,958.69	62	97,824	42	1,599.57	33
2001-02	274,247	54	6009	58	188,738	38	3459	34
2002-03	361,061	50	11,495	56	277,340	39	7272	36
2003-04	538,422	50	22,548	58	405,998	38	12,782	33
2004-05	843,473	52.11	41,159.49	60.38	563,846	34.83	20,995.47	30.44
2005-06	1,188,040	53.07	69,874.49	61.31	740,024	33.06	33,221.47	29.15
2006-07	1893016	65.4	87638.00	70.8	729255	25.2	28017.60	22.7
2007-08	2378847	65.6	114754.70	67.5	875716	24.2	44210.40	26.0
2008-09	2831334	67.1	161494.30	69.6	977834	23.1	50234.9	23.0

Source: SHG-Bank Linkage, Status of Microfinance, Various Year, NABARD

Bank Loan to MFIs under Linkage Programme:

Following the RBI guidelines issued in 2000 to all scheduled commercial banks including RRBs, MFIs are availing bulk loans from banks for on-lending to SHGs and other small borrowers. On the basis of returns received from banks for the year 2008-09, Ten Public Sector Commercial Banks, Ten private sector Commercial Banks, Four foreign Commercial Banks and Nine Regional Rural Banks (RRBs) had reportedly financed to MFIs for on-lending for microfinance activities. Table shows that during the year 2008-09, the banks financed 581 MFIs with bank loans of Rs. 3,732.33 crore as against 518 MFIs with bank loans of Rs. 1,970.15 crore during 2007-08. As of 31 March 2009, the outstanding bank loans to 1915 MFIs was Rs. 5009.09 crore as against Rs. 2748.84 crore to 1109 MFIs as on 31 March 2008.

2.0 Micro Finance Institutions (MFIs) in India

During the last few years, there has been an increase in the number of MFIs in India, promoted by government, banks, NGOs and individuals. The different organizations in this field can be classified as Mainstream Micro Finance Institutions [10]and Alternative Micro Finance Institutions. While both public and private ownership are found in case of mainstream financial institutional offering microfinance service, the alternative microfinance institutions are mainly in the private sector. These come up to fill the gap between the demand and supply for microfinance. These can be classified as MFIs and Community Based Organizations. These MFIs are operating under various legal forms[11]. The 'For profit' MFIs, apart from the traditional credit services, are providing composite services to the poor[12]. The recent time period, MFIs have been experiencing high growth rate with coverage and loan outstanding. Table shows that SKS microfinance is leading the sector with 35,20,826 clients and Rs. 24.6 billon loan outstanding. Other leading MFIs are Spandna, SHARE, Bandhan, Asmitha etc (Table 4). In the recent period, some MFIs have also chalked out their plan to enter in the capital market[13].

Table 4: Top 10 Micro Finance Institutions by outreach (Rs. Billon)

Name	Outreach (No)	Loans Out standing	Own Funds	Borrowings
SKS Microfinance	35,20,826	24.6	6.6	19.9
Spandana Spoorthy	24,32,189	18.7	3.1	14.8
Share Microfin Limited	15,02,418	12.2	1.7	9.7
Bandhan	14,54,834	5.3	0.5	6.9

[10] These are apex level MFIs led by the NABARD, Small Industries Development Bank of India (SIDBI) Foundation for Micro-Credit (SFMC) and other apex lending institutions, including the Housing Development Finance Corporation (HDFC), Commercial Banks, Regional Rural Banks (RRBs), the credit co-operative societies, Rashtriya Mahila Kosh (RMK) and Friends of Women's World Banking.

[11] These are (i.) NGO MFIs – Registered under Societies Registration Act, 1860 and / or Indian Trust Act, 1880, (ii) Cooperative MFIs – Registered under State Cooperative Societies Act or Mutually Aided Cooperative Societies Act (MACS) or Multi- State Coop. Societies Act, 2002, (iii) NBFC MFIs under Section 25 of Companies Act, 1956 (Not for profit) and (iv) NBFC MFIs incorporated under Companies Act, 1956 & registered with RBI.

[12] For example, SEWA provides a combination of savings and credit through its Sri Mahila SEWA Urban Co-operative Bank and insurance services managed through its Vimo SEWA. SHARE in Andhra Pradesh provides savings services to its members through the Sneha Mutually Aided Co-operative Society (MACS). Sanghamitra – promoted by MYRADA-has entered into an agreement with ICICI Prudential Life Insurance for marketing a specially packaged life insurance policy to its members. BASIX has developed a new product offered jointly with AVIVA Life Insurance Company which ensures that in the case of a borrower's death, the entire amount outstanding in his name is repaid by the insurance company and, in addition, the family gets a certain amount. Separately, with Royal Sundaram General Insurance Company, BASIX provides livestock insurance to its borrowers. Recently, on March 25, 2010, BASIX has entered in the micro housing in collaboration with micro home solutions.

[13] In April 2010, SKS Microfinance has decided to come with an issue in the capital market with the objective to scale up its operations.

Asmitha Microfin Ltd.	8,78,455	7.1	0.8	7.1
SKDRDP	8,07,170	4.9	0.2	5.4
Bhartiya Samruddhi	5,74,293	2.6	0.6	4.0
(ASA) Grama Vidiyal	3,62,624	2.0	0.5	1.6
BISWA	3,52,352	1.7	0.5	1.8
Equitas Microfinance	3,39,158	2.9	1.1	1.8
Total	3,39,158	82.0	15.6	73.0

Source: Microfinance India-State of the Sector Report, 2009

Organizations like SIDBI, ICICI Bank, HDFC Bank, FWWB are leading bulk loan providers to the MFIs (Table). Presently, there is no regulatory mechanism in place for MFIs except for those that are registered as NBFCs. Among these forms of organizations, only NBFCs and co-operative banks are regulated by the RBI as financial intermediaries, while the rest are de facto financial intermediaries requiring minimal regulatory compliance. Various Committees have examined the road map for regulation and supervision of MFIs[14].

The Community based organizations and NGOs are working in two different ways, in the first case some NGOs are mainly engaged in promoting self-help groups (SHGs) and their federations at a cluster level, and linking SHGs with banks, under the NABARD scheme. Other NGOs are lending directly to borrowers, who are either organized into SHGs or into Grameen Bank style groups and centres. These NGOs borrow bulk funds from RMK, SIDBI, FWWB and various donors. Taking into consideration the failure of various attempts by formal credit unions, cooperatives and the RRBs, NGOs started organizing them into community based organizations known under different names, like Credit Unions, Mahila Mandals, and Mahila Samajams etc.[15]. The institutions which engage in microfinance services in India follow three types of approaches, namely, the Grameen Bank approach, the Co-operative Societies approach and the SHG Programme approach. There are also some international NGOs working in India in the area of microfinance[16].

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[14] Task Force (appointed by NABARD) Report on Regulatory and Supervision Framework for MFIs, 1999., Working Group (constituted by Government of India) on Legal & Regulation of MFIs, 2002, Informal Groups (appointed by RBI) on Micro Finance which studied issues relating to (i) Structure & Sustainability, ii) Funding (iii) Regulations and (iv) Capacity Building, 2003,Advisory Committee (appointed by RBI) on flow of credit to agriculture and related activities from the Banking System, 2004 and recent Micro-Finance Sector (Development and Regulation) Bill, 2007.

[15] Some of the Women's NGOs who had taken initiatives in this field were Cooperative Development Foundation (CDF), Andhra Pradesh; Working Women's Forum (WWF), Tamil Nadu; Self Employed Women's Association (SEWA), Gujarat; and Women's Development Programme (WDP), Rajasthan.

[16] Oxford Committee for Famine & Relief (OXFAM), (Dutch International Development Agency(NOVIP), Gesellschaft fur Tecnische Zusammenarbeit (GTZ), Canadian International Development Agency (CIDA), ActionAid, CARE India, International Fund for Agriculture Development (IFAD), United Nations Development Programme (UNDP), United Nations Development Fund for Women (UNIFEM), British Department of Foreign and International Development (DFID) and Consultative Group to Assist the Poorest (CGAP).

Indian Microfinance Institutions: A Global Comparison

Within Asia, India has emerged as the largest micro-finance market, due to its size and high proportion of poor clients. While sector-specific microfinance regulation exists in countries like Bangladesh, Pakistan, South Africa, Kenya and Uganda, India has yet to introduce a law. The opportunities in Indian market are rated to be high, with several international and national funding organizations are willing to invest. The Indian MFIs have enjoyed a better valuation for their equity compared to their counterparts elsewhere in the world. A comparison made by the MIX Market database (2007) provides comparisons across countries to better understand the position of Indian MFIs[17]. Table 5 shows that Bangladeshi MFIs with a large client base and loan volumes are still struggling to cover their operational costs, even after 15 years of functioning. Brazil and Mexico are countries in which MFIs are profitable, but on high interest rates and high average loan amount. Indonesia has average loan amount that are more than ten times that of Bangladesh. Pakistani MFIs continue to struggle to cover costs (in contrast). Indian MFIs with the lowest yield to gross portfolio manage to cover even low average loan size.

Table 5: Indian Microfinance Institutions: A Global Comparison

Country	OSS	ROA	Profit margin	Average loan US$	Yield on Gross portfolio
Kenya	118.1	-1.0	-0.2	463	31.3
Uganda	116.1	2.7	9.4	325	53.7
Bangladesh	106.6	-0.3	-1.2	80	24.3
Pakistan	85.1	-6.6	-47.4	187	27.9
Philippines	113.0	0.5	6.7	288	38.5
Brazil	133.6	6.4	19.4	820	41.5
Mexico	113.2	3.0	10.2	468	62.8
Indonesia	142.8	3.1	15.4	915	22.5
India	111.4	0.7	7.9	146	21.2

Source: Microfinance India-State of the Sector Report, 2009.

This shows that Indian MFIs have efficient systems and are able to manage their businesses on thin margins. Different kinds of institutions, including apex level banks, private banks, etc are giving to these MFIs ().The challenge will be to find funds for increasing the average loan size, which could significantly improve return on assets and operational self sufficiency.

3.0 SGSY Delivery Model (National Rural Livelihoods Mission)

The government of India has initiated various programmes in the area of microfinance. The most important of the programmes using the SHG approach is the Swarnajayanti Gram Swarojgar Yojana (SGSY) launched in 1999. Development of Women and Children in Rural Areas (DWCRA), Indira Mahila Yojana, Swa-shakti and Swayamsidha, Rastriya Mahila Kosh (RMK) are other examples of government initiatives to enhance the living conditions of the poor especially women through self-employment activities. The need for restructuring the SGSY has arisen on account of feedback

[17] The data across countries are not exactly comparable as they come from only those MFIs that report to MIX market, which in some countries is a small minority.

provided and recommendations made by various studies[18]. The government has accepted the recommendations of Radhakrishna Committee to create a National Rural Livelihoods Mission (NRLM) to provide greater focus and momentum for poverty reduction to achieve the Millennium Development Goals by 2015 through rapid increase in the coverage of rural poor households under self-employment. The Ministry of Rural Development has re-designed and re-structured the SGSY into the National Rural Livelihood Mission (NRLM). The objective of the Mission is to reduce poverty among rural BPL by promoting diversified and gainful self-employment and wage employment opportunities which would lead to an appreciable increase in income on sustainable basis. In the long run, it will ensure broad based inclusive growth and reduce disparities by spreading out the benefits of growth across the regions, sectors and communities.

To achieve the these objectives, the Mission will adopt the some interrelated strategies viz. universal mobilization of BPL households, federations/people's institutions, capacity building and training, pro-poor financial services, marketing and infrastructure support, convergence, sensitive support organizational structure, support for scaling up skill development, placements and innovative projects, a demand driven approach and transparent systems. To make NRLM more inclusive, it has planned coverage of 50 per cent of all rural households into SHGs. Accordingly; a target has been fixed to enroll 50 per cent of rural women in self-help groups over the next five years. With this, the scheme will be made universal, more focused and time-bound for poverty alleviation by 2014. To achieve these objectives, the NRLM will work at three tier system at centre, state and district levels. These three tiers will be closely interlinked and be guided by the common objective of promoting sustainable livelihoods of the poor and working for the eradication of rural poverty.

4.0 Group Based Model:

Within the group based category, there are two sub-categories viz. Self Help Group (SHG) and the Grameen Bank model. Of these two models, the SHG model is most commonly used by many organizations in India. In this model, high emphasis is given on savings and credit activities. The SHG-bank Linkage Programme adopted by NABARD with partner agencies has emerged as an attractive mode of credit delivery model. Apart from the SHG-bank linkage programme, many NGOs are using a variety of delivery mechanisms (including adaptations of Bangladesh Grameen Bank) for providing micro credit services with financial support from external donors and other apex institutions, including the Rashtriya Mahila Kosh (RMK) set up by the Government and the SIDBI Foundation for micro-credit set up by a sister apex development institution[19].

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[18] Those studies were conducted by National Institute of Rural Development, Hyderabad, Bankers Institute of Rural Development, Lucknow, Centre for Management Development, Thiruvananthapuram etc. and reports of the Steering Committee constituted by the Planning Commission for the 11th Plan and Committee on Credit Related Issues under SGSY (Radhakrishna Committee)

[19] Example of Grameen kind of model in India with little variation are CASHPOR Financial and Technical Services Ltd., Uttar Pradesh, Society for Helping and Awakening Rural Poor through Education (SHARE) in Andhra Pradesh, Activists for Social Alternatives (ASA) and ADITHI in Bihar, etc.

5.0 Non Banking Financial Corporation (NBFC) Model:

This model has the belief that poor are bankable and lending to them is commercially viable. This model works on banking principles with focus on both saving and credit activities. Financial services are provided to the clients either directly or through SHGs. The core element of this model is profit making with strict financial discipline to reach the unreachable. In India, this type of delivery model is very popular in the corporate world[20].

6.0 Wholesale Banking Model:

The Wholesale Banking Model seeks to assist many NGOs working previously on non-financial development issues like poverty, health, literacy, eco-restorations etc, but that have now taken microfinance as an add-on programme. MFIs adopting this model act as second tier MFIs[21]. The model has the features of promptness and unique package of providing both loans and capacity building support to its partners. The model entails making loans to financial intermediaries in the form of NGOs/MFIs/ SHG Federations rather than directly to groups or members.

7.0 Individual Banking Based Model:

The Individual Banking Model is a formal banking model in which individual clients are provided financial services. The group formation costs are not incurred or are quite low. Formal financial institutions like Commercial Banks, Regional Rural Banks and Co-operative Banks adopt predominantly individual banking based model for lending to the unorganized sector, comprising both farm and non-farm sectors. While the individual banking model is suited to lending to enterprises, the group approach is best suited to lending to pre-micro enterprises and micro-enterprises.

8.0 Co-operative Model: The Co-operative model is another model of credit delivery in which loans are given to individuals. All borrowers are members of the organization. Co-operatives are large, heterogeneous and formal organizations and different from small homogenous and informal SHGs. The organization which has vastly been successful in co-operative form in India is Saha-vikas or Co-operative Development Foundation (CDF).

Since the emergence of the micro-finance sector in India, the role of AFIs has become significant. NABARD initiated the process of micro-finance in India through the linkage programme of SHGs. Small Industrial Bank of India (SIDBI) is second important player in microfinance, providing bulk lending to MFIs. Rashtriya Mahila Kosh (RMK) is the third player providing loans to NGOs for on-lending to the women's SHGs. Each has a different approach in micro-finance sector. While NABARD's emphasis is entirely on SHGs linkage programme by mobilizing their own savings also, SIDBI is focusing on building and creating larger MFIs and RMK is lending money to smaller NGOs as well. Taking into consideration the growth and potential of the micro-finance sector in India, other organizations and international agencies have also made their entry in the sector by providing loans and

[20] MFIs like Sanghamithra Rural Financial Services, SKS Microfinance, BASIX Group etc. have adopted this model.

grants to NGOs for different income-generating projects as well as for incorporating a micro-finance component in the service delivery projects of social development[22].

Major Current Issues in Indian Microfinance

Microfinance is very potent tool of poverty alleviation. Studies revealed that in Bangladesh, where 15 million families now benefit from small loans and other financial products such as micro-savings and micro-insurance, 40% of the overall reduction of rural poverty in recent years has been due to microfinance. Two other studies suggest that the impact of microfinance on the poorest is greater than on the poor, and yet another that non-participating members of communities where microfinance operates experience socio-economic gains-suggesting strong spillover effects. Moreover, well-managed microfinance institutions (MFIs) have shown a capacity to wean themselves off of subsidies and become sustainable within a few years. In India, microfinance does not directly address some structural problems facing Indian society and the economy, and it is not yet as efficient as it will be when economies of scale are realized and a more supportive policy environment is created. Loan products are still too inflexible, and savings and insurance services that the poor also need are not widely available due to regulatory barriers. Insufficient data exists on client-level impact, though new tools such as the Poverty Progress Index of Grameen Foundation and the work of Sa-Dhan (the association of Indian MFIs) on measuring client satisfaction are addressing this gap. Added to these, there are many other issues and challenges which are necessary to dealt with.

Regional Spread of Self Help Group:

There is high degree of concentration in the southern states with just two states, Andhra Pradesh and Tamil Nadu accounting for more than 66 % of the SHGs receiving loans through bank linkage, with the coverage in Andhra Pradesh being nearly 53% of total SHGs. These states have a history of women's enterprise, higher levels of literacy and strong cooperative institutions. SHG-bank linkage has not as yet made an impact in the poverty belt of the northern, central and eastern regions.

Quality of Self Help Groups:

There is much focus on numbers of SHGs rather than on their quality. There are so many issues like poor maintenance of books and accounts, lack of capacity-building, irregular meetings, low technical support and business development services.PRADAN, a leading NGO has initiated a new project as

[21] The MFIs like Friends of Women's World Banking (FWWB) and Rastriya Gramin Vikas Nidhi (RGVN) have adopted this model.

[22] Most important among them are Housing and Urban Development Corporation Limited (HUDCO), National Backward Classes Finance Development Corporation (NBCFDC), National Minorities Finance Development Corporation (NMFDC) and National Handicrafts Development Corporation (NHDC).

‘Computer Munshi’ to resolve some of the issues. There is need to motivate the individuals and NGOs to work of these quality issues with comprehensive approach.

Upscaling of the Programme:

The SHG-bank linkage programme is facing problems of uscaling as there is lack of credible non-governmental organizations and other agencies/individuals who could do social intermediation, that is, formation and nurturing of SHGs. The absence of quality agencies/individuals for social intermediation is limiting the spread of the programme.

Sustainability of SHGs:

The sustainability of SHGs depends to a great extent on the quality of SHGs. The quality of SHGs is dependent on the care and attention given by the Self Help Promoting Institution (SHPI) in the formation stage. It has been observed that there has been a tendency at the field level to hasten the process of formation of SHGs to achieve targets, which affects the sustainability of the SHGs in the long run.

Capacity-building:

The capacity-building of various partners in the programme,namely,bank officials,NGO officials,animators,SHG group leaders and SHG member is gigantic task. NABARD has been playing attention to the capacity-building of all the partners in the SHG-bank linkage programme. However, the enormity of the programme warrants other agencies which could also include donor agencies to collaborate in capacity-building of the partners in the programme.

Graduation from Microfinance to Microenterprises:

There are a vast number of SHGs which have come of age and are struggling to graduate from the stage of microfinance to the stage of microenterprises. Lack of adequate skills as also marketing linkages affect the graduation of SHGs to microenterprises stage. Not many NGOs/agencies are in a position to provide SHGs the requisite backward and forward linkages as also market survey reports. This affects setting up of microenterprises on a sustainable basis. As per NABARD annual report 2006-07 there are 2,924,973 SHGs linked with banks. Since NABARD is working with the groups for last fifteen years, there are high numbers of who have reached at the maturity level and many of them are in a position to take up some micro-enterprise activities based at local level. It is proved that the micro-enterprise activities have the potential to increase the level of income and assets of rural house olds. Thus with the proper capacity-building and business development services those matured SHGs should move towards next step.

Provision of Micro Insurance:

This product is infant baby in the sector and there is dearth of micro insurance products. Some institutions like ICICI bank, Royal Sundaram etc are prominent in the sector. Credit is the main requirement of the poor and if it can be integrated with suitable insurance products, it can effect the lives of million poors with a wider positive dimensions. So there is needs to evolve such a composite products that can fulfill the requirements of poor.

Impact of Government Programme with Subsidy Component:

There is a government sponsored programme named Swrnajayanti Grameen Swarozgar Yojana (SGSY) which have a subsidy component. This is affecting the sustainability of SHG-bank linkage programme. There are reports that due to this subsidy components the established SHGs have split or disintegrated and there is a wide tendency to join those schemes where subsidies are available.

Microfinance Institutions and Emerging Issues:

The main aim with which the alternative MFIs have come up is to bridge the increasing gap between the demand and supply. Since last ten years there is a mushrooming of Micro Finance Institutions (MFIs) and these MFIs are adopting group approach, Grameen approach and Joint Liability Approach (JLG). The growth of this sector has opened new challenges and issues such as

- **Sustainability with outreach:** The delivery cost of various microfinance products is very high and for upscaling and outreach, this is creating various problems. Recently various MFIs like BASIX, Bandhan, and SHARE etc have used new technology to minimize the cost. Still there are so many unresolved issues.
- **Transparency: Various** MFIs are working on profit model. Recently there were various complains against MFIs in Andhra Pradesh due to their exploitative practice. Rate of interest, rating, risk evaluations of MFIs financial performance, registration and regulation are some other issues which need to be addressed in the future course of time. To enable the reach of micro finance services to the needy, the problems associated with the legal, regulatory, organisational systems should be addressed to and the desired changes brought in these, to make them more effective.
- **Social Obligation and not a Business Opportunity:** Micro-finance has historically been seen as a social obligation rather than a potential business opportunity and the recent trends shows that there is high level of commercialization. Corporate world in entering in the sector and there is high fear that the nobel mission of poverty reduction and empowerment may miss in the future. There is need to make a balance between profit motive and social capital mative. Various resaech studies show that microfinance has the ability to help the Millennium Development Goals (MDGs) subject to focused approach of poverty and social development.

- **Human Resources :** The sector is growing at very faster rate and and simultaneously, there is high amount of turn over in so many MFIs resulting consistent pressure or these organizations to perform well with staff problems and competition. Training and capacity development remain the single biggest challenge for MFIs. There are so many issues like better recruitment practices, improved training and innovative incentive systems etc. are need to be addressed.

Concluding Remarks

Microfinance in India has grown at a tremendous pace in recent years, achieving significant outreach amongst rural households across the country. Linkages between banks and SHGs supported by the NABARD, on the one hand, and Microfinance Institutions (MFIs), on the other, have emerged as the two most prominent means of delivering microfinance services in India. With traditionally loss-making rural banks shifting their portfolio away from the rural poor in the post-reform period, SHG-based microfinance, nurtured and aided by NGOs, has become an important alternative to traditional lending in terms of reaching the poor without incurring a fortune in operating and monitoring costs. In spite of the impressive trends, there still exists a huge demand-supply gap. The major concentration is in the southern states, but provision of microfinance services has started picking up pace in some other states, however, the regional spread is highly skewed. In sum, the microfinance sector in India is at an inflexion point with new generation MFIs and commercial banks driving scale rapidly. Innovation in product design, channel configuration, and technology usage is widespread, and the sector is focusing largely on expanding outreach. It is believed that micro credit has effectively graduated from an experiment to a widely-accepted paradigm of financial inclusion in India. Government involvement in SHG-based microfinance is a welcome development but it is not free from its ills. Government aid almost always brings in its wake political favoritism and corruption. It is important to ensure that the government microfinance initiatives do not go the way of their several well-intentioned predecessors. The banks Regional Rural Banks, Co-operatives and SHGs linked with Non-Governmental Organisations (NGOs) have a role to play. Thus, to achieve the desired goals, the financial system should be truly inclusive. Diverse channels are needed to get diverse financial services into the hands of a diverse range of people who are currently excluded. It should meet the needs of everyone who can fruitfully use financial services, including the poor. Indeed, financial services for the poor cannot solve all the problems caused by poverty. But they can help put resources and power into the hands of poor and low-income people themselves, letting them make those everyday decisions and chart their own paths out of poverty. There should be emphasis on three strategies for inclusive financial services viz. scaling up quality financial services to serve large numbers of people, reaching increasingly poorer and more remote people; and lowering costs to both clients and financial service providers.

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