MICRO-FINANCE IN INDIA
ECONOMICEMPOWERMENT OF POOR

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Abstract: Microfinance is the fastest growing sectors of India; microfinance is spearheading intense competition among the largest players. with 1.2 billion people and the world's fourth –largest economy, India's recent growth and development has been one of the most significant achievements of our times. Over the six and half decades since independence. A number of India's states are pioneering bold new initiatives to tackle many of India's long –standing challenges and are making great strides towards inclusivegrowth.their successes are leading the way forward for the rest of the country, indicating what can be achieved if the poorer states were to learn from their more prosperous counterparts. India now has that rare window of opportunity to improve the quality of life for its 1.2 billion citizens and lay the foundations for a truly prosperous future a future that will impact the country and its people for generations to come.(sources::http://www.worldbank.org/en/country/india/overview accessed by 15 may 2014) Microfinance is being considered as a very powerful tool for uplifting the economic conditions of poor through group approach. (Juja.S.V, 2014) In the broader sense, the aim of microfinance is to develop habits and financial vision among the rural poor, such that they are able to save, seek credit and know several finance related aspects and thus improve their financial position and living standards. The focus of microfinance is to facilitate the shift from induced development from the above to initiated development from below. Banks are already doing their bit towards this end but a lot is yet to be done. The vast potential and opportunities of microfinance in India are yet to be fully tapped. (Raghavan.R.S) Microfinance has been an important component in poverty reduction scheme of the Government and development agencies in India.Microfinance has taken on a transnational trajectory (Ohanyan, 2007), and millions of people worldwide designated as the "poorest of the poor" have benefitted from microfinance products provided by MFIs locally and internationally. Nobel Peace Prize winner, Mohammad Yunus, is credited for the microfinance movement, which began in the villages of Bangladesh in the 1970s (Holcombe, 1995) through theGrameen Bank. Microfinance role goes beyond business investment, to include theimprovements in the economic wellbeing of householdssuch as, clients' health, nutrition, children education andstandard of their life. India has a Savings to GDP ratio of 33% which is the highest in the world. Indian is the nation of savers and investors and above that more than 52% of the population is below 25 years of age, this creates a need for developing a population which is financially literate. Moreover 85% of the household savings is parked in fixed deposits. In India, house-hold savings in shares, including mutual funds is around 7%. In the US, 50% of household savings are in mutual funds and shares. This is one of the factors for low household net worth in India.

Key words: Microfinance, Microcredit ,financial services, poormicrofinance income,alleviating poverty,economic development

Introduction: Micro finance serves as an umbrella term that describes the provision of banking services by poverty focused financial institutions (micro finance institutions) to poor parts of the population that are not being served by mainstream financial services providers. Microfinance has been a panacea for poverty reduction in India and thus it is profoundlypromoted by our financial system throughout the economy. Moreover the phenomenon, as an important part of ourinnovative financial tool, must be sharing certain relationship with various economic indicators. Such a financing toolhelps in increasing the economic activities in a country and thus adds value to the economic growth as a whole. And ifeconomy grows it improves the financial system and thus such financial tools.Micro finance: Micro finance includes wide range of facilities of services to poor such as savings microcredit and the insurance (Chakravarty & Shahriar, 2010). Microfinance institution provides the small loan to poor people who are disqualified for the formal loan (Morduch, 1999). According to Conroy (2002), Micro finance is the wide range of provision of financial services included services of payment, accepting deposits, lending loans transfer of money and insurance to low income and poor people. Whereas the two terms such as micro enterprises and micro credit financing include the value of borrowing as well as savings. Microfinance is the whole field whereas the other two terms are specifically related to provision of credit (Maria, 2004). Micro credit: Micro credit can also be called micro lending it can be defined as "A very small loan given to poor people for helping them to be self-employed". It is given to poor ones for increasing the living standard of loan taker by investing it in income giving activities (Fernando, 2006).micro credit are: These loans are too small, no collateral required, mostly have weekly payments, short term such that less than one year loan, it is mostly for the women and poor people who are not eligible for borrowing the formal loan. In micro credit, the interest rates are high due to high micro credit program running cost (Nawai, 2010). This rate can be reduced by reducing its high-cost operation by innovation, efficiency and by enhancing market competition (Fernando, 2006). Microfinance is the act of providing whole range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their microenterprises. It is also worth mentioning here to make an important clarification that most people think that microfinance is charity from government or donor agencies provided to poor section of

community.The dynamic growth of the microfinance industry has been promoted not only by market forces but also by conscious actions of national governments, Non-Governmental Organizations (NGOs), and the donors who view microfinance as an effective tool for eradicating povertyMicrofinance is emerging as a powerful instrument for poverty alleviation in the new economy In India. Microfinance is the term that has been used interchangeably with micro-credit. Microfinance refers to loans, savings, insurance, transfer services, micro-credit loans and other financial products targeted at low–income clients (United Nations. 2005a:1).Microfinance is not simply banking for the poor; it is a development approach with a social mission and a private sector-based financial bottom line that uses tested and continually adjusted sets of principles, practices and technologies. The key to successful microfinance lies in the ability of the provider to cost-effectively reach a critical mass of clients with systems of delivery, market responsiveness, risk management and control that can generate a profit to the institution.e to improve micro-finance services for substantial contribution on poverty reduction and sustainability of the MFIs.Microfinance programs have the potential to transform power relations and empower the poor—both men and women.Microfinance aims at assisting communities of the economically excluded to achieve greater degree of asset creation and income security at the household and community level, by promoting self-employment, income opportunities through the creation and expansion of micro-enterprises and increased productivity. They found that micro finance was one of the essential elements to remove the poverty and the improvement of rural women capacity. In modern period, small loan, in its spread scope known as microfinance or micro credit, has become a much favored element for poverty reduction in the developing countries and least development countries (Ahmed, 2004). The 1997 Microcredit Summit held in Washington D.C., launched a global movement to reach 100 million of the world's poorest families with credit for self-service and other financial and business services by the year 2005. According to the Microcredit Summit Campaign Report, 67.6 million families have been reached by microcredit in 2002 around the world (Ahmed, 2004).The microcredit participants are more capable of taking their economic and household decision making (Pitt et al., 2006).MFI is positively related to economic decision making empowerment, household decision making empowerment, freedom of movement empowerment, ownership of property empowerment, political and social awareness and overall empowerment.Microfinance institutions are providing the services of microcredit, savings and insurance. According to Menon (2005:1), microfinance or micro-credit is the extension of small loans to individuals who are too poor to qualify for traditional bank loans, as they have no assets to be offered as guarantee. Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services (Christen, Rosenberg and Jayadeva 2004:2–3).Micro-credit is something which is not going to disappear... because this is a need of the people, whatever name you give it, you have to have those financial facilities coming to them because it is totally unfair... to deny half the population of the world financial servicesî.ñ Dr. Muhammad Yunus, Founder ñ Bangladesh Grameen Bank, in March 2002 (http://news.bbc.co.uk).Micro finance has tremendous potential as an instrument for poverty reduction in Shahid Khandker, Senior Economist, World Bank, in 1999 (www.reliefweb.int)

By the end of March 2009, microfinance institutions expanded their outreach to 50 million households and about 38 million borrowers. These institutions are organized under three models: SHG, Grameen model/Joint liability groups and Individual banking groups as in cooperatives. As of March 2009, both SHG bank linkage and MFIs have collectively disbursed US$3.9 billion to the poor.Most poor people cannot get good financial services that meet their needs because there are not enough strong institutions that provide such services. Strong institutions need to charge enough to cover their costs. Cost recovery is not an end in itself. Rather, it is the only way to reach scale and impact beyond the limited levels that donors can fund.Especially in developing countries, where microfinance has its origin, is playing an important role in poverty reduction. Its target is the poor who have been neglected by formal financial sectors. It provides job opportunities and increases the life quality of them, raises the household revenues and in consequence provides more access to education, nutrition and health services.Main reasons that the poor cannot develop economically is the lack of access to loans and formal banking systems because his access to acceptable collateral, assets and legal documents is deficient. On the other side, since the cost of control and monitoring of these loans is high for the commercial banks, they see it less profitable and so are less tended to make lending to these groups (Hermes 2007).. Microfinance institution provides the small loan to poor people who are disqualified for the formal loan.The basic purpose of micro credit is to provide the money to low income people and the poor to use it in activities of businesses and also for improving their life standards.Interest rate, economic conditioncredit worthiness; non availability of information, gender difference and govt. policies etc affects the demand of microfinance inIndia. Microfinance services can also contribute to the improvement of resource allocation, promotion of markets, and adoption of better technology; thus, microfinance helps to promote economic growth and development. Also the characteristics of Financial systems in developing counties will be discussed and argued that formal financial sector is not consistent with the needs and requirements of the poor Microfinance in India has many experiences to share, both good and bad. It has had the opportunity to go through very interesting stages that very few similar systems have experienced. Although at the present time it is going through some difficulties, mainly due to a negative economic environment for the development of any economic activity, undoubtedly microfinance has been and continues to be a success in India, to such an extent that, at the world level, it has become an example for governments and institutions of many countries.Microfinance is one of those small ideas that turn out to have enormous implications. Microfinance is considered to be a valuable tool for the alleviation of poverty around the globe.Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy.

There is no standard definition of a micro finance institution (MFI). An MFI generally provides relatively small loans (in the Indian context, loans of less than Rs. 50,000) to low Income individuals. The loans could be for income generation or for consumption. Fungibility of money makes it difficult to distinguish between the two. "Microfinance emerged as a noble substitute for informal credit and an effective and powerful instrument for poverty reduction among people who are economically active, but financially constrained and vulnerable in various countries". It covers a broad range of financial services including loans, deposits and payment services and insurance to the poor and low-income households and their micro enterprises. Convincing research evidences have shown significant role of MFIs in improving the lives of the deprived communities in various countries. Persuaded with the potential role of micro financing in alleviating poverty, the South Asian countries especially India & Bangladesh have been actively pursuing the policy of setting up formal network of microfinance institutions. These institutions include NGOs/NBFCs and government sponsored. Microfinance is being practiced as a tool to attack poverty the world over. The term "Microfinance" can be defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi- urban or urban areas, for enabling them to raise their income levels and improve living standards". Microfinance Institutions (MFIs) are 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.Microfinance institutions (MFIs) typically offer a variety of loan products and, increasingly,savings services as well

A Brief History of Microfinance in India: The post-nationalization period in the banking sector, circa 1969, witnessed a substantial amount of resources being earmarked towards meeting the credit needs of the poor. There were several objectives for the bank nationalization strategy including expanding the outreach of financial services to neglected sectors (Singh, 2005). As a result of this strategy, the banking network underwent an expansion phase without comparables in the world. Micro finance has emerged as the latest instrument of poverty alleviation.

Historical Background: The microfinance sector in India has developed a successful and sustainable business model which has been able to overcome challenges traditionally faced by the financial services sector in servicing the low income population by catering to its specific needs, capacities and leveraging preexisting community support networks. As of March 2009, microfinance institutions ("MFIs") in India reached over 22 million borrowers and had a portfolio outstanding in excess of $2.3 billion.

Micro-finance institutes of Bangladesh: Bangladesh has been acknowledged as a pioneer in the field of micro-finance. Dr.Mehmud Yunus, Professor of Economics in Chitgaon University of Bangladesh, was an initiator of an action research project 'Grameen Bank'.The project started in 1976 and it was formally recognised as a bank through an ordinance, issued by the government in 1983. Even then it does not have a scheduled status from the Central bank of the country, the Bangladesh Bank. The Grameen Bank provides loans to the landless poor, particularly women, to promote self-employment. At the end of December 2001, it had a membership of 23.78 lakh and cumulative micro-credit disbursements of Tk 14.653 crore. Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA) and PROSHIKA are the other principal Micro-credit Finance Institutions (MFIs) operating for over two decades and their activities are spread in all the districts of that country. BRAC is BRAC is the largest NGO of Bangladesh with a total membership of 41.38 lakh. Initially set up in 1972 as a relief organization, it now addresses the issues of poverty.

Indian Scenario: India has adopted the Bangladesh's model in a modified form. To alleviate the poverty and to empower the women, the micro-finance has emerged as a powerful instrument in the new economy. With availability of micro-finance, self-help groups (SHGs) and credit management groups have also started in India. And thus the movement of SHG has spread out in India. InIndia; banks are the predominant agency for delivery of micro-credit. In 1970, Ilaben Bhat, founder member of 'SEWA'(Self Employed Women's Association) in Ahmadabad, had developed a concept of 'women and micro-finance'. The Annapurna Mahila Mandal' in Maharashtra and 'Working Women's Forum' in Tamilnadu and many National Bank forAgriculture and Rural Development (NABARD)-sponsored groups have followed the path laid down by 'SEWA'. 'SEWA' is a trade union of poor, self-employed women workers.It is important to understand that Roodman's intent is neither to dismiss microfinance completely as a viable tool for development, nor to disparage some of microfinance's most enthusiastic and visible proponents.

GLOBAL TRENDS IN THE MICROFINANCE INDUSTRY: As of December 31, 2009, there were 1,395 MFIs globally with an estimated borrower base of 86 million with a total outstanding portfolio of over $44 billion as reported by the MFIs to the Microfinance Information Exchange or "MIX Market", excluding MFIs that do not report to MIX Market. If they did report, the total size of the global microfinance industry is estimated to be roughly 200 million borrowers. From 2003 to 2008, the global industry experienced a growth in borrowers at a CAGR of 12% and a portfolio outstanding CAGR of 34%. Inter-regionally, South Asia, East Asia and the Pacific region had the highest growth rates in terms borrowers, and Sub-Saharan Africa, Middle East and North Africa have experienced the slowest growth. Latin America continues to lead in terms of portfolio outstanding with $16 billion or 36% of

the total global portfolio; however, South Asia has the lead in terms of borrowers with over 50% of the global borrower base. The disparity between these two trends is explained by the variance of average loan sizes in the two regions, which is a product of their economic well-being and the business models followed by their respective Microfinance sectors.

EVOLUTION OF MICRO-FINANCE : Microfinance as an industry evolved in allThe third world countries almost at the same time span. World over, it was getting widely recognized that improving income levels of low-income community is essential to improve their well-being – besides the state sponsored welfare programmers. During the 1970s and 1980s, the microenterprise movement led to the emergence of Non-Governmental Organizations (NGOs) that provided small loans for the poor. In 1990s, across the world, a number of these institutions transformed themselves into formal financial institutions in order to access and on-lend funds, thus enhancing their outreach. One of the significant events that helped it gained prominence in the 1970s was through the efforts of Mohammad Yunus, a microfinance pioneer and founder of the Grameena Bank of Bangladesh. In 2006, Prof. Yunus was awarded Nobel Peace prize "for his efforts to create economic and social development from below."In India, many formal financial institutional structures were experimented with –Regional Rural Banks (RRBs), District Central Credit Cooperative Banks (DCCBs), Local Area Banks (LABs), Self-Help Group (SHG) Bank linkage program. All these received mixed success and parallel, the civil society organizations started feeling the need to offer financial services to the poor. Credit was getting increasingly recognized as an essential tool to break the vicious cycle of poverty.

Microfinance development in India : Recent developments in the Indian microfinance sector, particularly in Andhra Pradesh (AP), have been disconcerting. Within a relatively short period, a sector heralded as representing a commercially viable solution to the problems of financial inclusion, poverty reduction and female empowerment is now being accused of various improprieties.Recent developments involve some of the borrowers from the MFIs being over-extended, resulting in repayment problems; and there have been coercive collection methods in some cases. There have also been well publicised episodes of poor governance practices and alleged overemphasis on profit rather than social objectives by someMFIs in the country. Indeed, some sensational reports portray the Indian microfinance sector as nearly on the verge of collapse. Just as it was unrealistic to view microfinance as revolutionary in mitigating poverty and advancing financial inclusion, its current characterization as contributing to worsening the lives of millions of sector participants, is also unwarranted. It is therefore even more essential; that the policymakers in India and particularly in Andhra Pradesh let good economics and sound regulation, aided by empirical evidence based on robust data and their analysis be good politics. Unfortunately, the government of AP has hastily passed a controversial Ordinance. This has resulted in bringing all microfinance repayments to a halt in AP, the state which ironically led the microfinance revolution in the country. The Microfinance Institutions Network (MFIN), an association of MFIs accounting for more than 85% of the MFI portfolio in the country, has challenged the Andhra Pradesh (AP) ordinance, the outcome of which is being awaited.A useful contribution of the microfinance sector has been to show that India's low income individuals are credit worthy. It is important to build on this contribution by sustaining the repayment culture inculcated by Indian MFIs, even while introducing adequate safeguards and providing supplementary support mechanisms through civil society and the state. The microfinance sector is at a stage where it needs decisive policy direction from the government to restore the confidence of stakeholders. The policy course adopted should let good economics and sound regulation is good politics.
(RBI) from time to time -such as (i) including lending to SHGs as a part of priority sector Targets.(ii)Exempting non-profit companies doing microfinanceFrom registering as as an NBFC (iii) Permitting the establishment of local area banks (Now withdrawn).The world's attention turned towards microfinancewith United Nations proclaiming 2005 as the Year ofMicrocredit. It reached a crescendo with the award ofNobel Peace Prize to Grameen Bank of Bangladesh andits Founder, Professor Md. Yunus in 2006. Riding thewave of the new found popularity of microfinance,mainstream investors like Sequoia and Legatumsuddenly discovered a new asset class in the fastgrowing Microfinance Institutions (MFIs) of India. Theinfamous Krishna District episode of March 2006 that appeared to threatenthe very survival of themicrofinance sectorbecame a distantmemory, all but erased.The MFIs of India aresuddenly the toast ofshrewdest investors,boasting of valuationsalmost reminiscent ofthe dot com boom. It isat such apparentlygiddy times that areopportune to take stockof where the journey ofmicrofinance began soas not to lose sight ofwhere it needs to go. And that it can do so,armed adequately withthe lessons learnt along the way.The term "Microfinance" originally described the provision of very small loans, the so called "Microcredit", to the poorer parts of the population in order to help them engaging in productive activities and moving out of poverty over time, Microfinance has broadened its agenda and has included other financial services, such as savings or insurance. (Microfinance Gateway, 2004; International Bankakademie, 2004) Before turning to the objectives and the design of Microfinance programs in more detail, the evolution of post-war development strategies is briefly described in order to understand the historical and theoretical context in which Microfinance emerged. As the first Microfinance programs evolved in the mid-1980s, Microfinance is a quite recent phenomenon. However, the emergence and the rapid expansion of Microfinance can be seen as a result of shortcomings of previous development strategies, particular in the area of development finance. By providing financial services to poor people on a self-financing basis, Microfinance has overcome two main problems of all post-war approaches to development finance. These are namely the exclusion of the poorer parts of the population from access to financial services, as well as the political interference with development.Microfinanc sector has

covered a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance, micro remittance, micro pension and micro livelihood .

The Evolution of Microfinance in India: Microfinance appeared to hold promise for reaching people in India with no access to financial services. Microfinance arrived somewhat late in India; Bangladesh's nongovernmental organizations (NGOs), for example, were already implementing a flourishing microfinance business when the first operations started in India in the early 1990s. These operations took the form of self-help groups (SHGs) made up of 15–20 people, predominantly women, who came together to gain access to saving and credit services. The National Bank for Agriculture and Rural Development, an apex development bank mandated to facilitate credit to agriculture, small-scale and cottage industries, and other rural activities, proposed that SHGs be linked to commercial banks to channel institutional credit to the rural poor. This proposal led to a pilot project in 1992 under which India's central bank, the Reserve Bank of India (RBI), allowed commercial banks to lend to SHGs without requiring collateral. This key policy change catalyzed the expansion of microfinance operations in India. The SHG–bank linkage model grew rapidly and soon became well known as the largest microfinance intervention in the world. It initially offered promise as a good model of public–private partnership for providing microfinance because it was backed by regulatory policies that allowed commercial banks to lend to unregistered groups without taking collateral. A number of design issues ensure that it is the poor that typically use these services (although a World Bank survey in 2003 found that the ability of SHGs to target the poor varies from state to state). As of March 2007, this model had linked 41 million people to commercial banks, the cumulative credit disbursed was more than US$4 billion, and the outstanding loan portfolio was about US$2.4 billion (at 2007 prices). Although the SHG model still accounts for the bulk of microfinance lending in India, it faces a number of challenges. For example, the model is susceptible to political capture because politicians looking to disburse handouts at election time use SHGs for this purpose. Given the large unmet demand for credit, it became clear that alternative channels for microcredit delivery in rural areas were badly needed. This need led to the growth of alternative institutions to serve as intermediaries in disbursing credit to the rural poor. These alternative institutions are referred to in the rest of the chapter as microfinance institutions (MFIs). MFIs in India take many forms; there are NGO MFIs, cooperative MFIs, and company MFIs. This third category refers to MFIs registered under the Indian Companies Act as "nonbank finance companies," classification that allows them to provide microcredit but not to take deposits, except under special circumstances. It includes barely 20 MFIs but accounts for more than 80 percent of the total MFI loan portfolio. This growth was facilitated by public policy. Banks in India are required to provide 40 percent of their credit to sectors considered high priorities, such as agriculture, small-scale industry, and vulnerable people, including the poor, those with disabilities, and 346 sona varmaminorities. In 2000, RBI added microfinance to this list. This change released large amounts of commercial bank financing for MFIs and allowed them to scale up their lending operations rapidly. At the end of March 2007, company MFIs had an outstanding loan portfolio of about US$1 billion to about 10.5 million borrowers. Microcredit borrowers use microloans for a variety of purposes. Although industry wide estimates of the use of loans are not publicly available, the evidence available shows that a large share of loans is used for income generation in agriculture as well as nonagricultural activities, such as animal husbandry, shop keeping, and other microenterprises. Commercial banks in India are especially keen to finance agriculture through microcredit in order to meet their priority-sector lending obligations.

Demand of Micro Finance Services in India : Due to its large size and population of around 1000 million, India's GDP ranks among the top 15 economies of the world. However, around 300 million people or about 60 million households, are living below the poverty line. It is further estimated that of these households, only about 20 percent have access to credit from the formal sector. Additionally, the segment of the rural population above the poverty line but not rich enough to be of interest to the formal financial institutions also does not have good access to the formal financial intermediary services, including savings services. A group of micro-finance practitioners estimated the annualised credit usage of all poor families (rural and urban) at over Rs 45,000 crores, of which some 80 percent is met by informal sources. This figure has been extrapolated using the numbers of rural and urban poor households and their average annual credit usage (Rs 6000 and Rs 9000 pa respectively) assessed through various micro studies. Credit on reasonable terms to the poor can bring about a significant reduction in poverty. It is with this hypothesis; micro credit assumes significance in the Indian context. With about 60 million households below or just above the austerely defined poverty line and with more than 80 percent unable to access credit at reasonable rates, it is obvious that there are certain issues and problems, which have prevented the reach of micro finance to the needy. With globalization and liberalisation of the economy, opportunities for the unskilled and the illiterate are not increasing fast enough, as compared to the rest of the economy. This is leading to a lopsided growth in the economy thus increasing the gap between the haves and have-nots. It is in this context, the institutions involved in micro finance have a significant role to play to reduce this disparity and lead to more equitable growth.

Overall outreach of microfinance : The overall outreach of microfinance is estimated at around 50 million people (around 45 million households) by end March 2008. This includes contribution of around 36 million people from SBLP and 14 million from MFIs. It is known that almost all the people linked under SBLP are primarily savers which enable their SHGs to obtain loan from banks. The people linked with MFIs receive mainly credit services for regulatory reasons that limit MFIs from offering deposit services to their clients. However, assuming that about

20% of MFI clients in 2008 also received savings services (a proportion of members of MFIs that adopted the SHG model) the number of microfinance savers in India is estimated at 38.6 million by end March 2008. This shows a predominance of SBLP over the MFIs in providing savings services. By contrast, in terms of proportion of members who are borrowers, the MFIs are far ahead of SBLP. NABARD data indicates that only 20% of the people linked under SBLP obtained loans in 2008. Overall about 19.1 million people were borrowers of microcredit. Figure 2 below presents the growth of overall outreach (SBLP & MFI) in India in the last ten years in terms of membership, number of borrowers and number of savers.

Demand for Microfinance Services in India:

Microfinance Regulations: To reach large numbers of people, microfinance must eventually move into institutions that are licensed and supervised by a country's financial authorities. A licensed institution can offer deposit services to its clients (to enable them to save) and thereby also have additional funds for on-lending at a generally lower cost than an unlicensed MFI would need to incur. Because microfinance is different from conventional banking, the banking laws and regulations of most countries are gradually being adjusted to accommodate licensedMicrofinance. Microfinance Regulation refers to the set of legal rules that apply to microfinance. Supervision is the process of enforcing compliance with those rules. Financial service providers that take deposits need prudential regulation. This type of regulation protects their financial soundness and reduces the chances of their losing small depositors' money. Prudential regulation – which mandates, for instance, capital-adequacy requirements and rules for provisioning for loan losses – is relatively difficult, intrusive, and expensive because it involves understanding and protecting the core health of an institution. Non-prudential rules – such as the screening out of unsuitable owners/managers or requiring transparent reporting and disclosure – tend to be easier to administer because governments do not have to take responsibility for the financial soundness of the organization. Microfinance needs different treatment from normal banking primarily because microfinance assets consist of many small, uncollateralized (that is, unguaranteed) loans. Areas of regulation that typically require adjustment include the relaxation of unsecured lending limits, tightening (if necessary) of capital-adequacy ratios, stricter rules for provisioning for loan losses and lower minimum capital requirements since MFIs are generally smaller institutions than banks or non-microfinance NBFCs.India is a relatively unique case when it comes to microfinance regulation and supervision. It is not only its size that makes it very different from other countries. The involvement of the commercial banks in the financing of the MFIs is much stronger in India than anywhere else. This was facilitated by the advent of microfinance rating and the central bank's circular recognising wholesale lending by banks to MFIs as part of their priority sector lending requirement (40% of all loans). This has stimulated and accelerated the transformation of NGO MFIs to non-bank finance companies (NBFCs) since banks are more comfortable with the latter institutional form. The result is that there is de facto regulation of microfinance institutions through the central bank. However, since the RBI has not recognised microfinance NBFCs as a separate category, it cannot create the separate prudential and non-prudential regulations that would facilitate the provision of microfinance services and safeguard micro-clients. Thus, unrated NBFCs are not allowed to offer deposit services limiting the financial inclusion of microfinance clients to the single dimension of credit.

Indian Microfinance Sector Challenges : The Indian microfinance sector has seen unprecedented growth in this decade. Increased outreach, large investments and the growing role of private equity coupled with greater demand are some of the characteristics that could be marked with the recent development of the sector.

- Requirement of deposit services:
- Deepening of outreach
- Social performance management and reporting
- Sector slow down due to global economic crisis
- Capacity building
- Micro-credit plus
- Regulation

The Indian microfinance sector has grown by leaps and bounds during the first decade of the twenty first century. A lot of changes have been seen during the last ten years on how the microfinance institutions function. Many transformed to for-profit legal forms and MFIs overall continue their efforts to become more efficient and productive.

The Evolution of Microfinance in India : While financial services in India can be traced to the era of Kautilya in the fourth century BC the age of organized sector finance in India is generally acknowledged to have started with the Cooperative Credit Societies Act of 1904. The cooperative credit societies were based on the models of the German cooperative movement, in particular the Raiffeisen and the Schulze-Delitsch cooperatives. The objective of the Act was "to facilitate promotion of cooperative societies, for the promotion of thrift and self-help among agriculturists, artisans and persons of limited means." To the extent that the wording of this objective could be applied to the objects of many MFIs today, this Act is a true precursor to modern microfinance in the country.

MICROFINANCE INDIA : Micro-finance is the provision of thrift, credit and other financial services andproducts of very small amounts to the poor forenabling them to raise their income levels andimprove their living standards. It has beenrecognised that micro finance helps the poorpeople meet their needs for small credit andother financial

services. The informal andflexible services offered to low-incomeborrowers for meeting their modestconsumption and livelihood needs have notonly made micro finance movement grow at arapid pace across the world, but in turn hasalso impacted the lives of millions of poor positively. In the case of India, the banking sectorwitnessed large scale branch expansion afterthe nationalisation of banks in 1969, whichfacilitated a shift in focus of banking from classbanking to mass banking. It was, however,realised that, notwithstanding the wide spreadof formal financial institutions, theseinstitutions were not able to cater completely tothe small and frequent credit needs of most ofthe poor. This led to a search for alternativepolicies and reforms for reaching out to thepoor to satisfy their credit needs. The beginning of the micro financemovement in India could be traced to the self-help group (SHG) bank linkage programme(SBLP) started as a pilot project in 1992 byNational Bank for Agricultural and RuralDevelopment (NABARD). This programme notonly proved to be very successful, but has alsoemerged as the most popular model of microfinance in India. Other approaches like microfinance institutions (MFIs) also emergedsubsequently in the country.Recognising the potential of micro-finance to positively influence thedevelopment of the poor, the Reserve Bank,NABARD and Small Industries DevelopmentBank of India (SIDBI) have taken severalinitiatives over the years to give a further fillipto the micro finance movement in India.Microfinance sector has traversed a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance, micro remittance and micro pension. This gradual and evolutionary growth process has given a great opportunity to the rural poor in India to attain reasonable economic, social and cultural empowerment, leading to better living standard and quality of life for participating households. Financial institutions in the country continued to play a leading role in the microfinance programme for nearly two decades now. They have joined hands proactively with informal delivery channels to give microfinance sector the necessary momentum. During the current year too, microfinance has registered an impressive expansion at the grass root level. This booklet aims to provide a snapshot of the progress in the microfinance sector.

EMERGENCE OF MICROFINANCE IN INDIA : Micro finance is a broad term that includes deposits, loans, payment services and insurances forthe poor. The concepts of micro finance and micro credit are generally used interchangeably but micro credit does not include savings; hence, micro finance is a more appropriate term in the present context (Manimekalai, 2004). The disbursement of micro finance by non-formal financial organisations began in India in the early 1980s. The Self Employed Women's Association (SEWA), owned by groups of women engaged in petty trades, was established according to the co-operative principle in Gujarat in 1974. The earliest initiative in the area of micro finance in India is that of the SEWA model of providing banking services to poor women employed in the unorganised sector. The Shri Mahila SEWA Sahkari Bank: was set up by registering as an urban co-operative bank. Since then, the bank has been providing services to the poor and self-employed women working as hawkers, vendors, domestic servants, etc. Another approach was taken by the working women's forum, which started promoting working women's co-operative societies in Tamil Nadu in 1980; Shrey in Kerala has been involved in micro finance operations since 1988 with the objective of promoting people's co-operatives, and habits of thrift among its beneficiaries, whilealso propagating the concept of self-managing

people's banks. Each of these cases began with the formation of small groups or collectives of women. However, the term 'SHG' was not used in the literature till recently.India seems to be a very peculiar case when it comes to microfinance regulation and supervision. It is not only its sheer size that makes it very different from all others countries. The involvement of formal public sector banks is also much stronger than anywhere else. This means that a relatively (and increasingly) large share of the microfinance sector is under the purview of the central bank, the Reserve Bank of India (RBI).Since microfinance was taken up mainly as a development initiative rather than as a commercial activity, the voluntary development agencies (or NGOs) who were registered either as societies, trusts or Section 25 companies, did not think of looking at alternative institutional forms for providing these services though some cooperatives and one cooperative bank were also engaged specifically in microfinance. As the scale of operations of microfinance activities started growing and, along with that, the desirability of undertaking such activity on a for-profit basis started coming into focus, the larger institutions started to feel the need for a transformation in their legal structure. As a result, MFIs in India can now be found in the form of NBFCs as well.

THE PROFILE OF MICROFINANCE IN INDIA :I n the recent timesmicrofinance has received increased attention among the researcher and financial services 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 main stream of formal financial system. The concept of microfinance is not new. Small informal savings and credit groups have operated for countries across the world from Ghana to Mexico to India and beyond. in Europe as early as 15thcentury, the catholic church founded pawn shops as an alternatives to unsurious moneylenders. These pawn shops spread throughout the urban areas in Europe throughout the 15 century.

Microfinance in the Context of Development, Microfinance institutions : A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank

clients.During the 1970s and 1980s, the microenterprise movement led to the emergence of nongovernmental organizations (NGOs) that provided small loans for the poor. In the 1990s, a number of these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, thus enhancing their outreach. Specialized microfinance institutions have proven that the poor are "bankable". Today, formal institutions are rapidly absorbing the lessons learned about how to do small-transaction banking. Many of the newer players in microfinance, such as commercial banks, have large existing branch networks, vast distribution outlets like automatic teller machines, and the ability to make significant investments in technology that could bring financial services closer to poor clients. Increasingly, links among different types of service providers are emerging to offer considerable scope for extending access.Internationally several key principles for microfinance are emerging and increasingly accepted.

These principles are:

1. Microfinance is a powerful instrument against poverty.
2. The poor need a variety of financial services-not just loans
3. Interest rate ceilings can damage poor people's access to financial services.
4. Financial sustainability is necessary to reach significant numbers of poor people.
5.Microfinance is about building permanent financial institutions and systems that serve the poor.

MICROFINANCE INSTITUIONS (DEVELOPMENT AND REGLUATION) BILL, 2012

- The Micro Finance Institutions (Development and Regulation) Bill, 2012 was introduced in the Lok Sabha on May 22, 2012. The Bill aims to provide for the development and regulation of micro finance institutions.
- A micro finance institution (MFI) is defined as an organisation, other than a bank, providing micro finance services. These services are defined as micro credit facilities not exceeding Rs 5 lakh in aggregate, or with the Reserve Bank's

  (RBI) specification Rs 10 lakh, to each individual. Other services like collection of thrift, pension or insurance services and remittance of funds to individuals within India also come under micro finance services.
- The Bill allows the central government to create a Micro Finance Development Council with officers from different Ministries and Departments. This council will advise the central government on policies and measures for the development of MFIs.
- In addition, the Bill allows the central government to form State Micro Finance Councils. These councils will be responsible for coordinating the activities of District Micro Finance Committees and reviewing the MFIs in their state.
- District Micro Finance Committees review the development of micro finance activities within the district, monitor over-indebtedness and monitor the methods of recovery used by MFIs. These committees can be appointed by the RBI.
- The Bill requires that all MFIs to obtain a certificate of registration from the RBI. The applicant needs to have a net owned fund of at least Rs 5 lakh. By 'net owned fund' the Bill means the aggregate of paid up equity capital and free reserves on the balance sheet. The RBI should also be satisfied with the general character or management of the institution.
- Every MFI will have to create a reserve fund and the RBI may specify a percentage of net profit to add to this fund. There can be no appropriation from this fund unless specified by the RBI.
- The RBI has the authority to set the maximum annual percentage rate charged by MFIs and set a maximum limit on the margin MFIs can make. Margin is defined as the difference between the lending rate and the cost of funds (in percentage per annum).

Microfinance has become one of the primary means by which much required financial services are provided to small traders and craftsmen working in the informal sector of developing economies. MFIs provide thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise thIn India, the Reserve Bank of India ('RBI') has identified the growth of the microfinance sector as an important avenue through which the broader national goal of making a wide range of financial services accessible to increasing proportion of the population (usually referred to as financial inclusion goal) can be reached. In addition, the RBI considers lending by banks to the microfinance sector as a part of their priority sector lending requirements. Both these aspects increase the importance of ensuring orderly development and sound governance and regulatory structures for the microfinance sector.

MICROFINANCE PROVIDERS ARE "Banks for poor" : A type of banking service, different from the traditional banking system, the goal: to give low income people an opportunity to become self –sufficient by providing, a means of saving money, borrowing money and insurance. loans provided to unemployed or low income individuals or groups who would otherwise have no other means of gaining financial services.microfinance

includes deposits,loans,payment services, money transfers and insurance, products savings and credit services, types :urban microfinance and rural microfinance beneficiaries:microenterprises,poor,women,low income households,act:the microfinance institutions(development and regulation)bill,2011-. In the past two decades, microfinance has emerged as a leading and effective strategy for poverty reduction. Although it is not a panacea for povery, when and where properly harnessed it has made sustainable contributions through empowering people, providing them with confidence, self-esteem and the financial capacity to exercise greater control over their own development. Microfinance involves: Smallloans, typically for working capital, informal appraisal of borrowers, collateral substitutes and alternatives, such as group guarantee or compulsory savings, access to repeat and loans based on repayment performance, streamlined loan disbursement and monitoring, secure savings products, insurance. Microfinanceplays a very important role in reducing poverty ratio in rural India. Micro-Finance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, micro-Finance scene is dominated by Self Hel Groups (SHGs) - Banks linkage Programme, aimed at providing a cost effective mechanism for providing financial services to the 'unreached poor'.There is tremendousscope for the sustaining of micro finance developmentin India. Microfinance refers to financial services, such as credit and savings which give people an opportunity to borrow and invest. Microfinance institutions have contributed quite a lot to the Indian economy by creating employment opportunities, training entrepreneurs, generating income and eventually reducing poverty by financing various businesses owned by low income households. Microfinance has emerged as a catalyst of rural development, especially in overpopulated country like India. In recent times, finance has emerged as a major innovation in the rural financial market place. Microfinance largely addresses the issue to financial services (Sriram, 2005). A growing body of research around the world shows that a well developed and inclusive financial systems are associated with faster growth and better income distribution. Finance also helps to extend the range of individuals, households and firms that can get a foot hold in the modern economy, and it reduces damaging concentrations of economic power (Basu Priya, 2005). Microfinance has been considered as a tool for economic development and poverty reduction, but the access of microfinance is closely related with the awareness of microfinance. An important addition to the knowledge base available on banking services for the poor is ambitious "Access to finance". Survey carried out across the world by CGAP, it pointed out the institutional

and other inadequacies in the developing countries that resulted in limited access to services.microfinance institutions are those institutions, which provide micro-credit, savings and other services to the productive poor. The focal point of many studies on microfinance dwells in the domain of poverty (Kanbur, 1987).Most of the Government-controlled microfinance programmes and institutions failed because of low loan recovery rate and high subsidy index. Hence their outreaches to the poor, including the financial self-sustainability and welfare impact have been limited. Microfinance Institutions (MFIs) in India exist as NGOs (registered as societies or trusts), Section 25 companies and Non-Banking Financial Companies (NBFCs). Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in providing refinance facility to MFIs. Banks have also leveraged the Self-Help Group (SHGs) channel to provide direct credit to group borrowers.Microfinance in India has been viewed as a development tool which would alleviate poverty and enhance growth of the country through financial inclusion.India is a country which has the highest number of households which are excluded from banking.Those institutions which have microfinance as their main operation are known as microfinance institutions. A number of organizations with varied size and legal forms offer microfinance service.Microfinance Institutions that are Grameen replicators in India, using a for-profit Non-Banking Finance Company legal form, have grown rapidly in terms of client numbers Micro Finance plays a very important role in reducing poverty ratio in India. India falls under low income class according to World Bank. It is second populated country in the world and around 70 % of its population lives in rural area. 60% of people depend on agriculture, as a result there is chronic underemployment and per capita income is only $ 3262.India's GDP ranks among the top 15 economies of the world. However, around 300 million people or about 80 million households are living below the poverty line, i.e. less than $2 per day according to the World Bank and the poorest are which earns $1 per day. It is further estimated that of these households, only about 20% have access to credit from the formal sector. Out of these 80 million house hold, 80% takes credit from the informal sources i.e. local Zamindars, Chit Funds etc. Micro finance programme has witnessed noteworthy growth in India during the first decade of 21st century. Various evidences found that these activities are assisting the poor in many ways. But in the past three years, there were many structural and functional changes have created many complexions and caused for poor growth in the loan disbursement.. Throughout the globe, poor people are excluded from formal financial system like banking, insurance and so on. Difficulty to avail such formal banking service, the poor has adopted a wide variety of informal financial arrangements to meet their financial needs. At present, this difficulty is removed with the establishment of micro finance institutions, but the core mission of providing finance to poor with the ease of formalities is now subject to doubt. "micro" financial services (microfinance) delivery to the huge number of poor people in the developing countries is considered important in the pursuits of some of the Millennium Development Goals (MDGs) and crucial for robust economic growth and development (CBN, 2005; Dunford, 2006; Montgomery & Weiss, 2011). It is believed that by extending "small", "user friendly" and "collateral free" loans as well as deposit, insurance and other financial services to the poor, their latent entrepreneurial capacity can be enhanced, and the people enabled to undertake more rewarding economic activities and investments that can lead to sustainable increases in their income and significant poverty reduction (CBN, 2005; Hermes & Lensink, 2011). The microfinance sector in India has grown steadily over the past 5 quarters. Compared to the third quarter in the previous financial year, the gross portfolio outstanding for the microfinance sector has

grown by almost 29%from INR 186bn to INR 240bn.during the same period, the aggregate number of active MFI clients has also increased by 16% to about 26.5 million.

FUNDING TO THE SECTOR : Access to debt funding has improved significantly during FY13 and year –to- date FY 14, With many private as well as public sector banks in the forefront .bank lending to the MFIs has increased from INR 47 bn in FY 12 to INR 84bn in FY13, With almost 80% increase year on year, while the lending by the financial Instituions has also increased at the same pace from INR 9.5bn to INR 17 bn.

PORTFOLIO QUALITY : The portfolio quality of the MFIs has shown consistentimprovement over the last few years dropping from 2%to 0.4% ,one of the reason s being availability of credit data of clients .today most of the MFIs mandatorily share information with the credit bureau and this has increased the comfort to lend in the sector .as of sep'13,total 100 mn clients records have been uploaded with the two credit bureaus –Equifax and high mark compared to 55 mn.the sector has impressive portfolio growth ,outreach to clients while the increased role of credit bureaus have led to stronger asset quality of the underlying loan portfolio. The improvement in funding to the microfinance sector also shows higher confidence among banks and financial Instituions in lending to the sector.ifmr investment proposed social venture AIF will invest in debt instruments with strong credit quality. Concept of microfinance is emerged in need of meeting special goal to empower under privileges class of society ,women, and poor, downtrodden by natural reasons or men made: caste creed, religion or otherwise. the principles of microfinance are founded on the philosophy of cooperation and its central values of equality, equity and mutual self help. at the heart of these principles are the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their children.(V.Sapovadia).Micro finance is a concept which encompasses a lot of things such as micro savings, micro insurance, micro investments etc. The major part of micro finance is micro credit. The microfinance revolution has changed attitudes towards helping the poor in many countries and in some has provided substantial flows of credit, often to very low-income groups or households, who would normally be excluded by conventional financial institutions. Bangladesh is the starkest example of a very poor country, where currently roughly one quarter of rural households are direct beneficiaries of these programs (Khandker 2003).Though the concept

''Microfinance 'refers to small financial activities like savings, creditinsurance, payment remittance etc.but have covered a wider dimension and shown a greater impact in improving socio-economic life of poor people by providing a channel through which they have getting have been always excluded from the formal financial system basically either due to social background or economic backwardness and even some times both. Therefore in order to overcome the challenging issues like poverty, unemployment ,malnutrition, lack of formal credit support, improvement in socio-economic status ,the government of india is association of NABARD AND RBI introduced the concept of self help groups .India is a home of largest banking financial system. In spite of having wide spread network of Commercial, Co-operatives, RRBs and Post- offices, India's half of the population don't have basic access to financial services. According to RBI report only 55 percent of the population have deposit account and 9 percent have credit account with banks.In India, the microfinance activities started with the initiates of NABARD through linking 225 Self Help Groups (SHGs) with Bank in 1992. A Self Help Groups is a homogeneous group of poor, women, and users etc. which are voluntarily and are formed for the common interest of their development. The SHGs has average size of 15 member's class but not more than 20 members (NABARD, Mumbai) Microfinance served a client size of 76.6 million against last year's 59 million. MFI's have recorded about 8.5 million clients during the year 2009-10, a growth of 60% over the previous year. More than 50 percent of low income households are covered by some form of microfinance product. The total outstanding microfinance loans posted a growth rate of 30% or 359.39 billion over the last year's level of Rs 229.54 billion. The SHG loan outstanding has increased by Rs. 71.5 billion with an addition of 6.9 million clients. At the current growth rates, MFIs might outstrip the SBLP in portfolio volumes. MFIs so far reached 234 of the 331 poorest districts identified by the government. SBLP registered a decline of number of women SHGs from 82.5% in March 2008 to 80.4% in March 2009. The microfinance penetration index shows especially in Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh compared to extraordinary levels reached in Andhra Pradesh, Karnataka and Tamil Nadu. Microfinance institutions (MFIs) have emerged over the past three decades to address this market failure and provide financial services to low income clients .most of the early pioneer organizations in the modern microfinance movement operated as non profit, socially motivated nongovernmentalorganizations. They developed new credit techniques: instead of requiring collateral, they reduced risk through group guarantees, appraisal of household cash flow, and small initial loans to test clients. Experience since then has shown that the poor repay uncollateralized loans reliably and more are willing to pay the full cost of providing them: access is more important to them than cost. Microfinance institutions (MFIs) refer to a broad range of diverse institutions that offer financial services to low-income clients, which include non-governmental organizations (NGOs), non-bank financial institutions, cooperatives, rural banks, savings and postal financial institutions, microfinance banks (MFBs) and an increasing number of deposit money banks (DMBs). The nature of these institutions departs from the traditional financial institutions (Deposit Money Banks) as they are smaller in size, limited in their services and often provide small collateral-free group loans. Microfinance has received extensive recognition as a strategy for poverty reduction and for economic empowerment. Microfinance is a way for fighting poverty, particularly in developing countries region, where most of the world's poorest people live.Microfinance facility can also contributeto the improvement of resource allocation, promotion of markets, and adoption of bettertechnology; thus,microfinance serve topromote

economicgrowth and development of the any country nation. Borrow, save, and invest, and to protect their families against adversity. Anothershortcoming ofthe two financialsectors in developing countries is the in ability to satisfy the credit needs of the poor that has led to the new development of microfinance. Microfinance is believed to be able to reduce the above-mentioned inadequacies of formal and informal financial institutions and is emerging as an important credit partner to the poor in the developing world. The idea of giving very small loans to people who do not have access to banks has Existed for a long time (CGAP 2006), the loans are intended for profit-making, it is common for loans to be used for survival (Morduch 2004; Rahman 1999). Microfinance is an important element for an effective poverty reduction strategy.World almost every country has to face the poverty. Poverty is the condition in which low-income people cannot meet the basic needs of life. This situation leads to many fold difficulties like decreased health facilities, high illiteracy rate, decreased quality of life etc., these difficulties motivate human beings to commit heinous crimes.

Poor people living in the villages and are illiterate they don't have the knowledge about microfinance therefore, a special campaign must be started to familiarize the poor people about this facility.Microfinance is helpful for poverty alleviationReduction Microfinance as a means to relieve poverty and to give facility services to poor has been propounded in developing countries in recent decades. Based on literatures (e.g. Bardhan, 1980; Bhaduri, 1983 and Coleman, 2004) factors such as high interest rates and monopoly powers resulted in having no access to credit by poor groups in this countries.Today, there are millions of poor people around the world who turn to be entrepreneurs through the micro credit sector. In general, the main reason of poverty is believed to be weak and or lack of poor access to initial and small resources to start their activities.

Microfinance sector has grown rapidly over the past few decades.nobel laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of grammen bank, Bangladesh in 1976.today it has evolved into a vibrant industry exhibiting a variety of business models. Microfinance banking financial companies (NBFCs).commercial banks, regional rural banks (RRBs), cooperative societies and other large lenders has played an important role in providing refinance facility to MFIs. Banks have also leveraged the self help group (SHGs) channel to provide direct credit to group borrowers. With financial inclusion emerging as a major policy objective in the country, microfinance has occupied centre stage as promising conduit for extending financial services to unbanked sections of population .at the same time ,practice followed by certain

lenders have subjected the sector to greater scrutiny and need for stricter regulation. According to Kofi Annan (former Secretary General of the UNO) states that "Microcredit is a critical anti-poverty tool a wise investment in human capital. When the poorest, especially women, receive credit, they become economic actors with power. Power to improve not only their own lives but, in a widening circle of impact, the lives of their families, their communities, and their nations." (Uttam Paul, 2014) Micro finance is a novel approach to 'banking with the poor' and this system attempts to combine lower transaction costs and high degree of repayments. According to recent survey (Parida and Bandhu: 2012) More than One billion poor people have no access to basic financial facilities, which are essential for them to manage their precarious lives.(Uttam Paul ,2014)

The Indian government and state authorities should realize the consequences of devoting awareness to the economic betterment of women in India. More awareness programmes, more training for supporting themselves and schemes should be provided to the rural women. SHG being one of the means to improve rural development should be emphasized more on the rural women (women not only gain financially but gain self esteem in the society) Government should put more effort in encouraging these groups by providing more schemes and making sure that these schemes are utilized and received by the proper groups because these schemes that are given for the upliftment of SHGs not only help the SHG members in making their standard of living better but helps in making the society better as a whole.
The Grameen Bank provides loan landless poor, particularly women, to promote self employment. This very project became successful and India adopted this Bangladesh model in modified form. India falls under low income class according to World Bank. It is second populated country in the world and around 70 % of its population lives in rural area. 60% of people depend on agriculture, as a result there is chronic underemployment and per capita income is only $ 3262. This is not enough to provide food to more than one individual.

Need of the study : The need of microfinance arises because the rural India requires sources of finance for poverty alleviation, procurement of agricultural and farms input. Micro finance is a programme to support the poor rural people to pay its debt and maintain social and economic status in the villages. As we know that India is agriculture based economy so microfinance may be a tools to empower the farmers and rural peoples to make agriculture profitable.So the researchers are interested to find out the scopes of microfinance in rural India. This research paper is highlighting a picture rural India as a profitable segment for microfinance institutions. In the area of sustainable development for rural women ,the focus must be laid on developing the capacity of women through increasing their economic power ,social power, participation power and decision making power, participation power and decision making powers .this is being achievable to a large extent through the formulation of SHGs.

METHODOLOGY AND PERIOD OF THE STUDY : The data collected for the purpose of this study is secondary in nature .the study covers a period from 2007-08 to 2012 -13. Methodology: The basic foundation of the study is based on the secondary sources of information like research papers, conference papers, working papers, speeches, web documents, books etc. Primary sources of information are limited to personal observation and face-to-face

interviews. Micro credit models, its replication and commercialization issues come from the secondary sources. And modification or extension to the current models is the result of critical observation and interviews with the facilitators, both the lenders and borrowers.

(THE NEW HISTORY OF MICROFINANCE) HISTORY : The history of microfinance in the world Some of the most important factors for economic growth and development are the financial and human resources. All of the potential human capital even poor people could have serious role in the economic growth if they have the initial required capital to create job and produce goods and services. So the idea of financing the poor people is shaped for decades. In this part of the article, the history of microfinance is presented by introducing some of the important Microfinance Institutions One of the earlier and longer-lived micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift. Swift's idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak they were making loans to 20% of all Irish households annually.

RECENT DEVELOPMENT : Microfinance sector has traversed a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance, micro remittance and micro pension. This gradual and evolutionary growth process has given a great opportunity to the rural poor in India to attain reasonable economic, social and cultural empowerment, leading to better living standard and quality of life for participating households. Financial institutions in the country continued to play a leading role in the microfinance programme for nearly two decades now. They have joined hands proactively with informal delivery channels to give microfinance sector the necessary momentum. The emergence of microfinance has brought a sizeable section of the population within the ambit of financial services, especially during the last three decades. Various estimates however suggest that not more than 33 per cent of poor households are covered under any of the two major microfinance delivery mechanisms in India: the Self Help Group (SHG) Bank Linkage model and the Microfinance Institutions (MFIs) (e.g. Asher & Shankar, 2007; Bhatt, 2006; Ghate, 2007; Menon, 2005). There is general agreement that the microfinance products currently on offer are not suitable for the poor, and the poor are generally not considered good customers even within the largely inclusive microfinance programmes (Navajas et al., 2000; Priyadarshee, 2010). According to Hulme (2000, p. 27), MFIs virtually never work with the poorest.The recent decision of India‘s central bank to Ease Borrowing for microfinance institutions may be the shot in the arm the industry needs to kick-start reforms. For all the industry‘s troubles, microfinance institutions still attract customers in India: in the year through March 2011 the number of borrowers grew over 17% from the previous year to around 94 million. 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, have become an important alternative to traditional lending in terms of reaching the poor without incurring a fortune in operating and monitoring costs. The government and NABARD have recognized this and have emphasized the SHG approach and working along with NGOs in its initiatives. In spite of the impressive figures, the supply side of microfinance in India is still presently grossly inadequate to fill the gap between demand and supply but it holds the promise to act as a great opportunity for the financial sector and the economy as a whole . The government has released the draft Micro Financial Sector (Development and Regulation) Bill, 2011, which seeks to make it mandatory for all microfinance institutions to be registered with the Reserve Bank of India, making it the sector regulator. The latest draft Bill proposes that a micro finance institution has to be registered with the Reserve Bank with the minimum net owned fund of Rs 5 lakh (Rs 500,000). The microfinance movement can be roughly divided into two different approaches: financial sustainability oriented and poverty reduction oriented, although both share the same goal of improving the welfare of the poor (Woller et al., 1999; Schreiner, 2002).

Micro-finance is the provision of financial services to the poor who are otherwise considered un-bankable. Even though this idea has been around for quite some time, modern micro-finance really took off in the 1970‟s with the activities of the Grameen Bank which were pioneered by Nobel Laureate Dr. Mohammad Yunus. The initial success of Grameen Bank in alleviating poverty brought this concept into the global limelight and has led to micro-finance being touted as a panacea for poverty and under-development across the world. Micro-finance operates on the principle that a group of individuals is more bankable than a single individual. A group of individuals is more traceable to the lending institution and the peer dynamics within such a group would ensure compliance and credit discipline to a considerable degree. Also, in most cases, since the group is jointly made liable for the loan, the risk is mitigated on the lenders side due to the high improbability of the group defaulting as a whole. But, it needs to be kept in mind that micro-credit is disbursed without the requirement of any collateral security and the lender has nothing to fall back on, other than the intangible assurance of the borrowing group. Micro-finance is an umbrella term that includes micro-credit, micro-savings, micro-insurance and a host of other financial services. There is no hard and fast definition with respect to the maximum quantum of loan that can be qualified as micro-credit, although the widely accepted figure is $1000 (around Rs 45,000, according to the exchange rate, November 2010).In India, micro-finance has evolved considerably and is mainly delivered through either of two models, namely the SHG-Bank Linkage (SBL) model, which was championed by the NABARD in the late 90’s and the Micro-Finance Institution (MFI) model which resembles the.

Microfinance Institutions in India : The Microfinance Sector in India: The Indian microfinance sector is characterised by a diversity of strategies, methodologies,organisations, partnerships and performance. Despite a long history of directed lending to the poor, the informal sector and the poor are serviced predominantly by informal financial sources. The emergence of microfinance institutions (MFIs) is partly a response to the vacuum in the sector and is informed by the understanding that the commercial banking sector is perhaps structurally not geared to lending to the poor. By current estimates, 800-1000 agencies (including NGOs) are engaged in microfinance activities for the poor, but very few of them have been able to achieve the scale and managerial professionalism that is required of a financial intermediary. The sustained outreach of microfinance is less than 10% of the poor households and the average size ofloans has been around Rs. 5,000. Increasingly, people and institutions associated with the sector have expressed the need to strengthen it through appropriate organisational forms, stronger linkages to the mainstream financial sector, and mentoring and handholding of MFIs.Themodern microfinance movement began in Bangladesh more than 25 years ago, with the official opening of grameen bank in 1983.this institutions and its revolutionary' double bottom line'',''social business'' practices remains 95 percent owned by its poor clients and has had lasting effects on microfinance industry and on economic development efforts in general.grameen bank was profitable for 22 of its first 25 years of existence and has helped 65 percent of its clients 'families to exit poverty. on a broader scale ,this effort has demonstrated that a microfinance institutions (MFI) can be successful in fulfilling both aspects of its two fold mission: turning a profit and achieving social good via combating global poverty. Grameen bank was founded by Muhammad yunus, who, along with grameen,won the nobel peace prize for his microfinance-related poverty alleviation development efforts in 2006.he is generally considered father of modern microfinance and has dedicated his professional careerto combating poverty around the world through financial inclusion. in line with this goal Dr.Yunus has fostered a new approach to financial services which intends to provide emerging economies and their substantial poor populations with access to financial infrastructure and resources readily available in more developed nations. from its roots in Bangladesh,grameen bank has grown into a substantial international presence, with over USD 1 billion in assests and cummlative loan disbursements of more than USD 7.5 billion by year-end 2008. Microfinance entails the delivery of financial services (such as deposits, loans, payment services, money transfers and insurance) to poor and low income households and their micro-enterprises. Microfinance institutions (MFI) now play a key role in the fight against poverty by helping poor households build their income and assets (Zaman,2004).According to the State of Microcredit Summit Campaign Report (2005) as of 2004 some 3,200 microcredit institutions reportedly to reached more than 92 million clients of which approximately 73% are living in poverty when their first loan was made. Micro -Finance has gained recognition in development conversation the world over as a tool of poverty mitigation and women empowerment. There is a sensitive requirement amongst the poor for credit, both for utilization and production, which often forms the declining line between survival and succumbing to poverty. It has been found that above and beyond food, credit is also wanted for health, housing, education etc. These needs are also decisive for continued existence. The accomplishment of SHGs as a progress tool depends on the accessibility of Micro Finance. For women to turn out to be a flourishing entrepreneur, she needs way in to capital, managerial knowledge and market. The spirit to authorize rural women lies in catalyzing suitable economic activities at the grass root level and thus by creating new opportunities for them to earn higher income.MFIs in India are of two kinds: those regulated by the Reserve Bank of India, or RBI, and called nonbanking finance companies, or NBFC MFIs, and those run by non-profit trusts and societies. NBFC MFIs, which have access to relatively cheap financing from banks under the priority sector lending targets of the lenders, account for over 75 percent of the loans disbursed by the sector. Microfinance is the business of disbursing modest, short-tenure loans without collateral to small borrowers, most of them poor.MFIs, like all companies, finance their funding needs through a combination of external debt, equity financing and internal cash generation. According to the SousaShieldsframework (2004),

CONCLUSIONS: Microfinance is a very capital intensive business, and fund infusion at regular intervals is invariably necessary. As there is a large demand-supply gap; the MFI sector (including nascent MFIs) will grow at rates that are muchhigher than other industries in the long-term. Microfinance is the provision that provides access to various financial services such as credit, savings, micro insurance, remittances, leasing to low-income clients including consumers and the self employed, who traditionally lack access to banking and related services. Its main objective is to provide a permanent access to appropriate financial services including insurance, savings, and fund transfer. It is rather an important tool for the eradication of poverty. Poor will be able to deal with emergency and also make significant investment expenditures. As microfinance becomes more widely accepted and moves into main stream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs. Microfinance must involve the people themselves in examining the problems and creating solutions if it is to be sustainable with those upon whom development is targeted. To meet unsatisfied demand for financial services, a variety of microfinance institutions (MFIs) has emerged over time in Africa.Microfinance is to provide financial services like small loans, credit, deposit service and insurance to very poor people for self-employment projects that generate incomes, supporting economically themselves and their family. Some of the defining criteria used include:

▹ **Size:** Loans are micro or very small for targeted users between as little as US$5 ~500. ▹ **Market:** Micro entrepreneurs and low-income households.▹ **Use of funds:** For income generation and enterprise development, but also community use like health and education,etc

▹ **Terms and conditions:** Flexible and easy to understand and suited to the local conditions of the community. Its impact is overwhelming in a number of ways. First, microfinance has provided financial services to people who are largely excluded from the formal financial industry mostly due to the lack of collateral. It helps people to escape from vicious poverty trap. Secondly, microfinance is an innovative program that breaks common industry wisdoms and it is also relevant to many other industries that are looking for the development of new market. Thirdly,microfinance provides poor people with education and experience in financial service, market economy and entrepreneurial culture. Microfinance is one of the fields, which have been in practice in the developing nations for the past twodecades. Field has achieved major successes in few nations and has provided the access to the financialinfrastructure to the poor. Microfinance as such forms the complementary to the present financial institutes in the financial infrastructure. Asian nations have also opted to implement microfinance in both the formal andinformal channels. This led to evolving of alternative channels like microfinance which provided servicesthrough the rural and cooperative/ credit union banks exclusively in order to reach the poverty part of thesociety. At the same time even private financial institutes (Non banking financial institutes) and NGO (NonGovernment instates) were encouraged to actively involved in undertaking the microfinance services to the poverty.Micro-Finance services have existed for the past three decades in the developing nations. It has been implemented as the complementary to the formal financial infrastructure. The major objective is to provide the financial services to the poverty section that has been denied by the commercial banks. Voluntary and NGOs plays a vital role in the implementation of the Micro finance services in developing nations. The usage of performance measurements in the voluntary and NGOs is low as supported by literature. The literature also highlights the significance of the performance indicators, for better performance of an organisation.Financial self sustenance (FSS) and Operational self sustenance (OSS) reflects the financial performance of MicrofinanceInstitute. The present study attempts to identify the various variables and capture the significance of theinfluence upon the FSS and OSS of an organisation in the context of East Asia and pacific region and SouthAsia (regions defined by MIX – Market).

Microfinance institutions (MFIs) as businesses, asking how some MFIs succeed in covering costs, earning returns, attracting capital, and scaling up. This is not to imply that commercial success is all that matters for microfinance, nor even that it should be pursued at all costs. The ultimate impact on borrowers and communities is what matters for MFI leaders and staffers, and for MFI investors, by which we mean all those who put money in, public or private, through grants, loans, or equity. But viewing MFIs as practical solutions to challenging business problems is a good place to start in understanding why microfinance operates in the ways it does.

Microfinance is a concept that postulates the credit to micro and small business; it also includes savings; cash transfers; and insurance to poor and low-income people. Strictly speaking, it comes into a wide concern for the developing countries after continual increase of poverty and unemployment, and lack of income equality. In order to be more effective and maintain community's local development, microfinance institutions (MFIs) should provide both financial and non-financial services. Non-financial services envelop a well define of the target groups and target areas; target groups are the poor and/ or the unemployed, and the target areas are the areas that have the potential to establish a micro and small projects according to the local community needs' assessment. Therefore, non-financial services envelop: business awareness, market surveys, training target groups on "how to start their own business", providing feasibility studies, assisting in establishing their projects, providing them with business counseling, and assisting in marketing activities, consequently. The Consultative Group to Assist the Poor (CGAP) highlights eleven principles that are essential for building financial systems for the poor, of which the most important are: their need of a variety of financial products; ability to raise income; build their assets; integrate country's mainstreamfinancial systems; reach large number of poor people; can attract domestic deposits to be recycled into loans; governments have to enable others to develop financial services, and not to provide them directly; and Microfinance works best when it measures its performance, also when MFI produces accurate data on financial performance, as well as social performance (Brandsma&Bourjorjee, 2004, P9).One of the salient features of the micro-finance movement is its rapid expansion. In India, for example, the average year-on-year increase in the portfolio of the Indian micro-finance sector over the period 2004-2009 was 107% (as compared to a 4% increase in commercial bank lending in 2008-09, see Parameshwar et al., 2009). Other countries also witnessed similar expansions.1 With increased micro-finance penetration, there has been a concomitant increase in competition among micro-finance institutions, with many areas being served by multiple MFIs.One of the central issues in this context, and the one we focus on in this paper, is that of 'double-dipping', i.e. borrowers taking loans from several MFIs, and the closely connected issue of borrower default. Several studies confirm the importance of double-dipping, and also find evidence to suggest that double-dipping may be be linked to the phenomenon of borrower default.

1. In the South Indian state of Karnataka, for example, there were 7.31 million micro-finance accounts by the end of 2009 (Srinivasan, 2009). Even assuming that all the poor were covered, this comes to 2.63 accounts per household.
2. In the Indian context, Srinivasan (2009) further argues that borrowers often use loans from one MFI to repay other MFIs.
3. In the context of Bangladesh, the Wall Street Journal (27.11.2001) reports that "Surveys have estimated that 23% to 43% of families borrowing from micro-lenders in Tangail borrow from more than one."
4. For Bangladesh, McIntosh and Wydick (2005) find that in spite of the fact that competitive pressures among microlenders reduced interest rates for some borrowers, 32% of the Grameen Bank's loan portfolio in Tangail

was overdue by 2 years or more.The effect of an increase in MFI competition, and the resultant double-dipping, is not very clearcut theoretically, especially in so far as the the efficiency and welfare implications are concerned. It is of course clear that such double-dipping can weaken borrower discipline and increasedefault (seeHoff and Stiglitz, 1997).

Micro finance has been found as the approach and tool for poverty alleviation and empowerment of rural women. The SHGs have made a revolution in the POOR folk by enabling them to become self dependant, self reliant and self employed.The core theory that logically validates the application of microfinance scheme to raise the income and other assets of the rural poor advanced that as long as the returns of the microfinance projects are more than the costs of loans and the value of marginal propensity to consume is less than one, growth rate of capital accumulation is positive. Microfinance is considered an important tool .microfinance program has not only helps in financial inclusion. But it also promotes banking habits, saving behavior and better financial utilization among the poor. Poor is provided as possible as microcredit to meet their needs of education, marriages etc.The microfinance sector in India is on a growth. It cannotbe denied that it shares a causal relationship with othereconomic indicators. The empirical analysis proves that itis on the nascent stage and when the economy grows, it causes useful growth in micro loans. Also, unidirectionalrelationship was observed where GDP is granger causingSensex.A causal relationship between these two variables is quite obvious as microloans are majorly being taken in rural areas. Main conclusion of this paper is that microfinance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programmes. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrowers without imposing unbearably high cost of monitoring its end-use In this paper; we have traced the development of credit risk measurement mechanisms in Microfinance institutions. We showed how microfinance institutions can succeed in reaching the poorest of the poor in a more effective way than formal financial sector by devising innovative strategies, such as group lending, dynamic incentive, collateral substitutes, regular repayment schedule and the provision of nonfinancial services. In addition, we showed how literature regarding the better credit risk assessment approaches in MFI offering individual microcredit programs is divergent between judgmental and statistical assessment approaches. More research can be done in this area.The potential for growing micro finance institutions in India is very high. Major cross-section can have benefit if this sector will grow in its fastest pace. As Micro finance becomes more widely accepted and moves into main stream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs. Microfinance services are go for the training their business with growth prospectus .providers of microfinance services need to realize Micro credit programs have a strongly positive relationship with poverty alleviation; this is the proven fact. But, the only requirement is that the loan giving authorities really mean it. It is not a simple task to help the poor, as they are poor in every respect. The geographical location of the poorest and the broader environment in which they operate also make it more difficult to serve them. For example, while the poorest can be found in urban areas, most of the poorest in Asia are concentrated in rural areas where basic physical infrastructure is highly inadequate (Haan and Michael, 1998). The bulk of the poorest in India are in such states as Bihar (including Jharkhand), Uttar Pradesh (including Uttaranchal) and Madhya Pradesh (including Chhattisgarh) (Mehta and Amita, 2003). These states have seen relatively very little institutional micro finance.

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