ISSUES AND CHALLENGES OF MICROFINANCE

Microfinance over the years have grown to such a huge proportion that with every passing phase it embodies numerous challenges and issues. It leads to opening up of new opportunities and pivots the practitioners to conflicting situations. Some of those issues are discussed below:

6.1 WOMEN CENTRIC

Women form a vital part in the society whether developed or underdeveloped. They constitute one third of the national work force and they share much larger part of the earnings for basic family maintenance. Despite the contribution made by the women, social conventions and gender ideology primarily in India and generally all over the world, has made them a deprived and suppressed constituent of the society.

Women activists see a ray of hope in the micro finance framework to uplift the plight of the women in the society. It is exemplified by Dr Loveleen Kacker, Joint Secretary, Ministry of women and child welfare through a project named 'Swa-Swakti' assisted by IFAD and world bank. The project identified Economic Empowerment, Social Empowerment, Skill Development, Community Asset Creation and convergence of services as the basic criteria of women empowerment, which are again subject to evaluation at a macro level.

The feminization of poverty, a serious concern so far is now giving way to the feminization of micro credit. Women are preferred clients because they can be persuaded to operate on gendered notion of shame, decency and discipline. The SHG functions as a political and delivery agent. The whole effort of gendering development has been flawed by the tendency to pick up a part and then treat it...
as a whole. To conserve these as an economic empowerment and then to ignore the fact that political and social empowerment is hollow, is indicative of how superficial development approaches for women continue to be. Vansanth Kannabiran in the article Marketing self-help, Managing Poverty has termed it as a micro solution to a macro problem.²

6.2 HIGH COST TO SERVE
Loans extended to members of SHG command interest rate in the range of 12% to 36%. Mostly the interest is towards the higher limit. It is because the individual loans are more in number but low in volume. So the cost of transaction becomes high per loan. Besides the high recovery rate in microfinance, is attributed to the regular follow up done to collect the amount from the doorstep of the borrower. The level of supervision and monitoring is directly proportional to the rate of interest charged to the borrower. So although the poor is released from the clutches of the village moneylender, he lands off with a lesser evil i.e., microfinance. So it is to be examined how far this exorbitant interest rate can be sustainable and viable.

6.3 JOINT LIABILITY MECHANISM
The success of microfinance movement is largely attributed to the collective responsibility of the members. But this can also be interpreted as over cautiousness in extending loan, which is a major cause of the tardy progress of the microfinance movement. Either micro enterprise in the form of individual lending with a continuous support system can remove poverty from the country or the collective lending process should be highly formalized and institutionalized.
6.4 MULTIPLE RISKS
The poor, due to his habitat and trade is subject to high level of hazards both in personal and economic life. So the loan extended to a member should have insurance and revival package mandatory for every loan extended. Simply providing the poor with credit and then following him up to pay back at any rate is a lopsided view of a very grave problem.

6.5 LIMITED REACH
Mostly SHG movement is prominent in the southern states and few states of eastern and northern India. Unless it covers the whole country uniformly, there is no possibility of eradication of poverty. More over MF activities are prominent in urban slums and the rural poor, who needs it the utmost, remains untouched. Poor in India can also be divided into marginally poor, moderately poor and ultra poor. The last category of poor needs credit the most. But we have no mechanism in place to identify ultra poor. So MF activities is not wide pervasive and subsequently we will find that a new breed of moneylenders emerge, who are recipient of microfinance loan. They lend the money received through the SHGs to the non-members at high interest rate. This has already taken its roots in the coastal districts of Orissa.

6.6 FOCUS ON CREDIT ONLY
The Grameen models of SHG focus on credit only whereas the Indian model SHGs tend to evolve savings as mechanism for a start up. But in both the cases we observe that savings is minimal. Unless the borrower develops a good saving habit, the fruit of self-employment and enterprise will be lost in futility. It requires a profile mapping of the borrower continuously over a period of time 3.
6.7 REGIONAL IMBALANCES
The first challenge is the skewed distribution of SHGs across States. About 60% of the total SHG credit linkages in the country are concentrated in the Southern States. In the formal sector the predominance of large farmers to total credit disbursement is yet another disturbing trend. However, in States, which have a larger share of the poor, the coverage is comparatively low. The skewed distribution is attributed to

• The over zealous support extended by some of the State Governments to the programme.
• Skewed distribution of NGOs and
• Local cultures & practices.

6.8 FROM CREDIT TO ENTERPRISE
The second challenge is that having formed SHGs and having linked them to banks, how can they be induced to graduate into matured levels of enterprise, induced to factor in livelihood diversification, can increase their access to the supply chain linkages to the capital market and to appropriate/ production and processing technologies.

A spin off of this challenge is how to address the investment capital requirements of matured SHGs, which have met their consumption needs and are now on the threshold of taking off into “Enterprise”. The SHG Bank-Linkage programme needs to introspect whether it is sufficient for SHGs to only meet the financial needs of their members, or whether there is also a further obligation on their part to meet the non-financial requirements necessary for setting up businesses and enterprises. In my view, we must meet both.

6.9 QUALITY OF SHGS
The third challenge is how to ensure the quality of SHGs in an environment of exponential growth. Due to the fast growth of the SHG Bank Linkage Program,
the quality of SHGs has come under stress. This is reflected particularly in indicators such as the poor maintenance of books and accounts etc. The deterioration in the quality of SHGs is explained by a variety of factors including

- The intrusive involvement of government departments in promoting groups,
- Inadequate long-term incentives to NGOs for nurturing them on a sustainable basis and
- Diminishing skill sets on part of the SHG members in managing their groups.

Our study finds that significant financial investment and technical support is required for meeting this challenge.

6.10 IMPACT OF SGSY

Imitation is the best form of flattery – but not always. The success of the programme has motivated the Government to borrow its design features and incorporate them in their poverty alleviation programme. This is certainly welcome but for the fact that the Government’s Programme (SGSY) has an inbuilt subsidy element which tends to attract linkage group members and cause migration generally for the wrong reasons. Also, micro level studies have raised concerns regarding the process through which groups are formed under the SGSY and have commented that in many cases members are induced to come together not for self-help, but for subsidy. To resolve the tension between SGSY and linkage programme groups some amount of efforts should be made. One way out of the impasse would be to place the subsidy element in the SGSY programme with NABARD for best utilization for providing indirect subsidy support for purposes such as sensitization, capacity building, exposure visits to successful models, etc.
6.11 ROLE OF STATE GOVERNMENTS
A derivative of the above is perhaps the need to extend the above debate to understanding and defining the role of the State Governments vis-à-vis the linkage programme. On the one hand, the programme would not have achieved its outreach and scale, but for the proactive involvement of the State Governments; on the other hand, many State Governments have been overzealous to achieve scale and access without a critical assessment of the manpower and skill sets available with them for forming, and nurturing groups and handholding and maintaining them over time.

6.12 EMERGENCE OF FEDERATIONS
The emergence of SHG Federations has thrown up another challenge. On the one hand, such federations represent the aggregation of collective bargaining power, economies of scale, and are a platform for addressing social & economic issues; on the other hand there is evidence to show that every additional tier, in addition to increasing costs, tends to weaken the primaries. There is a need to study the best practices in the area and evolve a policy by learning from them.

6.13 OVER EXPECTATION
SHGs are local institutions having an inherent potential to flower as decentralized platform for development, but multiple expectations could overload them and impair their long-term sustainability. Second, in focusing on the poor let us not forget the rest. The rural sector is a large field and even today the need for good old-fashioned rural credit and investment in agriculture and infrastructure continues with the same rigour as yesterday.

6.14 SIZE OF MFI
MFIs are an extremely heterogeneous group comprising NBFCs, Societies, Trusts and Cooperatives. They are provided financial support from external donors and
apex institutions including the Rashtriya Mahila Kosh (RMK), SIDBI Foundation for micro-credit and NABARD and employ a variety of ways for credit delivery. Since 2000, commercial banks including Regional Rural Banks have been providing funds to MFIs for on lending to poor clients. Though initially, only a handful of NGOs were “into” financial intermediation using a variety of delivery methods, their numbers have increased considerably today. While there is no published data on private MFIs operating in the country, the number of MFIs is estimated to be around 800. There is not more than a hundred MFIs who have an outreach of 1,00,000 micro finance clients. A large majority of them operate on much smaller scale with clients ranging from 500 to 1,500 per MFI. It is estimated that the MFIs’ share of the total institution-based micro-credit portfolio is about 8%. MFIs can play a vital role in bridging the gap between demand & supply of financial services if the critical challenges confronting them are addressed.

6.15 SUSTAINABILITY
The first challenge relates to sustainability. It has been reported in literature that the MFI model is comparatively costlier in terms of delivery of financial services. An analysis of 36 leading MFIs by Jindal & Sharma shows that 89% MFIs sample were subsidy dependent and only 9 were able to cover more than 80% of their costs. This is partly explained by the fact that while the cost of supervision of credit is high, the loan volumes and loan size is low. It has also been commented that MFIs pass on the higher cost of credit to their clients who are ‘interest insensitive’ for small loans but may not be so as loan sizes increase. It is, therefore, necessary for MFIs to develop strategies for increasing the range and volume of their financial services.
6.16 LACK OF CAPITAL
The second area of concern for MFIs, which are on the growth path, is that they face a paucity of owned funds. This is a critical constraint in their being able to scale up.
Many of the MFIs are socially oriented institutions and do not have adequate access to financial capital. As a result they have high debt equity ratios. Presently, there is no reliable mechanism in the country for meeting the equity requirements of MFIs.

6.17 BORROWINGS
In comparison with earlier years, MFIs are now finding it relatively easier to raise loan funds from banks. This change came after the year 2000, when RBI allowed banks to lend to MFIs and treat such lending as part of their priority sector-funding obligations. Private sector banks have since designed innovative products such as the Bank Partnership Model to fund.
Appropriate credit rating of MFIs will help in increasing the comfort level of the banking system. It may be of interest to note that NABARD has put in position a scheme under which 75% of the cost of the rating exercise will be borne by it.

6.18 CAPACITY OF MFIs
It is now recognized that widening and deepening the outreach of the poor through MFIs has both social and commercial dimensions. Since the sustainability of MFIs and their clients complement each other, it follows that building up the capacities of the MFIs and their primary stakeholders are preconditions for the successful delivery of flexible, client responsive and innovative microfinance services to the poor. Here, innovations are important - both of social intermediation, strategic linkages and new approaches centered on the livelihood issues surrounding the poor, and the re-engineering of the financial products offered by them as in the case of the Bank Partnership model.
6.19 CHALLENGE OF COVERAGE
There are still large sections of the population without access to financial services. A conservative estimate for example suggests that just 20% of low-income people have access to them. Thus, there is an urgent need to widen the scope, scale and outreach of financial services to reach the vast unreached population.4

6.20 LOW CREDIT OFF TAKEN
Micro credit in whatever form is a miniscule of the total credit off take of the country. Lack of access for MFI s to risk capital and restrictions on them in deposit mobilization have been cited as the major reasons that prevent the up scaling of operations in his sector. Both issues are intricately related to the prevailing legal/ institutional structure of the country’s financial sector.

6.21 SUPPORT SERVICE
Till date there is not much absorption capacity of households and regions. This sector being explicitly biased towards rural areas, other than credit, factors like rural infrastructure especially irrigation are critically important from the perspective of development. Micro credit as in the case of targeted lending cannot address these issues. Thus, enterprise creation and expansion in the non-farm sector is the preferred lending purpose of most micro credit programmes especially those following the non-SHG linkage methodology. This approach has led in many instances of growing dissonance between local economic endowment and micro credit inputs finally cracking up group morale and affecting repayment in certain regions within specific programmes. Further advocates of up scaling believe that an extended base of micro credit would contribute significantly to the diversification of livelihoods in the non-firm sector. There is evidence to suggest that increased flow of bank credit and savings to rural areas subsequent to bank nationalization helped the growth of non-farm rather than the farm sector. However there is no conclusive evidence that to
prove that micro credit infusion in rural areas automatically leads to livelihood diversification unless MFI insist on lending to productive purposes. In the case of the relatively flexible SHG model, loans are generally invested in supplementary activities in the farm and allied sectors.

6.22 UNDER INVESTMENT

There is often a problem of under investment in many of the projects in the micro finance sector. As per financial prudence, any project, which does not have the full investment, finally ends up with a half ending project having no capacity to pay back. The minimal amount of investment made in the micro finance projects is a primary reason for the lack of progress in MF sector. Hence under investment in agriculture leads to rural underdevelopment. It appears, therefore that up scaling the provisions of micro finance on the strength of its Repayment Rates and Financial Sustainability found with a handful of MFI's without a serious reconsideration of certain vital development issues, may prove in the long run to be an imprudent development strategy.

6.23 ORGANIZATIONAL DIVERSITY

As the microfinance industry in the country is coming of age a substantial degree of organizational diversity and complexity has come to characterize this sector. First of all, the boundaries that demarcate straightforward models such as the SHG - bank linkage as Grameen are increasingly blurring as commercial prospects inherent in the underlying financial services business take precedence over the social development/ poverty alleviation focus in the initial years. Though the industry has grown in outreach and disbursement, it is still starved of adequate resources to service the estimated gap between demand and supply of funds. In fact there is a trend visible globally of the 'commercialization' of microfinance or a movement of microfinance out of heavily donor dependent
arena of subsidized operations into one in which microfinance institutions manage on a business basis as part of the regulated financial system.  

6.24 COMMERCIALIZATION

Usually microfinance operation starts as a division of the NGO and grow large enough to warrant a spin off into a separate organization. However organizations incorporated as Trusts, Societies and Not for Profit Companies are not designed to undertake commercial activities of borrowing and lending. The intent of these forms of incorporation was to receive individual or bulk donation and carry out charitable activities. A legislation governing charitable activities is inappropriate for micro finance. Experience has revealed that people with commercial capital are unlikely to invest in microfinance business. Similarly it is unlikely that MFIs will grow into large commercial banks. Though there are counter examples for this in other parts of the world - such as Bancosol in Bolivia and the BRAC in Bangladesh- These are few and far between.  

6.25 TAXATION & COMMERCIAL INSTITUTIONS

It needs to be recognized that there are interested developmental professionals, willing to work, that have the necessary social mobilization skills but lack capital. Capital for MFIs flow through the charitable route because of the interest of the donor agencies. However there is no mechanism of getting developmental capital as risk capital. The donor agencies are prohibited from making equity investments in commercial companies. But they are willing to institute a permanent fund that can be rotated and grown. These funds by definition are routed into not-for-profit entities, which are not permitted to invest in commercial microfinance operation because of the tax status. While one recognizes the fact that no tax exemption is to be granted for commercial activities, the regulations do not permit partial taxation for the commercial division of a not for profit entity. As a result there is a danger that the NGOs
loose the tax-exempt status even if they continue microfinance operation under the inappropriate form of a charitable organization. Therefore, it is best for the state to allow not for profit entities to invest in commercial microfinance. The caveats here are having a definition of microfinance, defining ownership, a mechanism to ensure that the operation of the commercial division are not subsidized by the non profit entities and a mechanism to demutualise the commercial and non profit entities over the long term.

The efficiency of the much awaited microfinance bill is yet to be seen.7

**6.26 GRADUATION OF SHGS INTO MICROENTERPRISE**

The momentous growth of microfinance programmes in India, particularly the SHG-Bank Linkage programme has ushered a debate among partners of the programme. Though the SHG Bank linkage programme intended to provide sustainable access to the unbanked poor, the question often being posed by the stakeholders is what next? Age wise analysis of a million SHGs across the country reveals the fact that there are nearly 3 lakhs SHGs that have been in existence for over three years in India. Perhaps it is an indication of the sustainability of the SHG system itself. Studies have revealed that a large number of members of SHGs are availing loans for income generating activities once their consumption need are addressed. The next issue to be looked at, is the facilitation of the growth and income enhancement processes in these SHG members. Taking of microenterprise with the intent of enhancing income levels is a complex issue which needs a more holistic approach for enhancing skill levels, and entrepreneurial skills and dynamism, understanding markets, technology etc. This task has to be handled with care in order to ensure that genuine concerns do not lead to failures of microenterprise and increased debt burden. The following issues need to be considered while introducing SHGs to microenterprise. Is it appropriate to introduce income-generating activities based on skills, knowledge and resources? Is it better to integrate with existing livelihood activities of group
members? Should emphasis be laid on developing business skill than on providing backward and forward linkages? Microenterprise development is not a stand-alone activity, but requires a combination of factors to enable it to grow as a business activity. It is both efficient and cost effective to promote farm sector micro enterprises because backward and forward linkages are locally available and promotion of non farm sector activities, particularly those in manufacturing sector is a challenge for providing market linkages because significant sales turnover is required by each member to earn incomes which are even equivalent of minimum wages or to cross the poverty line.

6.27 GOVERNANCE AND STRUCTURE OF MANAGEMENT

So let us look at the question why is good governance important to microfinance? It is important because good governance can help the institution:

- Prevent fraud and mismanagement
- Promote sound decision making
- Avoid costly fines and litigation
- Create/ maintain a positive corporate image
- Attract and retain clients
- Attract and retain financing and investment (from commercial banks)

Good governance is the process by which a board of directors, working through management, guides an institution in fulfilling its corporate mission and protecting the institution’s assets. Fundamental to governance is the ability of individual directors to work in partnership so that they can balance long-term strategic direction for the institution and oversees management’s efforts to move in that direction. The interplay between board and management centers on this relationship between strategy and operation, both of which are essential for the successful evolution of the institution.
While the board must be responsive to the interests and external stakeholders - clients and employees, regulators and investors - directors must be guided by the highest standard of ethical behavior, for that is critical to project the trust the public places in the financial institution.

6.28 RELATIONSHIP BANKING VS PARALLEL BANKING

The distinct bloodline of MF in India can be traced to this genre that is indigenously developed and called ‘Relationship Banking’ as opposed to the Grameen model of ‘Parallel Banking’ [Chavan and Ramkumar 2002]. The ground truth for SHG financing on a sustainable basis in India is that bank-linkage is the bottom line with exceptions proving the rule. Inherent to this success story but understated is the fact that NGOs have played a major role in effecting SHG-bank linkages. Relationship banking is the result of NGO-bank interface to leverage funds for SHGs. NGOs has achieved significant success as promoters (helping and enabling SHGs to access bank credit) and not as providers (direct purveyors of credit). Their success as facilitators in India, to makes a case for NGOs as social scientists or change agents rather than financial intermediaries. The latter role is arguably the banker’s domain. Moreover, there are compelling institutional and regulatory factors which counsel against any such misadventures.

First and foremost there are legal constraints to NGOs acting as MFIs. Many NGO-MFIs are mobilizing savings from their clients/ borrowers with the sole objective of inculcating a habit of thrift and savings among the poor and for enabling the use of such resources for acquisition of assets or linkage with credit from MFIs or banks. In the context of the amended Section 45 S of the RBI Act, the appropriateness of NGO-MFIs in mobilizing savings is questioned. Although NGO-MFIs provide very useful financial services to the poor, including the opportunity to keep their very small savings safe, almost at their own doorsteps, they cannot convert themselves into other modes of constitution like NBFCs,
banks or cooperatives due to various intrinsic constraints. Hence, NGO-MFIs may have to be given a special dispensation in regard to Section 45 S of the RBI Act. Accordingly, it is recommended that they be allowed to mobilize savings only from their poor clientele as part of the financial services provided to them and the same may not be treated as violation of Section 45 S of the RBI Act."

Ensuing Microfinance bill may make things easier for the facilitators to act in any capacity.

The 'intrinsic constraints' noted above are not difficult to guess. Moreover, some NGOs that are mobilizing savings purely may also face other risks. The problem for NGOs in dealing with savings is that from a risk-bearing standpoint, savings mobilization and micro credit are not the same. That is why the law treats them differently. From the client's point of view, the risks of saving with an NGO are masked by their growing confidence as NGOs show that they are here to stay. But NGOs are not in most cases operating in regulatory environments that permit them to mobilize deposits; they do not benefit from deposit insurance nor can their operations be controlled by bank supervision agencies. And when covariant risk is high, as it is when group members are all from the same sector and necessarily from the same community or locality, the tenuousness of the NGO position is even more dangerous to the saver. Besides propriety and prudence, savings custodianship necessitates statutory provisioning and creation of reserves to cover liquidity and other risks.

6.29 CREDIT MINIMALISM

While 'savings only' is a limited disaster story, the other side of the tale relates to NGOs who are employing 'credit first' or minimalist credit principles. When savings form part of the basis for credit in a financial institution, that institution does not have to take a problematic, often tortured, path to sustainability; it starts out on a more naturally sustainable path. But, NGOs have gone into micro credit with donor monies, and aim towards sustainability without, in most cases,
the enormous benefit of voluntary savings mobilization. In short, sustainability in NGO-run programmes is hobbled from the start. It looks as if the poor want its product (credit) less than they want savings, and all by itself, credit does little for productive asset creation.

The incompatibility between the tendency of NGOs to upscale (for sake of grant continuance) and financial sustainability is aptly summed up by William F Steel, World Bank consultant, according to whom, “Grant-based methodologies are poorly suited for financial intermediation, especially providing credit funds (for which recovery, not disbursement is most critical”).

These dysfunctional aspects are further highlighted by Kanta Singh (WISE Development Authority) during a CARE-sponsored case study of its CASHE programme: “Low size of loan and long cycle time for loan disbursement are reported to be the largest irritants. Many groups that have successfully managed loans in the past, lose energy when they do not get subsequent (credit) linkages.” Absence of training and handholding on income generating programmes are felt to be a major gap in the CASHE design by SHGs. This need is also felt by (partner) NGOs who are faying to increase loan demand and the ability of SHGs to handle larger loans.

In India the demand of the poor for safe and liquid savings instruments is very high. In fact, NGOs, with their sensitivity to the poor and intimacy with individuals, overcome the trepidation that illiterate and destitute villagers harbour about bank personnel (not known for their civility). The World Bank’s Consultative Group to Assist the Poorest (CGAP), part of whose mandate is to help microfinance institutions improve performance, has concluded “...most microfinance clients want to save all the time, while most want to borrow only some of the time.”
6.30 TRADE-OFF TRIBULATIONS

NGOs in microfinance, often encouraged by donors, come to accept the two goals of sustainability (subject to tough measurements) and outreach (measured increasingly by loan size as a per cent of GNP per capita), the following trade-offs and adjustments are observed:

1. Concentrating portfolio growth in high population density areas (thus focusing less on rural areas).
2. Emphasizing rapid initial loan volume growth, leading to poor portfolio quality.
3. Keeping field staff salaries low (or alternatively raising the number of clients per loan officer) in order to control costs, thus tending to high turnover and low morale.
4. Moving towards the retail trade and service sectors with high cash flow that enable high repayment rates, thus tending away from manufacturing and fixed asset lending.
5. Emphasizing short-term loans as a strategy for high repayment and loan size growth, thus eliminating cyclical sectors like agriculture.
6. Tending to move up the poverty scale away from the very poorest in order to maintain loan demand and repayment rates (75 per cent of the SBP NGO cases showed this 'upward creep').

6.31 TAXATION

There is a controversy whether microfinance institutions should pay taxes and what should be the taxation policy for microfinance. MFI s may be classified into different categories on the basis of their ownership structure, scale of operation, legal status, size of capital, earnings, and purpose, such as for-profit and not-for-profit. The owners may be private, individuals or a group of individuals, or
public. The MFI may even be owned by the borrowers themselves, as is the case with Grameen Bank.

The question is whether all MFIs should be treated equally for taxation purpose or whether there should be a differential treatment. Should the microfinance sector as a whole enjoy a tax holiday and remain outside the tax net? These are the issues that should be taken care of by the regulatory authorities in order to create a tension free environment for microfinance development.

While considering the taxation issues for MFIs, a microfinance regulatory authority may take into consideration that a tax holiday for MFIs can help establish a microfinance sector, provide time to increase an MFI’s capitalization, and enable its growth and greater outreach among the poor in countries where microfinance activities are still limited. On the other hand, a fully defined tax code for different categories of MFIs can foster greater transparency in operations and reporting, eliminate the grey areas and creating a path for MFIs to become comparable to mainstream financial institutions.

6.32 INTEREST RATE
Interest is the main source of income for MFIs. Their sustainability and profitability depend on their interest income. There is a lot of debate on the appropriate rate of interest that should be charged on loans. In most countries MFIs charge at a flat rate ranging from 12-27 percent per annum. In some countries, some MFIs even charge higher rates which go up to 36% or even more on the grounds of covering costs and attaining viability faster.

The question is what should be the ideal or optimum rate of interest? This has been bothering many people in many countries. Some argue that it should be enough to cover the cost of operation and allow some profit for capitalization but it should not be so high that it appears exploitative. The rate of interest of MFIs should not, however, be compared with the rate of money lenders, but it may be compared with the commercial rate to show how cost-effectively MFIs operate.
MFIs provide small loans to hundreds of borrowers at a rate of interest, which in many cases is not much higher than the commercial rate. According to Muhammad Yunus it should not ever be more than 10 percent higher than the market rate. There is also an ongoing campaign for capping the rate of interest to protect the poor from the exploitation of greedy MFIs, who on some ground or other charge higher rates either to enjoy their luxury or to bear the costs of their inefficient high operational costs. But, for the sake of competitiveness and provision of quality services, it is better not to have capping but to form a consensus on a range of interest rates that will ensure a win-win situation for both the lenders and the borrowers. This may be possible with the government/central bank/regulatory body playing a leading role.

What is the solution under this kind of situation?

Obviously it is the creation of an enabling environment by developing appropriate legal and regulatory frameworks for MFIs to mobilize resources lawfully that are around and also that may be mobilized from foreign sources.

6.33 SUMMARY

Microfinance is considered to be

1) women centric.
2) high interest carrying loans in the range of 18% to 36%
3) with joint Liability but individual lending
4) involving multiple risk considering the habitat, profession the poor can adopt
5) having skewed coverage only in the Southern states of the country
6) micro credit instead of microfinance.
7) finally become micro enterprise and not micro credit
8) a number game of Government and Agencies instead of the real development of the poor.
References:


2. Kannabiran, Vansanth. ‘Marketing Self-Help, Managing Poverty’ (Economic Political Weekly, August 20 Vol XL No 34 P 3716.)


The highly questionable government schemes and its end result in the area of microfinance. Different structures have evolved from the concept in the form of cooperatives, federations, microfinance institutions and small Self Help Groups.

It is questionable whether the microfinance organizations growing enormously are sustainable and their growth should be encouraged just like the formal banking sector and how far total inclusion is achievable and desirable?

How far the loans extended are enough for providing livelihood to the poor?

Will there be commercialization of the activity or it will remain as a social sector entity?

Whether it can compete with the formal banking sector without any concession of taxation and legal restrictions?

The enormous task of governance how efficiently can be handled?

What is important for the MFIs, outreach or intensity of its impact (popularly known as well or pond approach)?

Most of them remain unanswered till date. It seems four blind persons describing the elephant, touching different limbs. Holistic approach to the microfinance movement is a far cry in the coming decade.