CHAPTER 1
INTRODUCTION

1.1 BACKGROUND

Microfinance has eradicated the poverty of many people by giving small loans to small family. Microfinance includes small loans to foster small scale entrepreneurial activities so that livelihood of people can be enhanced. Such credit would otherwise not be available, if available at very high costs i.e. 10 to 13% depending upon the institutions which are providing loans. Money lenders operate with little competition since potential entrants quickly find that costs and risks are high and borrower’s are usually unable to offer standard forms of collateral, if any at all. However, the emerging microfinance movement demonstrates institutional innovations that appear to greatly reduce the risk and cost of providing financial services to poor households. Innovations include contracts that give borrowers incentives to exclude bad credit risks and monitor other borrowers’ activities, schedules of loans that increase over time conditional on successful performance, and weekly or semi-weekly loan repayment requirement. The movement is now global, and leaders at the World Bank, United Nations, and other international organizations have joined in pushing to reach 100 million households around the world by the year 2015. But how great is the ultimate impact on poor households? While strong claims are made for the ability of microfinance to reduce poverty, only a handful of studies use sizeable samples and appropriate treatment/control frameworks to answer the question.

Access to the programmes does; however, appear to aid the diversification of labour supply across seasons. In turn, access is associated with a reduction in the variability of consumption across seasons. Thus, while the programmes may not increase consumption on average, they may offer households ways to smooth consumption through smoothing income. In pointing to impacts on vulnerability, the results highlight an advantage that is seldom considered in the emerging microfinance literature. These benefits should be judged against the tens of millions of dollars that have supported the programmes. The results also demonstrate how misleading simple performance indicators can be, and they hold lessons for evaluations of similar public health and other social
programmes in low-income countries. As here, such programmes are often limited to particular regions and particular target groups, typically poor households. Unlike in wealthier countries, income-based means tests are almost never used. Instead, for example, the microfinance programmes in rural Bangladesh focus on the “functionally landless” implemented as a rule barring lending to households owning over a half acre of cultivable land. The program rule can be the basis of a plausible econometric strategy if the eligibility requirement is strictly enforced and built around a feature that is exogenous to the household. Then, clean impacts can be gauged by comparing the status of households clustered just below the arbitrary dividing line to households clustered just above. Microfinance is a great source of financial aids for entrepreneurs and small businesses which are missing or which don’t have access to banking and allied services.

The two major processes for the transfer of financial benefits to such beneficiaries consist of:

1. Relationship-centered banking for individual enterprisers and minor enterprises.

2. Association-centered models, where only a few entrepreneurs join simultaneously to apply for advances and other aids as an association. In some countries, for instance Southern Africa, microfinance is adopted to describe the supply of financial assistances to low-income members, which is nearer to the retail finance model prevail in mainstream credit union. For some people and researcher, microfinance is an expedition whose aim is “a world in which as many poor and near-poor families as desirable have constant access to a convenient extent of high-quality financial aids, consisting of not only credit but also savings, insurance, and fund transfers”.

Many of those who advocate microfinance frequently have no doubt that such access will benefit poor families out of poverty, consisting of members in the Microcredit Summit Campaign. For others, microfinance is an instrument to strengthen economic development, employment, and growth through the provision of micro-entrepreneurs and small businesses. Microfinance is a wide category of services, which is composed of microcredit. Microcredit is provision of credit services to poor peoples.
Microcredit is one of the aspects of microfinance and the two are often mixed up. Critics may attack microcredit while having reference to it indiscriminately as either ‘microcredit’ or ‘microfinance’. Owing to the wide variety of microfinance services, it is hard to determine influence and quite researchers have attempted to determine its maximum impact. Proponents usually believe that microfinance lifts people out of poverty, but the evidence is mixed. What does it do, however, is to increase financial inclusion.

1.2 HISTORY OF MICROFINANCE

Over the recent millennia, practical idealists, from the Franciscan monks who established the community-oriented pawnshops of the 15th century to the founders of the European credit movement in the 19th century like Friedrich Wilhelm Raiffeisen and the founders of the microcredit progress in the 1970s such as Muhammad Yunus and Al Whittaker have experimented with methods and established organizations designed to bring the kind of opportunities and risk management instruments that financial aids can contribute to the doorsteps of needy folk. While the progress of the Grameen Bank (which now serves over 7 million poor Bangladeshi women) has inspired the world, it has proved difficult to replicate this success. In countries with lower population masses, meeting the operating costs of a retail branch by serving nearby clients have demonstrated the remarkably more demanding task. Hans Dieter Seibel, an honorary member of the European Microfinance Manifesto, is in support of the group model. This specific model (used by many Microfinance institutions) makes pecuniary understanding, he puts forth, because it reduces transaction costs.

The history of microfinancing can be traced back as far as the middle of the 1800s, when the theorist Lysander Spooner was writing about the benefits of small credits to entrepreneurs and farmers as a way of getting the people out of poverty. Independently of Spooner, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany.

The modern use of the expression “microfinancing” has roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance
pioneer Muhammad Yunus, were starting and shaping the modern industry of microfinancing. Another pioneer in this sector is Akhtar Hameed Khan.

The origin of microfinance as we know it today lies in the establishment of the Grameen Bank in Bangladesh by Muhammad Yunus in 1976. Since the founding of the bank, when a loan of $27 was provided to 42 borrowers, and the current state of the bank in 2011 with a gross loan portfolio of $9.66. Mainly after the 1970s, some personal attempts had been made to build microfinance institutions, like ACCION, Grameen Bank etc. Before that, several institutions had been working in many countries but the effect was too small. So we will mainly concentrate on the post 1970 era. In the late 1970s, the idea of microfinance had emerged. Although, microfinance has a prolonged history from the day one of the 20th century we will focus chiefly on the time after 1960. Many credit associations have been working on in many nations for several years, for example, the “chit funds” (India), “tontines” (West Africa), “susus” (Ghana), “pasanaku” (Bolivia) etc. Besides, many formal saving and credit organizations have been operating for a long time throughout the wide world. During the early and mid 1990s different credit institutions had been set up in Europe by some organized poor people from both the rural and urban sectors. These institutions were referred to Credit Unions, People’s Bank etc. The major objective of these institutions were to provide free and easy access to credit to the needy and low income people who were neglected by the big financial institutions and banks. In the early 1970s, several experimental programmes had begun in Bangladesh, Brazil and some other countries. The poor people had been provided with some minor advances to invest in micro-business. This sort of microcredit was disposed of on the basis of solidarity group lending, that is, each and every organ of that group guaranteed the repayment of the loan of all the members. Many banks and financial institutions have been exploring the microfinance program after 1970. These are enumerated below:

**ACCION International:** This institution had been brought into existence by a law student of Latin America to support the weaker section of people who are living in the rural and urban sectors of the Latin American nations. Today, in 2008, it is one of the
most important microfinance institutions of the world. It’s network of lending partner comprises not only Latin America but also US and Africa.

**SEWA Bank:** In 1973, the Self Employed Women’s Association (SEWA) of Gujarat (in India) set up a bank, called as Mahila SEWA Cooperative Bank, to gain access to certain financial services conveniently. Almost 4 thousand women devoted their share capital to set up the bank. Today the sum total of the SEWA Bank’s active client is larger than 30,000.

**Grameen Bank:** Grameen Bank (Bangladesh) was set up by the Nobel Peace Prize (2006) winner Dr Muhammad Younus in 1983. This bank is presently serving almost 400,000 poor people of Bangladesh. Not only that, but as well the progress of Grameen Bank has stimulated the establishment of other several microfinance institutions like, ASA, BRAC and Proshika. Microfinance is a participative model that can focus on the requirements of the poor especially the women. The most common microfinance product is a micro credit or Loan. These small loans are suitable for hard working micro-entrepreneurs particularly the rural women to establish or grow their small business such as weaving, handloom & handicrafts, embroidery & tailoring etc. and sell the goods in the markets for generating their income.

### 1.3 MICROFINANCE AND MILLENNIUM DEVELOPMENT GOALS (MDGS)

Up to the early millennium poverty remains one of the biggest problems in the whole world. At least one sixth of the global population or almost one billion are living in an extreme poverty. They are struggling for the survival of fittest; even they are not attaining the basic needs of a common man. Even they suffered from lack of nutrition, health and sanitation, shelter and other basic need for survival, so it is a major problem for the whole world as well as for our country. In order to tackle this problem, the UN members signed the United Nations Millennium Development Goals (MDGs) in 2000 and the first and foremost goal of this organization is to eradicate extreme poverty and hunger. In order to achieve this goal a target has been set at that time that to reduce by half the proportion of people living on 1U$ a day by 2015.
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If the target can be realized, there will be an opportunity to end the extreme poverty by 2025. It means that poverty is the greatest challenge of global society. The greatest challenge to alleviate poverty can be reflected through the contemporary poverty situation in Indonesia and India where a huge number of people lives below the poverty line. Before the economic crisis hit Indonesia in 1997, the number of poor people had significantly decreased. There was clearly a sharp reduction in both urban and rural poverty from 1984 to 1996. The total poverty rate dropped from 56.7% in 1984 to 17.4% in 1996, a reduction of 39.3 percentage points in a twelve-year period. However, the economic crisis has evidently reversed the achievement of poverty reduction. Poverty in both urban and rural areas increased again from 1996 to 1999. The total poverty rate in 1999 was 27.0%, while urban and rural poverty rates were 16.3% and 33.9% respectively. Although there was a debate on the effectiveness of economic recovery, Central Bureau of Statistics (CBS) noted that the poverty rate decreased during 1998-2005. By 2002, the poverty rates in both urban and rural areas were the lowest since 1984. The national poverty rate was 9.8%; the urban poverty rate was 4.2%; and the rural poverty rate was 14.2%. During the period of 2002-2004, the number of poor people dropped from 23.4% to 18.2% in 2002, 17.4% in 2003, and 16.66% in 2004. However, during the last three years there has been no significant achievement in reducing the number of poor people, and even since 2005 the number of the poor has significantly increased (INFID, 2007). By February 2005, CBS noted that the number of poor people was 35.10 million (15.97%) out of 220 million total population. During the period of 2005-2006, as released by CBS in September 2006, the national poverty rate increased by 2.22%, from 15.97% in 2005 to 17.75% in 2006. By March 2006, the number of the poor recorded to 39.05 million out of the 222 million total population. In achieving the first goal of the MDGs, the Government of Indonesia plans to reduce the poverty level to 7.2%. In India, according to the National Commission, the incidence of poverty has decreased on the basis of household consumer expenditure surveys. Between the periods of 1973-74 and 1999-2000, the incidence of poverty expressed as a percentage of people below the poverty line declined continuously from 54.9% to 26%. However, the pace of reduction in poverty varied considerably during this period. Significant progress was made in poverty reduction especially during 1980s. The number of people below poverty
line decreased from a high number of 328.9 million in the 1970s to 307.1 million towards the end of the 1980s. However, in the early 1990s, as a consequence of financial crisis in 1991, there was a reversal in some of these gains as the number of people below poverty line increased to 320 million. During the period of 1999-2000, according to the Planning Commission, there was a substantial decrease in poverty in terms of the number of the poor (down to 260 million) and the poverty incidence (down to 26.1%). In regard to the first goal of MDGs, India aims to reduce the proportion of people below poverty line from nearly 37.5% in 1990 to about 18.75% by 2015. As in 1999-2000, the poverty headcount ratio is 26.1% with poverty gap ratio of 5.2%, the share of poorest quintile in national consumption is 10.1% for rural sector and 7.9% for urban sector and the prevalence of underweight children is of the order of 47% (Government of India, 2006). In order to achieve the first goal of MDGs, it is broadly assumed that NGOs have important roles. The role of microfinance in reducing poverty is not a new issue. Especially since the post World War II, NGO involvement in poverty reduction has become a mainstream. They have been engaged in relief, emergency or longer-term development work or the mixture of all three. Although the evidence on microfinance performance in poverty alleviation is mixed, up to now, it is generally assumed that microfinance have the institutional capacity to reduce poverty. As part of their commitment to realize the targets of MDGs in 2015, the microfinance has greater opportunity to increase their roles in reducing poverty especially in the developing countries.

To achieve the objective set by the Millennium Declaration, eight MDGs were formulated which are described in detail as under:

1) Eradicate extreme poverty and hunger, 2) Achieve universal primary education, 3) Promote gender equality and empower women, 4) Reduce child mortality, 5) Improve maternal health, 6) Halt and combat HIV/AIDS and other diseases, 7) Ensure environmental sustainability, 8) Develop a global partnership for development.
1) **Eradicate extreme income poverty and hunger:**

Even small reductions in extreme income poverty and hunger can make a direct difference between life and death for many people. This, and the far-reaching effect on the lives of people that poverty and hunger has, led the UN made this objective the primary MDG. The UN Millennium Project defines extreme hunger and poverty as hunger and poverty that kills. People living under extreme poverty are in most cases unable to survive extreme hunger, environmental hazards or diseases. Extreme poverty means that one does not have the resources to cover basic needs due to a lack of income, and that a good or bad harvest season or a drought can for example mean the difference between life and death for a household (UN Millennium Project, 2005). The need for global partnership to fight this development issue is obvious and to ensure that this goal can be met, two specific targets were formulated in the Millennium Declaration. The first target is to halve the proportion of people whose income is less than 1U$ a day by 2015. Since the implementation of the MDG in 2000, a reduction of extreme poverty numbers has indeed been reached. In 2005 the percentage of people living on less than $1 a day reduced from 36.1 percent to 26.9 percent. The second target is to achieve half of the proportion of people who suffer from hunger by 2015. In 1990, the proportion of people that was undernourished was twenty percent, indicating a total number of 828 million people in the developing world. By 2000, this amount decreased to 818 million people, which is equals to 16 percent of the developing world’s population. However, in 2005 the percentage remained 16 percent. Causes for this halt in decrease, even though there is a decrease in poverty during this time period, are mostly find in the rising food prices and the recent economic crisis (United Nations, 2011a).

2) **Achieve universal primary education**

Since 1999 the net enrolment rate in primary education has increased slowly from 82 percent to 89 percent in 2009. The target that is related to this MDG states that, by 2015, children everywhere need to be able to complete their primary education. To reach this target it is not enough to have a net enrolment rate of 100 percent, since this does not indicate that the primary school is also completed. Hence, this MDG is measured through the proportion of pupils starting first grade and finish last grade. From 2000 to 2009 an
increase of 79.6 percent to 87.3 percent is achieved. Research has shown The UN Millennium Project, consisting of ten task forces all related to the different MDGs, is an objective advisory body which reports to the UN on the development of the MDGs and their targets (UN Millennium Project, 2005). That especially poor girls who are living in conflict regions will be out of school. Next to the full range of problems that refugee children face, getting a primary education is a major problem for this group (United Nations, 2011a).

3) **Promote gender equality and empower women**

In many regions of the world there is an unequal division between the opportunities that children receive in their lives. Especially the opportunity to obtain an education is not the same for many young boys and girls in developing countries. The target for this MDG is to eliminate gender disparity in primary and secondary education by 2015. For every 100 boys that were attending primary and secondary school only 91 and 88 (respectively) girls had the same chance in 1999. Ten years later, this ratio increased to 96 girls attending primary and secondary school for every 100 boys in 2009. In terms of paid employment (non-agricultural), 40 percent is women in the world against 48 percent in the developed regions in 2009, showing a small increase compared to 1990, when the numbers were 35 percent against 44 percent respectively (United Nations, 2011a).

4) **Reduce child mortality**

The child mortality rates for children under five years old decreased on a steady base. In 1990 the mortality rate for this group was 99 deaths per 1,000 live births in the developing regions. In developed regions this was 15 deaths per 1,000 live births. In 2009 a reduction is shown, indicating a mortality rate of 66 and 7 deaths per 1,000 live births in the developing regions and developed regions respectively. These numbers indicate progress in reaching this MDG’s target, which is to reduce by two thirds, between 1990 and 2015, the mortality rate of children under five. However, even if a child is born in a region with low child mortality rates, research has shown that children born in rural areas are more in risk of dying than children in urban areas. Also, children
born under poor circumstances have two to three times more chance to die before reaching the age of five (United Nations, 2011a).

5) **Improve maternal health**

In many regions of the world, and especially in developing regions, pregnancy is a major health risk for women. The target of this MDG is to reduce by three quarters, between 1990 and 2015, the maternal mortality ratio. In the developing regions there were 440 and 290 maternal deaths per 100,000 live births in 1990 and 2008 respectively. This indicates a decrease of 34 percent, which shows significant progress. However these numbers are still too high, especially since most maternal deaths are avoidable through skilled attendance at birth and during pregnancy. Out-of-school children can be subdivided into three classes: those who are expected never to enter school, those who are expected to enter school and those who dropped out (United Nations, 2011a).

6) **Halt and combat HIV/AIDS and other diseases**

This MDG’s first target is to halt and begin to reverse the spread of HIV/AIDS by 2015. In 2009, the HIV incidence rate5 has decreased by 25 percent worldwide against 12 percent in developing regions. The number of people living with the virus is however still rising mostly under the young population, who in most cases lack specific knowledge about HIV/AIDS. However, there is progress in preventing the virus from spreading through increasing people’s knowledge about HIV/AIDS, which is especially needed for people living in rural areas and for poor households. The second target is to have halted and begin to reverse the incidence of malaria and other major diseases by 2015. Worldwide, the malaria death rate decreased by twenty percent, but still there are 255 million people affected by this disease (United Nations, 2011a).

7) **Ensure environmental sustainability**

This MDG has three targets; one that focuses on integrating the principles of sustainable development in country policies, a second one that focuses on improving the live of at least 100 million slum dwellers, and thirdly one that has the objective to halve the proportion of people without sustainable access to safe drinking water and basic
sanitation by 2015 (UN Millennium Project, 2005). There has been strong progress achieved in reducing the proportion of people that is without safe drinking water and basic sanitation. In 2008, 87 percent of the world population had access to safe drinking water and sanitation, which is an increase of ten percent compared to 1990. In addition, progress has been shown through that 32 percent of the urban population was living in slums in 2010 compared to 46 percent in 1990 (United Nations, 2011a).

8) Develop a global partnership for development

This MDG holds several targets, most importantly concerning cooperation and efforts made by the UN member states. In 2010 a total of $129 billion was spend on net aid reimbursements, which equals 0.32 percentage of the developed countries’ total national income. Despite that this is the highest amount of net aid payments ever recorded, many countries still fall short on promises that were made in 2005 (United Nations, 2011a).

The first seven out of these eight MDGs know quantitative targets that are set to achieve the overall goal of the Millennium Declaration. As stated before, the first MDG serves as an instrumental goal and the other goals are more intrinsic goals. A reduction in extreme poverty will serve as a part of the solution for the goals of the other MDGs. This relationship indicates that eradicating extreme poverty is of great importance for improving the well being of many people in developing countries. The incidence rate is the number of new HIV infections in a population over a certain period of time, expressed as a percentage of the adult population aged 15-49, (United Nations, 2011a).

1.4 MICROFINANCE IN INDIA

Microfinance in India can trace its origins back to the early 1970s when the Self Employed Women’s Association “SEWA” of the state of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the objective of providing banking services to poor women employed in the unorganized sector in Ahmadabad City of Gujarat state. The microfinance sector went on to evolve in the 1980s around the concept of SHGs, informal bodies that would provide their clients with much-needed savings and credit services. From humble beginnings, the sector has grown
significantly over the years to become a multi-billion dollar industry, with bodies such as the Small Industries Development Bank of India and the National Bank for Agriculture and Rural Development devoting significant financial resources to microfinance. Today, the top five private sector MFIs reach more than 20 million clients in nearly every state in India and many Indian MFIs have been recognized as global leaders in the industry. The Government of India and the RBI have a stated goal of promoting financial inclusion. According to recent RBI estimates; there are over 450 million “unbanked people” in India, most of who live in rural areas. The term “unbanked” refers to people who have no access to formal financial services, but rather must rely on either family, or informal providers of finance, such as the village money lender. It is undisputed that access to finance is critical for enabling individuals and communities to climb out of poverty. It is also generally agreed that relying on the limited resources of village money lenders exposes the poor to coercive lending practices, personal risks and high interest rates, which can be as much as 150%. Therefore the Indian Government and the RBI have a policy of “financial inclusion”. As part of this policy, the government requires Indian banks to lend to “priority sectors”, one of which is the rural poor. Until recently, banks were happy to lend money to MFIs who would then on-lend funds, primarily to poor women across rural India. The banks have welcomed this policy because historically they tended to charge MFIs average interest rates of 12-13% and benefited from 100% repayment rates. Thus, by lending to MFIs, banks have been able to meet their “priority sector” lending requirements with what historically has amounted to a risk-free and very profitable arrangement. The goal of financial inclusion must include the private sector Microfinance in India is currently being provided by three sectors: the government, the private sector and charities. These three sectors, as large as they are, have only a small fraction of the capital and geographic scale required to meet the overwhelming need for finance amongst India’s rural poor. The top 10 private sector microfinance providers in India together serve less than 5% of the unbanked population of India approximately 20 million clients. For example, SHARE Microfin Limited “SHARE” and Asmitha Microfin Limited “Asmitha”, two of the five largest MFIs in India, have almost Rs 4,000 crore ($900MM) loaned to over 5 million poor women in Indian states (prior to the crisis, the combined outstanding loan portfolio had been as high as Rs 6,750 crore ($1.525BN)).
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Yet, despite the size of MFIs like SHARE and Asmitha, only a fraction of the overwhelming need is being met. Private sector MFIs have an essential role to play if the goal of financial inclusion is to be realized, as neither the government nor charities have the capital nor business model required to meet the insatiable demand for finance in rural India. As the public listing of SKS Microfinance underscored, private sector institutions are able to attract increasingly large amounts of private capital, in order to accelerate the growth of the industry, which is essential to expanding financial inclusion as far and as fast as practicable. From humble beginnings, the sector has grown significantly over the years to become a multi-billion dollar industry, with bodies such as the Small Industries Development Bank of India and the National Bank for Agriculture and Rural Development devoting significant financial resources to microfinance. Today, the top five private sector Microfinance Institutions reach more than 39 million clients in almost every state in India and many Indian Microfinance Institutions have been recognized as global leaders in the industry. The Government of India and the RBI have a declared goal of promoting financial inclusion. According to recent RBI estimates; there are over 450 million “unbanked people” in India, most of which live in rural areas. MFIs presently function in 29 States, 4 Union Territories and 588 districts in India. The reported 166 MFIs with a branch network of 12,221 employees have reached out to an all time high of 39 million clients with an outstanding loan portfolio of Rs 63,853 crore. The average loan outstanding per borrower stood at Rs 11,425 and 94% of loans were used for income generation purposes.

Microfinance can be a critical element on effective poverty reduction strategy. Improved access and efficient provision of savings, credits and insurance facilities in particular can enable the poor to smooth their consumption, manage risk better; built assets gradually develop micro enterprises, enhance their income, earning capacity and enjoy improved quality life. The main features of a microfinance institution which differentiate it from other commercial institutions, are such that, it is a substitute for formal credit; generally requires no collateral; have simple procedures and less documentation; easy and flexible repayment schemes; financial assistance of members of group in case of emergency; most deprived segments of population are efficiently targeted; and, last but not least, is groups interaction.
Microfinance programmes extend small loans to very poor people for self-employment projects. Microfinance has enabled the poorest of the poor, especially women, to generate income for themselves and their families. Many people believe that within two to three years of their first loan, people come above the poverty line. Microfinance is thus regarded as the dignified way of crossing the poverty line.

1.5 MICROFINANCE PROGRAMMES IN INDIA

The Government of India has initiated various programmes and schemes in the area of microfinance. The most important programmes are SGSY (1999) and NABARD’s SBLP (1992) which are using SHGs approach. Other initiatives by government include TREAD, CGF, IRDP, TREYSEM, PRMY, KVIC, PMEGP, IMY, Swa-Shakti, Swayamsiddha etc. These all programmes aimed at reduction of poverty and improving the living condition of rural poor with the help of economic activities. Some details about the progress of above programmes are given here:

1) **Trade Related Entrepreneurship Assistance and Development Scheme for Women (TREAD):** This scheme was implemented in the eleventh plan with a focus on empowering women economically by development of their skills especially in nonfarm practices. Hence it was directed to promote women entrepreneurship in nonfarm sector.

2) **Credit Guarantee Fund Scheme for Micro and Small Enterprises:** The scheme CGF scheme was launched in 2000. The main aim of the scheme is to make sure that micro and small enterprise get the adequate start up funds. Under the scheme, a loan of up to 50 lacks is being provided to these small enterprises. The scheme covers all loans in the north eastern regions of India.

3) **Integrated Rural Development programmes (IRDP):** These programmes were launched in India on 2nd October, 1980. These programmes are mostly aimed at poverty alleviation in the rural areas. These programmes provide the necessary inputs about entrepreneurship to these below poverty line rural people to enhance their capabilities. These are generally central sponsored programmes in which the ratio of share of funds between centre and respective states is 50:50.
4) **Training of Rural Youth for Self Employment (TRYSEM):** Training of Rural Youth for Self Employment (TRYSEM) is usually one of the supporting components of integrated rural development programmes being started by central government on 5th August, 1979. The main thrust of it is to provide entrepreneurial and necessary technical skills to the targeted rural people (in the age group of 18-35 years) to make them self employed. However the scheme has been merged with Swaranjayanti Gram Swarojgar Yojana (S.G.S.Y).

5) **Prime Minister Rojgar Yojana (PRMY):** To provide financial assistance to the unemployed and educated youths who aspire to become entrepreneurs, but don’t have sufficient funds to convert their ideas into the business ventures, PRMY was launched by the central government to address this problem of potential entrepreneurs on 2nd October, 1993. Under this scheme, educated and unemployed are provided with financial assistance at the subsidized rates.

6) **National Bank for Agricultural and Rural Development Schemes (NABARD):** NABARD is a statutory body established by the government of India to provide credit facilities to the rural people. It is under the supervision of the ministry of rural development since 1982.

7) **Khadi and Village Industries Commission (KVIC):** Originally it as named as khadi and village industries board which was established in 1957. The main purpose of the commission is to provide the use of hand woven clothes known as khadi throughout the country. The board was renamed as the khadi and village industries commission by the two amendments of parliament in 1987 and 2006 respectively.

8) **Swaranjayanti Gram Swarojgar Yojana (SGSY):** Government of India has restructured the earlier poverty alleviation programmes and introduced a new program styled as Swaranjayanti Gram Swarojgar Yojana (SGJY) w.e.f April 1, 1999. The main purpose of SGSY is to provide self-employment to the people who are enlisted as below poverty line (BPL) by organizing them into self-help
groups (SHGs). It also helps in imparting knowledge about skill up graduation, infrastructures development and marketing of products.

9) **Prime Minister Employment Generation Programme (PMEGP):** PMEGP a credit linked subsidy programme introduced in 2008 by merging Prime Minister’s Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) with the objective to generate employment opportunities in rural as well as urban areas. The programme provides a subsidy of 35% to scheduled tribes for the project financed by the banks in the rural areas.

**Objectives**

1. To generate employment opportunities in rural as well as urban areas of the country through setting up of new self-employment ventures.

2. To bring together widely dispersed traditional artisans/rural and urban unemployed youth by extending them self employment opportunities.

3. To provide sustainable employment to a large segment of traditional and prospective artisans and rural & urban unemployed youth so as to help arrest migration of rural youth to urban areas. The maximum cost of the project/unit admissible under manufacturing & service sector is Rs.25.00 lakhs & Rs. 10.00 lakhs respectively.

10) **Exhibition for women under promotional package for Micro and Small Enterprises:** In order to promote women entrepreneurship in the country, women entrepreneurs from all states are being selected to participate in international exhibitions. The main purpose of these promotional programmes is to provide necessary exposures to the aspiring entrepreneurs.

11) **Indira Mahila Yojana (IMY):** It was first SHG based women’s empowerment programme. IMY was launched by the ministry of women and child development in 1995-96 in 238 blocks in the country. It has been recast after merging Mahila Samridhi Yojana and retiled as ‘Swayamsiddha’ in 2001 to empower women through awareness generation, achievement of economic strength through micro-
level income-generating activities and establish convergence of various services such as literacy, health, rural development etc. The major thrust of IMY was the formation of SHGs at the village or at the Aaganwadi level, so as to establish a strong base for women at the Panchayati level to prioritize women’s needs. More than 42,000 Women Self-Help Groups were formed by the end of 2000 under this and the total expenditure was 7.20 crores.

12) **Swa-Shakti Project**: The Rural Women Development and Empowerment Project (RWDEP) now known as Swa-Shakti Project. This scheme is jointly assisted by World Bank, Government of India (GOI) and IFAD it was first of all started for five year on 16th of October 1988 with an outlay of Rs. 186.21 crore. An additional amount of five crore was also sanctioned under this project for setting up a revolving fund for interest bearing loans to beneficiary and primary during the formative stages. It was started in seven states viz. Gujarat, Haryana, Bihar, Jharkhand, Karnataka, M.P, U.P. By WDC under this project a total of 57 districts, 335 development blocks, 7531 villages are covered while with the membership of 243962 women 17647 SHG’s were formed.

In various states the project is being implemented by 218 NGOs. The total amount of bank loan was Rs 2508 lakh and total group saving was Rs 2215 lakh the inter-loaning amount was Rs 5487 lakh. In different economic activities under this project 130896 members were engaged. Under swashakti in Haryana a total of 1550 SHGs were formed. In different states of India such as Gujarat, U.P., Karnataka, and Bihar SHGs were also formed under this scheme. Gujarat, U.P. and Karnataka formed highest number of self help groups while Bihar had low quantity of Self Help Groups.

13) **Swayam siddha project**: an improved type of self help group based women development and empowerment programme known as Swayam Siddha, it was first launched in 650 blocks in Feb 2001, including the 238 IMY blocks in total of 35 states and union territories with Rs. 116.30 crores of total budget. This scheme ended in March 2008, the government of India is in the opinion that the state government should hold these self help groups from under this scheme till the
second phase of programme launched again. There were total 355 districts in which 650 blocks were included under this scheme. The total of 69803 no. of a self help group were formed. A total of Rs. 4392.77 lakhs was released as fund during the period 2002-06. UP with the highest no. of self help group i.e. 9268, West Bengal 5184, In Tamil nadu a total of self help group are 5452 and in Bihar a total of 6340 self help group were formed. Under this project some states and union territories showed very low progress of self help group such as Delhi 276, Nagaland 600, Sikkim 576, Manipur 300, Mizoram 300, and Andaman and Nicobar islands 225, Lakshadweep 270 and pondicherry 300. In Haryana there are 300 self help group were formed under this scheme.

1.6 CHARACTERISTICS OF MIROFINANCE PROGRAMMES

Microfinance give access to financial and as well as the non financial services to low income people who are willing to start or develop and income generating activities. The saving and the personal loan amount of the poor client is very small. Microfinance came into existence with a concept that micro intrepreneurs and some poor can be bankable, so they can repay both the interest and principle amount and also make savings and provide financial services to meet their day to day need. Microfinance as discipline has generated different financial services that together make the low income client are customers of bank intermediate. To over come these obstacles, a prominent economist and professor form Bangladesh, in 1976, came up with a new concept and model, which is called “The Grameen Model” During a field trip to a relatively poor village in Bangladesh with his students in 1974. Muhammed Yunus interviewed a woman who had a small business of making bamboo benches. Due to the shortage of the resources to purchase the raw materials, she was forces to borrow small amounts of money from a local lender. Without any collateral, she could only borrow enough to buy the raw materials to build one. Piece at the single time. The lender of microfinance services have high rate of interest form a woman client at the rate of 10% of the principle amount, and after paying back the principle and interest the beneficiaries women left with a very low amount of profit margin which is not enough to meet the basic needs of these clients. So they had more complimentary terms for the loan she had taken. So she would be able to
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protect from uncertainty in the long run and fulfill their basic needs. Dr. Muhammad Yunus a prominent scholar and economist from Bangladesh after seen all this. He took the matter in his hands and he lent a small amount of money to 42 small basket weavers and everyone take this small amount as loan they were very keen to repay back this loan as soon as possible. Dr. Yunus found that with this small money it is possible not only to help the poor to survive and to meet their needs but also for initiate a spark among the people for some major initiative and enterprises and it is pull out these poor out of poverty. After two years of field trip he came up with a new concept and modern which is known as “The Grameen Model” this Grameen model is now consider as the one of the most significant model in the history of the microfinance industry. The Grameen bank find those poor who are economically active. Who are not included by the formal financial services providers and the The Grameen banks help these poor by providing them financial services. The grameen bank also stress upon the mobilization of savings. The grameen banks is a kind of institution in Bangladesh whose aim is to provide loan to poor and needy people specially the women in Bangladesh. So that these poors and women get financial better. The grameen bank proved to be a great tool as well as the institution which is extra oridianary successful in triggring the continuos livelihood, during the development and reducing he poverty in Bangladesh. Since its starts in 1996 it has grown to more than 1084 branches at national level and more than half of the villages of Bangladesh. As the microfinance model proved to be a successful model by Dr. Yunus has been recreated and is implemented in many other countires of the world which are underdevelop and developing in present. Near about 7000 microfinance institutions which are rendering the microfinance to 54 million clients worldwide. Who have received an amount of us 18 billion dollars as loan and accumulated about US 30 billion dollars in savings.

The characteristics of microfinance programme include:

1. Small amounts of loans and respective savings.

2. Short terms of the loan usually up to one year.

3. Payment schedules attribute frequent installment or frequent deposits.
4. Application procedure are very simple.

5. Microfinancial institutions goes to client rather than client goes to MIF’s.

6. The period for the getting loan is short.

7. The beneficiaries who are able to pay the loan at the fixed time are eligible for getting the loan again and again and they get higher amount of money.

8. The microfinance loans are accordingly need based.

9. There is assured repayment and misutilization chances are very much rare.

10. The transactions costed is also low because the microfinance loan is always group lending.

11. Transparency in operations.

12. As it act as great tool for the poverty alleviations and for poor womens.

13. Microfinance target the poor from urban and rural households as well as women.

14. Microfinance emphasis on trift as well as loan.

15. No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, like, the assessments of clients’ repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

1.7 CLIENTS OF MICROFINANCE PROGRAMMES

- Women
- Micro entrepreneur
- Small farmers
- Landless & small holders
- Resettled persons
- Indigenous persons
• Low income persons in remote & subsistence areas

1.8 OBJECTIVES OF MICROFINANCE

• To reduce poverty.
• To create employment.
• To encourage the development of new business.
• To empower women.
• To empower other disadvantage population group.
• To help existing business group.
• To reduce rural families interdependence.

1.9 MICROFINANCE STANDARDS AND PRINCIPLES

A group of Indian women have assembled to make bamboo products that they intend to resell. Poor people borrow from informal money lenders and save with formal collectors. They receive loans and grants from charities. They buy insurance from state owned companies. They receive funds transfers through formal or informal remittance networks. It is not easy to distinguish microfinance from similar activities. It could be claimed that a government that orders state bank to open deposit account for poor consumers, or a money lender that engaged in usury, or a charity that runs a heifer pool are engaged in microfinance. Ensuring financial services to poor people is best done by expanding the number of financial institution available to them, as well as by strengthening the capacity of those institutions. In recent years there has also been increasing emphasis on expanding the diversity of institution, since different institutions serve different needs.

Some principles that summarize a century and a half of development practice were encapsulated in 2004 by CGAP and endorsed by the Group of Eight leaders at the G8 Summit on June 10, 2004:

1. Poor people need not just loans but also savings, insurance and money transfer services.
2. Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.

3. “Microfinance can pay for itself”. Subsidies from donors and government are scarce and uncertain and so, to reach large numbers of poor people, microfinance must pay for itself.

4. Microfinance means building permanent local institutions.

5. Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.

6. “The job of government is to enable financial services, not to provide them”.

7. “Donor funds should complement private capital, not compete with it”.

8. “The key bottleneck is the shortage of strong institutions and managers”. Donors should focus on capacity building.

9. Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.

10. Microfinance institutions should measure and disclose their performance both financially and socially.

Microfinance is considered a tool for socio-economic development, and can be clearly distinguished from charity. Families who are destitute, or so poor they are unlikely to be able to generate the cash flow required to repay a loan, should be recipients of charity. Others are best served by financial institutions.

1.10 ADVANTAGES OF MICROFINANCE PROGRAMMES/SCHEMES

The main benefits of microfinance claimed by proponents are as follows: a) reduction in vulnerability to adverse circumstances on the part of the poor, b) an increase in consumption in the same group, and 3) reduction in income-poverty. The supporters of microenterprise clusters further claim that clustering increases the chances of success and prosperity for poor loan recipients.
A. **Reduction of vulnerability:** One of the most important benefits of microfinance programmes is its ability to reduce vulnerability among the poor. This reduction occurs through a number of different channels. Microcredit programmes help borrowers to insure themselves against crises by building up household assets. Such assets can be sold if needed. They can also be used as security or proof of credit worthiness when dealing with businessmen or more traditional lending agencies.

B. **Increased Consumption:** Another benefit of microfinance programmes is the increase in household consumption. One researcher in Bangladesh has found that for every 100 taka lent to a female borrower, household consumption rises by 18 taka. These are both important effects for people who typically live on the edge of disaster. Even small increases in consumption and increased regularity in consumption can lead to better health and nutrition, and enhance the ability to make long range plans for the family.

C. **Reduced Income Poverty:** Microcredit programmes also reduce income poverty. That is, borrowers actually tend to make more money over time. Once the cycle of poverty has been arrested and some stability provided, many borrowers go on to makes profitable investments and even lifts themselves out of poverty all together. Members of the Bangladesh Rural Advancement Committee (BRAC) can expect to see their poverty fall by an average of 15% after three years of participation. The so-called “ultra-poor” experience poverty reductions of 25%. 21% of the members of the Grameen Bank (GB) microcredit program lift themselves from poverty within four years of joining the program. About 5% of the GB’s members rise from poverty each.

D. **Micro cluster:** Finally, there is the question of microenterprise clusters. The main selling point for clustering is the “collective efficiency” which it produces. Microcredit funded business ventures are frequently plagued by the problems of small size and isolation. It is not worth the time of itinerant traders to work with such ventures.
E. **Microfinance Help the Poor:** Experience shows that microfinance can help the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change.

F. **Employment Opportunity:** Microfinance help the poor to come out of poverty by providing them loan. Microfinance also increase the employment opportunity among the benefaciries.

1.11 **KEY SUCCESS FACTORS IN MICROFINANCE PROGRAMMES**

The key success factors to microfinance programmes are as follows:

1. **Maintaining Minimum Portfolio at Risk:** The organization should maintain a portfolio at Risk (PAR) of less than 3 per cent of all the portfolio or able to attain 97 per cent repayment of funds that have been lent to clients. It should also strive to achieve a wide outreach in order to enjoy economies of scale.

2. **Adequate Provisioning:** There is a need for the MFIs to maintain a provision of 2 per cent of the total outstanding portfolio in order to meet future contingencies for bad and doubtful debts. Lending operations must be timely, transparent and on condition that the borrower has capacity to repay and of good character.

3. **Appropriate Entrepreneurial Spirit:** Regardless of socio-economic status, there are some people who simply do not have the mind and trait for entrepreneurship and would do well as employee rather than employer. It is advised that only those who have entrepreneurial spirit and capacity that should venture into microfinance or micro-enterprises businesses.

4. **Zero Tolerance for Loan Default:** There is need to introduce sanctions for loan defaulters. The organization should operate professionally and have clearly stipulated enforceable risk management strategies against loan defaulters. Borrowers are to understand that loans are not gifts and must be paid back in full.
5. **Capacity Building:** There is the need for the practitioners (lenders) to support the business development skills of their customers, if they (lenders) hope to recover their facilities.

6. **Provision of Access to the Poor for Financial Services:** Emphasis must be placed on the fact that the poor do not need “Hand-Outs”, what they need is “a hand” to enable them become self reliant and to live in dignity and self respect. Continuous state of dependency destroys one’s self esteem and undermines one’s dignity.

7. **Product Packaging:** Initiating new products and re-packaging old ones must be the organization’s habit. If necessary a unit for research and new products should be established. These critical factors are key to the long-term survival of the MFIs.

8. **The Role of Government and Donors:** Practitioners and borrowers should fully appreciate that the role of the Government, the Central Bank and Donor is that of the facilitator “an enabler” only in the sector and not “doers”.

9. **Appropriate Interest Regime:** Setting interest rate ceiling and providing subsidized loans by the government or its agencies is not appropriate for the growth of long-term sustainable microfinance practice. They should determine the appropriate financial services they will provide and price the services by themselves reasonably.

1.12 LIMITATIONS OF MICROFINANCE PROGRAMMES

1. **Turning a Profit on a loan:** One of the most fundamental problems with microcredit programmes is the difficulty involved in actually turning a profit on the loans. In the first place, borrowers must bear not just the cost of the loan and interest payments. They must invest a significant part of their time in group activities mandated by their programmes.

2. **Inability to reach the poorest of the poor:** A second important drawback to microcredit programmes is that they don’t reach the poorest members of the
society. To quote “Assessing the Poverty and Vulnerability Impact of Micro-credit in Bangladesh” the poorest have a number of constraint which prevent them from investing the loan in high-return activity

3. **Microcredit dependency**: Another possible failure of microcredit programmes lies behind seemingly benign statistics. Some researchers have proposed the idea that the high repayment rates, repeated borrowing, and low drop-out rates indicate a dependency on microcredit programmes rather than an attraction to successful microcredit programmes on the part of poor borrowers.

4. **Not properly regulated**: The rules and regulation related to the provision of microfinance services to the poor are not properly regulated. So due to the unregulated rules and regulations, there would be a higher chance of credit risk and default.

5. **Concentrating on few people only**: there is one more limitation of microfinance programme is that the microfinance concentrates on few peoples only.

6. **Over involvement of Government**: The excessive involvement of government is a serious threat to MFIs. Excess involvement in the prim waiver of loans, making new rules for their personal benefit etc.

7. **Durability of poverty reduction**: A related problem is the durability of poverty reduction. Infusions of cash in almost any amount are bound to have some effect on the poverty stricken borrowers. But this does not necessarily mean that the effect will be permanent. The poverty reductions may be rolled back in two ways.

1.13 **HOW MICROFINANCE WORKS**

Microfinance is a chain which helps poor people to come out of the deep well of poverty and debt. Microfinance provides poor people a platform to stand and survive in the society with full of respect. Microfinance works in a simple way. Exhibit 5.1 explains the simple way of microfinance. One microfinance institutions (MFI) provides credit (depends upon the need of the poor), the poor invests the credit in any type of business or in any productive activity, business improves the income of the poor, life style of the
poor also improves, the poor repay the credit amount back to the MFI. This is the simple way how microfinance helps the poor to come out from the poverty trap.

1.14 FINANCIAL SERVICES PROVIDED BY MICROFINANCE INSTITUTIONS (MFIs)

The MFIs provide many other services like savings, insurance, remittances and pension. The following lines explain the various services rendered by MFIs.

1. **Credit**: Credit is the most common financial service provided by the MFIs generally give credit/loan for the productive purposes which means loan for investment in income generation activities credit may be availed by clients for various purposes such as agriculture, meeting working capital expenditures or for consumption purposes. The basic premise is that poor clients are not able to realize the full potential of the business because they lack the capital to invest. A client may not have the financial capacity to expand the business, so possibility is that client may not grow his/her business properly or client lost his/her business. It is also fact that low income people require finance not just for income generation but also for other purposes such as meeting medical expenses, education and social ceremonies. But here there are two different approaches. Some MFIs believes that loan should be given only for productive purposes so that low income people can repay and MFIs can avoid credit risk. However, some MFIs believe that consumption purposes such as health, education or social ceremonies are equally important for that clients and clients will have to necessarily borrow
for them from some source like moneylenders who charge exorbitant interest rates from the clients. Those MFIs are of the view that if consumption loans are not provided, clients will not be free the clutches of moneylenders. In spite of two differing views of MFIs they have to follow certain basic principles while extending the credit.

a. **Timely Credit:** Timelines of credit is very important in microfinance if credit is not made available to a client when it is required, it will result in lose of business opportunity or inability to meet a personal need. Delayed credit will not be able to serve the client, purpose. An untimely credit could become a burden on the client.

b. **Credit at doorstep:** One of the important reasons why formal financial institutions may be not suited for microfinance is because of their relatively limited outreach. For a small loan, clients cannot travel to far off areas, as this increases the cost of the loan. Operating costs incurred in order to avail loans either by the client or the institution that provide these services are essentially, in the nature of translation cost. In order to reduce the transaction cost, such small credit has to be provided as close to the client as possible and recovery mechanisms should also be as close to client locations as possible in the field of microfinance. To attract the low income/poor clients for small loan and survive successfully, credit delivery at the doorstep of client is very important.

c. **Collateral:** More often, formal financial institutions do not provide loans without collateral (an asset pledge by a borrower to secure a loan or credit). The lender can take over the collateral in the event of default made by the borrower. Poor borrower cannot offer an asset as collateral for small amount of loan. Therefore MFIs provide a loan without any collateral. If the MFIs start asking for collateral it will restrict the access of microfinance to a large extent and will defeat the purpose of microfinance.
d. **Simple loan procedure**: Another important aspect of microfinance is the simple procedures and products. As majority of the microfinance clients are poor and often illiterate, the loan products as well as the procedure of availing loan and making repayment have to be made as simple as possible to make poor people understand easily. Complex method of paper work and documentation should be avoided by the MFIs.

2. **Savings**: These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these savings accounts allow households to save in order to meet unexpected expenses and plan for future investments. Savings is a very important financial service, which can help people in smoothening their cash flows and using money when it is required rather than when it is earned. It was later realized that poor too can save. Low-income people generally have volatile savings or very small savings and often do not have access to banks. The very small volume and uncertainly about savings make them unable to use banks for depositing their savings. MFIs however, can provide them the scope for keeping their savings with suitable savings products. Savings are equally important for clients and MFIs both. It is a good source of ‘compulsory savings’ it is seen in the case of SHG model that members have to compulsorily save internally for six months before they can be considered for bank or MFI loan. Thus, in case of SHG bank linkages, six-months of regular savings is stipulated as an essential condition. The client cannot withdraw his/her compulsory savings from the MFI as long as he has a loan outstanding. Hence, compulsory savings act as some sort of collateral however, many MFIs also have the policy of non-withdraw ability of savings as long as the client is a member of the MFI. Withdrawal of compulsory savings marks the drop out of a client.

    MFIs may also collect client savings according to their client’s convenience clients may deposit any amount any time with the MFI; these are called ‘voluntary savings’; under his scheme MFIs may design and offer different saving products to attract client savings but clients may or may not avail them.
Voluntary savings are withdraw able but do not mean the end of client relationship. The reasons for voluntary savings may also be many. Therefore, just like bank, MFIs come out with different savings products such as recurring deposits, monthly income schemes or fixed deposits. Each product may have various features related to interest rate, withdraw ability, etc.

Some MFIs may also offer compulsory as well as voluntary saving services to their clients. However, savings are seldom a sufficient source of funds. It must be noted that most MFs will have to borrow from commercial sources if they want to have large programme and want to expand fast. Savings in such a case can only be an additional source of fund and it cannot fully replace borrowings.

3. **Insurance:** It is a system by which people, businesses and other organizations make repayment to share risk. There are numerous uncertainties which could cause risk for individual. These risks could be sudden illness or death. Specifically in rural areas in addition to death and illness there could be risks like crop failure or cattle loss, which can completely ruin the livelihoods of the people. To reduce vulnerability in face of such risks, insurance proves to be a great tool. Under insurance scheme in order to protect against risk or to get a cover for a risk from certain event, a client has to pay a assures that a fixed amount every year called ‘premium’ and insurance institutions identifies and assures that a fixed sum of money will be paid if that occurs for which insurance has been taken. Insurance provided to low income people is commonly known as ‘micro-insurance’. In India, micro-insurance schemes were earlier started by social organizations to provide securities they were working with. As the MFIs in the country evolved. They took up micro-insurance in a big way. This momentum was supported by insurance regulatory and development authority (IRDA), the regulating body for insurance companies in India. IRDA makes it mandatory or all insurance companies to extend their services to rural and social sector in the country. Insurance companies found MFIs as the ideal partners for this. Hence, insurance companies and MFIs are increasingly negotiating to provide group or
standardized individual insurance schemes for the low-income people. Although the reach of such schemes is still limited, their potential is viewed to be considerable. Regulations have forced the insurance companies to provide insurance in rural and social sector. Therefore MFIs having good outreach in social and rural sector from good partners for insurance companies and can act as effective distribution channels.

Hence, insurance companies are increasingly collaborating with MFIs where MFIs act as an agent to the insurance company. As a result insurance company can get large member of clients by getting linked to the MFI and MFI gets another source of revenue as the insurance company pays commission to the MFI for providing linkage services and the client get the risks coverage. MFI also get the benefit that in case of unfortunate event of death of a client the MFI may first settle the outstanding loan of the client through the coverage amount paid by the by the insurance company and they pay the remaining amount to the family member of the client. It avoids the burden of loan amount failing on the family in case of the death of the client.

Some MFIs also provide insurance services on their own rather than collaborating with and external insurance company. However, MFIs, have also realized the inherent risk and providing such a service interally. There is a regulatory risk as MFIs are legally not considered suitable to carry out insurance as business. They are not approved by IRDA. The second risk is that it increases the contingent liability of the MFI. Contingent liability mean a liability, which occurs when certain events/condition happen. In case of insurance the liability of the extent of coverage amount falls due if the event for which insurance has been taken occurs. Hence, natural disaster, outbreak of disease etc resulting in large scale damage of loss of life may suddenly make the MFI liable for payment of large sum insured by a large number of clients. This can result short time. Through, micro-insurance as a financial service complement and enhance the outcome of credit and saving services together can reduce the vulnerability of the poor.
4. **Remittance:** This service is a transfer of funds/money from people in one place to people another, usually across borders to family and friends. Although provision of this financial service by MFI is still at a very emerging stage, there is a of potential for this kind of service. India is a large country with a great deal of internal migration of various type (such as seasonal/semi-permanent, rural-urban/rural-rural, within the district/state/interstate, individual/in groups, sometime whole villages en masse, self-propelled/organized through contractors, male/female, manual/skilled/clerical workers, with/without families) and its extent is likely to grow with the emergence of high growth states and areas within. Most kinds of migrants, are likely to have a need for remittance services except short distance or seasonal migrants. Migrants need convenient, low cost and safe means of transfer their savings back to their families. The formal money transfer services offered by banks and post offices prove to be inadequate and also inconvenient for the poor. In that case MFIs are well suited to provide remittance services due to their outreach to remote areas. However. The only condition is that the MFI have a base in at least two locations, the host location where migrants are employed, as well in India can meet these criteria.

Adhikar an MFI based in Orissa has already successfully demonstrated delivery of remittance by an MFI. Adhikar identified an opportunity to address, in a unique way, issues related to money remittance for Gandhidham in Gujarat. Adhikar launched “Shramik Sahayog” in August 2002 exclusively to look after remittance services. Shramik sahayog has its head office in tangi, Orissa and a project office at Gandhidham. to become a member of shramik sahyog it is necessary to open recurring deposit account of 100 per month. Workers registered as a member of shramik sahyog and money has been transmitted from gandhidham to Orissa using a well-through and assured plan. Shramik sahyog mobilizes the members to from a self-help groups which help members to have savings and credit facilities from the institute and also offer them Remittance service with members’ convenience.
5. **Pensions:** pension is the very useful service for the individual at the time of his/her old age. This scheme is useful for individual’s retirement planning. Invest India micro pension services (IIMPS) is the only social enterprise in the world focused exclusively on encouraging and enabling low income formal sector workers to accumulate micro-saving for their old age. IIMps was promoted in late 2006. IIMPS has developed a proprietary micro pension model as well as a scalable and streamlined, technology-led platform capable of delivering a range of non-credit financial services to the working poor at affordable transaction cost. Through independent contract agreements, IIMPS delivers pension products co-developed by its promoters with the government of India with UTI (unit trust of India), India’s largest AMC (Asset management company).

SEWA Bank, India (Gujarat) is providing micro pension service with collaboration with UTI-AMC. Low-income people have to open a monthly pension saving account, which can be as low as 50. In a unique arrangement with UTI-AMC, SEWA bank collects individual contribution similar to a systematic investment plan of a mutual fund. It sends monthly contribution to UTI the AMC open individual retirement accounts, from where the cash will be invested in debt and equity. Monthly statement will be sent to SEWA subscribers, who will not be required to pay any initiation fees for participation in this mutual fund. This is the first such pension scheme for self-employed in India. SEWA bank acts as a distributor of UTI and getting 3% of amount collected as commission.

1.15 **MICROFINANCE DELIVERY METHODOLOGIES**

MFIs around the world follow a variety of different methodologies for the provision of financial services to low-income families. These methodologies are overwhelmingly. Based on the principle of financial services being related to the cash flows of the low-income client groups and thus aim to facilitate relatively frequent and very small or micro-loan and savings transactions. Main focus of such services is on women because it was observed that women are more responsible than men about the loan repayment and their mobility is restricted by family responsibilities.
The following are the methodologies employed by MFIs for delivery of financial services to low income families.

1. **Self Help Group (SHG MODEL):** The SHG is the dominant microfinance methodologies in India. The operations of maximum 20 members, SHGs are based on principle of revolving the members, own savings and thrift internally. The informal groups that have socially and economically homogeneous membership of poor people drawn from the same hamlet or nearby hamlets. An SHG can be all men group. All women group or even a mixed group. However, experience shown that women’s SHGs perform better in all the important activities. Mixed SHGs is not preferred in many of the places due to the presence of conflicting interests. The members are self selected, with the liberty in chose their group depending on their level affinity. With the other potential members. The group members save some amount on monthly basis that they can afford. A monthly meeting is organised, where apart from disbursal and repayment of loan, formal and informal discussions are held. The minutes of these meeting are documented and the accounts are written. The president, secretary and treasurer are three official posts in any SHG which are selected by the group. If the SHGs are connected with some NGOs, they take part in other social activities of those NGOs. SHGs are more autonomous as they decide their own rules and regulations. Under this model, groups are formed by different agencies known as self help group promotion Institutions (SHPI). These could be NGOs, Voluntary Associations (VAs), Government Agencies, Panchayati Raj Institutions, Vikas Volunteer Vahini (VVV) Clubs, Banks, Cooperative Societies, etc the financial interaction takes place in the following channel.

2. **Grameen Model or Joint Liability Group (JLG) Model:** This model was initially promoted by the well known grameen bank of Bangladesh. It is based on the concept of joint liability. Five member groups are formed and eight such groups form a centre. All members should save regularly. There is a leader for each group from a centre. Group and centre are jointly liability groups, which means that all members are jointly responsible for the repayment. Each
borrowers, credit worthiness is determined by the overall credit worthiness of the group. Centre is the operational unit for MFI, which means that MFI deals with the centre as a whole. Loans have to be repaid in 50 installments. MFI recovers full money from centre, if any member has defaulted; the group members have to pool in money to repay to the MFI. If group members are unable to be it, centre as a whole has to contribute and share the responsibility. Weekly meetings also takes place at the centre level and individual groups do not meet. Group meeting takes place only in front of the field staff of the MFI. A Grameen model is focused on financial transactions and other social issues are generally not discussed. In India some MFIs follow this model such as SHARE microfinance Ltd., Activities for social Alternatives (ASA) and CASHPHOR financial and Technical Services Ltd.

Grameen model is a particular from of joint liability group but in India there are other forms of joint liability group (JLGs), Particular in urban areas, form JLGs of five-members. These are group of individuals coming together to borrow from the financial institution. They share responsibility and stand as a guarantee for each other. There is a group leader in such JLGs. Such JLGs are somewhere between group and individual lending methods. While lending in such JLGs is to individual members small JLGs still provide some sort of comfort to the MFIs. Also collection can be done from a single point, generally from group leader rather than going to each individual.

3. **Individual Banking Model (IBM):** Individual lending method is also in a growing stage. This is a straight forward credit lending model where micro loans to an individual based on his/her own personal creditworthiness individual lending is more prevalent with clients who generally need bigger size loans and have the capacity to produce guarantee and generate enough comfort to the MFI. MFIs generally base their decision on personal knowledge of the client. His/her reputation among peers and society, client’s income sources and business position. MFIs also ask for individual guarantors, can be friends or relatives well known on the borrower, who are ready to take liability of repaying the loan if the borrower fails to repay. In some cases, if the loan is significantly larger then MFIs
can also take some collateral. Individual loans are required for lower middle class segment of clients who may not necessarily belong to the low income stratum, but still it very difficult to borrow from financial institutions. MFIs with convenient policies provide a good are efficient alternatives.

4. **Co-operative Model:** In the case of cooperatives all borrowers are members of the organization either directly or indirectly by being members of primary cooperatives or associations which are members of the apex society. Creditworthiness and loan security are a function of cooperative membership within which member savings and peer pressure are assumed to be a key factor. Through the magnitude and timing of savings and loans are largely unrelated, a special effort is made to mobilise savings from members. There are now a large number of ‘new generation’ cooperative credit societies in India devoted specifically to provide financial services to the poor. Most of these are in Andhra Pradesh which was the first to enact a law permitting mutually-aided as opposed to traditional government-assisted-cooperative societies. Elsewhere, a number of well known programmes such as the SEWA Bank in Ahmedabad, the India Cooperative Network for women, Tamil Nadu and the Annapurna Mahila Cooperative Credit Society in Mumbai have still survived under the traditional cooperative laws.

5. **Mixed or Hybrid Model:** Some MFIs started with the grameen model but converted to the SHG model at a later stage. However they did not completely do away with grameen type lending and smaller groups. They are an equal mix of SHG mix of SHG and grameen model. Others have chosen to adapt either the grameen or the SHG model to cater to their markets while some organizations like BASIX use a number of delivery channels and methodologies (including lending to SHGs) to provide financial services. Such MFIs are still relatively few but with increasing innovation becoming the norm in London microfinance. Their numbers are growing. There are fast growing grameen models and equally fast growing individual banking models.
1.16 ROLE OF MICROFINANCE IN POVERTY REDUCTION

Microfinance is an initiative that provides financial services to poor fraction of the society who mostly are not entertained as clients by the conventional formal financial institutions. It has extended the frontiers of financial service provision to the underprivileged society as well. The provision of such financial services necessitates novel delivery means and methodologies. There is always a need for financial services that permit people to benefit from the opportunities as well as helps in the better management of the resources. Microfinance is one such answer to the call and is one of the effective accoutrements amongst many that help in poverty mitigation. However, it should be used with utmost caution and after great study as despite recent claims, the equation between microfinance and poverty alleviation is not in accordance expectations. However one main reason behind it is that poverty is a complex phenomenon and there are multiple constraints that generally the poor people have to face. A study is necessary to understand when and in what form microfinance is appropriate for the poorest and in each case, whether the delivery channel, methodology and products offered are all interlinked and in an overall can assure poverty alleviation. Due to the rules regarding the collaterals asked by formal banking institutes, the access to formal banking services for acquiring a loan is difficult for the poor. In addition, the process of acquiring a loan entails many bureaucratic procedures, which comes with a cost for the poor for each small amount of loan. So the overheads are high. Moreover, formal financial institutions usually prefer not to lend money to such people due to lack of returning trust. As a result, formal financial institutions usually prefer urban people over rural sectors, large-scale over small scale transactions, and non-agricultural over agricultural loans. Formal financial institutions have very little to lend to the rural poor mainly due to:

- **Administrable difficulties**: Rural farmers are often geographically scattered, with minimal and poor communication and transportation facilities. This surely makes loan administration difficult.

- **Systematic risks**: Natural resources of income like Agricultural production are associated with systemic risks, such as drought and floods, which forms a high covariance of local incomes.
➢ **Lack of information**: The absence of standardized information, standard lending tools, such as financial statements or credit histories, do not exist in these areas.

➢ **Repayment problems**: The settlement of operational capital may be requisite only once a year may be after the harvest season.

In contrast to the above, poor people can access informal loans relatively easily, conveniently, and is available locally to even poorest households for the following reasons:-

1. Interlinked credit contracts are used by informal moneylenders to reduce default risk. One of such contracts is the development of business relationship with the client. Informal moneylenders have robust local knowledge and data to develop decision support systems that help to insight the appraise credit needs and credit worthiness of each client.

2. Informal moneylenders also deem the needs and requirements of clients even for small amount of loan.

3. Informal money lenders for legal enforcements use social sanctions such as those that may exist among the family members of a client.

4. Informal money lenders use specific incentives to encourage settlement, such as iterative lending to loan borrowers who reimburse punctually and on time, with a steady increase in loan size each time. In spite of the fact that numerous pastoral underprivileged people get hold of their loans from the informal financial sector in rural areas of developing countries; the sector has some basic limitations. A common characteristic of many rural communities is restricted local information flow; it tends to be segmented and also circulates only within restricted groups. Typically the informal credit market is based on local economies and thus local wealth constraints is a limit and it also depends on the covariant risks of the local environment. As the majority of the world’s poor unprivileged people have minimal access to basic financial services that could have helped them in managing their assets and generate some income, it is a matter of concern. To
overcome poverty, they have to borrow, make savings, and spend in investment finally to protect their families against adversity. Another inadequacy of the two financial sectors in developing countries is their incapability to gratify the credit needs of the poor that boosts the progress of microfinance. Microfinance is so able to reduce the mentioned inadequacies of formal and informal financial institutions and is emerging as an important credit partner to the poor in the developing world.

1.17 ROLE OF MICROFINANCE IN WOMEN EMPOWERMENT

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. Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. In general, banks are for people with money, not for people without is based on the premise that the poor have skills which remain unutilized or underutilized. Microcredit fits best to those with entrepreneurial capability and possibility. Ultimately, the goal of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance.

The main aim of microfinance is to empower women. Women make up a large proportion of microfinance beneficiaries. Traditionally, women (especially those in underdeveloped countries) have been unable to readily participate in economic activity. Microfinance provides women with the financial backing they need to start business ventures and actively participate in the economy. It gives them confidence, improves their status and makes them more active in decision-making, thus encouraging gender equality. According to CGAP, long-standing MFIs even report a decline in violence towards women since the inception of microfinance.

There are many reasons why women have become the primary target of microfinance services. A recent World Bank report confirms that societies that
discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard for all people. At a macro level, it is because 70 percent of the world’s poor are women. Women have a higher unemployment rate than men in virtually every country and make up the majority of the informal sector of most economies. They constitute the bulk of those who need microfinance services. Giving women access to microcredit loans therefore generates a multiplier effect that increases the impact of a microfinance institution’s activities, benefiting multiple generations.

1.18 FINANCIAL INSTITUTION FOR MICROFINANCE PROGRAMMES IN INDIA

In India various types of financial institutions offer different microfinance schemes and programmes. There are many top microfinance institutions and financial institution in indai which provides financial services to the poor households and to the clients which are in urgent need of these schemes. In India in 1992 the microfinance programme namely Self Help Group Bank- Linkage Programme(SBLP) was first of all initiated by National Bank of Agriculture and Rural Development (NABARD). The second most important player in this sector is SIDBI. SIDBI also provides refinance to the commercial banks and to SFCs for their direct lending. RMK is the third major player in this field of microfinance. All these players had some different role as well as different approaches towards their clients in this sector of microfinance. The detail of all these institution is as under:

1). NABARD’s Self Help Group Bank Linkage Programme (SBLP): The Self Help Group Bank Linkage Programme (SBLP) has now completed more than 22 years of existence. The Self Help Group Bank Linkage Programme (SBLP) originated at GTZ-sponsored project at Indonesia. NABARD with the help of APRACA set up a task force and the purpose of this task force is to identify the existence of SHGs. Starting from the modest scale in the year 1992, the SBLP turned to be an important programme of microfinance because Self Help Group Bank Linkage Programme (SBLP) covering more than 9.50 Crore poor households with a total saving of more than 73.18 Lakh on 31 March 2013. Under
SBLP 44.51 Lakh number of credit linked self help group and a total saving of these credit linked Self Help Group is 8217.25 Crore.

During the year 2012-13 NABARD expended a sum of Rs.50.44 Crore from women Self Help Group development fund, microfinance development fund and equity development fund for different microfinance related activities such as for the formation of Self Help Groups through SHPIs, Capacity building of stakeholder, training of clients, for awareness and development, for livelihood, promotion etc. NABARD continuously provides support for the promotion and development of Self Help Groups to different agencies such as NGOs, RRBs, CCBs, farmers, clubs and to the individual Rural Volunteers. These agencies get an assistance of Rs.36.33 Crore from NABARD during the year 2013-14. For promoting 7.46 Lakh SHGs the cumulative assistance of Rs.262.83 Crore was sanctioned and for the formation of 4.99 Lakh SHGs a cumulative assistance of 79.04 Crore of loan released during the year 2013-14 for the promotion of 3.99 Lakh JLGs across the India an assistance of Rs.76.74 Crore was sanctioned during the year 2013-14.

It is clear from the Table 1.1 that in the year 1992, SBLP was started with 255 SGHs but in the year 2013-14 the total SHGs linked to the bank were 5432545. In 1992 a cumulative disbursement of bank loan of Rs. 0.29 Crore while in 2014 it was increased to a total of Rs.117658.5 Crore. The bank loans which were sanctioned during the year 2014 was 210874.3 Crore. The amount refinanced by NABARD during the year 2014 was Rs. 1948.59 Crore.
### Table 1.1: Self Help Group- Bank Linkage Programme (Amount in Rs. Crore)

<table>
<thead>
<tr>
<th>Year (End March)</th>
<th>No. of SHGs financed by Banks</th>
<th>Bank Loan</th>
<th>Refinance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>During the year</td>
<td>Cumulative</td>
<td>Growth (%)</td>
</tr>
<tr>
<td>1992-93</td>
<td>255</td>
<td>255</td>
<td>-</td>
</tr>
<tr>
<td>1993-94</td>
<td>365</td>
<td>620</td>
<td>43.1</td>
</tr>
<tr>
<td>1994-95</td>
<td>1502</td>
<td>2122</td>
<td>311.5</td>
</tr>
<tr>
<td>1995-96</td>
<td>2635</td>
<td>4757</td>
<td>75.4</td>
</tr>
<tr>
<td>1996-97</td>
<td>3841</td>
<td>8598</td>
<td>45.8</td>
</tr>
<tr>
<td>1997-98</td>
<td>5719</td>
<td>14317</td>
<td>48.9</td>
</tr>
<tr>
<td>1998-99</td>
<td>18678</td>
<td>32995</td>
<td>226.6</td>
</tr>
<tr>
<td>1999-00</td>
<td>81780</td>
<td>114775</td>
<td>337.8</td>
</tr>
<tr>
<td>2000-01</td>
<td>149050</td>
<td>263825</td>
<td>82.0</td>
</tr>
<tr>
<td>2001-02</td>
<td>197653</td>
<td>461478</td>
<td>33.0</td>
</tr>
<tr>
<td>2002-03</td>
<td>255882</td>
<td>717360</td>
<td>29.0</td>
</tr>
<tr>
<td>2003-04</td>
<td>361731</td>
<td>1079091</td>
<td>41.0</td>
</tr>
<tr>
<td>2004-05</td>
<td>539365</td>
<td>1618465</td>
<td>49.1</td>
</tr>
<tr>
<td>2005-06</td>
<td>620109</td>
<td>2238565</td>
<td>14.9</td>
</tr>
<tr>
<td>2006-07</td>
<td>1105749</td>
<td>3344314</td>
<td>78.3</td>
</tr>
<tr>
<td>2007-08</td>
<td>1227770</td>
<td>4572084</td>
<td>11.0</td>
</tr>
<tr>
<td>2008-09</td>
<td>1609586</td>
<td>6181670</td>
<td>31.1</td>
</tr>
<tr>
<td>2009-10</td>
<td>1586822</td>
<td>7768492</td>
<td>-1.4</td>
</tr>
<tr>
<td>2010-11</td>
<td>1196154</td>
<td>8964626</td>
<td>-24.6</td>
</tr>
<tr>
<td>2011-12</td>
<td>1148000</td>
<td>10112626</td>
<td>-4.0</td>
</tr>
<tr>
<td>2012-13</td>
<td>4451434</td>
<td>14564060</td>
<td>-3.23</td>
</tr>
<tr>
<td>2013-14</td>
<td>5432545</td>
<td>2356426</td>
<td>3.66</td>
</tr>
</tbody>
</table>

**Source:** State of sector report, 2013-14.

Table 1.2 demonstrate the top ten states of India in terms of Self Help Groups with loan outstanding and disbursement for the year 2014-15. In 2015, Andhra Pradesh have highest number of SHGs with 135672 as the loan outstanding, followed by Tamil Nadu which is 511859, West Bengal with an outstanding of 494166, Karnataka with an outstanding loan of 379305 and followed by Odisha with an outstanding of 277955. Some states such
INTRODUCTION

as bihar, Kerala and M.P. showed less number Self Help Groups .if we talk about the number of Self Help Groups (SHGs ) with total disbursement ,Andhra Pradesh has first with total disbursement of 484292SHGs in 2015 which is followed by Tamil naidu and by karnataka. On this low growth rate NABARD has taken some special measures for the development and growth of such states.

Table 1.2: Top Ten States under SHG- Linkage Programme in India

<table>
<thead>
<tr>
<th>Name of the state</th>
<th>No. of SHGs with Loan Outstanding</th>
<th>No. of SHGs with Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>140095</td>
<td>1356720</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>514203</td>
<td>511859</td>
</tr>
<tr>
<td>West Bengal</td>
<td>382942</td>
<td>494166</td>
</tr>
<tr>
<td>Odisha</td>
<td>314669</td>
<td>277954</td>
</tr>
<tr>
<td>Karnataka</td>
<td>226978</td>
<td>379305</td>
</tr>
<tr>
<td>Bihar</td>
<td>223033</td>
<td>185309</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>214012</td>
<td>219651</td>
</tr>
<tr>
<td>U.P</td>
<td>212922</td>
<td>228646</td>
</tr>
<tr>
<td>Kerala</td>
<td>159843</td>
<td>153336</td>
</tr>
<tr>
<td>M.P</td>
<td>60815</td>
<td>65358</td>
</tr>
</tbody>
</table>


In india,regarding the development and progress of microfinance programmes there is no uniformity in all the regions of india.if we compared different region of the country.it is found that the southern region has a high rate of microfinance sector in terms of formation of SHGs .eastern region has little better progress than northern , north eastern and central region which shows low progress in the sector.

Table 1.3 depicts that in 1999 there were only 78720 SHGs but in 2015 this number increased to 2723272 which is followed by eastern region with total SHGs 1221757. In 2015 central region has 383715 while western region has 315752,northern
INTRODUCTION

and north eastern region has 234357 and 173969 respectively in 2015. The total number of SGHs in all regions is 4818465.

Table 1.3: SHG Bank Linkage Programme- Regional Spread of Physical Progress (Cumulative)

<table>
<thead>
<tr>
<th>Region</th>
<th>Northern Region</th>
<th>North Eastern Region</th>
<th>Eastern Region</th>
<th>Central Region</th>
<th>Western Region</th>
<th>Southern Region</th>
<th>All India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>3222</td>
<td>196</td>
<td>9398</td>
<td>15256</td>
<td>7983</td>
<td>78720</td>
<td>114775</td>
</tr>
<tr>
<td>2000-01</td>
<td>9012</td>
<td>447</td>
<td>22252</td>
<td>28581</td>
<td>15543</td>
<td>187690</td>
<td>263825</td>
</tr>
<tr>
<td>2001-02</td>
<td>19321</td>
<td>1490</td>
<td>45892</td>
<td>48181</td>
<td>29318</td>
<td>317262</td>
<td>461478</td>
</tr>
<tr>
<td>2002-03</td>
<td>34923</td>
<td>4096</td>
<td>90893</td>
<td>81583</td>
<td>42180</td>
<td>463712</td>
<td>717360</td>
</tr>
<tr>
<td>2003-04</td>
<td>52396</td>
<td>12278</td>
<td>158237</td>
<td>127009</td>
<td>54815</td>
<td>674356</td>
<td>1079091</td>
</tr>
<tr>
<td>2004-05</td>
<td>86018</td>
<td>34238</td>
<td>265628</td>
<td>197365</td>
<td>92266</td>
<td>938941</td>
<td>1618456</td>
</tr>
<tr>
<td>2005-06</td>
<td>133097</td>
<td>62517</td>
<td>394351</td>
<td>267915</td>
<td>166254</td>
<td>214431</td>
<td>2238565</td>
</tr>
<tr>
<td>2006-07</td>
<td>182018</td>
<td>91754</td>
<td>525881</td>
<td>332729</td>
<td>270447</td>
<td>1522144</td>
<td>2924973</td>
</tr>
<tr>
<td>2007-08</td>
<td>134783</td>
<td>103424</td>
<td>753048</td>
<td>326763</td>
<td>446550</td>
<td>1861373</td>
<td>3625941</td>
</tr>
<tr>
<td>2008-09</td>
<td>166087</td>
<td>117609</td>
<td>893126</td>
<td>326602</td>
<td>357775</td>
<td>2283992</td>
<td>4145191</td>
</tr>
<tr>
<td>2009-10</td>
<td>152491</td>
<td>133785</td>
<td>1027570</td>
<td>497922</td>
<td>457476</td>
<td>2582112</td>
<td>4851356</td>
</tr>
<tr>
<td>2010-11</td>
<td>149108</td>
<td>150021</td>
<td>1105530</td>
<td>358872</td>
<td>316821</td>
<td>2706408</td>
<td>4786763</td>
</tr>
<tr>
<td>2011-12</td>
<td>212041</td>
<td>159416</td>
<td>985329</td>
<td>352452</td>
<td>289472</td>
<td>2355732</td>
<td>4354442</td>
</tr>
<tr>
<td>2012-13</td>
<td>213955</td>
<td>143660</td>
<td>1020656</td>
<td>362521</td>
<td>295451</td>
<td>2415191</td>
<td>4451434</td>
</tr>
</tbody>
</table>

Source: SBLP, Status of Microfinance, Various Year, NABARD

2. Small Industrial Development Bank of India

Small industrial development bank of India. In 1992 SIDBI has also launched its bank linkage programme in march 1994. SIDBI formulated the micro created scheme In 1999 by the incorage of success of pilot faces MCS the SIDBI bank lunched SIDBI foundation for micro created (SFMC)under SIDBI micro finacial insocative the cunulation dispersement was rupees 704.43 cr. Up to 31 march 2013. on 31 march 2013 the total outstanding of micro created of the bank stood at rupees 1810.92 cr. upto 31 march 2013 102 numbers of MFIs assiceted by SIDBI and having loan outstanding with bank the SIDBI assiistence scheme has benefited to more than 322 lakh this adventage people and most of the benificiaries IMEFscheme some total of rupees 104.25cr upto 31
march 2013 has been sanctioned said scheme and this scheme become operational has par union budge 2011-12 out of which upto 31 march 2013 Rs 73.2 Crore disbursed.the total number of benefacaries assist that during the year 2008-09 by SIDBI were 19.62 lakh and 2012-13.the total benefaciries were 21.73 lakh the total disbursement during the year 2009 was 1741.61 Crore and a loan portfolio of Rs 2136.89 Crore in 2009. The total amount of Rs.1810.92 Crore was sanctioned by SIDBI out of which only Rs.335.06 Crore has disbursed up to 31 march 2013.

3. **Rashtriya Mahila Kosh (RMK):** This RMK is a national level mechanism. The purpose of this mechanism is to meet the micro-credit needs of poor household and assist low income women in the formal sector. This Rashtriya Mahila Kosh worked under the ministry of women and child development. From the start of Rashtriya Mahila Kosh in 1993 to till 2015 a total credit worth Rs. 360 Crores which was sanctioned and benefited more than 7,35,239 women get benefited upto 2014-15.through 1510 NGOs spread over the country.the recovery rate of RMK is also far better that is 90 to 95 percent.it also ventured to develop an institution at a gross root level with the establishment of Self Help Groups for expanding its credit services. In the year 2014-15 RMK in all over india has sanctioned a total amount of Rs.360 Crores and out of which Rs.302 had been disbursed upto the year 2014-15. Total 1510 NGOs are working through this RMK. Out of the total benefaciries the women beneficiaries were 735239 in 2014-15. Total states covered under this scheme (RMK) since 2014-15 were 28 and total resource centres were

4. **Microfinance Institution**

Microfinance and was promoted by Government, Banks, NGOs and individuals. In 2002 the first microfinance bank namely AGA KHAN was established in india. But the microfinance industry was present in india 1970. The annual growth rate of the sector for the last five year is 93%.the service provided by the Microfinance institution are remittance, micro-credit, economic development , saving, insurance and non-financial services etc.
The bank financed 453 microfinance institutions with a bank loan of Rs.49658.68 Crore and outstanding loan of Rs.98532.37 Crore during the year 2011-12. The data furnished by Sa-Dhan for the period of 2012-13 the active client of microfinance institution were 2.75 Crore with outstanding loan of Rs 22300 Crore.

Table 1.4: Demonstrate the Top Ten microfinance institution all over India. SKS is leading in the sector with the total 4.26 million client in 2012. The total outstanding loan amount was Rs.16.69 billion in 2012. The other most important and major players and microfinance institution in the microfinance sector are BANDHAN, SHARE, EUQITAS, SKDRDP, UJJIVAN, GRAMAVIDIYAL, BASIX and CASHPOOR. The data given below in the table shows the loan outstanding and client outreach.

Table 1.4: Top 10 Microfinance Institutions by Outreach

<table>
<thead>
<tr>
<th>Year</th>
<th>Outreach (Rs. Millions)</th>
<th>Outreach Growth (%)</th>
<th>Loan Outstanding (Rs. Billion)</th>
<th>Loans Growth (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BANDHAN</td>
<td>3.25</td>
<td>3.62</td>
<td>11</td>
<td>25.07</td>
</tr>
<tr>
<td>SPANDANA Spoorthy</td>
<td>4.19</td>
<td>3.44</td>
<td>-18</td>
<td>34.58</td>
</tr>
<tr>
<td>SHARE Microfinance Ltd.</td>
<td>2.84</td>
<td>2.16</td>
<td>-24</td>
<td>20.65</td>
</tr>
<tr>
<td>EQUITAS Microfinance</td>
<td>1.53</td>
<td>1.19</td>
<td>-22</td>
<td>7.94</td>
</tr>
<tr>
<td>SKDRDP</td>
<td>1.38</td>
<td>1.02</td>
<td>-26</td>
<td>9.58</td>
</tr>
<tr>
<td>UJJIVAN</td>
<td>0.84</td>
<td>0.82</td>
<td>-2</td>
<td>6.25</td>
</tr>
<tr>
<td>GRAMA VIDIYAL (ASA)</td>
<td>0.93</td>
<td>0.82</td>
<td>-12</td>
<td>5.2</td>
</tr>
<tr>
<td>BASIX</td>
<td>1.53</td>
<td>0.57</td>
<td>-63</td>
<td>12.49</td>
</tr>
<tr>
<td>CASHPOOR</td>
<td>0.43</td>
<td>0.46</td>
<td>7</td>
<td>2.38</td>
</tr>
</tbody>
</table>

Source: Data from MIX.org
1.19 THE FUTURE OF MICROFINANCE IN INDIA

Up to the early millennium, poverty remains to be the biggest problem of the world. One-sixth of the global population or about one billion people live in an extreme poverty. They struggle daily for survival. They suffered from lack of nutrition, health, water and sanitation, shelter and other basic needs for survival. In order to end the poverty, the 191 UN members signed the United Nations Millennium Development Goals (MDGs) in 2000. The first goal of the MDGs is to eradicate extreme poverty and hunger. To achieve this goal, a target has been has to be set that is, to reduce by half the proportion of people living on less than a dollar a day by 2015. If the target can be realized, there will be an opportunity to end the extreme poverty by 2025. It means that poverty is the greatest challenge of global society. The greatest challenge to alleviate poverty can be reflected through the contemporary poverty situation in Indonesia and India where a huge number of people lives below the poverty line. Before the economic crisis hit Indonesia in 1997, the number of poor people had significantly decreased. There was clearly a sharp reduction in both urban and rural poverty from 1984 to 1996. The total poverty rate dropped from 56.7% in 1984 to 17.4% in 1996, a reduction of 39.3 percentage points in a twelve-year period. However, the economic crisis has evidently reversed the achievement of poverty reduction. Poverty in both urban and rural areas increased again from 1996 to 1999. The total poverty rate in 1999 was 27.0%, while urban and rural poverty rates were 16.3% and 33.9% respectively. Although there was a debate on the effectiveness of economic recovery, Central Bureau of Statistics (CBS) noted that the poverty rate decreased during 1998 - 2005. By 2002, the poverty rates in both urban and rural areas were the lowest since 1984. The national poverty rate was 9.8%; the urban poverty rate was 4.2%; and the rural poverty rate was 14.2%. During the period of 2002- 2004, the number of poor people dropped from 23.4% to 18.2% in 2002, 17.4% in 2003, and 16.66% in 2004. However, during the last three years there has been no significant achievement in reducing the number of poor people, and even since 2005 the number of the poor has significantly increased (INFID, 2007). By February 2005, CBS noted that the number of poor people was 35.10 million (15.97%) out of 220 million total population. During the period of 2005-2006, as released by CBS in September 2006,
the national poverty rate increased by 2.22%, from 15.97% in 2005 to 17.75% in 2006. By March 2006, the number of the poor recorded to 39.05 million out of the 222 million total populations (Kompas, 2 September 2007). In achieving the first goal of the MDGs, the Government of Indonesia plans to reduce the poverty level to 7.2%. In India, according to the National Commission, the incidence of poverty has decreased on the basis of household consumer expenditure surveys. Between the periods of 1973-74 and 1999-2000, the incidence of poverty expressed as a percentage of people below the poverty line declined continuously from 54.9% to supposedly 26%. However, the pace of reduction in poverty varied considerably during.

This period significant progress was made in poverty reduction especially during 1980s. The number of people below poverty line decreased from a high number of 328.9 million in the 1970s to 307.1 million towards the end of the 1980s. The percentage of population in poverty decreased from 54.9% in the early 1970s to 39% during the second half of the 1980s. However, in the early 1990s, as a consequence of financial crisis in 1991, there was a reversal in some of these gains as the number of people below poverty line increased to 320 million. During the period of 1999-2000, according to the Planning Commission, there was a substantial decrease in poverty in terms of the number of the poor (down to 260 million) and the poverty incidence (down to 26.1%). In regard to the first goal of MDGs, India aims to reduce the proportion of people below poverty line from nearly 37.5% in 1990 to about 18.75% by 2015. As in 1999-2000, the poverty headcount ratio is 26.1% with poverty gap ratio of 5.2%, the share of poorest quintile in national consumption is 10.1% for rural sector and 7.9% for urban sector and the prevalence of underweight children is of the order of 47% (Government of India, 2006). In order to achieve the first goal of MDGs, it is broadly assumed that NGOs have important roles. The role of NGOs in reducing poverty is not a new issue. Especially since the post World War II, NGO involvement in poverty reduction has become a mainstream. They have been engaged in relief, emergency or longer-term development work or the mixture of all three. Although the evidence on NGO performance in poverty alleviation is mixed, up to now, it is generally assumed that NGOs have the institutional capacity to reduce poverty. It is also frequently argued that compared to the government,
NGOs have comparative advantages. As stated by van der Heijden, their comparative advantages are: “their ability to deliver emergency relief or development services at low cost, to many people, in remote areas; their rapid, innovative and flexible responses to emerging financial and technical assistance needs at the grass roots level; their long-standing familiarity with social sector development and poverty alleviation; their experience with small-scale development projects as well as with those requiring a high degree of involvement by, and familiarity with, the concerned target groups” (as quoted by Riddell & Robison, 1995: 36). As part of their commitment to realize the targets of MDGs in 2015, the NGOs have greater opportunity to increase their roles in reducing poverty especially in the developing countries such as India and Indonesia.

1.20 MICROFINANCE IN JAMMU AND KASHMIR

The State of Jammu and Kashmir has its own economic and cultural ethos. Geographically as well as culturally, the state can be divided into three main regions. The Jammu Region being adjacent to Punjab is dominated by Punjabi culture, Kashmir Region is dominated by Muslim population and Ladakh Region has mainly Buddhists. The microfinance programme started in the state as early as it took its roots in other states, but the progress in SHG formation and linkages is far behind than in many other states, which could be mainly due to very low level of poverty of nearly 3.5 per cent. The state has also faced unrest due to militancy during last two decades, as a result of which the overall economic growth slowed down. Another reason could be poor publicity of the programme and low understanding of the concept. There could be some other factors/reasons for poor progress of SHG-Bank Linkage Programme. The outreach of formal credit delivery system to the rural poor is still in nascent stage in the state. A number of studies were conducted internally by NABARD as well as with the help of outside agencies to evaluate the impact of SHG in various states. NABARD, in 2006 conducted a study to see the impact of microfinance for micro enterprises in the state of Jammu and Kashmir. The study was conducted in two major districts namely Jammu and Kathua. The focus of study was on promotion of income generating activities and micro enterprises by Self Help Groups.
Table 1.5: Progress under SHGs Bank Linkage Programme in J&K State.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Jammu &amp; Kashmir</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Number of SHGs provided with bank loan during 2014-15</td>
<td>2175</td>
</tr>
<tr>
<td>2</td>
<td>Cumulative number of SHGs provided with bank loan up to 31.03.2015</td>
<td>4797</td>
</tr>
<tr>
<td>3</td>
<td>Number of NGOs functioning as SHPI (Self help Promoting Institution) with NABARD grant</td>
<td>39</td>
</tr>
<tr>
<td>4</td>
<td>Number of RRBs (Regional Rural Banks) functioning as SHPIs</td>
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<tr>
<td>5</td>
<td>Number of CCBs (Central Cooperative Banks) functioning as SHPIs</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Field Survey

Table 1.6: List of Agencies associated with SHPI Programme for formation of SHGs

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the NGO</th>
<th>Block/District</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gramudyog Hastkala Kendra, Hiranagar</td>
<td>Kathua</td>
</tr>
<tr>
<td>2</td>
<td>Sudhar Sabha Committee, Udhampur</td>
<td>Udhampur</td>
</tr>
<tr>
<td>3</td>
<td>National Institute of Education &amp; Technical Arts, Jammu</td>
<td>Jammu</td>
</tr>
<tr>
<td>4</td>
<td>Priyadarshini Indira Mahila Block Society, Jammu</td>
<td>Jammu</td>
</tr>
<tr>
<td>5</td>
<td>Shiv Sadhana, 564, Subash Nagar, Jammu</td>
<td>Jammu</td>
</tr>
<tr>
<td>6</td>
<td>Shankar Rural Women Development Society, Kathua</td>
<td>Kathua</td>
</tr>
<tr>
<td>7</td>
<td>SAHARA, Satwari, Jammu</td>
<td>Jammu</td>
</tr>
<tr>
<td>8</td>
<td>Mahila Welfare Committee, Satwari, Jammu</td>
<td>Jammu</td>
</tr>
<tr>
<td>9</td>
<td>National Foundation, Bathindi</td>
<td>Rajouri</td>
</tr>
<tr>
<td>10</td>
<td>Yusuf Mehrally Centre, Jammu</td>
<td>Jammu</td>
</tr>
<tr>
<td>11</td>
<td>Escorts Organization, Srinagar</td>
<td>Srinagar</td>
</tr>
<tr>
<td>12</td>
<td>Modern Social and Rural Development Society Samba</td>
<td>Samba</td>
</tr>
<tr>
<td>13</td>
<td>Human Welfare Foundation, Anantnag</td>
<td>Anantnag</td>
</tr>
<tr>
<td>14</td>
<td>Gramin Pragati Sangathan</td>
<td>Udhampur</td>
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<td>15</td>
<td>Nazakat Mahila Mandal</td>
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<td>16</td>
<td>Rural Artisan Welfare Society</td>
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<td>Kristu Jyoti Social Welfare Society</td>
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</tr>
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<td>19</td>
<td>Jamola Nehru Youth Club</td>
<td>Rajouri</td>
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</table>

Source: Field Survey
1.21 SCHEME FOR SUPPORTING ACTIVITY BASED GROUPS

A large component of the labour force in the economy is engaged in very small scale production activities or on small and marginal farms. Due to demographic factors and wide changes in economy, the number of small, marginal and tenant farmers is increasing every year. In future, the production of food grains may get concentrated in small, marginal and unirrigated farms when the better endowed farms switch to more profitable commercial crops having a ready urban or export market. Some of these forces impacting agriculture may require that in future a significant part of the responsibility of ensuring national food security may fall on these small and tenant operated farms. Operators of the small farms also form a large proportion of those who do not have access to formal banking services. While the financial needs of the very poor are partially covered with the establishment of the mechanism of Self-Help Group Bank Linkage Programme (BLP), the small and marginal segment entities do not have an appropriate credit product addressing their needs. These small farms have the potential to increase their production, realize better incomes and contribute to the national economy to their full potential if they can develop better access to markets and credit. Scheme for activity based groups has been formulated to help formation and nurturing of groups based in small scale activity engaged in similar economic activities to improve the efficiency of their enterprises and for getting better terms from the market through economies of aggregation and scale.

1.22 STATUS OF SELF HELP GROUPS IN J&K STATE

The state of Jammu and Kashmir figured on the SHG map of India in the year 1998 with the formation of 2 SHGs. Thereafter, the SHG bank linkage programme has made consistent progress though on a moderate scale. As on 31 March 2014, 3371 SHGs have been linked with different banks in the state.
### Table 1.7: District-wise status cumulative position of SHGs credit linked as on 31 march 2014.

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1.23 DEVELOPMENT OF MICROFINANCE PROGRAMMES IN JAMMU AND KASHMIR

In Jammu and Kashmir, a series of efforts have been taken nowadays by both government and non-government agencies to provide timely and required assistance to young and aspiring entrepreneurs in the state. The galloping problem in the concerned state is that of unemployment and unfavourable conditions which adversely affects the business sector and reducing the employment opportunities. The various institutions which are mainly concerned with microfinance development in Jammu and Kashmir state is listed below:

1. **Jammu and Kashmir Entrepreneurship Development Institute (JKEDI):**
   JKEDI is one of the premier agencies involved for creating awareness and for promoting the entrepreneurship in Jammu and Kashmir state. It has been conducting the various about entrepreneurship development in the state. It is engaged in entrepreneurship development programmes in every district of the state which are being coordinated by its respective district coordinators in the almost every district of the state. Nowadays for promoting entrepreneurship, JKEDI is conducting entrepreneurship awareness programmes (EAP) in the colleges in order to install entrepreneurship spirit among the students who will turn out to be potential future entrepreneurs by providing them adequate information about the various schemes and incentives of starting their own enterprises. In order to provide the information to these entrepreneurs about the various schemes and procedures involved in the process of getting the loans, JKEDI has launched a massive drive known as Loan Fair Melas throughout the state. These Loan Fair Melas are being organized in every district to disseminate the information to the local entrepreneurs about the availability finance.

   Although JKEDI was established in 1997, but the institute formally started operating in the state form February 2004. It is operational through its regional centers at Jammu, Kashmir and Ladakh. IN every district it has established its districts offices to provide entrepreneurship knowledge to the local aspirants about the entrepreneurship.
Objectives of JKEDI: Following are the main objectives of the JKEDI

- Inculcate entrepreneurial values amongst the educated youths and motivate them to take entrepreneurship as a viable career option.

- Get the entrepreneurship courses introduced in the education system to increase the number of entrepreneurs and create jobs for others.

- Create conducive and supportive environment for entrepreneurship by orienting bankers and other officials of the support system.

- Institutionalize entrepreneurship development through cadres of competent trainer motivators.

JKEDI also helps in implementation of various schemes which have been framed to help the entrepreneurs of the state in gaining the access to finance and start their own enterprises. This includes the National Minority’s Development and Finance Corporation (NMDFC) term loan scheme. According to the scheme, entrepreneurs who fall in the age bar of 18-45 years hailing low income background of their families and who represent minority community are to be provided with a soft loan of up to 5 lacs. JKEDI also has its role in implementation of seed capital fund scheme (SCFS) which is part of government of Jammu and Kashmir Sher-e-kashmir and employment and welfare programme for the youths (SKEWPy). It aims at providing an integrated package of support for aspiring entrepreneurs of state between age group of 18-37 years. The support may be in the form of entrepreneurial training, project development and financing. Financial support through the seed capital fund schemes (SCFS) in the arrangement between Jammu and Kashmir government and J&K bank. According to the pre conceived agreements, 35% of the project cost in the form of seed capital is being provided by the government of Jammu and Kashmir and the remaining 65% by the J&K bank in the form of loans at an interest rate of 9% per annum. Trainings conducted by Jammu and Kashmir Development Institute (JKEDI) under various schemes (as on 31-jan-2015).

Various promotional schemes implemented by JKEDI:

- **Seed Fund Capital Schemes (SFCS):** It was started by the government of Jammu and Kashmir in the year 2010. It is only funding scheme in the state which
INTRODUCTION

aims directly providing funds to the youth. The government of Jammu and Kashmir was shown a large interest in the scheme to provide and easy access to the entrepreneurs in starting the business enterprises. However the scheme has not yet fully achieved the preconceived objectives. Delay in processing of loan in J&K banks is one of the main constraints in the way of successful implementation of the aforesaid scheme. The government of the state is trying to work out a mechanism to improve the performance of Seed Fund Capital Schemes (SFCS).

• **Sher-I-kashmir Employment and Welfare Programmes:** This programme was initiated by the government to create avenues of self employment in the state for youths who are unemployed and possess the adequate education levels. During this programme, prospective entrepreneurs are charged minimum interest rate of 6% on the credit provided to them to enable them to start their own ventures. Single window pattern is being followed by the institute while implementing it. Under this programme, following pattern is being followed:

1. Share of center=85%
2. Share of state government=10%
3. Share of beneficiary=5%
4. Interest rate changed=6%
5. Repayment of the funds is being completed in 20-24 equal instalments quarterly. The payback time period of the scheme is almost 5-6 years.

2. **Districts Industries Centres (DICs):** Districts industries centres were launched in 1978 in India. There are about 400 DICs in India. The main focus of these centres is to provide adequate administrative support to the budding entrepreneurs with respect to promotion of their enterprises in the specified jurisdiction of these centres, whether in rural or urban areas. These centres act generally as the chief coordinating centres for various government departments and other supporting agencies involved therein. At the district level, these districts industries centres provide a single window interacting agency to help the entrepreneurs with all the information at the district level. These DICs usually carry out the surveys to assess the potential of a district with respect to industrial development taking into
account raw material availability, manpower, infrastructure, and product demand etc., This survey provides a basis for advising budding entrepreneurs.

The role of DICs can be enlisted as follows:

- Promotion of new enterprises
- Training through entrepreneurship Development programmes (EDPs)
- Financial assistance through various self employment schemes
- Approval of project reports of various types
- Procurement/allotment of raw materials
- Technical and skill based support system.

2. **J&K Bank:** J&K bank is the premier financial agency involved in the state to provide financial assistance to both budding and existing entrepreneurs. It has been playing a dynamic role in the state in the process of microfinance entrepreneurship development. It in collaboration with the state government has initiated various subsidized schemes to solve the problems of entrepreneurs regarding he financial aspect. Various experts from the bank are being invited by the promotional agencies to provide the firsthand knowledge about the loan procedures by interacting with the participants directly and help in clearing the doubts of the aspiring entrepreneurs in the state. In order to provide the training to the below poverty line persons, bank has launched an institute known as Rural Self Employment training institute. The institute helps these persons to start their own business units thereby enhancing the economic conditions of the later. The institute also provides the necessary information to these youths about the various schemes which have been framed to promote entrepreneurship in the state of Jammu and Kashmir. Hence it could be asserted that J&K Bank is playing a pivotal role in the promotion and development of microfinance entrepreneurship in the state.
CONCLUSION

There is no doubt that microfinance proved to be an important tool in reducing poverty among the beneficiaries and help them to come out of the poverty and providing them employment. Microfinance helps in improving the living standard of the beneficiaries, their education standard and income level. Microfinance also proved to be a great tool for the empowerment of women in the world as well as India. But there are some black spots are also on the performance of microfinance programmes such as high interest rate, loans to selected clients, high intervention of government, lesser amount as loan, formalities for getting loan, not properly regulated etc. From the above discussion we can concluded that Microfinance is not yet at the center stage of the Indian financial sector. The information, capital and tools to deal with these issues have however now exist in India as well as in the state of Jammu and Kashmir, although they are not yet fully line up. With a more enabling environment and surge in economic growth, the next few years promise to be exciting for the delivery of financial services to the poor people. It is expected that in the following years, there will be considerable deepening of microfinance in this direction along with simultaneous drives to reach and serve the poorest of the poor.