INTRODUCTION

Microfinance is a small source of financial service for poor people and small entrepreneurs lacking access to banking and related services. It is a worldwide movement whose object is ‘a world in which as many poor and near poor households as possible permanent access to an appropriate range of high quality financial services, including not only credit but also insurance and savings.

The major objective of microfinance for policy planners in India is to search products and strategies for delivering financial services to the poorer and small entrepreneurs mostly women mainly of backward areas in a sustainable manner that generally lack banking related services. The source of microfinance in India has been viewed as a development tool which would alleviate poverty, empower women and enhance growth of the country through financial inclusion. In our society Women face gender specific barriers like access education, health, employment etc. Microcredit are available solely and entirely to this target group of women. The first organization to introduce the concept of microfinance to enhance the agriculture and rural development activities in India was NABARD. After that microfinance was steadily improved growing through SHGs. Presently Government of India with RBI have done wonderful job for easy accessibility of financial services to poor and small businesses. Microfinance sector has made substantial progress over the past few decades and brought number of people above poverty line in India. This sector play a very important role in beginning and expanding the micro business by offering micro loans to lower income groups which generate income and employment to local communities.

Microfinance is dominated by Self Help Group (SHGs) as an effective mechanism for providing financial services to the “Unreached rural Poor women”, and also in developing their collective self-help capacities leading to their empowerment. Wide progress in SHG formation has
now turned up women empowerment movement across the country. Microfinance is necessary to eradicate exploitation, develop confidence for Scio economic self-reliance of the rural poor, particularly among rural women and potentially a very wide and significant contribution to gender equality and women empowerment. Through their contribution to strengthening ability among women to earn an income, these programmes have wide potential to initiate a series of ‘virtuous spirals’ of economic empowerment, and wider social and political empowerment. According to James Roth, “Microfinance is a bit of a catch all-terms. Very broadly, it refers to the provision of financial inclusion to target at low income groups. These financial services includes credit insurance and saving products. A series of neologism has emerged from the provision of these services name micro credit, micro saving and micro insurance.” The Canadian Industrial Development Agency (CIDA) explains microfinance as, “the provision of wide range of financial services to poor, low-income households and micro-enterprises usually lacking access to banking services.

Microfinance sector has grown rapidly over the last few decades. Mohammad Yonus from Bangladesh is credited with laying the foundation of Grameen Bank; Bangladesh in 1976. In India, there has been impressive growth in microfinance activities over past few decades or more. Microcredit does not directly address structural problems facing Indian society and the economy, and it is not so much effective as it will be when economies of scale are realized and a more supportive policy environment is created (Hume & David 2008). Microfinance is one of the few markets-based, scalable anti-poverty and women empowerment solutions that are in place in India today, and the value argument to scale it up to meet the overwhelming need is compelling. Microfinance has emerged as a strong tool for financial inclusion that links low comminutes with banks. It’s crucial for achieving inclusive economic process and solely such growth is property.
The basic idea of microfinance is to provide small credit to the poor people who otherwise would not have access to banking services. Microfinance programme extend small loans to very poor people (particularly women) for self-employment projects that generate income and allow them to take care for themselves and their families. This programme is working in many developing countries. About the concept of microfinance programme, impact assessment studies have been done by many authors in different countries like India, Bangladesh, Pakistan, Nepal, Thailand and many other countries of South Asia and Africa. The microfinance literature offers a diversity of findings relating to the type and level of impact of the programme. There are various studies on microfinance programme which shows the significant positive impact in increasing employment, reducing poverty empowering women. As per the reports of number of studies participant households enjoy higher standard of living as compared to the non-participants. The programme reduces consumption as well as income vulnerability among its beneficiaries. Some of the studies also confirm that the programme is helpful in attaining millennium development goals by reducing poverty, hunger, infectious diseases and through women empowerment. The number of studies explained that participation in the micro finance programme has led to greater levels of women empowerment in terms of increase in economic, knowledge, self-confidence, social and political awareness, development of organizational skills and mobility, etc. Some review also show that the programme is not reaching the bottom poor people living below poverty line and the group loans are utilized for non-income generating activities such as consumption and other emergency needs. Microfinance studies also show that the women participants have limited control over the use of group loans. The microfinance review also provides mixed results about the impact of microfinance programme on the programme participants. The studies provides valuable insights into the benefits and drawbacks associated with microfinance programme.
GROWTH AND EVOLUTION OF MICROFINANCE

The history of Microfinance has existed for centuries around the world. Almost everyone in modern world, no matter how poor, needs and uses financial services all the time. Many people works as moneylenders that usually charge high interest rates on loans. There are many global examples about history of microfinance.

GENERIC EVOLUTION OF MICROFINANCE

In any country, there are underserved enterprises and households, some of them poor who may not be economically active, to small growing enterprises that provide employment in their communities (Olu, OJO 2009). In many developing countries Private, domestic commercial banking is a relatively recent phenomenon. While limited domestic banking existed in some Asian and American countries in the past century, the subsidiaries or agents of foreign banks dominated in foreign trade activity. The economy of most developing countries are characterized by the existence and operation of two financial sectors alongside each other, namely the formal and informal financial sectors (SHARE 2006). In the 1950s through the 1970s, economy in many developing countries were predominantly composed of state owned banks and of branches of foreign-owned commercial banks which provided short-term commercial and trade credit. The state-owned banks make their contribution in economic development priorities through a network of financial institutions such as agricultural banks, development banks, and export banks, while borrowing heavily from multilateral and foreign private banks to support these efforts. The private local banks were relatively small, and often served a closed set of business groups. The regulatory repression of formal financial markets system in most developing countries up to the 1980s, i.e. high reserve requirements, interest rate ceilings and directed credit lines, largely introduced the potential for established banks to service a higher cost and riskier micro-enterprise clientele. Banks
weren’t allowed from charging sufficiently high interest rates to cover the costs and risks of lending to this clientele. With the beginning of structural adjustment processes and financial liberalization in the 1980s, private domestic commercial banking expanded rapidly. As such, they naturally preferred the large accounts of an established clientele. When granting loans to less familiar clients, banks protected themselves with asset (mostly real estate) collateral three times the value of the loans. Although the new governing environment was more satisfactory, these new commercial bankers were unlikely provider of loans to small farmers, small businesses and micro entrepreneurs (Baydas, Mayada M. Graham, Douglas H. and Valenzuela, Liza1997). Economic theory advises that financial development can contribute to economic growth, and growth can contribute to poverty alleviation, although there is wide divergence about whether and under what circumstances this occurs. Financial development could contribute to poverty alleviation directly, by easing credit constraints on the poor, and indirectly, by fostering economic growth that benefits the poor. Microfinance is a form of financial development that is primarily focused on alleviating poverty through providing financial services to the poor. Microfinance programs have been found to increase and diversify household income, promote domestic savings, and permit “consumption smoothing” in the face of instability of income (Meagher, Patrich 2002). In one way or another, almost every country in the world has seen the need to familiarize its structure of financial services to improve outreach to the many as yet “unbanked” persons and enterprises.

**HISTORICAL PERSPECTIVE**

Microfinance is not anything new its origin is very old. Over the past centuries practical visionaries from the Franciscan monks who founded the community oriented pawnshops of the fifteenth century, to the founders of the European credit union movement in the nineteenth century and the founders of the Micro-credit movement in the 1970s have improved their practices and
built institutions designed to bring the kinds of livelihood opportunities and risk management tools that financial services provide to the doorsteps of poor people. While the success of Grameen Bank has attracted the world, it has proved difficult to replicate this success in practice. In lower density population nations, meeting the operating costs of a retail branch by serving nearby customers has proven considerably more challenging. Microfinance is neither a recent development, and nor it is the development of regulation and supervision of microfinance institutions. Microfinance started in Europe in 16\textsuperscript{th} century and In Ireland, loan funds emerged in the 1720s, using peer monitoring to enforce the repayment in weekly installments of initially interest free loans from donated resources. From 1778, self-help, regulation and supervision created the world’s largest microfinance system. Microfinance with the poor in Germany has three branches and all are informal they are community based savings funds; and two movements of savings and credit cooperatives, one rural and one urban. In the later part of 18\textsuperscript{th} century institution started. Having learned from the early Irish charities that charity is not sustainable, the first thrift society was established in Hamburg in 1778 and the first communal savings fund (Sparkasse) in 1801 (Seibel, Hans Dieter, 2000). The institution of rotating savings has started in 16\textsuperscript{th} century, when Yoruba slaves carried it to the Caribbean, as part of their mental luggage or social capital. Both the term esusu and the practice are used in present time, as esu in the Bahamas, susu in Tobago or sou in Trinidad. Among the Yoruba in Nigeria today, almost every one is a member in one or several esusu. The institution exists all over West Africa as well as in many other parts of the world and is an integral part of the local micro economy and is called in its own vernacular term: arisan in Indonesia, paluwagan in the Philippines, gameya in Egypt, ekub in Ethiopia, cuchubal in Guatemala, etc (Mosedala, Mosley p 2003). Professor Yunus writing in his autobiography (Yunus, 1999), and as Fuglesang and Chandler (1986) record, the history of the Grameen Bank
lie in the dilemma that the Yunus found himself facing in the mid-1970s. After completing his PhD in the USA, he had returned to Bangladesh to lecture in economics at Chittagong University. However, he found himself in a decline the how his oral economic theory could meet the needs of the thousands of hungry and deprived people he saw in rural Bangladesh. The country had faced a vicious war of independence that had destroyed its infrastructure and its productivity and murdered much of its intelligentsia. The famine of 1974 fallowed after the war and the country was dependent on food aid. Human suffering on a vast scale could be witnessed in any town or village. Yunus could try to help people by giving them charity, but he wondered how his economic theory could be applied practically his training postulated that if people could be given credit they could increase their profitability, or diversify their economic activities, in ways that would allow them to raise their incomes. So, if he could lend his money to the poor people his money they could improve their lives and pay him back. Then, he could lend the money to other poor people and thus assist many more people than could be achieved by simply giving his money away. It was an interesting theory, but his initial experiments seemed to show it was invalid and was not successful. Quite a few of the men and women he lent to did not repay their small loans (sums of US$10 or 20). He thought that this was because they had not used they money property or poorly planned microenterprises or were not trustworthy. This result, he introduce to experiment with ways of (to approve and supervise loans) to ensure they would be used for productive investments; and to select trustworthy clients, so that they would repay their loans. Eventually he came up with a new model that worked and it had a number of features:

- Lending loan to poor, rural women (as they were less likely than men to use loans badly and were more reliable for repayment).
- Organizing women cells of five members that took collective responsibility for each other’s loans.
- Establishing Kendro (centers’) where six cells (i.e. 30 women) met, at a fixed time each week, to apply for loans and make repayments.
- Charging a higher rate of interest than NGO loans programmes and government schemes.
- Making sure that the clients would make compulsory micro savings each week (to create financial discipline and generate financial collateral for groups), and to make promises about their social conduct.
- In included Simple, standardised products that required regular, small repayments.
- Recruitment and training bright, young graduates to administer services (to minimize corruption).

MICROFINANCE OPERATIONS AT INTERNATIONAL LEVEL: AN OVERVIEW

According to data there are about 1400 MFIs across the world, the number of users of credit services from the sector was estimated at 96.2 million. The number of who used microfinance for savings exceeded the number of borrowers at 95.8 million. Among all the MFIs, Latin America had large share of 28 per cent followed by Eastern Europe and Central Asia region with 21 per cent. As for borrowers, South Asia had a share of more than 50 per cent in barrowing, and in terms of savers, the share of South Asia was highest at more than one-third. The total loan volume of the sector across the globe as of March 2015 was of the order of US$ 54.2 billion. Latin America had a lion share of 38 per cent of loan volumes and South Asia had minimum loan that is about 10 per cent which is less considering the sheer number of clients in the region. South Asian loans were typically small in size and will remain same for some time. Savings through MFIs amounted to
US$ 16 billion with 40 per cent of savings being accounted for by Latin American region. Equity to the extent of US$ 9.9 billion had been invested in the microfinance sector of which Latin America region accounted for 35 per cent followed by Eastern Europe/Central Asia with 21 per cent and South Asia with 14 per cent (Srinivasan, N. 2010).\textsuperscript{10} Stephens and Tazi (2005)\textsuperscript{11} show the total number of active borrowers in East Asia is 3.8 million and South Asia is 11.8 million. However, East Asia is 3.8 million and dominates in mobilizing savings. Their gross portfolio is some USD 1,832 million compared to South Asia with USD 959 million (Haq, Mamiza., Hoque, Mohammad and Pathan, Shams, 2008).\textsuperscript{12} Poverty and illiteracy as the two constraints in Africa in spite of it efforts have been made to make the continents active in the field of microfinance. Moreover, loan sizes are already high when expressed as a percentage of per capita GNP, and by increasing the size of loan transactions it would directly endanger the depth of outreach. Rural Africa still has lower outreach, which calls for continued efforts to improve rural and agricultural finance. Latin America is extensively covered by MFIs and records the largest volume per transaction. However, Micro Finance work essentially in urban and rural outreach every time remains low. This may be due to the lower cost of labor, compared to professional staff in Africa and Latin America. It we see staff productivity in terms of number of clients it is the same between Latin America and Africa, whereas the authors expected that the productivity in Africa is low due to constraints of infrastructure and low population density. However, employees in Latin America have loan portfolios three times larger than their African counterparts. Staff productivity in Africa is good in terms of number of loans, but the higher rates of poverty among their clients lead to lower transaction volume (Lapenu, Cecile and Zeller, Manfred 2001).\textsuperscript{13} Microfinance sector was regulated by the Central Bank directly in 40 per cent of the countries. Self-help group bank linkage programme (SBLP) seems to have hit a plateau in terms of new group linkage which grew by about
8.5 per cent. The credit growth is increased by 20 per cent over the previous year. The number of groups linked at the end of March 2010 stood at 4.58 million and the amount of loans outstanding at Rs. 272.66 billion. Asian microfinance has increased globally and it has increased financial sector. According to the 2005 global survey of 446 microfinance institutions (MFIs) conducted by the Microfinance Information Exchange, Inc. (MIX), (Benchmarks, 2005).\textsuperscript{14} Asian institutions has grown over 4 billion dollars in loans and served an impressive 22.5 million borrowers. While as Asian institutions has less than one fourth of the total global data set, they serve over two thirds of the total borrowers (Shastri, Rajesh Kumar 2009).\textsuperscript{15}

**DEVELOPMENT STAGES OF MICROFINANCING**

It concerns the 70s of the last century. The development of the MFIs has been witnessed right in the period of decolonization when new states originated. Great banks of the metropolitan countries helped MFIs in this period and gave rise to the relative vacancy in providing basic micro financial services to the rural poor in developing countries and the influence of the ‘Green Revolution’ on the agricultural production disappeared. By this “revolution” contributed by new technologies to the higher level of the agricultural basic industry, but the income of the poor doesn’t increase. Financial income reinforced mainly the tertiary sphere; especially middlemen, usurers etc. The poor rural areas in developing countries were not reinforced and the case was opposite. Important personalities, who have merited in the highlighting and development of the microfinance in the 70s of the last century, were above all Muhammad Yunus (Grameen Bank)\textsuperscript{16}, John Kaith Hatch (FINCA system), Akhtar Hameed Khan (MARADA 2002)\textsuperscript{17}, Michaela Walsh (WWB–Women’s World Banking) Ela Blatt (SEWA–Self Employed Women’s Association), and others. Development of MFIs could be dived into some important periods or stages, which overlap each other. The development of micro financial activities depends on many factors. Firstly, it needs
a stable economic environment, a permanently functional liberal program incumbent on support of the private sector as well as on the cooperation with the developed countries in the world and a stable exchange rate. The United Nations have known about this fact and therefore the UN’s Millennium Development Goals concern mainly the poverty and economic recovery in the LDCs, and this is the reason the year 2005 was declared the International Year of Microcredit and for this reason, Professor Muhammad Yunus was awarded the Nobel Peace Prize in 2006. The importance of microfinance in LDCs lays in the influence on poverty reduction and it also disproportionate indebtedness reduction in these countries (Robinson.s.m.2001).

A. First period

The first period is mainly known by: Providing social benefits and taking priority over the raising of the MFIs’ profitability; the money which was taken as loan is paid back, but without dividends (interest, profit); The principle of mutual guarantee in terms of Peering Groups, Self-Help Groups or in the initiative informal micro financial activities; Micro financial activities are characterized as: self-expanding, self-sustaining, and self-perpetuating; Different voluntary groupings are established (e.g. Grameen Groups, ROSCA, ASCRA); High level of motivation enthusiasm among persons who were at the beginning of this movement (e.g. Muhammad Yunus); Appeal on poverty reduction.

B. Second period

The second period accused a rapid development of the formal MFIs. Various types programme of formal microfinance institutions began to evolve in the second half of 80s of the last century. It concerns especially the South-East Asia and Latin America. The development in India is characterized qualitative change.
The coexistence of formal and informal micro finance system commonly used in LDCs is the so-called ‘financial dualism’. The modern and transparent formal system dominates in the municipal environment, but it is not helpful to the poor clients. The informal system is more active in rural areas where it is accessible to the very poor clients and although it is cheap but not transparent. The formal system is famous than the informal one in which the understanding is obvious from the financial relations between creditors and debtors. These relations are mostly based on, tribal, historical, familiar and traditional relationships. The Basic quality of these relations is honor and promise which is stronger than a written agreement or pledge. In the financial markets, both formal and informal Microfinance Institution are working parallel but just formal Institutions are distinguished by a larger scope of activities and are governed and controlled by the given public institutions. Poverty in these countries is minimized in two basic directions: The initiative ‘bottom-up, informal self-help groups, profit and non-profit MFI, the initiative ‘top-down’, profit organizations (formal MFIs or middle and large-scale financial organizations). In the opinion of the poor people, all categories are beneficial. But these are not so for middle and large scale investors, especially in the implementation of the developing programs.

C. Third period

This period is characterized not only by the ongoing growth of microfinance activities, but also by the acceleration of transforming informal types of MFIs to formal ones. There are many organizations which deal with MFIs’ acceleration of transformation. UNITUS (UNITUS is an international nonprofit organization dedicated to advancing innovative, market-based solutions to global poverty) is one of biggest and influential organization with its headquarter in Redmond (USA). The UNITUS is a global accelerator it is working with a venture capital obtained from investors in LDCs. Its function is to monitoring the MFIs and their clients; advisory services
related to micro finance activities in the LDCs, management of the training of MFIs, and acceleration of the MFIs transformation. The scope of the activities of this organization unusually large. They conducted research on India, Kenya and Mexico. It concerns three target model countries. Each of these countries has a different micro financial structure which is characteristic for the given world region. The UNITUS has recorded in September 2005 more than 475 million of the poor clients. The core of its philosophy lays in the opinion that the MFIs should be profit organizations. This vision can be only agreed in a country where, there is an appropriate economic environment, living standard and living style of the inhabitants. There should not be under estimated traditions, history and other fundamental differences which exist in different approaches of the life goals the American versus the Indian approach. The world is large and it has its own beauty; for sure, its value does not lie just in the GDP or other economic indicators etc. (UNITUS 2005)\textsuperscript{19}. The main scientific question in this period was an assessment and checking of the objective framework: ‘When is the informal MFI suitable for a transformation?’ The conditions and suitability for transformation of informal MFIs to formal ones can be categorized in the scheme of the three triangles; the institution has to meet three requirements:

- Stability maintenance of the environment.
- MFIs Outside sustainable development of the MFI; outside institution’s stability; the triangle of outside economic stability (Zeller, Meyer 1995).\textsuperscript{20}
- MFIs Inside economic sustainability; inside institution stability; the triangle of inside economic stability.

A. Critical triangle (stability of the region) characterizes a space which is suitable for formal MFIs to develop their activities. Actually, it is helpful and meets the serious needs in the given
regions: sustainable environment development, the necessity to remove hunger and the need of poverty reduction in the region.

B. Triangle of professor Zeller (outside economic stability of MFI) shows the outside stability results from the scope and quality of the provided financial and other services. It is necessary that these services have to fulfill three following requirements: financial stability which ensures sustainable development of the institution, sufficient scope and quality and the necessity of an effective impact on the clients’ rising economic prosperity and stability.

C. The inside economic stability of MFI (Triangle of MFI’s inside economic stability) concerns the three factors which are expressed in bigger financial institutions on the base of business Cash-flow. The factors are the profitability of MFI, i.e. its management in that manner that its yield is higher than costs and the MFI reaches profit; liquidity, the ability of MFI to transform its financial deposits into the liquid assets and solvency, the ability to reimburse from their usual income, eventually by releasing their common reserves, the costs and obligations even in the cases when losses happen (this enables continuing activities and does not transfer the negative economic results to the clients).

D. Fourth period: business or charity

Microfinance helps in creation of financial markets and builds up civilization structures in isolated and remote regions: that is why some banks buy at present the whole portfolios or even the whole institutions. Initially, micro finance is known by self-help and charity. In the 21st century, micro finance has attracted attention of small and middle sized investors. The number of small and poor businessmen who use microfinance services was estimated in the year 2007 at about 500–750 million in the world. Nevertheless, the potential and the needs of the developing world are still relatively neglected. In terms of financial dualism in micro financial markets, MFIs
assert more significantly. Investment is only investment in character. The capital costs mean for
the investor fulfilling of the target goal, the achievement of the presumed financial returns.

Due to rapid rising entry of financial investors into the financial markets in the poor
countryside there has been increase in the interest rates of the microcredit to the range of 30–100% per annum; e.g. Mexico-Banco Compartamos, Bolivia-Banco Sol etc. (Myelin 2008). Small informal MFIs are mostly self-help in characteristic with the charity support (‘Charity Model’) and the formal MFIs with a significant support of NGOs (as a financial intermediary), middle and large scale banks as well as other large organizations. Both informal and formal MFIs work in collaboration. ‘What change brings a strong entry of financial capital to micro finance activities in the poor regions?’; ‘Charity or business?’ these are the questions that are often asked.

MICROFINANCE IN INDIA

Mahatma Gandhi, the Father of Nation stated that ‘India lives in its villages’. Economic Development of the country is possible only when there is development of villages. The percentage of rural population is more than the urban population as per the census 2011. According to the census reports, the rural population in India is sixty five per cent and urban population is thirty five per cent. Agriculture is the main occupation for the rural people which include farmers and agricultural labor. It is important to note that agriculture is a seasonal activity and its operations are short that is two hundred and seventy days in a year. For the remaining part of the year, the wage earner has to idle and without earnings there by cannot help their family. Various schemes introduced by the government to combat rural unemployment were not successful. The role of Indian women is peculiar in the family. They are the custodians of family maintenance and they
don’t have any financial support. The male member of the family controls the financial aspects in
the family they don’t leave any scope for women to participate in financial decision-making.
During the days of seasonal unemployment in agricultural sector, she finds it very difficult to
maintain the family in an orderly manner because she has to remain dependent on the earnings of
male members for meeting the day to-day expenditure. Her wishes, desires and ambitions remain
unfulfilled in the absence of adequate money available at her disposal. This situation called for
providing the average Indian women with an opportunity to earn money on her own and empower
herself financially and to make her independent. Considering the need for women empowerment,
the government has introduced several schemes to give financial freedom and earning
opportunities to them. In this chapter various attempts are made on the various schemes introduced
by the Government at different intervals for empowering the rural woman. The working of the Self
Help Groups which are working for empowering the rural women financially is also analyzed. “All
formal” is the principle behind the concept of SHGs. The SHGs are mainly concentrated on the
poor and are for the people, by the people, and of the people. Its focus is only on the weaker
sections particularly women for their social defense. SHG helps in creating awareness on day-to-
day life, improving savings habit, developing self and community assets, improve income level,
increasing social strength etc. The SHGs self-security, generates confidence and self-reliance
among the members.

SHG has a long and different history both in developed and developing countries and has
been supporting the economic development. However, its role is significant in term of finances
and recognized well by all the developing countries. SHG, according to Otero is “the provision of
financial services to low-income poor and very poor self-employed people”. The financial services
provided by SHGs not only include savings and credit but can also include other financial services
such as insurance and payment services. SHGs are defined as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” Therefore, SHGs involves the services such as savings, loans and insurance to poor people living in both urban and rural settings who are not able to obtain such services from the formal financial sector.

The Self Help Groups also provide financial services to those who operate micro enterprises where there occurs production of goods and services, recycling, repairing, provide services, work for wages, gain income from renting out small amount of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both urban and as well as rural areas’. The terms microfinance institutions and SHGs are often used with almost same way. However, it is important to differentiate between the two terms because both terms are often confused. “Micro-credit refers to small kind of loans, whereas SHGs is appropriate where Non-Government Organization and Micro Financial Institutions (MFIs) provide the loans with other financial services. Therefore, microcredit is a component of SHGs as it involves providing credit to the poor people. In addition to this, SHGs also provide additional non-credit financial services such as savings, pensions, insurance and payment services etc. The rural finance policy which started in most developing countries beginning from 1950s was based on providing subsidized credit through State controlled or directed institutions to rural segments of population. Expansion of credit coverage through State programme was based on various theoretical assumptions clearly mentioned that this approach was based on the premise that rural micro entrepreneurs were not able to organize themselves, they need to give subsidized credit scheme to increase their income and they are so poor that they cannot save. Traditional approach to rural finance is leaning heavily towards direct interventions to Keynesian influence. The key problem areas visualized in rural financial markets included lack of credit facility in rural areas,
poor of modern technology in agriculture cultivation, low savings capacity in rural areas and existence of usurious money lenders. To overcome these obstacles, which the developing countries faced during 1950-80, the government has intervened by establishing State owned financial institutions which has the characters like interest rate ceiling on deposits and credit, directing credit, subsidy to particular sectors and nationalization of private banks.

Various issues such as concerns about financial viability of institutions on account of high rate of loan delinquency and subsidy by well-off people, the continued presence of moneylenders was caused by the inability to reach poor people and led to a reorientation in thinking around 1980s. The United State Agency for International Development (USAID) reviewed Small Farmer Credit in 1972-73, analyzed about sixty reports on specific farm credit programmes in developing countries. A World Conference on Credit for Farmers in ‘Colloquium on Rural Finance in Low Income Countries’ and made the emergence of new thinking in rural finance.

INDIAN SCENARIO

India has taken steps to provide financial services to the poor and underprivileged. After nationalization of commercial banks in 1969, they were directed to lend forty per cent of their loanable funds at a concessional rate to the needy sector with the aim to provide financial assistance to help the poor to attain self-sufficiency. The priority sector includes agriculture and other rural activities and the weaker section of society in general. To further support and supplement the credit assistance; Integrated Rural Development Program (IRDP) was launched in 1980. But these supply-side programs were not successful as they ignored demand-side of the economy and also due to corruption and leakages. The share of the formal financial sector in total rural credit in the 80s was 56.6 per cent compared to informal finance which got credit to the extent of 39.6 per cent and 3.8 per cent respectively. Further not only had formal credit flow been less but also uneven.
The village moneylenders provide financial assistance by charging interest rates of two to three per cent formation of pockets of informal SHGs engaging in micro activities financed by SHGs, the activities of SHGs started in India in 1980. India’s first SHG was set up as an urban co-operative bank, by the Self Employed Women’s Association (SEWA) after that the group was formed in 1974. The first official effort of SHGs is started by National Bank for Agriculture and Rural Development (NABARD). Under the direction of NABARD, the Mysore Resettlement and Development Agency (MYRADA) launched project on “Savings and Credit Management of SHGs which was partially financed by NABARD during 1986-87. In fact, SHGs operations are very old in India. Over a period of three thousand years, Indian has started trade and banking through vast parts of South and South-East Asia so as far as its latest rural finance innovation is concerned: SHG banking. Money lending was the only financial service in olden times, mainly in rural areas. Before the first millennium B.C., probably, there was a long period of transition, trade-cum-lending from gift exchange. Subsequently, money lending has become an old and organized profession in India. In spite of all formal financial assistance, money lending is still prominent today, and remnants of its historical informal precedents are still in existence, reemerging time and again according to demand. Many, informal and formal, moneylenders may have changed their profession to merchant bankers at various times in history, or into organizers of informal or formal chit funds. Another important source of finance in India has been chit funds from the ancient times but its origin is not known. Under chit fund operations, a group of people join together under an organizer or promoter and contributed equal amount of money allocated to that particular chit at a time either weekly or monthly. There are two types of chit operations. The first type involves the full amount contributed by an individual which they have to allocate to one member at a time on mutually agreed basis. Another type which is found in number of Asian countries it involves
allocation of chit amount through auction to the lowest bidder, with the balance amount shared by
the other members and the organizer. Merchant banking started in first millennium BC in India. It
involve working like financial intermediation comprising lending, deposit taking and other
financial services. Merchant banking is wide spread in India. Merchant banking spread with a great
speed with domestic and international trade held by individual firms, partnership firms, etc. The
basic principal of merchant banking was mutual trust and mutual benefit. Merchant banking
activity has also spread in rural areas in India. In rural areas Merchant banking helped to overall
commercialization and monetization of the rural economy and expansion of the trade. Some
merchant bankers apart from providing financial assistance entered into the activities of payment
of taxes, insurance and other related activities. Though money lending and chit funds were
monopolized initially by some cases, merchant banking became more professional in nature.

**Independent India: New approaches to reach the rural poor:**

After independence, financial problems in rural areas, high levels of indebtedness and a
lack of efficient financial services. Since 1950s the lack of rural development is due to the lack of
access to credit to finance production assets. Though Indian banking system has been doing
appreciable service in the rural areas but there are still various problems. Therefore, their services
are very limited. As a result after independence, moneylenders, friends, relatives who are rotating
chit funds, are a part of rural finance. According to Hapke M.H20., the informal credit accounted
for ninety per cent in 1951 and seventy per cent of rural indebtedness in 1971. The nationalization
of 14 private banks in 1969 followed by another 6 in 1980 was one of steps that was started to
solve the problem. The government also emphasized the opening of more rural branches by the
banks and priority sector lending is made mandatory. The lack of infrastructure and lack of access
of the rural masses to financial services continues to plague India; this is paralleled by another
contradiction: between an emphasis on institutional diversity and a lack of emphasis on institutional viability. NABARD\textsuperscript{23} was established in 1982 with more focus on rural financial outlets and credit cooperatives. The survey of 1981 NABARD concluded that, while India had one of the most complex rural financial infrastructures, more than any developing country, but the system has failed to reach the poor. The reasons for the failure were the emphasis was given on production loans, the complicated procedures were made for giving loan, failure to mobilize savings and prohibitive transaction costs for lenders and borrowers. Turning from the old to a new world of rural finance during the second half of the 1980s, NABARD argued that programs with the poor have to be savings-led and not credit-driven; and that the poor have to have a say in their design. The coming years are expected they looked for new partners, new delivery systems and new financial products.

**Cooperative Finance:**

The financial cooperative sector is a major part of rural finance in India. The Government of Madras Presidency in 1892 felt inspired and replicated the approach of the German Raiffeisen movement of savings and credit cooperatives and recommended, just three years after the passing of the German Cooperative Act in 1889. The Government of India accepted the proposal in 1901 and in 1904 enacted the Co-operative Credit Societies Act, followed by the more comprehensive Co-operative Societies Act in 1912. This step was taken to serve as a framework for promoting self-help among farmers and artisans. Under the Government of India Act of 1919, cooperative authorities was transferred to the provinces, which were authorized to enact their own co-operative laws. The role of State dominance is not clear and also it is not clear how soon self-help and self-reliance were undermined by well-meaning State intervention. Following the recommendations of the All India Rural Credit Committee in 1954 and the Committee of Co-operative Law in 1955,
many States introduced “State Partnership” was introduced in many states in their cooperative laws, placing the cooperative sector under government control. The resulting laws were encumbered by the ideology of a planned economy, State was given a dominant role in all institutions including cooperatives. Extensive regulatory power is given to State governments in matters such as appointment of chief executives, suspension of elected board of directors, compulsory fusion or fission of co-operative banks, amendment of bylaws, vetoing of bank decisions, issuing of directives, and supervision. The State cooperative administration has the authority of registration, licensing, statutory inspections and audit of the cooperative banks. The States participate also in the ownership of cooperative institutions at all levels down to primary societies.

**Financial Innovation: Linking Formal and Non-formal Credit:**

Reformation of the Regional Rural and Cooperative Financial Sectors is not the way out to reach the credit requirements of millions of rural poor. In the Asia-Pacific Rural and Agricultural Credit Association (APRACA) regional workshop on May 1986 in China, in May 1986, The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) introduced a linkage model based on both formal and non-formal financial infrastructure. Some of the important points that are discussed of the model are informal groups holding savings and credit accounts in banks; savings-based credit linkages with SHGs and banks as informal financial intermediaries. In 1987, NABARD conducted a field study of SHGs with a team from various Indian institutions. It is seen by the researchers that all the groups were of recent origin and were largely homogeneous in terms of caste and activity, built a common fund from very small regular savings and interest income, and lent to their members for periods of one to three months at two to three per cent interest per month. Recovery of these loans was excellent and small impact was felt, reaching from emergency
assistance to release from bonded labor. Access to formal credit was virtually non-existent. NGOs played a vital role in mobilizing the rural poor into SHGs monitoring and promoting their proper functioning”. Most of the 196 Regional Rural Banks (RRBs) which were in loss in 1989 did not present a viable solution to the rural finance in India and for this reason Grameen Banks emerged, following the model of Bangladesh, as a new National Banking structure. On the basis of its own studies and also inspired by the linkage experience under APRACA, NABARD instead argued for a different approach with the following distinguishing elements:

• using the existing infrastructure of banks and social organizations;

• It should be savings- rather than credit-led; and

• Using bank rather than donor resources in the provision of credit.

Between 1989 and 1991, NABARD (1991) made a policy dialogue with RBI to make preparations to link informal groups to banks under a pilot project. On 24th July 1991 RBI issued a circular to commercial banks advising them to actively participate in the pilot project, refinanced by NABARD, for linking SHGs with banks. The SHGs may be registered or unregistered, of existence of six months and strength of 20 member, and should have actively promoted the savings habit. The pilot phase covered the period 1992-96. The bank noted a contradiction between a directives of the RBI of 27th December 1985, finally decision was taken in a circular by RBI on January 4, 1993. Such SHGs, registered or unregistered, may be allowed to open Savings Bank Accounts with banks.” By March 1996, 4,757 SHGs with eighty thousand members, had been mobilized by one hundred and twenty seven NGOs and credit-linked to ninety five bank branches. During the pilot phase mainly Self Help Groups were linked to banks which were established by NGOs. After clarifying the issues (i) SHG members who were unable to get bank loans from the groups’ own internal funds if this so decided; (ii) the no. of informal groups contained only twenty
members, beyond which they would be required to legally register nationwide mainstreaming started in 1996. To implement mainstreaming, NABARD witnessed the following points: (i) it provided refinancing to participating banks; (ii) it declared SHG banking the dominant, but no special approach of lending to the poor, replacing bank retail lending; it made its grand vision of one million SHGs, representing a population of 100 million of the rural poor, to be credit-linked by the year 2008 endorsed by NABARD’s regional directors and subsequently articulated by union government in all its budget speeches; (iii) it created a Micro Credit Innovations Department (MCID) was created as the programme steering unit, with representations in all States through Micro Credit Innovations Cells; (iv) a special fund was set up to finance massive capacity-building measures as the motto of expansion; (v) it supported the maintenance establishment of SHGs through numerous NGOs and GOs; and (vi) it allowed for initiatives to organize SHGs in self-sustained federations under a new legal form as Mutually Aided Cooperative Societies (MACS). Backed by the joint political will of the Union Government, State Governments, the Reserve Bank of India and NABARD, expanded rapidly in the following years. The number of SHGs increased from 33,000 in 1998-99 to 115,000 in 1999-2000 and further to one million in 2003-04. As on March 2005, it has made its mark up to 1.6 million savings-based groups covering a population of over one hundred and twenty million people belonging to the lowest social strata. The majority of members (ninety per cent) are women. SHG banking is highly profitable for banks, in spite of lending rates, which are deregulated, from banks to SHGs between ten per cent and thirteen per cent. SHGs are growing very fast with a great performance. The impact is deeply felt by the members in terms of employment, income, self-confidence, children’s education. The money lenders have left out of business in the areas of operation of SHGs. Though the challenges,
that is expansion in underserved areas, effective supervision, institutional sustainability of informal
groups, and the role of SHG federations still remain, there are good prospects.

MICRO FINANCE OPERATIONS IN INDIA: AN OVERVIEW

Self-help group bank linkage programme (SBLP) have brought a lot of improvement in
terms of new group linkage which grew by about 8.5 per cent. The credit growth has witnessed an
increase of 20 per cent over the previous year. The number of groups linked at the end of March
2016 stood at 4.78 million and the amount of loans outstanding at Rs. 272.66 billion. On the other
hand the growth of MFIs has increased than self-help groups (SHGs) but client acquisition rates
had declined to 19 per cent compared to a high of 60 per cent last year. Some MFIs having doubled
their client numbers. Two hundred and sixty MFIs reported a total clientele of 26.7 million, which
is an increase of 4.1 million over the previous year. The Outstanding loans of Rs. 183.44 billion
had increased by Rs. 66.10 billion, about 56 per cent over the last year. Clearly, MFIs have also
increased their loan size. The total outstanding loans of SHGs and MFIs constituted 1.40 per cent
of total bank credit of Rs. 32,447 billion. This was more than the total loans of Rs. 359.39 billion
outstanding under both the SHGs and MFIs that had a combined customer base of 76.6 million in
2009 (Roth.j.2010)\textsuperscript{24}. In India most micro finance operations are located in the Southern and
Western regions. These two regions account a share of 61% in the whole credit provision of India,
and a share in all Indian deposits of 49%, whereas its population is only 32% of the total
population. Distribution of SHGs in the country has always remained skewed towards Southern
Zone which accounts for almost half (48%) of the SHGs in the country followed by Eastern Zone
with 23% in 2015-16 (Figure 1.I). Among the states Tamil Nadu has the maximum number
(12.8%) of SHGs after split of Andhra Pradesh. As compared to previous year, there has been a
marginal fall in the share of saving linked SHGs in the Southern Region from 44.87% from 48.32%
and in Northern Region 4.98 from 4.69% in 2015-16 while the other regions have recorded slight upward swing. In North Eastern Region, apart from Tripura all other states and all four states in Central Region have recorded a rise in number of saving linked SHGs during the year as compared to previous year. Eastern Region has also registered a rise in number of saving linked SHGs despite a fall reported in Bihar, Jharkhand and Odisha.

Chart 1.I

DISTRIBUTION OF SHGS ACROSS REGIONS IN INDIA 2015-16

Source: NABARD

According to a survey among India’s 15 leading MFIs in 2015-16 found that India has the second highest number of active borrowers per MFI (about 100,000) and highest growth rate of active borrowers per MFI. This holds true in comparison to some other countries in the region
(Bangladesh and Pakistan), to Asia, and to the world. Furthermore, compared to the rest of the world, Indian MFIs are growing very fast in accessing commercial funding. In India more than 70% of the population lives in the rural areas. This provides an enormous opportunity for the microfinance sector, because it is a huge market segment. However, it is a hard task for microfinance institutions due to the volatile and irregular income and expenditure patterns of the rural poor, which attach a higher risk on these transactions. Furthermore, transaction costs are very high in comparison to the small loan size, the large geographical spread, the heterogeneity of the borrowers and widespread illiteracy (Sijtsma, Liesbeth 2007). Most efficient MFIs in India are those which are: for-profit nonbank finance companies or some form of cooperative; operate in an urban area; in south India; have had microfinance operations for more than 15 years, with portfolio size greater than only $125,000 (with average outstanding of $50–60 per borrower, this would result in MFI outreach of the order of 2,500 borrowers); Portfolio growing at 50–60% a year; and the average size of loans disbursed in excess of $125. While such MFIs are not able to reach the poor section, they certainly reach substantial numbers of low income families at levels of efficiency that are better than those achieved by similar institutions almost anywhere else in the world. The growth rate of MFIs has increased in recent years. Increasing efficiency gains combined with these high growth rates and the willingness of Indian commercial banks to make bulk loans to MFIs could lead India at the top position in the world (Sinha, Sanjay 2007). Microfinance activities in India may be categorized as the Wholesalers, NGOs supporting Self Help Group Federations (SHGF) and NGOs directly retailing credit borrowers or groups of borrower. The wholesale agencies which provide bulk funds to the system through NGOs include the National Bank of Agriculture and Rural Development (NABARD), Rashtriya Mahila Kosh New Delhi and the Friends of Women's World Banking in Ahmadabad. The NGOs that are supporting the SHG Federations include
MYRADA in Bangalore, PRADAN in Tamil Nadu, Self-help Women’s Association (SEWA) in Ahmadabad and Bihar, ADITHI in Patna, SPARC in Mumbai, and the Association for Sarva Seva Farms (ASSEFA) in Madras, the Small Industries Development Bank of India (SIDBI) and the Tamil Nadu Women Development Corporation etc. The NGOs that are directly enhancing credit to the borrowers include SHARE in Hyderabad, ASA in 250-300 NGOs in the field of microfinance (Qayyum, Abdul and Ahmad, Munir (2006). 560 banks are participating in the programme (commercial banks-48; regional rural banks 196; and cooperative banks 316). NGOs have proved effective organizing agents, nurturing and stabilizing SHGs and affecting their linkage with banks as also by adopting other delivery mechanisms for providing financial services directly or indirectly to the poor. As on March 2004 a total of 3024 NGOs were participating in the programme (Sankaran, M. 2005).

MODELS OF MICROFINANCE PRACTICES

Following are the variety of delivery models of microfinance in India (Singh, N. Tejmani, 2009):

(A) The SHG Bank Linkage Model: it is one of the predominant model in the Indian microfinance context continues to be the SHG-Bank Linkage Model it accounts for nearly 20 million clients. It started as an Action Research Project in 1989. Under this model, Self Help Promoting Institution usually a NGO helps groups of 15-20 individuals through an incubation period. After completion of the period they would be linked to banks. The SHG had proved their efficacy over time but they suffer from a meager resource base which to expand their economic activities of their members. The factors received by the SHG members were the lack of information, time consuming and rigid procedures for obtaining bank loans, rigid lending policies of banks in respect of unit costs, unit sizes and group guarantee for loans. There are three linking model in the country:
Model I: - SHG formed and it is financed by banks: In this model, the banks play the dual role that is promotion of SHGs and also provider of credit to SHGs. Up to March 2012, 33% of SHGs were financed from this model.

Model II: - Under this model SHGs are formed by formal agencies other than banks (NGOs and other), but directly financed by banks: the NGOs and other agencies have played the role of facilitator. Up-to March 2005, 72% of SHG financed were from this model.

Model III: - SHGs financed by banks using NGOs and other agencies as financial intermediaries: the NGOs and other agencies play the role of financial intermediation under this model. Up-to March 2012, only 7% of SHG financed were from this category.

(B) Grameen Model: – Potential clients under the guidance of MFO to organize themselves into ‘groups’ of five members which are in turn organized into ‘centers’ of around five to seven such groups. The loans are provided by the MFO for productive purposes directly to the members of small groups directly on the strength of group assurance. Grameen Model is being followed in India by Activists for Social Alternatives, Association for Sarva Seva Farms and Other Financial and Technical Services Ltd.

(C) Cooperative Model: – This has been initiated by Cooperative Development Forum (CDF), Hyderabad which has relied upon a “Credit Union” involving the Saving First Strategy. Women Thrift Groups (WTGs) and Men Thrift Groups (MTGs) has been built by it. They are registered under Mutually Aided Cooperative Society Act (MACs) and mobilize savings resources from the members and access outside/ supplementary resources from the institutional systems.

(D) Partnership Model: – The partnership model pioneered by ICICI Bank attempted to meet the following key gaps:

➢ To separate the risk of the MFI from the risk inherent in the microfinance portfolio.
To provide a mechanism for banks to introduce partner MFIs continuously, especially in a scenario when the borrower entered into a contact directly with the bank and role of the MFI was closer to that of an agent.

To deal with the drawbacks of MFIs to provide risk capital in large amounts, this limits the advances from banks, despite a greater ability of the latter to provide implicit capital. In this model, the MFI collects a ‘service charge’ from the borrowers to cover its transaction costs and margins. The lower the defaults, the better would be the earnings of the MFI as it will not incur any penalty charges vis-à-vis the guarantee it provides.

MICROFINANCE IN INDIA – 2016 OUTLOOK

The year 2016 promises to be full of developments that could propel India’s microfinance sector past the heights that it touched in 2010.

In 2010, Indian Microfinance Institutions’ had to face heavy backlash from loan borrowers and politicians. In that year loans were not repaid by clients which caused the top 5 MFI’s to incur much losses. Since then MFI’s have reigned in their growth and have adopted practices that ensure there is no multiple lending. They have also constituted a self-regulatory organization called MFIN (Microfinance Institutions Network) whose work is to address the grievances of microfinance clients and ensures the MFI’s are sticking to their code of conduct.
Given below is the 2016 Outlook for Microfinance companies in India

- It is expected that loan portfolio will grow in the next 2-3 years. MFI’s are expected to grow by 40% annually which means the top MFI’s in India would be double in size over the next few years.

- The asset quality indicators for most Institutions are good though political risk remains, the North Indian state of Uttar Pradesh seem to have over-heated according to some reports. However unlike 2010, this time MFI’s are using good credit bureaus to prevent multiple lending.

- More than 8 MFI’s have been provided bank licenses and some of them would begin operations this year. Bandhan Financial Services was the first which was transformed to transform into a full-fledged bank.

- Suryoday Microfinance, Esaf Microfinance and Ujjivan Financial Services are looking to offer shares to the public through Initial Public Offers, their issues could hit the markets and would help in bringing within the next 6 months.

- Private Equity investors are investing funds into private unlisted microfinance companies. Many MFI’s have also raised substantial amounts through loan securitization which shows that banks have once again reposed their confidence in this sector.

- During the FY 2015-16, the credit ratings outlook for more than 12 microfinance institutions was upgraded. This shows the sector has fully recovered from the setbacks it had faced and is moving forward.

- MUDRA has provided loan to many microfinance companies. MUDRA has helped MFI’s to refinance their loans easily.
• Microfinance has changed its non-profit character. In the last decade, microfinance was the domain of NGO’s but the RBI regulation has totally altered the character of the organizations disbursing loans. Since most NGO’s are not able to meet the financial requirements, NBFC’s now account for more than 90% of the micro-lending taking place in the country.

These remain the highlights of this year and going forward one can expect more good news to flow from the sector. The government of India is come forward and has started Jan Dhan Yojana has also benefited MFI’s enormously as they can now directly disburse money into bank accounts. It is believed that the real benefit would be seen in future.

MICROFINANCE IN MADHYA PRADESH AND JAMMU AND KASHMIR

In order to achieve economic growth in the states of Madhya Pradesh and Jammu and Kashmir, The microfinance institutions has to reach poor people who have certain entitlements in the form of productive assets, education and skills; the possession of otherwise can generate incomes to buy the food requirements besides this Microfinance focuses on to help poorest families with very small loans (Micro-credit) either to engage them in productive activities or to settle their business. It has been analyzed that the poor and very poor who lack access to traditional formal financial institutions require a verity of financial products. Poverty is an age old and worldwide phenomenon. It affects the quality and standard of life of the people in the society in one form or other. M.P and J&K having a huge percentage of population living below poverty line. The unemployment underemployment, undeveloped agricultural sectors, unbalanced development with huge regional imbalances, shortage of capital, illiteracy lack of entrepreneurships etc. are
some of the major causes of poverty in M.P and J&K state. Microfinance in the State of Jammu and Kashmir and Madhya Pradesh is still in its initial stage. The formal sources like Public Sector Commercial Banks, District Cooperative Societies, Regional Rural Banks and Private Sector Commercial Banks, which provide microfinance services to few thousand SHGs formed under SHG-Bank Linkage Model initiated by NABARD in 1982. Jammu and Kashmir is still undeveloped besides having treasure of natural resources, due to its peculiar demographics and the political turmoil since last few decades. The severe problems like poverty, illiteracy and unemployment remained unnoticed which has amplified over the past two decades due to the continuous uncertainty and neglect by government and other non-governmental agencies. As a result of this, the State still has 21.63% of BPL Population (Directorate of Economics and statistics 2014-15) with financial exclusion largest among all other Northern States with about 68.2% of farmer households who live in rural areas have no access to financial services. Microfinance institutions are much needed in M.P and J&K State because in these states female population of both the states is low as compared to average sex ratio of the country. In M.P as per the census 2011 the total population of the state is 72,597,565 in which the male population is 37,612,920 and the female population is 34,984,645 with the sex ratio of 930 as low compare to 940 average sex ratio of the country and total population of J&K State slashed down from 47.15% of the total population in 2001 to 46.88% in 2011. As per details from Census 2011, Jammu and Kashmir has population of 1.25 Crore souls over the figure of 1.01 Crore in 2001 census. Total population of Jammu and Kashmir as per 2011 census is 12,548,926 of which male are 6,665,561 and female are 5,883,365 which show a reduction in sex ratio of 883. The corresponding figures of male and female as per Census 2001 were 5,360,926 and 4,782,774 respectively indicating sex ratio of 892. If we take the female literacy rate the ratio of both the states is near about same 60.02 of M.P and
58.01 of Jammu and Kashmir is low as compared to average female literacy rate of country 65.46. Gender difference still prevails in both in rural and urban areas but in rural areas it is very high, this is because of number of factors like lack of access to schools, parents feeling insecure about sending girl children to schools, their engagement in agricultural and other domestic activities etc. This work is about microfinance and its contribution in reduction in poverty Alleviation and empowerment for millions of the poorest people of India. Microfinance has a great influence on the lives of millions of poor people particularly women. Numerous scholars and NGOs are working to take microfinance within the reach of poor people, who are still not benefited by financial system. It was believed that microfinance is not important for all people but most groups can take benefit from it. In this report, the researcher try to present a detailed account of the contributions made by microfinance in empowerment of women by increasing the income generating activities, empowerment of poor people to access development services such as health and education, and reduction in vulnerability.

MICROFINANCE IN MADHYA PRADESH

Madhya Pradesh state is one of the poorest and undeveloped state of India. This region ranks among the lowest areas of public health, gender and nutrition issues and about 37% of the population in the state lives below the poverty lines as compared 26% of national average. Old traditions, like caste system are still present in Madhya Pradesh. About 20% of state population belong to a scheduled tribe. The government of Madhya Pradesh has reached many programmes to the people through the formal financial intuitions. The banks also play an active role to reach the financially excluded through the branch networks ultra-small branch or business correspondent networks. If we look microfinance sector in the state of Madhya Pradesh at the end of 2014-15, it is about 3.23 lakh of various groups with 39.3 lakh say 40, 00 lakh clients (SBLP and other
government agencies 24lakh and MFIs 15.30lakh after reducing the overlapping)\textsuperscript{28} with “no-frill” accounts created for 11.50 lakh clients by the banks.

The state of Madhya Pradesh has been the point of attention on the world map primarily due to significant strides made by its SHGs. The microfinance are playing an important role on optimization of natural and human resources with the help of participation and achieving the goals of vision 2020. Women empowerment is considered as one of the main strategies to tackle socio-economic poverty. Women have taken up microfinance movement through savings as mass movement, a source used by them to shape their dignity for the better. The state government is making efforts to assist microfinance by providing funds under various program. Due to massive self-help movement, there is a lot of improvement in the socio-economic status of the rural women. Due to constant efforts of the government, women have become active, assertive, and are concerned with their best standard of life.

Right from the beginning, NGOs in the state of Madhya Pradesh are working for the cause of women and for their improvement more than 120- committed NGOs have been involved in facilitating the formation of self-help groups and efforts for their substance. Microfinance is working in collaboration with DRDA in training and capacity buildings skill development training programme building self-help group centered organizations.

**MICRO FINANCE IN JAMMU AND KASHMIR**

In the state of Jammu and Kashmir Financial Inclusion Program was launched in 2006. In the state of Jammu and Kashmir steady substantial initiatives has been taken by the banking institutions towards achieving the objective of financial inclusion, however, among all the institutions, the Jammu and Kashmir Bank has taken a leap forward. The present study is an
attempt to look into the various strategies that banks have been taken to reach the neglected set of population in the State and to analyze the progress they have made so far.

Microfinance in the State of Jammu and Kashmir is still in its initial stage in progress. The formal sources like District Cooperative Societies Public Sector Commercial Banks, Regional Rural Banks and Private Sector Commercial Banks, providing microfinance services to few thousand SHGs formed under SHG-Bank Linkage Model initiated by NABARD in 1992. Under the MFI-Bank Linkage model, a bank (J&K Grameen Bank) recently established by the combination of two regional rural banks namely Kamraz Rural Bank and Jammy Rural Bank started working from July 2009. Money lenders provide financial services to a large no. of people, charging higher rate of interest or sabotaging the assets of the borrowers, all because of the financial exclusion by formal financial system. The State has not achieved any progress besides having treasure of natural resources, due to its peculiar demographics and the political turmoil since last few decades. The major problems like poverty, illiteracy and unemployment remained unnoticed which has amplified over the past two decades due to the continuous uncertainty and neglect by government and other non-governmental agencies. As a result of this, the State still has 21.63% of BPL Population (Directorate of Economics and statistics 2014-15) with financial exclusion largest among all other Northern States with about 68.2% of farmer households living in rural areas non-indebted and they don’t have any access to financial services (Sangmi and Kamili, 2010).

Microfinance in the Jammu and Kashmir is a new concept. The results of these efforts will not be apparent in the near future. However, the advantage of this late implementation would be prominent in coming time. Recognizing that the Jammu and Kashmir Valley is unique because of both geographical location and political instability, it is necessary to introduce microcredit
programs to meet local needs and conditions. While few financial institutions have started to
distribute microcredit loans within the State, they operate in a complex manner, often overlapping
each other in the services provided. To move forward with microcredit in this region, it is necessary
to evaluate these existing programs to find a niche for further it may take some time before best
practices are established. It is difficult to guess how effective microcredit will be within the next

The Jammu and Kashmir is living in backwardness in spite of its limited natural resources.
In this state several problems like poverty, unemployment and illiteracy remained unaddressed
which has amplified over the past two decades due to the continuous uncertainty and neglect by
government and non-government age. About 21% of population in Jammu & Kashmir State lives
below poverty lines. Total population of Jammu and Kashmir as per 2011 census is 12,548,926 of
which male and female are 6,665,561 and 5,883,365 respectively indicating a reduced sex ratio of
883. The microfinance in Jammu and Kashmir has a lot of influence particularly on women.
Numerous scholars and NGOs are working for these people to take microfinance within their
reach.

**PROBLEMS OF MICROFINANCE PROGRAMME IN INDIA**

It is clear from previous discussions that there have been various successful stories about
microfinance institutions which are helping but the poor, they face many problems. Many
researchers pointed out the problems faced by this sector. Like:
1. Ethical Reasons:

Microfinance Institutions can be often viewed as a profit making organization\(^3^2\). The desire to make MFIs an industry, commercialize micro-lendable them to be a profit making institutions should not distract them from their basic service of which they are formed that is to help the poor to start their business. If they, lack of this aspect it can lead the microfinance institutions to behave similar to the local money lenders. Corruption is another ethical problem. Many MFIs in India or elsewhere in world suffer from corruption at various levels: corruption in the MFI itself, corruption in the Micro Enterprises, these MFIs support or corrupt channels, officials or individual service providers and it automatically hinders the progress of microfinance institutions.

2. Managerial Reasons:

One of the big problems which the MFIs can resolve is managerial problems. Managerial problems are a major factor and they have greater effect than other problems discussed. Poor record keeping and lack of managerial capacity are the major problem. For official bearers and group members, record keeping is a wastage of time. Lack of record keeping result in increase of defaults.

3. Legal Reasons:

Microfinance Institution is a social organization helping the poor and a profit organization too. In various countries, profit organizations are registered under different acts and non-profit organizations come under different legislations. These legalities rules sometimes create complications. But a charitable institution is not allowed to indulge in to money lending. The lack of legislation stops progress of microfinance institutions. There are some random acts which prohibit the growth of microfinance institutions and delimit their impact.

4. “Unfortunate” Reasons:
Sometimes microfinance institutions have to face problems which cannot be resolved. These problems could be natural or manmade, which could happen with a person or a community. A flood or famine can kill the hopes of farmers to pay their loans. Personal plights are another reason which might affect the MFI.

5. Other Reasons:

There are various other factors which become cause of failure of MFI. They can be listed as follows: Lack of vision is a factor which pushes new MFIs in to extinction, trained staff is needed to operate MFIs. In many cases, drop out of trained staff is very high which reduces the reach of an MFI. Furthermore, the “dropping out” rate is high the “coming in” rate. It is true that MFIs serve society but they are also a profit-making institution. In many cases, MFIs achieve a lot of success in their programs in initial period, but they fail in the long run because of lack of proper commercial orientation, thus making them unsustainable.
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