Microfinance is the provision of loans and other financial services to the poor. The microfinance has evolved due to the efforts of committed individuals and financial agencies to promote self-employment and contribute to poverty alleviation and provision of social security. India has been able to develop its own model of microfinance organizations in the form of savings and credit groups known as the Self Help Group (SHGs), which are bank-linked. These SHGs are mainly formed and managed by women and this has become an instrument, which has led to women's empowerment and social change. Most of the microfinance institutions in India attempt to go beyond savings and credit groups to provide microfinance services in the form of savings and insurance.

Microfinance provides financial services to those whose income is small and unstable. These people are in need of credit facilities for several reasons (i) their needs are small and arise suddenly (2) the institutional providers of finance namely the banks demand collateral security which they cannot provide (3) most of the time, they are in needs of funds to meet their consumption demands, for example, to meet expenses related to education, illness, funerals, weddings for which it is difficult to obtain institution finance (4) for purpose of investment in income generating activities.¹

Concept of Self Help Group (SHGs) is the most exciting discovery in the context of microfinance. The Indian microfinance scene is dominated by SHGs and their
linkage with Banks. Owing to the importance of microfinance and self help groups in the eradication of poverty and in the empowerment of women.

3.1 The Concept of Microfinance

Microfinance is a concept that is helping the poor to avail of an create opportunities for economic growth. In India, microfinance has fulled the efforts of rural development, women empowerment and wealth generation by providing small scale savings, credit, insurance and other financial services to poor and low income households. Microfinance thus serves as a means to empower the poor and provides a valuable tool to help the economic development process.

The concept of microfinancing and self-employment activities in rural areas has developed considerably over the last two decades. It is working neither on domain/charity nor on subsidy. It is basically rotational investment done to motivate the poor to empower themselves and practice the dictum 'Save for the future and use those resource during the time of need.' Theoretically, microfinance also known as microcredit or microlending means making provision for smaller working capital loans to the self-employed or self-employment seeking poor.

Microcredit has defined as the extension of small loans to be given in multiple doses based on the absorption capacity of the needy beneficiaries, who are too poor to qualify for formal bank loans, as they have no assets to offer as collateral security against loans.\(^2\)

'Microcredit' may be defined as the credit and repeated credit provided in small measures to suit the recipient's requirements, with a comfortable pace of repayment and at an appropriate rate of interest.\(^3\) Microcredit has been defined by the microcredit
summit held in Washington D.C. in February 1997 as "programmes that provide credit for self employment, other financial and business services to very poor persons."

Microfinance can be interpreted in a broader context both as microcredit and microsavings, even though microcredit and microfinance have come to used interchangeably. However, when the term 'microfinance' is used it implies some other services accompanying credit viz. facilities for saving and availability of services for insurance of the assets acquired with microcredit. Microfinance has come to be referred to as a small scale financial services and technical assistance provided to rural people who operate small or micro-enterprises, provide services, work for wages or commission and other individuals and group working at local levels.

NABARD has defined microfinance as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban provided to customers to meet their financial needs; with only qualification that (1) transactions value is small and (2) customers are poor."

In essence, therefore, microfinance could be referred to as an institutional mechanism of providing credit support in small amount and usually linked with small groups along with other complementary support such as training and other related services to the people with poor resources and skills for enabling them to take up economic activities. In the November 1995 Microcredit Summit, U.S. first lady Hillary Clinton wrote; "Microenterprise is the heart of development because microenterprise programmes work - they lift women and families out of poverty. It is called micro but its impact on people is macro, we have seen that it takes just a few dollars, often as little it takes as dollar 10, to help a woman gain self employment, lift her and her family out of poverty. It is not a hand out; it is a helping hand."
Let us begin by understanding some of the distinct characteristics of microfinance. The term 'microfinance' is often confused with the related term 'microcredit', so much so, that the two are often treated as synonymous and used interchangeably. While there are certain similarities between the two terms, there are also certain differences, which require to be classified at the very start to avoid confusion of time.

The term microcredit refers to a small size loan, to be repaid within a short period of time, used mostly low income households and micro entrepreneurs for the purpose of income generation and enterprise development. The mobilization of such credit is restricted to external sources such as banks and moneylenders.

Microfinance on the hand, provides a greater menu of options whereby the small loan can be garnered not just from the external sources but also through self-mobilization, by way of saving and sale of assets. Also, in case of microcredit, due to the definite obligation to repay the loan, a physical collateral may sometimes be needed. However, the biggest flexibility in the case of microfinance is the lack of any physical collateral, even in case of loan from the bank. The options available with microfinance, therefore, are much broader and flexible than the ones available with microcredit.

Table-1 brings out the distinct variations between microcredit and microfinance with respect to their loan characteristics.

Table 3.1 : Difference between microfinance and microcredit

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Characteristics of loan</th>
<th>Microfinance</th>
<th>Microcredit</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Size of loan</th>
<th>Repayment of period</th>
<th>Sources of mobilization</th>
<th>Repayment</th>
<th>Collateral</th>
<th>Purpose of use</th>
<th>Scope of operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Small</td>
<td>Small</td>
<td>Small</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Small</td>
<td>Small</td>
<td>Short</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Small</td>
<td>Short</td>
<td>Both external and internal</td>
<td>External</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Short</td>
<td>Obligation if source external</td>
<td>Definite obligation to repay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Not needed</td>
<td>May or may not be needed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Flexible, consumption income generation</td>
<td>Mostly fixed, limited scope for deviation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Mostly group loans trickling down to individuals</td>
<td>Usually individual loans, though group loans might be given</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Microfinance therefore, refers to the provision of small loans without collateral security, to the poor and low-income households, whose access to the commercial banks is limited. The institution that provide such services are microfinance institutions. Microfinance is being viewed as a very powerful tool for uplifting the economic conditions of the asset less poor through group approach that ensures active participation and involvement of the beneficiaries in effective implementation of the programme. In India, microfinance programme has a crucial role to play in uplifting more than 30 crore people living below poverty line (NABARD, 2005). Poverty means denial of access to the basic necessities i.e. food, shelter, health and education of human existence. Poverty is characterized by lower standard of living. As per the poverty line defined by the HRD i.e. earning of a person below $ 1 a day, the percentage of BPL
population in India comes around 34.9 percent and if it is extended to $ 2 a day, the percentage of BPL in India comes to 79.9 percent (Human Development Report, 2004).

Microfinance has emerged as an needful programme to cater to the needs of the most underprivileged people i.e. tribal, dalits and women. The major concerns today is ever increasing poverty and there is urgent need of empowering enabling the most neglected sections of the society through organized support to all poverty alleviation programmes. Considering the paucity of funds with poor people, the need of the hour is to provide adequate credit to the needy people to enable them to undertake entrepreneurial activity, however, small with the help of NGOs and GOs. Microfinance is expected to play a pivotal role in poverty eradication and employment generation.

Microfinancing is a new method to meet the credit requirement in rural areas. Since the bank borrowing requires collateral and the deprived class does not have any type of such collateral, the success of Bangladesh Grameen Banks attracted the attention of Indian policy makers towards the microfinance and microcredit, which are the new entrants in realm of present rural financing. Microcredit is based on 20 self help groups which will be technically supported by NGOs and sponsor bank. In other words, self help group is a small, economically homogeneous and cohesive group of rural poor voluntarily coming together to save small amount regularly, agree mutually to contribute to a common fund and have a collective decision making for providing collateral free loans on terms and conditions decided by the group. The group will make a project, which will be supervised and assisted by banks and NGOs. After evaluating the viability of the groups, the banks further provide sufficient community participation in the development process. 8

3.2 Trickle Up Approach of Microfinance
Most of the developed nations of the world started their growth path from the development of the agriculture sector. For a long time, it was felt that the growth of developing countries is dependent on the growth path developed countries, i.e. through the trickle down strategy. This is the economy theory which advocates letting ultimately trickle down to lower income individuals and the rest of the economy. In other words, this is a theory of economic development that claims higher standards of living for the poor will develop gradually with economic growth. The same applied on the macrolevel in the individual countries, which started believing on the concept of laissez-faire policy. However, there were countries like India and Israel; which did not believe in the free market economy and continued with their public expenditure programmes. Along with it, attention was made to make a self-sustained economy at least from the view point of the agriculture sector. However, it took a long time to realize that if the gains of development have to go to the poor, then some different strategy has to be adopted.

When the Grameen Bank of Bangladesh started its foray into microfinance in the middle of 1970s, it was realized that it can definitely be a good way for the benefit of the poor then it was the realized that it is not the trickle down approach but it is the trickle up approach which should be adopted to upgrade the living of the poor. Trickle up would therefore mean that the benefit should be directly provided to the poor so that they can invest it accordingly for their own development and would try to improve their living standard. The countries were providing direct finance earlier also, but since the late 1970s it was realized that if one wants benefits to be passed to the poor ensuring its true use and accountability, then microfinance is the best alternative.

In the development paradigm, microfinance has evolved as a credit based policy and programmes to cater to the so far neglected target groups (women, poor, rural,
deprived etc.). Its evolution is based on the concern of all developing countries for empowerment of the poor and alleviation of poverty. Development organization and policy makers have included access to credit for poor people as a major aspect of many poverty alleviation programmes. Microfinance programmes have in the recent past become one of the more promising ways to use scarce development funds to achieve the objectives of the poverty alleviation. The basic idea of microfinance is simple; if poor people are provided access to financial services including credit, they may very well be able to start or expand a microenterprise that will allow them to break out of poverty.\(^9\)

### 3.3 The Important Features of Microfinance are

1. Microfinance is a tool for the empowerment of poor women;
2. Loans under microfinance programmes are very small;
3. Microfinance targets the poor rural and urban households;
4. Credit under microfinance follows thrift i.e. mobilize savings and lend the same;
5. Low transaction cost due to group lendings;
6. Transparencies in operation;
7. Short repayment period;
8. Simple procedure for reviewing, processing and approving loan applications and delivery credit;
9. Chances of misutilization are rare and there is assured repayment;
10. Peer pressure act as the collateral security required for loans;
11. Need based loan disbursement;
12. Prompt repayment; and

13. There is no ceiling from the RBI in respect of minimum and maximum amounts.

The following are the main features of microfinance services provided by Rashtriya Mahila Kosh (RMK) (i) It is a tool for the empowerment of the poorest. (ii) The higher the income and better the asset position of the borrower, the lower the incremental benefit from further equal doses of micro-credit is likely to be. (iii) Delivery is normally through Self Help Groups (SHGs). (iv) It is essentially for providing self-employment. The opportunities of wage employment are limited in developing countries - microfinance increases the productivity of self-employment in the informal sector of the economy - generally used for (a) direct income generation (b) rearrangement of assets and liabilities for the households to participate in future opportunities and (c) consumption smoothing.\textsuperscript{11}

Microfinance is not a financing system but a tool for social change, especially for women. It does not spring from market forces along - it is potentially welfare enchaining there is public interest in promoting the growth of microfinance - this is what makes it acceptable as valid goal for public policy.

### 3.4 Profile of Microfinance in India

The profile of microfinance in India at present can be traced out in terms of poverty. It is estimated that 350 million people live below poverty line. The following are some components of microfinance :-

(a) This translates to approximately 75 million households.

(b) Annual credit demand by the poor in the country is estimated to be about Rs. 60,000 crores.
A cumulative disbursement under microfinance programmes is only about Rs. 5000 crores.

Total outstanding of all microfinance initiative in India estimated to be Rs. 1600 crores.

Only about 5% of rural poor have access to microfinance.

Though a cumulative of about 20 million families have accepted accessed.

While 10% lending to weaker sections is required for commercial banks; they neither have the network for lending and supervision on a larger scale or confidence to offer term loan to big microfinance institutions.

The non poor comprise of 29% of the outreach.

3.5 Need for Microfinance

Microfinance aims at assisting communities of the economically excluded to achieve greater levels of asset creation and income security at the household and community level. Access to financial services and the subsequent transfer of financial resources to poor women enable them to become economic agents of change. Women become economically self-reliant, contribute directly to the well being of their families, play a more active role in decision making and are able to confront systematic gender inequalities. Access to credit has been given considered a major poverty alleviation strategy in India. Micro-credit has given women in India an opportunity to become agents of change. Poor women, who are in the forefront micro-credit movement in the country use small loans to jump start a long chain of economic activity.
Microfinance is accessing financial services in an informally formal route, in a flexible, responsive and sensitive manner which otherwise would not have been possible for the formal system for providing such services because of factors like high transaction cost emanating from the low scale of operation, high turnover of clients; frequency of transaction etc. Microfinance and self help group must be evolved to see that SHGs do not charge high rates of interest from their clients and improve access to those who cannot sign by their use through thumb impression.

The current literature on microfinance is also dominated by the positive linkages between microfinance and achievement of millennium development goals (MDGs). Micro-credit Summit Campaign's 2005 report argues that the campaign offers much needed hope for achieving the millennium development goals especially relating to poverty reduction. IFAD along with food and agriculture organization (FAO) and the world food programme (WFP) declared that it will be possible to achieve the eight MDGs by the establishing deadline of 2015 "if the developing and industrialized countries take action immediately by implementing plans and projects, in which micro-credit could play a major role." 

Credit is vital to the poor for overcoming the inevitable and common imbalance between income and expenditure. Credit is also crucial to the poor for income generating activities, like investing in their marginal farms or other small scale self-employment ventures. Their access to formal banking channels, however, is limited due to their low resource bases as well as due to the nature of formal credit institutions. The popularity of the microfinance, self help groups stems from widespread recognition that formal banking channels are largely ineffective in catering to the credit needs of the poor.
Tiny savings and loans are generally an unattractive business proposition for formal banking institutions. In addition to disincentives faced by the banks, there are also problems faced by the poor in accessing loans from formal banking institutions. For example, to minimize risks, banks demand collateral security that the average micro borrower does not possess. Banks also insist on complicated procedures that are too time consuming and often too complicated for the poor and illiterate. Even in the implementation of direct lending programmes, formal institutions find it difficult to overcome the problem of targeting. The experience is that the rich and powerful typically manage to corner the scarce loanable funds. Thus formal banking channels remain largely inaccessible to the poor in India. As a result, the poor continue to be dependent on informal sector lending, paying exorbitant rates or underselling the product and their labour power to the creditor. It was in response to these limitations in formal banking channels that microcredit mechanism were innovated.

A quote from the former U.N. Secretary General Kofi Annan's video message on the launch of the international year of microcredit on 18th November 2004 also shows the significance of microfinance. "Microfinance has proved its value, in many countries, as a weapon against poverty and hunger. It really can change people's lives for the better - especially the lives of those who need it most .... Let us be clear. Microfinance is not charity. It is a way to extend the same rights and services to low-income households that are available to everyone else. It is recognition that poor people are the solution, not the problem. It is a way to build on their energy and vision. It is a way to grow productive enterprise and so allow communities to prosper."12

3.6 Comparison of Microfinance and Financial Banking
Figure outlines the different features between formal banking channels and micro finance channels. In contrast to formal banking, micro-credit is characterized by small size, shorter loan duration, emphasis on thrift and the absence of collateral security and informal procedures. In absence of collateral security and formal documents, there can be little legal, however, has proven even more effective than loan repayment mechanism in the formal banking system. While the banking system is a purely commercial organization, the lower tiers in the micro finance system are social organizations and motivated by non-economic objectives.

**Comparison of Micro Finance and Formal Banking.**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Micro-finance</th>
<th>Formal Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of loan</td>
<td>Small/tint size of credit</td>
<td>Medium/large credit</td>
</tr>
<tr>
<td>Duration of loan</td>
<td>Short duration</td>
<td>Medium/large duration</td>
</tr>
<tr>
<td>Thrift</td>
<td>Emphasis on thrift as well as loan</td>
<td>Focus on loan only</td>
</tr>
<tr>
<td>Enforcement of repayment</td>
<td>Group formation and informal methods</td>
<td>Formal procedures</td>
</tr>
<tr>
<td></td>
<td>Peer pressure and weekly repayment</td>
<td>Collateral and legal pressure for repayment</td>
</tr>
<tr>
<td>Nature of organization</td>
<td>Social organization form</td>
<td>Commercial organization form</td>
</tr>
<tr>
<td>Motivation</td>
<td>Self-help motivated</td>
<td>Profit motivated</td>
</tr>
<tr>
<td>Outreach</td>
<td>Access to poor without collateral (all</td>
<td>Access limited</td>
</tr>
</tbody>
</table>
3.7 Evolution of Micro Finance

The idea of microfinance somewhat strictly rolls around the philosophy of Muhammad Yunus of Bangladesh (Nobel laureate) who initiated organization poorest of the poor into self-help groups namely Bangladesh Grameen Bank (BGB) in the year 1976, and make them realize the basic "theory of survival". It began in 1976, with lending of $ 27 to 42 poor people in a village next to the university campus where he was teaching economics. He had no intention of making a wave he was planning to create a bank for the poor. He had a modest goal. He was trying to free 42 people from the clutches of moneylenders by giving them the money, owed to the moneylenders, in order to repay them and become free from exploitation,

He was teaching in the Chittagone University, while a famine raged in Bangladesh in 1974. It was uncomfortable to teach elegant theories of economics when people were dying of hunger. He felt totally irrelevant. He tried to make himself in some way relevant by going out to the poor people living in the village next the university campus. Initially he looked for any little thing that he could not do to make the life of a poor individual slightly tolerable. One thing led to another. He kept seeing how people suffered because they could not find tinny amounts of money to carry on with their livelihood activities. To solve this problem, they went to moneylenders. Moneylenders turned them in to slave labour with an believable loan conditions. He wanted to see how many people there were in the village in this situation. He made a list. The list contained 42 names, the total amount they needed was $27. It was shock to the economic profession who taught his students about the national five-year plan and the rational for investing
billions of dollars to overcome poverty. The professor did not know that people go through misery because they did not have access to a few pennies. Let alone a whole dollar. Even if the government invests those billions of dollars in big projects, this need of poor will still not be addressed.

He tried to address this problem by way of an emotional response; he gave the money from his pocket. He did not know that it would create emotional encounter response from the people who got the money. They thought it was nothing less than a miracle. He thought he could make so many people happy with a small amount of money, why not do more of the same. He decided to link the poor people in the village with the bank located in the campus, but the bank refused to get involved. They argued that the poor are not creditworthy. He pleaded with them to give him a chance to try. They refused. Ultimately when he offered to become the guarantor for these loans, they reluctantly agreed. He started giving loans to poor people in Jobra and was pleasantly surprised to see that it was working perfectly. He continued to expand the programme. Several stages later, they converted the project into a formal bank, named Grameen Bank in 1983.

Gradually a new word, 'microcredit' was coined for these kinds of collateral-free tiny loans for income generating activities of the poor. The Grameen idea spread all over the world. Independent studies of micro-credit programmes show that providing easy and affordable access to credit and other financial services to poor families can have a host of positive impact on their livelihoods. A large number of impact studies done on the Grameen bank have shown a significant impact on the lives of its members across the wide range of economic and social indicators, including moving out of poverty, improved nutrition, better housing and sanitation, lower birth rate, lower child
mortality, better access to education for the children, greater empowerment of women and increased participation of women in social and political activities.\textsuperscript{13}

However, the world wide awareness and importance of microfinance for the upliftment of the poor has been growing over the years as different countries are attempting to device ways and means to enhance the access of the poor to credit facilities. As a result, an intense debate has erupted among the planners, bankers and officials of the government and non-government organization as to how financial services can be provided to the poor in an effective, efficient and sustainable manner. Finally the attempt and the idea has been praised world wide and the interest reached a new peak with a micro-credit summit held in February 1997 in Washington which was considered the first step of a decade-long campaign that seeks to ensure delivery of credit for self-employment by 2005 to hundred million of the world's poorest families especially women of those families.

It was in such an environment that microfinance emerged as an innovation the world over. It was evolving into an effective system for provision of financial services to the poor households, more especially micro-enterprises. Internationally several variants of microfinance technology have evolved in the last two decades as also a wide range of institutions.

3.8 Participants in the Microfinance System

1) National Bank for Agricultural and Rural Development (NABARD)

NABARD is an apex institution, accredited with all matters concerning policy, planning and operation in the field of credit for agriculture and other economic activities in rural area in India. NABARD was established in 1982 as a Development Bank, in terms of the preamble of the Act, "for providing and regulating credit and other
facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view of promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto." The corporate mission set by NABARD for making available microfinance services to the very poor envisages coverage of the one-third of the rural poor through one millions SHGs by the year 2006-07. The propose targets are given below in the following table.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of new SHG to be linked during the year</th>
<th>Cumulative No. of SHGs to be linked at the end of the year</th>
<th>Bank loan requirement during the year (Rs. in million)</th>
<th>Cumulative bank credit involved at the end of the year (Rs. in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>1,25,000</td>
<td>5,85,000</td>
<td>7,909</td>
<td>18,172</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,10,000</td>
<td>6,95,000</td>
<td>14,172</td>
<td>32,884</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,05,000</td>
<td>8,00,000</td>
<td>28,184</td>
<td>61,068</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,00,000</td>
<td>9,00,000</td>
<td>41,256</td>
<td>1,02,234</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,00,000</td>
<td>10,00,000</td>
<td>49,588</td>
<td>1,51,912</td>
</tr>
</tbody>
</table>

(Source : NABARD)

In November 1998, a high-powered task force on supportive policy and regulatory framework for microfinance (henceforth referred to as the Task Force) was set up by NABARD at the instance of RBI. The objective of the task force were among others, to come up with suggestions for a regulatory framework that brings the operations
of the microfinance institutions into the mainstream, to access the possible role of self-regulatory organization and to explore the need for a separate legal framework for microfinance.

(ii) Reserve Bank of India (RBI)

The earliest reference to micro credit in a formal statement of monetary and credit policy of RBI was in former RBI President Dr. Bimal Jalan's monetary and credit policy statement of April 1999. The policy attached importance to the work of NABARD and public sector banks in the area of micro-credit. The banks were urged to make all out efforts for provision of microcredit, especially forging linkages with SHGs, either at their own initiative or by enlisting support of Non Government Organization (NGOs). The microcredit extended by the banks is reckoned as part of their priority sector lending, and they are free to device appreciation loan and saving products in this regard.

In 1994, the RBI constituted a working group on SHGs. On the recommendation of SHGs would be reckoned as part of their lending to weaker sections and such lending should be reviewed by banks and also at the State Level Banker's Committee (SLBC) level, at regular interval. Banks were also advised that SHGs, registered or unregistered, which engaged in promoting the saving among their members, would be eligible to open savings bank accounts with banks irrespective of their availment of credit facilities from banks.

(iii) Self Help Groups (SHGs):

The origin of SHGs is from the brainchild of Grameen Bank of Bangladesh, which was founded by Mohammed Yunus, SHG was started and formed in 1975. The establishment of SHGs can be traced to the existence of one or more problem area around
which the consciousness of rural poor is built and the process of group formation initiated. SHG are considered a new lease of life for the women in villages for their social and economic empowerment. SHG is a suitable means for the empowerment of women. Since SHGs have been able to mobilize savings from persons or groups who were not normally expected to have any 'saving' and also to recycle effectively the pooled resources amongst the members, their activities have attracted attention as a supportive mechanism for meeting the credit-needs of the poor (NABARD 2004). The main characteristics of SHG are as follows:-

a) The ideal size of an SHG is 10 to 12 members (In a bigger group, numbers cannot actively participate).

b) The group need not be registered.

c) From one family, only one member (More families can join SHGs this way).

d) The group consist of either only men or of only women (Mixed groups are generally not preferred).

e) Women's groups are generally found to perform better.

f) Members have the same social and financial background (Members interact more freely this way).

g) Compulsory attendance (Full attendance for larger participation).

**Function of SHGs:**

1) The amount may be small, but savings have to be a regular and continuous habit with all the members. 'Savings first - credit later' should be the motto of every group member.
2) The savings to be used as loans to members. The purpose, amount, rate of interest etc. to be decided by the group itself. Enabling SHG members to attain loans from banks, and repaying the same.

3) Every meeting, the group will discuss and try to find solution to the problem faced by the members of the group.

(iv) **Micro-finance Institutions (MFIs)**:

A range of institutions in public sector as well as private sector offers the microfinance services in India. Based on asset sizes, MFIs can be divided into following categories:-

1) 5-6 Institutions which have attracted commercial capital and scaled up dramatically when last five years. The MFIs which include SKS, SHARE and Grameen style program but 2000, converted into for-profit, regulated entities mostly Non-Banking Finance Companies (NBFCs).

2) Around 10-15 institutions with high growth rate, including both news recently form for-profit MFIs. Some of MFIs are Grameen Koota, Bandhan and ESAF.

3) The bulk of India's 100 MFIs are NGOs struggling to achieve significant growth. Most continues to offer multiple developmental activities in addition to microfinance and have difficulty accessing growth trends.

Private MFIs in India, barring a few exceptions, are still fledging efforts and are therefore unregulated. They secure microfinance clients with varying quality and using different operating models. Regulatory framework should be considered only after
the sustainability of MFIs model as a banking enterprise for the poor is clearly established.

(v) **Non Government Organizations (NGOs):**

The Non Government Organizations involved in promoting SHGs and linking them with the Formal Financial Agencies (FFAs) perform the following functions:

- Organising the poor people into groups.
- Training and helping them in the organizational, managerial and financial matters.
- Helping them across micro credit and linkage with formal financial agencies.
- Channelizing the group effort for various developmental activities.
- Helping them in availing opportunities, widening the options available for economic development.
- Helping them in sustaining the group effort independently even after withdrawal of the NGO.\(^\text{15}\)

3.9 **Models of Micro Finance Practices**

The following are the variety of delivery models of microfinance in India.

a) **The SHG-Bank Linkage Model:**

The predominant model in the India microfinance context continues to be the SHG linkage model that accounts for nearly 20 million clients. It started as an Action Research Project in 1989. Under this model, self help promotion institution usually a
NGO, helps groups of 15-20 individuals through an incubation period after which time they are linked to banks. The SHG had proved their efficacy overtime but they suffer from a meager resource base which handicapped their capacity to expand the economic activities of their members. The factors received by the SHG members were the lack of information, time-consuming and expensive procedures for obtaining bank loans, rigid lending policies of the 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 financed by banks :- In this model, the banks play dual role of promotion of SHGs and also provider of credit to SHGs. Up to March 2005, 21% of SHGs financed were from this category.

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

Model - III : SHGs financed by banks using NGOs and other agencies as financial intermediaries :- In this model, the NGOs and other agencies play the role of financial intermediation. Up to March 2005, only 7% SHGs financed were from this category. This in 2006-07, the country witnesses a marked proliferation of SHGs to the extent of 24,76,492. In no less discouraging terms the bank loans also amounted to Rs. 13,511.86 crores as indicated in the table 3.3.
### Table 3.3: Progress of SHG bank linkage in India

<table>
<thead>
<tr>
<th>Year</th>
<th>New SHGs financed by Banks</th>
<th>Bank loan (Rs. crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>During the year No.</td>
<td>Growth (%)</td>
</tr>
<tr>
<td>1992-99</td>
<td>32,995</td>
<td>--</td>
</tr>
<tr>
<td>1999-00</td>
<td>81,780</td>
<td>148</td>
</tr>
<tr>
<td>2000-01</td>
<td>1,49,050</td>
<td>82</td>
</tr>
<tr>
<td>2001-02</td>
<td>1,97,653</td>
<td>33</td>
</tr>
<tr>
<td>2002-03</td>
<td>2,55,882</td>
<td>29</td>
</tr>
<tr>
<td>2003-04</td>
<td>3,61,731</td>
<td>41</td>
</tr>
<tr>
<td>2004-05</td>
<td>5,39,365</td>
<td>41</td>
</tr>
<tr>
<td>2005-06</td>
<td>6,20,109</td>
<td>15</td>
</tr>
<tr>
<td>2006-07</td>
<td>2,37,927</td>
<td>--</td>
</tr>
</tbody>
</table>

(Source: NABARD - 2007)

### Table 3.4: Agency-wise number of SHG financed

<table>
<thead>
<tr>
<th>Agency</th>
<th>During 2004-05</th>
<th>Cumulative up to 31st March 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SHGs</td>
<td>Bank loan</td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>CBs</td>
<td>RRBs</td>
</tr>
<tr>
<td>------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>Loans</td>
<td>57,051</td>
<td>1,57848</td>
</tr>
<tr>
<td></td>
<td>19,042</td>
<td>8,213</td>
</tr>
<tr>
<td></td>
<td>64</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>8,43,473</td>
<td>5,63,846</td>
</tr>
<tr>
<td></td>
<td>52</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>41,59,019</td>
<td>20,995,47</td>
</tr>
<tr>
<td></td>
<td>60</td>
<td>30</td>
</tr>
</tbody>
</table>

(Source : NABARD - 2007)

b) **Grameen Model :-**

Potential clients are asked by the 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 for productive purposes are provided by the MFO directly to the members of small groups on the strength of group insurance. Grameen model is being followed by India by Association for Sarva Seva Farms (ASSEFA), Activities for Social Alternatives (ASA) and other financial and technical services limited.

c) **Cooperative Model :-**

This has been initiated by Cooperative Development Forum, Hyderabad which has relied upon a 'credit union' involving the saving first strategy. It has built up a network of Women Thrift Groups (WTGs) and Men Thrift Groups (MTGs). They are registered under Mutually Aided Cooperated Society Act (MACs) and mobilize savings resources from the members and access outside/supplementary resources from the individual system.

d) **Partnership Model :-**

The partnership model pioneered by ICICI Bank attempted to address 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 incentivize partner. MFIs continually, 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 inability of MFIs to provide risk capital in large amounts, this limits the advances from banks, despite a greater ability of the later to provide implicit capital.

In this model, the MFI collect a service charge from the borrowers to cover its transaction costs and margins. The lower the defaults, the better the earnings of the MFI as it will not incur any penalty charges vis-a-vis the guarantee it.

3.10 Region wise Penetration of SHGs

Andhra Pradesh is the leading state of India in the size of the SHG movement, measuring more than three standard deviation above the mean, i.e. 279 households participating in SHGs for every 1000 households. Orissa, Pandicherry, Tamil Nadu and Karnataka formed the second leading group, with more than one standard deviation above the mean. Himachal Pradesh, Kerala, Assam, Rajasthan, West Bengal and Maharashtra formed an intermedia group with ratios within standard deviation of the mean with 94, 85, 82, 65, 51 and 56. The other states had one unit of standard deviation below the mean. In Uttarakhand and Jharkhand, there were less than 32 households participating in SHGs for every 1000.
In Jammu and Kashmir, Haryana, Punjab and Arunachal Pradesh, there were less than ten households participating in SHGs for every 1000 of the total households.

### 3.11 Rectifying Regional Skew

The SHG-Bank Linkage Programme (SBLP) expanded by 37 percent in 13 priority states which account for 67 percent of the rural poor. These states were identified by NABARD in 2005 for special efforts and location-specific strategies. Growth was particularly rapid in Maharashtra (72 percent). As a result, the western region (Maharashtra and Gujrat) experienced the fastest growth (65%) of all the groups, and its share in the total number of groups linked is now only 5 percent points behind its share of the total number of poor, the region which have the most catching up to do are the centers (Chhattisgarh - 33 percent, Madhya Pradesh - 24 percent, Uttar Pradesh - 23 percent) and eastern (Bihar - 57 percent, Jharkhand - 21 percent, Orissa - 30 percent, West Bengal - 33 percent) regions, whose share of groups lag behind their share the poor by 21 and 11 percentage point respectively. Growth in the east region was 33 percent about the same as overall national growth of 31 percent, and well below the previous year's growth of 48 percent, in the central region was only 24 percent. Despite relatively rapid growth in priority states, the programme continues to remain heavily skewed in favour of south, while the share of the south in linked groups came down marginally during the year.¹⁶

**Asmitha** :- Provides rural women access to financial resources in the form of collateral free small loans for income generation and livelihood promotion. This enables them to set-off small start up business as a result, low-income women become economic agents intrinsic to development rather than simply homeworkers.
**Bandhan** :- Bandhan was set up to address the dual objective of poverty alleviation and women empowerment. The microfinance activities are carried on by Bandhan Financial Services Pvt. Ltd. (BFSPL), incorporated under the companies Act, 1956 and also registered as a Non-Banking Financial Company (NBFC) with the Reserve Bank of India.

**Cashor India** :- The mission is to identify and motivate poor women in the rural area and deliver financial services to them.

**Hand in Hand** :- It is a development organization whose objective is to eliminate poverty by creating enterprises and jobs. Focussing on help self-help, we take a holistic approach that combines microfinance and support for women to start enterprises with work in four other areas that matter most to poor communities: education and child labour elimination, health and sanitation, a sustainable local environment and information technology access. With currently more than 4,50,000 members in Tamil Nadu, Karnataka and Madhya Pradesh, who have collectively started more than 2,50,000 micro enterprises, our goal is to create 1.3 million jobs by 2013. Supported by international offices in the UK and Sweden, we are now taking our model to South Africa, Afghanistan and Latin America.

**Micro Credit India** :-

Today MFIs works primarily with women. Through its field staff, MFI helps them to form Self Help Groups (SHGs), trains them in good financial practice, facilitates access to micro credit loans, equip them with business skill and facilities access to new markets for their products.

**MYRADA** :- MYRADA is a non-governmental organization managing rural development programmes in 3 states of South India and providing on-going support
including deputations of staff to programmes in 6 other states. It also promotes the self help affinity strategy in Cambodia, Myanmar and Bangladesh.

**Saadhana** :- Saadhana is a non-profit organization established in the year 2001 to reach out the urban and rural poor women with the specific mandate to catalyze the 'endeavour of the poor for self-sufficiency'.

**Samrudhi** :- Samrudhi’s mission is to empower the poor and underprivileged to become economically self-reliant by providing cost effective and need based financial services in a financially sustainable manner.

**SKS India** :- launched in 1998, SKS microfinances is one of the fastest growing microfinance organizations in the world. SKS also offers interest-free loans for emergencies as well as life insurance to its members. Its NGO using SKS foundation runs the ultra poor program. SKS currently has microfinance branches in 19 states across India. SKS aims to reach members 15 millions by 2012. In the last year alone, SKS microfinance has achieved nearly 170% growth, with 99% on-time repayment rate.

**Spandana** :- Spandana is one of the largest and fastest growing microfinance organizations in India, with 1.2 million active borrowers in March 2008, up from 520 borrowers in 1998-99, its first year of operation (Mix Market 2009). From its birth place in Guntar, a dynamic city in Andhra Pradesh, and several others. The basic Spandana product is the canonical group loan product, first introduced by the Grameen bank. A group is comprised of 6 to 10 women and 25-45 groups form a center.17

### 3.12 Different Modes of Services Provides by MFIs
Microfinance sector has covered a long journey from micro-savings to microcredit and then the microenterprises and now entered the field of micro insurance, micro remittance, micro pension and micro livelihood.

**Micro-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 expenses.

**Micro-credit** :- Microcredit is the extension of micro loans to the unemployed, to poor entrepreneurs and to other living in poverty that is not considered bankable. Microcredit can be offered often without collateral, to an individual or through group lending.

**Micro-insurance** :- It is a system by which people, business and other organizations makes a payment to share risk, microinsurance products are mainly targeted at low income groups in the unorganized sector, farmers and craftsmen. The amount of premium these schemes ranges between Rs. 20.00 to Rs. 500.00. The finance minister recently considered two schemes, 'Aam Admi Bima Yojana' to extend death and disability insurance and 'Rashtriya Swasthya Bima Yojana’ a health insurance schemes for below poverty line families.

**Remittances** :- These are transfer of funds from people in one place to people in another, usually across borders to family and friends. Compared with other sources of capital that can fluctuate depending on the political or economic climate, remittances are a relatively steady source of funds. ¹⁸

### 3.13 Legal Framework of Microfinance Institution in India
Institutional microfinance is defined to include microfinance services provided by both formal and semi-formal institutions. Microfinance institutions are defined as institutions whose major business is the provision of microfinance services. Actually microfinance represents more than microcredit as it refer to savings products, to insurance, to pawns and remittances in sum to a much wider range of financial. Two overlapping categories of microfinance initiatives are poverty lending and microbanking poverty lending programmes and institution often offer savings and insurance services as well. The objective of the poverty lending programmes is to give higher priority to social outreach than financial sustainability, through an organization may strive for both. The main focus of micro-banking on the other hand, is income promotion by MFI and a drive for financial sustainability as a permanent financial intermediary. There are a host of microfinance institution in India. They assume paramount importance in the context of pension reform as they have the ability to mobilize large amount of savings from people who are beyond the purview of formal sector mechanism.

There are four types of structure as follows:

<table>
<thead>
<tr>
<th>Microfinance institution in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charitable Institution</td>
</tr>
<tr>
<td>Societies, Trust etc.</td>
</tr>
<tr>
<td>Co-operatives</td>
</tr>
<tr>
<td>State and National Cooperatives</td>
</tr>
<tr>
<td>Companies</td>
</tr>
<tr>
<td>NBFC</td>
</tr>
<tr>
<td>Banking Institutions</td>
</tr>
<tr>
<td>LAB</td>
</tr>
</tbody>
</table>

1) Microfinance Institutions as Charitable Institutions:
These are societies registered under Societies Registration Act, 1860 and trusts registered under Trust Act, 1882. They work on grants. They are not able to handle funds of SHGs or acts as an intermediary beyond a level. They are not allowed to raise equity and mobilize deposits. These structural restrictions limits the availability of capital to these MFIs. Often these institutes are found to services on foreign grants.

2) **Micro-finance Institutions as Cooperatives**:

Cooperatives have legal sanction to work as financial intermediaries. The activities of state co-operatives are restricted in the state. Their activities are heavily controlled by the controlling authority, Registrar of the cooperative societies and the state government. National co-operatives need lesser government control than state cooperatives for multi state operations. Cooperatives are allowed to raise share, to mobilize deposits. No tax is charged on cooperatives. They can get foreign debt but are not allowed to raise foreign equity. The New Generation Cooperative Act (for example, Mutually Aided Co-operative Societies Act, 1995, in Andhra Pradesh) has become landmark legislation. It has been used by other organizations and as well as by associations like SHGs, Grameen Joint liability groups. According to this Act, there is less government control on mutually aided cooperative societies but they can be incorporated within a state only. Presently, cooperative societies in nine states (Andhra Pradesh, Jharkhand, Bihar, Jammu & Kashmir, Madhya Pradesh, Chhattisgarh, Orissa, Karnataka and Uttaranchal) are registered under this new Act. This Act reduces the role of registrar, gives greater flexibility in savings mobilization and fund utilization and allow the cooperatives to set up subsidiary organization.

3) **Microfinance Institution as Companies**:
MFIs have to have Rs. 2 crore as its initial funds if these are operating as Non Banking Financial Companies (NBFC). These MFIs are required to obtain a registration certificate from RBI (under section 45-1A of the RBI Act) after satisfying the initial conditions. They are allowed to mobilize deposits after satisfying conditions stipulated by RBI. After two years of their operations, they have to obtain minimum investment grade or other specified credit rating for fixed deposits from any one of the RBI recognized credit rating agencies at least once a year. They are then required to forward it to the RBI along with the annual returns. They are allowed to collect foreign equity upto 51% of US $ 0.5 millions; more than 51% to 75% of US $ 5 million and 100% of US $ 50 million.

A NBFC is also exempted from RBI registration if it does not deliver credit of more than Rs. 50,000 for a business enterprise and Rs. 25,000 for meeting the cost to raise the level of income of a poor person. This NBFC is licenced under section 25 of the Companies Act, 1956. It is not allowed to accept public deposits. Recently seven categories of NBFCs are exempt from RBI registration Housing finance companies, Mutual benefit financial companies (Nidhis), Insurance companies are important in these exempted categories.

4) Microfinance Institutions as Banking Institutions:

The MFIs who are operating as banks are registered under RBI but it is very difficult to obtain this registration. These institutions are regulated by RBI on daily affairs. To set up a MFI as a bank, it would require initial capital from Rs. 100 to 300 crore. For local area bank the amount is Rs. 5 crore. Local area banks are permitted to operate on three contiguous districts in a state. These are also highly management and
technology intensive to achieve sustainability. These MFIs are permitted to deliver credit to mobilize savings and to give insurances (under the registration of IRDA).

3.14 Microfinance Delivery Models in India

There exist a wide range of microfinance in India. It can be said that India hosts the maximum numbers of microfinance models. Each model has succeeded in their respective fields. The main reason behind the existence of these models in India may be due to geographical size of the country, a wide range of society and cultural groups, the existence of different economic classes and a strong NGO movement.

Microfinance Institutions (NGO-MFIs, Mutual Benefit MFIs and For-profit MFIs) in India have adopted various traditional as well as innovative approaches for increasing the credit flow to the unorganized sector. They can categories into four broad categories. (1) SHG Model (2) Federated SHG Model (3) Grameen Bank Model (4) Co-operative Model

We discuss important features of these four micro-finance model. These models vary in their legal form, in the channels and methods of delivery, in their governance structure, in their approach to sustainability and also in their approach to microfinance.

1) Self-Help Group (SHG) Model:

SHG has emerged as the 'Indian model of microfinance'. It is so popular in India that government programmes have SHG as the core of their strategy.

Dynamics of SHG Model :-
1) The SHG model has evolved in the NGO sector, NGOs primarily have the functions of enabling, educating and networking. This model has emerged as the capacity building of community based institutions.

2) SHGs are small and informal groups (strength of members :- 10 to 20). Group members are socio-economically homogeneous.

3) Groups are composed either by male only or by female. In India 90 percent of the SHGs are composed of female only.

4) Group members are self-selected act as a facilitating agency to build processes and systems that makes the SHGs viable and sustainable institutions.

5) The group members meet regularly at an appointed time and place for carrying out their savings and credit activities and other issues of development.

6) The group mobilizes savings among the members and issues need based loans to the members (only) of the common funds created.

7) The rules and norms are determined by members themselves and the NGO does not interfere in this matter.

8) After the SHG has been put on the path to sustainability, organizationally and financially, the NGO may decide to withdraw from supporting the SHG and move on to new groups.

9) The main motto of the SHGs is to empower poor socio-economically and their livelihood pattern.

2) **Federated Self Help Group Model:**
Federation of SHGs bring together several SHGs. In India, FSHGs includes those promoted by the Dhan Foundations, PRADAN, Chaitanya and SEWA are famous in India.

**Dynamics of Federated SHG Model :-**

1) Federations usually come under the Societies Registration Act. They have between 1000-3000 members.

2) There is a distinct three-tier structure in federations - the SHG is the basic unit, the cluster is the intermediate unit and an apex body or a federation, represents the entire membership.

3) Each SHG participates directly in the representative body at the cluster level. Two members from each SHG attend the monthly cluster meetings. Information from the groups to the apex body and vice-a-versa is channeled through the cluster level representative body.

4) The cluster leaders are a highly effective part for group monitoring and strengthening, so the operations of the apex body are decentralized through the clusters.

5) The executive body at the apex level is consists of 9 to 15 members.

6) Three common financial activities of federations are :-

   (a) Acting as an agent and managers of external credit funds.

   (b) Assisting SHGs with loan recovery in difficult cases.

   (c) Strengthening weak SHGs, so that they are able to carry out their savings and credit functions smoothly.
7) Other financial services provided by the federations are:

(a) Additional options for members to save: federations often offering additional savings schemes to the group members, which is apart from group savings. So the members have savings with the group and in addition, with the federations.

(b) Satisfactory returns on savings to members.

(c) Credit giving patterns also vary. Generally federations have credit activities at the group level, although, federations provide credit to the members, these loans are disbursed from member's savings that may be deposited with the federation and from the external funds that it is able to access independently, federations are able to increase the amount of credit available to members. Federations even provide bridge loans.

(d) Federations provide insurance and housing finance, and also support services to facilitate productive use of credit. One federation in India (Chaitanya) started to provide insurance services to its members. It has become an agent of the insurance company.

3) **Grameen Bank Model** :-

The Grameen Bank model of Bangladesh, developed by Muhammad Yunus, its former chairman was considered as the pioneer microfinance institution. It has been highly successful in its banking service to the poor as well as in its poverty alleviation programmes. With its well-recognized success, many organizations in India, like SHARE Microfin Ltd., Activities for Social Alternative (ASA) and CASHPOR, Financial and Technical Services Ltd. have adopted this methodology with little variations.
Dynamics of Grameen Bank Model :-

1. Homogenous groups of five members are formed at the village level.

2. The field worker of the Grameen Bank facilities the process of group formations.

3. All the group members undergo a 7 days compulsory training of 1-2 hours per day. Some groups undergo the Group Recognition Test (GRT). It is a screening test that can distinguish between serious and non-serious groups.

4. Once the preliminary groups have passed GRT, and then the women become members of Grameen Bank by paying a one-time member fee.

5. Eight join liable groups affiliate together to form a center. Every week center meets at a defined time. Bank Assistants attends the meetings and it is mandatory for the members to attend the weekly meeting and all the loan applications have to be approved by other group members as well as center members. The loan is disbursed from the bank fund and it is not linked with the group savings. Loan is given to the individual not to the group or the center.

   The loan disbursement is always done in the center. The housing loans are disbursed at the Branch to maintain documentation.

   Various loans are provided by the Grameen Bank such as general loans, supplementary loans, special loans, sanitations and housing loans etc. The size of loan ranges from Rs. 4,000 to Rs. 10,000 for general yearly loans. The first loan is Rs. 4,000 and there is an annual increase of Rs. 1,000 in loan size in each year thereafter.

   Every member save Tk. 10 per week and it is compulsory. This saving is deposited with Bank. The Bank funds their consumptions with this deposit. This strategy
overcomes the problem of default as it is proved that nobody is likely to default on his or her own money.

All loans are repayable within a year in 52 equal installments (over 52 weeks). Bank charges 5 per cent tax on all productive loans to a member. In this way group fund is increasing.

The group leader collects the loan repayments and savings prior to the meeting and hands its over to the center leader who gives it to the field worker during the meeting. This collected amount is deposited in the branch on the same day. No new loan is issued from this collected amount. It discouraged all possible leakages in monetary transactions.

Peer pressure replaces the collateral. Member-borrowers who repaid the loan in time are allowed to get repeated loans and conditions access to increasing credit from bank. The most significant aspect of the Grameen Bank model has been its high loan recovery rate (98% and above).

4) The Cooperative Model:

The leading organizations that has been successful in using the cooperative form in rural microfinance in India has been the Cooperative Development Forum (CDF), Hyderabad. It has built up a network of financial co-operatives based upon women's and men's thrift groups. It has registered under the New Generation Co-operative Act, 1995.

Dynamics of Co-operative Model:

1. The primary entities of CDF's microfinance co-operative are the women's/men's thrift cooperative (W/MTC). Each consist of 300 members. Generally these members reside in the same village.
2. CDF has started to promote much smaller units and now it has encouraged these units to extend into large units.

3. The important factors behind the running of a successful co-operative venture are:
   (a) to justify human resources (staffs)
   (b) to meet statutory administrative requirements such as audit.

4. The WTC or MTC are divided into small groups (10 to 15 members) to facilitate better monitoring of thrift and repayment of loans.

5. The group member nominate a group leader and the leader enjoyed the confidence of the group.

CDF encouraged members to identify more strongly to identify more strongly with their WTC/MTC rather than with the groups, as WTC/MTC are the primary legal entities and viable units of operation.

- Most of the WTC/MTCs decided to register themselves under the New Generation Cooperative Act, which allows for greater flexibility and autonomy in operations.

- The General Body constitutes of all the members of primary cooperatives. It adopts a uniform set of bylaws. The General Body meets once in a year to select the directors, review and discuss the other issues. The Board of Directors consists of 12 directors who are elected by the members.

- Each director is elected for three year term. The retired directors are eligible for re-election.
The directors elect a chairperson and appoint a Managing Director (MD) among themselves. The chairperson and MD have a one year term. They are also eligible for re-election.

The chairperson presides the board meetings. He/She represents the cooperatives in other organizations (Forums) and ensures that they function in accordance with the cooperative principles and bylaws.

The MD is responsible for ensuring that the operations of cooperatives are properly conducted and that the resolutions of the boards are implemented.

A set of geographically continuous cooperatives forms an association of WTC/MTC. The chairperson and MD of each participating cooperatives are members of the general body of the associations.

General Body elects a chairperson and MD to oversee the affairs.

The Associations provides training, management of the loan insurance fund and inter-lending. It also plays a support role by helping the member cooperative in handling accounting, auditing and other administrative matters.20

3.15 Case Study

1) SEWA (Self Employed Women Association):

SEWA supports 1600 SHGs with 38,000 members in rural Gujrat. It is observed that urban members of SEWA were saving 4.1 percent of their income and rural member 1.9 percent (Awano, 1996). At the end of 2001, SEWA bank had over Rs. 30 crore in 1,20,000 deposit accounts. SEWA credit is current credit-deposit ratio is 31 (in other words Rs. 10 crore are lent out to members of the 30 crore deposit). The research revealed that savings are unlikely to be significant to cover all uncertain consumption
needs. They need emergency loans and insurance services. SEWA started insurance services in 1992 and provided against premiums paid annually by members. About 25000 women have invested in fixed deposits that earn interest to cover the yearly insurance premiums needed. About 33,000 women had outstanding loans, 33 percent of these loans were taken as working capital, 17 percent for personal, 10 percent for investment and 40 percent for housing loans.

2) **SHG-Bank Linkage Programme:**

NABARD (National Bank for Agriculture and Rural Development) had circulated guidelines to banks for financing SHGs in 1992 under a pilot project that aimed at financing 500 SHGs across the country through banking system. Different banks financed about 600 SHGs by March 1993. This encouraged the RBI in 1996 to include financial SHGs as a mainstream activity of banks under their priority sector lending. At the end of March 2002 (NABARD and microfinance, 2001-2002), banks financed about 461,478 SHGs. About 7.8 million poor households access credit through 17,085 branches of formal banking system under this programme. It is the largest microfinance programme in term of outreach. Banks have disbursed Rs. 4530 millions as loan to new SHGs and Rs. 924 millions to the existing SHGs in 1992. This programme has covered 488 districts in different states and union territories of India. Almost all members developed savings habit in the post-SHG situation as against only 23 percent of households had this habit in pre-SHG situation. About 70 percent loans were taken for income generation activities in post-SHG situations.

3) **BASIX :-**

BASIX is the second largest MFI in India in terms of outreach and development in integrating micro-credit and livelihood promotion. It has financial
operations in 2200 villages in 18 districts across four states (Andhra Pradesh, Maharashtra, Karnataka and Orissa) and works in a further five stated (Assam, Jharkhand, Madhya Pradesh, Rajasthan and Tamil Nadu) in assisting other MFIs. Upto 2001, BASIX disbursed more than 60 crore in 58,000 loans, outstanding loans stood at Rs. 20 crore among 21,000 active borrowers. The repayment rate is 91 percent. BASIX has been highly successful in attracting loans and equity from both national and international sources. It has secured Rs. 26.3 crore of total loans from Ford Foundations, the Swiss Agency for Development and Cooperation (SDC), (Shorebank Corporation USA), Cordaid (Netherlands), Development International Desjardins (Canada) and Rs. 12 crore from Global Trust Bank, ICICI, HDFC and SIDBI in India. It has raised Rs. 11.9 crore in equity from IFC, World Bank affiliate, Shore Bank Corporation and Hivos-Triodas Fund (the Netherlands), ICICI Bank and HDFC. BASIX has provided two types of loans (a) Direct loans for extended directly to rural producers by BASIX and (b) Indirect loans are extended through intermediaries. These intermediaries includes SHGs, other community-based financial organizations and market agent (such as input dealers, wholesale merchants etc.). BASIX has been able to disburse 80 percent of total loans indirectly. About 40 percent of lending was to non-farm sector, 20 percent to dairy and other livestock and 30 percent to agriculture. About 10 percent of loans were lent to women's SHG (classified as general purpose loans). BASIX has supported over 40,000 livelihoods (250 persons days of employment are equivalent to a full time livelihood).

4) Cooperative Development Foundation (CDF) :

Cooperative Development Foundations in Andhra Pradesh has worked with the mainstream cooperative structure throughout its existence. It has a membership of
6000 (with more than half being small and marginal farmers) and has a total turnover of Rs. 32 crore in trading and Rs. 9 crore outstanding in loans to members. Within a decade, these cooperatives in two backward districts of Andhra Pradesh has grown to 350 in member, with more than 1,00,000 members and with Rs. 12.5 crore in savings. It is comparable to any large MFI in India. In CDF, members made interest rate deposits under the Death Relief Assurance Scheme. These deposits are in turn invested in other securities and the earned income is set aside for contingencies.

5) SHARE Microfin Limited :-

The prime objective of SHARE Microfin Limited is to provided financial and support services to the poor women living below the poverty line. It enables these women to take income generating activities. It is registered as a public limited company under section 25 of the Companies Act and it is also registered with the RBI under section (45/1A) as a NBFC. It has an authorized capital of Rs. 15 crore and an amount of Rs. 5.09 crore has been paid up by 26,034 poor women. The company is owned and managed by the poor women. It is operating in 2990 villages in the three states in India. This MFI has disbursed Rs. 3,662,707,780 as a loan among which Rs. 2,843,277,300 is recovered and Rs. 819,430,480 is outstanding at the end of March 2004. The repayment rate is 100 percent.\textsuperscript{21}

3.16 Micro-Enterprises

Since independence out success in the development sectors are only moderate. Unemployment and poverty still pose major challenges for us, especially in rural areas. It all happened irrespective of the high opportunities of employment
generation lies in agriculture sector and rural non-farm sectors (RNFS). Microenterprises can play an important role in improving the quality of life and poverty alleviation. Microenterprises, whether in the informal or organized sectors, provide opportunities for gainful employment while preserving the social structure. Microfinance can play an important role to meet credit needs of rural poor. According to Singh (2002), "In India, the need for microfinance is higher as the demand for credit to start micro-enterprises by the poor people could not be met by the institutional initiatives of rural finances up to large scale. Due to the failure of percolation theory of social development, poor people are highly dependent on the institutional source of credit. Growth of microfinance in India has been in response to the failure of institutional initiatives of rural credit and exploitation attached with informal system of credit." NGOs in India acted very promptly for the growth of microfinance sector as it provides spaces to the poor people to use their on savings for credit linkages and finally starting the viable enterprises.

The term 'micro-enterprise' refers to a very small-scale, informally organized business activity undertaken by poor people.

3.16.1 Need and Importance of Micro-Enterprise :-

Micro-enterprise is a proven way to strengthen viable small businesses resulting increased households income and savings and this the alleviating economic poverty.

Mentioning the importance of micro and small enterprises (MSEs) in India, "Micro and small enterprises (MSEs) constitute an important segment of the Indian economy. Besides providing employment to nearly 25 million persons, mostly belonging to the lower rung of socio-economic strata in the society, the sectors helps the process of economic diversification, utilization of otherwise dormant resources, balanced regional
development, production of and demand for wage goods, equitable distribution of income, and widening the base of entrepreneurial supply."

Promotion of micro-enterprises is a viable and effective strategy for achieving significant gains in income and assets for poor and marginalized people. The microenterprise programs helps people to build human, financial and social capital for the development of micro-businesses that will improve people well being. NGOs are playing important role as catalyst in helping the rural unemployed persons to acquire training through MEDPs (Micro-Enterprise Development Programmes) so that they can become self employed by starting their enterprise in RNFS. Moreover, they can also become job providers instead of job seeker. Thus institutionalization of MEDPs through NGOs can be an alternative approach of rural development in India.

Entrepreneurship Development Programme (EDP) means a programme of entrepreneurship development designed to help a person in strengthening her/his entrepreneurial motive and in acquiring skill and capabilities necessary for playing his/her entrepreneurial role effectively. To make EDP successful and effective, the role of the NGOs has significant important in terms of identification of place or location, promotional activities, selection of potential entrepreneurs, entrepreneurial training, monitoring and follow up mechanism.

Micro entrepreneurship through microfinance has become a modern economic weapon for the poor to fight against poverty and employment. But it has long way to become successful. Many programmes from IRDP to SGSY were started by the government enthusiastically but they were not able to achieve their objectives. The reason behind this is poor follow up, lack of management and participation from the
government as well as people. No programme can never ever get its ultimate result unless and until there is coordination and cooperation between government and beneficiaries.  

3.16.2 Case Studies - Empowering client through micro-enterprise:

The story of Dipa Pise illustrated the direct links between innovative entrepreneurship by rural women and their ability to obtain credit from cooperative banks. Dipa Pise was running a poultry business, but was continually losing money i.e. she was in loss. She has decided to start a business of making the paper cups, which are used for giving 'prasad', and with a Rs. 15,000 loan from State Bank of India, she was able to buy the machine and begin marketing of her cups. Today she has expanded her business into a dealership where she provides these machines and marketing services to numerous women, and is running a successful and growing micro-enterprise business. Dipa's story shows that the loans required by micro-entrepreneurs are quite small, and since their economic enterprises are small, they should also be expected to repay their loan in small doses. Mann Deshi has employed this method, and has been able to recover 98 percent of this loans, by maintaining realistic expectations from our clients and providing them with the services they require. One of those services is providing access to markets, through savings and loans suited to their ambition. Dipa's story is only one example of the way in which cooperative bank can motivate the micro-enterprises of women and promote the economy of semi-urban centers. When women get the additional income, they want to invest in health of the family and the education of the children. Women are ready to buy the health insurance but it is pathetic that in spite of so many companies, health insurance is still a luxury for the urban people and the workers from the organized sector. 20 Percent of the population is not insured in rural areas. 90 Percent
of the population cannot even dream as there is no availability. Mann Deshi Mahila Bank and the association are trying hard to workout the product with the partners.

3.17 Micro-Insurance

Microinsurance can boost resources for the rural poor, governments, and private sector. The entire economy gains as the insurance industry matures further, as well. There is robust need for microinsurance in India's poverty reduction strategy. With insurance, the vulnerable can prepare for an adverse event before it occurs, instead of being paralysed by shocks afterwards. Microinsurance also increase the livelihood that the poor eat well, have health access, and send their children to school, since they would not have to save as much for emergencies. Potential clients would typically earn around $2 a day or even less.

Six key areas, which need to be addressed to propel micro-insurance is -

1) Demand and supply    2) Product design    3) Pricing
4) Distribution and outreach    5) Procedure    6) Regulation.\(^23\)

3.17.1 Provision of Micro-insurance for SHG Member :-

Presently there is a death of micro-insurance product in the market, which can take care of the needs of the SHG member, as they require composite insurance product, which take care of their health, assets and life risk. Hence it is desirable to evolve a suitable insurance product/s. However, a few insurance companies both in the public and private domain are involved in evolving suitable model of insurance package which can suit the needs of poor as well as its financial viability and sustainability.

It is widely recognized that microfinance has been a successful methodology for providing much needed financial services to the poor on a sustainable
basis. This access of financial services has enabled a large number of poor throughout the developing world to make significant progress in their own efforts to challenge poverty through the existence of options. It is generally agreed that the impact of microfinance on poverty reduction has been significant. Versions vary depending upon the sample site and sample size. Some of the empirical findings are that microfinance has reduced the incidence of poverty through increase in income; building assets and thereby reducing vulnerability. The reports are that the households having access to microfinance spend more on education than non-client households. They send their children to school and there is reduction in the drop-out rate in the higher primary grades. The housing conditions generally improved from kutcha to pucca housing; the share of consumption loans declined from 50 percent to 25 percent; employment increased by 18 percent. The involvement in the group significantly contributed in improving the self confidence of the members. The feeling of self-worth and communication with others improved after association with SHGs. The members were relatively more assertive in confronting social evils and problem situation. As a result there was a fall in the incidence of family violence.24

Micro-insurance plays a vital role as part of social society. The rural women are deprived from the services of insuring themselves. Considering the crying need for vulnerability reduction, we provide insurance service at the doorsteps of the rural women. Group insurance for accident benefit for Rs. 25,000/- is provided through Rajrajeshwari Mahila Kalyan Vima Yojana at a premium of Rs. 15 per head and life insurance of Rs. 5,000/- at a premium of Rs. 50 per women is provided. Cattle insurance and insurance for assets are the other areas here insurances are provided.
Recently, a lady viz. Sunita a member of an SHG was insured under Rajrajeshwari Mahila Kalyan Vima Yojana. Unfortunately she died by the accident leaving behind a one year child Swapnil. The insured amount of Rs. 25,000/- was handed over to the son in the forms of National Savings Certificate which will be useful for his future studies.

Distribution to low-income populations is critical. Some examples of distribution for better outreach in rural area exist, generally using intermediataries like non-governmental organizations (NGOs) or Micro-Finance Institutions (MFI) already working among the target population. Their financial viability seems to depend on availability of soft funds for initial market penetration and development of distribution channel. Innovations in delivery channels should not be ruled out, meanwhile.²⁵

Table 3.5 : Details some possible delivery channels within India for the Industry

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Possible delivery channels in India for microfinance</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Self Help Groups linked to banks</td>
<td>1,618,476</td>
</tr>
<tr>
<td>2.</td>
<td>Non-governmental organization as development facilitor (approx.)</td>
<td>200,000</td>
</tr>
<tr>
<td>3.</td>
<td>Non-governmental organization involved in microfinance</td>
<td>3,024</td>
</tr>
<tr>
<td>4.</td>
<td>Rural and semi-urban commercial bank branches</td>
<td>33,388</td>
</tr>
<tr>
<td>5.</td>
<td>Regional rural bank branches</td>
<td>14,446</td>
</tr>
<tr>
<td>6.</td>
<td>Private fertilizer dealers</td>
<td>192,000</td>
</tr>
</tbody>
</table>
7. Primary agricultural cooperative societies | 105,735
8. Post offices in rural areas | 138,756

(Source: NABARD and RBI, Annual Report, 2006)

**REFERENCES**


