CHAPTER-8

MAIN FINDINGS, PROBLEMS AND SUGGESTIONS

Presently, micro finance is not just a tool for poverty eradication but also for individual development and growth in entrepreneurial activities in economically backward areas. In terms of the scope, the micro finance sector in India is concentrated in the Southern states of Andhra Pradesh, Tamil Nadu, Karnataka and Kerala, with Andhra Pradesh encompassing 50 to 70% of micro finance activities. Banks promoted by Priority Lending Targets and Profit motivation are increasingly investing in micro finance. To date, however, they have shown little or no interest in retail micro finance and the predominant providers of micro finance services in India continue to be SHGs and MFIs. Self Helps groups with a small Micro-Finance are occupying an important position in rural credit. MFIs/SHGs have become a forum for the collective voice of the poor against common oppression and exploitation, to understand individual and common problems and improving skills and capacities to main resources. The study reveals the effectiveness of SHGs Bank linkage program and awareness among the rural folk about the significances of empowerment and rural credit.

MAIN FINDINGS

1. In a developing country like India, SHG Bank Linkage Scheme and MFIs have been successful both in coverage and scope with the help of different apex institutions like NABARD, RMK, SIDBI, RBI, NGOs, big foreign donor agencies etc. Commercial Banks, RRBs, Co operatives, NBFCs, not for profit companies and NGO-MFIs are part of the MFI model. But still rural people are dependent on non-institutional sources up to some extent.
2. Govt. has set up different funds like MFDF, MCDEF, poverty alleviation schemes and subsides etc., which has contributed towards institutional growth and transformation, simplifying governance procedures, accessing new sources of funding, building institutional capacity and to support different activities of SHGs, ultimately for social and economic welfare of poor people. Therefore it justifies Hypothesis-4 that commercial principle cannot be applied in lending to poor.

3. Among the three models of microfinance, namely 1) SHG Bank Linkage model 2) Grameen Model 3) Individual Banking Model operated through MFIs, the first model is most popular in India. Therefore it favors Hypothesis-3 that there is inappropriate reliance on group lending and microfinance institutions offer individual-based lending options.

4. Growth of the MFIs has increased competition for the SHG-Bank Linkage Program (SBLP), which diverted the focus on the income opportunities with least concentration on the welfare of the poor to save and prosper.

5. The micro finance bill has certain positive features like opening up the possibility of saving services by MFOs, improving the database of the sector and introducing basic consumer protection mechanisms. But the choice of NABARD as the regulator may run counter to the goal of inclusive growth. Therefore, the bill needs to be reworked to address the anomalies.

6. Reserve Bank has permitted banks to utilize the services of NGOs, MFIs (other than NBFCs) and other Civil Society Organizations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent at a location much closer to the rural population.
7. NABARD has been proved as a catalytic agent to support SHGs, NGOs, RRBs, DCCBS, farmers Clubs and individual volunteers for capacity building, exposure and awareness building of various partner agencies. For the promotion and nurturing of SHGs, different state level projects, schemes, grants, state-level awards etc. are sanctioned at central as well as at state level. Study also indicated that the training provided on site of work exerted positive effect on the awareness and knowledge of the rural poor about MFI activities and functions.

8. Subsidy acted as a tempting factor rather than enabling one to acquire more generating assets through bank credit resulting in unsatisfactory loan repayment as compared to SHG-Bank Linkage Program.

9. Limited fund flows from the banks has boasted the confidence of the private equity players, securitization techniques and foreign investors/donors in the growth potential of the microfinance industry.

10. The recovery rate of these institutions is remarkably high when compared to the whooping non-performing assets of banks in the traditional sector. The study revealed that the rural poor have no stress for saving to make repayment of MFI loan. This may be due to the very easy terms and conditions of MFI loan given to rural poor. **Therefore it justifies the Hypothesis-5 that poor are bankable and they are ready to pay higher than market rate of interest.**

11. This study finds out that there is a very clear down ward trend in the operating expense ratio (OER) of MFI’s as the loan size increases.

12. The SHG bank linkage program is highly concentrated in Southern region. Deficiencies and disparities are found in regard to micro finance outreach in varying degree in all states but were more pronounced in states of Northeast
region, Uttar Pradesh, Uttarakhand, Himachal Pradesh, Rajasthan, Madhya Pradesh, Chhattisgarh, Bihar, Jharkhand, Orissa and west Bengal in particular. Density of SHGs is also more in states with higher level of infrastructure and less in poverty stricken states. It justifies Hypothesis-10 that the socio-economic conditions of region / area affect the borrower’s ability to secure adequate credit and repaying capacity.

13. There are weaknesses in the planning and implementation process, formation, nurturing and working of SHGs and MFIs. There is no uniform policy for regulation of sector, rating of MFIs/SHGs, collection and processing of data about the member’s background and credit usage, lack of code of conduct for staff members. Funds earmarked for capacity building, skill development training, infrastructure development and marketing support by Micro-finance stakeholders are inadequate as well as improperly used. Therefore it justifies Hypothesis-8 that Govt. performs as a facilitator rather than of a regulator.

14. Rural People have rigid mindsets sticking to traditional customs, practices and work environment, posing barriers to the much needed transition to entrepreneurial status through occupational mobility vertical and / or horizontal.

15. Existence of number of MFIs operating in a common area and disbursing credit in an uncoordinated manner, resulted in multiple lending, over financing, under financing, financial indiscipline and diversion of scarce resources to unproductive purpose.

16. Inadequacy of credit, inadequate supervision, non-availability of infrastructural facilities, apathy of bank staff and irregular repayment schedule etc. have resulted in large scale misutilization of loan. Large number of groups discontinue after
some time due to lack of co-ordination and management, illiteracy, shortage of funds and infrastructure. It justifies Hypothesis-1 that there is scope for substantially improving the quality and efficiency of service delivery by the organizations providing micro finance services.

17. Many banks and MFIs are providing only micro-credit services with rigid system of repayment and collaterals without the use of ICT and skilled human force which increases the transaction cost. This justifies Hypothesis-7 that administrative cost is major stumbling block for banks in providing small loans to the poor.

18. Overall, it can be said that the development and growth of rural poor has significantly increased after getting assistance from MFIs. Analysis indicated that overall income, employment, literacy level and living status of MFI beneficiaries has improved after getting assistance from MFIs, which enabled the poor to build assets and thereby reduce their vulnerability. The present study verified and justified Hypothesis-11 that micro-finance has helped significantly in improving the socio-economic conditions of the rural poor in India.

19. It has empowered women by enhancing their contribution to household income, increasing the value of their assets and there was shift from male domination to female decision making capacities. The analysis highlighted that the people’s perception towards women working in MFIs have improved significantly.

20. This study revealed that the MFI beneficiaries were availing the facility of maternity services, immunization of mothers, access to PAD, sanitation facility, safe drinking water, pension scheme and AIDS awareness etc., but there is still a broad scope of further increasing the availability and access to the basic services.
21. Study showed that MFIs helped significantly the rural poor to get rid of the attitude related, psychological and family problems. This in turn helped them to develop and grow, to enhance voicing concerns and revolutionizing attitude of the society towards rural poor.

22. Finally it has offered space for different stakeholders to innovate, learn and replicate. As a result, some NGOs have added micro-insurance products to their portfolios, a couple of federations have experimented with undertaking livelihood activities and grain banks have been successfully built into the SHG model in the Eastern region. IT applications are now being explored by almost all SHGs for better MIS, accounting and internal controls.

23. Today, microfinance is very much in the agenda of public policy. Keeping in view the immense potential inherent in SHGs for saving mobilization and credit multiplication, it has now become a global initiative and is considered as an important agenda of Millennium Development Goals (MDGs) set by the United Nations.

PROBLEMS IN MICRO FINANCE IN INDIA

Micro finance helps the poor and the needy at their most critical moments of need. It helps in giving them a life of self respect, a life where they are no longer ‘poor’. For years this noble idea has been promoted by many institutions, banks and individuals. However, today the perceptions have changed and India is facing problems in this field. Some of the problems in micro-finance have a deep impact on its expansion. The advent of MFIs in the Microfinance sector appears to have resulted in a significant increase in reach and the credit made available to the sector. No doubt, microfinance program has shown impressive achievements, but a number of questions
arise: Did this program reach the underprivileged? Whether everyone in need of microfinance intervention had been reached by any of the agencies? Even if everyone had been reached, did they get the required quantum of assistance to have sustainability? These questions are still very inconvenient to be answered because there are certain problems associated with this program. Some of the main problems have been discussed in the following paragraphs.

- **Ambit for Micro Finance:** The ambit of microfinance is a controversial proposition. RBI thinks maximum amount under this category may be Rs. 50,000 and for dwelling units it may be Rs. 1,25,000. NABARD thinks it may be as low as Rs. 1000 to maximum of Rs. 20,000. The Ministry of Rural Development has fixed it at Rs. 10,000 per group which experts claim as realistic. This posed a problem in decision making to meet out the demand for satisfying the need of beneficiary.

- **Low Penetration and Bureaucratic Hurdles in Regulations:** There is low penetration in some parts of India like Northern India. There are lots of bureaucratic hurdles in the regulation (such as corruption, commission with groups etc.). Due to low profile clients, there are sensitive political feelings attached to microfinance operations. Sometimes local leader declare “no repayment” to gain the political mileage, but this causes serious problem for MFIs. The farm loan waiver Scheme announced by the Government of India’s (GOI) Union Budget for 2008-2009 is an example of a likely risk that MFIs could face. The illiteracy and unawareness is another challenge for the penetration.

- **Problems of Ownership and Governance of MFIs:** Diversity in ownership structures, separation of ownership from management, as well as dispersion in ownership introduce many problems of governance. Another problem in the
governance of not-for-profit organizations is that managers serving as agents are supervised by either the funding organizations which calls for more transparency of the systems and procedures and should be separated from ownership. It is observed that traditional board may be less effective in not-for-profit MFIs.

❖ **Low Depth of Outreach:** Another problem faced by the microfinance program is the depth of services provided. Though the outreach of the program is expanding, large number of people are provided with microfinance services but the amount of loans is very small. The average loans per member in both MFIs and SHGs are between Rs. 3,500 and 5,000. Such a small loan size and short duration do not enable most borrowers to invest it for productive purposes.

❖ **Limitations of Government Schemes/Rural Banks:** As there is no dearth of institutions and branch network in urban and rural areas, but this physical outreach does not translate into access to credit by microfinance sector producers. Apex banks and FIs are unable to promote innovations or establish ‘missing link’ due to absence of direct financing. Moreover, rural banks suffer from low credit deposit (CD) ratio, lack of skills, incentives and infrastructure support.

❖ **Incomplete Functioning of Credit Bureau:** Although credit bureau has been set up, it covers MFI-NBFCs only, therefore it will not be able to have a complete picture of the indebtedness of the borrowers. In January 2009, The Government of India constituted the Unique Identification Authority of India (UIDAI) under the aegis of the Planning Commission to issue a unique identification number (UID) to all residents of the country. The number linked to the person’s demographic and biometric information, stored in a centralized database, accessible online in a cost-effective manner could help credit bureau more uniquely and widely. Till date, UIDAI has not linked this service to all credit
functionaries and all the citizens are not registered with it till now. That causes the incomplete functioning of Credit Bureau.

- **Problems in the Current Record Management System:** The first major constraint observed is that it is not possible to introduce the Computer Munshi record management system in all remote, hilly or forested areas, as the severe geographic accessibility barrier is faced for processing. Since SHG members have low literacy levels, they can’t verify errors made in recording data by SHG’s Writer. Many technical and operational problems are faced by the group members wherever this system has been implemented.

- **Problems in Existing Models:** In Group and Grameen methodology, default by one member either due to business failures, unproductive expenditure or greed to consume more, all members are troubled. Individual banking model and intermediary models increase the operating costs of lending due to more monitoring and cost of intermediaries respectively. Community banking model doesn’t involve whole community in all activities. Cooperative model also lack regulatory support which weaken the capacity for good governance. Therefore it can be said that no existing model is perfect model from the point of view of rural people as well as for the MFIs.

- **Binding of Saving, Meetings and Regular Payments:** Basic requirements of the SHG-BLP program, such as compulsory savings, group meetings, regular repayments lead to the exclusion of the core poor from joining the microfinance program. Poor people who generally do not have a regular source of income are required to save before sanctioning of a loan. It is also found that the initial group loans are utilized for essential non-productive/consumption purposes rather than for generating incomes which is either irregular or seasonal, leads to repayment
difficulties. Weekly or fortnightly group meetings are made compulsory but the rural poor people who generally earn their livelihood through domestic labor and daily wage earning find it difficult to attend group meetings regularly.

- **Problem of Fund Management and Disbursement from Banks:** Keeping the savings in the bank and not rotating create the problem of fund management. Further disbursements from banks are either equivalent to the deposits or slightly higher, show no substantial gain by forming the groups and being in them.

- **Lack of Homogeneity in Groups:** Starting a microenterprise on one’s own is always an easy task but as a group it can be more problematic if the interests of members are conflicting. Small problems can lead to the failure of the business. In India, it is a common practice that people from same family or same socio-economic background start a business together but due to conflicting interests could not continue in future.

- **Poverty Alleviation Mission has Now Been Reduced to A Money Making Tactic of MNCs:** Micro finance has now, become a strategy for multinational companies to sell their products, by collaborating with such institutions. This in turn, is damaging the spirit of micro credit. Recently a mobile phone manufacturer offered a micro financing scheme on a pilot basis in Andhra Pradesh and Karnataka, to sell their handset to the poorest. Under this project, the company was offering an easy payment scheme of Rs 100 per week over a period of time. Globally, MFIs have expanded at phenomenal rates largely because they lend without loan scrutiny to groups of women, and peer pressure of the group keeps defaults low despite the absence of any collateral or legal procedures for loan recovery. These MFIs are, in effect, benevolent moneylenders, charging interest rates of around 30% to cover high operational costs.
偎Lack of Insurance Services: Poor people are vulnerable to financial shocks. A small change in their earning profile due to natural calamities, health problems, death of earning member etc. can push them to destitute. So, a provision of insurance under the microfinance program is very much needed to help the poor to cross the poverty line. But, in reality, the current microfinance program in India is just focused on regular saving and micro-credit. However, some of the MFIs have started providing insurance services but the efforts are still at an experimental stage. In India the provision of insurance services is at the initial stage and this integral part of the microfinance program is still neglected.

偎Microentreprise and Self-employment: There are various concerns that emphasize on the fact that micro businesses might be contributing to the creation of self employed people rather than economic self-sufficiency. The poor in India have a large family which cannot be looked after by one or two members only by running small scale businesses. Hence, self-employment in that respect does not contribute much to family’s cumulative income and is not sufficient to end their miseries. This adversely affects the business in turn and generally such microenterprises shut down after a while, although the initial progress might be very promising.

偎Insufficient Information/Statistics: As all players under the micro finance sector do not fall in the ambit of centralized registration and regulation. Hence, data on the operations of the MFIs are not being collected and maintained in any centralized manner. The latest estimate for 2012-13 by NABARD places the number of MFIs that are credit-linked to banks. This estimate captures only a part of the total MFIs operational in the country which have approached banks for repeat loans during the year. However, there is no estimate of the number of non-
deposit taking MF-NBFCs having an asset size, which remain out of the regulatory purview of the RBI. This insufficient information impedes understanding and policy formulation.

SUGGESTIONS

Microfinance program has witnessed phenomenal growth in India in the past years. The current market for microcredit in India is estimated at around US$25 billion, making India perhaps the largest market for this type of finance. A large segment of this market has yet to be served. There is enormous scope for microfinance to deliver a range of financial services that are currently not available to a large majority of India’s poor. A significant expansion of microfinance would entail certain prerequisites in terms of institutions, innovations, and evaluation that could go a long way in developing an inclusive financial system. However, the focus of most of the microfinance service providers has remained on expanding the outreach of microfinance program with little attention on the depth, quality and viability of the financial services. Besides removing these problems there is a lot which can be done in this field to make this program more effective. Some suggestive measures to better serve this field are highlighted below.

❖ Integrated Approach for Access to Credit: For a faster and smooth growth of micro finance sector in India, various micro finance regulating institutions / agencies like NABARD should consider setting up a Committee, consisting of various private and public sector banks, the Ministry of Rural Development, Small Industries Development Organization (SIDO) of Ministry of Small Scale Industries (SSI), Rashtriya Mahila Kosh (RMK) of The Ministry of Women and Child Development, Department of Posts, SIDBI, MFIs and the NGOs in the
micro finance sector to evolve an effective strategies. Such a strategy should concentrate on issues like coordination among various agencies, accounting and auditing, transparency, good governance, consumer protection, micro insurance, statistics & research, rate of interest, subsidies etc.

- **Linking MFI Clients with Programs:** The government of India in close cooperation with state governments has been implementing a large no. of programs for the social and economic welfare of poor people throughout the country. MFIs need to link their clients with these ongoing govt. aided/funded programs not only to increase their income but to utilize human resources as well for the improvement in standard of living. **It justifies Hypothesis-4 that the commercial principle cannot be applied in lending to poor.**

- **Enabling Policy, legal and Regulatory Framework:** There is need for a statute and uniform policy that gives the power of regulation and supervision of the micro finance sector ideally in one entity. The statute should prescribe strict norms for operation with regard to registration, fixing of interest rates, entry norms, funding allocations, methods of recovery, and penalty for the failure in meeting these norms and conditions. The strict guidelines on registration would help in creating a centralized firm database of this sector and would help in shaping future policy framework for this sector. Cooperative model should also be provided right policy support, more funding avenues and guidance of progressive leadership to make one more successful. A specialized supervisory division within the regulator should be there to help the regulator to adapt to the fast-changing environment of microfinance whilst maintaining sufficient information, knowledge and expertise. Safety, Soundness and Sustainability should serve as foundation for a good regulatory system.
**Widen the Capital Adequacy Strategy:** Capital adequacy issues faced by NGOs should be solved by using the model of Banks-NGOSHG Linkage, where both the public and the private banks lend capital to the NGOs. Now many new private sector banks such as ICICI Bank, UTI Bank and HDFC Bank are pursuing innovative approaches to microfinance. Funds can also be raised from national and international development bodies, which lend credit for the same purpose. SIDBI being part of Micro finance development council can also influence the RBI to set up dedicated funding for such initiatives.

**Should Increase Outreach and Expansion:** Microfinance program has a wider prospect to expand both the outreach and depth of services provided. There is a vast unmet demand in the rural and urban sectors, and there is good scope for the growth of different kinds of MFIs and microfinance service providers. In order to expand the microfinance program, SHGs should utilize the vast network of post offices in rural areas.

**Reducing Regional Disparity:** Systematic changes are required both at State Government level and banks operating in the central, eastern and north eastern region to ensure adequacy of credit to remove regional disparity. Overall economic growth has to pick up in these states with different projects like watershed development, small-scale irrigation, livestock up gradation and forest regeneration and thereby increasing the demand for credit. For reducing regional disparity MFIs should concentrate to assist extremely poor (poorest of the poor) which include those families living in around 7,00,000 villages without any assets, such as landless laborers, tenant farmers, share croppers, oral lessees and those living in desert, drought prone, hilly and tribal areas.
State Support in Increasing Positive Environment: The state should support MFIs and banks in their task of improving financial services access to the poor and marginalized by creating positive environment in which the different stakeholders are able to collaborate and add value to each other’s work. Banks, State Government and leaders of SHG movement should explore possibility of setting up an “exclusive SHG credit fund” and “special purpose vehicle” (SPV) to deliver credit to SHGs in states. Each state should consider forming a working group to meet with micro finance leaders and have a dialogue with them about the policy environment be made more supportive and to clear up misperceptions. State level awards to recognize best performance should be instituted. Special incentives should be provided to NGOs working particularly in hilly and backward districts.

Reforms in Formal Financial Sector: Strong efforts should be made to reform the rural finance markets and institutions with liberalizing interest rates, revising branch licensing policies, strengthening the supervision of rural banks and create further space for new, private sector entrants. In case of RRBs and rural cooperative banks, Prudential regulation standards related to capital adequacy, asset classification, supervisory enforcement, income recognition and provisioning should be upgraded. Banks should train their staff and suitable local volunteers for group formation, linkage and continued handholding.

Supporting Role of Apex Institutions: Bulk lenders such as FWWB, RMK and commercial banks should support MFIs with loan funds and equity funding. The promotional funds should be used to encourage more self groups being formed, support more MFIs to expand their operations; assist emergence of new MFIs, build capacities of human resources in the sector, create awareness in client
population through financial literacy campaign and help establishment of codes of good governance to secure orderly growth.

- **Make NGO-MFIs More Effective:** Regulatory mechanism by the NABARD, RBI and the Government should encourage the role of NGOs in financial intermediation with more statutory authority. Upgrading into regulated banking institutions also allows NGOs to seek other commercial funding from bank loans and increasingly through capital markets in the form of bond issues. NGOs should be treated on par with other financial institutions like regional rural banks, commercial banks, cooperative banks, etc. for undertaking financial intermediation activities.

- **Increasing Bank Credit through Self Help Groups:** Banks should increase their credit through SHGs. This can be done by orientation and sensitization of branch staff, simplifying the procedure of opening bank accounts and credit sanction to SHGs, not impounding of SHG savings, timely processing loan application of SHGs, encouraging repeat credit linkages, adopting a common system of grading, appreciation of the quality of SHGs by providing incentives to good groups on priority etc.

- **Simplified Delivery Mechanism of Banks:** Existing branch network should design such delivery mechanism which should enable the rural people to keep safe their tiny thrifts and help them for meeting emergent needs for consumption as well as economic activities. Such mechanism should reduce the transaction costs of banks while simultaneously improving the quality of appraisal, monitoring, and security of loans and enhancing the capabilities of the poor for handling larger resources/loans for economic activities. Banks should have separate micro credit
section with different operational guidelines than the rest of the credit department which would encourage the small entrepreneurs and SHGs.

- **Strengthen the Structure and Sustainability of MFIs:** Banks should be encouraged to lend generously to MFIs as they have a default rate of just 1% to 3%. Government should also draft a policy to allow FDI in micro-finance securitization to generate more liquidity for the market of small finance. Venture capital funds should be encouraged to invest in MFIs by ensuring the transition of small MFIs into NBFC by relaxing the high registration amount. This will enable them to gain access to capital.

- **Reduce Cost of Operation:** Number of intermediaries should be minimized to reduce the cost of operation. Instead of government subsidy, it should allow tax breaks to financial institutions for lending under microfinance. Access to low cost funds through general public savings is another source of low cost funds. *As Hypothesis-7 assumes that administrative cost is major stumbling block for banks in providing small loans to the poor.*

- **Involvement of Marginalized Poor and SC/ST People in Micro Finance:** Micro Financiers should be made responsible to make these people aware of these benefits and how these benefits can be drawn. Social motivation is the first step towards equality creation in the mainstream. Groups should be formed on the basis of their status and castes’. Both state and union government has to see that micro finance reaches to the deserved and inequalities do not take place through their Block / Village level functionaries.

- **Quality of SHGs Should be Improved:** In a SHG, there should be democratic decision making, training to members, transparent and complete records with
good repayment record that would be helpful for SHGs to maintain healthy relations with banks. Groups have be equipped with conflict resolution mechanism for smooth functioning of groups. SHGs for its improvement have to provide appropriate savings products to mobilize disposable cash surpluses of members and create a reserve for future. There is a need to evolve norms for distribution of surplus especially at the time when a member drops out of the group.

- **Re-focusing on ‘Saving First, Credit Later’:** Now a days, groups focus on bank loans and do savings up to limited extent to qualify for loan. ‘Saving first, credit later’ should be a motto of every group member as in the yesteryears. Appropriate regulatory framework for MFIs of all legal forms should be put in place so that MFIs can develop client friendly saving products to mobilize resources for lending. This can have direct and significant impact on reduced borrowing from commercial banks which in turn can improve profit margins of MFIs.

- **Cost Coverage and Transparency in Interest Rates:** Innovative techniques should be identified to reduce the cost and the interest rate substantially by using the proposed Common Service Centers. It is therefore advisable to put a cap of interest either 2% or 3% above the rate of interest charged by banks that MFIs / NGO can charge to SHGs. Proper disclosure should be made to borrowers about additional charges, such as protection fee, insurance administration charge and security deposits etc. so that they would have knowledge of effective rate of interest charged.

- **Composite and Flexible Product Services:** Micro finance provided must be flexible to meet member’s composite needs for consumption, production, retail trade, income generation, housing, education etc. Poor people living in remote
and neglected areas need to be facilitated to access microfinance for cottage and rural industries as well. Stress should be laid upon allied activities like horticulture, floriculture, viticulture, pisciculture, sericulture, etc. Guidance and counseling must be made available to the families for ordinary and high-tech projects they would like to undertake. Banks should provide a loan product that allow borrowers to repay in small, weekly installments out of the regular bits of income. On the savings side, members can be allowed low minimum deposits for opening accounts. On the borrowing side, banks can put up flexibility in collateral to secure loans.

❖ **Quality of Human resources:** For massive expansion, additional skilled professionals in financial management, credit portfolio management, product expansion and diversification etc should be appointed at all levels of NGOs, MFIs, state government and the banks. All banks should set up a MF Cell to undertake various promotional activities like training, extension services, necessary guidance about agricultural activities carried by rural members. Their attitudes should be positive to run operations efficiently to attract finance and enabling MFIs to reach large number of low-income families in rural sector. Experts can be hired to increase efficiency and to reduce the illegal activities in MFIs.

❖ **Use of Technology:** Low cost Information and Communication technology (ICT) should be used by MFIs to cover different functions like client acquisition, origination of loan proposals, accounting and MIS, submission of reports and returns, transaction processing with limited staff. Technology helps to take the timely action for arresting decline in the quality of SHGs, leading to credit discipline in SHGs. Mobile Vans equipped with PC-net-connectivity, may be an effective way to reach under-developed and under-banked areas. A computer with
an operator helps the illiterate group members to maintain the records of group’s financial activities, provide important information to rural people related to weather conditions, crop inputs, product prices, land records etc. in the villages.

- **Tailor-made Individual Banking Model for Farmers**: MFIs should recognize Individual Banking Model to offer a better agricultural finance, to work with each individual farmer to tailor the repayment cycle to meet their needs as per the length of crop cycle. The scholar suggest clustering borrowers to disperse and repay funds, utilizing agents within the community to facilitate the process, or using ‘dynamic incentives’ such as the threat of not renewing the loans for bad clients or promising larger loans with good repayment history. By addressing these advantages in a rigorous and thoughtful manner, financing rural, agricultural products will help for expanding the client base of an MFI to reach the individuals who are in dire need of financial products.

- **New Business Model for MFIs**: MFIs should revise current business model in terms of targeting, delivery, relationship, governance, staffing and ownership. Public Private Partnership (PPP) Model may be developed, where funds are provided by the state, various banks, farmers and artisans. The shareholding pattern would provide adequate say and management rights to farmers and artisans, business activities and farming projects may be undertaken on scientific basis. With this type of management skills, funds and innovative ideas, these MFIs obviously are likely to reach a larger needy section of the society, generate economic activities not only on sustainable basis but also on rewarding basis which would restore the confidence of the rural people.

- **Standardized Financial Disclosures**: There is a need to standardize and simplify accounting procedure and develop uniform system of Book Keeping procedures in
such a way that all important information about the SHG is readily available through financial statements and annual reports. It would enable the banks to appraise and monitor loan portfolios. Sa-Dhan (the association of MFIs) is finalizing with the Institute of Chartered Accountants of India, a standardized set of reporting formats compatible with both MFI requirements and Indian accounting conventions and law. Further, the ‘Computer Munshi System’ developed by PRADAN may also be integrated into the overall strategy of simplifying the accounting procedure.

- **Credit Information Bureau be Established:** An essential element in the prevention of multiple-lending and over-borrowing is the availability of information to the MFI of the existing outstanding loan of a potential borrower. This is not possible unless a Credit Information Bureau is established expeditiously and all MFIs be required to become members of such bureau. With a view to develop a detailed data base of the micro-finance sector, it may be desirable to conduct periodic surveys of all the micro-finance organizations in the country and their operations. The survey can be conducted jointly by the NSSO and the state governments once in every two years. There could be a separate SHG Monitoring Cell in every State promoted by the State Government in cooperation with other stakeholders to ensure long term sustainability of the groups.

- **Monitoring and Review Forum be Established:** A larger forum comprising Government, Banks, NGOs and MFIs should meet periodically to monitor achievements and suggest measures to improve quality and pace of implementation of SHG-Bank linkages and microfinance programs. The task of monitoring should not only be at the State level, District level committees of
Stakeholders’ representatives should be set up so that monitoring can take place in a decentralized manner that could respond promptly to local issues. Website of Ministry of Rural Development should also make available full details including recovery of bank credit.

❖ **Compulsory Rating of SHGs and MFIs:** As socio-economic conditions vary significantly in different areas, all the participating agencies, viz., apex MF providers, banks, NGOs and MFIs should collaborate together to develop such localized ‘Rating Norms’ which will be generally acceptable to all participating partners. NABARD can be the lead agency for developing a suitable rating model in consultation with CRISIL, M-CRIL, SIDBI and MFI associations.

❖ **Conducting Compulsory Impact Evaluation:** Reliable Impact assessment studies are required to be conducted at national level for all institutions involved in Micro finance program as per regulatory guidelines. These studies should evaluate quarterly or annually the extent to which the scheme has been successful in providing new employment, generating income, improving health and literacy level, etc. Additionally, the number of MFIs working in the area, total number of beneficiaries, proportion of women in the total beneficiaries, geographical spread are some of the parameters that can be used to assess the reach and effectiveness of microfinance with the involvement of academic institutions operating in the area. Large scale sample survey should be conducted to estimate financial access from the demand side at least once in two years.

❖ **Ombudsman Scheme for MFIs:** To address the complaints from borrowers there should be a Grievance Redressal Mechanism in the MFIs. As per recommendation of Malegam Committee , the institution of independent Ombudsman should be examined.
Structured Risk Assessment System for Micro Finance Sector: SHGs should be restructured with active leaders. Structured Risk Assessment Model should be evolved to capture the risk of funds usage. Quality internal audit system and industry benchmark should be framed to minimize the risks.

Reduce Default and Coercive Collection Practices: Field officers should decline fresh loans to potential members with pre-existing loans from multiple entities by linking up with the local panchayat or village head (Mukhia) as an Advisory committee. Borrowers /consumer protection laws may be designed to define abusive lending and collection practices, complaint redressal mechanisms, transparent discloser of interest rate, cost and other terms of lending. The consumer laws must also educate the consumer on good money management practices for earning, spending, saving, borrowing and investing which can help in reducing over-borrowing.

Gender Issues: Training in legal literacy, rights and gender awareness are important complements to micro-credit for the empowerment of women. Women groups should be given responsibility of running Anganwadi, fair price shops so that they become a permanent entities and gain greater access to micro finance institutions.

Facilitating Employment and Micro Entrepreneurs : Micro-credit programs should be re-engineered to support the poor and non-poor micro entrepreneurs which generate the much needed wage employment opportunities, which would lead to micro savings and then for micro-credit. There is a need to promote livelihood diversification among the members of mature SHGs so that they can cross the poverty line and can build self-confidence for inclusive growth.
❖ **Strengthen Financial Literacy and Farming Skills of Borrowers:** Creditworthiness of the poor can be enhanced to make them more ‘bankable’ to financial institutions and enable them to qualify for long term credit from the formal sector. MFIs, banks and NGOs should nourish and develop the SHGs by providing financial assistance, organizing skill based training programs in rural as well as semi-urban areas. Farm universities, research institutes and extension workers should focus on researching and disseminating low cost and yield enhancing farm technology, efficient use of their pieces of land and labor to grow fruits, vegetables and short duration multi-cropping as well as crop-cum-livestock-cum-fish farming system. MFIs should make villagers aware about the use of technologies by conducting training and awareness programs for their growth.

❖ **Micro Insurance:** Micro insurance should be considered as an integral component of financial inclusion along with micro savings and micro credit to keep the vulnerable segment away from the poverty trap. Simple, affordable, accessible micro insurance schemes, covering not only loan financed assets but also life, health, accident, crop, animal husbandry, etc. should be implemented. Premium amount may be shared among client, MFI, union and state governments and insurance companies to make desired purpose of protecting the poor households.

❖ **Remittance Needs of the Poor:** MFIs should develop need based remittance system for poor to send money to their families residing at other places. Remittance service should be accessible without unnecessary hassle and affordable with certainty. Timely confirmation of delivery to poor should be there as they lack any communication facilities.
Market linkage organizations: NGOs should play the leadership role in linkage organizations to deal with all aspects of the business. Availability of microfinance should be linked with available technology, inputs, tools and marketing services by reorienting the role of such developmental financial institutions. The activities in the villages should be connected with export trade to generate sufficient surplus and foreign exchange for repayment and expansion.

Urban Microfinance Should be Planned: Opening of specialized microfinance branches in potential urban centers exclusively catering for microfinance and SHG - bank linkages should be planned to fulfill the requirements of the urban poor. BFs / BCs should be the mechanism to reach the target clientele in these areas. However, banks need to implement proper risk management practices, develop suitable models and products tailor-made to this segment. Banks should also consider associating with MFIs undertaking urban micro lending as a viable option.

Green Technology and Micro-finance: There are number of green and eco-friendly technologies like Renewable Energy Technologies (RET), bio-conservation, cattle farming, pollution control, a forestation etc., which can bring radical change in the rural economy by poverty alleviation, creating employment opportunities and stimulating growth in rural economy. However, for implementing these technologies, micro financing through public and private sector agencies is the need of the hour.

Research and Documentation: Careful research on demand and supply of finance, saving behavior of the potential borrowers and their participation in determining the mix of multi-purpose loans are essential for the working of microfinance program successfully. Prominent financial institutions should
encourage research on the subject by instituting a few fellowships and faculty/chairs in selected universities. NABARD, SIDBI, Centre for Monitoring Indian Economy (CMIE) etc. should specially look into the needs for more documentation and publication of the success stories, research studies, data, etc. in this sector.

❖ **Establish A Baseline:** A baseline should be established in terms of the current status of banking and microfinance in the neglected region. It will highlight the extent of financial exclusion and presenting various banking indicators for the state. It will also report the current status of microfinance in the state by providing information on the performance of both SHG Bank linkages and direct microfinance.

❖ **Gap Analysis:** Gap analysis should be conducted to estimate the demand-supply gap in microfinance in neglected regions and also identify gaps in terms of resources, capacities, constraints and poor banking infrastructure in terms of quality and infrastructure.

❖ **Organizational Strengthening:** To strengthen the operations and coordination, the MFIs themselves should form collectives to exchange ideas, information, and practices followed by them with bank’s support. MFIs should design growth policy at a manageable rate which help them to meet their mission and social performance needs as well. MFIs should improve communication with stakeholders and media about the social side of their mission and vision, the nature of, and the benefits for, clients served.
CONCLUSION

Microfinance is necessity in India to achieve financial inclusion of the poor in the rural and urban areas. There is a great need to increase the accessibility and reach of the MFI activities to a large number of rural poor, especially the poorest. The study has shown that this could be achieved by following the Andhra example of involving the state machinery to spread a savings and credit movement. The microfinance sector is at a stage where it calls for a flexible regulatory framework which is conducive for the needs of microfinance and the diverse players involved in delivering it. Other policy initiatives needed to be taken by the state are ensuring adequate funding of MF sector for meeting equity and loan able fund, and capacity building to enhance the quality of SHGs and to meet the growing human resource development needs for an effective performance. The major hurdles in successful delivery of microfinance can be overcome through innovation in operational strategies to handle macro and micro challenges. The success of Microfinance activity in the future would be a function of the participatory approach of the MFIs, NGOs, SHGs, and banks for all types of resources. To make micro finance a sustainable activity, the repayment rates for the SHGs need to be improved by proper monitoring. SHGs need to be transformed from being just a savings and credit group to groups who undertake some income generating activities to realize the real potential of the SHG. Also the option of involving the post office branches and the local panchayat as nodal agencies for microfinance delivery should be explored for mitigating the challenges relating to poverty. Although MFIs are facing challenging times but a conducive regulatory framework and a right balance between social objectives and profitability could mark a new beginning for the MFIs.