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(Kuldeep Kaur)
PREFACE

Access to financial services by the rural poor has been a complex issue in the agenda of social banking legislation. Thus, the inability of formal credit institutions to deal with the credit requirements of poor effectively has led to emergence of microfinance as an alternative credit system for the poor.

The SHG-Bank Linkage Programme initiated by NABARD in 1992, has emerged to be a major microfinance tool in extending financial services to the poor. Microfinance means providing very poor families with very small loans (micro credit) to help them engage in productive activities /small businesses. It helps them to build up assets, survive crises and to establish small business to come out of poverty. Except extending micro-credit, microfinance programme provides various other financial and non-financial services such as savings, insurance, guidance, skill development training, capacity building and motivation to start income generating activities to enhance the productivity of credit. The Eleventh Five Year Plan aims at inclusive growth and faster reduction of poverty. Micro Finance can contribute immensely to the financial inclusion of the poor without which it will be difficult for them to come out of the vicious cycle of poverty. NABARD, RBI and many Government agencies are playing supportive role in this arena.

The mainstream banks have identified a new ‘market niche’ in servicing the financial needs of the poor. The massive involvement of the banking sector purely on the conviction that SHGs are good clients has led to the very fast growth of this sector. Besides banks there are a large number of microfinance institutions (MFIs) of diverse legal forms, providing financial services to the poor. The share of MFIs in terms of outreach has remained small but they have adopted a wide variety of innovations in improving access of financial services to the poor. The emerging trend is that banks and MFIs prefer to work together as partners by supporting each other.
The concept of microfinance involves informal and flexible approach to the credit needs of the poor. Number of microfinance models emerged in different countries/states according to the suitability to their local conditions for delivering micro finance.

Analysis of the research shows that micro finance has a positive impact on the socio-economic development of the rural poor as well as their empowerment. There are large number of social, institutional, operational, economic and risk factors affecting the delivery of micro finance.

The microfinance sector in India poses many challenges. The uneven spread of the SHG-Bank Linkage Programme has been a matter for concern. Also, a growing number of SHGs are seeking support for setting up productive micro-enterprises while access to insurance and other financial services remains largely unattended.

The research acknowledges the fact that in order to enable the poor people to access credit, there is a need to strengthen all the available channels of providing credit to the poor such as SHG- Bank Linkage programs, Micro Finance Institutions, Cooperative Banks, State financial corporations, Regional Rural Banks and Primary Agricultural Credit Societies. While appreciating the need for adequate regulation and standardization of the various processes and practices adopted by the Micro Finance Institutions, the study underlines the fact that the strength of the micro finance industry lies in its informality and flexibility which should be protected and encouraged. The Indian microfinance experience shows that banks, even commercial banks, can operate a viable window to reach the poor through savings and credit services which could contribute to the sustainability of financial services delivery.

The thesis puts forward a number of suggestions for the orderly growth and management of the micro finance sector which, I hope, would be useful for Policy makers. I am confident that practitioners and policy makers of microfinance will find this research useful.