CHAPTER – 2

MICROFINANCE

2.1 Meaning of Microfinance
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“IN MY EXPERIENCE, POOR PEOPLE ARE THE WORLD’S GREATEST ENTREPRENEURS. EVERY DAY, THEY MUST INNOVATE IN ORDER TO SURVIVE. THEY REMAIN POOR BECAUSE THEY DO NOT HAVE THE OPPORTUNITIES TO TURN THEIR CREATIVITY INTO SUSTAINABLE INCOME.”

Muhammad Yunus, Grameen

GIVE A MAN A FISH, [AND] HE’LL EAT FOR A DAY. GIVE A WOMAN MICRO CREDIT, [AND] SHE, HER HUSBAND, HER CHILDREN, AND HER EXTENDED FAMILY WILL EAT FOR A LIFETIME”

Bono, Lead singer for the band U2 and humanitarian advocate

“THE KEY TO EXTREME POVERTY IS TO ENABLE THE POOREST OF THE POOR TO GET THEIR FOOT ON THE LADDER OF DEVELOPMENT...THE POOREST OF THE POOR ARE STUCK BENEATH IT. THEY LACK THE MINIMUM AMOUNT OF CAPITAL NECESSARY TO GET A FOOTHOLD, AND THEREFORE NEED A BOOST UP TO THE FIRST RUNG.”

Jeffrey Sachs, American Economist and Director of the Earth Institute at Columbia University
2.1 Meaning of Microfinance

Microfinance broadly refers to the practice of ‘the supply of loans, savings, and other basic financial services to the poor’ (CGAP 2003). Microfinance, commonly, provides poor families with micro credit, small loans, for taking up any income generating activity or for starting or strengthening their micro enterprise. Microfinance, today, includes a range of services like credit, savings, insurance and remittance. In the words of Gert van Maanen, (2004) “Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. In general, banks are for people with money, not for people without.” Robinson (2001) defines microfinance as ‘Microfinance refers to small-scale financial services for both credits and deposits —that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas’. Bouman (1990) describes microfinance as those small loans which are repaid in short durations and these loans are for low income poor who are not able to give any collateral.

Microfinance services are provided through various informal, semi formal and formal sources. As Muhammad Yunus, Nobel Peace Prize winner in 2006, states that ”(Microcredit) is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor...charity is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual’s initiative to break through the wall of poverty.
Unleashing of energy and creativity in each human being is the answer to poverty”. Microfinance has emerged as an effective tool in combating poverty. It provides with small loans in the form of micro credit to poor and helps them start their own small businesses. As Yunus and Jolis (1998) put it “Easy access to credit, and easy access to a global network of information for the poorest women and men anywhere in the world will eliminate poverty from our planet more surely and speedily than anything else” Microfinance has proved to be a way for reaching the unbankable and helping them in reducing their poverty by providing credit support. Access to timely finance helps increase the incomes of the poor members and also smooths their consumption patterns.

Microfinance goes beyond giving credit, it also helps the poor in identifying what they could do with the credit and provide the necessary training for the same. Microfinance helps in bringing out and developing the entrepreneurial skills of the poor and also helps in making a stronger bond in the community. Microfinance also empowers poor and helps develop their standard of living and reducing their vulnerability to shocks. Microfinance is user friendly and microfinance institutions go to the poor to offer their services, while on the contrary if the poor were in need of funds, they had to approach the sources and many a times had to go more than once to avail of the services.

2.2 History and Growth of Microfinance

2.2.1 International perspective

The concept of microfinance is not new. Credit and savings institutions have been functioning for several decades. They are either cooperatives or financial institutions. Such groups operate for years, "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies.
History traces back to 1700s, where Irish loan fund system operated in Ireland. They provided small loans at low interest and for short duration. It has been reported that there were times when they provided loans to 20% of Irish households. In 1800s, more formal credit institutions started operating for the poor, named as People's banks, credit unions, savings and credit cooperatives. Kappas (2014) in his paper mentions how Friedrich Wilhelm Raiffeison (1818-1888) wanted to improve the lives of the poor and bring them out of the clutches of moneylenders, for which he promoted credit unions which soon spread to whole of Germany and gradually to other countries of Europe and also in North America. Eventually, the cooperative movement also spread to the developing countries. A researcher at Yale, Guinnane, who studied the villages served by Raiffeison observed that the movement which was started in 1864, had by 1901 reached to 2 million farmers. Guinnane, says that even in those years, it was proved that microcredit was sustainable.

Indonesian People's Credit Bank, also known as the Bank Perkreditan Rakyat, which started its operations in 1895, was one of the biggest microfinance system in Indonesia.

In early 1900s, many microfinance models developed in Latin America. In mid 1900s, focus was shifted to agriculture credit to help the small and marginal farmers improve their farm productivity. Farmer cooperatives were promoted and rural development banks were formed.

In 1970s, Bangladesh and Brazil started providing small loans to groups of poor women for their micro enterprises. The groups became the guarantor.

Shore Bank was the first microfinance and community development bank founded 1974 in Chicago.
Accion International, Venezuela raised $90,000 from private companies and provided microfinance to the poor. Today, Accion is a big microfinance organization in the world operating in Latin America, US and Africa.

Professor Mohommad Yunus, from Bangladesh, brought a revolution in microfinance. He, along with his students in Chittagong University, piloted an action research, wherein he provided small loans to women making products out of bamboo. He realized that the women needed small funds for which nobody was willing to support them. His credit programme became successful in several villages. Initially, he provided loans from his own funds, later on he linked up with the rural banks. However, after the pilot phase, bankers stopped giving support, as they found these loans as very risky. Prof. Yunus, in 1983 formed Grameen Bank, which now has more than 8.3 million borrowers.

In mid 1990s, microfinance, earlier known as microcredit, included range of financial services beyond credit, namely savings, insurance and remittance. In 1992, Accion formed BancoSol in Bolivia. BancoSol is the first commercial bank in the world that provides only microfinance. Today, we have many such organizations and institutions.

Now, microfinance works for range of services to bring poor out of poverty. Continuous innovations are being done.
The Table 2.1 below presents Evolution of Microfinance

**Table 2.1: Evolution of Microfinance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Name of the Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>Opportunity International, funded to microentrepreneurs in Indonesia and Columbia, now also in South East Asia and South America</td>
</tr>
<tr>
<td>1974</td>
<td>Shore Bank: the first microfinance and community development bank founded in Chicago</td>
</tr>
<tr>
<td>1976</td>
<td>Prof. Muhammad Yunus provides loans of $27 to 42 families and all loans are paid back with interest</td>
</tr>
<tr>
<td>1983</td>
<td>Prof. Muhammad Yunus started Grameen Bank</td>
</tr>
<tr>
<td>1992</td>
<td>ACCION forms BancoSol, a microfinance institution in Bolivia as a non-profit organization</td>
</tr>
<tr>
<td>1997</td>
<td>The National Microfinance Bank in Tanzania (NMB) is created. Deutsche Bank enters microfinance. Grameen Foundation is founded in the US. The Micro enterprise Access to Banking services (MABs) programme in the Philippines helps the micro enterprises and poor</td>
</tr>
<tr>
<td>2000</td>
<td>BancoSol, Bolivia becomes a regulated bank only for microfinance.</td>
</tr>
<tr>
<td>2005</td>
<td>UN declares 2005 as International Year of Microcredit. Citibank opens Citi Microfinance in London, New York, India and Colombia</td>
</tr>
<tr>
<td>2006</td>
<td>Prof. Muhammad Yunus is awarded the Nobel Peace Prize. Ghanian Microfinance launched by Barclays</td>
</tr>
</tbody>
</table>
2.2.2 Indian perspective

In India, microfinance has been in existence in some form or the other for several centuries (Seibel 2005). Traditional moneylenders have been providing credit to those in need and the money lending activity still continues to be a very important aspect of rural financial landscape. The Sahukars and traditional money lenders have been operating in the country for centuries. Money lenders have been providing credit mortgaging land records and other valuable assets like gold and silver ornaments and other domestic asset base like domestic animals. In the formal sector, Syndicate bank, then the private bank in India had initiated raising micro deposits in daily, weekly basis and also sanctioned microloans. But microfinance came to be known to the world and also in India after Dr. Mohammed Yunus started with Grameen Bank experiment.

Microfinance assumed prominence in India as also in some other developing countries like Bangladesh, Brazil, Mexico, and Bolivia in the 1970s. In India, Self Employed Women’s Association (SEWA), a member based organization registered as trade union in 1972 started its operations of working towards the upliftment of self employed women in informal economy. SEWA worked for the full employment and self reliance of the members. During interactions with the members, SEWA realized that these self employed members were not able to get credit from the banks for meeting their working capital needs. SEWA also observed that these poor, illiterate women were not able to open their bank accounts. SEWA promoted setting up of Shree Mahila SEWA Cooperative Bank in 1974. SEWA Bank is the first institution that provides banking services to poor women coming from the informal economy. SEWA Bank was established by 4,000 women with contribution of Rs. 10 each. Today SEWA Bank has 44,834 members. In the words of Shree Ela Bhatt, founder of SEWA Bank, “Since the economic
enterprises of these poor women are small, they could be expected to repay the loan in small instalments. This method has enabled and can enable a 98% recovery rate.”

MYRADA, an NGO in Karnataka started its activities in 1968. MYRADA promoted the SHG concept. In 1986-87, NABARD supported an action research on ‘savings and credit management of self help group” of Mysore Resettlement and Development Authority (MYRADA). Following the success, NABARD carried out survey of 43 NGOs across eleven states of India to study the ways SHGs worked and explore possibility of SHG and banks working together to mobilize rural savings. In 1991-92, NABARD launched a pilot project to develop SHG Bank linkage. The results of the pilot project were very good and SHG-Bank linkage programme was developed. In the middle and later part of 1970s, the SHG model became very popular and was widely replicated by various other NGOs. NGOs played the role of facilitators, provided capacity building services to the groups and helped them by providing bank linkages with an active support from NABARD. In the late 1990s, as Mahajan, Ramola and Titus (1998) have brought out in their study, some of these NGOs transformed themselves into profit-oriented microfinance institutions (MFIs). Many microfinance institutions, NGOs and non banking finance companies entered the microfinance market. Some of the State Governments amended their cooperative acts to enable cooperative societies to provide microfinance.

In India, microfinance operates mainly through SHGs, NGOs and credit agencies. Poverty has always been a concern for Government of India. Each five year plan allocated for education, health, sanitation and other welfare schemes for the poor. Banks were nationalized and were asked to lend 40% of their loans to priority sector. The various poverty reduction programmes of the government were in this direction. In 1980, Government
introduced Integrated Rural Development Programme (IRDP). Under this programme, banks were to give loans of Rs. 15,000 or less to the poor. Approximately 55 million farmers benefitted out of this programme, but still the programme could not achieve the expected results. This programme involved subsidy and there were cases of mis-utilisation of funds. Repayment rate was low. Due to the poor execution of the programme, a good scheme could not provide the desired benefit to the poor.

Planning Commission constituted a Committee in 1997 to review the effectiveness of self employed and wage employed programmes. The Committee recommended merger of all self employment programmes. It was recommended to develop group based approach and not focus on individual beneficiary approach. The Committee also recommended identifying certain priority activities and develop trainings and market linkages. Accepting the recommendation, Government of India, developed a new programme in 1999 – Swarnajayanti Gram Swaraj Yojana (SGSY), where Integrated Rural Development Programme (IRDP), Training Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA) and various other programmes were combined. SGSY programme forms SHGs, provides trainings to them, extends lending facilities, provides the needed infrastructure support and helps in developing market linkage. This programme lays stress on developing clusters.

Today, in India, microfinance is provided through apex bodies like NABARD, Small Industrial Development Bank of India (SIDBI), and Rashtriya Mahila Kosh (RMK). There are Commercial Banks, Regional Rural Banks and Cooperatives who are also into microfinance. There are private Microfinance Institution who provide microfinance. Many NGOs form, promote and support the SHGs. There are many NGOs that provide credit too.
Reserve Bank of India and Government of India continued to simplify the banking norms to make it friendly for the poor and increase the spread to the rural areas in low cost manner. In 2005, RBI introduced “Know your customer” KYC norms, which provided simplified norms for providing to identity proof to open account in banks. No frills accounts were also introduced to provide banking service with low or minimum balance, encouraging poor to save more by providing overdraft facility.

In 2006, RBI introduced “Business Correspondent” BC model. BC model is technologically based agent bank model. In this model, public sector banks with the help of SHGs, NGOs, MFIs and other civil society organizations provide financial and banking services. This model provides door step delivery of financial products and services. As per the RBI guidelines, BCs can carry out financial transactions on behalf of banks as agents, thereby making it as branchless banking service. This model uses handheld devices, mobile phones and biometric scanners.

The twelfth five year plan approach paper identifies financial inclusion as public policy initiative for rural development. It suggests that financial inclusion should build upon positive experiences of SHGs, Kisan credit cards and continue with experience of mobile banking and business correspondent model.

In 2014, Reserve Bank of India granted approval to Bandhan Financial Services Ltd. to set up its bank. Bandhan is the first MFI to become a Bank.

Recently in August 2015, the Reserve Bank of India granted ‘in-principle” approval to 11 applicants to set up payment banks under the Guidelines for Licensing of Payment Banks issued on November 27, 2014. This would highly influence the financial
inclusion. Payment Banks would target the low income households, migrant labourers and small businesses. They would offer savings and remittance services at a lower transaction cost. They are expected to make use of the mobile technology.

There were instances where MFIs had started expanding and charging high rates of interest. Their strict recovery mechanisms led to suicide by the borrowers. Hence, Government of India introduced Microfinance Institutions (Development and Regulation) Bill 2012 on May 22, 2012 to establish a regulator under RBI to regulate and supervise the activities of NGOs and MFIs. The bill makes it mandatory for MFIs to obtain a certificate of registration from RBI. RBI has authority to set maximum limit on the margin MFIs can make. RBI is also responsible for redressal of grievances for beneficiaries of microfinance services. These initiatives may go a long way in strengthening the microfinance status in India.

2.3 Role of Microfinance

Microfinance has proved to be an effective tool in poverty eradication. There have been various studies conducted that show positive relation in provision of microfinance services and reduction in poverty. There have been several stories of microentrepreneurs who used small loans and have been able to increase their incomes and also bring about change in their consumption pattern, health and education and has also brought in social empowerment. Microfinance services help poor people deal with vulnerability. Microfinance tools are inexpensive and reach out to more people in a simpler way. Wright (2001) and Khandker (2002) in their respective studies on impact of microfinance show that there is a positive impact in helping poor increase their incomes. Wright (2001), Zaman (2000), McCulloch and Baulch, (2000) also state that microfinance helps in reducing vulnerability of poor. Wright (2001) says that some studies
on impact on health, nutritional status and primary education also show positive results. There are empirical evidences that show that the poorest can benefit economically and socially from microfinance. Evidences also show that microfinance reaches out to the poor but excludes the poorest of the poor. As Robinson (2001) puts it “Among the economically active poor of the developing world, there is strong demand for small scale commercial financial services for both credit and savings. When available, these and other financial services help low income people to improve household and enterprise management, increase microenterprises and thereby their incomes too increase.”

Microfinance services help the poor in improving their ability to smooth income fluctuations, getting timely microcredit and in improving education levels in their families. Murdoch (2002) brings out the definition of microcredit given by Dum et al (1996) “Microcredit allows the poor household to take advantage of opportunities, to assume risks it would not otherwise take, in order to obtain higher returns.”

Chen and Snodgrass (2001) in their study on SEWA Bank show that participation in microfinance services lead to the increase in household income, capability to diversify their income sources, improve the conditions of their houses, purchase more productive assets, bring improvement in education, spend more on food and are better able to cope up with shocks and disasters. This study also shows how women benefit through increased confidence and self esteem. SEWA Bank provides savings, credit, health, property and life insurance services. SEWA’s other branches provide the needed capacity building trainings. SEWA Bank and many other microfinance institutions have proved that poor are willing to and are able to save.

Micro credit for micro enterprises is given for short- term, the loan size is small and repayment schedule is also in small instalments, with regular frequent repayments. These small loans prove to be very helpful to the
microenterpreneurs to fulfil their working capital needs. Microfinance encourages sense of solidarity.

Some studies observe that there are several financial tools already available with the poor in the form of informal instruments like informal savings, loan clubs, loans from family or friends, local money lenders. These tools are more flexible and hence even today, poor use these sources. The Financial Diaries maintained by Bangladeshi households show that these sources are uncertain, their friends of family members may not have the needed funds available with them to provide to the needy in times of need. Hence microfinance tools are found to be more reliable by the poor households.

The studies show that even though there is no collateral, the microfinance client usually repays their loan on timely basis. The incentive to repay is the continuous desire to borrow more in times of need. Poor, howsoever poor she may be, wants to save. Their savings may be in the form of cash savings or in kind (cattle or jewellery or any other such asset). Microfinance provides safe place to save their cash savings and also to provide loans to buy non cash saving products.

Microfinance has been able to provide non financial services like develop skills of the poor, provides capacity building support, and provides entrepreneurial skills. Study conducted by Gupta (2014) concludes that microfinance helps in poverty reduction and rural development. Study of SHARE clients in India also brought out that the three fourth of the clients experienced significant improvement in their sources of income, ownership of assets and housing conditions. Half of them claimed that they have come out of poverty. There were also some examples of poor moving from irregular sources of income to more regular sources of income.

Various studies have concluded that the world’s poorest households rely on income generated by women. Researches show that women microfinance clients invest more in family’s health and education.
Microfinance raises the status of women in their household, society and village. Many NGOs have reported how women are being empowered and thereby able to improve status in their family and community. The SHG Bank Linkage Programme (SBLP) in India has significantly helped the women in improving their self confidence, decision making ability, increasing their income and reducing their vulnerability. Hashemi et al. (1997) brings out that when women gets access to credit, the likelihood of increasing asset base and especially having an asset in their own name increases, they are more aware – legally and politically. They become more mobile, are more informed and get involved in decision making process.

As per the Global Financial Inclusion (Global Findex 2014) database, globally 38% of the adults do not have accounts, but only 4% said that they did not need one. The rest 34% have a desire to open account and microfinance has potential to attract and reach them.

There are also various studies that show that microfinance does not reach the poorest of the poor. This strata of the society is considered very risky, hence are left out. Poorest of the poor do not usually qualify for micro credit as the loans are mainly meant for micro enterprises and these poor households do not own any micro enterprise. Secondly, as Eversole, (2000) puts it, microfinance provided through groups encourages group formation and the group members usually do not prefer having a poorest member in their group as they find them quite risky as their income is highly irregular.

Since the aim of microfinance institutions is to provide micro credit to the poor, their higher transaction costs and interest rates make it difficult for the poor to take benefit of the microfinance products offered by them. The higher loan would reduce the transaction cost, and hence gradually microfinance institution shifts to less poor members.
2.4 Microfinance Models

2.4.1 Grameen Bank Model

Under this model, groups of five are formed. They contribute to group savings and insurance fund. Individual members maintain their savings and loan account with banks. After continuing to save for a fixed time, they receive individual loans from the banks. Group does not act as guarantor to other members. Responsibility for repayment is of the individual. Loan is provided for a period of six months to a year. Repayments are weekly. In this model, banks go to the individuals to collect savings and loan instalments. This model is being followed by countries in Asia, Africa and Latin America, by slightly modifying to suit local conditions. BancoSol – Bolivia and many groups in Latin America follow this model. Many of the microfinance institutions in India too use this model.

2.4.2 Joint Liability Group

In this model, four to ten members form a group – joint liability group. Group does not collect savings, but members of the group get bank loans and the group is jointly responsible for the repayment of the loans. In India, this model is popular. NABARD also uses this model to provide credit to the small farmers, who do not have land title or any other collateral.

2.4.3 Individual Lending Model

In this model, micro loans are given to the individuals. Microfinance Institutions develop loans to suit the needs of the borrowers. This model is more suitable for the urban areas or for group based collective micro-enterprises. Bank Rakyat Indonesia and SEWA in India are some of those who use this model.
2.4.4 Group Approach

Here, ten to twenty members join and form a group. Group takes up the entire responsibility of savings, getting loans, loan repayments, maintenance of the needed registers and books. Once the group accumulates a certain amount of savings and has good track record, group is provided with loan by the banks. Group decides on use of loans. Either the group uses the loan to start a group business or may further loan to member of the group for individual business or even for consumption purpose. In this model, group is empowered as all the microfinance activities are managed by them. In India, this model is very popular. Programme Humbungan Bank Danksm (PHBK) in Indonesia and Chikola group of K-Rep Kenya also follow this model.

2.4.5 Village Banking Model

The village banking model is the expanded group model. Foundation for International Community Assistance (FINCA) in Bolivia developed this model. A village bank is developed by groups of 30 to 100 poor members who are willing to start their own employment activities. Members collect savings. Microfinance institutions provide loan to the village bank. Members themselves run their bank. This model is being used by microfinance institutions in Guatemala, El Salvador, Burkina Faso and various other countries.

2.4.6 Credit Unions and Cooperatives

Credit unions are not for profit cooperatives owned by its members, who have some common interest. Cooperative functions democratically and is involved in range of financial services.
2.5 **Microfinance Distribution Mechanisms in India**

In India, microfinance is delivered through private and public sector. There are traditional formal institutions in the form of Banks, Regional Rural Banks, Cooperatives who provide banking services as well as microfinance services. Secondly, there are Micro Finance Institutions (MFIs) who provide only microfinance services. Apart from the MFIs, there are Non-governmental organizations (NGOs), Mutually Aided Cooperative Societies (MACS), Non Banking Finance Companies (NBFCs) who provide microfinance services. Apex bodies like National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh (RMK), Friends of Women's World Banking (FWWB) HDFC, Housing and Urban Development Corporation (HUDCO) provide bulk funds to retail banks and MFIs to further lend to the members.

As per Sriram and Upadhayayula (2002), in India, there are organizations that provide various developmental services, and microfinance is one of them. The other level of NGOs, help the poor by taking up sectoral economic activities. Thirdly, there are stand alone MFIs with developmental agenda. They may be commercial organizations like Non banking finance companies (NBFCs).

The 12th five year plan approach paper identifies financial inclusion as public policy initiative for rural development. It suggests that financial inclusion should build upon the positive experience of SHG model, Kisan credit cards and continue with the experience of mobile banking and business correspondent model.

### 2.5.1 Traditional Formal Institutions

Khan (2012) reports that according to the World Bank Financial Access Survey (data 2009-10), financial inclusion in India is high compared with other developed and some of the emerging economies. As per 2011 census, 58.7% of households
in the country are able to get banking services. In the rural areas, 54.4% are served by banking service while in the urban areas, 67.8% are served through banks.

Table 2.2: Households using Banking Services

<table>
<thead>
<tr>
<th>Description</th>
<th>Census 2001</th>
<th></th>
<th>Census 2011</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Number of Households</td>
<td>Number of Households Availing of Banking services</td>
<td>%</td>
<td>Total Number of Households</td>
</tr>
<tr>
<td>Rural</td>
<td>13,82,71,559</td>
<td>4,16,39,949</td>
<td>30.1</td>
<td>16,78,26,730</td>
</tr>
<tr>
<td>Urban</td>
<td>5,36,92,376</td>
<td>2,65,90,693</td>
<td>49.5</td>
<td>7,88,65,937</td>
</tr>
<tr>
<td>Total</td>
<td>19,19,63,935</td>
<td>6,82,30,642</td>
<td>35.5</td>
<td>24,66,92,667</td>
</tr>
</tbody>
</table>

Source: www.financialservices.gov.in/Banking/Overviewofefforts

The public sector and commercial banks continue with priority sector lending, have opened no frills accounts, installed ATMs at rural locations and have started providing core banking services. The banks have expanded considerably in the past few years. In the last 15 years, the number of branches has more than doubled. The progress in the last few years can be traced by Tables below:

Table 2.3: Number of Rural Bank Branches of Scheduled Commercial Banks over the years

<table>
<thead>
<tr>
<th>Details</th>
<th>March 31, 2010</th>
<th>March 31, 2013</th>
<th>March 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks in Villages (Branches)</td>
<td>33,378</td>
<td>40,837</td>
<td>46,126</td>
</tr>
<tr>
<td>Banks in Villages Branchless</td>
<td>34,316</td>
<td>2,27,617</td>
<td>3,37,678</td>
</tr>
<tr>
<td>Total Banking Outlets</td>
<td>67,694</td>
<td>2,68,454</td>
<td>3,83,804</td>
</tr>
</tbody>
</table>

Source: Inclusive Finance Report 2015, pg. 23
The number of rural branches has gone up by more than five times in a period of four years. The number has increased from 67,694 in 2010 to 3,83,804 in 2014. A decade back, in 2001 census, 30% of the rural households were able to access banking services, while in 2011 census; this had increased to 54%.

The technological advances in the banking sector is also seen from the number of ATMs that are now established and public sector banks grew almost double in the past three years.

**Table 2.4: Table showing ATM networks of Banks**

<table>
<thead>
<tr>
<th>Period</th>
<th>Public Sector Bank</th>
<th>Private Sector Bank</th>
<th>Foreign Bank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2012</td>
<td>60,573</td>
<td>39,812</td>
<td>1,361</td>
<td>1,01,746</td>
</tr>
<tr>
<td>March 2013</td>
<td>69,652</td>
<td>43,101</td>
<td>1,261</td>
<td>1,14,014</td>
</tr>
<tr>
<td>September 2013</td>
<td>83,146</td>
<td>45,941</td>
<td>1,246</td>
<td>1,30,333</td>
</tr>
<tr>
<td>March 2014</td>
<td>1,10,424</td>
<td>48,462</td>
<td>1,164</td>
<td>1,60,555</td>
</tr>
</tbody>
</table>

Source: Inclusive Finance India Report 2014, pg. 70

The Pradhan Mantri Jan Dhan Yojana that was launched in August 2014, has seen success. The table below shows the status within one year of its launching.

**Table 2.5: Status under Pradhan Mantri Jan Dhan Yojana**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of accounts opened</td>
<td>18.34 crores</td>
</tr>
<tr>
<td>Deposits</td>
<td>24,071.38 crores</td>
</tr>
<tr>
<td>Number of Bank Mitras</td>
<td>1.26 lakhs</td>
</tr>
<tr>
<td>Number of Suraksha Bima Policies</td>
<td>8.59 crores</td>
</tr>
<tr>
<td>Number of Jeevan Jyoti Bima Policies</td>
<td>2.81 crores</td>
</tr>
</tbody>
</table>

Source: www.pmjdy.gov.in
The Banks have introduced various banking products, technologically driven products, biometric ATMs, prepaid cards, internet kiosks, deposit account offering over draft facility, have offered various insurance products, retail loans, MFI loans and SHG Bank linkages. However, in order to have more presence in the rural areas, banking route may still not be a practical solution. The reason being opening of a bank branch is costly and the operational cost is also high. Microfinance Status Report – 2013 suggests that banks should involve SHGs and MFIs for effective financial inclusion. SEWA Bank has shown success in this area. SBI too has credit linked SHGs and they have less than 1% non productive assets. SHG movement has given boost to micro enterprises too.

2.5.2 SHG Movement

Self Help Group (SHG) movement was first initiated by MYRADA in 1985. The big cooperatives organized by MYRADA broke down. Members of the cooperative started coming to MYRADA for credit. They used to come in groups of 15 to 20, were unhappy with their cooperatives as they felt that the cooperatives were dominated by few individuals. MYRADA started putting in efforts to provide trainings to these women linking them in some homogenous group. In the annual plan of 2000-01, for the first time, strategy for SHG was included. There are two phases of growth of SHGs in India

**Phase I: 1987 to 1992**

NABARD provided support to the NGOs to form SHGs. In 1987, NABARD provided funds to invest in SHGs, provide them with capacity building trainings and give them matching funds for their three to six months of savings. In 1989, NABARD carried out an action research wherein they gave similar funds to other NGOs. In 1990, Reserve Bank of India gave recognition to SHG
strategy as credit model. In 1992, SHG Bank linkage programme was launched.

**Phase II: 1992 till date**

In 1992, SHG Bank linkage programme was formulated and piloted in 500 SHGs. SHG Bank linkage programme has been quite successful. SHG movement brought in overall development of poor women. They were empowered, confident, skilled and learnt to manage finances. SHGs brought in lot of positive changes in their lives. They experienced increase in income, developed their micro entrepreneurial skills, got more sources of income, developed respect for themselves in their families as well as society. Majority of the SHG loans were for agriculture and on farm activities. Hence, agriculture sector benefitted out of the SHG movement. The SHGs functioned democratically and extensive trainings were provided to the group members. RBI gave permission to the banks to give loans to SHGs even if they were not registered. The Banks do not even ask the purpose of loan if they are lending to SHGs. In spite of the global changes in microfinance models, SHGs remain popular in India even today.
Table 2.6: Growth in SHG Bank Linkage Programme

<table>
<thead>
<tr>
<th>Details</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of SHGs with outstanding bank loans</td>
<td>42,24,338</td>
<td>48,51,356</td>
<td>47,86,763</td>
<td>43,54,442</td>
<td>44,51,434</td>
<td>41,97,338</td>
</tr>
<tr>
<td>Loans disbursed (in billions)</td>
<td>122.54</td>
<td>144.53</td>
<td>145.48</td>
<td>165.35</td>
<td>205.85</td>
<td>240.17</td>
</tr>
<tr>
<td>No. of SHGs with savings account with banks (millions)</td>
<td>6.12</td>
<td>6.95</td>
<td>7.46</td>
<td>7.96</td>
<td>7.32</td>
<td>7.42</td>
</tr>
<tr>
<td>Total savings of SHGs with banks (Rs. In billions)</td>
<td>55.46</td>
<td>61.99</td>
<td>70.16</td>
<td>65.52</td>
<td>82.17</td>
<td>98.97</td>
</tr>
<tr>
<td>Average savings of SHG with banks (Rs.)</td>
<td>9,060</td>
<td>8,915</td>
<td>9,402</td>
<td>8,230</td>
<td>11,229</td>
<td>13,321</td>
</tr>
</tbody>
</table>

Source: Inclusive Finance India report 2014, pg. 81

Table 2.7: Number of SHGs having Savings account with Banks (Numbers in millions)

<table>
<thead>
<tr>
<th>Details</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>2.8</td>
<td>3.5</td>
<td>4.1</td>
<td>4.3</td>
<td>4.6</td>
<td>4.08</td>
<td>4.97</td>
</tr>
<tr>
<td>Regional rural Banks</td>
<td>1.4</td>
<td>1.6</td>
<td>1.8</td>
<td>2</td>
<td>2.1</td>
<td>2.04</td>
<td>1.47</td>
</tr>
<tr>
<td>Cooperative Banks</td>
<td>0</td>
<td>0.9</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>0.96</td>
</tr>
</tbody>
</table>

Source: Inclusive Finance India report 2014
The above tables present that the number of members in the SHGs did not increase considerably in the five year period. However, their lending amount has increased. The loan disbursed has almost doubled.

SHGs had some drawbacks as well. There were cases where only few women dominated the group activities. All the members were not able to benefit out of loans. It also emerged that once the group is nurtured well, it proves to be successful and sustainable. In a study conducted by Voluntary Operation in Community Environment (VOICE), in 2009, the report of which was submitted to the Planning Commission, it emerged that in Andhra Pradesh and Gujarat, where SHGs were given lot of care and attention, SHGs functioned well. The group had good coverage of poor households and also got good support from the banks. Reddy (2010) reports that SHGs are facing threat by MFIs. Rapid growth of MFIs are bringing about splitting of the SHGs and forming of JLGs. He recommends that SHGs and MFIs should not compete with each other, but if they work together, they can help financial inclusion in a better manner.

Table 2.8: Year wise Comparative Performance of SHGs in Gujarat

<table>
<thead>
<tr>
<th>Year</th>
<th>Savings of SHGs</th>
<th>Number of SHGs with bank loans outstanding</th>
<th>Loans Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of SHGs</td>
<td>Amount (Rs. millions)</td>
<td>No. of SHGs</td>
</tr>
<tr>
<td>2011-12</td>
<td>2,26,626</td>
<td>1,396.32</td>
<td>72,495</td>
</tr>
<tr>
<td>2012-13</td>
<td>2,08,410</td>
<td>1,755.51</td>
<td>72,671</td>
</tr>
<tr>
<td>2013-14</td>
<td>1,96,510</td>
<td>1,687.2</td>
<td>61,848</td>
</tr>
</tbody>
</table>

*Source: Inclusive Finance India report 2014, pg. 114-116*
Gujarat has shown a declining trend in SHGs. The number of SHGs who save with the banks and number of SHGs to whom loan has been disbursed have slightly decreased.

2.5.3 Microfinance Institutions

Microfinance Institutions (MFIs) are those who are purely into microfinance. Many NGOs transformed themselves as MFIs. In the late 1990s, some NGOs transformed to MFIs and became for profit MFIs – non banking Finance Companies (NBFC). MFIs get resources from banks and other mainstream financial institutions and further loan to the poor. In 2010, SKS Microfinance was the first MFI to come up with the public issue which was well received by the investors. This issue has added glamour to the Microfinance industry. Investors like Private Equity Funds and Venture Capital Funds have also now developed an interest in Microfinance sector.

MFIs provide loans directly to the individuals and micro entrepreneurs, either individually or through joint liability group. MFIs go to the doorsteps of the clients and provide them with the needed financial services. As per the RBI guidelines, “NBFC-MFI is a non-deposit taking NBFC with a minimum net owned funds of Rs. 5 crores, Rs. 3 crores in case of North East India.” MFIs can disburse loans to the rural households having annual income of less than Rs. 60,000 and to urban households having annual income less than Rs. 1,20,000. MFIs can give loans upto Rs. 35,000 for the first time and subsequently, they can loan upto Rs. 50,000. In case, the loan amount is greater than Rs. 15,000, the duration of the loan has to be minimum 24 months. Loans provided are without any collateral and can be repaid in weekly, fortnightly or monthly instalments as per the borrower’s convenience. MFIs are not allowed to charge penalty for delayed repayments.
Chart 1: Forms of Microfinance in India

The gross loan portfolio of MFIs is as per the table below:

**Table 2.9: Growth of NBFC-MFIs**

<table>
<thead>
<tr>
<th>Name of MFI</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Loan Portfolio (Rs. in billions)</td>
<td>173.88</td>
<td>207.26</td>
<td>279.31</td>
</tr>
<tr>
<td>Clients (no. in millions)</td>
<td>22.74</td>
<td>23.3</td>
<td>28.04</td>
</tr>
<tr>
<td>Loans Disbursed (Rs. in billions)</td>
<td>209.51</td>
<td>236.86</td>
<td>349.68</td>
</tr>
<tr>
<td>No. of Loans disbursed (millions)</td>
<td>17.65</td>
<td>18.57</td>
<td>24.38</td>
</tr>
<tr>
<td>Branches</td>
<td>9,777</td>
<td>9,103</td>
<td>9,780</td>
</tr>
</tbody>
</table>

*Source: Inclusive Finance India report 2014, pg 103*

Microfinance is fast growing in India and has shown significant impact on poverty. Government of India, recognizing the important role microfinance is playing in the economy, is also encouraging growth of microfinance institutions. Conducive environment is being created for the expansion of the microfinance institutions and upliftment of the poor. Formal Institutions like Banks are also continuously upgrading their services to make them user friendly and also to expand at a low cost to reach out to more and more poor households. It is often argued that since MFIs have to be sustainable, they do not reach out to the poorest of the poor, but concentrate on the better off of the poor. However, still good impact is seen of the MFI products and this is proved by the fact that MFIs are continuously increasing in India. Gujarat has been one of the states which took up slower in microfinance sector, but has recently picked up and along with Kerala and Uttarakhand, has achieved highest growth rate ranging from 60% to 75%.
To strengthen the role of microfinance sector in financial inclusion, Rangarajan Committee (2008) gave the following recommendations for both SHGs and MFI:

- Upscaling of SHG Bank Linkage Programme
- Promotion of SHGs in regions with high levels of exclusion by developing models to suit the local context
- Incentivising NGOs to expand into backward areas for promoting SHGs
- Encouraging voluntary federation of SHGs with no role in financial intermediation

2.6 Andhra Microfinance Crisis

In India, in 1980s, microfinance movement picked up with formation of self help groups and subsequently with the Self Help Group Bank Linkage Programme. In 1990s, with the liberalisation of economic reforms, microfinance institutions emerged. Microfinance institutions (MFIs), first started as trusts or societies and later on registered as Non Banking Finance Companies (NBFC). CGAP report brings out that by 2010, there were around 30 MFIs as NBFCs and were growing at an annual rate of 80% and had reached 27 million borrowers.

Andhra Pradesh, the South East Indian state had undertaken several poverty reduction programmes. Society to Eliminate Rural Poverty (SERP) was one of their major programmes under the State Government’s Rural Development Department. This programme offered livelihood promotion programmes, trainings and access to savings. Srinivas (2007) reports that SHGs have a long history in Andhra Pradesh. Traditionally, SHGs were based on members’ savings and there were rules to cap bank loans to SHGs at three to four times of their savings, that made savings to be limited to Rs. 1,00,000 or less. Andhra Pradesh in its “Total Financial Inclusion Programme” increased the limit of lending upto Rs. 5,00,000 to
the targeted SHGs with repayment terms of five years. The SHG members started getting rewarded in the form of refunding interest rate above 3% paid by them after they timely repaid their loans. This programme was meant to help SHG members to repay the loans taken from money lenders and other MFIs, which they had borrowed at higher rates of interest. But in practice, members kept all the multiple loans they had taken from multiple sources.

In late 1990s, many of the large MFIs started its operations from Andhra Pradesh. Andhra Pradesh was amongst the first states to seek private equity investment for MFIs. With the insurge of capital, many MFIs benefitted and many behaved responsibly, but some started focusing on generating higher returns.

The large government programme, SERP, as well as large MFIs brought a surge in credit in Andhra Pradesh and villagers started taking multiple loans. Johnson and Meka (2010), in CGAP 2010 report that 83% of households had loans from more than one sources, including money lenders. There was good penetration of microfinance in Andhra Pradesh. SKS Microfinance offered Initial Public Offering (IPO) which signified that there was good potential for MFIs and also there was expectation of high profits and good executive packages.

In 2005-06, district government closed around 50 branches of four MFIs as there were complains on unethical collections, illegal practices and high interest rates. A Code of Conduct was prepared for MFIs.

Both MFIs and SHGs approached the same villages and offered their services. Both became competitive. Multiple borrowings were happening and villagers were getting more indebted than before. Default rate increased. MFIs started using unethical practices to recover loans. Suicides started happening. The State Government then passed an Ordinance to protect women SHGs from being exploited by MFIs.
Since MFIs were not allowed to accept deposits, which would have helped them mobilize local funds, they started attracting investors. Government supported MFIs as the priority sector contributors to growth. Large loans started flowing to them with less scrutiny. The competition for lending increased and the burden fell on the borrower. This led to the crisis, over indebtedness amongst the borrowers, and liquidation by some MFIs. Banks and Financial Institutions lost their trust in MFIs and stopped giving fresh loans to the MFIs.

Recognising the role of MFIs in financial inclusion and also the part played by them in development, Government felt need to develop better client protection schemes. Reserve Bank of India issued guidelines for NBFCs and the Central Government also initiated preparation of Microfinance Bill.

### 2.7 Microfinance Regulations

#### 2.7.1 RBI Guidelines

As per the Reserve Bank of India Guidelines for Non Banking Finance Companies (NBFC), NBFC is defined as a company under Section 25 of the Indian Companies Act, 1956. Company which has minimum net owned funds of Rs. 5 crores, (For NBFC in North Eastern area, the requirement is of Rs. 2 crores) and not less than 85% of its net assets are “qualifying assets”. Qualifying Asset means satisfaction of the below criteria:

- **a.** loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 60,000 or urban and semi-urban household income not exceeding Rs. 1,20,000;

- **b.** loan amount does not exceed Rs. 35,000 in the first cycle and Rs. 50,000 in subsequent cycles;

- **c.** total indebtedness of the borrower does not exceed Rs.
50,000;

d. tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15,000 with prepayment without penalty;

e. loan to be extended without collateral;

f. aggregate amount of loans, given for income generation, is not less than 75 per cent of the total loans given by the MFIs;

g. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

h. Further the income an NBFC-MFI derives from the remaining 15 percent of assets shall be in accordance with the regulations specified in that behalf.

i. An NBFC which does not qualify as an NBFC-MFI shall not extend loans to micro finance sector, which in aggregate exceed 10% of its total assets.

All NBFCs have to get registered. They should maintain a capital adequacy ratio not less than 15% of its aggregate risk weighted assets.

The aggregate loan provision to be maintained by NBFC MFI should not be less than higher of 1% of the outstanding loan portfolio or 50% of the aggregate loan instalment which are overdue for more than 90 days and less than 180 days and 100% of aggregate loan instalments for overdue for more than 180 days.

Margin of NBFC MFI should not exceed 10% for MFIs having loan portfolio of more than Rs. 100 crores and 12% for the rest.
Norms for interest rate, processing charges, insurance have also been formulated

NBFC MFIs are not allowed to charge penalty for late repayments

All the entries should be made on the loan card which needs to be maintained in vernacular language

2.7.2 Microfinance Bill (Standing Committee on Finance (2013-14), Ministry of Finance, Department of Financial Services)

The Microfinance Insitutions (Development and Regulation) Bill, 2012, laid in Rajya Sabha on 13/2/14 and presented to Lok Sabha on 17/2/14, was first introduced in the Lok Sabha on 22/5/12 and was referred to the Committee on 28/5/12 for examination. Committee took views from Sa-Dhan Foundation, SKS Micro Finance Ltd., Micro Finance Institutions Network (MFIN), International Network of Alternative Financial Institutions (INAFI), Micro-Credit Ratings International Ltd. (M-Cril), Access Development Services, All India Democratic Women’s Association (AIDWA) and Dr. R. Ramakumar, Associate Professor, Tata Institute of Social Sciences, Mumbai. Committee also heard the views of Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and also the State Government of Andhra Pradesh and Ministry of Finance.

Indian Banking System has grown significantly. However, many poor households are still not getting the basic financial services like savings, credit and remittance. Many societies, companies, trusts and institutions have started providing such services but do not have a statutory framework for the regulation of the Micro Finance Institutions. Hence there was a felt need for enacting a law in this regard.
The Central Government introduced the Micro Financial Sector (Development and Regulation) Bill, 2007 in the Lok Sabha. Since the Lok Sabha dissolved, the Bill lapsed. In 2011, Ministry of Finance constituted a Committee to recommend draft for New Microfinance (Development and Regulation) Bill. The Bill was introduced in 2012.

The Microfinance Bill 2012 recommended several changes to the Microfinance Bill proposed in 2007.
## Table 2.10: Microfinance Bill 2007-2012

<table>
<thead>
<tr>
<th>Aspects</th>
<th>Micro Financial Sector (Development and Regulation) Bill 2007</th>
<th>Micro Finance Institutions (Development and Regulation) Bill 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope and Application</strong></td>
<td>Only NGO-MFIs registered as societies, trust and cooperatives (i.e. excluding MBFC and Section 25 companies)</td>
<td>All MFIs in all forms</td>
</tr>
<tr>
<td><strong>Structure of the sector</strong></td>
<td>One tier, MFOs only, (apart from NBFC and Section 25 companies, but no provisions applicable to them)</td>
<td>The sector is now covered under the provisions of the Bill in its entirety</td>
</tr>
<tr>
<td><strong>Savings mobilization</strong></td>
<td>Only thrift for MFO from members</td>
<td>Thrift mobilisation from public also permitted</td>
</tr>
<tr>
<td><strong>Supervisor</strong></td>
<td>NABARD</td>
<td>RBI- with powers to delegate to NABARD and to other agencies as may be deemed fit</td>
</tr>
<tr>
<td><strong>Advisory Council</strong></td>
<td>Advisory, with majority consisting of officials representing specified agencies ex-officio</td>
<td>In addition to a national level council, provisions have been made for state level councils as well as district level committees for monitoring of functions of MFIs</td>
</tr>
<tr>
<td><strong>Grievances handling and appellate authority</strong></td>
<td>MFDC may set up ombudsman</td>
<td>Ombudsman provided for</td>
</tr>
<tr>
<td><strong>Capital norms</strong></td>
<td>NOF of at least Rs. 5 lakh and a capital adequacy ratio of 15%</td>
<td>Rs. 5 lakh as minimum entry capital-RBI to stipulate prudential norms</td>
</tr>
<tr>
<td><strong>Instruments</strong></td>
<td>Registration for thrift taking MFOs and information reporting for all</td>
<td>Registration for all, information, reporting and interest rate capis</td>
</tr>
<tr>
<td><strong>Customer protection</strong></td>
<td>Through Ombudsman</td>
<td>Norms for customer selection, size of loans, interest disclosure, process controls and interest/margin ceilings. Also through District Microfinance Committees</td>
</tr>
<tr>
<td><strong>Powers of regulator</strong></td>
<td>Minimal</td>
<td>Power to cancel registration, order for winding up, merger and acquisition, imposition of penalties, delegation of powers, issuance of directions</td>
</tr>
</tbody>
</table>

*Source: Standing Committee on finance (2013-14)*
Some of the important features of the proposed Bills are:

Clause 2(1)(i) of the Bill define ‘microfinance services as one or more of the following services provided by Microfinance Institutions

- Microcredit facilities, not exceeding Rs. 5,00,000 for each individual and for special purposes specified by the Reserve Bank of India, not exceeding Rs. 10 lakhs.
- Thrift Collection
- Pension or Insurance Service
- Remittance of Funds to individuals within India with prior approval of the Reserve Bank of India
- Any other services, as specified

Clause 25 of the Bill guides on the ceiling on amount of microcredit facilities and the number of individual clients to whom such microcredit can be provided. The ceiling on processing fees, interest, life insurance premium, including ceiling on percentage of margin has been specified.

The Microfinance Bill 2012 proposed several changes as compared to 2007. However, it still did not focus on important aspects like impact on banks, Self Help Groups, source and cost to Microfinance Institutions, risk factors such as money laundering, threat to the financial stability, interest rates etc. The Bill was rejected as it was suggested that indepth evaluation needs to be carried out especially on the regulatory and supervisory structure, define poor households, financial inclusion and poverty. It was proposed to have a separate Microfinance Development Regulatory Authority than burdening Reserve Bank of India to supervise the Microfinance Institutions.
2.8 Conclusion and Rationale of the Current Study

The outreach of microfinance has increased considerably during the last three decades. In the last fifteen years, there has been a significant growth in the Microfinance sector. Sa-Dhan (2014) report presents that as on March 31, 2014 the quantum of credit given to the poor and financially excluded is more than Rs. 33,500 crores to more than 33 million clients. SHG Bank Linkage programme has also grown with outstanding loan portfolio of around Rs. 43,000 crores. However, various studies on the subject reveal that microfinance in its present form reaches people either just below poverty line or above poverty line. As Ghosh (2005) concludes “Poorest of poor are excluded (from the microfinance)... it is a choice between self-sufficiency and targeting the poor”: Hickson (2001) says that the MFIs and the SHG-Bank linkage mechanism virtually never work with the poorest and very poor households are either excluded from entering microfinance programmes, or drop out of these programmes at an early stage. As Eversole (2000) puts it, the microcredit seldom reaches the poorest as ‘the poorest people either have no microenterprise of their own, or their version of ‘microenterprise’ (12 pears on a blanket) is as far from a carpenter’s shop or a market stall as a plastic tap is from a house.’ As brought out by Kempson and Whyley (1998); Ito, (1999); Matin (1998), in Hickson (2001) a large body of evidence suggests that very poor households are either excluded from entering microfinance programmes, or drop out of these programmes at an early stage.

It is therefore important to improve the outreach of microfinance to also cover the poorest and those living in remote areas of the country. It is also needed to explore and adopt the strategies and methods to sufficiently deepen and broaden microfinance in India to enable it to cover such people in its ambit. Such strategies may consist of innovations in microfinance products as well as in the delivery of such products. Adequate measures may also be needed to identify and induct new and improved technologies in both delivery and product domains of microfinance.
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