CHAPTER III
MICRO FINANCE – A FOCUS

Prologue

Microfinance today has become one of the most debated and documented but still much confused buzzwords in banking and policy making fields. In the most simplistic way it can be termed as “banking for the poor”. Suggested by the name, most transactions under “microfinance” involve small amounts of money. But the connotation of the term as a much wider meaning. It is claimed to be powerful tool, which can be used effectively to address poverty, empower the socially marginalized poor and strengthen the social fabric. And when it is directed at women, the benefits accruing out of the micro financing activities are expected to multiply manifold. That is why it is supposed to be changing lives of people in every part of the globe. Today, micro financing is considered to be a more subaltern way of providing financial assistance to our less privileged brothers and sisters.

In India, microfinance has been defined by the Task Force on Microfinance as “provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards. As per the definition of International Labour Organisation (ILO), microfinance is an economic development approach that involves providing financial services through institutions to low income clients.

The way in which the banking sector has evolved world over has not been truly inclusive. So people with no or meager physical collateral get completely marginalised. However, it is heartening to see that of late policy makers across the globe have realised. That it is difficult to sustain. The growth momentum unless the marginalised masses are brought into the main stream economy. This has increased the general level of interest in never and innovative ways of providing financial and banking assistance to marginalised people.

Actually in some form or the other, the concept of “microfinance” always existed in almost each and every society. But as a more former and modern process,
the history can be traced back to portions of the Marshall plan at the end of second world war in the middle of the 20th century or even back to the mid – 1800s and the writings of abolitionist/legal theorist lysander spooner who wrote about the benefits of numerous small loans (for entrepreneurial activities) to the poor as a way to alleviate poverty. In Indonesia, the Indonesian people’s credit banks (BPR) or The Bank perkreditan rakyat was set up in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units.

However, in its most recent incarnation, it can be linked several organizations that were setup in the 1970s and subsequent decades. Some of the initiatives, which founded the microfinance revolution of today, can be enlisted as follows:

In 1959, Akhtar Hameed Khan as the founder of Pakistan (now Bangladesh) Academy for Rural Development introduce the revolutionary idea of micro-credit (microfinance), there by opening a new door for millions of destitute under privileged people. His Comilla Cooperative Pilot Project is considered a model of micro-credit and rural development initiatives in developing countries.

In 1971, Al Whittaker and David Bussau established Opportunity International, which provides opportunities for people in chronic poverty to transform there lives by creating jobs, stimulating small businesses, and strengthening communities. Small loans ranging form $ 25 to $ 500 helped poor families lift themselves out of poverty with dignity. In 1973, accion International, started to focus on providing economic opportunities to poor people instead of working on construction/infrastructure projects in order to create lasting improvements in the lives of those they were helping. In 1976, Muhammad Yunus founded the Grameena Bank (GB) to make loans to poor Bangladeshis. As of December 2006, it has 6.91 million borrowers, 97% of whom are woman. To, 319 branches, GB provides services in 74,462 Villages covering more than 89% of the total Villages in Bangladesh.

In the 1980s FINCA International started micro-credit facilities in Bolivia. John Hatch, founder of FINCA, named this has “Village banking”. In India too, the National Bank for Agriculture and Rural Development (NABARD) finances more that 500 banks that on- lend funds to self-help groups (SHGs). SHGs comprise 20 are favour members, of whom the majority are woman form the poorest castes and tribes.
Some of the most recent strategic policy initiatives in the area of microfinance taken by the government and regulatory bodies in India are as follows: (1) Working group of credit to the poor through SHGs, NGOs, NABARD, 1995; (2) The National Microfinance Task force 1999; (3) Working Group on financial flows to the Informer sector (setup by the PMO), 2002; (4) Microfinance Development and Equity Fund, NABARD, 2005; (5) Working Group on Financing NBFCs by Banks-RBI. In addition to the initiatives taken by the central government, various state governments like AP, MP, Rajasthan, Bihar and Orissa have also developed certain platforms for the microfinance services.

Similar programmes are evolving in Africa and South-east Asia with the assistance of organizations like Opportunity International, Catholic Relief Services, CARE, APMAS Oxfam and Ford Foundation.

**Scope and constituents of Microfinance**

The concept of microfinance today has become major credit disbursement mechanism in many part of the world. Today, the term microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients.

India has the presence of 260 million poor forming 26% of the total population (Wilson, 2005). That is why development is primarily concerned with addressing the needs of the poor in the matter of sustainable economic activities. Poor people needs an alleviation through microfinance as the basic input for socio economic development and as identifying income generating activities in particular (Das and et. al., 2009). Microfinance is evolving and the coming years will see it making the coming years will see it making definite impact across rural and urban India giving hopes and opportunity to millions to raise their standards of living (Sen., 2009, p.3).

**Microfinance – A Conceptual Insight**

The microfinance has emerged as a powerful tool for poverty control in last two decades. The need for microfinance in India has arisen due to failure of financial
Institution system in meeting the credit needs of millions of rural as well as urban poor.

The problems of poverty in rural as well as urban areas are due to lack of access for the poor to the fundamental services like health, education, better-living conditions etc. After independence, the cooperative societies were expected to help these classes and government also launched various plans and programmes for the development of the poor. India since independence has been attempting through various plans and programmes to develop an equitable society in which everybody will at least be able to meet the basic requirements of life.

The various antipoverty programmes launched for the purpose of providing support to the poor people to cross above the poverty line in the past did not achieve desired results due to various reasons. But one of the important reasons identified for which poor people could not rise above the poverty line was the lack or low access to credit from the formal financial institutions. To make formal financial institutions more responsive to the needs of the poor, the government had initiated concerned efforts during 1960-1990 through various measures like nationalization of private commercial banks, expansion of rural branch networks, extension of subsidized credit, establishment of Regional Rural Banks (RRBs) and the establishment of apex institutions such as the National Bank for Agriculture and Rural Development (NABARD) and the Small Scale Industries Development Board of India (SIDBI) to increase the rural outreach and credit volume in priority sector.

It was during that period that the “microfinance” as it is understood today, first emerged on the Indian development scene by the effort of NABARD initiated Self-Help Group (SHG) – Bank Linkage Programme, which links informal women’s group to formal banks. This concept held great appeal for non-government organizations (NGOs) working with the poor, prompting many of them to collaborate with NABARD in the program. This period also witnessed the entry of another set of stakeholders known as Microfinance Institutions (MFIs).

In the current decade, India witnessed a surge in its economic growth, a result of the reforms initiated in the early 1990s. Amidst the general economic euphoria, a growing emphasis emerged on “inclusive growth” and “financial inclusion”.

Microfinance and rural markets are seen as key drivers to meet this objective and informal actors including NGO – MFIs and SHGs have gained greater legitimacy. This period also saw many NGO – MFIs transform into regulated legal formats such as Non-Banking Finance Companies (NBFCs).

The Reserve Bank of India (RBI) defines microfinance as “the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards”. Such clients have been largely excluded from the credit extended by commercial banks. Traditionally, microfinance clients were self-employed micro-entrepreneurs for whom, credit served the purpose of consumption smoothing, investment in productive assets, or working capital for income-generating activities.

Microfinance is a very young and growing sector in the financial market. In contrast to the formal financial sector, it provides small financial services (Rs. 1000-50,000) to assist the poor both financially and socially. Microfinance aims to target the rural and urban poor who own micro-enterprises that work in agriculture, dairy, poultry, grocery, tailoring, broom making, and pottery, among others. Microfinance practitioners, as a whole, aim to target almost 500 million people. There are various organizations involved in microfinance like NABARD, SIDBI, SBI Associates, Oriental Bank of Commerce, some private banks and funds. Besides there is a new generation of microfinance practitioners and various social development agencies have adopted microfinance as an effective tool to fight poverty and empower women. They are largely known as Microfinance Institutions (MFIs). The involvement of various public, private and other NGOs shows the value and scope of growth in this sector.

Microfinance is the supply of loans, savings, and other basic financial services to the poor and low income group – Consultative Group to Assist the Poor (CGAP) the leading microfinance think tank housed at the World Bank.

Reserve Bank of India’s Task Force on Microfinance has defined it as “provision of thrift, credit and other financial services and products of very small
amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income levels and improve living standards’.

**Poverty in India**

The poverty ratio may be strictly comparable to the earlier ratio of poverty because of some changes in the methodology of data collection from time to time. An important feature of poverty ratio in India is that its incidence is far greater in rural areas than in urban areas. Table-3.1 illustrates the contrast between rural vis-à-vis urban poverty scenarios in India.

**Table – 3.1 : Poverty Ratio in India**

<table>
<thead>
<tr>
<th>Years</th>
<th>Rural Sector Poverty Ratio (%)</th>
<th>Urban Sector Poverty Ratio (%)</th>
<th>All India Poverty Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-1974</td>
<td>56.4</td>
<td>49.0</td>
<td>54.9</td>
</tr>
<tr>
<td>1977-1978</td>
<td>53.1</td>
<td>45.2</td>
<td>51.3</td>
</tr>
<tr>
<td>1983-1988</td>
<td>45.7</td>
<td>40.6</td>
<td>44.5</td>
</tr>
<tr>
<td>1987-1988</td>
<td>39.1</td>
<td>38.2</td>
<td>38.9</td>
</tr>
<tr>
<td>1993-1994</td>
<td>37.3</td>
<td>32.4</td>
<td>36.0</td>
</tr>
<tr>
<td>1999-2000</td>
<td>27.1</td>
<td>23.6</td>
<td>26.1</td>
</tr>
<tr>
<td>2004-2005</td>
<td>28.3</td>
<td>25.7</td>
<td>27.5</td>
</tr>
<tr>
<td>2007-2008*</td>
<td>20.1</td>
<td>14.5</td>
<td>18.2</td>
</tr>
</tbody>
</table>


The above table shows that the poverty ratio has been on a decline during given intervals, in rural sector as well as urban sector. Likewise, there has been significant decrease in the All India overall poverty ratio which has come down to below 20 as compared to 54.9 in the year 1973.74.

The concept of micro-financing the self employment activities in rural; areas has developed considerably over the last twenty five years. It is working neither on donation/charity nor on subsidy. It is basically rotational investment done to motivate poor to empower themselves and apply the existing theory, otherwise lost, of ‘ save
for the future and use those resources during the time of need’. Theoretically microfinance – menace making provisions for smaller working capital loans to the self-employed or self-employment seeking poor. Such loans may be provided even for the activities like vegetable selling, cotton and wool for weave, raw material for handicrafts, etc.

Micro-finance includes savings, credit, insurance, and other financial services for the poor or informal sector communities. Micro-finance is defined as the provisions of thrift, credit and other financial services and products in very small amounts to the poor for enabling them to raise their income levels and improve living standard.

**Features of Microfinance**

Some important features of microfinance are as follows:

a) Microfinance is a tool for empowerment of the poorest women.

b) Microfinance is essentially for promoting self-employment; the opportunity of wage employment is limited in developing countries – it does not increases the productivity of employment in the informal sector of the economy.

c) Microfinance is not just a financing system, but a tool for social change, especially for women.

d) Micro-credit is aimed at the poorest; microfinance lending technology needs to mimic the informal lenders rather than formal sector lending.

**Principles underlying Microfinance**

1. Self Employment enterprise is a viable means for poverty alleviation.

2. Lack of access to capital assets. Credit is a constraint for existing and potential micro enterprises.

3. The poor are able to save despite their low level and sporadic incomes.

Microfinance is distinctly different from other populist poverty alleviation programmes. Micro – finance (credit) has some important features as detailed below:
1. Loan under Microfinance programmes are very small.

2. Microfinance continues to target the rural and urban.

**Microfinance-The Key to Financial Services**

Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance. People living in poverty, like everyone else, need a diverse range of financial services to run their businesses, build assets, smooth consumption, and manage risks. Poor people usually address their need for financial services through a variety of financial relationships, mostly informal. Credit is available from informal moneylenders, but usually at a very high cost to borrowers. Savings services are available through a variety of informal relationships like savings clubs, rotating savings and credit associations, and other mutual savings societies. But these tend to be erratic and somewhat insecure. Traditionally, banks have not considered poor people to be a viable market.

Different types of financial services providers for poor people have emerged—non-government organizations (NGOs); cooperatives; community-based development institutions like self-help groups and credit unions; commercial and state banks; insurance and credit card companies; telecommunications and wire services; post officers; and other points of sale offering new possibilities. These providers have increased their product offerings and improved their methodologies and services over time, as poor people proved their ability to repay loans, and their desire to save. In many institutions, there are multiple loan products providing working capital for small businesses, larger loans for durable goods, loans for children’s education and to cover emergencies. Safe, secure deposit services have been particularly well received by poor clients, but in some countries NGO microfinance institutions are not permitted to collect deposits.

Remittances and money transfers are used by many poor people as a safe way to send money home. Banking through mobile phones (mobile banking) makes financial services even more convenient, and safer, and enables greater outreach to more people living in isolated areas.
Financial services for poor people have proven to be powerful instrument for reducing poverty, enabling them to build assets, increase incomes, and reduce their vulnerability to economic stress.

**Microfinance - the Services and Institutions**

As the financial services of microfinance usually involve small amounts of money – small loans, small savings etc. – the term ‘microfinance’ helps to differentiate these services from those which formal banks provide. These services are not limited to credit, but include savings, insurance, and money transfers.

In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as “microfinance institutions” (MFIs). These institutions delivery small loans to unsalaried borrowers, taking little or no collateral.

An MFI [microfinance institution] can be broadly defined as any organization – credit union, down-scaled commercial bank, financial NGO, or credit cooperative- that provides financial services for the poor – CGAP.

Typical microfinance clients are poor and low-income people that do not have access to other formal financial institutions. They are usually self-employed, household-based entrepreneurs. Their diverse “micro-enterprises” include small retail shops, street vending, artisans manufacturing handicrafts and other items, food processing and trade; some but far from all are farmers. Hard data on the poverty status of clients is limited, but tends to suggest that most microfinance clients fall near the poverty line, both above and below. Women often comprise the majority of clients.

In their activities, most MFIs come across people who are financially excluded and do not have any dealing with the mainstream financial and banking scenario. These people are poor, illiterate and very often with out any jobs or steady means of income. Yet, very often they require some form of financial or banking services such as tiny deposits, small loans and credit. There is a huge lacuna existing here which banks and other financial bodies are unable to fill up. Some of the major reasons why this happens are as under:
1. The rural and urban poor can only afford very small amounts as deposits or loans, which would be too costly to provide.
2. The cost of setting up branches, training personnel and setting up other infrastructure in remote locations is too high.
3. Often the people are illiterate with no knowledge of financial transactions.
4. The remoteness of the locations makes traveling difficult and unsafe provided the condition of Indian roads.
5. It is unsafe to carry large sums of money over such distances for disbursement and collection.

Models of microfinance

In the life cycle of institutional building the economy has been steadily moving from the preparatory and exposure phases to a reflection and reformation phase in the Microfinance sector. This has been fuelled by the urge for making financial inclusion effective. The Indian economy’s consistently good performance during the past few years has led to improvement in rating India as the second most attractive destination for investments next only to China. Still one-fifth of the world’s poor live in India making it the core issue for the future economic agenda. The conventional supply side approach to poverty reduction with subsidies and credit (Integrated Rural Development Programme) resulted in failure due to unchecked inefficiencies and irregularities in implementation. We started looking at alternate models. In MF sector several non-government and cooperative organizations initiated savings-and-thrift models of helping the poor demonstrating that the poor have an urge to save and enjoy the gains of such savings through collective and mutually beneficial credit and micro insurance arrangements.

The different Models of Microfinance are:

1. SHGs promoted and financed by banks.
2. SHGs promoted by NGOs/Government Organizations and Finance by banks.
3. SHGs promoted by the financed through NGOs by raising bank loans.
4. The federated SHG approach.
5. SHGs promoted by NGOs/Societies/other organizations, and financed by Microfinance Institutions.

6. SHGs promoted and financed by MFIs (Grameen Replicator Approach)

7. Individuals directly financed by MFIs.

8. The Urban Corporation Banking model.

9. The Multi State Cooperative Solidarity group model.

10. The NBFC approach.

While the second model above formed about 72%, the first model worked out to 21% of bank finance under SHG-Bank linkage programme. Growth under the MFI model has been greatly facilitated by the sharp increase in bank credit to MFIs. A wide range of banks are now financing the sector, the private sector banks lending mostly to MFIs, and the public sector banks through their wide network of rural bank branches, mostly the SHGs. The private sector banks are financing MFIs both because they regard it as good business, and because of priority sector obligations. More and more public sector banks are also viewing SHG financing as profitable, and undertaking it less and less because of moral persuasion from government and NABARD.

A recent development among the SHGs at some places is to organize themselves into a federation at the Village/Mandal/District level for deriving benefits of scale and the banks have already recognized the Village level federation as a viable unit for delivering financial assistance to individual members through SHGs. The MFI model at fifth and sixth position provide finance to individuals through SHGs.

**MFIs – Formal and Non formal**

Currently a range of institution in both the public sector and private sector offer microfinance services in India. Such institutions are broadly categorized into two categories, namely formal institutions and non formal institutions. The former category comprises of apex development financial institutions, Commercial Banks, Regional Rural Banks, and Co-operative Banks that provide microfinance services in addition to their general banking activities. The informal institutions that undertake
microfinance services as their main activities are referred as microfinance institution. Although both public and private ownership are fond in formal financial instructions offering microfinance services, the MFIs are mainly found in private sector. There are three types of MFIs – not for profit MFIs, mutual benefit MFIs and for profit MFIs. For profit MFIs are defined by their legal form which allows them to pay out profit to shareholders/investors. Not for profit MFIs ploughs back all surplus into their operation and not permitted to pay out profit to shareholders/investors.

It is estimated that the microfinance sector has potential to grow up to a level of Rs. 400bn to 500bn covering as many as 40 million households (NABARD Annual Report on SHGs:2007). While on one hand the systemic and institutional bottlenecks are already surfacing the microfinance sector, on the other hand the experts feel that the meager level of average loan amount of Rs. 4,000 to 5,000 or about Rs. 10,000/- in bigger loan cases, will not change the livelihood profile of the poor people until something is done to invest in land, water, forest livestock, human development itself and also in the local infrastructure. Rural penetration of bank accounts is still around 18 per cent. There is limited access to insurance services in the rural areas. The two main goals of microfinance are: outreach and sustainability.

Basically there are two broad models of microfinance prevailing: those that borrow or raise equity from various sources for lending to the ‘poor’ to pursue alternative livelihood opportunities and those that promote savings and thrift as seed money for raising loans to enhance their existing livelihood opportunities or sift to alternate livelihood opportunities. Expansion under both models is, however, constrained by the availability of resources for on-lending. State Governments like Andhra Pradesh (AP) have demonstrated that alternate institutional mechanisms could enable the poor to cross the line of poverty through State facilitation.

Micro-finance is a buzzword nowadays. It has attracted the attention of researchers since couple of years. Micro-credit used by Self-Help Groups (SHGs) has empowered its numerous members in India and throughout the world socially, politically and economically. Especially, it has been a boon to the women members. Although micro-finance is not a panacea for the empowerment of its members residing in rural areas, still it has been able to bring about a lot of positive changes.
Microfinance programs taken up throughout the world are aimed at financial inclusion of the impoverished by providing thrift, credit and financial services and products of very small amount to them to raise their income levels and improve living standards. Microfinance contains both micro credit and micro savings even though microfinance and micro credit have come to be used interchangeably.

Though the pioneering efforts at providing microcredit was made by Prof. Yunus in the seventies, the worldwide impetus really took off after the 1997-World Microcredit Summit-held in Washington DC-target which targeted at eradicating poverty of 100 millions poorest families within 2005. Declaration of 2005 as the international year of microfinance and awarding Prof. Yunus and Grameen Bank with the Nobel Peace Prize in 2006 are recent phenomenon which highlights the significance and recognition of this movement.

**Initiatives and Boom of Microfinance in India**

Eradication of poverty has been on the agenda of government of India since early fifties. However, the strategy of direct attack on poverty was formulated in the early seventies and special programmes for the poor were introduced in the Fourth Five-year Plan. Expansion of employment generation programme mainly was based on financial assistance or loan. Government and other NGOs generally issued loan and financial assistance to the rural individuals. The development agencies were busy to forbear by providing single dose of financial injection to a fixed portion of vulnerable section of rural mass. The recipient of the financial assistance, very often, was unable to utilize the issued fund for the productive purpose and spent the fund for the consumption purposes. As a result in some cases, it was difficult to find out the existence of micro enterprises in the rural areas. The government of India launched many programmes like IRDA, DWCRA, TRYSEM, SITRA etc, which aimed to fiancé micro enterprises. As a significant initiative towards antipoverty programme Govt. of India launched Integrated Rural Development Programme in the year 1979-80, which aimed at providing self-employment opportunities to the rural poor through assistance in the form of subsidy and bank credit to enable them to acquire productive assets and appropriate skills to cross the poverty line in a sustained manner. However, it is estimated that only about 20 per cent of the borrowers have crossed the poverty line after assistance.
Sen (2003) observed that IRDP which was vigorously implemented in West Bengal as the single largest poverty alleviation programme during 1989-90 could not create a sizable impact on poverty. He started that loan under IRDP “equated with benevolent grants of the government. Many did not create assets because of pressing social and consumption needs. Many felt that the loans would eventually be remitted. As a result, very few could cross poverty line. Defaults were all pervasive involving heavy costs all around”. Narasimham Committee (1998) observed that “the experience with the implementation of government sponsored programmes has also not been altogether happy and instead of developing a sustainable ongoing bank-client relationship, the IRDP and other government sponsored programmes have become a one shot operation of lending”. Kulshrestha (2000) identified that in spite of administration of these programmes lack of capital was a serious constraint to development for development for women micro entrepreneurs in rural areas. These situations urged to find alternative sources of finance for sustainable development of micro enterprise. This urgency of credit needs has fuelled the emergence of micro credit programmes, or in the wider sense microfinance programme. “In India group based programmes have engaged first and foremost as a mechanism to allow the poor access to financial services that they have historically been denied” (Sen, 2003). Such programmes have been administered for the last two decades in a variety of forms and have multiplied rapidly. The switch from traditional financing programme to microfinance programme was seen as a welcome step by many and the results were expected to be at higher benchmarks witnessed in any countries. Due to the large segment of the population living in poverty, India is tactically important in the global context to alleviate poverty and to achieve the Millennium Development Goal of halving the World’s poverty by 2015. microfinance has been prevalent in India in variety of forms since the 1970s and is now widely accepted as an effective poverty alleviation strategy. Over the last decade the microfinance industry has achieved significant growth in part due to the participation of commercial banks and other MFIs. Despite this growth, the poverty situation in India continues to be challenging. The pace at which the movement took off in India in the early nineties and the short span in which the microfinance system gained maturity in India is phenomenal. No country in the world having a matured microfinance system works with a single model. In India while the Self-Help Group model predominates, there are variations
in promotional and feeder systems to these groups depending on whether the programme is a Government one or is being monitored by NABARD or other MFIs.

In the year 1992, NABARD issued operational guidelines to the commercial banks for a pilot project for linking 255 self-help Groups to the Banks. The SHG-Bank linkage model was innovative and endeavored to link the formal banking system to the informal groups in a cost-effective manner. This was an attempt to develop a simple and transparent auxiliary credit system for reaching the rural poor with rewards to both the banks and the rural poor. NABARD’s scheme was founded on the understanding that the branch network of the banks in India was quite large and had the potentiality of considerable increasing the outreach of the banking system to the impoverished specially the poor.

The SHG-Bank linkage programme has registered tremendous growth under the NABARD initiatives and the launching of the Swarnajayanti Gram Swarojgar Yojana. According NABARD reports, at the end of March, 2007 total 2294380 SHGs have been linked and financed by banks. The cumulative loans advanced by the banks aggregate to 1425 billion rupees from a meagre 2.89 million rupees in 1992. The rapid rate at which the model has scaled-up, particularly since the late 1990s, is truly remarkable.

The microfinance movement in the form of SGSY has been initiated in India on 1st April, 1999. As an initial breakthrough, total 292426 groups were formed under SGSY in 1999-2000. Registering a ten-fold growth in eight years only, the total count of SHGs under SGSY at the end of March, 2008 stands at 2869542. The loans outstanding are to the tune of 1934 billion rupees. The cumulative figure under these two programmes have crossed the 5 million mark already, surpassing the target of linking 1 million groups by 2008. The linkage programme has spread all over the country (31 state and Union Territories and 365 District). However, due to the early start, more than 50% of SHGs have been linked in the southern region (Andhra Pradesh, Tamil Nadu, Karnataka, Kerala and UT of Pondicherry); this is followed by eastern region (Orissa, Bihar, West Bengal, Jharkhand and UT of Andaman & Nicobar Islands) and central region (U.P., M.P., Chattisgarh and Uttarakhal). Microfinance programmes through SHGs, introduced and expanded by non-governmental organizations (NGOs) in several part of developing countries like India,
have reduced the problem of inadequate access of banking services to the poor (Rajasekhar 2000). The microfinance system through SHG-bank linkages have also increased individual and group savings as disclosed by several research studies (Rajasekhar 2000, Kumaran 2001, Lathif 2001, Kaladhar 1997, Majumdar 1997, NABARD 2002).

In addition to these programmes many other MFI s have been able to successfully replicate the Grameen model and also provide micro-financial services to joint liability groups, individuals and CDFIs. The network of delivery mechanisms not only includes commercial banks and regional rural banks, but also Local Self Government bodies, Non-Banking Finance Companies, NGOs-registered as societies and trusts, Companies, NGOs-registered as societies and trusts, Companies under sec. 25 of the Companies Act, Cooperative Societies, Mutually Aided Cooperative Societies (MACS), Local Area Banks and Urban Cooperative banks. Today 60 largest MFI s in India have more than 10 million clients and outstanding portfolio of $769 million. Forbes magazine has placed 7 MFI s such as Bandhan, Microcredit Foundation, Saadhan Microfinance Services, are placed at higher ranks than Grameen Bank, Bangladesh which holds the 17th position.

The growing microfinance sector can be attributed to the double benefits that are reaped by the SHGs on the one hand and by the banks and MFI s on the other hand. Market based interest rates, recovery rates more than 95%, low NPAs, lower transaction costs, large deposit mobilizations, quick recycling of loans etc., have contributed to higher returns for these institutions. Moreover, getting more recognition as agent of social change is an additional feather in their caps.

However, the dual phenomena of rapid growth of MFI s and MF clients absorbing a variety of services related to thrift, credit and insurance has raised certain pertinent issues in the view of this boom and proliferation of MFI s in different forms resulting in rapid commercialization of he microfinance sector. The high interests charged by MFI s in many cases while lending to SHGs or federations and on lending by SHGs to individual members have raised the eye brows of many. Further, some MFI s have been under scrutiny for their strategies in balancing their financial sustainability with their social commitments. Further, the delivery models are weighed in terms of their outreach, transaction costs and sustainability. It is indeed
laudable that the growth stands out to be one of the economies with a mature microfinance system, but there is no doubt that the system needs to be scanned in terms of regulation of the sector and education and training for MFI personnel who can provide efficient services to this booming sector in India.

**Microfinance and other schemes for priority communities – An Evaluation**

The Approach Paper on the Eleventh Five Year Plan “Towards faster and more inclusive growth” reflects the need to make growth “more inclusive” in terms of benefits flowing through more employment and income to those sections of society which have been by passed by higher rates of economic growth witnessed in recent years. Inclusive growth by its very definition implies an equitable allocation of resources with benefits accruing to every section of society. The allocation of resources must be focused on the indented short and long terms benefits and economic linkages at large and not just equitable mathematically on some regional and population criteria. According to the Eleventh Plan Approach Paper the key element of the strategy for inclusive growth must be “to provide the mass of our people access to basic facilities such as health, education, clean drinking water etc, and that governments at different levels have to ensure the provision of these services”.

**Swarnajayati gram swarozgar yojana (SGSY)**

The objective of SGSY is to bring the assisted poor families above the poverty line, by providing them income-generating assets. It has been launched from the year 1999-2000. This Yojana is a holistic package covering all aspect of self-employment such as organization of poor into Self-Help Groups, Training, Credit, Technology, Infrastructure and Marketing. This scheme is a credit-cum-subsidy programme. Subsidy under SGSY in uniform at 30% of the project cost subject to a maximum limit of Rs. 7500/-. In respect of SCs/Sts and disabled persons the maximum limit is 50% and Rs. 10000/- respectively. For groups of swarozgaris (SHGs) the subsidey is 50% of the project cost subject to per capita subsidy of Rs. 10000/- or Rs. 1.25 lakhs whichever is less. The focus of SGSY is on the vulnerable groups among the rural poor. Accordingly, the SC/STs account for the 50% of swarozgaris, women for 40%
and the disabled for 3%. The scheme is being implemented on 75:25 cost sharing basis between Central and State Government.

Table – 3.2 : Physical Progress of Priority Communities under SGSY since inception i.e. 01-04-1999 (As on 02 Mar-2008)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Physical Progress (Nos.)</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Self-Help Groups formed</td>
<td>292426</td>
<td>223265</td>
<td>434387</td>
<td>398873</td>
<td>392136</td>
<td>266230</td>
<td>276414</td>
<td>246309</td>
<td>211041</td>
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<tr>
<td>Women SHGs formed</td>
<td>$221085</td>
<td>$221085</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>%age of Women SHGs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>55.43</td>
<td>59.45</td>
<td>71.99</td>
<td>77.14</td>
<td>71.74</td>
<td>77.74</td>
</tr>
<tr>
<td>%age of SHGs Swarogaris Assisted</td>
<td>37.25</td>
<td>31.69</td>
<td>38.90</td>
<td>50.16</td>
<td>64.39</td>
<td>70.67</td>
<td>75.88</td>
<td>87.01</td>
<td>84.76</td>
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<tr>
<td>SC Swarogaris Assisted</td>
<td>278938</td>
<td>310886</td>
<td>284040</td>
<td>249556</td>
<td>274893</td>
<td>352864</td>
<td>383124</td>
<td>600364</td>
<td>266750</td>
</tr>
<tr>
<td>ST Swarogaris Assisted</td>
<td>134944</td>
<td>137850</td>
<td>143619</td>
<td>130260</td>
<td>138909</td>
<td>149115</td>
<td>165407</td>
<td>241291</td>
<td>112190</td>
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<tr>
<td>Total SC/ST Swarogaris Assisted</td>
<td>413882</td>
<td>448736</td>
<td>427659</td>
<td>379816</td>
<td>413802</td>
<td>352864</td>
<td>383124</td>
<td>600364</td>
<td>378940</td>
</tr>
<tr>
<td>%age of SC/STs Assisted</td>
<td>44.32</td>
<td>44.60</td>
<td>45.62</td>
<td>45.97</td>
<td>46.14</td>
<td>44.98</td>
<td>47.65</td>
<td>49.75</td>
<td>49.03</td>
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<tr>
<td>Minorities Swarogaris Assisted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>%age of Minorities assisted</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women Swarozgaris Assisted</td>
<td>416690</td>
<td>409842</td>
<td>385891</td>
<td>382613</td>
<td>470740</td>
<td>606141</td>
<td>662764</td>
<td>1247132</td>
<td>472840</td>
</tr>
<tr>
<td>%age of Women Assisted</td>
<td>44.62</td>
<td>40.73</td>
<td>41.16</td>
<td>46.31</td>
<td>52.49</td>
<td>54.32</td>
<td>57.58</td>
<td>73.71</td>
<td>61.17</td>
</tr>
<tr>
<td>Disabled Swarogaris Assisted</td>
<td>8529</td>
<td>6737</td>
<td>6059</td>
<td>6118</td>
<td>8504</td>
<td>12680</td>
<td>14793</td>
<td>31864</td>
<td>13956</td>
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<tr>
<td>%age of Disabled Assisted</td>
<td>0.91</td>
<td>0.67</td>
<td>0.65</td>
<td>0.74</td>
<td>0.95</td>
<td>1.14</td>
<td>1.29</td>
<td>1.88</td>
<td>1.81</td>
</tr>
</tbody>
</table>

Source: Compiled form the publications by Ministry of Rural Development
It is found from the above table that nearly on an average 60 per cent of women groups are being helped through this SGSY schemes. Only of the recent period we are able to find the higher proportion as against the earlier years. From 2002, these schemes have targeted to help women through SHGs; but it shows a increasing trend. Only 50 per cent of SC and ST are given help through this scheme. It is also noticed that very specific concentration on minorities has started only in the last two years but very insignificant percentage. Minorities are neglected through this scheme over the years and present concentration is only with meager percentage.

**Indira Awaas Yojna (Rural Housing)**

Under this scheme w.e.f. 01-04-2008, the assistance has been enhanced from Rs. 27500/- per beneficiary to Rs. 38500/- per beneficiary, and is being given to BPL families for the construction of new houses. Gram Sabha does the selection of beneficiaries under this scheme. This scheme is being financed by Centre and State Government on 75:25 sharing basis.

The implementation guidelines of the scheme specifically target the rural below poverty line (BPL) households. The selection of beneficiaries is done by the respective Gram Sabha from the BPL list and no higher approval is required. The guidelines also clearly specify that the house allotment should be in the name of the female member of the family as a first priority. While seeking to empower the rural women, the scheme also provides a quota for physically & mentally challenged persons, ex-servicemen, and widows and freed bonded labourers. An important requirement in the implementation is that at least 60% of he beneficiaries should belong to the SC/ST communities. The objectives of alleviating the lot of the underprivileged members of society is built into the scheme guidelines. The IAY scheme also lays emphasis on individual sanitation and health by incorporating the cost of a sanitary latrine and smokeless chulha into the grant.

Table – 3.3 reveals that only 39 per cent of total central allocation including opening balance is spent to the communities which need priorities. 21 per cent is utilized on other groups. Around 44 per cent of central allocation is spent on the priority states like Bihar, Orissa and Uttar Pradesh. Though there are lot of policy direction an government schemes to promote the priority communities, it is found
only lesser amount is utilized on these priority communities and states. Among these communities again higher percentage is towards scheduled caste an minorities again get minor portion of the funds utilized. It also observed from the above mentioned table that other developed states are not given undue allocation. There is clear shift from developed states to priority states. Among these states it is found that Bihar is given higher priority more utilization of fund, whereas other states get half of what Bihar has. Again there is not uniformity in developing the states which requires attention.

**National Rural Employment Guarantee Scheme**

The National Rural Employment Guarantee Act was notified by the Government of India on September, 2005 and was made effective w.e.f. 2nd February, 2006. In the first phase, the National Rural Employment Guarantee Scheme (NREGS) was introduced in District Chamba and Sirmour on 2nd February, 2006. In second phase NREGS was started in District Kangra and Mandi w.e.f. 1-4-2007. Now in the third phase all the remaining 8 Districts of the state have been covered under the scheme w.e.f. 1-4-2008. This is to provide for he enhancement of livelihood security of the households in rural areas of the State by providing 100 days of guaranteed wage employment in every financial year to every household whose adult members volunteer to do unskilled manual work. Every person working under the scheme is entitled to wages at the minimum wage fixed by the State Government. Equal wages are to be paid to both man and woman workers. Workers are entitled to being paid on weekly basis and in any case within a fortnight of the date on which work was done (NREGA section – 3(3))

If an applicant for employment under the scheme is not provided such employment within 15 days of receipt of his application seeking employment or from the date on which the employment has been ought in the case of advance application, whichever is later, he shall be entitled to a daily unemployment allowance which will be one fourth of the wage rate for the first thirty days during the financial year and one half of the wage rate for the remaining period of the financial year. The budget has allocated Rs. 39,100 crore for the year 2009-10 for NREGA which marks an increase of 144% over 2008-09 Budget Estimates.
<table>
<thead>
<tr>
<th>Name of the States/ UTs</th>
<th>Opening Balance as on 01-04-07</th>
<th>Central Allocation</th>
<th>Central Release</th>
<th>Utilization of funds on SC</th>
<th>ST</th>
<th>Minority</th>
<th>Others</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>1949.17</td>
<td>36027.75</td>
<td>36201.00</td>
<td>11161.81</td>
<td>7534.52</td>
<td>567.39</td>
<td>5518.13</td>
<td>27481.85</td>
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<tr>
<td>Arunachal Pradesh</td>
<td>668.43</td>
<td>1395.30</td>
<td>956.05</td>
<td>0.00</td>
<td>838.34</td>
<td>0.00</td>
<td>0.00</td>
<td>838.34</td>
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<tr>
<td>Assam</td>
<td>4663.09</td>
<td>30853.66</td>
<td>23124.22</td>
<td>6168.33</td>
<td>10659.56</td>
<td>3061.14</td>
<td>9403.29</td>
<td>29292.32</td>
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<td>Bihar</td>
<td>77113.41</td>
<td>106344.49 (26%)</td>
<td>53077.40</td>
<td>2664.96</td>
<td>3870.37</td>
<td>32030.38</td>
<td>85055.99</td>
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<tr>
<td>Chhattisgarh</td>
<td>458.25</td>
<td>5571.39</td>
<td>4772.94</td>
<td>937.94</td>
<td>1667.28</td>
<td>86.77</td>
<td>1368.33</td>
<td>4060.32</td>
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<td>Goa</td>
<td>13.06</td>
<td>221.90</td>
<td>110.95</td>
<td>0.84</td>
<td>6.90</td>
<td>8.21</td>
<td>61.98</td>
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<td>Gujarat</td>
<td>5210.10</td>
<td>17668.82</td>
<td>15818.09</td>
<td>2180.73</td>
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<td>130.00</td>
<td>5345.62</td>
<td>13783.52</td>
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<td>Haryana</td>
<td>71.55</td>
<td>2480.72</td>
<td>2366.26</td>
<td>1065.53</td>
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<td>107.85</td>
<td>654.65</td>
<td>1828.03</td>
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<td>Himachal Pradesh</td>
<td>99.38</td>
<td>874.96</td>
<td>730.18</td>
<td>317.20</td>
<td>53.74</td>
<td>10.71</td>
<td>251.36</td>
<td>633.01</td>
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<td>Jammu &amp; Kashmir</td>
<td>257.43</td>
<td>2717.68</td>
<td>1797.30</td>
<td>155.59</td>
<td>432.90</td>
<td>2.87</td>
<td>650.84</td>
<td>1242.20</td>
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<td>Jharkhand</td>
<td>3683.28</td>
<td>9485.46</td>
<td>5602.03</td>
<td>2154.73</td>
<td>3267.44</td>
<td>549.82</td>
<td>2460.75</td>
<td>8432.74</td>
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<tr>
<td>Karnataka</td>
<td>4836.22</td>
<td>13880.51</td>
<td>9524.06</td>
<td>2683.47</td>
<td>1147.29</td>
<td>0.00</td>
<td>5851.35</td>
<td>9682.11</td>
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<td>Kerala</td>
<td>600.59</td>
<td>7718.85</td>
<td>7491.00</td>
<td>2689.22</td>
<td>185.65</td>
<td>382.44</td>
<td>1337.77</td>
<td>4595.08</td>
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<td>Madhya Pradesh</td>
<td>726.38</td>
<td>11080.48</td>
<td>9026.63</td>
<td>2127.24</td>
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<td>269.20</td>
<td>2993.49</td>
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<td>Maharashtra</td>
<td>2928.45</td>
<td>21727.25</td>
<td>19232.78</td>
<td>7425.03</td>
<td>5681.77</td>
<td>1198.21</td>
<td>7327.89</td>
<td>21632.90</td>
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<td>Manipur</td>
<td>201.66</td>
<td>1211.19</td>
<td>582.57</td>
<td>15.20</td>
<td>307.25</td>
<td>0.00</td>
<td>45.81</td>
<td>368.26</td>
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<td>Meghalaya</td>
<td>148.49</td>
<td>2109.47</td>
<td>543.60</td>
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<td>523.47</td>
<td>0.00</td>
<td>0.00</td>
<td>523.47</td>
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<td>Mizoram</td>
<td>8.66</td>
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<td>408.51</td>
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<td>271.95</td>
<td>0.00</td>
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<td>Nagaland</td>
<td>42.99</td>
<td>1395.90</td>
<td>1079.87</td>
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<td>1020.06</td>
<td>0.00</td>
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<td>Orissa</td>
<td>2842.28</td>
<td>20893.26 (5%)</td>
<td>14495.97</td>
<td>7277.48</td>
<td>4972.48</td>
<td>91.71</td>
<td>7956.18</td>
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<td>Punjab</td>
<td>71.96</td>
<td>3067.91</td>
<td>2526.97</td>
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<td>0.00</td>
<td>75.20</td>
<td>263.06</td>
<td>2096.07</td>
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<tr>
<td>Rajasthan</td>
<td>1023.15</td>
<td>8878.84 (2%)</td>
<td>8362.67</td>
<td>2177.21</td>
<td>1262.82</td>
<td>168.38</td>
<td>1664.95</td>
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<td>Sikkim</td>
<td>26.91</td>
<td>266.97</td>
<td>133.49</td>
<td>32.66</td>
<td>50.73</td>
<td>0.00</td>
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<td>Tamilnadu</td>
<td>557.91</td>
<td>14424.96</td>
<td>13466.85</td>
<td>8015.70</td>
<td>214.70</td>
<td>315.85</td>
<td>4954.52</td>
<td>13500.77</td>
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</table>

**Source**: Compiled form the publications by Ministry of Rural Development
Table - 3.4 : Progress of the NREGS

(Rs. In Crores)

<table>
<thead>
<tr>
<th>Particulars / year</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
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<tr>
<td>Employment Demanded by Households</td>
<td>2.12</td>
<td>3.43</td>
<td>4.55</td>
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<tr>
<td>Employment provided to Households</td>
<td>2.1</td>
<td>3.39</td>
<td>4.51</td>
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<tr>
<td>No. of Persons working per day (Total)</td>
<td>90.51</td>
<td>143.68</td>
<td>216.32</td>
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<tr>
<td>SCs</td>
<td>22.95</td>
<td>39.42</td>
<td>63.36</td>
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<tr>
<td>(25.36)</td>
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<td>(27.44)</td>
<td>(29.29)</td>
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<tr>
<td>STs</td>
<td>32.99</td>
<td>42.06</td>
<td>55.02</td>
</tr>
<tr>
<td>(36.45)</td>
<td></td>
<td>(29.27)</td>
<td>(25.43)</td>
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<tr>
<td>Women</td>
<td>36.79</td>
<td>61.09</td>
<td>103.57</td>
</tr>
<tr>
<td>(40.65)</td>
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<td>(42.52)</td>
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<tr>
<td>Others</td>
<td>34.57</td>
<td>62.20</td>
<td>97.95</td>
</tr>
<tr>
<td>(38.19)</td>
<td></td>
<td>(43.29)</td>
<td>(45.28)</td>
</tr>
<tr>
<td>Total Fund Available</td>
<td>12,073.56</td>
<td>19,278.78</td>
<td>36,300.46</td>
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<tr>
<td>Total Expenditure</td>
<td>8,823.36</td>
<td>15,585.44</td>
<td>27,250.10</td>
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<tr>
<td>Total Work taken-up (Nos. in Lakhs)</td>
<td>8.42</td>
<td>17.81</td>
<td>27.75</td>
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<tr>
<td>Total Work Completed</td>
<td>3.97</td>
<td>8.20</td>
<td>12.14</td>
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<tr>
<td>Total Work in Progress</td>
<td>4.45</td>
<td>9.61</td>
<td>15.60</td>
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</table>

*Source : www.rural.ni.in, *( ) denote per cent (%)*
National Rural Employment Guarantee Scheme is providing livelihood for the rural mass and it is utilized by the people and helping them to have regular income. During these three years of its existence it had helped many in India and it is growing both in demand and provision. The schemes have helped around 30 per cent of scheduled caste and 25 per cent of scheduled tribes. Around 50 per cent of them are women who have received employment. This scheme helps the people who are to be helped otherwise they would not be having any other means to get their livelihood. There is a positive trend over these three years. There are still work in progress which is expected to provide more employment to the people across the country. Needed group is provided employment.

**Microfinance and Financial Inclusion**

With the announcement of a series of measures by the Reserve Bank of India in its Credit Policy for 2006-07, meant to include many of the hitherto excluded groups in the banking net, the term ‘financial inclusion’ got enhanced currency in the Indian financial circles.

Microfinance has come to include a boarder range of services credit, savings, insurance etc. A success indicator in microfinance lies in a ‘credit-plus’ approach, where the focus has not only been on providing credit, but to integrate it with other developmental activities. Today, microfinance is very much in the agenda of public policy, and it has been increasingly used as a vehicle for reaching the otherwise unreachable poor in the country.

Despite its several positive contributions, microfinance in India did not produce miracles. The realization of the miracles. The realization of the fact that, despite the introduction of microfinance there has not been any major upsurge in credit off-take, prompted the search for new strategies of credit dispensation, leading to the new concept of ‘financial inclusion’. More precisely, microfinance is a subset of the wider agenda of financial inclusion.
Economic Rationale

The reforms in the financial sector in India were meant to meet two major objectives, i.e.; profitability of the financial institutions as business entities; and serving the needs of the real economy (with due consideration for the principles of equity). But there are obvious contradictions.

In the race for profitability, there is an obvious need to reduce operational costs. In the process, there is a natural exclusion of several sections of the society from the financial net. Reducing the adverse consequences of such exclusion, and bringing the maximum number of people under banking net, is the key concern of financial institutions throughout the world today. In India, extending the reach of formal financial institutions among the poorest of the poor should mean taking them out of the clutches of money lenders.

Financial inclusion is not an end in itself. But it acts as a facilitator. For the poor man, finance is everything as it saves him from day-to-day hardships. But for the planner, providing enough finance does not always mean good economics. Good economics demand that he becomes capable of articulating his financial needs. Financial needs arise out of economic activities that are sustainable. For this, the poor need not only capital but also real services. It is this logic that underlies the setting up of the financial inclusion fund, as also linking up such a fund with initiatives for local economic development.

In December, 2005 the term ‘financial inclusion’ was much in currency with the media in the country. The very fact that even Central Banks in countries like UK and Western Europe are worried about lack of inclusiveness, brings us to the heart of the problem. Financial inclusion is, as well linked to the now fashionable concept of Corporate Social Responsibility, though banks in India are yet to grow to the stage.

Public sector banks would rather think of the potential inherent in the “bottom of the pyramid”. The public sector banks should better think beyond the ‘Community Services Banking’ they are used to. The objectives of financial inclusion can, to some extent, be achieved through such initiatives.
The inclusive significance of Microfinance

The importance of microfinance lies in the fact that the formal/institutional banking sector has not lived up to its social responsibility of meeting the financial needs of the poor due to various reasons such as (a) lack of adequate branch network in the rural areas, (b) the inability of the poor to offer satisfactory collaterals for the loans and (c) lack of education and awareness among the poor. This is in spite of the fact that India today has an extensive banking infrastructure. The credit requirement of the poor in India has been estimated to be around Rs. 50,000 crore per annum. Against this requirement, the credit outstanding of the poor with the formal banking sector is stated to be Rs. 5000 crore or ten per cent of the total demand. According to a Sample Survey conducted by the World Bank and NCAER in 2003, in Andhra Pradesh and Uttar Pradesh, around 87 per cent of marginal farmers/landless labourers do not access credit from the formal banking sector. Most of the benefits of the so-called extensive banking infrastructure have gone to the relatively better off people; around 66 per cent of large farmers have a deposit account and 44 per cent have access to credit.

Linking SHGs with banks

The country has seen a mini revolution information of Self-Help Groups (SHGs) in the recent past. There are approximately 2.3 lakh SHGs in the country covering about 35 million Below Poverty Line (BPL) households which is more than 50% of the total numbers of BPL households in the country. On an average, an SHG will have 15-20 members. It has been demonstrated that group lending rather than individual lending ensures high rate of repayment as the other members of the group act as catalysts for repayment of loans. The SHGs also act as a form of ‘Social Collateral’. Linking the SHGs to the banks has thus become a workable way of channelising microcredit to the poor. According to RBI guidelines, banks can lend up to Rs. 5 lakh to SHGs without insisting on any sort of collateral. This model will also help in enhancing the savings by members of the SHGs.
Microfinance Institutions

The last 15 years saw the entry of various types of Microfinance Institutions in the rural credit sector. Most of these MIFs are based on the Grameen Bank Model of Bangladesh. This model has the solidarity groups at the base, each of which comprising five borrowers. Eight Solidarity Groups constitute a ‘Centre’. Ten Centres form a ‘Cluster’ and seven clusters form a branch. Several such branches constitute an MFI. MFIs in India register themselves either as Societies, Trusts, Non-Banking Financial Companies (NBFCs) or as Local Area Banks (LABs), and are governed by their respective rules and regulations.

Agency model of MFI

As per this model, MFIs work as ‘bank correspondents’ or as ‘business facilitators’ on behalf of commercial banks and facilitate credit delivery by identifying the borrowers, processing and submitting the applications to the banks etc. The loan account will be managed by the bank. The MFIs, however, provide a first loan default guarantee equal to 8-15 per cent of the credit limit.

Bulk-Lending Model

Some of the larger MFIs adopt this model. They access funds in the form of cheaper loans, subordinated debts, equity from agencies such as the Rashtriya Mahila Kosh, the SIDBI Foundation for Micro-Finance Development and Equity Fund under NABARD etc. and re-lend those funds in small amounts to borrowers.

Microfinance-plus services : The conceptual framework

It was for a long time the development agencies, programs and projects were interested in the merits of the ‘minimalist credit approach’ or credit-alone services’ rather than in providing credit-plus services. However, later they acknowledged the role of appropriate training and technical assistance linked with the credit. This they called ‘microfinance-plus services’ (Berger, 1989). According to Tendler (1989), ‘microfinance-plus services’ provide social and other services in addition to plain credit. Consequently, the microfinance programme also acknowledges the necessity
of the microfinance-plus services in improving the social and economic welfare of poor households. The present study were identified various microfinance-plus services and that are discussed in detail in the subsequent sub-sections.

**The Credit Services**

Microcredit is most common credit product in microfinance. It is provided to the clients of microfinance at a fixed rate of interest for various purposes without any physical collateral under the principle of joint-liability. Generally, these loans are provided for the short-term credit needs and, sometimes, even for medium to long terms.

**Savings Services**

Savings mobilization is an important tool in microfinance. Generally, the microfinance industry practices two types of savings collection – compulsory and voluntary savings. Compulsory saving comprises mechanisms of forced savings, which imply that a certain percentage of the supplied loan is held back and placed in a fund that acts as a guarantee or as a sort of ‘entry fee’ to accede to the loan rather than as a savings product itself (Ledgerwood, 2000). However, the poor normally prefer voluntary saving products. These are voluntary methods of saving collection that permit the saver to deposit and withdraw, with varying frequency and expiry dates, according to the products’ liquidity.

**Micro Insurance Services**

Microinsurance products, drawn up to minimize uncertainty and its effects, represent a fundamental mechanism in microfinance, given the vulnerability of the poor to risk. However, the present study is looking at only the access to micro health insurance services. Because, out of many services provided by the MFIs, micro health insurance is considered as one of the greatest innovations to reach the low-income people who are vulnerable to a plethora of risks. It is extremely decisive in the economic and social life of the poor households.
Micro-enterprise Development of Self-employment

The rural poor in general and women in particular lack the skill and education to find jobs in commerce and industry, or as is mostly in case, very few jobs in the wage economy. Given this worst-case situation in the rural economy, the new paradigm\textsuperscript{167} of microfinance has contributed to the promotion of micro enterprises or self-employment through business training, production training, or marketing and technology services.

Health Care Services

Although MFI\textsc{s} and SHGs are meant for financial intermediation, often they work as social institutions for the welfare of the poor. One such social services is health care – conducting medical camps, treatment for various diseases in government/private hospitals, tests for and awareness on HIV/AIDS and other diseases, special medical camps for the children, mothers and the disabled, and awareness on alcoholism and smoking.

Training and Awareness

In recent years, microfinance groups have been the platform for the capacity building in the rural poor women. The members of the groups at various levels have been getting training and awareness on banking literacy, importance of thrift and savings, credit norms and procedures, zero tolerance of non-repayment and significance of joint liability or collective action in managing the groups. Further, the groups have also trained their members on leadership, self-employment or micro-enterprise development, health care, sanitation and nutrition, strengthening public speaking skills and spreading awareness on social and political problems.

Social Networks

The poverty of people in rural areas has kept them completely outside the (access) network of the social, political, and economic institutions in the community. However, microfinance innovations have helped develop networking with various formal and informal institutions, like, financial institutions, NGOs, panchayats, milk
cooperatives, SHG clusters and federations, and so on. This networking will contribute to the development of social capital among the people in the community and will further improve the social and economic life of the poor.

**Global presence and Experience in Microfinance**

Microfinance has changed many lives in diverse societal settings across the globe. It is being exploited as a tool for financial liberation in underdeveloped, developing and even developed countries. It tries to create a more inclusive financial universe for the whole society. By trying to bring more people in the network, an inclusive financial sector allows poor and low-income people to access credit, insurance, remittances and savings products. In many countries, the formal and institutional financial sectors do not provide these services to the lower income segments of the market. An inclusive financial sector will support the full participation of the lower income levels of the population to promote economic growth. Now, let us have a look at some of the best practices across the world.

Policymakers started realizing that these microfinancing institutions are potentially a very significant contribution to gender equality and women’s empowerment, as well as pro-poor, development and civil society strengthening.\(^{168}\) Thus microfinance programmes targeting women become a major plank of donor poverty alleviation and gender strategies in the 1990s. Microfinance programmes, thus, are also serving as a tool for “social re-engineering” for policymakers across the world, especially the least developed and developing countries.

There are several successful examples from these parts of the world that have been instrumental in improving the living conditions of small farmers, artisans, pensioners, etc. And these have been done with a “positive bias towards the women” of these segments of the society. We will look at some of them:

**Grameen bank, Bangladesh**

The Grameen Bank is the brainchild of the economist and Nobel laureate Muhammad Yunus. In 1976, he experimented with his ideas of micro-credit in the Village of Jobra and other Villages. The bank was immensely successful and the project, with government support, was introduced in 1979 in Tangail District (to the
north of the capital, Dhaka). The bank’s success continued and it soon spread to various other Districts of Bangladesh and in 1983 it was transformed into an independent bank by the legislature of Bangladesh.

The bank today continues to expand across the nation and still provides small loans to the rural poor. As of December 2006, Grameen Bank branches numbered over 2,319 providing services in 74,462 Villages, covering more than 89 per cent of the total Villages in Bangladesh. It has 6.91 million borrowers, 97 per cent of whom are women.

The system is the basis for the micro-credit and the SHG system. Each group of five individuals are loaned money, but the whole group is denied further credit if one person defaults. This creates economic incentives for the group to act responsibly (such as other members then being able to receive additional loans), increasing Grameen’s economic viability.

In a country in which few women may take out loans from large commercial banks, the fact that most (97 per cent) loan recipients are women is an amazing accomplishment. In other areas too, Grameen’s track record has been astonishing, with very high payback rates – over 98 per cent. More than half of Grameen borrowers in Bangladesh (close to 50 million) have risen out of acute poverty thanks to their loan, as measured by such standards as having all children of school age in school, all household members eating three meals a day, a sanitary toilet, a rainproof house, clean drinking water and the ability to repay a 300 taka-week ($8) loan.

**Shore Bank, USA**

There are some communities even in the developed economies, which are at a comparative disadvantage in acquiring loans. Milton Davis founded Shore Bank in 1973 for lending to underserved communities and in the development of micro-credit and microfinance loans benefiting local residents in the South Side of Chicago. Frequently called the “inventors” of community development banking, ShoreBank’s successful community lending models have been the inspiration for community development banking institutions around the world.
Between 2000 and 2006, it issued nearly $900 million in loans to citizens in Chicago, Detroit, and Cleveland. Shore Bank today has branches in Chicago’s South and West sides, Cleveland, and Detroit. It has affiliates in Oregon and Washington State, and in Michigan’s Upper Peninsula. Shore Bank’s international consulting services have offices in Chicago, Washington DC and London, and projects in 30 countries around the world.

Microfinance in South Asia

South Asia, the modern microfinance movement was born in Bangladesh in the 1970s as a response to the prevailing poverty conditions among its vast rural population. The start of the twenty first century reinforced this trend as the Bangladesh numbers continued to grow impressively. In India, a substantial microfinance system based on self-help groups (SHGs) developed. Other countries of the region made slower and later starts but have since established active microfinance sectors.

By 2005, microfinance covered at least 35 million of some 270 families in the region and met around, 15 per cent of the overall credit requirements of low-income families. Coverage was particularly impressive in Bangladesh and Sri Lanka, where microfinance services reached more that 60 per cent of the poor.  

The era of organized sector finance in much of South Asia (Bangladesh, India, and Pakistan) is generally acknowledged to have started with the Cooperative Credit Societies Act of 1904. Formal financing channels meet only 15 per cent of the needs of the poor in South Asia, with the proportion ranging from 2 per cent in Afghanistan to 55 per cent in Bangladesh.

Outreach is highly variable across the region. The six countries can be classified into high (Bangladesh and Sri Lanka) medium (Nepal an increasingly India), and low (Pakistan and Afghanistan) coverage levels.

Financing Structures

MFIs essentially perform the role of intermediating financial resources and services between (1) investors, banks, donors, and depositors, and (2) the poor. Like
any other financial intermediary, MFIs need risk capital that can be leveraged to add to their funding base for operations and on-lending to low-income clients, either through debt finance or by raising additional deposits.

To the extent that MFIs address market failure and help to develop the financial sector by providing new avenues for low-income clients to access financial services, this role is justified and has a clear “public good” element.

The challenges everywhere are surprisingly similar. MFIs must develop management capacity at every level. Which will enable them to run efficient operations to attract commercial finance from equity investors, financial institutions, and voluntary depositors in the long term, thereby enabling microfinance services to reach increasing proportions of the large number of low-income families in the region.

Five countries in South Asia already have national microfinance associations, while Sri Lanka is in the early stages of a second attempt to form a viable national association. All of these associations have taken on the role of industry advocates with various degrees of skill and success. While the associations have emerged out of the NGO-MFIs sector, it is clear that they will have to evolve if they are to keep-up with the changes, increase their value to the industry, and strengthen their ability to influence positive change.

South Asia is a worldwide pioneer in the field of MFI ratings: Micro-Credit Ratings International Limited (M-CRIL), based in India, is one of the first three international microfinance raters. This puts South Asia in a good position to further facilitate links between MFIs and investors.

**Future Perspective**

During the past Twenty Five years, the microfinance movement as challenged conventional financial sector and government thinking, in the process fundamentally altering the financial landscape. Over the next few years, most of the growth in microfinance will come from a few large, profitable specialized institutions that might in some ways rival small banks. These institutions will provide a range of diversified and flexible products and will do more to reach out to even poorer people.
Values of microfinance

At the global level, the interest in microfinance has burgeoned during the last three decades: multilateral lending agencies, bilateral donor agencies, bilateral donor agencies, developing and developed country governments, non-government organizations (NGOs), and private sector financial institutions all emphasize and support the development of microfinance. As a result, microfinance services have grown rapidly over a period, although from initial low level. All these events have resulted in the existence of both a substantial track record of accomplishment and a significant body of empirical studies world wide together claimed the significance of microfinance as an effective anti poverty and development strategy. However, the term microfinance is by and large used as synonymous to micro credit inadvertently and the globally the micro credit summit has become a regular events with the biased focus on credit dimension of the Microfinance services. As a corollary, the holistic approach for the adoption of microfinance package to the target groups in neither consciously felt nor seriously followed. Further what is claimed as an achievement of micro credit in poverty sector has become a subject of dispute among the researchers in microfinance arena.

In Asia region, in countries like Indonesia and Philippines any lending activities in rural area (whether to poor or non poor) are treated as micro financing. Lending to institutions like cooperatives, Village banks, rural banks, NGOs, Self-Help Groups are also termed as micro credit representing microfinance.170

In India, various terms like micro credit, loan to small farmers/micro enterprises, weaker sections loans, rural credit, Integrated Rural Development (IRDP) Programme loan/Swarnajayanthi Grama Swrajgaris Yojana (SGSY) loan, petty loans are invariably used in the banking arena for indicating the advances extended to the poor. In formal banking parlance, advances to weaker sections (Rs. 50000 and less as micro credit as per priority sector guidelines of RBI-2007) may also belong to this category. The bank loan under differential rate of interest (DIR) with 4% interest to the poor may belong the microfinance category. Priority sector credit which is supposed to accommodate the really deserving and the poor, now has become redundant and lost its value as deviations and relaxations have taken place. The irony
is that the various changes in the norms and size of loans, subsequently made in this sector have now facilitated the formal players to find escape routes (like putting in Rural Infrastructure Development Fund (RIDF), financing Non-Banking Financial Companies [NBFC] etc.) for not reaching the un-reached directly. This fact that also contributed in the rural areas for exclusion of deserving poor people from the formal banking system. Regional Rural Banks (RRBs) which came in 1975 to serve exclusively for rural poor with less establishment cost, have now drifted towards urban area covering non poor also on commercial approach and ultimately started safely merging with sponsoring banks. Local area bank (LAB) which has been initiated in 1990s for the local people in rural is yet to take off much earlier the establishment of cooperative banks focused on rural farming community in general including the small and marginal farmers and over a period of time it has failed to make a dent in poverty canvas and has been much politicalised. All these events in mainstream financial system in India indicate the various institutional strategies for “inclusive finance” but later declared the inclusive is not inclusive enough with nearly half of the farmers’ households remain excluded from institutional sources of credit. Further the term micro credit has been narrowly used for only small credit support irrespective of the needs of the poor for their income generation and enhancement of their livelihood. Later on, considering the various financial and non-financial needs of the poor, microfinance concept emerged subsequently. For providing these services Micro Financial Institutions (MFI) have come into existence lately with the focus on poor clients. However all these institutions including MFIs have been by and large confining to delivery of micro credit services only under the brand name Microfinance.

Although the term Micro credit represent in terms of the quantum of loan for the target group (poor) and form part of MF but does not account for MF package as a whole. There is also ambiguity in the term like Micro credit, microfinance and other forms of credit extended to the poor. A clarity on the concept of microfinance and its inherent values in development context is therefore, merit the attention of both the practitioners and policy makers in this field. In this context the definitions on MF used by multinational organization as well NABARD task force on MF would be useful.
MF otherwise is a social financing with integrated approach for a sustainable poverty reduction and empowerment of women through SHG system being the predominant form of micro financing in India. To make the values of MF more explicitly to distinguish from other lending, the same thing is portrayed in Table 1 for the convenience of the reader. Further, it also facilitates for healthy discourse on MF-SHG system functioning for poverty reduction.

To put it comprehensively, Microfinance comprises of small saving, saving based credit (group loan mostly for consumption), bank credit for income generating activities, payment services, money transfer, insurance, linkage between credit and noncredit (capacity building, inputs, marketing etc..) Taking cognizance of the millennium needs, the focus of microfinance should be definitely on the poorest and the women with a bias to rural areas where the target groups are concentrated. Group formation, group lending, collateral substitute, peer pressure, high level of repayments, proper end use with asset creation, linkage banking with NGO and SHG are all common features associated with the micro financial initiatives. Financial through cooperatives, association, clubs etc., for the poorest and women as ultimate borrowers may also be termed as microfinance. This description on the microfinance is only an indicative one with room for further refinement so long as the focus confines to the poorest and the women and matching the financial needs of the poor in an integrated manner. MF is found to be a powerful tool for poverty reduction predominantly through SHG moment in India.
<table>
<thead>
<tr>
<th>Components of MF</th>
<th>Social values</th>
<th>Ethical values</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target group</strong>-</td>
<td>Holistic development of vulnerable people</td>
<td>Equity &amp; sharing</td>
</tr>
<tr>
<td>Poor with priority to</td>
<td>Social capital in informal sector</td>
<td>Gender equity</td>
</tr>
<tr>
<td>poorest</td>
<td>Social, economic cultural and political empowerment of poor women</td>
<td>Self esteem, self confidence self-reliance, Self-Help</td>
</tr>
<tr>
<td><strong>Organic link</strong>-</td>
<td>Collective approach for mutual benefit for community development</td>
<td>Poor people participation</td>
</tr>
<tr>
<td>Self-Help Group/or</td>
<td>Collateral substitute – joint liability/guarantee</td>
<td>Self mobilization</td>
</tr>
<tr>
<td>collectives among the</td>
<td>Social cohesion</td>
<td>Mutual consultation and sharing information and knowledge</td>
</tr>
<tr>
<td>people</td>
<td></td>
<td>Grassroots democracy</td>
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<td></td>
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<td>Moral behavior and cooperative movement both at household level</td>
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<td>and community level</td>
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<td></td>
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<td>Proper end use of credit</td>
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<tr>
<td></td>
<td></td>
<td>Repayment ethics</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>Protection during emergency</td>
<td>Self reliance</td>
</tr>
<tr>
<td>Demand oriented product</td>
<td>Income generation for poverty reduction, escape from health venerability</td>
<td>Self improvement</td>
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<tr>
<td>and services</td>
<td>Social status</td>
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<tr>
<td>Micro saving</td>
<td>Decision making</td>
<td></td>
</tr>
<tr>
<td>Micro credit (production, consumption, housing, etc.)</td>
<td>Protection against loss and theft Security &amp; social status</td>
<td>Enhancement of moral attitudes Attitude towards social evils</td>
</tr>
<tr>
<td><strong>Micro Insurance</strong></td>
<td>Social security</td>
<td></td>
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<tr>
<td></td>
<td>Protection against risk</td>
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<tr>
<td><strong>Transfer of fund services</strong></td>
<td>Protection against loss and theft Security &amp; social status</td>
<td></td>
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<tr>
<td></td>
<td>Timely economic assistance to kith and kin-health social relation</td>
<td></td>
</tr>
<tr>
<td><strong>Non financial</strong></td>
<td>Social status</td>
<td>Sharing knowledge</td>
</tr>
<tr>
<td>Capacity building</td>
<td>Self confidence</td>
<td>Self-Help and self reliance</td>
</tr>
<tr>
<td>(training/skill upgrading)</td>
<td>Smooth running of production process</td>
<td>Gender equity</td>
</tr>
<tr>
<td>Backward &amp; forward linkages (raw material, marketing, transport, pricing etc.,)</td>
<td>Expected additional income</td>
<td>Repayment ethics</td>
</tr>
<tr>
<td></td>
<td>Employment generation</td>
<td></td>
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<td></td>
<td>Diversion from domestic violence and alcoholism</td>
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Foray of MF in Indian financial landscape

Ever since nationalization (1969) the commercial banks have been directed to focus on lending to the poor. As early in 1972, small loans with 4% interest rate popularly known as Differential rate of Interest (DRI) was introduced for the weaker section people in the Indian banking industry. Subsequently, Regional Rural Banks (1975) and cooperative banks joined the mainstream for development through credit with focus on poor the pro poor products and norms have been designed to suit the needs of the poor. Subsequently, various strategies like Priority sector/weaker sector loans, the lead bank scheme (1978) and service area approach (1990), Local Area Bank (LAB) concept has been introduced to take care of financial needs for local population but it is yet to take off. Bank-SHG linkage programme (1992) with initial lead by Indian Bank in this venture, subsidy linked credit programme for poverty reduction, revolving funds for SHG, Banks financing to MFIs etc., have all facilitated the flow of credit with the flavor of MF to the target group in the Indian rural areas. But, the way in which only micro credit services is practiced by the players in this sector presently indicates that it looks like ‘an old wine in a new bottle’

The happenings in MF arena

With this clear understanding of the subject as referred to above, let us proceed to peruse over the events that are taken place in MF arena towards it’s the goal of reduction in poverty. Following four selected important events are taken into consideration for this paper:

(a) Globalization of MF-, (b) Multiple lending and multiple borrowing (c) Hidden facts on pro poor products and norms in MF-SHG system and (d) Drop out syndrome, Globalization of micro credit as an international industry.

First, Over a period of time, small loans through group approach for the poor have been baptized as Micro credit and this, has become a global industry with the active participation of World Bank and other multi national organization and donors vying each other in thrusting the funds to this micro sector. The magnitude of the global achievement for micro credit as indicated in the Micro credit summit 2009 summit 2009 report^{172} is 3,552 micro credit institutions reported reaching
154,825,825 clients, 106,584,679 of whom were among the poorest when they took their first loan. The state of microfinance report 2008 for India reveals that the overall coverage is estimated to have reached 76.6 millions in 2008-09 with microfinance loan outstanding to the tune of Rs. 359.39 billion.\textsuperscript{173}

Besides over emphasizing the deployment of targeted micro credit, the protagonist of micro credit movement makes everyone believe that what happened in Bangladesh and Bolivia in the process of poverty alleviation repeated in India also. On the contrary, the reality reveals that over indebtedness (as in the case of Bolivia) and increased consumption and over dues (as in the case of Bangladesh) are high risk of micro credit threatening the sustained livelihood of the poor. In India, the corporatisation of rural markets utilizing SHGs as a medium for marketing their products (Hindustan Uni Lever, ITC group, Philips etc.), fuelled by rapidly expanding electronic media certainly influences the propensity to consume (conspicuous consumption) and expenditure pattern of the poor households and derail the noble purpose of micro credit movement. Adding insult to the injury, free distribution of TV to the poor people by the state government (Tamil Nadu) makes the beneficiary succumb to the temptation. While the microfinance providers emphasis investment of working or fixed capital or working capital in micro enterprises, the reality is that many poor clients use credit for consumption smoothening or for protecting from vulnerability mostly on health ground in the demand side. Easy credit access through SHG is aimed at empowering rural poor women. But the reverse is true as non-stop product intrusion through the rapidly expanding electronic media influences the poor to choose in favour of consumerism. However among the poor those in upper layer with where withal for income generation are able to gain with micro credit facilities.

In fact, once the ‘credit worthiness’ of the poor has gained global recognition thanks to Prof. Mohamed Yunus of Bangladesh, number of lending institutions have created a web of soft-credit options to the poor on the hand and Multi National Corporate giants in turn, have found SHGs as mode for channeling their product on the other, whether the loan product actually demanded or not by their poor client. Some of the commercial banks also promote personal loan portfolio for purchase of TV, Fridge etc., through SHG as evidenced by the author in one of his field studies in Tamilnadu. Eventually, most of the funds are fungible within a household, if
adequate income is not generated due to inadequate linkages with non-credit inputs or misutilization of the credit shifting from productive purpose to immediate consumption purposes in general and particularly during drought periods. This makes loan delinquency and, ultimately they are pushed into a debt trap and perpetual poverty. The proponents of microfinance in the brand name of MF have failed to sense this above impending crisis. MFI's are happy with high level of recovery of loans through SHGs without much botheration on the sources of repayment made by the clients. The policy makers and researchers confine with the limited postulate on the causality between micro credit and income generation.

It may be true that the micro credit does reach the poor women and facilitate for empowering them socially in the global Village, but once it is globalized in the unethical competitive environment, profit comes first and the welfare of the poor later. Most of microfinance system has been largely donor as well founder/investors driven everywhere and MF providers therefore have to fulfill the financial obligation committed first to them rather than on welfare of the poor client. Sometimes, the collateral substitute being “peer pressure” has per forced the poor women to repay without default. In some other occasions the poor women group member whether income is generated or not from the economic activity, go to a money lender or even pledge some of their household assets at a higher rate of interest for the said purpose rather than facing ignominy of having loan dues unlike their counterparts. Ultimately they are over indebted and become the poorer or poorest. In the process, the values of MF and their potential components (as illustrated in section-1) as a means of poverty reduction are conveniently forgotten or neglected for the benefit of MF service providers in the corporate world, and eventually the poor has become a lucrative market 'niche' to them. The level of debt continues to be stable or some time enhanced without any sustained empowerment or poverty reduction at household level. ‘There is indeed evidence that as result, a proportion of micro credit clients have become worse off after assessing micro loans’174.” Thirty years into the movement, it might seem strange that researchers are still asking whether microfinance reduces poverty. It is extremely hard to use a correlation to prove a causation. If affluence and micro credit go hand-in-hand, does that mean that the better-off borrow more or that borrowing makes people better off? Much of econometrics consists of devising mathematical techniques to address this challenge.
Despite the rigorous mathematics involved, these methods often fail: even when econometricians have done the best they can with the data they have, it has typically not sufficed to prove that A causes B instead of B causing A. Indeed, the complexity of the latest techniques sometimes only makes it harder to detect the failures.”

**Multiple lending and multiple borrowing**

Secondary, the multi agency approach with different systems and norms/procedures for micro financing the poor women through SHGs are accountable for multiple lending and multiple borrowing which resulted in pushing them into debt trap. Sometimes it looks like a riddle (hen and egg) whether the former leads to the latter or vice versa. Once the poor is identified as credit worthy (thanks to grameen bank revelation) each one of the institutions is competing rather unethically with one another making the power women debtor through flexible and attractive credit facilities like repeat loans for closure of earlier ones, linkage with subsidy under government programme with the focus more for reaching heir financial target and getting back the money at whatever cost from the demand side. A perusal of various system and procedures for micro financing followed by different institutions in different sectors for micro financing the poor and its implication would be revealing the eventualities of the unethical competition in poverty context.

**Formal sector (Commercial banks)**

In the formal sector, The commercial banks and NABARD have been doing a massive paper work through out the country in the name of Service Area Credit Plan (SACP)/Annual credit Plan (ACP) and Potential linked Credit Plan (PLCP) respectively at micro level flooded with various micro loans details such as sector wise, block-wise outlay, credit outlay for pro poor government programmes with subsidy, credit to weaker sections, credit to women, without involving the people for whom these credit plans are prepared. Each bank is allocated a credit share under these plans and got their service areas demarked in rural areas for avoiding duplication of finance. The whole exercise has been periodically monitored at District level/block level and state level meeting among the bankers and government officials in the presence of representatives from apex banks (NABARD/RBI)
Unfortunately these micro level credit plan (prepared at Village level) under SACP are neither integrated with their respective corporate plans (performance budget) at each bank level nor dovetailed with the concerned District Development Plans of government (Budget). Buts, still this costly paper exercise without much concern on the impact on the target group, is repeated and monitored religiously every year without one to one relation between target and achievement. However, one worthy observation is the multi agencies in this formal sector viz., Commercial Banks, Regional Rural Banks and Cooperative Banks lend directly to SHGs and also through NGOs to these groups for individual/group income generating (IG) activity with different repayment schedule for each one of these loans. Again, under SGSY scheme, there is an attempt to promote multiple formal credit injection. Based on their credit requirement of the swarozgaris, their credit intake will be increased over the years. Over a period, SHG has been recognized as best and safe conduct for micro and various Self-Help Group Promoting agencies (SHPIs) like NGOs, Banks, Government Departments/Agencies are taking efforts by and large in promoting SHG movement for micro credit (although using the Microfinance terminology) purposes only, defeating the purpose of group cohesion for multidimensional empowerment of women and poverty reduction. To add insult to the injury, the recent announcement of the Government micro credit scheme for financing pregnant women in the group and also for such women outside group with recommendation of the SHGs in the case of Tamil Nadu has affected the very credibility of MF movement. Is the micro credit meant for whose welfare Mother or the baby in the womb ? In the process of reaching women with micro credit, it is irony to note that even the foetus in the womb is also indebted incidentally. The famous adage, found in the literature on rural credit by way of illustrating the misery of the poor farmer due to debt burden, says “The farmers born indebted, live in debt, die in debt and bequeath debt”. Now, in the 21st century, with the advent of Micro credit, the adage should start from “foetus in debt” or to say “womb to tomb” debt. The failure of credit cooperative is a well known fact in rural arena. The frequent drought witnessed many such calamities including suicides due to debt burden in rural sector. Rashtriya Mahila Kosh (RMK) is yet another apex outfit that has joined the race for pumping micro credit to poor women through NGOs with some incentives for disbursements of loans within the stipulated time frame. Under the scheme, the NGO lends almost equal amount of loan to each one of the selected members in the groups irrespective of demand for various IG
activities depending on the funds released. Due to shortage of funds, the beneficiary supplemented with group loans/outside loans. The repayment schedule is also uniformly fixed without any relationship with the income generation capability of the activity. Further, the NGO who is the stake holder for repayment of funds RMK starts promptly collecting loan installments immediately after the month succeeding the loan disbursals in a few cases. To them, it is sooner the recovery lesser the risk, leave alone the intended impact of the loan on the poor women livelihood. Of late, NGOs appear to be more concerned with the commercialization of Micro credit under the brand Microfinance than ushering in holistic development of poor women through the integrated approach with multi-sectoral inputs.

Non-formal sector

In the non-formal sector, the voluntarism for social work is gradually replace by commercialism. With micro credit under the name of microfinance, some of the NGOs, perhaps with an assumption that economic input will empower the poor women faster than the social one, in the process of transformation of target groups, are also evincing more interest in getting loanable funds from different sources including donors from abroad and turning as money lenders for providing micro credit without any norm except insisting strict repayment schedule of their loans in priority among others. Sometimes, these NGOs have to satisfy the expectation of the Donors and at the same time keep on money lending business on the tract continuously much against the given capabilities of the their clients and the infrastructure in their service area as well. In many areas, Micro credit has alone remained an “attraction” facilitating both NGOs and SHG for pulling fresh members and sustaining the existing ones under their canvas for sustaining their money lending activity. In some other cases, in the presence of inter group power dynamics there was commotion among the members within the groups on the question of availing the micro credit on priority basis leading to drop outs also.

As against the above scenario, over a period of time, some of the NGOs have transformed themselves as agencies providing financial and other linkages besides social sector activities. Initially, it appeared as an innovative phenomenon in MF arena, that NGO with social mobilization expertise and with some SHG-bank linkage experience could become an ideal MFI for catering the MF package with both
financial and non-financial to meet the requirements in the demand side. These NGOs turned MFIs could also fill up the gap created by the formal institutions in the provision of MF Services particularly to the poor and women segments in rural areas, since they have limited area of operation and much closer to the clients and flexibility in approaches.

But, contrarily the events happened do not support the above postulate. Most of the NGOs have started MFIs with a greater enthusiasm to play a greater role in filling up the gap in MF arena. A survey of more than 50 NGOs indicates that 80% of NGOs that have formed and linked groups want to become MFIs preferably NBFCs. But, they have to face a lot of challenges like competition with formal players at ground levels, viability and sustainability, maintenance of low cost human resources, management of SHGs, rapport with the donors and finding agencies. In the process MFIs preferred to confine to micro credit only on a commercial basis for their survival. They could not also venture successfully Micro insurance as they have faced a lot of constrains (Rengarajan). Practically, majority of their time has to be devoted for financial engineering than to social development work in which they have expertise accumulated over a period of time. The author could perceive from his field studies on NGO-MFI that their image as social agent has been very much lost after turning into MFI in their service area. Now, they are more looked upon as moneylenders at door step. A few of them honestly opined that while they gained easy entry, they could not find a way to come out from the financial venture. The major problem is that financial management is to be carried out with some profit at least for their survival through SHG system in the informal sector on one hand and fulfilling all the obligations as non-profit organization, committed to the funding agencies in formal sector. In the process, the three vital issues pertaining to the cost of credit (interest rate-ranging from 20 to 40%) and recovery procedures (harsh and compulsory) and repeat loaning (even for closing the previous loan due) in MFI arena cropped up attracting the attention of policy makers and media very much. Sometimes, the interest rate of MFI is on par with local money lenders making subtle difference in the cost of credit. On the other hand, in demand side, the factors such as deficit budget with more social expenditure, repeatedly availing loan irrespective of the cost (interest rate) beyond one’s capability to repay from various sources including MFI and difficulties in repayment, failure in income generation activities.
due to poor infrastructure, inability to withstand the pressure for repayment, have all perforce the women clients to fall in debt trap and end their life in some cases due to burden of indebtedness. But, SHG system financing which conceptually is supposed to holistically empower the women, appears to struggle and collapse due to intra group power dynamics and administrative rigor enforced in recovery system. The struggle is unfair and unwarranted in the Indian context. Empirically, in the case of series of sordid events, happened in Andhra Pradesh, some fact are revealing in regard to MFI financing to SHG women, as brought out by Dr. Marc Rosch in his paper.178

**Informal sector**

In the informal sector, money lenders/land lords/friends/relatives also exploit the situation which is obvious one. Another perturbing factor in the multi sourcing micro credit is the different level interest rates by different institution depending on their economics. The spectrum of interest rate prevailing in all the sectors in the rural financial architecture ranges from 4% (from banks under DRI) at the one end to 100% (money lenders) at the other end for micro credit which is to be administered as pills against poverty. Further, it is irony to note that in the case of group loans under SHG system, the freedom is patronized for charging interest rate for the loanable funds given to them at cheaper rate, as per collective decision of the group itself and it often claimed that the higher the rate ranging 24 to 36% the higher profit to the group only benefiting its members. In the midst of inter institutional competition for micro-financing, there is intra competition among the groups among themselves for charging higher rate democratically for their loans to their members on the one hand and unethically taxing the poor women for no fault to their except being a member at group level. Is it a self imposed penalty to the member of deprived class for having empowered through SHGs to have easy access to micro credit? Are the rules of the game followed by the various players in micro credit field really pro poor? At the group level, is the level playing ground equal to all the members in the context of intra members’ inequality in their socio economic status and capabilities.?

An attempt has been made to portray a comprehensive picture on the level of debt under the name of Microfinance, created by all the sector financial institutions in rural area is presented in Table. 2 (available data only)
Table - 3.6 : Strength of MF service providers and micro credit flow in rural India

<table>
<thead>
<tr>
<th>Delivery channel-sector wise</th>
<th>Amount of credit flow</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial banks (CB)-33553 rural and semi branches</td>
<td>Credit to agriculture-Rs.60,022 crore (both CB+RRB)</td>
<td>Only credit component of MF occupied vital place in official literature and monitoring system</td>
</tr>
<tr>
<td>Regional Rural Banks (RRB)-13932 rural and semi urban branches</td>
<td>Bank loan Under SHG- Bank linkage (CB+RRB) (March 2007)</td>
<td></td>
</tr>
<tr>
<td>Primary Agriculture Credit Societies (PACS)-1.09 lakhs societies</td>
<td>No. of SHGs 28,94,505</td>
<td>Further, these statistics on credit show the gigantic figure of debt in rural area even without including data from non formal agencies.</td>
</tr>
<tr>
<td><strong>Non formal sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of NGO-MFIs – 1000</td>
<td>Amount outstanding Rs. 12,366.49 crore</td>
<td></td>
</tr>
<tr>
<td>No. of MFIs (company act-NBFC)-20</td>
<td>Cooperatives(PACS) (March ) 2005 Rs. 39,212 crore</td>
<td></td>
</tr>
<tr>
<td>No. of cooperative organization-3000 (includes SHG federation)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>APMAS-study 2007-No. of SHG federations 69000 2008-No. of SHG federations (50% financing) 94000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Informal sector</strong>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SHG-3 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money lenders (myriad agents)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source :**
1. NABARD report of the Committee on financial inclusion 2008 &
2. NABARD-Status of microfinance in India 2006-07
3. APMAS-Andhra Pradesh Mahila Abhivruddhi Society
The emerging picture from table 2 is that inspite of massive outreaching quantitatively creating a high level of debt/indebtedness by these multi agencies, they did it with one component of MF package that is Micro credit, without adequately linking with other financial and non-financial factors which are equally essential prerequisites from demand side perspectives for poverty reduction and empowerment under MF concept as explained in Section 1. Further, despite this massive outreach through myriad delivery units in country side, as already pointed out that about half of the farming households in rural areas still do not credit access from both formal/informal sources and there were number of reported ‘incidences of suicides’ even among those included due to debt burden. In regard to ‘financial access’ among the processes viz., ‘inclusion’ and ‘exclusion’ which is worst concern in the given situation? These sordid state of affairs reflecting the presence of high level of indebtedness among the poor households on one hand and unacceptable poverty level on the other are causing concern in our country. Is this situation perhaps due to poor implementation of MF linked programmes pushing only one component viz., micro credit over a period of time ?. This situation calls for an immediate action for mainstreaming micro credit in Micro financing programme along with other financial and non-financial services for ensuring sustainable well-being of the poor as well women.

Hidden facts on pro poor MF products and the norms – (savings and repayment)

In the arena of micro credit dispensation through SHGs, the supply side expectations do not coalesce with demand side capabilities at micro level. In regard to credit product ‘one size fits for all’ formula is applied without tailoring to the needs of the poor. Irrespective of the capability of the poor client more importance to regular and buoyant trend in the level of savings from the group members and cent per cent recovery without much concern for the sources of funds from demand side perspectives for honoring the social obligation (group saving) as well as social or peer pressure (repayment of loan).

In the process of rating the SHG performances for further enhancement of their eligibility for more credit facilities, certain grades are awarded for each group depending on the level of group savings and recovery performance. All these norms are necessary for judging the candid progress in empowerment of women.
Unfortunately, in reality, the picture of different sources of fund (unknown at surface level), managed by the poor women for compulsory maintenance of fixed level of savings periodically in the group and prompt repayment of loans as per stipulated schedule (known openly), is revealing. It is there where the shoe pinches. While the former (savings) is prestigiously maintained for the sake of safe guarding the group cohesion, the later (repayment) is somehow fulfilled due to group/peer pressure. So long the fund for the above factors is realized from the additional income generated from the asset for which is micro credit is raised, it is admirable showing the sign of candid development. Contrarily, the sources for savings and repayment as evidenced in many groups in the field, include borrowing from friends and relatives, money lenders (Kanduvatty), pledging of household assets including jewel, husband’s wages, reduced consumption and expenditure, and of course some portion from the Income Generation activity (if the fund is not misutilised – conspicuous consumption & hobby’s such as alcoholism). The hidden facts could be perceived more in the event of “Grading the group” as one of the pre conditions for availing loan/subsidy from the bank/ Government. In the records, growth of saving and high recovery performance are visible. What is hidden in the game is that a new debt is created for which accessibility is easy in the presence of multi agencies vying each other to woo the clients, for closing the current loans or keep regularity in savings payments or both keeping some level of debt always some times with high cost also. This is a global phenomenon. The recent research\(^{180}\) indicates the Grameen Bank in Bangladesh allows several types of credit for one household at a time, making it easy to repay one loan with another one. In the process, the poor get trapped in a debt-cycle. The growth of Microfinance institutions in Bolivia has increased the number of loan defaulters. Though their repayment record is still better vis a vis banks, the number of bad loans is rising alarmingly.

In reality, the temptation to repay a debt by means of a new loan – a forbidden apple- is too strong among the SHG women: it becomes a way of ‘life’ an unfortunate accident in the process of empowerment due to oversight of this unknown fact or deliberate negligence in the MF game. In this venture, those who could manage this life with debt unethically, they survive and others mostly the poorest and incapable drop out – a dangerous phenomenon remains neglected by the players in MF-SHG arena.
The situation happens partially due to inefficient budget management at household level. On the one hand, the only choice people have is between increasing the opportunity for debt, the impossibility of living without going into debt, and, on the other hand, a “second-rate” life, expenditure reduced to the minimum at the cost of malnutrition and degradation of social status.\textsuperscript{181}

Role of Microfinance

Micro-finance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segment of the society. In Indian context terms like "small and marginal farmers", "rural artisans" and "economically weaker sections" have been used to broadly define microfinance customers. Microfinance means providing financial products and services of small amounts to the rural poor including tribal communities. The primary micro financial services include micro savings, micro credit, micro insurance, and small money transfer. In this context, the need of the tribal poor, and they are delivered at the doorsteps of the rural poor particularly tribal communities. Micro lending is linked with the micro savings and inculcated the habit of thrift and to understand the importance of savings for investment in income generating activities through borrowing by the SHGs members.

Poverty and unemployment are the major problems of under developed countries, to which India is no exception. India suffers from substantial poverty. The Planning Commission (PC) has estimated that 27.5% of the population was living below the poverty line in 2004-05. The criterion used was monthly per capita consumption expenditure below Rs. 356.35 for rural areas below Rs. 535.60 for urban areas. 75% of the poor are in rural areas, most of them are daily wagers, self-employed, householders and landless labourers (en.wikipedia.org/wiki/poverty_in_India). The impact and implication of this position poses a great challenge for the country to overcome the poverty and to have an equitable distribution of the national income to uplift the poor. Though the Government of India, Ministry of Rural Development launched several schemes like Development of Women and Children in Rural area (DWCRA), Training of Rural Youth for Self Employment (TRYSEM), etc, as part of rural development, the poverty continues to exist in the country.
To alleviate poverty and bring economic prosperity to the rural economy, microfinance has emerged as an important alternative collateral free source of loan funds to help the rural poor to catch up with the growing economy. It is a vital of credit for rural poor particularly women who are generally neglected by the mainstream financial institutions for the lack of collateral security.

The task force set up by National Bank for Agriculture and Rural Development (NABARD) has defined Micro-credit as "provision for thrift, credit and other financial service and products of very small amounts to the poor in rural, semi-urban and urban areas thereby enabling them to raise their income levels and improve living standards ". Most notable among recent approaches to improve access to finance for the rural poor is the "Self-Help Groups (SHGs)-Bank Linkage" model championed by the NABARD.

**Model of SHGS**

A SHG is a small economically homogenous affinity group of the rural poor voluntarily coming together to save small amount of money regularly and which is deposited in a common fund to meet the members' emergency need to finance and to provide collateral free loans decided by the group. It has been recognized as a useful tool to help the poor and as an alternative mechanism to meet the urgent credit needs of poor through thrift. The concept of SHG is a media for the development of savings habit among the women. SHGs enhance the equality of status of women as participants, decision-makers and beneficiaries in the democratic, economic, social and cultural spheres of life. The basic principle of the SHGs can be termed as: (a) group approach, (b) mutual trust, (c) organization of small and manageable groups, (d) group cohesiveness, (e) spirit of thrift, (f) demand based lending, (g) collateral free, (h) women friendly loan, (i) peer group pressure in repayment, (j) skill training capacity and (k) building and empowerment of women (Lalitha, 2005a). In Andhra Pradesh, the SHGs were started in 1989 at Done, Kurnool District. At present 2.83 lakh groups are functioning with 43.21 lakh members (Rao V.M. 2003). These group members constitute around 7 per cent to total population in the state of Andhra Pradesh.
Functions of SHG

The SHGs are working in a democratic manner. The maximum limit of members in a group is restricted to 20 while the minimum number is 10. Among them, a member is elected as an animator called group leader and two years. As per the norm, the group members meet once in a week. They discuss about the group savings, rotation of funds, bank loans, repayment of loans and Social and Community Action Programmes (SCAP) in their respective Villages. Broadly, the functions of SHGs are to (Lalitha, 2005): (a) create a common fund by the members through their regular savings; (b) arrange flexible working system and pool the resources in a democratic way; (c) arrange periodical meetings for group decision making; (d) fix the loan amount to be sanctioned for members; (e) fix the affordable rate of interest which varies from group-to-group and loan-to-loan.

From the above activities undertaken by SHGs, it is clearly understood that the SHGs are tools to promote rural savings and gainful employment. Through this, rural poverty is reduced considerably if not removed completely. As such SHGs provide equal opportunity to women to improve their own economic activity independently having access to collateral free fund and thereby women contribution to household income also increases.

Problems of SHGs

Through SHGs are helping the poor in emergencies to meet their short-term and long-term financial requirement, they are not free from some problems. They are facing the following problems in dealing with SHGs activities. They are: 1. Spousal consent problem to move out of the house and to participate in social activities which leads to inadequate attention to quality governance; 2. Capacity constraints and sustainability due to illiteracy or lack of education cause lack of self-esteem/confidence in decision making and in maintaining accounts; 3. Lack of information and access to markets for their products due to lack of education; 4. Difficulties linked to their governance structure due to lack of required skills. 5. As there is no rural banking net-work, the transaction costs of dealing with formal banks are high.
To overcome the above list of obstacles, there is a need on the part of the Government to provide education to members through adult education/distance education mode which will be more convenient for them to learn for development. Further there is a need to have regulatory framework or policy pro-active support or self-discipline code.

Poor people often have just hand to mouth existence and have few reserves for major expenses such as illness, weddings, house repairs or education. They are unable to build their savings and are forced to borrow at exorbitant rates. This further adds to their burden and worsens their economic situation. Because the poor have little money, making the most of what they do have in vital. The poor rarely access services through the formal financial sector. They address their need though Village moneylenders who exploit them by charging high interest rates. Most poor people need and use financial services all the time. Buying goods on credit is far more expensive than playing in cash. They need to save and borrow to take advantage of business opportunities, invest in home repairs and improvements, and meet seasonal expenses. But conventional borrowings have serious limitations in terms of cost, risk, and convenience. Lending institutions will not lend to people unless they have some kind of security, or collateral, for the loan, to ensure that if it is not paid back, the bank or other institution will be able to recover part of the debt.

Microfinance institutions at present serve an estimated 120 million clients in the world. By the end of March, 2007, microfinance institutions expanded their outreach to 50 million households.

As stated earlier, 75 million households is requiring microfinance; 60 million in rural India and 15 million urban households. The annual credit usage can be put around Rs. 500000 million assuming Rs. 6000 as average rural and Rs. 9000 as average urban household usage.

Micro financing through self-financing means an association or forum of like minded people who are coming together for economic business. The group is democratically controlled by the member and the profit or surplus shall be equally distributed among them, this programme should establish a rural micro financial system owned by the people, but eventually should be related with the other
socioeconomic developments indicators like impact on the standard of living of the poor, reducing illiteracy, improving health, social enlistment, and etc.

A Self-Help Group (SHG) is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background; voluntarily coming together to save small amounts regularly. They mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis. The group members use collective wisdom and pressure has been recognized as an effective substitute for collaterals. It is a forum or association of like minded people who are coming together for economic business. The group is democratically controlled by the members and the profit or surplus shall be equally distributed among them. This is the beginning of a cooperative from of organization.

The main objective of the formation of Self-Help Group is to strengthen cooperative movement by utilizing the resources available in the area. The members of the SHGs should be from the same locality and of the same income group who have combined together to live with dignity.

SHGs can be financial intermediaries. They can be holistic groups having social and economic objectives. The SHG linkage programme should establish a rural micro financial system owned by the people, but eventually should be related with other socio-economic development indicators like impact on the standard of living of the poor, reducing illiteracy, improving health, family welfare, social upliftment, etc.

NABARD, the apex agency for rural development in India, has defined the SHG as "a small economically homogeneous affinity group of rural poor, voluntarily formed to save and mutually contribute to a common fund to be lent to its members as per the group members' decision. SHGs organize very poor people who do not have access to financial services of the organized sector. SHGs play a crucial role in improving the savings and credit and also in reducing poverty and social inequalities, induce bankers to develop, and adopt a fresh lending strategy. On the basis of the recommendations of the Reserve Bank of India (RBI) a Working Group was set up in 1994. Procedures for dealing with the informal legal SHG structure were them framed in 1996. The sources of the Bangladeshi "grameen" bank concept of
Mohammed Yunhus, the Nobel Laureate, has motivated governments and NGOs to use SHGs as the source of microcredit.

**SHG as a Tool of Empowerment**

SHGs act as the agents of empowering the women. Empowerment means, "strengthening the status of marginalized women who have no economic independence and security.

Women's access to savings and credit gives them a greater economic role in decision-making. When women control decisions regarding credit and savings, they will optimize their own and the households welfare. The investment in women's economic activities will improve employment opportunities for women and thus have a "trickle down and out" effect. The financial sustainability and feminist empowerment paradigms emphasize women's own income generating activities. In the poverty alleviation paradigm, the emphasis of the household level and the use of loans for consumption. In the feminist empowerment paradigm, individual economic empowerment is seen as dependent on social and political empowerment.

**Formation of SHGs**

SHGs can be formed with 10 to 20 members, and if it exceeds 20 members the group must be registered under Registration Act. The members are expected to:

1) Attend SHG meeting promptly;
2) Participate fully in meetings and voice opinion clearly and freely;
3) Share responsibility of SHGs collectively like going to banks by rotation; and
4) Repay SHG loans promptly.

This programme is meant mainly for the poor and women belonging to SC/STs and other socially backward communities.

**Microfinance and Empowerment of Women**

The importance of women to the economic development of India was first recognized during the country's struggle for independence. Empowerment is a social
action process that promotes participation of people, organization and communities in gaining control over their lives in their community. There is urgent need of empowering women especially in rural area. The formation of Self-Help Group and Micro Financing will enhance their socio economic poison in the society.

Small loans can make good business sense among the women. It has been noticed that women in particular stand to gain a lot from micro-finance because it gives them an independent means of generating wealth and becoming self-reliant in a society that does not offer them much scope for entrepreneurship. And since it is women who run the household, a higher standard of living for women ensures better governance and a healthier and more prosperous future for the children and a better future for the nation. The success of micro credit initiatives has often been attributed to their particular focus on empowering women and encouraging their self-reliance through developing their own means of income. Various case studies show that there is a positive correlation between credit availability and women's empowerment. It is observed that majority of rural women who are associated with self-help group activity positively successed to gain them selves empowered.

Women in rural India lived in virtual isolation, unable to access even the most basic of services. But, with the formation of Women's Self-Help Groups, these women are now achieving social and physical mobility. It is recognized that while the empowerment of women is a process that will not happen automatically, SHG is a suitable means for the empowerment of women. The impacts of SHGs on socio-economic status of women were found significant.

Microfinance programmes are currently being promoted as a key strategy for simultaneously addressing both poverty alleviation and women's empowerment. Where financial service provision leads to the setting up or expansion of micro-enterprises there are a range of potential impacts including:

- Increasing women's income levels and control over income leading to greater levels of economic independence.
Access to networks and markets giving wider experience of the world outside the home, access to information and possibilities for development of other social and political roles.

Enhancing perceptions of women's contribution to household income and family welfare, increasing women's participation in household decisions about expenditure and other issues and leading to greater expenditure on women's welfare.

More general improvements in attitudes to women's role in the household and community.

Entrepreneurship Development among Rural Women through Micro-Credit

SHGs are of recent origin in rural India to helping more than 17 million women from Villages improve their incomes, educate their children, and buy assets. SHGs have also helped women campaign against oppressive social practices and become a force of development in their Villages. Before 1990's, credit schemes for rural women were almost negligible. The concept of women's credit was born on the insistence by women oriented studies that highlighted the discrimination and struggle of women in having access to credit.

Micro credits are enough for innovative and hard working micro entrepreneurs to start small business such as making handicraft items. From the income of these small businesses the borrowers of micro credit can enjoy better life, food, shelter, health care and education for their families and above all these small earnings will provide a hope for better future. There are certain misconceptions about the poor rural women that they need loan at subsidized rates of interest on soft terms, they lack education, skills, capacity to save, credit-worthiness and therefore are not bankable. The experiences of several SHGs reveal that rural women are actually efficient. Availability of timely and adequate credit is essential for them to undertake any economic activity rather than credit subsidy.

In rural areas the women micro entrepreneurs continue to produce the traditional designs for local markets. Women in SHGs produce a large variety of essential products such as milk, food products, Village crafts and homemade snack
foods. Many are engaged in retail trading of groceries and textiles. These enterprises represent a substantial supply resource for semi-urban and urban markets. SHGs are also viable organized setup to disburse micro credit to the needy entrepreneur women and encouraging their promotion of poverty alleviation activities and programmes.

**Role of Self-Help Groups**

The SHG of rural women consists of members who are the poor, having low saving capacity and who depend on money lenders for meeting their consumption needs and social obligations. Formation of women into Self-Help groups paved a way to develop their economic standard, thereby building self-confidence. Women in SHGs have been encouraged by the government as well as NGOs have been encouraged by the government as well as NGOs undertake self-employment ventures with locally available resources. Availability of micro-credit helped SHG women a lot and many women came forward and established micro enterprises. At present a number of NGOs and financial institutions have been offering microfinance especially to rural women micro entrepreneurs. They also motivate training programmes to develop their entrepreneurial skills and capacities. Specific trainings in manufacturing or service sector are available for the prospective rural women micro entrepreneurs. These institutions have been encouraging women to start micro enterprises. As a result micro entrepreneurship is gradually growing importance among the rural women.

**Rural women empowerment imperative**

Rural development is an important sector of national development in any developing economy. Rural development includes poverty alleviation, poverty alleviation, poverty reduction coupled with agriculture development and rural industrial development. Poverty is often referred as a severe failure of basic capabilities and often related to inadequate incomes. Poverty as a concept encompasses many aspects of wants and disadvantages. Chambers (1995) recognizes that lack of assets: physical weakness, isolation, vulnerability, and powerlessness are the five clusters of disadvantages that characterize the poor in the rural areas.
Backwardness among rural women is much more severe due to various socio-economic and cultural reasons. International, national and local government organizations and non-government organizations are involved in various experiments of women empowerment in backwards regions. Empowerment results from control over resources and the power to take decisions on all major issues concerned. “The empowerment process encompasses several mutually reinforcing components but begins with and is supported by economic independence” (Ranjana Kumari). Empowerment would consist of greater access to knowledge and resources, greater autonomy in decision-making and free them from shackles imposed on them by custom, belief and practice.

Micro-finance through SHGs for imparting entrepreneurship among rural women and thereby to empower them is more crucial and interesting. New micro-finance approaches have emerged in India over the past decade, involving the provision of thrift, credit and other financial services and products, with the aim to raise income levels and improve living standards. The most notable among these micro-finance approaches is a nationwide attempt, pioneered by Non-Governmental Organizations and now supported by the state, to create links between commercial banks and NGOs and informal local groups. Micro-finance through Self-Help Groups (SHGs) is propagated as an alternative system of credit delivery for the poorest of the poor groups. Recognizing their importance, both Reserve Bank of India and National Bank for Agriculture and Rural Development (NABARD) have been spreading the promotion and linkage of SHGs to the banking system through refinance support and initiating other proactive policies and systems. Micro-finance is a participative model that can address the needs of the poor especially women members. The origin of SHGs is from the brainchild of Grameen Bank of Bangladesh, which was founded by Mohammed Yunus. SHG was started and formed in 1975.

The Self-Help Groups – bank linkage programme has emerged as the major microfinance programme in the country and is being implemented by the commercial banks, RRBs and cooperative banks. As on 31st March, 2009, 4.2 million SHGs were operating with an outstanding bank credit of Rs. 22,800 crore. During 2008-09, banks financed 1.6 million savings accounts with banks as on March, 31st 2009, with total deposits amounting to Rs. 5,546 crores. The role of Microfinance Institutions (MFIs)
in providing financial services to poor is growing in importance. During 2008-09, Banks loan amounting to Rs. 3,732 crore were disbursed to 581 MFIs, increasing the total outstanding loans to Rs. 5009 crore to 1915 MFIs as on March, 31st 2009.

As per Maslow’s Need Hierarchy Theory, the variables constituting social empowerment are being measured through weighted average score and then are catheterized into five needs. Among all the five categories of needs, self-esteem and safety needs ranks equally with 23 per cent each, than status needs constituting 22 per cent, basic needs to the extent of 19 per cent and self-actualization at the maximum of 13 per cent. Hence it can be concluded that the women should be some more empowered with achievements for better performance. The Social empowerment of the sample respondent has been analyzed through test and the test revealed that the variance is significant in the variable like being independent, being Self-Confident, able to express oneself, able to spent the time well, job satisfaction, and Social Participation. The family problem and non cooperation are the major reasons for stress among the sample respondents. Counseling and guidance are the major guidelines which help the sample respondents to manage the stress in their life. It can be concluded that the SHG – Bank linkage programme is a bridge among the women to empower socially and help them to March towards excellence in life.

Social Empowerment through SHG – Bank Linkage Programme

Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy. Microfinance refers to a collection of banking practices built around providing small loans (typically without collateral) and accepting tiny deposits. In India, microfinance scene is dominated by Self-Help Groups (SHGs) – Bank Linkage Programme, aimed at providing a cost-effective mechanism for providing financial services to the “unreached poor”. Based on the philosophy of peer pressure and group savings as collateral substitute, the SHG programme has been successful in not only in meeting the peculiar needs of the rural poor, but also in strengthening collective self-help capacities of the poor at the local level, leading to their empowerment. Microfinance for the poor and women has received extensive recognition as a strategy for poverty reduction and for women’s economic empowerment. There are good reasons to target women. Gender equality turns out to be good for everybody. The World Bank reports that societies that discriminate on
the basis of gender have greater poverty, slower economic growth, weaker governance, and a lower standard of living. Studies in Latin America, and elsewhere show that men typically contribute 50-68% of their salaries to the collective household fund, whereas women “tend to keep nothing back for themselves”. Because “women contribute decisively to the well-being of their families,” investing in women brings about a multiplier effect. Again, every microfinance institution has stories of women who not only are better off economically as a result of access to financial services, but who are empowered as well. Simply getting cash into the hands of women can lead to increased self-esteem, control and empowerment by the helping them achieve greater economic independence and security, which in turns gives them the change to contribute financially to their households and communities.

The Self-Help Group’s bank linkage programme has emerged as the major microfinance programme in the country and is being implemented by the commercial banks, RRBs and cooperative banks. As on 31st March, 2009, 4.2 million SHGs were operating with an outstanding bank credit of Rs. 22,800 crore up by 34 per cent over March, 2008. During 2008-09, banks financed 1.6 million SHGs including repeat loans to existing SHGs to the tune of Rs. 12,254 crores. There were 6.1 million savings accounts with banks as on March 31st 2009, with total deposits amounting to Rs. 5,546 crores.

The role of Microfinance Institutions (MFIs) in providing financial services to the poor is growing in importance. The banking sector has been extending loans to MFIs for on lending to SHGs. During 2008-09, Banks loan amounting to Rs. 3,732 crore were disbursed to 581 MFIs, increasing the total outstanding loans to Rs. 5009 crore to 1915 MFIs as on March, 31st 2009.

The SHG – bank linkage programme shows a tremendous growth over the period of time right from 1992-93 to 2008-09. The progress is notable in case of granting bank loan to the beneficiaries, refinance programme and then the number of groups linked. The trend line in all the aspects shows a positive trend. The exponential growth rate of bank loan is estimated as 60.97 per cent with the coefficient of determination, and the same is 55.54 per cent and .94 respectively for the number of groups linked. However, the progress of SHG-Bank linkage programme is good.
### Table - 3.7 : Self-Help Group-Bank Linkage Programme

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of SHGs Financed by Banks</th>
<th>Bank Loan</th>
<th>Refinance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>During the year</td>
<td>Trend %</td>
<td>During the year</td>
</tr>
<tr>
<td>1992-93</td>
<td>255</td>
<td>100</td>
<td>0.29</td>
</tr>
<tr>
<td>1993-94</td>
<td>365</td>
<td>143</td>
<td>0.36</td>
</tr>
<tr>
<td>1994-95</td>
<td>1502</td>
<td>589</td>
<td>1.79</td>
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<tr>
<td>1995-96</td>
<td>2635</td>
<td>1033</td>
<td>3.62</td>
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<tr>
<td>1996-97</td>
<td>3841</td>
<td>1506</td>
<td>5.78</td>
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<tr>
<td>1997-98</td>
<td>5719</td>
<td>2243</td>
<td>11.92</td>
</tr>
<tr>
<td>1998-99</td>
<td>18678</td>
<td>7325</td>
<td>33.31</td>
</tr>
<tr>
<td>1999-00</td>
<td>81780</td>
<td>32071</td>
<td>135.91</td>
</tr>
<tr>
<td>2000-01</td>
<td>149050</td>
<td>58451</td>
<td>287.89</td>
</tr>
<tr>
<td>2001-02</td>
<td>197653</td>
<td>77511</td>
<td>545.47</td>
</tr>
<tr>
<td>2002-03</td>
<td>255882</td>
<td>100346</td>
<td>1022.33</td>
</tr>
<tr>
<td>2003-04</td>
<td>361731</td>
<td>141855</td>
<td>1855.53</td>
</tr>
<tr>
<td>2004-05</td>
<td>539365</td>
<td>211516</td>
<td>2994.26</td>
</tr>
<tr>
<td>2005-06</td>
<td>620109</td>
<td>243180</td>
<td>4499.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>1105749</td>
<td>433627</td>
<td>6570.00</td>
</tr>
<tr>
<td>2007-08</td>
<td>1227770</td>
<td>4811478</td>
<td>8849.26</td>
</tr>
<tr>
<td>2008-09</td>
<td>807905</td>
<td>316825</td>
<td>4585.45</td>
</tr>
<tr>
<td>Total</td>
<td><strong>4433846</strong></td>
<td><strong>21585.4</strong></td>
<td><strong>636961</strong></td>
</tr>
<tr>
<td>Average</td>
<td><strong>124106</strong></td>
<td><strong>636961</strong></td>
<td><strong>210937</strong></td>
</tr>
</tbody>
</table>

**Note:** Data relates to commercial Banks, RRBs and Co-operative Banks.

**Source:** NABARD
“Today, poverty prevails as the gravest human rights challenge in the world. Combating poverty, deprivation and exclusion is not a matter of charity, and it does not depend on how rich a country is. By tackling poverty as a matter of human rights obligation, the world will have a better chance of abolishing this scourge in our lifetime poverty eradication is an achievable goal”

UN High Commissioner for Human Rights, Louise Arbour, 10th December 2006, poverty is commonly understood as the condition of having very low wealth, or having little money and few material possessions. In international development and public policy literature, poverty is economic deprivation. While some define poverty primarily in economic terms, other consider social and political arrangements to be intrinsic. Debate on the causes, effects, and measurement of poverty directly influences the design and implementation of poverty reduction programs, and is thus important to the fields of international development and public administration. Poverty may also be understood as an aspect of unequal social status and inequitable social relationships, experienced as social exclusion, dependency, and diminished capacity to participate, or to develop meaningful connections with other people in society. For over two decades, and in response to the worldwide challenge to help women help themselves, governments have been playing key roles in sponsoring and implementing programs especially those aimed at poverty alleviation. For a long time women have remained the majority of the world’s poor (UNFPA 2002; UNDP 2004; Plan UK 2007).

2007 figures

- 80% of the global population does not have access to credit
- An average of 150 million people benefit from the services provided by more than 10,000 microfinance institutions (MFIs).
- 66.6% million Applicants are “the poorest of the poor”.
- 98% of micro credit is paid in due time

Globalization and Liberalization has worsened the status of the women in India. Especially in the unorganized sector, because they are forced to shut down their self-employment activities, this was their means for their daily bread.
Looking through the lens of hunger and poverty, there are seven major areas of discrimination against women in India.

- **Malnutrition** India has exceptionally high rates of child malnutrition, because tradition in India requires that women eat last and least throughout their lives, even when pregnant and lactating. Malnourished women give birth to malnourished children, perpetuating the cycle.

- **Poor Health** Females receive less health care than males. Many women die in childbirth of easily prevented complications. Working conditions and environmental pollution further impairs women’s health.

- **Lack of education** families are far less likely to educate girls than boys, and far more likely to pull them out of school, either to help out at home or from fear of violence.

- **Overwork** Women work longer hours and their work is more arduous than men’s, yet their work is unrecognized. Men report that “women, like children, eat and do nothing”. Technological progress in agriculture has had a negative impact on women.

- **Unskilled** In women’s primary employment sector – agriculture – extension services overlook women.

- **Mistreatment** In recent years, there has been an alarming rise in atrocities against women in India, in terms of rapes, assaults and dowry-related murders. Fear of violence suppresses the aspiration of all women. Female infanticide and sex-selective abortions are additional forms of violence that reflect the devaluing of females in Indian society.

- **Powerlessness** While women are guaranteed equality under the constitution, legal protection has little effect in the face of prevailing patriarchal traditions. Women lack power to decide who they will marry, and are often married off as children. Legal loopholes are used to deny women inheritance rights.
The growth of Self-Help Groups not only restored their economic freedom but also the Human right of the women in our country since women have become entrepreneurs in the society. Thanks to Microfinance, a vital instrument in the eradication of poverty in India.

The concept of empowerment has been the subject of much intellectual discourse and analysis. For the purpose of this discussion, the conceptual framework expounded by United Nations is a useful starting point (United Nations 2001). Empowerment is defined as the processes by which women take control and ownership of their lives through expansion of their choices. Thus, it is the process of acquiring the ability to make strategic life choices. Thus, it is the process of acquiring the ability to make strategic life choices in a context where this ability has previously been denied. The core elements of empowerment have been defined as agency (the ability to define one’s goals and act upon them), awareness of gendered power structures, self-esteem and self-confidence (Kabeer 2001). Empowerment can take place at a hierarchy of different levels – individual, household, community and societal – and is facilitated by providing encouraging factors (e.g., lack of resources and skills).

The SHG’s are empowering women across the country. Economic empowerment of women has boosted the morale of the women. SHG’s not only provide economic freedom to women but also recognizes women as the bread winner of the family. Empowerment implies expansion of assets and capabilities of people to influence control and hold accountable institution that affects their lives (Source – World Bank Book) Microfinance, banking services for poor people, is now a powerful player in poverty reduction throughout Asia and Latin America.

Social action process that promotes participation of people, organizations, and communities in gaining control over their lives in their community and larger society. With this perspective, empowerment is not characterized as achieving power to dominate others, but rather power to act with others to effect change (Wallerstein and Bernstein, 1988:380).

The right-based approach consists of the guidelines drawn around a certain set of basic rights with empirical data has shown to be relevant to most societies include:
Inclusive Development of Women and underprivileged groups in India have been the major objectives of all planned strategy of development in India. Even the informal agency like non-governmental Organizations (NGOs) and traditional Panchayats have involved themselves in working out a strategy that may change the social and economic conditions of people living in rural areas. In an era of globalization, liberal economic policies have accorded some priority in addressing problems of poor specially women belonging to the under privileged groups.

In the eleventh five year plan an attempt has been made in a somewhat explicit manner to establish “two way linkages between human development and overall economic progress”. It is also felt that a sustained economic growth is not possible if its human resource especially women belonging to the underprivileged groups suffer from malnutrition, literacy, poverty, poor health and unemployment. In order to ensure sustained economic development women and the socially disadvantaged groups who suffered from caste prejudices and patriarchy were identified as the major segment of human population who remained neglected. Needless to mention their exclusion from the process of development obstruct the goals of transformation of our society. Therefore priority of the Indian State has justly been shifted to alleviate their suffering through microfinance.
Microfinance Regulation in India – Some Annotation

Even though bank-SHG linkages had exponentially grown in the nineties, yet there was a lack of a suitable national policy framework crucial for the systematic development of the microfinance sector in India. Banking and Non-Banking Financial Companies were already under the existing legislations in India. Public Sector Banks, Private Sector Banks & Local Area Banks were under the governance of the RBI Act, 1934, BR Act, 1949 and Regional rural Banks were governed by RRB Act, 1976 in addition to the above stated acts. NBFCs were governed by the Companies Act, 1956 and RBI Act, 1934. NGOs working as microfinance organizations were registered under Societies Registration Acts of different states.

Though all these financial institutions were carrying out microfinance operations, yet a comprehensive regulatory framework for the sector was not in vogue.

The division of roles between existing mainstream financial institutions, development banks and new microfinance institutions (MFIs) was essential to be spelt out in addition to framing an appropriate policy and regulatory framework for their microfinance operations. Responding to this need a high-powered Task Force on Supportive Policy and Regulatory Framework for Microfinance was set up by NABARD in November, 1998. The objectives of the Task Force were, among others, to evaluated the possible of framing a regulatory framework that would bring the operations of the MFIs into the mainstream. Again with the objective of investigating the legal and regulatory problems faced by the microfinance sector in India, seven working groups comprising government, NGOs and banking sector representatives were set up in October, 2001. The reports of six of the seven working groups were summarized and clear recommendations regarding legal framework for microfinance emerged in December, 2002. Again in October, 2002, the Reserve Bank of India constituted four informal groups for dealing with various facets of microfinance including regulatory mechanisms and funding matters.

However it was only in April, 2007 that the Microfinance Sector (Development and Regulation) Bill 2007 could be introduced in the parliament. The preamble of the bill states that it is for “promotion, development and orderly growth
of the microfinance sector in rural and urban areas for providing an enabling environment for ensuring universal access to integrated financial services, especially to women and certain disadvantaged sections of the people, and thereby securing prosperity of such areas and regulation of the microfinance organizations”. The salient features of the bill are as follows:

✓ According to the provisions of the bill a microfinance organization is any organization that provides microfinance services and includes societies, trusts, and co-operative societies, and co-operative societies engaged in industrial activity or sale of any goods and services).

✓ MFOs may provide financial assistance not exceeding Rs. 50,000 in aggregate per individual (who has to be an ‘eligible client’) for small and tiny enterprise, agriculture, and allied activities or Rs. 1.5 lakh in aggregate per individual for housing purposes. MFOs can also provide insurance and pension services, and such other services as may be specified by NABARD.

✓ An ‘eligible client’ is defined as any member of an SHG or any group formed to provide microfinance services to the following categories of people. The categories include: (a) any farmer owning a maximum of two hectares of agricultural land; (b) agricultural cultivators such as oral lessees and share croppers; (c) landless and migrant labourers; (d) artisans and micro entrepreneurs; and (e) women.

✓ National Bank for Agriculture and Rural Development (NABARD) has been designated as the regulator of the micro financial sector in India.

✓ All Microfinance Organizations that accepts deposits will have be registered with NABARD and will have be registered with NABARD and will compulsorily have to have net owned funds of at least Rs. 5 lakh; and at least three years in existence as an MFO. All MFOs, whether registered or not, shall have to submit their annual financial statements to NABARD.

✓ All MFO that accepts deposits has to create a reserve fund by transferring a minimum 15% of its net profit realized out of its thrift and microfinance services every year.
A Microfinance Development Council shall be formed by the central government to advise NABARD on formulation of policies related to the microfinancial sector.

The bill has attempted to cover a wide variety of issue relating to the microfinance sector in India. However, considering the wide variety and forms of institutions operating in this country, the bill has left out from its purview some organizations which could have been subjected to regulations applicable to all MFOs. Some of the lacunae which the bill suffers need to be understood by the policy makers.

Though the bill includes societies, trusts and cooperatives as MFOs, it does not include within its scope NBFCs. This is in the backdrop of the scenario that the 20 largest MFIIs account for 90% of the loans outstanding and all of them are NBFCs. NBFCs have been encouraged to participate in the microfinance sector by instructions issued by RBI on 13th January 2000. The instructions state that if NBFCs are engaged in ‘microfinancing activities’, registered under Section 25 of the Companies Act, 1956, and not accepting public deposits, they would be exempt from the purview of Section 45-IA (registration and minimum net owned funds), 45-IB (maintenance of liquid assets) and 45-IC (transfer of profits to reserve fund) of the RBI Act, 1934. These instructions have done away with the strict regulatory requirements for NBFCs and encouraged them to participate in micro lending activities. However, it would have been better if these organizations would have been designated as MFOs under the bill and prudential norms prescribed accordingly. Moreover, though the terms SHG and JLG have been referred several times in the bill, no specific definition has been given about these MF units. Even if it is agreed that the current norms regarding group size followed under SGSY or NABARD linkage schemes are to be followed, is prudent to define these organizations so that the legislation is comprehensive.

Regarding the size of the individual loans and housing loans proposed under this bill it is not clear as to how these figures have been determined. As observed by Raju (2008): “How are these Rs. 50000 and 1.5 lakh arrived at? No clue exists in the law”. Regulators should not be participators’ is a common maxim that is followed to allow a level playing field to competitors. Regarding the role of NABARD as the regulator, questions can be raised as to whether this bank which is a financier of other
MFIs can really play the role of the regulator. Shankar and Asher (2008) argue that since “NABARD is already a regulator of RRBs and cooperatives, both sectors with serious operational and governance challenges, there are concerns that he regulatory capacity may be overstretched”.

The bill further does not provide for regulating the financial health or sustainability of MFIs in the long run. If the MFIs are themselves are registered under the MF Act initially and then fall sick, they would rather be a burden on this sector rather than an efficient financial intermediary. As Bhattacharjee and Staschen (2004) point out, “There is a risk of licensing too many MFIs or those which are too weak. In countries like the Philippines and Ghana, the large number of rural banks has become a strain on the central bank’s supervisory capacity. Further, international experience shows that achieving economies of scale is important to become financially self-sufficient. This argues for a cautious approach in licensing new MFIs going hand in hand with building additional supervisory capacity”. Christen and Rosenberg (2000) have stressed two important points. “In many countries, the main bottleneck is not the absence of a microfinance-specific law, but the lack of MFIs suitable for licensing under such a law”.

It is thus absolutely essential that these lacunae be adequately looked into and dealt with so that the MF Sector Development Act can be an efficient and comprehensive piece of legislation for the booming microfinance sector India.

However, vibrancy of a system depends not only on the regulatory mechanisms, but also on the potentials of the human resources who keep the wheels of the system rolling. This necessitates building up of human resources for microfinance through training, education and good research. While training is now imparted to personnel working in various MFIs, formal education is restricted to a handful of management institutes in India only.

**Microfinance – the regulatory initiatives**

**Introduction**

Microfinance sector is evolving and maturing born out of the experiences of large number of enterprising and dynamic individuals from diverse backgrounds.
Around twelve to fifteen NBFCs, Companies under Section 25 of the Companies Act 1956 about 500 NGOs and Trusts, and nearly as many cooperatives constitute the microfinance sector. This discussion raises two important questions: What to regulate? Who would regulate?

The Issues

Informality and sustainability

Almost all micro-enterprises operate outside the formal legal system, contributing to widespread informality. The unorganized and informal firms at the micro-level are moving more into services sector than manufacturing sector. Therefore, at a time when they are unlearning the old and relearning new ways of doing things, easy access to finance ensuring equal productive opportunities for the poor is extremely important. Rules that constrain market entry and expansion would have a chilling effect.

Enforcement Systems

The UN document on Unleashing Entrepreneurship. Making Business work for the Poor says: “Cruel and arbitrary informal enforcement system limit the ability of entrepreneurs to be productive as well. Local debtor prisons and mafia-like punishments can hurt an entrepreneur’s full access to crucial human inputs”. A like system operating at the firm level is more disastrous in the guise of informality and easy access. Will self-regulatory mechanism be the best option for MFI-growth and entrepreneurs getting a level playing field in the market-led environment?

Structural Issues

The long term future of the micro-finance sector depends on MFIs being able to achieve operational, financial and institutional sustainability. Some of the NBFCs operating need to reach the threshold levels of equity prescribed by the financial regulator. Without disturbing the flexibility in the structure and content of MFIs, what conditions should the regulators prescribe for their engagement in the activities they are pursuing? Or should the structures be subject to a critical scrutiny to ensure
the objectives they intend to serve keeping the safety, securing and liquidity as the cardinal principles governing the delivery of finance?

**Interest Rate Regulation**

Overcoming high transaction costs for small volumes and the large cost of expanding reach is a major challenge. Microfinance is best viewed as a complement and not a substitute for more equitable financial reform and core financial development. There are number of instances dotted all over the globe—Bangladesh, Afghanistan, Philippines and India, lately, where micro lending has not always been a happy outcome. In the context of less transparent balance sheet of a variety of MFIs large-scale defaults in microfinance go unnoticed. Hedging high administrative costs and loan losses in interest rate risk cover could lead to excessive interest rates. In a liberalized financial environment what would be the best means of regulating interest rates of the MFIs?

How do we establish channels of communication for borrowers independent of the regulator? Will an Ombudsman, going by the experience such institution thus far provide a satisfactory answer?

**Plurality in Regulatory Mechanism**

There is a plurality in regulatory mechanism—RBI, GOI and State Governments. How should this plurality need addressing as plurality need addressing as plurality by itself may be required in terms of the roles that different agencies need to discharge? Can these issues not be tackled by a dedicated regulatory window? Does it require a fresh legislation? These two important questions at this point when the legislation is getting tabled may apparently look too late. Better late than never if we accept that the Microfinance is a part of the Financial System. It is a known fact that the Reserve Bank of India is the super regulator for the financial system. Then why the RBI prefers to be distant from the overall responsibility? It should strongly believe that enduring environment for a thriving informal sector is critical for achieving financial inclusion.

In recent times there has been welcome recognition of the need for greater professionalism in the microfinance sector. The realization that the sector can
potentially contribute to achieving the goal of financial inclusion has added urgency to the above. It is in this context that the Micro Financial Sector (Development and Regulation) Bill, 2007 (henceforth the Bill) was introduced in the Lok Sabha on March 20, 2007 as a first step in trying to regulate the sector.

There are two main delivery channels for microfinance services. The first one is SHG (Self-Help Group) - Bank Linkage Channel. This was developed from field experiments in the early 1990s by NABARD (National Bank for Agricultural and Rural Development).

The second channel is the Microfinance Institution (MFI). The first MFI in India was set up in 1974, but the momentum was achieved only during the 1990s. Initially the formal financial institutions were reluctant to be involved with the MFIs.

Increasing outreach has underlined the need for regulation to ensure further orderly growth. In response to certain undesirable practices with regard to interest rates and collection of some MFIs. Sa-dhan, the industry association of MFIs, evolved in 2006 a voluntary code of conduct for the sector. However the need for regulation for the sector remained.

The microfinance sector faces other challenges as well on its road to further growth. First, there is scope for substantially improving the quality and efficiency of service delivery by the organizations providing microfinance services.

Second, the microfinance sector has begun to offer insurance, pensions and remittance products. As more complex products also get added to the MFIs suite, professional management becomes very important.

Third, increasing urbanization poses new challenges and opportunities. India is urbanizing at a rate higher than the world average. A recent report by the United Nations Population Fund on "State of World Population, 2007" says by 2030, 41% of India's population will be urban. MFIs will hence need to gear up to cater to the needs of increasing numbers of urban poor.

Fourth, there is disproportionate reliance on group lending. MFIs need to offer individual-based lending options, particularly to cater to the growing urban
segment. This will require focus on development of appraisal skills and more modern management information systems.

The regulation of the sector should encourage MFIs to meet the challenges successfully.

**MF Bill – The Focus**

The Bill seeks to promote and regulate MFOs (microfinance organizations). The definition of MFOs "includes" societies, trusts and cooperatives. The Bill designates NABARD as the regulator for the sector. Microfinance services are defined to include credit, life insurance, general insurance and pension services. While microcredit has been defined as loans not exceeding Rs. 50,000 (Rs. 1,50,000 in case of housing), the other services have not been defined further.

**The positive features**

The Bill has at least four positive features. **First,** the Bill permits MFOs to accept savings from members subject to their meeting certain conditions. An MFO which has been in existence for at least three years, having net owned funds of at least Rs. 0.5 million and satisfactory management can obtain registration from NABARD and thereafter offer savings services. The non-availability of savings has been a major gap in the services provided by the sector. Financial inclusion should involve both savings and credit products. The provision of savings products will enable MFOs to offer a more complete suite of products to their customers. It will also enable MFOs to access an additional funding source.

**Second,** the Bill provides for mandatory registration and periodic report submission by all MFOs seeking to accept deposits. These MFOs also need to submit regularly annual audited financial statements. This has the potential to build a robust database of the sector over time; and help institute greater professionalism in the functioning of MFOs.

**Third,** it provides for inspection of MFOs by the regulatory authorities in case of complaints of harmful practices. There is also a mention that a dispute resolution
mechanism may be put in place. These steps can serve as important consumer protection steps in the microfinance sector.

**Fourth,** contrary to the fears in some circles, the Bill does not introduce interest rate caps which could have been damaging for the sector. Interest rates are a function of risk, cost of funds and transaction costs. Transaction costs in microfinance typically include cost of group formation, group training and cost of weekly collections. The costs in these loans are higher than in the case of corporate and personal loans because of the small value of the loan and weekly collection. Further the services are provided at the customer's doorstep which again adds to cost.

Putting a cap on the rate of interest can lead to the exclusion of customers whose a profiles call for interest rates in excess of the cap. In the context of microfinance, a uniform interest rate would create incentives for MFOs to move away from difficult and new geographies where transaction costs are higher there is also the possibility that as a result of the interest rate cap, MFOs may be encouraged to repackage loan contracts by varying balances, fees and other aspects such that such that effective interest rates remain the same. Interest rate caps could also be detrimental in attracting capital to the sector. Attracting capital to the sector is critical so that the MFOs build scale and thereby reduce lending costs.

**The Microfinance bill – the other side of the coin**

There are several provisions in the Bill which, however, invite serious concern, First, the Bill designates NABARD as the regulator. Of the two main channels of delivery in the microfinance sector, NABARD has been actively associated with the former and has recently announced its entry into the latter. The regulatory role will strengthen its role relative to other participants in the sector. This situation may not be beneficial for the other participants and also for the customers who stand to gain if there is healthy competition in the sector.

Further, NABARD is already a regulator for Regional Rural Banks (RRBs) and cooperatives, both sectors with serious operational and governance challenges. There are concerns that NABARD's regulatory capacity may be over stretched.
There are also legitimate concerns that NABARD lacks expertise to regulate and develop MFOs in the urban sector as its role has been confined to rural areas and to agriculture. As mentioned earlier, urban microfinance is potentially a high growth segment which needs appropriate development.

Second, there is lack of clarity on the scope of the Bill. The Indian microfinance sector is characterized by a diversity of legal forms. The Bill defines an MFO as "including" societies, trusts and cooperatives, leading to varying interpretations. One possible interpretation is that the Bill does not include in its scope legal forms other than those mentioned. This implies that NBFCs (Non Banking Financial Companies) and Section 25 companies (Not for profit companies) are excluded from its scope. The largest 20 MFIs in India account for around 90% of the loans outstanding and many of them are NBFCs. Another possible interpretation is that the definition of MFO given in the Bill is not an exhaustive one and hence the Bill does in fact cover NBFCs and Section 25 companies.

As a basic general principle regulation should be uniform across all institutional forms so as to discourage regulatory arbitrage. This involves structuring operations in such a manner that organization comes under the jurisdiction of a weaker regulator. Lack of clarity on the important aspects of scope of the Bill is a major drawback hampering clear analysis of its impacts.

The Bill also includes insurance and pensions as products provided by the MFOs. But insurance companies are regulated by the IRDA (Insurance Regulatory and Development Authority), and the pensions are proposed to be regulated by the Pension Fund Regulatory and Development Authority (PFRDA). The PERDA Bill is waiting passage in the Parliament. The jurisdictional aspects need to be explicitly addressed in the Bill.

Third, the prudential norms prescribed for the deposits collected by MFOs are inadequate. The Bill has introduced a single safeguard for savings which is the requirement that MFOs offering thrift need to create a reserve fund into which they should deposit 15% of their net profit before dividend every year. The use of reserve fund as the single prudential norm has severe limitations. An MFO not making profit need not form the reserve fund, leaving no safety net for the depositors.
Further the reserve mechanism covers only savings collected through the group mechanism. But dynamically one may expect MFOs to start offering individual loans and collect individual savings. The requirements of protection of these savings also need to be addressed.

The fourth serious concern is that the Bill does not specify a prudential limit on the volume of deposits that an MFO can accept. The volume of deposits accepted by the MFO should be linked with its reserve fund or its capital. This anomaly may encourage undesirable elements to garner savings based on NABARD registration, which could be used to mislead customers into believing that the Government was guaranteeing these savings.

A fifth point is that promotion of financial education which is essential for development of this sector has not been specifically addressed by the Bill. Though MFIs provide some basic training to members, financial education by independent outside agencies would help MFI customers make more informed choices with regard to financial products.

The Bill has certain positive features which includes opening up the possibility of savings services by MFOs, improving the database on the sector and introducing basic consumer protection mechanisms. The Bill has also wisely refrained from introducing interest rate caps. However, in its current form, the Bill's positive features are more than outweighed by the deficiencies. The choice of NABARD as the regulator and lack of adequate protection of MFO savings could be detrimental to the MFO customers and may in fact run counter to the goal of inclusive growth. The Bill therefore needs to be reworked to address the anomalies.

The aim of the regulation should be to improve customer protection and good governance and encourage MFOs to improve efficiency. This could lead to cost of borrowing coming down due to reduction in transaction costs and healthy competition. A professional regulatory structure is essential to instill confidence in the sector's stakeholders so that it is able to play a role in furthering the goals of financial inclusion and social entrepreneurship.
Despite its unequal spread in the country, more than 50 lakh groups of various hues are operating in this country. Informality is their strength. It is a fond hope that wisdom would be brought to bear on the powers that be to either modify the Bill in a manner that would address the key issues mentioned in Section I adequately and appropriately or stop enacting the Bill for the time being. The Bill in the current form does not satisfy either development or regulatory aspects.

Players in microfinance sphere require being distinguished on several fronts: players with consistently good performance; players inadequately performing, players badly performing and some medium players who are entering new areas with confidence deserving encouragement. Those who committed mistakes should be made to learn and quickly correct themselves.

There are institutional maladies and systemic failures. These need to be carefully analyzed and appropriately tackled. These require a particular speed of correction and transparency so that they would not decimate the structures affecting the interests of the poor. Market-oriented business systems accommodate a variety of firms operating with a symbiotic relationship. When it is established that the outreach to the neglected sectors of population pursuing limited economic agenda, like the women, small and marginal farmers, tenant farmers, non-farm micro enterprises engaged in exploring livelihood opportunities etc., would be possible only though MFIs, informal structures need to be preserved and protected to ensure financial inclusion. Some of the fundamentals of Regulation should be worthy of recall. They are 1. Do not regulate what cannot be supervised. Even carefully developed regulations will become irrelevant if effective supervision is not enforceable. 2. Safety, soundness and sustainability should serve as foundation for a good regulatory frame work. 3. Microfinance supervision requires cultural change and NABARD is yet to demonstrate it notwithstanding the huge space it has created in SHG-bank Linkage programme. 4. Consider creating a separate window for supervision of microfinance activity in the RBI fortress. Finally, there should be regulatory impact assessment as part of the Act.
Microfinance under the MFI model – the magnitude:

In India, there are two routes through which micro-credit is channeled to borrowers. The first is the “SHG-Bank Linkage Programme” where NABARD and commercial banks identify Self-Help Promoting Institutions (SHPI), which promote the formation of self-help groups (SHGs). Banks lend directly to SHGs, which, in turn, open group savings accounts in the banks. An outstanding example in this genre is the Kudumbashree scheme of the Kerala government, where the internal lending rate has been brought down to 12 per cent per annum.

The second route is the “MFI model”, which has now become controversial. Here, the MFI is the most important institution in the chain. An MFI may be a not-for-profit society or trust or company (registered under section 25 of the Companies Act), the activities of these not-for-profit MFIs, except section 25 companies, stand unregulated today.

According to Microfinance Institutions (MFI) network the Microfinance sector in India have been progressing since 70s on the whole there are 800 MFIs in India by the year 2010. According to Mr. Mahajan, the Chairman of MFIs network in India 44 institutions in MFIN (Microfinance Institutions Network) provide 80 to 85 per cent of the total credit provided by the MFIs in the country. The resources of MFIs to the extent of 80 per cent are provided by the banks and other investors.

From the MFIs, across the country, 3 crores families availed loans under microfinance to the extent of Rs. 30,000 crores. In the state of Andhra Pradesh 60 lakhs families availed loans from MFIs to the extent of Rs. 10,000 crores.

Microfinance is, no doubt an effective instrument of financial inclusion and a boon to the rural poor women. But it also proved itself as a tune ringing its danger bells across the society in different Districts of the state. The ugly facets of
Microfinance surfaced in different dimension especially with respect to the Microfinance Institutions, a wing of the Microfinance Mechanism besides the SHG-Bank linkage programme. The MFIs which are the Non-Banking Financial Institutions are expected to intervene and deliver Microfinance assistance to the rural and urban poor through SHGs. The ideological base is good but the practicalities reveal a lot of leakages raising the pangs of distress and death. The tentacles of hardship by the MFIs to the Microfinance beneficiaries include hardship of payment, exorbitant interest rates, fleecing of the poor unbearable harassments, strong-arm methods of recovery indiscriminate lending, improper utilization etc. Actually the conceptual base of Microfinance through SHGs is to assure the path of economic self reliance in adherence to the financial discipline with the support of government programmes. The SHG Bank linkage programme involving delivery of credit directorly by the banks to the SHG members is mostly observed in pursuit of the philosophy behind. But the MFIs, both registered and unregistered, have been operating on unscrupulous considerations and mal institutions of selfish commercial interest luring and misguiding the poor women. Instances are not lacking where the pressure exerted and the practices of harassments by the MFIs forced the women to end their lifes leaving their families in agony, society in distress and the Microfinance mechanizing.

The ugly facets of MFIs – some case highlights
(MFIs turned death webs-case highlights)

The Microfinance Institutions as on alternative mechanism in the delivery of micro credit to SHGs was contemplated as a social credit network for the empowerment of women. But the MFIs emerged as corporate lenders with their strong institutional net work. It is surprising to state that some MFIs have grown to the extent of public issued and listed on the stock exchanges.

The MFIs that have begun to look at the equity market for funds belong largely to the MFI model. There are two factors that have encouraged MFIs to tap the equity market. First, MFIs other then rated NBFCs (Non-Banking Financial Company) are not allowed by the RBI to collect deposits from group members. As a result, the option of using deposits to fund current activities is not open to them.
Secondly, the options for non-deposit mobilisation of finances become increasingly limited as MFIs grow in size.

According to insiders, when MFIs grow in size, they need fresh funds, which banks are not always able to provide. While specialized lenders to MFIs, such as the Rashtrya Mahila Kosh and the Small Industries Development Bank of India (SIDBI), are available, once the size of the MFI crosses a threshold, Private Equity (PE) investment, and later IPOs, become the only option. There are of equity capital in microfinance began in the early 2000s. Here, the case of SKS is illustrative. In 2003, SKS brought in its own mutual benefit trusts (MBTs, consisting of its sangams, or Village groups) as an investor in a complicated arrangement with other investors.

In 2005, SKS registered as an NBFC. In 2006, it went through an equity infusion of $1.6 million, and MBTs put in another $1 million. In 2008, SKS raised another $37 million and the investing company sequoia earned a stake of 27 per cent in SKS. In 2010, Infosys co-founder N.R. Narayana Murthy’s venture capital firm, Catamaran Management Services, invested Rs. 28 crores in SKS and earned a 1.5 per cent stoke. According to Forbes India, the mark-to-market profit, of catamaran over a six-month period was about Rs. 64.24 crore. While SKS equity infusion is striking, a large number of MFIs in India have gone through such phases of capital infusion. For instance, spandana recently negotiated $60 million in equity from team lease of Singapore. Reports say that both Spandana and SHARE Microfinance are planning to float an IPO.

The MFIs created a cobb-web of death to the members of SHGs through their exploited operational scenario. Luring the SHG members with provision of micro credit, the MFIs charge exorbitant rates of interests and resort to coercive methods of recovery tarnishing the self esteem and social prestige of borrowers. It is observed that under MFIs scheme the minimum interest rate charged is 56 per cent which some times goes to the extent of 90 per cent. Moreover as the loans are against no collateral the micro insurance is pursued against the lives of the members. In this regard for insuring the lives of SHG members the MFIs have been observed to collect 10 to 15 times more than the actual premium. On other hand the SHG members are lured to avail loans from multi institutions thus land themselves in the middle of debt trap for life. Thus the MFIs created an approve in the social, economic and political
atmosphere due to the suicides of SHG member beneficiaries through MFIs. Some cases across the state in general and the West Godavari District, the area of study, in particular are highlighted in the fourth coming discussions.

**Hardship of Repayment – Non co-operation of faroily members**

Ammaji Anganwadi worker, who had to repay loans to the tune of Rs. 3 lakh, to various microfinance institutions (MFIs), died under suspicious circumstances on 11-10-2010. Forty Six year-old Karri Ammaji, a resident of Kateru, Near Rajahmundry of East Godavari District was an Anganwadi worker and her husband Venkata Rao, a mason. Ammaji performed the marriages of her four daughters and had taken loans to the tune of Rs. 1.5 lakh from Swayamkrushi, Spandana, Share and Asmitha microfinance institutions. Her further daughter and son-in-law migrated to Karnataka in search of livelihood, holding Ammaji responsible for the repayment of Rs. 1.5 lakh loan they had taken. In all, Ammaji had to repay Rs. 3,000 a week to the microfinance institutions.

On the fateful night, she served dinner to her husband and went to a well on the Village outskirts to fetch drinking water. As she did not return home in the night, Venkata Rao began searching for her and even lodged a complaint with the police. A few Villagers spotted her body in the well. The police fished out her body, the family members told police that Ammaji had slipped into depression, due to the burden of repayment of huge loan amount.

**Harassment**

R. Nirmala of Thangalapalli Village of Koheda Mandal of Karimnagar District attempted suicide by consuming pesticide. She was admitted to the Government headquarters hospital after she made the bid as her life as she was unable to bear the harassment MFIs. Nirmala a widow, had availed a loan of Rs. 60,000. Although she was paying the interest since years, she was unable to clear the loan, MFI agents were frequenting her house demanding her to pay the amount.

In West Godavari District of Andhra Pradesh so many low and middle class families are thrown in to irrecoverable financial crisis due to the death trap of MFIs.
According to DRDA records there are 5.8 lakhs in the SHGs in the District out of which around 3 lakhs members are also with the private MFIs in addition to the former SHG-Bank linkage programme.

In the state of Andhra Pradesh in several in West Godavari District in particular the operation of Micro Financial Institutions have increased by leaps and bounds every year the microfinance have ficuaries are increased with a rate of 60 per cent. In the state more than 30 MFIs are registered under different acts. The MFIs like SKS, Asmitha, Share, Spandana, are registered as Non-Banking finance Companies (NBFCs) where as the rest of the MFIs registered as a society or trust. It is amazing to not that 40 per cent of the total amount of the loans disbursed by MFIs are concentrating the state of Andhra Pradesh. This shows the extent of spread of MFIs operations in the state of Andhra Pradesh. In the District under study more than 15 MFIs have been operating spreading their domine are branches.

Due to the high rates of interest charged by MFIs the women members are forced to raise loans from different MFIs at the same time. Due to the burden of loan interest the members circum to psychological depression and social discredit. Due to the pressure factics of the microfinance agents the members are forced to sell or mortgage their residential accommodations the household property. Some times the inability of repayment leads to suicides. Generally it is also not easy to obtain a loan from the commercial banks the SHG-bank linkage programme. The SHG members are visiting for loan only after accumulating their saving in the bank account for a specified period. The Microfinance Institutions profit rate of access the state to exploid the situation and earn profits by changing higher rates of interests.

To join as a member with a MFI as a loan beneficiary are has to produce the copy of the ration card, three photos and photo with family members in addition to the particulars of occupation, income, house property with the signature of the husband. The group generally consists of 5 to 10 members. The loan taken by a member is collatered by the surety of other member in the group. Thus if the loan installment by the member is unpayed the other member in the group are collectively responsible. It is a practice to insure to the life of each member which is compiled by the MFIs. Therefore if a member-borrower expired the MFI is not at a loss as it can recover a loan through the realization of micro insurance. The loan repayment is weekly or
monthly installments. The collection agents of MFIs come to a specified place on a
specified day for realization of installments from group members.

The core of the problem with MFIs is with the exabient interest rates. For
SHGs on Government offers loans under the scheme of 25 paise interest (Pavala
Vaddi) and Commercial Banks lend severally at the interest rate of one rupee but
MFIs charge a high interest rate upto Rs. 12 on compound basis. Thus this becomes a
burden forcing the members in to irrecoverable death trap. There are a number of
unfortunate incidents in the District that speak of the pressure, exploitation and
burden of the MFI loan operations in the District to feel and assets the intensity of the
problem the following instances are illustrated.

In Dondapudi Village of Gopalapuram Mandal of West Godavari District
T. Venkata Giri Babu (35) committed suicide on 7th October, 2010 due to inability to
pay back the microfinance loan with exorbitant interest. Giribabu and his wife
Dhanalaxmi raised loans from different MFIs up to extent of Rs. 50,000. Due to the
pressure from MFIs for repayment Giribabu raised further loans from different
individual but higher interest rates to the tune of Rs. 1.5 lakhs. The family landed in
deep financial crisis which led to the conflict between wife and husband. A day
before the fateful day the Swayam Krushi Microfinance Institution agents subjected
Giribabu and his family members to unbearable harassment by stating at their house
in mid night. Consequently in the early morning at 3 on 7th October, 2010 Giribabu
committed suicide consuming pesticide.

In Ramnagar colony of Adoni town in Kurnool District of Andhra Pradesh Mr.
Anitha is running a C.D shop with the loan amount secured from an MFI. Mrs.
Anitha fel deeply ill in joined in a hospital and treated for two weeks. Therefore two
installments are over due from her. By the time she reached home in the hospital she
is shocked to see that her house and shop are broken and the stock of CDs and other
valuables are taken away by the fellow SHG members of his group who payed her
over due installments to the agents of MFI because of the un due pressure from
agents. Thus she is reported by Mrs. Anitha that against an amount of Rs. 8100 due
from her, was looted the valuables worth Rs. 50,000/-. 
A similar incident is observed in Aswaraopeta Mandal of Khammam District Mrs. V. Phathima belonging to resident of Anupaka Village with a loan of Rs. 10,000 Swayam Krishi MFI in another loan of Rs. 8,000 from share much society. She fell ill and her husband a tailor could not repayed two installments of loan. Consequently at a initiations of the microfinance agents the locked doors of her house are break opened and some of the valuables are sold away to relies the money.

Unable to bore the harassment by the microfinance institutions an auto driver from Warangal District of Andhra Pradesh hanger himself to the death. An young auto driver Md. Amjad (25) alias Akbar support his family by running an auto. In the month of July he took a loan of Rs. 12,000 from SKS microfinance institution and repayed Rs. 4300 in 16 weeks. Due to mechanical failure he could not run his auto for three days and a weekly installments due to from him. The million finance agents put him to unbearable harassment feeling special discredit a sensitive Amjad committed suicide by hanging himself and death.

In Srikakulam District of Palakonda Mrs. N. Chinnammadu (50) with a loan Rs. 25,000 from SKS finance. She has been repaying loan in installments. Still Rs. 13,600 as due from her by October, 2010, she could not pay four installments in time due to financial problems. The agent of SKS Microfinance Institution locked for the house of Chinnammadu. She spent day and right out side the house without food and shelter experienced socio psychological and physical harassment, Chinnammadu is found died on October, 12, 2010.

S. Daralamma belongs to Marripalem Village of in Koyyuru Mandal of Visakha District is be around from Swayam Krushi Microfinance Institutions and could not pay three installments of loan repayment due to domestic problems. The MFI agents and the fellow members of SHGs kidnaped Daralamma’s 10 years old Anusha to pressurized as for repayment of the loan.

The microfinance has took the toll of two lives in Krishna District of Andhra Pradesh. A house wife Mrs. Krishnaveni immolated her self by bouring the Kirosine due to no-cooperation of her husband in the repayment of loan but she could be saved by timely intervention of the neighbours. In another incidence Mrs. Kadimi Anitha resident of Mandavalli Village of Krishna District took loan and two MFIs – Swayam
Krushi and Spandana an installments to the tune of 435 is due from death. Because of
the familiar complex regarding the installment payments and cohesive activity by the
microfinance agents, Anitha immolated her self ended his life.

In Midakuru Mandal of Cuddapah District Mrs. Begum and Shabeer Eroped from the Village unable to bare cohesion from microfinance agents Shabeer is engaged in manufacturing brass utilities but could not make livelihood for the family. Begum the wife of Shabeer used to support the family by engaging her self in daily wage work. Shabeer’s elder son live separately and the second son migrated to Kuwite, the third son of Shabeer is Ismail and auto driver and Rs. 100 as wage for running auto living in deep earns. In financial distractions Shabeer family knocked to the doors of MFIs and raised loans from two MFIs. The monthly installments in repayment of loan is Rs. 7,500/-. Due to the deep financial distress and harassment by agent by MFIs Begum and Shabeer left the Village to unknown destination.

Doddipatla Annapurna, a house wife from Pangdigudem Jangareddigudem Mandal of reportedly immolated herself by dousing Kerosene allegedly due to harassment by a Microfinance Institute (MFI) from which she borrowed a loan. It could not see the light as it was portrayed as the death due to a clash with the victim’s mother-in-law.

Vadapalli Pottemma, an other women from Kassapentapadu West Godavari District made a futile bid to kill herself in a similar manner after she failed to mobilize a poultry amount of Rs. 250 by pledging her brass pots in her Village for the weekly repayment due to a MFI.

The increasing number of suicides reportedly caused by the coercive methods employed by the microfinance institutes (MFIs) in recovery of loans brings to the fore the so-called women empowerment sought to be promoted through the SHG movement under question in West Godavari District. According to official accounts, as many as nine women killed themselves in several parts of the District after their failure to bail themselves out from the MFIs debt-trap. More than half the cases went unreported due to the reluctance by their near and dear to lodge a police complaint. The perceived public acceptance in favour of easy and hassle-free microfinance seem
tempting the women folks. In Military Madhavaram under Tadepalligudem Mandal, for instance all the 32 SHGs got into the influence of MFIs.

A rash of suicides or attempts to end their lives by borrowers, who were unable to face harassment by microfinance institutes (MFIs) were reported from different parts of the state.

A youth committed suicide after he was hounded by a Microfinance Company (MFC) in East Godavari on Wednesday night (13-10-2010). According to police, Vijayakumar of Gopalapuram Village in Ravulapalem Mandal ended his life by consuming pesticide in his house. He left behind a letter stating that he was forced to take the extreme step due to debts and harassment by the microfinance company.

In Nizamabad District, an agriculture worker Balansu allegedly committed suicide at Annaram Village of Machareddy Mandal following torture by an MFI to cough up exorbitant interest on the loan the obtained.

A women who allegedly borrowed loans from three separate microfinance companies, made an abortive attempt to commit suicide at Mondavari colony in Dammmapeta Mandal S.K. Thehara Begum (45) allegedly consumed sleeping pills and fell unconscious at her house in morning. She borrowed loans to the tune of about Rs. 50,000 from three different microfinance firms along with four other women of the same Village. She reportedly stopped repayment of the loan due to financial constraints. The other women members of her group allegedly exerted pressure on Thehare Begum for regular payment of her installment.

Even after the ordinance on Microfinance Institutions in the state the usurious interest rates, strong arm tactics of recovering loan, multiple credits and suicides have not come to an end. The Andhra Pradesh Government’s ordinance against rogue MFIs is a welcome feature, but arrant MFIs and their unethical fractions have not come to an end. The incidents in the post ordinance period speak volumes.

On 18th October, 2010 a Bhadramma (50) who took loan of Rs. 90,000 in Ganapoor Village of Narayanakhed Mandal of Medak District from MFIs died of heart attack unable to bane the pressures of tactics of MFI agents for recovery. In
Kurnool District Mr. Naga Raju resident of Kondapeta Village suffered neurological dizarded lost his mental balance. As reflected by his wife Mrs. Kanaka Durga, Mr. Naga Raju obtained a loan of Rs. 60,000 to the MFI and he is continuously poot to pressure by the MFI agents for recovery.

In Ramadugu Village of Karimnagar District one Mr. Lakshmayya (45) borrow Rs. 30,000 from MFI for garment business. He used to regularly pay the in statements, but due to some domestic problems he could not pay one weekly installments for which he is harassed by the MFI agents. As a consequence Mr. Lakshmaiah committed suicide by consuming pesticide on 19th October, 2010.

In Adilabad District N. Mohanachari (38) desident of Kageznagar borrowed from Swayam Krushi MFI. Four weekly installments could not payed by him for which the organizers of MFI subjected Mr. Mohanachari for an increased pressure. As a result he left home on 17th October and his died body is reported found in a near by drive an 19th October, 2010. On the same day Bikshpathi (40) belonging to cootigal Village in Maddoor Mandal of Warangal District took a loan of Rs. 40,000 from MFI. As he could not pay same installments the microfinance agents harassed frightened him with dire consequences with installments are not payed in a day or took. Experiencing deep psychological depression Mr. Bhikshapathi died of heart failure on 20th October, 2010. on the same day Mrs. M. Venkatamma (40) hanged herself till death due to siveare harassment by MFI representatives for immediate payment of the installments Mrs. Venkatamma belongs to Gundalapalli of Railway Koduru Mandal of Y.S.R. Cuddapah District and raised microfinance loan from Swayam Krushi and Spandana MFIs for Agriculture.

In Y.S.R. Cuddapah District Mr. S. Ramanayya committed suicide they consuming pesticide Mr. Ramanayya resident of Ramachandrapuram Village in Kalasapadu Mandal of the District is a alcoholic and highly in dated. To repay the personal loans is raised further loans from microfinance institutions. Unable to pay the weekly installments of Rs. 3,000 Mr. Ramanayya ended his life.

K. Ramachandachari (40) belonging to Gajvel in Medak District a carpenter. He borrowed Rs. 60,000 from three MFIs Gajvel due to the burden of loan he could not pay the installments in time, in deep distress Mr. Chari expired due to heart attack.
Instances un ending and the microfinance fiasco has been continuing even after the ordinance by the state government. In different Districts across the state nearly 70 MFI beneficiaries ended their life’s due to harassment and pressure and unethical recovery practices by MFI agents.

**MFIs fiasco-the feel of politicians**

The Chief of Telugudesam party of Mr. Chandrababu Naidu criticized that though the agenda of state government under congress rule expressed to make women healthy to Pavala Vaddi schemes virtually the women are murdered through Microfinance Institutes due to the negligence of the government. He demanded for a white paper as the Microfinance fiasco to the state. Mr. Bandaru Dattatreya the leader of Bharatiya Janatha Party demanded for stern action and prohibition of the arrant MFIs. Some quarters of the ruling congress party raised their voice to regulate the activities of MFIs by emending the acts and by the forming Task Force Groups (TFG) at the micro level to deal with arrant MFIs and their representatives. The left parties took a serious not of the atrocities of MFIs on women SHG members and call for a national movement. Reminding the social obligation of the government a CPI and CPM activities alleged that the government is responsible for the death of innocent SHG members due to non-regulation of MFIs operations. The women’s organizations like AIDWA (All India Democratic Women’s Association) took a serious not of the scenario and warned the government was in entire a national level hesitation.

**Ordinance regulating MFIs**

In the state of Andhra Pradesh above 50 MFIs have been function. Some of them were luring SHGs to take big loans changing interest rates of up to 50 per cent in some cases and resorting to unethical methods in the recovery of loans. Due to harassment the MFIs in the recovery of loans from SHG members more than nearly 70 persons lost their lives. The state government and the banks are jointly responsible to help the SHG members to distress. Alarmed at the spate of suicides by the borrowers following harassments by MFIs and also because of heu and cry of the political parties in government of Andhra Pradesh came out with an ordinance to curb the unlaughful activities. The ordinance is basically aimed at dealing with MFI activities VIS-A-VIS SHGs and incorporate panel provisions for charging un reasonable
interest rates and using Arm-twisting and strong-arm methods to recover the microfinance loans.

The A.P. Microfinance Institutions (Regulation of Money Lending) ordinance, 2010 Annexure – I promulgated seeks to impose several curbs to discipline not only the MFIs but also self-help groups (SHGs) of women. The MFIs are required to register themselves with the Regulation Authority (RA) within 30 days from now or face the action of being disqualified from carrying business. The project directors of the District Rural Development Agency (DRDA) and Mission for Eliminating Poverty in Municipal Areas (MEPMA) have been made the registration authority in rural and urban areas respectively.

**Imprisonment**

If the registration is not done with in the time-limit specified, the persons of the MFIs will be liable for punishment with imprisonment up to six months or up to Rs. 10,000 or both. The ordinance stipulated that the MFIs must indicate their rate of interest in bold letters on display – boards at their offices conspicuously.

**One year permissions**

The RA will issue the permission valid for one year to the MFI to do lending business as per the rules and regulations specified in the ordinance after cross-checking their operations. The MFIs will have to apply for renewal of the permission 60 days in advance of the expiry of the earlier permission. The renewal will be issued after inviting objections from the public and verifying MFIs performance with reference to the methods adopted to make recoveries and the amount collected towards interest. On the other hand, an SHG or its members have been barred from taking a second loan without clearing the first loan and outstanding amount due from them to banks. The ordinance imposed a ban on forming another SHG by different members of existing SHGs to get a loan from a bank or MFI.

There were several defects in the governance of MFIs by RBI like allowing them to fix interest rates, deduction of about 57 per cent of loan amount at source in the name of savings retaining, service charges transaction (service) tax and premium
payment to insure the loan (lender). It is criticized that the government committed the main issue of fixing a cap on the interest rates levied by MFIs on loans in the ordinance promulgated.

The cabinet also approved the draft of an ordinance to regulate the MFIs and put an end to the questionable means to recover loans given to the SHGs at high interest. The ordinance provide for quick disposal of the cases booked against the MFIs through “fast track” courts existing in the Districts. It would not allow MFIs to operate without registering with Project Directors of the District Rural Development Agency concerned.

The ordinance makes it mandatory for the MFIs to furnish to the registering authority the list of Villages or town where they operate, the rate of interest, system of conducting due diligence and methods of recovery. The MFIs cannot lend to SHGs a bank linkage without prior approval of registering authority. The ordinance would contain provisions to punish the persons of MFI found guilty of using “coercive” and other questionable methods to recover the loans, providing for imprisonment up to three years and a fine up to Rs. 1 lakh.

Tones of Dissent

The rural poor in Andhra Pradesh, a state showcased as a model for SHG-Bank linkage, are caught in the vortex of microfinance. Within a decade of their coming into operation, Microfinance Institutions (MFIs) have dealt serious blow to the economy and the well-being of thousands of families in rural Andhra Pradesh. Harassment by their collection agents has allegedly driven at least 60 borrowers to death, and the number is increasing. It is like a scene-by-scene re-enactment of the crisis that gripped rural areas in 2006 when about 200 borrowers ended their lives.

There is no transparency about the interest rates charged and the actual cost of the loans. There is no check on the tactics used to recover loans. The borrowers, mostly uneducated, cannot distinguish between a flat rate and a diminishing rate. When the money lender has stopped back, the whiz-kids of MFIs have stepped in, armed with management degrees and ready to extract their pound of flash. They have fancy names that make them seem like non-governmental organizations. MFIs have
disbursed loans to the tune of Rs. 27,399 crore from 2004-05 to date, they had lent Rs. 1,899 crore up to 2003-04. After a public outcry against MFIs, which were seen as minting money at the expense of the rural poor, the state government promulgated the Andhra Pradesh Microfinance Institutions (regulation of money lending) ordinance, 2010, in an attempt to rein them in. The ordinance, however, fell far short of expectations as it failed to tackle the crux of the problem – usurious interest rates charged by MFIs.

It laid down guidelines for mandatory registration to start the money lending business, prohibited MFIs from seeking security from a borrower by way of pawn or pledge, and sought to prevent the use of force to recover loans. If an MFI was not registered within the stipulated time, its directors would be liable for punishment with imprisonment up to six months or a fine up to Rs. 10,000 or both.

The ordinance laid down that MFIs shall not recover interest in excess of the principal amount. On its part, the Reserve bank of India (RBI) has not intervened to check the interest rates, which are as high as 56 per cent per annum, although it has constituted sub-committee to study the issue.

The centre, too, has shown no inclination to intervene, perhaps because it fears that the intervention may be construed as an impediment to economic liberalization.

Until a few years ago, Andhra Pradesh was showcased as a model for SHG-bank linkage. It occupied the number one position, covering nearly 10 lakh groups with an outstanding amount of Rs. 11,000 crore. This constituted almost 50 per cent of the all India performance. The recovery of loans extended to SHGs was satisfactory, and banks were liberal in extending finance. This picture – perfect environment was a division bench of the A.P. High Court comprising Chief Justice Nisar Ahmad Kakru and Justice Vilas Afzul Purkar made it clear that microfinance institutions MFI in the state have to register themselves and can do business only as per sections 9 and 16 of the ordinance issued by the government. The bench was not inclined to stay the operation of the ordinance. Section 9(1) stipulates that the interest on loans advanced by MFIs shall not exceed the principal amount while section 16 days down penalties for coercive actions resorted to by the MFIs against the borrowers. The court has directed the government to ensure that registration is
completed with in a week. Spoiled during the Assembly election in 2009 when vote seeking leaders vied with one another to promise sops. Telugu Desam Party (TDP) President N. Chandrababu Naidu called upon the people not to repay the loans as he promised to waive them if he returned to power.

Not to be left behind, the then Chief Minister Y.S. Rajasekhara Reddy promised to introduce the Pavala Vaddi Scheme. Taking their cue from these political leaders, the women’s groups defaulted on repayment. Banks stopped giving them fresh loans, forcing the women to turn to MFIs for money.

Vijay Mahajan, President of Microfinance Institutions Network (MFIN) – a self-regulatory body with 44 members comprising RBI – regulated NBFCs, Mahajan contended that the state had no role to play as MFIs were governed by RBI norms. The ordinance would hurt millions of borrowers and push them back into the lap of private money lenders. It would rock the MFIs industry in the state by delaying collection, which works out to Rs. 200 crores every week. Disbursement and collection have already come to a halt, and if one were to so by the cumber some registration process stipulated in the ordinance, it would take 60 to 90 days to register. SKS microfinance and Spandana sporty have challenged the ordinance in the High Court.

The Microfinance Regulation Bill is passed by the Andhra Pradesh Legislature in December, 2010. Referring to the bill the Microfinance Institution Network (MFIN)\textsuperscript{182} stated that this bill will create further hurdles for legitimate RBI–registered microfinance institutions in providing access to finance for the poor.

Duo to microfinance fiasco in the state of Andhra Pradesh the commercial banks afraid of uncertainty of repayment of loans stopped advancing loans to MFIs. Consequently along with the 1.3 crores of beneficiaries the Microfinance Institutions may vanish in the state. Undoubtedly the MFIs need be regulated but it must be done intelligently. The MFI be made to observe transparently. The MFI be made to observe transparency, there should not be hidden costs and the rate of interest should be announced. If the healthy competition is intensified among MFIs the interest rates will come down. The authorized MFIs should be controlled and barred from operation. Regulation should be quantitative and discriminatory but not be
quantitative. If the blanket regulation of MFIs is imposed the MFIs and the spirit behind disappear as was the case in Columbia. It will be a death blow to the poor.\textsuperscript{183}

The enforcement of the Andhra Pradesh Microfinance Institutions (Regulation and Money Lending) Act, 2010 reportedly brings the financial transactions of the MFIs to a screeching halt in West Godavari District.\textsuperscript{184} The recovery of loans advanced by MFIs to borrowers, who mainly constituted the SHG women, drastically fell forcing suspension of the micro credit operations ever since the promulgations of the ordinance by the state government. All the 13 MFIs in operations together had advanced Rs. 687, crores in the last three years in the District and recovered Rs. 358 crore including the principal amount and interest from the borrowers so far.

The alleged coercive methods and usurious money lending activities of the official machinery to come to the rescue of the borrowers bearing an extension of credit and recovery of loans by them.

Lending to the groups which are already enjoying the bank – linked finance without prior permission from the authorities concerned makes the MFIs liable for prosecution as per the Act.

The administration seemingly finds it difficult to fill the void caused by the withdrawal of the MFIs, from the extension of micro credit to the urban and the rural poor. It is programmed to arrange the bank-linked finance of Rs. 422 crore for 20,725 SHGs out of the total 58,000 SHGs in the current financial year in the District. The MFIs every year pumped in another Rs. 200 crore into by and large the same segments of the borrowers which got accessed to the bank – linked finance lead District Manager.

A Sankara Rao said the bankers were striving not to let the poor feel the pinch of suspension of micro credits by MFIs.
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