CHAPTER- IV

THE VARIOUS MICROFINANCE MODELS

4.1. Introduction

Two dominant models of microfinance have emerged using group for financial intermediation. One is the Bangladesh Grameen Bank method, and other is the so-called Self Help Group (SHG) method. There are many variants of each system and they are often referred to as the "solitary group" and the "village banking" systems[9]. Since these are more familiar in Indian context. Both systems are dominated by female clients, but they differ in many other fundamental respects, which have important implications for their clients and for the institutions which offer them. The systems are also implemented in different ways, depending on local circumstances.

The bank-led model promoted by the State through commercial banks that caters to groups of 10 to 20 women called Self-Help Groups (SHGs). The other model comprises of private sector MFIs that lend to small groups similar to the SHGs. Both are based on the Joint Liability Group (JLG) method. Besides, cooperatives and Section-25 companies also coexist, although their presence is modest. The MFI sector is thus made up of NGOs, cooperative societies, Section 25 companies and NBFCs. The NBFCs are emerging as the dominant legal form.

4.2. Different Models practiced in India.

In the dynamic field of microfinance, there is clearly no one best way to deliver services to the poor. The evolution of the different models may have happened due to any or combination of the following reasons.

- Compatibility with the programs that the NGO is already involved in.
- The inclination of the promoter.
- Choosing between an approach that delivers only microfinance or a mixture of financial and business development services.
- Legal policy considerations.

[9] Malcom Harper, (2003), Grameen Bank Groups and Self Help Group; What are the difference?, IBA Bulletin Special Issue, March 2003, Pp 103 -113.ces.

- Whom to serve-the clientele
- How many client to cater to and where to operate-outreach and geographic dispersion.
- What specific services to offer to the clients-products (social, financial and business intermediation).
- How much to charge for the various services-price.
- What method of service delivery to employ-channels.
- What organizational mechanism to use-legal / institutional forms.
- How to communicate the availability of various services-promotions.
- What are the long-term objectives-versus commercial microfinance?

The various dilemmas inherent in the microfinance segment arise from questions regarding what the basic characteristics of the promoting institution should be:[10]

1. For- profit or not for profit.
2. Community based (promoter) or organization based (provider).
3. Formal or informal.
4. Grant based or market based.
5. Geared towards social and economic development.
6. Target individual lending or group lending.
7. Target exclusively poor or mixture of poor and non poor.
8. Strengthen main stream structure or set up parallel structure.

The various traditional as well as innovative approaches have been adopted by MFIs (NGO-MFIs, mutual benefit MFIs, and for profit MFIs) for increasing the credit flow to the unorganised sector. The operations can be mainly divided into six broad categories:

1. Self Help Group (SHG) model.
2. Federated Self Help Group Model.
3. Grameen Bank Model.
4. Cooperative /Mutually aided cooperative model.

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[10] Microfinance: Perspective and operations, (2009), Indian Institute of Banking and Finance, Mumbai.

5. Non Banking Finance Company Model.
6. Bank using other agencies for distribution of microfinance.

Different institutions in the microfinance sector have successfully tried out these approaches to deliver microfinance services. Though these approaches have their own specific strengths and weakness, they have demonstrated that it is possible to attain effective outreach in the provision of financial services to the unorganised sector. The models vary in their legal form, in the channels and method of delivery, in their governance structure, in their approach to sustainability, and also in their approach to microfinance.

4.2.1. Self Help Group (SHG) model.

The SHG model, like almost all other models in microfinance, has evolved in the NGO sector. The NGOs have had a larger vision of development other than just provision of certain services. This has grown under the common belief that the poor are capable of self reliance and the NGOs need only primarily function as enablers, educators and catalysts of change. A variety of models arise out of NGO nurturing, among which the SHGs have became the most popular.

SHGs are small (members of 10 to 20 persons), informal groups that have socially and economically homogeneous membership of poor people drawn from the same hamlet or from nearby hamlets. Once the basic group is identified, the NGO facilitator builds processes and systems that make the SHG a viable, sustainable institution. The group meets regularly, mostly weekly, at an appointed time and place and carries out its financial transactions of savings and credit. The group mobilizes savings among its members (only) and makes need- based loans to the members (only) out of the pool of funds created. The rules and norms of the group are determined by the group members themselves. The NGO facilitator helps in designing and installing systems for the transactions, conducting meetings, resolving conflicts and in networking. Thus while the SHG provides the members with financial services, the NGO provides them with support services, training, systems setting and in developing linkage.

The internal transactions are strengthening first, and subsequently the groups are linked with banks for supplementary financial assistance. At this juncture the NGOs also provide the groups with training for income-generation activities and also assistance in forward and backward linkages. To reach this level, a group normally takes three to five years depending on the NGO and the area. Despite few disadvantages, the perceived advantages of the SHG have far outweighed its disadvantages and have made the SHG the popular model for microfinance in India. SO much so that even the Government programs have the SHG at the core of their strategy. Undoubtedly, the SHG has emerged as the India model of microfinance.

4.2.2. Federated Self Help Group Model.

The federated SHGs approach builds upon the unique features of SHG based micro-finance, and contributes to factors that improve the sustainability of SHGs. Federation increase the economic opportunity offered by the SHGs, expands empowerment through leadership building, and addresses the component of security through insurance services. Federations usually come under the Societies Registration Act. PRADAN and MYRADA, two large NGOs that pioneered the concept of SHGs, were also the earliest agencies to promote SHG federations. Federations also employ paid staff members working for the but there is significant variation in the degree to which the staff is able to manage the affairs of the federation, independent of the supporting NGO. The primary purpose of federating SHGs is to ensure their sustainability.

4.2.3. Grameen Bank Model.

The Grameen Bank methodology has been a case of exceptional success. Though the Grameen bank evolved its methodology in Bangladesh, many organizations in India, like SHARE Microfinance Ltd., Activists for Social Alternative (ASA), and CASHPOR Financial and Technical Services Ltd, have adopted this methodology with slight variations. Some of the salient features of the Grameen Bank Model are mentioned below;

- Homogeneous, affinity groups of five members are formed at village level.
- The field worker facilitates the process of group forming.
- All the group members undergo a seven day compulsory training for one to two hours each day.

- Some group members undergo Group Recognition Test (GRT). The GRT is a screening mechanism that can distinguish between serious and non-serious groups. It has been recognized as an effective targeting tool.
- Once the preliminary groups have passed the GRT, women become members of the Bank (Grameen) by paying a onetime membership fee.
- Eight joint liability groups affiliate together to form a centre.
- The centre meets every week, at a specified time. The meetings are very structured and a bank assistant attends the meetings.

Group discipline is enforced through peer pressure and is seen as very important mention of creating and building credit disciplined in the program. It is mandatory for the members to attend the weekly meetings and all the loan application have to be approved by other group members as well as centre members. The loan disbursement is form the bank fund and is not linked with the savings. Loans are given to individual and not to the group of the centre. Loan disbursements are always done at the centre during the meetings to build and maintain the peer pressure. Housing loans are disbursed at the bank's branches to maintain documentation.

Savings are compulsory for the members. Every member saves Rs 10 every week. This amount is deposited with the bank. With this deposit the bank funds their consumption needs. The size of the loan usually ranges from Rs 4000 to Rs 10000 for general yearly loans. The first year size is Rs 4000 and there is an annual increase of Rs 1000 in loan size, for every year thereafter. All loans including agricultural loans are repayable within year (52) equal installment spread over 52 weeks.

The Joint Liability Group (JLG) is one in which loans and all the credit and savings services are extended to and recovered from individuals of the group, but responsibility is collective. This ensures self-selection of reliable and fiscally responsible co-members. In addition, JLG has an inbuilt mechanism that encourages repayment in a timely fashion as issuance of future loans is contingent upon the prior repayment record of the group.

4.2.4. Cooperative /Mutually aided cooperative model.

The organization that has been the most successful in using the cooperative form in rural microfinance in India has been the cooperative development forum (CDF), Hyderabad. CDFs' approach has relied on a credit union model involving a “savings first” strategy. It has built up a network of financial cooperative based upon women’s and men’s thrift groups. After lobbying successfully for an enabling the Andhra Pradesh for flexible functioning of cooperatives (which resulted in the Andhra Pradesh Mutually Aided Societies (MACS) Act, 1995 it has registered the associations of thrift group promoted by it under this Act.

APMACS Act has become landmark legislation which has been used other organizations as well to register associations based on other approaches such as SHGs and Grameen Joint Liability Groups (JLGs) as MACS. The main features of the CDF system are as under:

- The primary entities in CDFs mF (Cooperative) system are the women/men’s thrift cooperative which consists of 300 members, usually from the same village.
- CDF has started off by promoting much smaller units, but over time it encouraged these small units to merge into larger units.
- Each group is headed by a leader, who convenes the group meetings, collect savings, and monitor repayment of loans.
- Though groups serve some administrative purpose, CDF were not formally registered, as they preferred to work outside the cooperative ACT which was extremely restrict in its functioning. However due to the persistent efforts of CDF and sister organizations a progressive cooperative act which allows for greater flexibility and autonomy in operations, was promulgated in 1995.
- All member of the primary cooperative constitute the general body with a 12 member board of directors who are elected for a three year term and adopt a uniform set of bylaws. The general body meets once every year to elect the directors, review operations and discuss other issues.
- A set of geographically continuous cooperative federate to form an association of women’s/men’s thrift cooperative (AWTCs/AMTCs). The chairperson and

managing director of each participating cooperative are members of the genera l body of the associations.

4.2.5. Non Banking Finance Company Model.

In the models described above, NGOs can either play a facilitating role for the promotion of various community based MFIs or by themselves, or through a satellite company, as MF intermediatory. Thus NGOs can either link SHGs or their federation to banks or enable them to access other sources of finance or borrow funds themselves in order to act as retails MFIs serving either individual or Grameen style JLGs or SHGs and their federations. For this purpose they can be registered either non-profit societies or trusts or company or they can operate on a for profit basis.

The Non Banking Finance Company (NBFC) has emerged as the nearest substitutes to being full-fledged bank for those MFIs who want to go the for profit route. Since getting registered as a bank is costly (requires the promoter to put up a start up amount of Rs 200 crore to be recognized as a bank in the private sector) and the local area bank (LAB) idea has not been pursued beyond the initial approvals, the NBFC route is increasingly being chosen by MFIs operating for profit. By going the NBFC way, the MFIs can also now vie for entering the capital markets for mobilizing resources.

As of today the best example of an NBFC MFI is BASIX, a new generating NBFC (also called the electic NBFC model) that has been promoted for providing tailor made financial services for the poor. Unlike the majority of MFIs in India, who have come through the NGO route, BASIX is the first one to have selected the NBFC route. This also means that unlike the other NGO MFIs that have not got into microfinance with a not-for-profit motive, BASIX is the first one to have initiated microfinance series with state agenda of making profits. So it has been registered as NBFC. Thus it can be said the BASIX is an attempt to demonstrate that lending to the poor can be a commercially viable business and the corporate financial world has all the reasons to begin to get interested in providing financial services to the poor.

4.2.6. Bank using other agencies for distribution of microfinance.

This model has better acceptance accounting for 75 percent of SHG linked programs. It can be deducted that the formal financial institutions welcome NGOs as technical facilitators, they hesitate to rely on them as financial intermediaries. The SHG-Bank linkage model provides the cheapest and most direct source of funds. However, this has to be set against the low volume of funds that can be made available though this channel in view of the linkage of credit with savings.

Loan repayment structures vary across MFIs. While on the one hand, JLG model based MFIs follow the weekly and fortnightly repayment structures, on the other hand, MFIs following SHG model adopt monthly repayment structure. MFIs lending to different types of borrowers also have different repayment structures. For instance, MFIs catering to the financial needs of traders in the marketplace offer daily repayment facilities, while MFIs extending loans to farmers have bullet- and cash flow based repayment structures that depend on the crop patterns.

4.3. Different Practice Adopted by the MFIs in the district

In order to find out the strategy of MFI adopted for their collection of dues from the borrowers, the District collector had organized a meeting with all the district official in-charge of the MFIs who are operating in the district during March 2012. In the meeting, each official briefed about the operational practices adopted by them.[11] The practices followed by the MFIs are described below. It has been suggested in the recent Microfinance Institutions (Development and Regulation) bill 2012 to constitute District Microfinance Committee headed by collector or not below the rank of additional collector and comprising of official from lead bank, representative from banks and MFIs operating the in the district. Every district microfinance committee to submit a quarterly report to RBI in such form and manner as may be specified and forward its copy to the state microfinance council.[12]

[11] Unpublished report, (2012), copy is obtained from Project Office, Mahalir Thittam, District Collectorate, Kanchipuram.
[12] The Microfinance Institutions (Development and Regulation) Bill, 2012, submitted at Lok Sabha, India.

4.3.1 BWDA Finance

They do not fund the people who are in below poverty line. The group which has a monthly income of more than Rs 1,20,000/- (20 members) will be funded after duly given training. The rate of interest is calculated at 24% pa under diminishing mode. The due amount is recovered in monthly installment mode. Maximum loan amount of Rs 50000/- with a processing fee of 1% on the loan amount is sanctioned.

4.3.2 L & T Finance Ltd

Groups are formed in L&T Finance Ltd with 4 to 6 members, then assessed whether they are into microenterprise and sanctioned loan amount ranging from Rs 5000 to Rs 10000/-. In Kanchipuram district, they have disbursed loans in urban centers such as Perungalathur, Oorappakkam, Guduvanchery, Maraimalainagar, and Chengalpet. Loan is sanctioned with monthly installment mode, 1 % processing fee and at 22 % rate of interest under diminishing mode. No insurance premium is deducted. All borrowers have to submit their Know Your Customer (KYC) document such as ration card and voters' identity card along with the membership declaration form.

4.3.3 Spandana Spoorthy Finance Ltd

The head office is at Hyderabad, and having 11 branches in the district. Training of 30-60 minutes for 5 days is given to the members. The branch manager will go to the borrowers place and assess their repaying capacity before sanctioning the loan. A loan amount of upto Rs 50000/- is sanctioned with a flat interest rate of 12.5 % pa. There are no hidden charges levied on the borrowers. From November 2011, they have reduced their lending. They have lent only Rs 80 crores against the target of Rs 480 crores.

4.3.4 Ashirward Microfinance Ltd

Their head office is located at Rayapet, in Chennai. Groups are formed with 15 to 20 members and be given 3 days compulsory training. After the inspection made by the branch manager, within 15 days of the formation of the group, the members are sanctioned loan amount ranging from Rs 7500/- to Rs 10000/-. Installment amount is to be repaid on weekly or monthly basis. Loan is sanctioned with 25.5% rate of interest and 1% processing fee. Insurance premium is deducted from the borrowers. Currently they have 10 centres attached to 2 branches with 100 groups in Kanchipuram district.

4.3.5 Hand in Hand

The loan is sanctioned to the members of the group with 12 to 20 members. On first installment only 60 % of loan amount is released, and the remaining loan amount after getting utilization certificate in 15 days. The loan is sanctioned at 15 % rate of interest and the same to be repaid on monthly installment. If anyone had outstanding with any other MFIs will not be sanctioned loan from the company. In case of unexpected demise of the members, the company would pay the funeral expenses.

4.3.6 SKS Microfinance Ltd

They have their head office at Hyderabad. Currently they have only 18 centers in Madhuranthagam. The loan amount is restricted to Rs 50000/- without any other hidden charges.

4.3.7 Kaveri Credits (India) Pvt Ltd

Centers are formed with 8 groups each consist of 1 to 5 members. Members are given a loan of Rs 10000/- at 15 % flat rate of interest. They have only one branch in Kanchipuram and operating within 15 km radius.

4.3.8 Equitas Microfinance Ltd

The company has set up with 280 branches in the state, out of which 8 branches are located in Kanchipuram district. About 4000 to 4500 members from Kanchipuram district were associated with the company. The loan amount of Rs 12000/- is given for the members who are residing in rural area & earning Rs 2500/- per month and for the members who are from urban centers & earning Rs 5000/- per month.

4.3.9 Grama Vidiyal Microfinance Ltd

Their head office is at Trichy and in Kanchipuram district they operate from Tamabaram, Chengalpet, Guduvanchery, and Kanchipuram. Centers are formed with four groups each consists of 6 members those who are from the same village and doing microenterprises. After receipt of their KYC document within one month, the loan amount not exceeding Rs 15000/- is sanctioned with 12 % diminishing rate of interest and weekly installment mode. There are no additional charges levied except Rs 50 as insurance premium.

4.3.10 ESAF Microfinance Investments (P) Ltd

The company functions with its head quarter at Coimbatore. They have about 70 branches in Tamilnadu. In Kanchipuram district, about 70 groups are formed at Kovalam. Each group consisting of 15 to 20 members are given 3 days compulsory training before sanction of loan. All the members are briefed about the schemes and terms & conditions of the loan. The loan is sanctioned at 26% diminishing rate of interest and disbursed after deducting the processing fee of 1%. The installment are payable weekly.

4.3.11 Repco foundation for Microcredit

The foundation was started in the year 2002. In Kanchipuram, 350 groups are formed out of which 85 groups are funded. They operate within a radius of 20 km from the town. They form the groups with 7 to 20 members who are in the age group between 18 to 35 years. Rate of interest of 17% is charged for the loan amount less than Rs 200000/- and 18 % is charged for the higher loan amount.

4.3.12 Samasta Microfinance Ltd

The company is started in the year 2008 and the head office is in Bangalore. In Kanchipuram district, they operate in little Kanchipuram, big Kanchipuram, Sevilimedu and Ayympettai areas. Along with 1% processing fee, diminishing rate of interest of 26 % is charged on the loan amount.

4.3.13 **Share Microfinance Ltd**

The company is started in the year 2008. About 78 branches are spread across the state and there are about 7 branches in Kanchipuram district. Till then 800 centers were formed in the district with each center consisting of 5 to 40 members. The loan is given with 1 % processing and diminishing rate of interest of 26%.

4.3.14 Smile Microfinance Ltd

The company is started in the year 2004 and the present chairman is Mr. Sathyamoorthy and the Managing Director is Mr. Sethuraman. A loan amount between Rs 10000/- and Rs 15000/- is sanctioned after the compulsory training for 4 days to all the borrowers. The loan is sanctioned with 1 processing fee and 26% diminishing rate of interest. The amount due is receivable on weekly installment.

4.4. Microinsurance

4.4.1. Definition: *"Microinsurance is the protection of low -income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use Microinsurance, where it is available, as one of several tools (specifically designed for this market in terms of premiums, terms, coverage, and delivery) to manage their risks"*[13]

In India, it is often assumed that a Microinsurance policy is simply a low -premium insurance policy. This is not so. There are a number of other important factors. Low-income clients often:

- Live in remote rural areas, requiring a different distribution channel to urban insurance products;
- Are often illiterate and unfamiliar with the concept of insurance, requiring new approaches to both marketing and contracting;

[13] Microfinance: Demand and Market prospects-India, by Allianz Ag, GTZ and UNDP, Public Private Partnership, August 2006.

- Tend to face more risks than wealthier people do because they cannot afford the same defenses. So, for example, on average they are more prone to illness because they do not eat as well, work under hazardous conditions and do not have regular medical check -ups;
- Have little experience of dealing with formal financial institutions, with the exception of the National Bank for Agriculture and Rural Development (NABARD) Linkage Banking programme;
- Often have higher policyholder transaction costs. Thus middle class, urban, policyholder can send a completed claims form to an insurance company with relative ease: a quick call to the insurance company, receipt of the claims form by post, and then return of the form by post. For a low-income policy holder, submitting a claims form may require an expensive trip lasting a day to the nearest insurance office (thereby losing a day of work), obtaining a form and paying a typist to type up the claim, sending in the claim, followed by a long trip back home. Aside from the real costs of doing this, the low –income policyholder may be uncomfortable with the process; clerks and the other officials are often haughty with such low-income clients and can make clients feel ill at ease.
- Designing Microinsurance policies requires intensive work and is not simply a question of reducing the price of existing insurance policies.

4.4.2. History and current status of Microinsurance regulation:

As in much of the developing world, India has a large number of informal quasi-insurance schemes: for example, households that pool rice. In addition to this, there are small schemes run by cooperatives, churches and NGOs that may pool their members' incomes to create an insurance fund against a specific peril: for example, funeral costs. In a few countries, there is specific legislation to regulate these schemes, e.g., the South African Friendly Societies Act. In India no such law exists, and any individual or institution conducting insurance has to comply with the stipulations of, among other regulations, the 1938 Indian Insurance Act as amended.

Compliance with this Act requires, among other conditions, over $22 million of capital. All insurance schemes that do not comply with the Act operate outside it and in a legal vacuum. This includes all community-based schemes, and in-house insurance schemes run by MFIs, NGOs, and trade unions, in-house hospital schemes, etc. At present, the IRDA has not taken action against these schemes as the Authority does not consider them to be 'insurance' according to its definition–although the IRDA realizes that this legal vacuum could cause some problems. Furthermore, regulated insurers have expressed to the IRDA their dissatisfaction at needing to compete against non-regulated insurers that do not bear any regulatory expenses. The situation may change if regulated insurers place sufficient pressure on the regulator to act. Two possible scenarios may occur: either the development of specific legislation to cater for micro insurers or active closure of non-regulated insurers. The authors believe the best approach is the former. As a number of unregulated microinsurance schemes are innovative and should be further studied, it could limit practical knowledge concerning microinsurance if they were to be closed down. The interests of the customers of these schemes must be protected. The development of specific legislation to support and supervise currently unregulated microinsurers is to be preferred.

4.5. Micropension

Micro-pensions are referred to long term savings, for relatively low income, informal sector workers, with the objective of securing them with income during old age. Though there is no fixed retirement age in the unorganized and entrepreneurship, the low income people need to save a portion of their income for future and / or old age living considering their income earning capacity which gets reduced with increase in age. Pension schemes, in principle are reverse savings schemes which aim to provide / supplement income after retirement. Different insurance companies are offering pension schemes with varied annuity options such as life annuity with return of purchase price, life annuity without return of purchase price, joint life last survivor, joint life last survivor with return of purchase price, and guaranteed annuity for fixed term. Also, apart from the annual option, monthly, quarterly &

half yearly options are available for premium payment. However, insurance companies encourage opting for annual mode of premium payment due to high operation cost in other modes[14].

4.6. Housing Microfinance

Housing microfinance is broadly defined as small loans dedicated to housing activities, including, but not limited to: repairing, improving or upgrading housing; investment in infrastructure; the purchase of inhabitable land or permanent structures; and the construction of new housing. This diverse set of activities highlights the need for housing microfinance, and points to the potential range of products that will be necessary to fulfill this need.

Two housing microfinance approaches currently exist in developing countries, both of which aim to promote credit accessibility to improve the shelter of the poor. The first approach is an advocacy-based one, which has arisen out of a need for community mobilization to improve the housing rights of those living in substandard conditions. This programme is commonly referred to as Shelter Advocacy to Housing Finance (SAHF). While the other is a strict housing microfinance programme, often referred to as Microcredit to Housing Finance (MCHF). This approach originates directly out of the microfinance model for microenterprises, and is a result of both MFIs noticing that their loans were being diverted to home improvements and the perception of product development as part of their organizational growth strategy[15].

4.6.1. Key Issues in Housing Microfinance

a) Land title and collateral

The most elusive issue in housing microfinance is that of legal title. Many of those that do hold legal title have the capability of accessing a variety of mortgage products available from banks or similar private housing finance institutions and thus are rarely those that live in informal housing. But those living in the villages and slums, areas where the absence of

[14] Savitha Shankar, (2009), Developing Micropension in India: Issues and Challenges, PhD dissertation submitted to National University of Singapore.

[15] Cheryl Young, (2007), **Housing Microfinance:** Designing a Product for the Rural Poor, working paper series 19, IFMR, Chennai.

legal title is particularly acute, also lack enough capital to improve their existing structure, therefore pursuit of sophisticated mortgage products is unrealistic.

While many rural villagers own their homes, which they likely built themselves, they rarely own the property on which they live. Typically, in rural India, villagers are granted land from the government or live on land passed down to them from their ancestors. These land rights exist through means other than a title deed. Bruce Ferguson calls these land rights 'para-legal title' which he believes should be recognized by housing MFIs when disbursing a loan. This legitimizes of the rights of villagers whose lack of legal title would otherwise prohibit them from obtaining a loan from formal financial institutions.

Although para-legal title (*Para-legal title refers to proof of ownership through means other than full title. Such proof may be in the form of receipts from property taxes or other property-related charges or a bill of sale*) serves as a reasonable proxy, it cannot be recognized on a mass scale. Lack of title prevents lenders from addressing the housing shortage issue in rural areas. A National Housing Bank (NHB) report in 2000 noted the complexity of the issue: The primary lending institutions have expressed that they are unable to lend more in the rural areas mainly because of absence of clear title to the land on which the house is to be constructed and non-acceptability of agricultural land as collateral security for housing. The respective State Governments will have to play a facilitating role so that the lending institutions can lend with comfort to the people in these areas.[16]

The matter of title in India is further complicated by the fact that no central registry exists to provide definitive information concerning ownership. People often take advantage of the poor and sell land that they themselves do not own. Therefore, it is a matter of policy to ensure that those who own land *de facto* or through para-legal title are recognized as those with property rights.[17] Land title is regarded as a legal recognition of an asset, and thus can be leveraged as collateral when borrowing. Lack of title further begs the question as to what, then, can be recognized as collateral against a housing loan. In the case of many organizations that provide microfinance, hard collateral is not a necessary prerequisite for lending. In India, the Self Help Group (SHG) model predominates, which utilizes group

[16] National Housing Bank, 'Report on Trend and Progress of Housing in India' (June 2000), p. 6

[17] Rao, S.V. and P.S.N Prasad, (2000) 'Urban Land Transactions and Conferment of Conclusive Title' in Misra K. Girish and P.S.N Rao, eds. *Housing Legislation Policies in India: Policies and Performance*: Kanishka Publishers, . New Delhi, India

guarantees, exercising peer pressure and character assessment to mitigate risk of non-repayment.

b) Construction services

Just as uncertain property right characterize informal housing; the way in which the poor build equally influences the design of housing microfinance products. Generally, the building of informal housing is an incremental process whereby its inhabitants upgrade and expand one fixture or one room at a time. The incremental building process is largely attributed to the unsteady and limited income stream of those informally employed; additionally the residents themselves commonly perform the labour, contributing what is referred to as 'sweat equity.'

However, housing built quickly and with substandard materials depreciates faster, and incremental building with limited resources may focus too much on new areas of improvement neglecting general maintenance that is needed over the life of the incremental building process. Therefore, it is useful to look at a number of housing loan schemes, from home repair to new construction. Considering a range of housing finance options recognizes both the diversity in the existing needs of an organization's clientele as well as acknowledging that the needs of the poor change with time and as their income levels increase. Many clients believe that incremental changes are too temporary and in the end cost more than building anew. On the other end of the spectrum, the total transformation of houses from *kaccha* hutments constructed of poor or semi-permanent material, to *pukka* permanent structures, is the next step for microfinance clients who are ready to take on larger loans.

The method by which construction is undertaken may further complicate establishing a housing microfinance loan product. For example, oversight of where and how the funds are spent includes observing whether or not the borrower is building in a way that increases the sustainability of their structure. Franck Daphnis reminds MFIs that they should consider the dual priorities of 'due diligence and follow-up' to make sure that the funds are being directed towards their intended use.[18] Whether or not this is the role of the MFIs is a

[18] Daphnis, (2004) 'Elements of Product Design for Housing Microfinance' in Daphnis, Franck and Bruce Ferguson, (eds.) *Housing Microfinance: A Guide to Practice*. Bloomfield, CT: Kumarian Press.

question worth considering. Granted, many loans previously allocated to microenterprise development have been otherwise redirected to housing maintenance. But if housing microfinance is to be a separate product from microcredit then there is value in introducing building standards. Recent evidence shows that borrowers are seeking credit-plus when it comes to housing, and therefore MFIs should analyse the benefit potential of offering additional services, such as construction/technical assistance, etc.

Findings from the field suggest that there is little need for due diligence. However, when incremental construction is performed with readily available materials, it is often done by the villagers themselves, which does not guarantee durable structures. On the other hand, new construction and improvements requiring larger loan amounts are performed by masons who are familiar with the construction materials and methods required to build suitable structures. The merits of stimulating the local economy by using locally-sourced masons and materials not only add to the argument that housing microfinance can serve as a pump-prime for economic development, but can serve as a means of ensuring better quality construction.

c) Factoring in added costs

In some instances where MFIs identify that monitoring the use of funds is necessary, they must consider how to meet any added costs that this activity will entail. Since end-use monitoring would undeniably contribute to increased administrative costs, the added costs must be borne by either the organization, the client, or through a partnership organization.

An MFI may decide to hire its own technical staff or require more field visits for loan officers evaluating loan applications for housing. Similarly an MFI may outsource to NGOs or other organizations whose core function is to provide technical expertise. This can minimize any drastic alterations to the field operations of a currently well-performing MFI. These increased costs can be addressed in one of the following ways:

• *Interest Recapture:* MFIs may use a percentage of the interest gathered from loan repayments to fund additional costs. Kalanjiam, for example, currently uses 1 per cent of the interest from housing loans to pay its 'housing cells,' which employ engineers.

• *Premium Fees:* MFIs can charge a nominal fee to clients that avail a housing product.

d) Dedicated funds

The proliferation of housing microfinance has been constrained by the lack of credit lines specifically for housing loans. Most financial institutions are reluctant to lend for consumption loans, so MFIs face particular problems when attempting to secure dedicated funds for housing. This issue is further complicated by term risk when short term loans finance longer term loans. Thus it is essential that MFIs find matching term loans to fund housing products should they anticipate that housing loans be a significant portion of their portfolio.

4.7. Microventures

Micro financiers have being using innovative contractual practice and organizational forms to reduce risks and cost of making loans, such as lending to group, rather than just to one person, targeting women clientele etc. Though microcredit serves a useful function and is a necessary component of the wider provision of microfinance, there are a number of potential problems with exclusively loan based programs. A serious problem is that potential for loan default if business income declines or if the business fails. During the last few years, we seen possible abused of the system, primarily due to stress in the relationship between the credit agent who needs to show a 100% recovery and the borrower who cannot always ensure this.

If the micro entrepreneur is struggling to success under the constraints of microcredit, then she needs something else. The microfinance offering probably needs to include “micro venture capital” which is an absolute ingredient to successful entrepreneurship. The role of micro venture capital is the form of equity is crucial in understanding the missing ingredient in the microfinance world. The role micro venture capital provide is not limited to providing equity financing but also includes providing professional advice and mentoring to the micro entrepreneur. The profit would be shared proportionate to the capital invested by the entrepreneur and the micro venture capital provider. After finding the stability of the enterprise, the venture capital provider will exit the business with its capital. Usually, the exit may happen between 6 to 12 months time frame.

4.8. Micro-remittance

In urban or semi urban scenario, many of the daily/weekly wages are staying away from their family for the sake of opportunities for income generation. However, they wish to send their earnings to their family on a particular frequency. Due to their lower literacy and lesser amount, the wagers are hesitant to use the banking system for their remittances, but very less prefers Post office outlets for the same. In recent days, the young generation private banks are coming up with mobile banking services for remittances in tie up with mobile phone service providers. Apart from those who have GPRS access in their mobile, the low cost mobile banking services would enable the borrowers even without GPRS access & lower end mobile hand set for easy remittances. The mobile hand set might have vernacular language for friendly usage[19].

4.9. Micro Systematic Investment Plan (SIP)

Micro Systematic Investment Plan (SIP) aims to cover low income households in rural and semi-urban areas to benefit them from the long-term investment in 'Equity' as an asset class. It has as low premium as Rs 100 per month and does not require pan number for investment. Whereas the regular SIP, starts from an investment above Rs. 50000/- per annum and mandate pan number investment. Micro SIP is also a variant of SIP, but with a lesser amount that gets invested. Micro SIPs are one of the components of micro-finance, require bank account and has an option for investment at monthly or quarterly. Apart from the mode of cheque payment, most of the AMCs offer Standing Instruction (SI) or Electronic Clearing System (ECS) facility to the customer where, on the particular day of the month, a fixed amount would be debited from his bank account towards the SIP. The Reliance AMC offers the facility of online access and ATM card which gives the micro SIP customers, one free balance inquiry and cash withdrawal from any bank ATM monthly.

4.10. Micro savings

The microfinance customers not only need microloans, but they also equally need savings products. A study reveals that saving opportunities and supports for the poor has increased with the introduction of SHG. The financial education imported to the members of the SHGs

[19] Meiyappan M S and S Annamalai (2011), Microfinance: A Finance Supply chain to Poor, proceedings of a national seminar on Investment behaviour organized by Sankara Institute of Management Studies, Coimbatore.

has reduced dependence of financial institutions and has also has given a positive impact on saving strategies. Many NBFCs are accepting thrift savings from the members. The SHGs formed by NGOs are also encouraged to have bank account for their savings and transactions. Apart from Savings, microfinance borrowers are capable and having potential for investments as well. Rural people are habitat to save money in order to get into bigger investment in near future. Many a times, these people are not able to get the credit facility for investment such as housing, vehicle, sometimes, the investment like housing will have appreciation in value. Small ticket fixed deposits and recurring deposits are more suitable and less risky saving products for poor.

4.8. MFIN's Credit Bureau on MFI Borrowers

Microfinance Institutions Network (MFIN), a self-regulatory organisation of the Indian microfinance sector, has launched a Credit Bureau initiative in collaboration with High Mark Credit Information Services Ltd, to provide client data to its members. The network, which represents 46 per cent of the Reserve Bank of India (RBI)-approved NBFC-MFIs which claim to cumulatively account for over 80 per cent of all micro-credit activity in the country, has uploaded data on 28 million loan accounts so far, said Alok Prasad, CEO, MFIN.

The arduous task of collating data for about 30 million borrowers and uploading it onto a common data format could not have been possible without the support and co-operation of member MFIs. The industry is unanimous in its view that dedicated credit bureaux for the sector will bring enormous transparency at the client level and will help curb multiple lending, said Prasad. The credit bureau would help the MFIs to determine repayment behaviour of the client by providing repayment history of the clients. For the clients, a clear repayment history would bring in credibility and thus enable them to borrow at lower rates based on strong repayment history, he added. A fully functional credit bureau for the microfinance industry is expected to be operational by April, 2011, said the organisation. MFIN was established in October 2009 and has developed a code of conduct for its members who emphasize transparency and fair practices, added Prasad[20].

[20] MFIN launches credit bureau for microfin client data, BS Reporter, Chennai Mar 03, 2011, www.mfilfex.com

4.9. Mahalir Thittam

Mahalir Thittam is a socio-economic empowerment programme for women implemented by Tamil Nadu Corporation for Development of Women Ltd. Mahalir Thittam is based on Self Help Group (SHG) approach and is implemented in partnership with Non Governmental Organisations (NGOs) and Community based organizations. The SHG approach was started in a small way in Dharmapuri district in the year 1989 with the assistance of International Fund for Agricultural Development (IFAD). Later the scheme was extended to the erstwhile Salem and South Arcot districts in the year 1991-1992 and further extended to Maduraiand Ramanathapuram in the year 1992-93. Following the success of the IFAD project, Mahalir Thittam project was launched with State Government funding from 1997-1998and was progressively introduced in all districts of the State. Today the SHG movement is a very vibrant movement spread across all districts of the State with nearly 59,00,000 women as members. As on 31.3.2009, there are 3,91,311 SHGs with a total savings of Rs.2062.04 crores[21]. As reported by project office of the district, Kanchipuram district has a member base about 300000 as of March 2012.

[21] http://tnrd.gov.in/schemes/st_mahalirthittam.html