Microfinance has been emerging as a significant instrument to address the problem of lack of access to credit for the poor also indirectly attacking poverty and unemployment (Rani & Manimekalai, 2006). The credit goes to the pioneer attempt made by Prof. Mohammed Yunus in Bangladesh who introduced the concept of microcredit for the first time among poor women in late seventies under the Grameen Bank. The movement later got momentum in almost every corner of the world. The experiences of the specialized bank such as Bank Raknat Indonesia (BRI) of Indonesia, and Bank of Agriculture and Agriculture Co-operatives (BAAC) of Thailand, Grameen Bank of Bangladesh, National Bank for Agriculture and Rural Development (NABARD) of India in the field of microfinance have conclusively proved that banking with poor can be viable and sustainable (Rani & Manimekalai, 2006). Rastriya Mahila Kosh (RMK) is the most significant intervention launched in 1993 with the objective of meeting the credit needs of the poor asset-less women, involving Self Help Groups (SHGs) in India. To assist large number of weaker sections, banks have introduced novel approaches / innovations. Some of the innovations include formation of Self Help Groups of weaker sections, especially of women and inculcating in them the habit of regular savings. Once they start saving regularly, rotating these savings amongst the SHG members for productive as well as for non-productive purposes (Rani & Manimekalai, 2006). This approach helps in creating awareness amongst the SHG members for regular repayments. It takes an indirect route, empowers the poor people and eventually puts them in a better position for a more direct approach. Banks also have adopted a simplified policy in respect of security, documentation, margin, repayment terms, disbursement schedule, model and period of repayment appraisal and sanction. The focus of banks has gradually shifted from big customers to small customers, from class banking to mass banking and from
purely security oriented traditional lending to need based lending (Rani & Manimekalai, 2006).

A series of research studies conducted by NABARD during the early 1980s revealed that what the poor really needed was better access to banking services and products, rather than cheap subsidized credit. These results highlighted the importance and the need to promote microfinance in India. Microfinance typically refers to micro credit, savings, insurance, money transfers and other financial products targeted at poor and low income people1. Microfinance is of major importance because it gives everyone an opportunity to escape poverty if they really want to (Bateman, 2010).

With financial inclusion emerging as a major policy objective in the country, Microfinance is playing a pivotal role to extend financial services to unbanked sections of population. The Government of India has initiated various programmes and schemes in the area of microfinance. The most important programmes are Swarnajayanti Gram Swarojgar Yojana (SGSY), 1999 and NABARD’s SHG – Bank Linkage Programme (SBLP), 1992 which are using SHGs approach (Nandy, Debaprosanna, 2015). Other initiatives by government include Swa-Shakti, Development of Women & Children in Rural Areas (DWCRA), Council for Advancement of Rural Technology (CAPART), Swarnajayanti Shahari Swarojgar Yojana (SJSRY), Swayamsiddha, Rashtriya Mahila Kosh (RMK) etc. All these programmes are aimed at reduction of poverty and improving the living condition of rural poor with the help of economic activities. Microcredit offers access to financial resources to the poorest of the poor in the rural areas. It allows people to undertake self-employment activities or to venture very small businesses without depending on money-lenders who demand exorbitant interest rates (Nandy, Debaprosanna, 2015).

The group based microfinance programmes are not new rather can be traced from the microfinance movements in North America and Europe, way back in 1800s where micro-credits had benefited micro-entrepreneurs and farmers for their socio-economic development (Panda & Atibudhi, 2011). In that period, Europe had experienced with semi-formal to formal credit institutions like saving and credit cooperatives, peoples’

1 http://www.microfinancegateway.com/section/faq
banks, village banks, credit unions etc. In addition to these microfinance groups, the innovation and replication of co-operative movement in North America and Europe speed up the group based microfinance movement in many countries all over the world. The biggest addition to the group based microfinance was the Grameen model for Grameen Bank, Bangladesh where the loan collaterals were replaced by joint liability, peer pressure and social collateral. It is assumed that the Self Help Groups for the microfinance programmes was evolved in taking the various principles of Village Banking, Rotating Saving and Credit Associations (ROSCA), Credit Unions etc. (Panda & Atibudhi, 2011).

In India microfinance operates basically through two channels:

1. SHG – Bank Linkage Programme (SBLP)
2. Microfinance Institutions (MFIs)

The Self Help Groups (SHGs) represent a unique approach to financial intermediation. The approach combines access to low-cost financial services involving a process of self management, with an objective of social and economic development for the women SHG members. Formations of SHGs are facilitated by the government or by Non Government Organisations (NGOs). SHGs are linked not only to banks but also to wider development programmes. SHGs are seen to confer many benefits, both economic and social. They encourage women to save and access the credit which banks are increasingly willing to lend. SHGs can also be community platforms from which women are encouraged to become socially active especially with regard to issues affecting their daily life (Nandy, Debaprosanna, 2015).

Over the last six years, India’s microfinance sector has experienced a rollercoaster ride with remarkable results (responsAbility Investments AG). In 2010, a promising growth story was abruptly interrupted by one of the biggest crises microfinance has experienced to date. The government of Andhra Pradesh shut down the local microfinance sector, with drastic consequences. The state government’s move led to a complete halt of microfinance across the state, triggering an identity crisis and serious funding shortages throughout India’s microfinance sector. Since then regulators,
politicians and practitioners have gone over their books and transformed the financial sector in India (responsAbility Investments AG, 2015). Today, financial inclusion ranks high on the priority list of India’s government and the Reserve Bank of India. According to the World Bank only 35% of India’s adult population had an account at a financial institution in 2011. By 2014, this proportion had increased to 53%. However, many of these were zero balance accounts. While the political backing has clearly raised awareness, the financial sector now has to translate this push into a sustainable result and activate the dormant accounts (responsAbility Investments AG, 2015). It seems that for the first time, India’s central bank truly recognises the importance of the Microfinance industry for financial inclusion. Bandhan, a microfinance institution focused on the rural population, was awarded one of just two general banking licenses which the RBI issued in 2014. In 2015, India’s central bank also granted specific banking licenses to 11 payment banks and 10 small finance banks. This put the microfinance sector into the spotlight again as eight of the 10 newly licensed small finance banks are MFIs (responsAbility Investments AG).

The present chapter is organised into following sections. Section 1.1 deals with a brief history of microfinance, section 1.2 presents the growth of microfinance services in India. The major current issues in Indian Microfinance are discussed in section 1.3 and section 1.4 elaborates on the concept of Self Help Group. Section 1.5 analyses the role of microfinance in microenterprise development, section 1.6 traces the relationship between women empowerment and entrepreneurship development and section 1.7 covers the legal forms of MFIs in India & the various micro lending models. The lending mechanism, microfinance methodologies and regulation of MFIs are explained in section 1.8. Section 1.9 states the research problem, mentions the important research questions, lists the important aims/ objectives of research study, briefly explains the methodology. The chapter concludes with section 1.10 highlighting the significance of the research study/expected results & policy implications.
1.1 A Brief History of Microfinance

Small informal savings and credit groups have operated for centuries around the world across all countries. In Europe, as early as the 15th century, the Catholic Church founded pawn shops as an alternative to the exploitative moneylenders. These pawn shops spread throughout the urban areas in Europe during the 15th century. In the 1800s, Europe saw the emergence of larger and more formal savings and credit institutions that focused primarily on the rural and urban poor. The financial cooperative was developed in Germany. It aimed to help the rural population break from their dependence on moneylenders and to improve their welfare. The movement emerged in France in 1865 and Quebec in 1900 (Batra and Sumanjeet, 2011). Many of today’s financial cooperatives in Africa, Latin America and Asia find their roots in this European movement. The Indonesian People’s credit Banks that opened in 1895 became the largest microfinance system in Indonesia. The 1970s saw the birth of microcredit programmes in Bangladesh, Brazil and a few other countries began lending to poor women entrepreneurs. Examples of early pioneers include Grameen Bank in Bangladesh, which started out as experiment by Prof. Muhammad Yunus, ACCION International which began in Latin America and then spread to the United States and Africa and the Self- Employed Women’s Association (SEWA) Bank in India, which is a bank owned by a women’s trade union (Batra and Sumanjeet, 2011).

In the 1980s, microcredit programmes throughout the world improved on the original methodologies and defied conventional wisdom about financing for the poor. Well managed programmes showed that poor people, especially women, paid their loans more reliably than better off people with loans from commercial banks. They also demonstrated that poor people are willing and able to pay interest rates that allow microfinance institutions (MFIs) to cover their costs. MFIs that cover their costs can become viable businesses that attract deposits, commercial loans and investment capital. They can reach huge number of poor clients without being limited by a scare and uncertain supply of subsidised funds from governments and donor agencies (Batra and Sumanjeet, 2011). The 1990s saw growing enthusiasm among international development agencies and networks for promoting microfinance as a strategy to alleviate poverty. In the early 1990s the term “microfinance” rather than “microcredit”
began to be used to refer to a range of financial services for the poor. Over the last ten years or so, microfinance has rapidly evolved and expanded from the relatively narrow field of microenterprise credit to the more comprehensive concept of microfinance which includes a range of financial services for poor people including savings, money transfers and insurance (Batra and Sumanjeet, 2011).

1.2 The growth of microfinance services in India

In India microfinance operates through two main channels viz. a) banking system through the SHGs under SHG-Bank Linkage Programme (SHG-BLP) and JLG bank lending programme and b) through Micro Finance Institutions (MFIs) lending through individual and group approach (NABARD, 2015-16).

The microfinance initiative in the private sector in India can be traced back to initiative undertaken by Shri Mahila SEWA (Self Employed Women’s Association) Sahakari Bank in 1974 for providing banking services to the poor women employed in the unorganized sector in Ahmadabad in Gujarat (Mahanta, Panda, & Sreekumar, 2012). This Bank was established at the initiative of 4000 self employed women workers who contributed a share of Rs10 each with a specific objective of providing credit to these women so as to empower them and free them from vicious circle of debt. Currently SEWA Bank has over 318,594 account holders with total working capital of Rs 1291.89 million (March 2009) (Mahanta, Panda, & Sreekumar, 2012).

The microfinance sector evolved in the 1980s around the concept of SHGs. SHGs are the informal bodies that would provide their clients with much-needed savings and credit services (Legatum Ventures, 2011). From the modest beginnings, the sector has grown significantly over the years to become a multi-billion dollar industry, with bodies such as the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) devoting significant financial resources to microfinance. Today, the top five private sector MFIs reach more than 20 million clients in nearly every state in India and many
Indian MFIs have been recognized as global leaders in the industry (Legatum Ventures, 2011).

It is difficult to trace the origin of Self Help Group based microfinance interventions, but there were evidences of existence of Self-help Groups and discussion of the Self-help Group movements in India in 1980s where the discussions focused on the promotion of the Self Help Groups intermediated by the Non-government Organisations (Panda & Atibudhi, 2011). The SHG- Bank Linkage Model involves participation by Commercial Banks, Regional Rural Banks (RRBs), Co-operative Banks in promoting microfinance services in India. This involves the utilisation of existing banking framework for the development of microfinance services. Whereas the MFIs- Bank Model emphasizes the role of Microfinance Institutions (creating new institutional framework) in promoting microfinance. The National Bank for Agriculture and Rural Development (NABARD) launched SHG- Bank Linkage Programme in February 1992. Self Help Group- Bank linkage programme, which is the largest microfinance programme in the world, today touches 101 million households through 7.9 million SHGs with thrift & deposits of about INR 1,36,914 million, annual loan offtake of INR 3,72,869 million and loan outstanding of nearly INR 5,71,192 million (NABARD, 2015-16).

SHG-BLP is a strong intervention in financial inclusion for the bottom of pyramid. A proven platform initially conceived for increasing the outreach of banking services amongst the poor it has since graduated to a programme for promotion of livelihoods and poverty alleviation. The number of SHGs with savings linkage, credit disbursed during the year and bank loans outstanding as well as the quantum of savings outstanding, loan disbursed during the year and total loan outstanding had shown positive growth during the past three years (Table 1.1). Year 2015-16 was particularly positive for the growth of SHG-BLP.
Table 1.1 Progress under SHG Bank Linkage Programme
(Number in lakh and Amount in Rs. crore)

<table>
<thead>
<tr>
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<tr>
<td>Particulars ↓</td>
<td>Number</td>
<td>Amount</td>
<td>Number</td>
</tr>
<tr>
<td>SHG savings with Banks as on 31 March</td>
<td>74.30 (1.53%)</td>
<td>9897.42 (20.45%)</td>
<td>76.97 (3.59%)</td>
</tr>
<tr>
<td>Loan disbursed to SHGs during the year</td>
<td>13.66 (12.02%)</td>
<td>24017.36 (16.67%)</td>
<td>16.26 (19.03%)</td>
</tr>
<tr>
<td>Loan outstanding against SHGs as on 31 March</td>
<td>41.97 (-5.71%)</td>
<td>42927.52 (9.02%)</td>
<td>44.68 (6.46%)</td>
</tr>
</tbody>
</table>

(Figures in parentheses indicate increase/decrease over the previous year)

Source- NABARD Annual Report 2015-16

MFIs have evolved into a vibrant segment of financial sector exhibiting a variety of business models in recent years. Non adherence to rules and going overboard, by some MFIs, had brought a setback to the sector, albeit temporarily. But the sector regained its traction from 2012 onwards and is showing a consistent growth. Spate of policy actions to strengthen the regulation of MF sector, including RBI guidelines on NBFC-MFIs and inclusion of loans to MFIs by banks under priority sector had done a world of good for the sector. As a result, lending by MFIs exhibited a robust growth with 50% jump in loans disbursed consecutively during last three years from Rs. 23682 crore during 2013-14 to Rs. 37599 crore and further to Rs. 61860 crore during 2015-16 as per MFIN data (NABARD, 2015-16). Table 1.2 represents the progress of microfinance sector under MFI – Bank linkage in India over the last three years.

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2 MFIN is the first Self-Regulatory Organisation (SRO) in the financial services sector recognized by the RBI and regulates NBFC-MFIs to ensure responsible lending and client protection.
<table>
<thead>
<tr>
<th>Particulars Downward</th>
<th>Number of accounts (in Rs. crore)</th>
<th>Amount of accounts (in Rs. crore)</th>
<th>Number of accounts (in Rs. crore)</th>
<th>Amount of accounts (in Rs. crore)</th>
<th>Number of accounts (in Rs. crore)</th>
<th>Amount of accounts (in Rs. crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans disbursed by banks/ FIs to MFIs</td>
<td>545</td>
<td>10282.9</td>
<td>589</td>
<td>15190.13</td>
<td>647</td>
<td>20795.57</td>
</tr>
<tr>
<td>Loan outstanding against MFI as on 31 March</td>
<td>2422</td>
<td>16517.43</td>
<td>4662</td>
<td>22500.46</td>
<td>2020</td>
<td>25580.84</td>
</tr>
</tbody>
</table>

(Figures in parentheses indicate increase/decrease over the previous year)

Source: NABARD Annual Report 2015-16

Mary Iskenderian, CEO of Women’s World Banking (WWB), a microfinance apex body, assert that India has a potential microfinance population of 600 million. It is expected that the microfinance customer base would be over 500 million in the next couple of years. Currently the average loan size in India is $42, compared to $955 globally. India has the potential to get into the $ 500 bracket and beyond within a couple of years.³

The regulated microfinance market in India today has over 28 million clients (Etzensperger, 2014). They are served by nearly 50 regulated institutions. The market is concentrated, since the 10 largest MFIs alone serve a total of 21.6 million borrowers. In the course of the financial year ending 31 March 2014, the sector attracted 4.7 million new clients and grew its gross loan portfolio by 35%. This mainly comprises catch-up growth since, even today, only 8% of Indian adults have a loan from a formal financial institution and only 12% have savings accounts with institutions of this kind, while only 35% have a bank account (of which more than half

³ The Times of India, 18th January 2010
are inactive or semi-active). The goal set by the RBI is that 100% of adults should have a bank account by 1 January, 2016 (Etzensperger, 2014).

According to India Ratings & Research (Ind-Ra) Report, 2015), the Indian Microfinance sector’s outreach increased over 23% year over year (yoy\(^4\)) and gross loan portfolio grew 42% year over year (yoy) in financial year 2014. Ind-Ra expects the sector to grow at a Compound Annual Growth Rate (CAGR) of 24% and require an equity infusion of Indian Rupees 27 billion over the financial year 2015- financial year 2019.

### 1.3 Major Current Issues in Indian Microfinance

There are number of issues which are affecting the microfinance sector in India. Some important issues include – regional spread of SHGs, Problems of quality and sustainability of SHGs, problems related to upscaling and capacity building in SHG-Bank Linkage Programme, problems related to MFIs etc. (Batra & Sumanjeet, 2011).

One of the important issues is the graduation of SHG from microfinance to microenterprise stage (Batra & Sumanjeet, 2011). There are a vast number of SHGs which have come of age and are struggling to graduate from the stage of microfinance to the stage of microenterprise. Lack of adequate skills and lack of marketing linkages affect the graduation of SHGs from microfinance to microenterprise stage. Not many NGOs/agencies are in a position to provide SHGs the requisite backward and forward linkages. This affects setting up of microenterprises on a sustainable basis. As per NABARD annual report 2006 –07 there are 2,924,973 SHGs linked with banks (Batra & Sumanjeet, 2011). Since NABARD is working all over the country with the groups for last fifteen years, there are high numbers of those who have reached at maturity level and many of them are in a position to take up some micro-enterprise activities based at local level. It is proved that the micro – enterprise activities have the potential to increase the level of income and assets of rural households. Thus with the proper

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\(^4\) Year Over Year (YoY), is a measure of performance in one year compared to the same time period in the previous year
capacity building and business development services those matured SHGs should move towards next step (Batra and Sumanjeet, 2011).

One of the major hindrances in the growth of the microfinance sector is the financial illiteracy of the people (Jacob, 2011). This makes it difficult in creating awareness of microfinance and even more difficult to serve them as microfinance clients. Though most of the microfinance institutions claim to have educational trainings and programmes for the benefit of the people, according to some of the experts the first thing these SHG and JLG members are taught is to do their own signature. The worst part is that many MFIs think that this is what financial literacy means. We all know how dangerous it can be when one doesn’t know how to read but he/she knows how to accept or approve it (by signing it). Another issue is that of nontransparent pricing by MFIs (Jacob, 2011). This non transparent pricing by MFIs confines the bargaining power of the borrowers and their ability to compare different loan products, because they don’t know the actual price. In absence of the proper understanding of the pricing, clients end up borrowing more than their ability to payback which results in over indebtedness of the borrower. Ambiguity in the pricing by MFIs is inviting regulatory bodies to implement strict measures like interest rate caps. But simply putting an interest rate cap may encourage MFIs to look for clients with larger loan requirements. This may deprive the clients with smaller loan requirements who are supposed to be the actual beneficiary of microfinance (Jacob, 2011).

In India, MFI outreach is very low. It is only 8% as compared to 65% in Bangladesh (Nasir, 2013). It has been observed that Microfinance programmes focus a great deal of attention on women. It has been argued that women are better clients as they are more inclined to save than men, they borrow smaller amounts than men and their repayment performance is better than men. These characteristics of women clients constitute evidence in support of the inclination of MFIs to cater to the needs of women. Women may be better and more reliable clients, but in order to increase their outreach MFIs cannot ignore men as clients (Nasir, 2013). Out of more than 800 MFIs across India, only six are currently focusing their attention on the urban poor (Nasir, 2013). However, the population of the urban poor is quite large, amounting to more than 100 million. With increasing urbanization, this number is expected to rise rapidly.
in the coming years. In this situation, MFIs need to pay equal attention to the urban poor because they too need financial assistance for various activities (Nasir, 2013).

While discussing the contribution of SHG-BLP, the emphasis is laid more on financial aspects rather than the original social aspects of the SHG programme (NABARD, 2015-16). We need to remember and continuously emphasize the fact that SHG is a tool for holistic empowerment of poor and not just a provider of credit or a conduit of financial inclusion. The thrust of the affinity Self Help Groups is on imbibing the ability among poor women to self-manage their finances, participation in decision making, assuming leadership role, collective action, learning the ropes of banking etc. SHG-BLP is rather unfairly being compared by many with MFI led Micro finance programmes ignoring its contribution in terms of thrift & savings, handholding to inculcate financial literacy, provision of credit besides bringing community participation and building social capital etc (NABARD, 2015-16).

In the last four-five years, there was a general feeling that SHG-BLP had lost its focus and has been overshadowed by the MFI sector in the country, which is growing at a faster rate and more efficiently through corporate, regulatory, financial and technology support. One has to admit that the recent growth of MFI sector has been phenomenal, driven mainly by corporate entities, but the SHG Bank Linkage Programme has also been growing steadily despite its slow growth in priority states\(^5\) (NABARD, 2015-16). The main concerns are regarding book keeping, quality of groups and diminishing attention of banks.

### 1.4 What is a Self Help Group?

A self help group (SHG) is a small, economically homogeneous and affinity based group of rural/urban poor which comes together to:

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\(^5\)In order to give the SHG-BLP a leg-up, Village Level Programmes on SHGs were planned and sponsored by NABARD with the support of banks and NRLM in 13 priority states. The aim was to foster better understanding of mutual requirements between banks, SHGs and SHPIs at ground level and to sort out issues like saving linkage, credit linkage and repayment, etc. at the ground level. These programmes were organized in 13 priority states viz. Assam, Bihar, Chhattisgarh, Gujarat, Himachal Pradesh, Jharkhand, Maharashtra, Madhya Pradesh, Odisha, Rajasthan, Uttarakhand, Uttar Pradesh and West Bengal (NABARD, 2015-16).
• Save small amounts regularly
• Mutually agree to contribute to a common fund
• Meet their emergency needs
• Have collective decision making
• Resolve conflicts through collective leadership and mutual discussion
• Provide collateral free loans on terms decided by the group at market driven rates.

In India, the Self Help Groups (SHGs) are promoted by Non Government Organizations (NGOs), Banks and Cooperatives. Normally after six months of existence of SHGs and after collecting a sufficient thrift fund, the Group approaches the Link banks (either commercial or co-operative banks) with its credit plan. The NABARD gives 100% refinance to the banks on their lending through the SHGs. When the NABARD launched a pilot project for linking SHGs in February 1992, the Reserve Bank of India (RBI) advised the commercial banks to participate actively in the linkage programme. Thus SHG is a small localized group of 10 – 20 persons from a homogeneous background. It is formed and groomed by a bank or an NGO or a government agency called Self Help Promoting Institution (SHPI).

The success of the SHG-Bank Linkage model depends critically on the tasks of promoting, nurturing, strengthening and monitoring SHGs – tasks that are performed by the Self Help Promoting Institutions (SHPIs) (Priya Basu, 2004). Traditionally, grass-root level NGOs have performed the tasks of promoting and monitoring SHGs. More recently, rural branches of commercial banks, cooperative banks, Regional Rural Banks (RRBs), Non-Bank Finance Companies (NBFCs), etc. have all begun to play the role of SHPIs. But, recent evaluation studies reveal the comparatively better performance of SHGs promoted by NGOs (as opposed to the other SHPIs) (Priya Basu, 2004).

A SHPI facilitates the development of an informal group of the rural poor (SHGs). Initially the SHPI would help SHG members in encouraging thrift, learning

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6 *Microfinance in India* edited by K.G. Karmakar (2008)
participative fund management, meeting varied credit needs of the members. It would also play an important role in training the SHG members to interact with a bank branch with a saving deposit account followed by borrowing of small loans from the bank and managing such credit, leading to the growth of micro enterprises and creation of self employment in the rural sector, accompanied by the expansion in the level of activities of SHGs. Figure 1.1 shows the upscaling process of SHG activities over a period of time.

1.5 Development of microenterprise and microfinance

Improved access to affordable loans through microfinance or other sources would help further microenterprise growth and promote poverty reduction in the poor country like Bangladesh (Khandker, Samad, & Ali, 2013). As the returns to microenterprise investment are found high and meet the cost of borrowing from microfinance institutions, there are clearly large potentials of microfinance for supporting microenterprise growth. Microenterprise growth matters because it is expected to reduce poverty when it is combined with farm income growth. In fact, majority of
households who adopt microenterprise activity have additional sources income from farm activities (Khandker, Samad, & Ali, 2013).

Developmental policies were dominated by the terms Small-Scale Enterprise (SSE) and Small and Medium Enterprise (SME) (Ferdousi, 2015). Later, it was recognized that the definition and measures of the term ‘small’ used in the 1970s and 1980s was wide ranging and did not include the concerns that provide benefits to the poorest sector of the population. Therefore, this trickle-down theory was modified to include the business opportunities pursued by the poorer entrepreneurs and came to be called, in the late 1980s, ‘microenterprises’ – a fundamentally different segment of the market which became a more popular target for intervention (Ferdousi, 2015).

The SHG based microfinance has a higher impact on income growth for household under the occupation of micro-enterprise & trading than that of agriculture & allied activity (Panda & Atibu, 2011). This result might be due to the micro-enterprise development motives of the SHG mode of microfinance and regular capacity buildings of the participants by implementing intermediaries for microenterprise development (Panda & Atibu, 2011).

Most impact assessments of microfinance programme evaluate them based on their ability to reduce income-poverty, ignoring broader aspects of human development (Arnold, 2012). The impact assessments that are from a human development perspective are concentrated on women’s empowerment. Evidently other relevant components of human development are generally excluded from evaluations of microfinance programmes. Microenterprises can facilitate the achievement of certain aspects of human development that includes a wider scope of human development indicators, such as economic empowerment, security of livelihood, sense of participation in a community’s economic activities, sufficient amount of free time, and feeling satisfied by work (Arnold, 2012). These aspects of human development are considered desirable because they demonstrate that one’s well-being is enhanced by working. Credit services were found to be particularly useful in helping micro enterprise owners attain these elements of human development. Proponents of microenterprises argue that micro-enterprises contribute to women’s empowerment
by increasing their share of household earnings, giving them more decision making power, and consequently providing them with more agency over their own lives (Arnold, 2012). Women’s access to the market was the primary route for their empowerment (Kabeer, 2009). In addition, various studies observe that children gain food, clothing, schooling, and health care from microenterprise development programmes that help women generate an income that is kept under their control (Arnold, 2012).

1.6 Women Empowerment & Entrepreneurship Development

The World Bank’s World Development Report 2011 suggests that productivity could increase by as much as 25% in some countries if discriminatory barriers against women were removed. Removing these barriers, such as discriminatory property and inheritance laws, cultural practices, lack of access to formal financial institutions, and time constraints due to family and household responsibilities, will create greater opportunities for sustainable enterprises run by women. This in turn will contribute to women’s economic empowerment and gender equality as well as helping to generate sustainable growth and jobs. While removing barriers is essential, investment is equally vital. Investing in women is one of the most effective means of increasing equality and promoting inclusive and sustainable economic growth. Investments in women-specific programmes can have significant knock-on effects for development, since women generally spend more of their income on the health, education and well-being of their families and communities. While targeted measures can bridge the gap for women, it is also essential to remove discriminatory aspects of economic and social policies and programmes that may impede women’s full participation in the economy and society (ILO, 2014).

Development needs to be women centric (Sriraman, 2006). Importance of an active involvement of women in the process of economic development is a key to women empowerment in any society. This can be demonstrated with many successful examples that include Grameen Bank’s success, SHGs of ICICI Bank, Shakhti
Ammas at HLL, Amul, Mahila Griha Udyog Lijat Papad or Lijat, the success of Avon, Mary Kay and Tupperware in U.S. and other parts of the world (Sriraman, 2006). One of the powerful approaches to women empowerment and rural entrepreneurship is the formation of Self Help Groups (SHGs) especially among women. Group dynamism and democratic set up of SHGs has helped in enhancing self esteem and self confidence for the members (Women). This strategy has worked not only in India and Bangladesh (Grameen Bank Model) but world over (Sriraman, 2006).

Women in entrepreneurship have been largely neglected both in society in general and in the social sciences (Jagero & Kushoka, 2011). Moreover, fewer women participation rates in entrepreneurship than men but they also have generally peculiarity of choosing to start and manage firms in different industries than men tend to do. The industries (primarily retail, education and other service industries) chosen by women are often perceived as being marginal to economic development and growth. Furthermore, research, policies and programmes tend to be “gender biased” and too often do not take into account the specific needs of women entrepreneurs and would-be women entrepreneurs. As a consequence of equal opportunity between men and women from the perspective of entrepreneurship is still not a reality (Jagero & Kushoka, 2011).

Entrepreneurial behaviour is a function of environmental factors including cultural and traditional values and prejudices (Jagero & Kushoka, 2011). In Less Developed Countries like India, women have been socialized to be subordinates to men. In many traditions, women are raised to see their ultimate role in life as that of wives and mothers. They are socialized to be non-argumentative, passive and easily to accept defeat (Rutashobya, 1998). This may have significantly affected their self-confidence, achievement-motivation and even their willingness to take risk, qualities that are closely linked to success in business. There is some empirical evidence in support of the notion that women have less of these qualities. The recent studies, (Nchimbi, 2003) found women entrepreneurs to be more internally oriented suggesting lack of confidence. In addition, women were found to have lower need for achievement compared to men. There is a wide range of reasons as to why people choose to engage
in business. Research has revealed that women’s perception of business differ from that of men. While men treat their businesses as economic entities women’s businesses become integrated with other demanding areas of life (Cheston & Kuhn, 2002). As a result women entrepreneurs have been found to perceive their business success using criteria other than the traditional economic ones. Whereas male entrepreneurs use economic criteria to assess their business success, women put more emphasis on family and employee's related measures (Cheston and Kuhn, 2002). There are a number of constraints which hinder the development of women micro entrepreneurs (Olomi, 2003). These discourage and complicate entry, survival and development of Women Micro Enterprises. They can be summarized as follows: The key issues inhibiting women entrepreneurs include: Macro and Micro level factors (Olomi, 2003). Macro level factors are: cultural environment that makes it more difficult for women to start and run enterprises due to their traditional reproductive roles, laws and regulations (including licensing procedures) and taxes which are out of reach of Micro Entrepreneurs, corruption and bureaucracy. Micro level factors are: capacity problems on the part of women entrepreneurs in terms of general level of education, technical and business management skills including the sophistication to work with financial institutions attitudes, in terms of interest and commitment in the activity and the career and motivation to develop the activity among those who start business as a result of economic necessity. Critical barriers for women entrepreneurs are different according to the segment in which they are. For those who are running only informal micro enterprises (and this is where most women are concentrated), their main challenges are dealing with costly and complicated formalization procedures (if they wish to formalize), harassment due to operating in locations and premises that are not approved for business and affording the time required to attend training supported by donors and NGOs. For those who are running formal micro enterprises, the unique critical challenges are dealing with high and multiple taxes, complex tax compliance procedures and access to finance. Meso-level factors includes: limited access to support services, including credit, technical and management training advice and marketing, limited organization and management capacity among women’s advocacy organizations (Jagero & Kushoka, 2011).
Inclusive growth is a critical element in ensuring the outcomes of development efforts are equitably distributed. When women have access to resources and opportunities and participate on an equal footing in economic life, they are in a better position to fill their roles as drivers of development outcomes and take advantage of sustainable and inclusive economic growth. Evidence shows that this not only benefits women themselves, but also contributes to economic growth (UN Women, 2012). Yet, the feminization of poverty, women's unpaid work, their concentration in informal and vulnerable employment and constraints on their access to productive resources and capital and the lack or absence of women representatives and voices in key decision-making bodies restrain women’s contributions to productivity, efficiency and sustainable development (UN Women, 2012). Further steps are required to integrate gender equality and women’s empowerment perspectives into policies and strategies for economic growth, poverty reduction, economic and financial infrastructure, as well as to provide women and men with equal access to productive assets and resources (e.g. land and other property, and finance), decent work and essential services (e.g. energy and water) (UN Women, 2012).

1.7 Legal forms of MFIs & the important aspects related to Microfinance Business in India

Presently Microfinance Institutions (MFIs) are broad spectrum entities which obtain finance from banks according to guidelines issued by RBI (Shreeranjan, 2006). MFIs seek to provide small scale credit and other financial services to low income households and small informal businesses. As per one definition in Micro Finance Development and Equity Fund (MFDEF) scheme of NABARD “Micro Finance Institutions means an entity whose principal object or principal business is the provision of micro finance services to eligible clients and comprises microfinance organisations and MFI-NBFCs.” MFIs appear to be ‘legally amorphous entities’ (Reserve Bank of India, July 2005). In terms of nature and extent of regulation and supervision there are significant differences across the legal forms. Most of these institutions are not under any prudential regulation and hence often do not enjoy confidence of lenders, donors and other stakeholders (Reserve Bank of India, July
‘For profit’ MFIs are incorporated under the Companies Act, 1956 and are registered as NBFCs under the RBI Act, 1934 which fall within the purview of RBI regulations. The ‘not for profit’ companies under section 25 of the Companies Act, 1956 are exempted from the regulatory requirements under the RBI Act subject to certain conditions.

Micro Finance Institutions (MFIs) act as an important conduit for extending financial services to the microfinance sector in the country by raising resources from Banks and other institutions and extending loans to individuals or members of SHGs/ JLGs. MFIs could be (1) NGO-MFIs – registered under the Societies Registration Act, 1860 or the Indian Trust Act, 1880, (2) Cooperative MFIs – registered under the State Cooperative Societies Act or Mutually Aided Cooperative Societies Act or Multi State Cooperative Societies Act, (3) MFIs incorporated under Section 25 of Companies Act, 1956 or Section 8 of Companies Act 2013, (4) NBFC and NBFC-MFIs incorporated under the Companies Act, 1956 and registered with RBI (NABARD, 2015-16). Table 1.3 represents the classification of MFIs in India according to the legal status of their registration and the estimated number.

<table>
<thead>
<tr>
<th>Type of MFIs</th>
<th>Estimated Number</th>
<th>Law/ provisions under which registered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Not for profit MFIs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) NGO-MFIs</td>
<td>400-500</td>
<td>Societies Registration Act 1860 or Similar state Act, Indian Trust Act, 1882.</td>
</tr>
<tr>
<td>b) Non profit Companies</td>
<td>10</td>
<td>Section 25 of the Companies Act, 1956</td>
</tr>
<tr>
<td>2. Mutual benefit MFIs</td>
<td>200-250</td>
<td>Mutually Aided Cooperative Societies Acts by the State Governments.</td>
</tr>
<tr>
<td>Mutually Aided Cooperative Societies and similarly set up institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. For Profit MFIs, NBFCs</td>
<td>6</td>
<td>Companies Act 1956.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reserve Bank of India Act, 1934</td>
</tr>
</tbody>
</table>

[Source: Satish, P. 2005 Economic and Political Weekly, 23 April, 2005, pp.1733]
<table>
<thead>
<tr>
<th>Categories of Providers</th>
<th>Legal Frameworks governing their activities</th>
</tr>
</thead>
</table>
| **(a) Domestic Commercial Banks:** Public Sector Banks, Private Sector Banks & Local Area Banks | (i) RBI Act 1934  
(ii) BR Act 1949  
(iii) SBI Act  
(iv) SBI Subsidiaries Act  
(v) Acquisition & Transfer of Undertakings Act 1970 & 1980 |
| **(b) Regional Rural Banks** | (i) RRB Act 1976  
(ii) RBI Act 1934  
(iii) BR Act 1949 |
| **(c) Co-operative Banks** | (i) Co-operative Societies Act  
(ii) BR Act 1949 (As Applicable to the Cooperative Societies)  
(iii) RBI Act 1934 (for such banks) |
| **(d) Co-operative Societies** | (i) State legislations and Mutually Aided Cooperative Societies (MACS) Act |
| **(e) Registered NBFCs** | (i) RBI Act 1934  
(ii) Companies Act 1956 (now Companies Act 2013) |
| **(f) Unregistered NBFCs** | (i) NBFCs carrying on the business of a financial intermediaries (FI) prior to the coming into force of RBI Amendment Act 1997 whose application for Certificate of Registration has not yet been rejected by the Bank  
(ii) Section 25 (now section 8) of Companies Act |
| **(g) Other providers like Societies, Trusts, etc.** | (i) Societies Registration Act, 1860.  
(ii) Indian Trusts Act  
(iii) Chapter III C of RBI Act 1934  
(iv) State Moneylenders Act |
The position of micro credit providers and present legal framework governing them is presented in Table 1.4 as given in the Reserve Bank of India Report, May 2004.

Hitherto there was no authentic data on the number of MFIs operating in India (NABARD, 2015-16). The estimates by various sources ranged anywhere from 300 to 800. To overcome this issue Sa-Dhan started bringing out the ‘MFI Directory’ from the year 2014 onwards, with verified data on each MFI. As per the latest version of this directory there are 223 MFIs functioning in the country. These operate under a variety of legal forms. Of these 223 institutions only 28 MFIs have a client outreach of more than 2.5 lakhs. 45 MFIs have client coverage between 50,000 and 2.5 lakhs. The remaining 150 are relatively small catering to a clientele of less than 50,000, each. But these small institutions cover poorer clients in remote geographies and they are crucial for financial services to underserved populations (NABARD, 2015-16). Table 1.5 shows the latest data on the number of MFIs in India as per NABARD annual report 2015-16.

In recent years, banks have also resorted to involving NGOs and other CSOs (Civil Society Organisations) for the SHG-Bank Linkage programme, Joint Liability Groups (JLGs), Micro Finance Organisations (MFOs), and Microfinance Institutions (MFIs), as "pass through" agencies. New generation banks with a heavy reliance on technology but with a very limited branch network also have started to tap the rural credit market. There are more than 800 MFIs operating in India and more than 3000 organisations involved in promoting and facilitating the SHG-Bank Linkage Programme as per Reserve Bank of India Report (July 2005). MFIs provide multidimensional services, besides enabling the poor to avail of some of the financial services. Their activities cover wide spectrum such as promotion of SHGs, partnering with banks for financial services, to be facilitators without carrying the micro finance assets and liabilities on their balance sheets. Barring some large NGOs, NBFCs, MACSs which function as "pass-through" entities in "partnership" with banks (for Example MFIs like SPANDANA, Share-Micro Finance Limited) others do not

7 SPANDANA is a NGO operating in Guntur, Andhra Pradesh
handle cash. Most MFIs have lopsided geographical distribution concentrated in South India and the share of total microfinance business in the country is about 8% (Satish, P. 2005).

<table>
<thead>
<tr>
<th>Legal Form</th>
<th>Number of MFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Society</td>
<td>78</td>
</tr>
<tr>
<td>Trust</td>
<td>19</td>
</tr>
<tr>
<td>Section 8 (section 25) Company⁹</td>
<td>29</td>
</tr>
<tr>
<td>MACS / Cooperative</td>
<td>12</td>
</tr>
<tr>
<td>Local Area Bank¹⁰</td>
<td>1</td>
</tr>
<tr>
<td>NBFC</td>
<td>13</td>
</tr>
<tr>
<td>NBFC-MFI</td>
<td>71</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>223</strong></td>
</tr>
</tbody>
</table>

Source- Sa-Dhan¹¹ (2016)

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⁸ Society for Helping and Awakening Rural poor through Education, Hyderabad, Andhra Pradesh
⁹ A section 8 company is the same as the popular section 25 under the old company Act, 1956 which was one of the most popular forms of nonprofit organizations in India. But, as per the new Companies Act of 2013, section 25 (as per the old act) has now become section 8
¹⁰ The concept of Local Area Bank (LAB) was introduced in 1996 with a view to mobilize rural savings and make them available for investment in the local area of operation of such banks. The local area banks were expected to bridge the gap in the availability of credit and strengthen the institutional credit framework in rural and semi-urban areas. LABs were required to finance ‘priority sector’ that included agriculture and allied activities, trading activities, non-farm sector and cottage & village industries and small scale industries. Their lending to priority sector consisting of the above activities was to be minimum 40% of their net bank credit and lending to weaker section was to be at least 25% of their priority sector lending (10% of net bank credit).
¹¹ Sa-Dhan is the Association of Community Development Finance Institutions in India. National Rural Livelihoods Mission (NRLM) has recognized Sa-Dhan as a "National Support Organization" to provide support to State Rural Livelihood Missions (SRLMs) for establishment of specialized institutions for Financial Services.
Microfinance’s target clients are poor men and women who sometimes live in remote, deprived areas and are often illiterate (Steger, Schwandt, & Perissé, 2007). These particularities make it impossible for MFIs to operate like the usual formal financial institutions. The Microfinance Handbook points out the following difficulties in lending to the poor:

- Very small loan amounts, which make the fixed costs per loan proportionally higher, i.e. lending €5,000 incurs the same administration costs as lending €20
- Difficulty obtaining information from clients, sometimes due to the language barrier (local dialects)
- Difficulty physically reaching client
- Most often, no tangible collateral for the loan.

The last three characteristics make the risk of the MFI not being repaid considerably higher, which also increases the cost per euro lent. Hence, in order to be sustainable – or at least not lose too much money – MFIs have had to face two challenges:

- to be as cost-effective as possible,
- While developing methodologies that reduce the risk. (Ledgerwood, 1999).

### 1.8 Lending Mechanisms, Microfinance Methodologies and Regulation of MFIs

Microfinance offers several innovative solutions to problems of adverse selection, moral hazard, and transaction costs. Individual microloans are routine in certain countries, but across the world microfinance is known for popularizing group-based lending. Group lending practices have evolved since they were first pioneered in the 1970s. At least three models of group lending currently coexist: joint liability group lending, individual liability group lending, and village banking (Khavul, 2010). The mechanisms that have been developed to respond to the challenges, though generally simple enough to be understood by illiterate clients, are extremely varied (Steger,
Schwandt, & Perissé, 2007). We may summarise the most important approaches, classifications, models, categorisation of MFIs as follows.

Sinha (2005), indicates SHGs model (MACS is included in this) and Grameen Model. According to Satish (2005) there could be five broad categories of methodologies in microfinance as given in Table 1.6. Steger, Schwandt, & Perissé (2007) states that to be effective, that is to say cost-effective and risk-effective, a lending mechanism has to take into account a variety of dimensions such as the clients targeted, the political and juridical environments, the geographical situation, and the formal and informal competitors. In other words, successful microfinance demands strong adaptation to local conditions. This not only affects the lending mechanisms but also the structure and processes, governance, staff management, product portfolio and strategy of MFIs.

1.8.1 Microfinance Models

The Committee of RBI recommended that while the MFIs may continue to work as wholesalers of micro credit by entering into tie-ups with banks and apex development institutions, more experimentation is needed about the suitability and sustainability of the MFI model. Such experimentation needs to be encouraged in areas where banks are still not meeting adequate credit demand of the rural poor such as North-Eastern states and tribal dominated states such as Jharkhand, Chhattisgarh and Orissa. There is also a view that while the NGO-MFIs can continue to extend micro credit services to their clients, they could play an important role in facilitating access of their clients to savings services from the regulated banks. As regards allowing NGO-MFIs to access deposits from public / clients, the Committee of RBI considered that in view of the need to protect the interests of depositors, they may not be permitted to accept public deposits unless they comply with the extant regulatory framework of the Reserve Bank of India, further, as no depositors' interest is involved where they do not accept public deposits, the Reserve Bank of India need not regulate MFIs. The committee is also of the view that lenders of MFIs should ensure that these institutions adopt a ‘cost-plus-reasonable-margin’ approach in determining the rates of interest on loans.
<table>
<thead>
<tr>
<th>Microfinance Methodologies</th>
<th>Examples</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Grameen and Solidarity model</strong></td>
<td>Grameen bank in Bangladesh, BancoSol in Bolivia, Solidarity groups in Latin America.</td>
<td>3-8 persons, each active and assuming responsibility, lending and repayment to and from members through guarantee of the group members</td>
</tr>
<tr>
<td><strong>2. The Group approach</strong></td>
<td>SHGs- Bank linkages in India, PHBK (Programme Linking Banks with SHGs) programme in Indonesia, Chikola groups of K – Rep (the Kenya Rural Enterprise Programme) in Kenya.</td>
<td>delegates entire financial process (savings, loans, and repayments) to the Group which besides using their own fund also mobilises and secures additional finances from financial institutions, MFIs.</td>
</tr>
<tr>
<td><strong>3. Individual credit</strong></td>
<td>BRI (Bank Rakyat Indonesia) - Unit Desa in Indonesia, Priority sector lending by banks in India especially by Regional Rural Banks (RRBs) and Cooperative banks.</td>
<td>small credit given to individuals based on appraisal, disbursement savings and repayments</td>
</tr>
<tr>
<td><strong>4. Community banking</strong></td>
<td>Village Bank of FINCA (the Foundation for International Community Assistance) in Latin America, replicated in Africa and Central Asia</td>
<td>expanded group approach of 35-50 members, borrow finance from the programme implanting agencies and on lend to members</td>
</tr>
<tr>
<td><strong>5. Credit unions and Cooperatives</strong></td>
<td>SANASA in Sri Lanka</td>
<td>Member owned organisations providing credit and other financial services. Apex bodies provide technical and financial service.</td>
</tr>
</tbody>
</table>

(Source: Extracts from an article written and presented at the APRACA (Asia-Pacific Rural and Agricultural Credit Association) Seminar at Manila on Regulation of MFIs in July 2004 by K. Muralidhara Rao, General Manager, NABARD, Mumbai.)
NGO promoted Micro Finance Institutions either in the shape of SHGs and NBFCs traverse the thin line of formal and informal structure and could emerge as a sturdy hybrid which takes on the best elements if governed and delivered properly. According to a study by Kropp and Suran (2002), three different models of credit linkages have been found feasible while applying to their formation in the country:

1. SHGs formed and financed by banks (16%);
2. SHGs formed by NGOs and formal agencies/ Govt. but funded directly by banks (75% of financed SHGs),
3. SHGs financed by banks using NGOs and other agencies as financial intermediaries (9%).

Shreeranjan (2006) had added 4th dimension of stand alone or abandoned SHGs promoted by NGOs, Governments and banks as per some programmes and abandoned or left alone in the tumult of development and finance. An additional fifth column of SHGs is such that mutates from one form or format to another in the spirit of survival of the fittest through adaptation.

Based on above stipulations, there could be different models of the linkage between SHG and banks (modified after study by Thorat, 2005; Nanda, Y.C. 1999) as mentioned below:

Model 1: The simplest and most direct is a model in which the banks deal directly with the individual SHGs, providing financial assistance for on-lending to the individual members.

Model 2: Another model, a slight variant of the first, is where the bank gives direct assistance to the SHG and the SHG promoting institution (SHPI), usually an NGO, provides training and guidance to the SHG and generally keeps a watch to ensure its satisfactory functioning.

Model 3: The third model places the NGO or SHPI as a financial intermediary between the bank and a number of SHGs. The linkage between the bank and the
SHGs in this case is indirect. The NGO accepts contractual responsibility for repayment to the bank.

Model 4: The most common linkage model in India is Bank-SHG with active support of Govt. / SHPI / NGOs. Banks deal directly with individual SHGs in this case but SHPI/NGOs/Govt. provides the initial training, guidance for organization, thrift, credit and economic activities. While linkage of the banks is direct with the SHGs, the SHPI has an important role in pre- as well as post-linkage stages. The fourth model envisages bank loans directly to individual members of SHGs upon recommendations of the Government, SHG and NGO. In this case, the Government, NGO assists the bank in monitoring, supervising and recovery of loans.

Model 5: In many cases, the NGO/ SHPI also provides or organizes/ channelize some amount of initial support to these SHGs to augment their resources (for e.g. an NGO, MYRADA, provided such financial assistance to SHGs from an initial support of Rs. 1 million by NABARD before the Pilot Project was started). The SHPI/NGO also monitors and ensures satisfactory functioning of the SHGs even after the linkage.

Model 6 : Mixed or Variants: Very often in the older SHGs the linkages traverses an evolutionary process where there is movement from model five or three to model two and to model one and finally to model four as the objective is access to the quantum of finance and end use.

Growth, evolution or adoption or adaptation of various course very often depend on the perception and formalities of the bank and also on the strength of MFIs/ Government and other agencies. There have been cases where banker is proactive, outgoing, having a firsthand knowledge on the working of a SHG has straightway taken model two or even model one. On the other hand, conservative banking may follow model three and rely on the NGO or SHPI or Model 4 which fits the Government Sponsored Programmes for defined objectives (e.g. SGSY, IWEP, SGSRY etc).
Microfinance is a dynamic field and there is clearly no best way to deliver services to the poor and hence many delivery models have been developed over a period of time. In India, various delivery models have been adopted by microfinance institutions. Each delivery model has its share of problem and success (Nasir, 2013).

1.8.2 Regulation of MFIs in India

There is ongoing debate in respect of a regulatory system for the MFIs which focus on three stages approach as indicated by RBI and NABARD:

1. Stage one - to make the MFIs appreciate the need for certain common performance standards,
2. Stage two - making it mandatory for the MFIs to get registered with identified or designated institutions and
3. Stage three - to encourage development of network of MFIs which could function as quasi Self-Regulatory Organisations (SROs) at a later date or identifying a suitable organisation to handle the regulatory arrangements.

India Ratings & Research (Ind-Ra), January 2015 report mentions that the Microfinance Bill was introduced in the Parliament in 2012 and later referred to a Standing Committee. A parliamentary panel rejected the bill in February 2014 and asked the government to bring fresh legislation citing the need for additional groundwork, wider consultations and deeper study of certain vital aspects. The Standing Committee was of the view that instead of RBI, a new regulator could be proposed. Other objections of the Standing Committee were:

- Inadequate focus on regulatory and supervisory structure
- Silent on issues such as client protection, over-indebtedness and coercive collection/recovery methods
The study of lower interest government schemes under SHG (Kudumbashree and StreeNidhi) not conducted\(^{12}\)

The Reserve Bank of India (RBI) has now emerged as the central regulator for non-banking financial companies-MFIs (NBFC-MFIs), covering 90% of the MFIs in India. In addition to placing limits and defining procedures for MFI operations, RBI guidelines have led to the establishment/prominence of credit information bureaus (CIB) such as Equifax Credit Information Services Private Limited (Equifax) and CRIF High Mark Credit Information Services (Highmark) and self-regulatory organisations (SROs) - Microfinance Institutions Network (MFIN) and Sa-Dhan (India Ratings & Research (Ind-Ra), January 2015). It is mandatory for NBFC-MFIs to be members of at least one CIB and one SRO to ensure credit checks and process adherence, respectively. Most states barring Andhra Pradesh seem to have accepted the role of RBI to regulate NBFC-MFIs and have not invoked the Money Lenders Act to regulate MFI operations (India Ratings & Research (Ind-Ra), January 2015).

Though initially started by women's groups and NGOs to empower poor people at local level, microfinance is no longer a micro or local phenomenon. Globally, the microfinance industry controls over $50 billion in assets. In India, MFIs are increasingly dominated by corporate structures with the large-scale funding by commercial banks and private equity firms. To private equity funds, micro finance business in India offers new avenues of profit-making since interest rates range from 30 to 60% and repayment rates are over 95%, far above commercial lending (Singh, 2010). As the numbers of MFIs in India multiply, a proper regulatory framework must be developed to ensure that these institutions follow minimum norms and standards. Otherwise, MFIs may simply end up as an exploitative form of organised money lending with no public responsibility and accountability. Rather than becoming institutional moneylenders, MFIs should give a strong competition to traditional moneylenders in India (Singh, 2010).

\(^{12}\) Kerala's Kudumbashree scheme provides loans at 11%-13% and the AP government's Stree Nidhi programme is offering loans at 14% with an operating cost of just 1%. Despite that, it says, "No study has been conducted to evaluate and replicate these existing successful schemes in achieving financial inclusion (India Ratings & Research (Ind-Ra), January 2015)."
1.9 Research Objectives, Research Questions & Research Methodology

As mentioned by Parvin, Rahman, & Jia (2012) women “entrepreneurship development” is one of the crucial issues of contemporary development agenda in many developing countries. Entrepreneurship development and empowerment are complementary to each other. Women entrepreneur can be defined as a person who has alone or with one or more partners started or inherited a business eager to take financial, administrative, and social risks and responsibilities, and participating day-to-day management activities (Human Development Report 2004). Women involvement in various entrepreneurial activities has empowered them in social, economic and cultural fields. The power of and access to taking decisions has increased for women within as well as outside the family (Nawaz, 2009). It is well recognized that women involvement in micro-enterprises depends on personal, socio-cultural and economic factors of a particular society. The gender discrimination that often prevails in most of the societies has great influence on women entrepreneurship development.

Concerning the matter a good number of studies have been carried out around the world focusing on micro enterprise development and women entrepreneurship. A study by Das (2000) of women entrepreneurs in the western world proposes three factors that influence entrepreneurship- antecedent influences (i.e., background factors such as family influences and genetic factors that affect motivation, skills and knowledge), the “incubator organization” (i.e., the nature of the organization where the entrepreneur was employed) and environmental factors (e.g., economic conditions, access to venture capital and support services, role models). These challenges are inherent in many countries some of them are more pronounced in South and East Asian countries. Literature from Asian developing countries have attributed three aspects of women entrepreneurs such as “chance”, “forced” and “created” (Raju, 2000; Seymour, 2001; Sharma and Dhameja, 2002; and Sinha, 2003). Chance entrepreneur means start a business without any clear goals or plans, forced entrepreneurs compelled by circumstances (e.g., death of a spouse, the family facing
financial difficulties) and created entrepreneurs means “located, motivated, encouraged and developed” through entrepreneurship development programmes. More importantly, Habibullah (1987) identifies training as an effective tool for entrepreneurship development in Bangladesh. Aktaruddin (1999) finds personal attributes as key factors for entrepreneurial success or failure, while Aktaruddin (2000) focuses on the socio-economic background of the entrepreneurs. Afrin, Islam, & Ahmed (2008), finds that financial management skills and the group identity of the women borrowers have significant relationship with the development of rural women entrepreneurship in Bangladesh. On the other hand, Saleh (1995) depicts, inadequate cash flows, marketing deficits and discriminating treatment from supportive service agencies create obstacles to women entrepreneurship development in Bangladesh.

Focussing on previous studies, the present study aims to determine the factors that influence women entrepreneurship development within SHGs in Mumbai. It is hypothesized that women entrepreneurship development has a close connection with entrepreneur’s personal attributes, family affairs and other external environment. Therefore, the study empirically investigates the catalyst of women micro-entrepreneurship development within SHGs in Mumbai. The study also aims to identify several hindering factors that create an obstacle at the beginning of women micro-entrepreneurship.

1.9.1 Research Aims and Objectives

Following are the important aims and objectives of the research study.

1. To explore the factors which contribute to the emergence of entrepreneurial activity within the SHG.
2. To understand the parameters for the effectiveness of Self Help Promoting Institutions (SHPIs) in promoting entrepreneurial activity among the SHG members in Mumbai.
3. To analyze the pattern of credit use by the SHG members for the productive entrepreneurial purposes & generating incomes for themselves.
4. To examine the role of banks, NGOs, other Self Help Promoting Institutions (SHPIs) in the process of transformation of SHGs from micro saving institutions into micro entrepreneurship generating institutions.

1.9.2 Research Questions

We have tried to answer the following research questions through this research.

1. What are the factors affecting the success of micro entrepreneurship among the SHG members (Women)?
2. What is the importance/role of finance in the development of micro entrepreneurship among the SHG members (Women)?
3. How can microfinance address the need of women micro entrepreneurs?
4. In what way Micro Finance Institutions (MFIs) can redesign their financial products to meet the requirements of micro entrepreneurs?
5. Which approach to microfinance would facilitate micro entrepreneurship development / self employment generation among the SHG members in Mumbai?
6. Which category of the Self Help Promoting Institution (SHPI) (Government, NGOs, MFIs, banks, etc.) is relatively effective in developing micro entrepreneurship among the SHG members in Mumbai?
7. How does skill training influence the decision to start business/enterprise?
8. Will the minimalist approach to microfinance work as good in the urban areas as it may have done in the rural areas?

1.9.3 Research Design / Methodology

A Primary Survey was conducted initially to collect data for Pilot Study. Clients (SHG members) of Self Help Promoting Institutions (SHPIs) in Mumbai were interviewed involving administering an interview schedule during this Survey. The clients of the following SHPIs viz. Municipal Corporation of Greater Mumbai (MCGM), Parisar Vikas, Creative Handicrafts, Asha Kiran Community Centre were
selected for the pilot field survey. The total number of SHG members (respondents) interviewed was 364 from 141 SHGs during the pilot study. Approximately 2% of the total SHGs reported by the field level coordinators of the various SHPIs were selected in a sample. In the first place, all SHG members were divided on the basis of their affiliation to the SHPIs. Then SHGs from the field areas of respective SHPIs were identified with the help of the field coordinators of SHPIs. Finally those SHG members were interviewed on the basis of their availability at their residence/work place on the day of field visit. The Self Help Group (SHG) members selected in a sample were reported having several occupational choices. In choosing their occupations, they made a binary choice between the Entrepreneurship / Self Employment & No Entrepreneurship/No Self Employment (The basic form of entrepreneurship is assumed to be Self Employment). To be able to predict and explain these decisions, our study employed discrete choice models, given that the outcome variable is not continuous, to identify the factors and provide information on the direction and magnitudes of their effects. The most appropriate model to analyze this choice problem was identified as the logistic regression model (chapter 3).

Later for the main study a multinomial logit model was used which predicts the probability that a respondent belongs to one of the four categories, taking any one of the category as reference category. It aims at exploring the factors which contribute to the emergence of entrepreneurial activity within the SHG/JLG. It investigates determinants of engagement in various stages of the entrepreneurial process while considering an individual's start-up motivation using the primary survey data for 1127 respondents of various Self Help Promoting Institutions (SHPIs) in Mumbai. Multinomial logit model is an extension of the traditional linear logit model that determines the probability of a particular event when faced with just two alternatives (Theil, 1969). In the multinomial logit case, there are a number of alternatives (N) that generate N probabilities (Baydas, Meyer, & Aguilera-Alfred, 1992). The objectives for using this econometric technique were twofold. The first was to test the relationships between the probabilities and the several hypothesized continuous and discrete determining factors. The second was to use the estimated coefficients to generate the probabilities of the SHG members falling into one of the four categories (chapter 4).
One of our goals was to determine whether the membership of SHG/JLG promoted by different SHPIs in Mumbai influences the Activity Status Choice along with the other predictors. We used the multinomial logit specification, taking membership of various SHPIs as one of the predictors to model the choice amongst the four outcomes viz. “Active”, “Failed”, “Latent” and “Passive”. This specification allowed us to test whether the factors associated with “Active” choice were statistically different from the factors associated with “Failed” and “Latent” choices. If the factors affecting Activity Status Choice “Active”, “Failed” and “Latent” with reference to “Passive” were similar, then a simple logit specification would have been appropriate. But if the factors were different, then the approach used here would provide a more accurate picture to analyse Activity Status Choice by the SHG/JLG members (chapter 5). Tests were conducted to determine whether the assumptions underlying the MNL (Multinomial Logit) specification were appropriate. Specifically, we conducted a Hausman MacFadden test of the maintained assumption of Independence of Irrelevant Alternatives (IIA). The fact that we are unable to reject the null hypothesis that the MNL model is appropriate for these data lends further credibility to the use of this specification (Stratton, O’Toole, & Wetzel, 2005).

1.10 Significance and Policy Implications of the Research

In the financial services sector, despite expansion taking place with increased outreach of mainstream institutions through a range of technology platforms and novel institutions like small finance banks and payments banks coming into being, the niche area for microfinance will continue to exist. In the nook and corner of the country NGO-MFIs, for-profit MFIs, Self Help Groups will keep up their activities, providing services to the needy as long as they are demanded. In this gigantic effort, the range of stakeholders is contributing its might to nurture and strengthen this institutional infrastructure so that financial services reach the last person in the remotest corner of the country (NABARD, 2015-16).
Ultimately, social and economic historians will judge whether microfinance has made a difference in development. As academia, we have a chance to ask the tough theoretical and empirical questions as well as to apply management tools to design interventions that increase the impact of microfinance (Khavul, 2010).

Our research tries to analyze the up scaling process of SHGs and their contribution in the generation of micro entrepreneurial activity in Mumbai. The major significance of this research study lies in examining and evaluating Self Help Groups as a change agent which has designed systematically to create income generating opportunities for women.

This study also intends to explore the role of Self Help Promoting Institution, such as Mahila Arthik Vikas Mahamandal (MAVIM), Municipal Corporation of Greater Mumbai (MCGM), NGOs and others in promoting micro entrepreneurial activities in Mumbai.

The study has proved to be a good specific review of the status of the SHG/JLG members and the effectiveness of SHG as a tool of promoting self employment in the urban areas, particularly in Mumbai. This study will help the future researchers in making region wise (rural-urban) and SHPIs wise comparative analysis of the Microfinance client’s performance related to the enterprise development and livelihood promotion.

The findings of our study have helped us in drawing meaningful conclusions regarding the main determinants of the emergence of entrepreneurial activity within SHG/JLG. These results have helped us in identifying the strengths and weaknesses of the SHG approach to microfinance in the context of Mumbai. It highlights the need to focus on development of entrepreneurial competencies of the microfinance clients in Mumbai while designing the policy interventions. The strategies to promote entrepreneurial learning and to improve entrepreneurial competences and intentions of microfinance clients, would lead to the development of entrepreneurial activity among the microfinance clients in Mumbai.