CHAPTER 1

INTRODUCTION

Microfinance is characterized as any action that incorporates the procurement of money related administrations like funds, credit, and protection to low wage persons which fall simply over the broadly characterized destitution line, and underprivileged people which fall underneath that neediness line, with the point of making social quality. The production of social quality incorporates neediness reduction and the bigger effect of enhancing employment opportunities through the procurement of capital for miniaturized scale venture, and reserve funds and protection for danger moderation and utilization leveling. An extensive assortment of players give microfinance in India, utilizing a scope of microfinance conveyance techniques. Since the establishing of the Grameen Bank in Bangladesh, different players have attempted to give access to budgetary administrations to the poor in innovative ways. Governments have led national projects, NGOs have begun the movement of raising giver stores for on-loaning, and a few banks have worked together with open associations or made little advances themselves in giving such administrations. This has offered ascent to in a somewhat wide meaning of microfinance as any action that objectives poor and low-wage people for the conveyance of money related administrations. The scope of exercises started in microfinance incorporate individual loaning, gathering giving, the procurement of investment funds and limit building, protection and rural business advancement administrations. Whatever be the type of action notwithstanding, the general objective that unites all players in the procurement of microfinance is the making of social quality.

1.1 Microfinance Definition

"The National Microfinance Taskforce, 1999" defines the micro-finance in India as "*provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards*".

According to International Labor Organization (ILO), "*Microfinance is an economic development approach that involves providing financial services through institutions to low income clients*".

1.2 <u>Strategic Policy Initiatives taken up by GOI</u>

Few of the latest strategic policy initiatives in the area of Micro-finance taken by the GOI (Government of India) and regulatory bodies in India are:

- Working group on credit to the poor through NGO's, SHG's, NABARD, 1995
- The National Microfinance Taskforce(NMT), 1999
- Working Groups on Financial Flows towards the Informal Sector (set up by PMO), 2002
- Microfinance Development and Equity Fund, NABARD, 2005
- Working group on Financing NBFCs(Non-Banking Financial Corporations) by Banks-RBI

1.3 <u>Activities in Micro-Finance in India</u>

Micro Credit: Small measure of cash that is loaned to a customer by a bank or some other money related organization. Microcredit can be open, regularly without surety, to an individual or through gathering loaning.

Micro Savings: Deposit benefits that permits a person to spare little sums for utilization in future is called Microcredit. It frequently does not oblige least adjust (like No-Frills Account), these sort of bank accounts permit family units/people to spare with a specific end goal to meet the surprising costs and to get ready for costs to be brought about in future.

Settlements: These are exchange of trusts from individuals in one spot to another, as a rule crosswise over fringes to family and companions. In correlation to different wellsprings of capital, which can vacillate subject to the political or monetary conditions, settlements are a moderately enduring wellspring of stores.

Micro Insurance: It is a plan by which individual, organizations and different elements make an installment to alleviate hazard. Access to this protection permits business visionaries to think more towards building up their organizations while alleviating different dangers that can influence wellbeing, property or the capacity to work.

CHAPTER 2

RESEARCH METHODOLOGY

2.1. Research Objectives

1. To find out the issues with micro finance in India.

2. To analyze of various Micro-finance Services provided to the underprivileged.

3. To differentiate between the clients of two main models of microfinance i.e. the SHG (Self Help Groups) and the MFI (Micro-Finance Institutions) model.

4. To find out the how much level of indebtedness to moneylenders depend on the type of micro-finance model?

2.2. Type of Research-

The research work is exploratory in nature.

2.3. Data sources:

1. The research is based on secondary data.
2. The data is collected from various Journals, Websites, Articles, Magazines and Research Paper.

CHAPTER 3

LITERATURE REVIEW

Execution estimation is the assessment of results of an association as an aftereffect of administration choices on assets of an association and execution of those choices made by the individuals from an association (Hofer, 1983).The procedure of execution estimation includes a watchful and purposeful perception of the association result by contrasting the accomplishment of the association and the indented destinations that was to be accomplished. The estimation of execution of an association is essential as it encourage the plan of clear sound mission, methodologies and target which are in line to how their accomplishments are measured (Kravchuk & Schack, 1996). The estimation of association execution gives data to the chief and workers about the degree to which the concurred targets have been come to. It enhances control of association assets, permit change of association exercises and encourage the prizes and evaluation of the individual from the association (Locke & Latham, 1984).

Execution estimation in associations has been ruled by the utilization of conventional bookkeeping measures as the key money related execution measures. The utilization of monetary measurements just is reprimanded to be past arranged as it uses the past data which has low capacity to focus about the eventual fate of the association (Crabtree & DeBusk 2008). Monetary execution estimation additionally needs prescient capacity to clarify future execution and also giving little data of the reasons and answer for issues confronting associations (Brancato 1995, Fisher 1995). As a consequence of confinements of monetary measures and expanded aggressive weight, the majority of the supervisors of associations changed their emphasis on measuring execution by incorporating nonfinancial measures in their execution estimation frameworks (Ittner & Larcker, 1998). As per Crabtree & DeBusk, (2008) nonfinancial measures are more prescient of future execution of the association and more helpful in encouraging and driving the execution of the association. The estimation of execution in associations ought to adjust the past accomplishment measures and the measures which help to anticipate future, empower correspondence inside of the association and gaining from the data the estimations gives (Bourne et al, 2000). The requirement for adjusting money related and budgetary execution prompted the presentation of adjusted scorecard as the execution measure that join monetary and nonfinancial measurements (Kaplan & Norton, 1992). Adjusted scorecard is an execution estimation that surpasses the average extent of customary execution measures; it connects the monetary objectives of a venture with the drivers that focus future achievement (Malina & Selto, 2001; Lingle & Schiemann, 1996).

Exact proofs on execution of microfinance establishments have reported diverse results, the greater part of them demonstrating variety of execution crosswise over sorts of MFIs. The study by Tucker and Miles (2004) utilized monetary measurements to contrast execution of microfinance foundations and business banks working in four areas Africa, Asia, Eastern Europe and Latin America. The discoveries of the study demonstrate that, MFIs that were OSS had higher execution regarding profit for resource (ROA) and profit for Equity (ROE). The dominant part of MFIs evaluated were discovered to be frail in budgetary manageability. In Bukinafaso, Congo, (2000) surveyed the execution of microfinance foundations in the nation utilizing execution markers. The discoveries of the study demonstrate that, microfinance execution in effort was low contrasted and the potential interest of budgetary administrations. The confirmations from India demonstrate that the greater part of performing MFIs in India take after distinctive plans of action however they have likenesses in the majority of the execution pointers (Agarwal, 2010). In like manner, the study by Bi & Pandey (2011) in India contrasted the execution of MFIs and business banks. The discoveries report that, MFIs in the nation acquires high expenses because of their entryway step administration conveyance plan of action. The high expenses acquired were connected with staff preparing expenses and the expenses related offering little size credits with shorter development. Confirmations from Tanzania demonstrate low execution among Microfinance foundations under budgetary execution measurements. The study by Nyamsogro (2010) surveyed the development and manageability of country Microfinance establishments in Tanzania utilizing budgetary execution pointers. The study reports low maintainability among organizations in all phases of development. The study by Kipesha, (2013) on productivity of Microfinance foundations in Tanzania reports high generation effectiveness and low intermediation proficiency among the establishments. Every one of these studies utilized budgetary measurements as a part of the estimation of execution of Microfinance establishments.

The study by Arsyad (2005) utilized both monetary and nonfinancial execution measurements in the estimation of execution of town credit foundations and the determinant figures Bali area Indonesia. The discoveries reported that institutional environment both formal and casual influence the execution of microfinance establishments. The study by Godquin (2004) gives confirms on execution of MFIs regarding credit reimbursements in Bangladesh. This study concentrated on effect of gathering giving, nonfinancial administrations and element motivators on reimbursement execution. The aftereffects of the study demonstrate that, procurement of nonfinancial administrations had a positive effect on reimbursement execution. The outcomes likewise demonstrates that, MFIs in the nation were allotting bigger advances to borrowers as the age of their acquiring gathering expands while bunch homogeneity has an effect on reimbursement execution. So far no study was discovered which coordinates both budgetary and non-monetary measurements into an adjusted scorecard in the estimation of execution of Microfinance establishments.

CHAPTER 4

DETAILS OF CASE/DATA ANALYSIS

4.1 SERVICES PROVIDED BY MICRO FINANCE INSTITUTIONS:

MFI’s provide various services like loans, car financing, home financing, taleemi loans etc.

4.1.1 GIVING LOANS:

The vital administration is given by MFI's is advances. These advances are accommodated some gainful exercises like beginning new business, development of business, enhancing life and so on.

4.1.2 AUTO FINANCING:

MFI additionally help the individuals who can't pay aggregate whole on the double. Along these lines, these MFI's gave them auto on portions like UBL auto financing plan is much mainstream and numerous individuals are exploiting this plan.

4.1.3 HOME FINANCING:

Numerous individuals are living on rent. They don't have any cash to buy homes. MFI's give credits considering their employment soundness and take security for it.

4.1.4 TALEEMI LOANS:

MFI additionally give money related guide to the understudies who can't exposed instructive costs however need to study. MFI help them consequently of some security and they would need to pay the sum subsequent to finishing their instruction.

4.2 CHALLENGES AND OPPORTUNITIES OF MICRO FINANCE:

The Government has demonstrated its ability to accelerate the pace of auxiliary changes to meet the significant difficulties of

ALLEVIATING POVERTY:

The fundamental maxim of the legislature is to dispense with the destitution and acquire thriving the nation. MFI's giving little advances and other credit offices to the poor and low-pay gatherings is the as a matter of first importance step towards accomplishing this objective.

IMPROVING THE FISCAL AND BALANCE OF PAYMENTS (BOP) POSITION:

MFI’s providing loans for new business to be established and by establishing new business exports can increase thereby improving the fiscal and balance of payments of the country

IMPROVING SOCIAL INDICATORS:

Inadequate access to essential resources and social services has resulted in low social indicators and low employment opportunities. This situation is further compounded in rural areas; where access is even more difficult. So, by providing small loans and credit facilities government can overcome these issues and can improve low social indicators.

RESTORING INVESTORS CONFIEDENCE:

Due to unstable economy of India investors are hesitating to invest their money in but MFI’s can change this. Because by providing loans to local peoples new businesses will stabilize and economy will go up and this situation may motivate investors for investing their funds.

4.3 PRINCIPLES OF MICRO FINANCE

- **Poor individuals needs a scope of money related administrations, not simply advances.**

  Like other people, the poor need an assortment of money related administrations that are adaptable, advantageous, and moderate. Contingent upon circumstances, they need advances, as well as funds, protection, and administrations.

- **Microfinance is a persuasive and compelling apparatus to battle destitution**.

  At the point when underprivileged individuals have entry to budgetary administrations, they can gain more cash, manufacture their advantages, and secure themselves against outer stuns. Underprivileged family units use microfinance to move from ordinary survival to getting ready for what's to come. They put resources into better wellbeing, lodging and instruction.

- **Microfinance is about building long haul neighborhood money related foundations.**

  Fund for the poor obliges sound household budgetary foundations that give benefits on a long haul premise. These organizations need to draw household reserve funds, reprocess those funds into credits, and give different administrations. As nearby establishments and capital markets grows, there will be less reliance on financing from givers and governments, including advancement banks keep running by government.

- **The key blockage is the lack of solid foundations and directors.**

  Microfinance is an engaged field that consolidates managing an account with social objectives. Aptitudes and frameworks need to be fabricated at all levels like national banks that direct microfinance, administrators and data frameworks of microfinance establishments, other government offices, and givers. Private and open interests in microfinance ought to center to reinforce this limit, not simply moving cash.

- **Micro-credit is not the best apparatus for everybody or for each circumstance.**

  Devastated and hungry individuals with no pay or method for reimbursement need different sorts of backing before they can make commendable utilization of credits. By and large, different apparatuses will lessen destitution better—for occurrence job, little concedes and preparing projects, or infrastructural upgrades. Where conceivable, such administrations ought to be combined with reserve funds.

- **The part of government is to empower individuals with money related administrations, not to give them specifically.**

  National governments ought to set approaches that support budgetary administrations for needy individuals. Governments need to keep up macroeconomic steadiness, evade premium rate tops, and halt from bending markets with appropriations and high-default credit programs that can't

4.4 FUNCTIONS OF MICRO FINANCE

- Small loans, usually for working capital.
- Informal assessment of borrowers and investments.
- To provide financing amenities, with or without security.
- Access to recurrent and larger loans based on debt capacity and repayment performance.
- To organize and provide financial and technical assistance and training to micro-enterprises.
- Secure savings products.
- To accept deposits.
- To boost investments in income generating projects for poor persons.
- To invest in shares of corporates, the objective of which is to provide microfinance services to underprivileged persons.

4.5 MICRO FINANCE IN INDIA

At present giving to the monetarily dynamic underprivileged in both provincial and urban is pegged at around Rs 7000 crores in the Indian banks' credit remarkable. As against this, as per even the most preservationist gauges, the aggregate interest for credit necessities for this some piece of Indian culture is some place around Rs 2,00,000 crores.

Denied of the fundamental keeping money offices, the country and semi urban Indian masses are as yet depending on casual financing middle people like relatives, companions, cash loan specialists and so on.

Table 1: Distribution of Obligated Rural Households: Agency wise

Credit Agency	Percentage (Rural Households)
Government	5.2
Cooperative Societies	22.5
Commercial banks and RRBs	32.4
Insurance	1.6
Provident Fund	1.2
Other Institutional Sources	2.1
All Institutional Agencies	65.0
Landlord	5.1
Moneylenders	15.2
Relatives and Friends	6.4
Others	8.3
All Non-Institutional Agencies	35.0
All Agencies	100.0

Source: Debt and Investment Survey, 2013

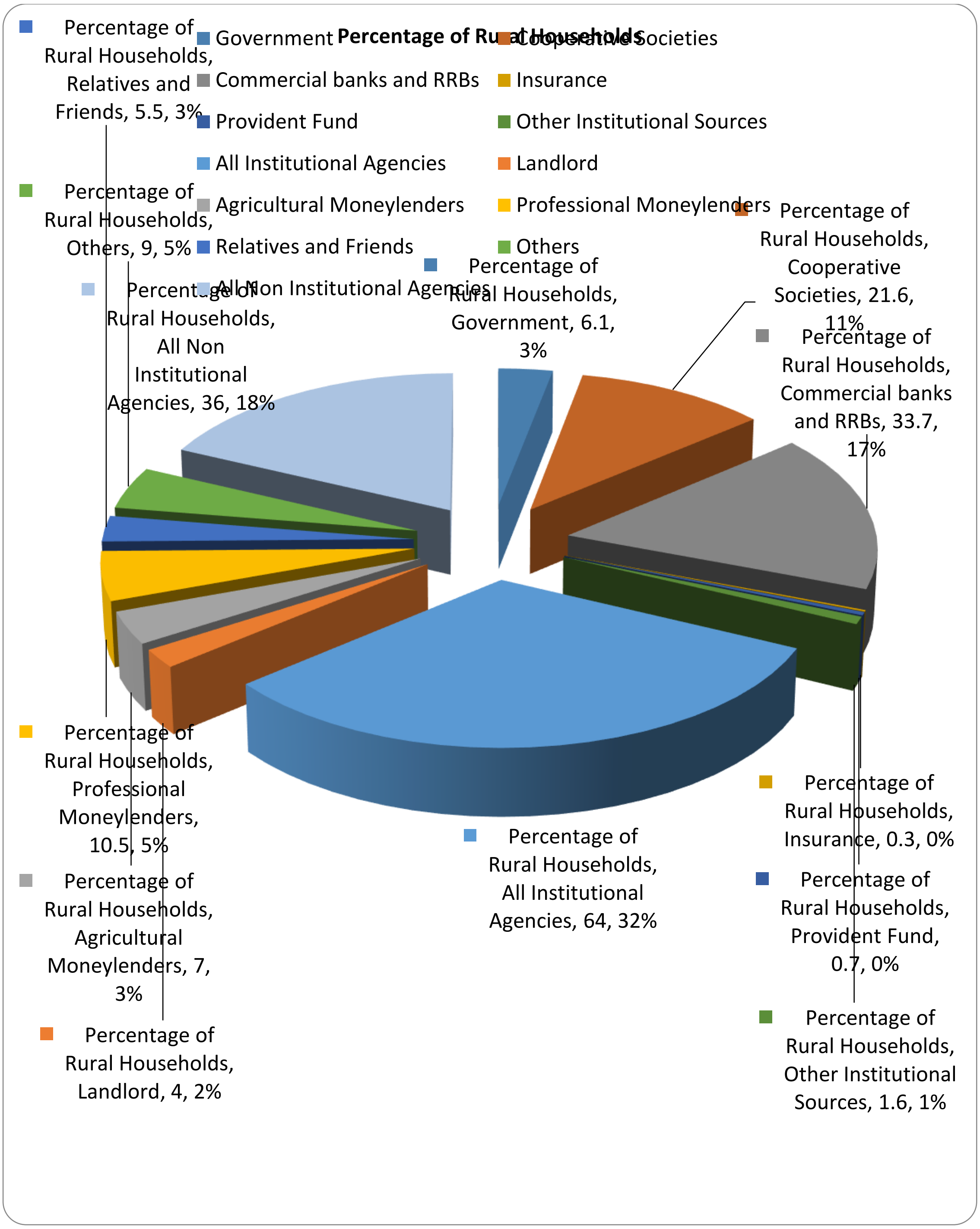


Figure 1: Percentage of Rural Household according to the Distribution Agency

In light of the figures of the above table, it is evident that the offer of institutional credit is considerably more at this point.

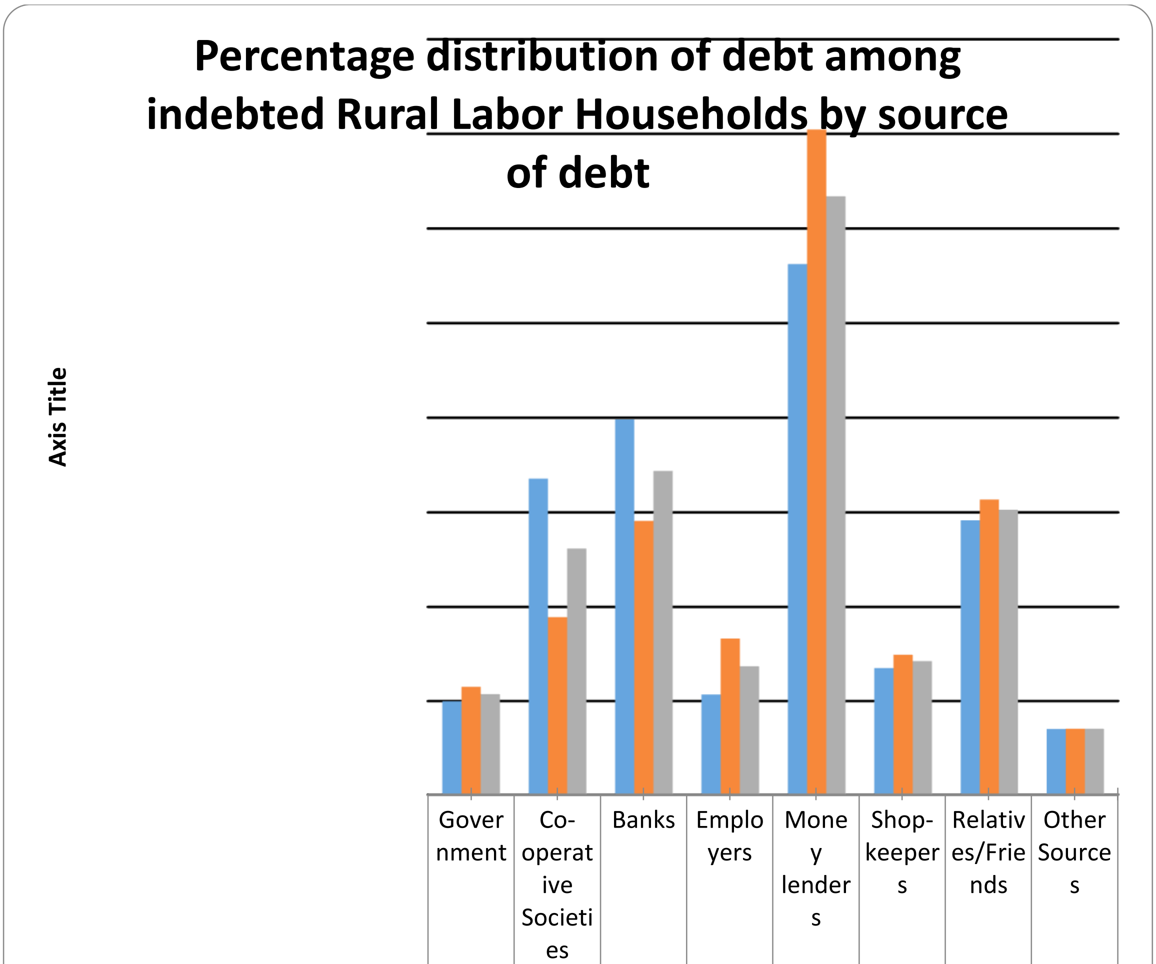
The above overview result demonstrates that till 2011, institutional credit represented around 66% of the credit prerequisite of provincial families. This demonstrates a relatively better entrance of the keeping money and budgetary foundations in provincial India.

Table 2: Percentage distribution of debt among indebted Rural Labor Households by source of debt

Sr. No.	Source of debt	Households		
		With cultivated land	Without cultivated land	All
1	Government	4.99	5.76	5.37
2	Co-operative Societies	16.78	9.46	13.09
3	Banks	19.91	14.55	17.19
4	Employers	5.35	8.33	6.86
5	Money lenders	28.12	35.23	31.70
6	Shop-keepers	6.76	7.47	7.13
7	Relatives/Friends	14.58	15.68	15.14
8	Other Sources	3.51	3.52	3.52
	Total	100.00	100.00	100.00

Source: Rural labor enquiry report on indebtedness among rural labor households (70th Round of N.S.S.) 2013

The table above uncovers that the greater part of the rustic work families like to raise advance from the non-institutional sources. Around 64% of the aggregate obligation prerequisite of these family units was met by the non-institutional sources amid 2013. Cash moneylenders alone gave obligation (Rs.1918) to the tune of 32% of the aggregate obligation of these families as against 28% amid 1993-94. Relatives and companions and businesspeople have been two different sources which together represented around 22% of the aggregate obligation at dish India level.



	Government	Co-operative Societies	Banks	Employers	Money lenders	Shop-keepers	Relatives/Friends	Other Sources
Households With cultivated land	4.99	16.78	19.91	5.35	28.12	6.76	14.58	3.51
Households Without cultivated land	5.76	9.46	14.55	8.33	35.23	7.47	15.68	3.52
Households All	5.37	13.09	17.19	6.86	31.7	7.13	15.14	3.52

Figure 2: Percentage distribution(%) of debt among obligated Rural Labor Households by source of debt

The institutional sources could meet just 36% of the aggregate credit necessity of the country work families amid 2013 with stand out percent expansion over the past review in 1999-2000. Among the institutional wellsprings of obligation, the banks kept on being the single biggest wellspring of obligation meeting around 17 percent of the aggregate obligation prerequisite of these family units. In examination to the past enquiry, the reliance on co-agent social orders has expanded extensively in 2013. Amid 2013 as much as 13% of the obligation was raised from this source as against 8% in 1999-2000. Be that as it may, on account of the banks and the administration organizations it diminished hardly from 18.88% and 8.27% to 17.19% and 5.37% separately amid 2013 overview.

Table 3: Relative share of Borrowing of Cultivator Households (in per cent)

Sources of Credit	1951	1961	1971	1981	1991	2002*
Non Institutional	92.7	81.3	68.3	36.8	30.6	38.9
Of which:						
Moneylenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	7.3	18.7	31.7	63.2	66.3	61.1
Of which:						
Cooperative Societies,etc	3.3	2.6	22.0	29.8	30.0	30.2
Commercial banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	-	-	-	-	3.1	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

*** All India Debt and Investment Survey (AIDIS), NSSO (National Sample Survey Organization), 70th round, 2013 Source: All India Debt and Investment Surveys**

Table above demonstrates the expanding impact of moneylenders in the previous decade. The offer of banks in the aggregate non-institutional credit was declining till 1981, began to get from the 1990s and came to 28 for each penny by 2013.

In the meantime the stake of business banks in institutional credit has declined by just about the same rate focuses amid this period. Despite the fact that, the offer of helpful social orders is expanding always, the development has stayed comparable amid the previous three decades.

Table 4: Distribution among Institutional and Non-Institutional Agencies based on Asset size of Rural Households (in per cent)

Household Assets (Rs '000)	Institutional Agency	Non-Institutional Agency	Total
Less than 5	41	59	100
5-11	48	52	100
11-21	43	57	100
21-31	67	33	100
31-51	56	44	100
51-71	52	48	100

71-101	60	40	100
101-151	59	41	100
151-251	69	31	100
251 and above	80	20	100
All classes	65	35	100

Source: Debt and Investment Survey, 2013

The families which has lower resource size were maladroit to discover the alternatives for financing from formal credit dissemination sources. This was a result of the necessity of physical security by managing an account and money related establishments for paying out credit. For families with not as much as Rs 40,000 value of physical resources, the most suitable wellspring of credit was non-institutional offices like moneylenders, area rulers, relatives, companions, and so on.

In view of the discoveries of the study charged by Asia Technical Department (ATD) of the World Bank (1995), the fundamental explanation for requesting credit by the provincial underprivileged was utilization credit, reserve funds, creation credit and protection.

Utilization Credit constituted 2/3rd of the credit use, out of which right around 3/4th of the interest was for brief times so as to address new issues, for example, disease of any individual from the family and residential costs. The greater part of the interest for the utilization credit was met by casual sources at high and harsh interest rates that differed from 20 to 85 for each penny for every annum (pcpa). Right around 75 for each penny of the generation credit (which represented around 1/3rd of the aggregate credit benefitted by the provincial masses) was met by the formal segment, which incorporates banks and other budgetary organizations.

4.6 Social Aspects of Micro Finance

Micro-Financing Institutions (MFI's) has played a major role in gender equality and women's empowerment along with development of poor. A Women's increased capability to earn an income has led to the increased well-being of them and their families and also their economic empowerment, along with wider social and political empowerment.

Micro-Finance programs that aims at women had become a good source of poverty reduction and gender strategies in the early 1990s. Ever increasing evidences of the significance of gender equality towards poverty reduction and women's greater credit repayment rates led to a general agreement on the desirability of targeting women.

India today has a broad saving money framework containing more than 40,000 country and semi-urban branches of business banks, more than 24,000 branches of Regional Rural banks (RRBs), around 18,000 branches of District Cooperative Credit Banks (DCCBs) and 1,22,000 Primary Agricultural Credit Societies (PACS) at the town level (around 76,000 PACS are expressed to be utilitarian; the remaining are lethargic).

Availability of money, in addition, tilts the vocation circumstance for independent work versus wage job. An included perspective is the strengthening of ladies with simpler availability of small scale account to them. Passing by the appraisals gave before, the interest for generation credit in the nation today is equivalent to Rs.27000 crore per annum while the aggregate credit extraordinary under smaller scale money is simply Rs.8000 crore. Therefore, there is unquestionably a need to heighten the stream of credit, both for utilization and for the creation in the provincial area.

4.7 Major initiatives by Government in Rural Credit

Government's drive to decrease neediness by enhancing access to money related administrations to the underprivileged began since freedom. India's mind larger part of underprivileged is situated in country zones and this has propelled the administration to give exceptional thoughtfulness regarding rustic credit. Resulting to the report of All India Rural Credit Survey in mid 1950's, the State attempted essential measures in reexamining Cooperative structure including the association of State in cooperatives. Additionally the vital activity of 'social managing an account' idea depicted as "the height of the privileges of already burdened gatherings to formal credit regardless of the fact that this may include the debilitating of the customary keeping money practices" prompted the nationalization of business banks in 1969, execution of direct loaning projects to provincial territories and development of acknowledge associations, for example, Regional Rural Banks (RRBs). Government activities amid the Fourth Plan concentrated on negligible agriculturists and horticultural workers taking along individual family as the basic getting unit. Bound together maintainable wage creating action was empowered through sponsored loaning under Integrated Rural Development Program (IRDP) and its taking after varieties including the present independent work system known as Swaranjayanti Gram Swarozgar Yojana (SGSY).

4.7.1 SEWA Co-operative Bank (1974)

The usage of formal giving projects towards the poor experience the ill effects of the challenges, for example, of screening issues of recognizing great and terrible borrowers and by and large loaning offices won't have the capacity to shield the beneficial utilization of credits. Additionally, the high exchange expenses supported in loaning to the poor made the formal giving offices leave the underprivileged un-kept money.

The Indian helpful credit structure intended to allow the underprivileged was not exceptionally fruitful as it was caught by a couple of compelling individuals and in view of outlandish administrative obstruction and regulation. The quest for a substitute to the formal keeping money division and a successful monetary framework to coddle the needs of poor people, particularly the country poor, proceeded. The root of microfinance can be followed to the development of the SEWA helpful bank in 1974 with an intend to give saving money administrations to the denied ladies utilized in the chaotic section in Ahmedabad, Gujarat.

4.7.2 Self Help Groups (SHGs)

Government activities amid 70's and the Fourth Five Year Plan focused on little and peripheral ranchers and agrarian workers. Coordinated supportable pay creating exercises was advanced under Integrated Rural Development Program (IRDP). Deficiencies innate in running projects focused on individual families called for movement to a gathering based style. The most importantly step towards setting up Self Help Groups (SHGs) was taken by MYRADA and it based upon country chit stores and casual giving setups to advance a credit administration bunch.

4.7.3 National Bank for Agriculture and Rural Development (NABARD)

In 19991-92, NABARD propelled the SHG-Bank Linkage Program on an exploratory premise to back SHGs all through the nation through the formal saving money framework. High settlement rates by the SHGs urged the banks to back SHGs.

4.7.4 Rashtriya Mahila Kosh (RMK), 1993

The achievement of the idea of smaller scale credit through Self-Help Groups (SHGs) has empowered the Government of India to make a National level Micro Credit association/Rashtriya Mahila Kosh (RMK) (National Credit Fund for Women) under the Ministry of Women and Child Development in 1993, with a beginning corpus of Rs.31 crore. The point was to help ladies sort out salary making exercises to enhance their socio financial matters status. RMK had dispensed collective credit of Rs 201 crore up to July 2010, profiting 6.50 lakh ladies and the recuperation rate is over 91%.

4.7.5 Small Industries Development Bank of India (SIDBI), 1994

In 1994, Small Industries Development Bank of India (SIDBI) dispatched a test plan to give budgetary guide by method for advances to NGO's for giving credit to the poor families, particularly ladies. A little measure of subsidizing additionally went with the credits in order to manufacture limit of the intermediates and end-clients. The system did not accomplish the expected target. Countless were not ready to upscale their giving operations in light of issues like interest rate top on loaning, security conditions and so forth. SIDBI reoriented its Micro Finance Program in 1999 by tending to the imperfection of the trial plan, with an intend to make a national system of huge and practical Micro Finance Institutions (MFI's) for the formal and casual segment. The system conveys need based guide by method for term advances to accomplice organizations for meeting their on-giving store necessities.

4.7.6 <u>SHG-Bank Linkage Program (1996)</u>

In 1996, Reserve Bank of India (RBI) secured financing of SHGs as a standard action of banks under the ambit need division giving projects. The SHG-Bank linkage system secured more than 44.3 million families by March 2010. Under the Bank-SHG Linkage Program 4.24 million SHGs were connected, up to 31st March 2010, of which 91 percent are ladies' gatherings.

4.7.7 <u>Microfinance Development and Equity Fund (MD & EF), 2001</u>

Legislature of India, in 2001 re-named the current Micro Finance Development Fund (MFDF) as Micro Finance Development and Equity Fund (MD&EF) with the point of encouraging and supporting the deliberate development of the microfinance section, by especially helping the ladies and vulnerable areas of the general public furthermore by supporting their ability building. The measure of the trust was likewise improved structure the current Rs.150 crore to Rs.250 crore. The extra sum was to be guaranteed by Reserve Bank of India, NABARD and the business banks in the extent of 40:20:20.

4.8 SELF HELP GROUPS (SHGs)

Reduction in poverty in rural India is majorly attributable to Self-Help Groups (SHGs). High number of underprivileged people (mostly women) in different parts of India are affiliates of SHGs and dynamically engage in savings and credit (S/C), and also in other activities (like management of natural resources, literacy, income generation, child care and nutrition, etc.). Focus of savings and credit in the SHG is the most noticeable element and it gives an opportunity to generate control over capital albeit in very small amounts. System of SHG's is very effective and relevant in providing some possibility to get free from exploitation.

How self-help groups work

NABARD (1997) characterizes SHGs as "little, financially homogenous liking gatherings of provincial denied, deliberately shaped to secure and commonly add to a mutual store to be loaned to its individuals according to the gathering individuals' choice".

Most SHGs in India have involved 10 to 25 individuals, which can incorporate ladies, men, youth or a blend of the above. The Sangha (Women SHG's) have been supported by diverse government and non- administrative organizations, they now make up 91% of all SHGs.

It is up to the individuals that how to shape the particular tenets and regulations for a SHG. The gatherings meet frequently (typically once every week or once per 15 days) to gather the investment funds from individuals and examine joint exercises, (for example, running of a public business, preparing and so forth.), furthermore choose that credit is to be given to which part and to direct any contentions that may emerge. The vast majority of the SHGs have a chosen director, an agent, a treasurer, and here and there other office holders.

Most SHGs begin with no outside monetary capital help rather they pick up their capital by the general commitment of reserve funds by their individuals. These commitments by the individuals can be little (e.g. 20 Rs/week). After a time of consistent reserve funds for around 6 months or a year, The SHGs can begin to give advances from these investment funds as little inward credits for small scale undertaking exercises and utilization. In the event that a SHG used its supports well then an outside association (banks) can give it more capital, if necessary.

Notwithstanding, it is by and large recognized that SHGs frequently do exclude the poorest of poor people, because of social variables, financial components and intrinsic inclinations of the actualizing gatherings.

Sources of Capital and Links between SHGs and Banks

SHGs can just understand a part in the rustic economy if bunch individuals have entry to monetary capital and markets for their items and administrations. While the gatherings basically produce their own funds through thrift (whereby thrift infers reserve funds produced by deferring practically crucial utilization, while investment funds suggest the vicinity of surplus riches), their objective is regularly to connection up with budgetary foundations to obtain further credits for interests in rustic endeavors. NGOs and banks are giving credits to SHGs either as "coordinating advances" (while the advance sum is relative to the bunch's investment funds) or as altered sums, subjected to the bunch's record of reimbursement, suggestions by gathering facilitators, securities gave, and so forth.

How SHGs save

Self improvement gatherings move reserve funds from their individuals, and may then on-give these stores to each other, generally at clearly high rates of premium which resound's the individuals' comprehension of the significant yields they can make on the little sums put resources into their miniaturized scale undertakings, and the much higher rate from cash loan specialists. In the event that they don't expect to utilize the cash, they may store it in a bank. In the event that the individuals' requirement for trusts surpasses the bunch's gathered funds, they may get from a bank or other association, for example, a miniaturized scale back non-government association, to broaden their own particular store.

This framework is exceptionally adaptable. The gathering joins the little individual sparing and obtaining prerequisites of its individuals, and the bank obliges just to keep up one record for the gathering as a solitary unit. The financier must assess the capacity and respectability of the gathering as a smaller scale bank, yet once he has done this he require not stress himself with the individual advances made by the gathering to its individuals, or the uses to which these credits are put to. He can regard the entire gathering as a solitary client, whose aggregate business and dealings are most likely comparative in sum to the normal for his ordinary clients, in light of the fact that they signify the consolidated keeping money business of almost twenty 'miniaturized scale clients'. Any bank office can have a little or countless records, without needing to change its present strategies for operation.

SHGs-Bank Linkage Model

NABARD is right now working three models of linkage of keeps money with SHGs and NGOs:

Model – 1: In the model 1, the bank itself goes about as a Self Help Group Promoting Institution (SHPI). It takes activities in establishing the gatherings, supports them more than a time of time and afterward gives credit to them in the wake of fulfilling itself about their development to assimilate credit. Around 18% of SHGs and 16% of credit sums are utilizing this model (as of March 2010).

Model – 2: In the model 2, gatherings are involved NGOs (in a large portion of the cases) or by government organizations. The gatherings are empowered and prepared by the associations. The bank then gives credit specifically to the SHGs, subsequent to seeing their operations and development to assimilate credit. While the bank gives advances to the SHG's specifically, the supporting organizations proceed with their dealings with the SHGs. Most linkage encounters start with this model with NGOs assuming a noteworthy part. This model has likewise been common and more satisfactory to banks, as a portion of the intense elements of social progress are externalized. Around 77% of SHGs and 79% of credit sums are utilizing this model.

Model – 3: Due to numerous reasons, banks in a few regions are not in a position to try and money SHGs advanced and supported by different organizations. In such cases, the NGOs go about as both empowering agents and miniaturized scale account delegates. In the first place, they underwrite the gatherings, support and train them and afterward approach banks for mass credits for on-giving to the SHGs. Around 10% of SHGs and 15% of advance sums are utilizing this model.

Table 5: Comparative Analysis of Micro-finance Services offered to the poor

Parameter	Money Lender	Commercial Banks	Govt. Sponsored Programs	Financial products of MFIs
Ease of Access	High	Low	Low	High
Transaction cost of Access	Low	Very High	Very High	Low – Medium
Lead time for Loans	Very Short	Extremely Long	Extremely long	Short
Repayment Terms	Fixed and Rigid	Fixed and Easy	Fixed and Easy	Flexible
Interest Rates	Exorbitantly High	Low and very Affordable	Low, Affordable and Subsidised	Reasonable and Affordable
Incentives	None	None	None	Repeat and larger loans, Interest Rebates
Repeat Borrowing	Possible	Possible but not likely	Possible but not likely	Stream of credit is assured
Loan Access Procedures	Very Quick	Extremely Time Consuming and complicated	Extremely Time Consuming and complicated	Simple and Quick
Loan Application Procedures	Informal but exploitative	Exhaustive and Complex	Exhaustive and Complex	Simple and Informal
Collateral and Demand Promissory Note	Mandatory	Required but hypothecation of asset may suffice	Not required although a charge on the asset becomes automatic	Not required – social collateral is used for physical collateral

Source: R. Arunachalam - Alternative Technologies in the Indian Micro- finance Industry

4.9 MICRO FINANCE MODELS

4.9.1 Micro Finance Institutions (MFIs):

MFIs are an amazingly different gathering including NBFCs (Non-Banking Financial Corporations), trusts, social orders and cooperatives. They are furnished with money related backing from outer givers and pinnacle organizations including the Rashtriya Mahila Kosh (RMK), SIDBI Foundation for smaller scale credit and NABARD and utilize a wide assortment of routes for credit dissemination.

Since 2000, business banks including Regional Rural Banks (RRB's) have been giving assets to MFIs to on loaning to underprivileged customers. Despite the fact that at initially, just a modest bunch of NGOs were "into" money related intermediation utilizing a scope of conveyance systems, their numbers have gone up significantly today. While there is no distributed information on private MFIs working in the nation, the quantity of MFIs is assessed to be around 850.

Table 6: Legal Forms of MFIs in India

Types of MFIs	Estimated Number*	Legal Acts under which Registered
1. **Not for Profit MFIs** a.) NGO – MFIs	400 to 500	Societies Registration Act, 1860 or similar Provincial Acts Indian Trust Act, 1882
b.) Non-profit Companies	10	Section 25 of the Companies Act, 1956
2. **Mutual Benefit MFIs** a.) Mutually Aided Cooperative Societies (MACS) and similarly set up institutions	250 to 300	Mutually Aided Cooperative Societies Act enacted by State Government
3. **For Profit MFIs** a.) Non-Banking Financial Companies (NBFCs)	6	Indian Companies Act, 1956 Reserve Bank of India Act, 1934
Total	750 - 850	

Source: NABARD website

4.9.2 Bank Partnership Model

This model is a best in class method for financing MFIs. The bank is the moneylender and the MFI goes about as an operators for taking care of things of work identifying with supervision, credit observing and recuperation. At the end of the day, the MFI goes about as an operators and deals with all relationship with the customer, from first contact to last installment. The model can possibly significantly build the measure of capital that MFIs can control on a generally little value base.

A sub - deviation of this model is the place the MFI, as a NBFC, holds the unmistakable advances on its books for some time before securitizing them and offering them to the bank. Such renegotiating by method for securitization empowers the MFI to develop the financing access. On the off chance that the MFI fulfills the "genuine deal" criteria, the introduction of the bank is dealt with as being to the individual borrower and the commonsense presentation standards don't then hinder such subsidizing of MFIs by business keeps money with the assistance of securitization structure.

4.9.3 Banking Correspondents

The arrangement of "saving money reporters" could make this model a stride closer to stretching out it to reserve funds. It would empower MFIs to gather reserve funds stores from the poor for the bank. It would utilize the capacity of the MFI to draw near to underprivileged customers while trusting on the monetary quality of the bank to secure the stores. This regulation created during an era when there were certifiable apprehensions that unreliable operators implying to follow up for banks in which the individuals have certainty could move reserve funds of defenseless open and afterward vanish with them.

4.9.4 Service Company Model

Under this model, the bank structures its own particular MFI, maybe as a NBFC, and after that works as an inseparable unit with that MFI to give credits and different administrations. On paper, the model is similar to the association show: the MFI makes the advances and the bank books them. At the same time, actually, this model has two altogether different and energizing operational components:

(a) The MFI utilizes the branch system of the bank as its channels to achieve customers. This permits the customer to be come to a lesser expense contrasted with the stand–alone MFI. In the event of banks which have gigantic branch systems, it likewise permits quick scale up. In the association model, MFIs may contract with numerous banks in an a safe distance relationship while in the administration organization show, the MFI lives up to expectations unequivocally for the bank and adds to an intensive operational participation between them for their common leeway.

(b) The Partnership model uses both the money related and infrastructural quality of the bank to make lower expense and quick development. The Service Company Model has the imminent to take the weight of administering microfinance operations off the administration of the bank and place it in the hands of MFI supervisors who are mindful on microfinance to present extra items, for example, particular advances for SHG graduates, transmittals thus on without exasperating bank operations and give a more advantageous expense structure for microfinance.

4.10 Success Factors of Micro-Finance in India

Over the previous decade, effective encounters in giving money to little business visionary and makers demonstrates that underprivileged individuals, when given access to responsive and auspicious monetary offices at business sector rates, reimburse their advances and utilize the profit to build their wage and resources. This is not shocking following the main practical option for them is to get from casual business sector at a much higher premium rates than business rates. Group banks, NGOs and grass root funds and credit gathers everywhere throughout the world have uncovered that these smaller scale undertaking advances can be productive for borrowers and for the moneylenders, making microfinance a standout amongst the best destitution easing systems.

A. **For NGOs**

1. The field of improvement itself grows and shifts accentuation with the pool of thoughts, and NGOs maybe all the more energetically receive new thoughts, especially if the assets needed are little, passage and way out boundaries are little, assignments are (saw to be) straightforward and individuals' gathering is high – all are the attributes (genuine or assumed) of smaller scale fund.

2. Canvassing by different performing artists, including the National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Friends of Women's World Banking (FWWB), Rashtriya Mahila Kosh (RMK), Council for Advancement of People's Action and Rural Technologies (CAPART), Rashtriya Gramin Vikas Nidhi (RGVN), different benefactor subsidized projects particularly by the International Fund for Agricultural Development (IFAD), United Nations Development Program (UNDP), World Bank and Department for International Development, UK (DFID)], and of late business banks, has significantly added to the thought pool. Supported by the overall concentrate on microfinance, contributor NGOs too have been supporting microfinance ventures. One may call it the supply push.

3. The thought seems easy to execute. Advancement of SHGs is the most widely recognized course taken after by the NGO's. It is by implication expected that no 'specialized ability' is included. Plus, outer assets are additionally not needed as SHGs start with their own

particular funds. Any way the NGOs that have entry to pivoting stores from contributors don't need to stress over budgetary execution.

4. For numerous NGOs the thought of "sorting out" – framing a "Samuha" – has inalienable appeal. Gatherings bring strengthening and arranging ladies acts a twofold reward.

5. Finally, to a few NGOs, microfinance is an intends to monetary maintainability. Especially for the medium-to-expansive NGOs that have the capacity to gather mass stores for on-loaning, for instance from SIDBI, the interest rate spread could be a striking wellspring of income than a very aggressive, questionable and progressively hard to-raise contributor financing.

B. **For Financial Institutions and Banks**

Microfinance has been an attractive venture for the transfer organizations because of incontestable property and of little costs of operation. Foundations like SIDBI and NABARD are laborious pug-nosed financiers and wouldn't work with the idea on the off chance that they didn't see an amplified term engagement – that singularly leaves with the property (that is financial appeal).

On the accessibility viewpoint, it’s furthermore genuine that it’s all the accessories of a business substance, its yield is unmistakable and is easily seen by the idea. It furthermore seems to sound pleasant to the govt that inside of the post-liberalization period is endeavoring to explain the rationale of every rupee spent. This can be the clarification why microfinance has pulled in enormous thought foundations like the same organic procedure task has ever had.

Maybe the variable that got banks concerned is the thing that one may choice the strategy push.

Given that the greater part of our banks are inside of general society area, open approach will have some impact on what they're going to or won't do. Amid this case, strategy was trailed by industrious, if drifting, special work by NABARD. The turnaround several decade past by run batted into license banks to give to SHGs was at initially taken after by a seven-page memoranda by NABARD to all or any bank executives, and later by sensitization and drilling projects for bank laborers the nation over. Numerous hundred such projects were led by NGOs alone, every including fifteen to twenty bank specialists, all procured by NABARD. The arrangement push was sugared by the NABARD money subject that gives rather more positive terms (100% account, more extensive spread) than for diverse rustic transfer by banks. NABARD also did some framework setting work and banks late are given targets. The ringer ringing, preparing, back and quiets take after down by NABARD has brought about far reaching bank association.

Also, for banks the payment of microfinance is perhaps plentiful however for unadulterated MFIs. The banks have as of now got a monstrous system of branches. To the degree that A NGO has officially advanced SHGs and thusly the SHG portfolio is acting higher than the rest of the rural (if not the whole) portfolio, microfinance through SHGs inside of the most pessimistic scenario would speak to negligible expansion to value and would typically curtail cost through higher ability use. Inside of the system the bank moreover gains brownie focuses with approach producers and meets its need segment targets.

It doesn't take bottomless investigation to work out that the commercial center for cash administrations for the 50-60 million poor family units of Bharat, also in regards to a proportional reach World Health Organization are actually on top of the neediness level however are seriously under-served by the cash part, could be an unpleasantly enormous one. Also, as in any rising business sector, in spite of the fact that the apparent dangers are higher, the spreads are rich greater. The ordinary mechanical markets of corporates, business, exchange, and right now notwithstanding lodging and customer fund are being needed by all the banks, bringing about value cutting war and wafer thin spreads.

Further, bank-gatherings are driven by mixture of cross-offering open doors inside of the business sector, for stores, protection, settlements and inevitably shared trusts. Since the bigger banks are giving of these administrations as of now through their group partnerships, it gets to be basic for them to grow their circulation channels as way and profound as achievable, inside of the trust of catching the complete cash administrations business of a gang.

At last, each agri-info and procedure organizations like EID Parry, quick moving thing (FMCG) partnerships like geographic zone Levers, and customer tough enterprises like Philips have understood the capability of this immense market and are effectively exploitation SHGs as passage focuses. Some amount of free-riding is going down here by enterprises, for their exploitation channels that were built at a major cost to NGOs, subsidizing offices and/or the govt.

On the whole, the monetary engaging quality of microfinance as a business is acquiring set up and this can be a sure step towards mainstreaming. We all realize that mainstreaming could be a blended gift, and one has a tendency to trade scale at the estimation of goals. In this manner it must be observed fastidiously.

4.11 Issues with Micro-Finance in INDIA

1. Sustainability

The above all else test of smaller scale fund is identified with maintainability. MFI (Micro Finance Institution) model is sensibly costlier regarding exchange of budgetary administrations. An investigation of 38 driving MFIs by Jindal & Sharma demonstrates that 90% MFIs segment were endowment dependent and just 10 had the capacity cover more than 81% of their expenses. This is part of the way clarified by the way that while the expense of organization of credit is high, the advance volumes and credit size is low. It has likewise been watched that MFIs go on the more prominent expense of credit to their clients who are 'interest heartless' for minor credits yet may not be so as size of advance develops. It is, consequently, essential for MFIs to enhance strategies for developing the mixed bag and volume of their budgetary administrations.

2. Lack of Capital

The second space of sympathy toward MFIs, that territory unit on the extension way, is that they confront a scarceness of firmly held trusts. This is frequently a fundamental imperative in their being able to extent. A few of the MFIs region unit socially orientating foundations and don't have satisfactory access to fiscal capital. Subsequently they require high obligation value proportions. Shortly, there's no solid system inside of the nation for meeting the value needs of MFIs.

The business issue by North American nation essentially based 'Compart Amos' wasn't acknowledged by idealists as they thought it challenged the mission of partner MFI. The trade furthermore yielded the trouble of valuation of partner MFI.

The quality numerous is right away the prevailing valuation system in microfinance ventures. Inside of the instance of startup MFIs, utilizing a value esteem different doesn't do equity to the basic estimation of the business. Regularly, startups region unit misfortune making and in this way the worth often lessens over the long run till they hit breakeven reason. A value esteem multiplier element to esteem startups would diminish the value in light of the fact that the association uses up cash flow to make its business, so complementing the negative rather than the positive.

3. Financial administration conveyance

Another test moon-confronted by MFIs is that the powerlessness to get to give chain. This test will be overcome by investigating cooperative energies between microfinance foundations like a specialist in credit conveyance and group preparation and organizations in operation with generation give chains like agribusiness. The last players UN office carry with them A comprehension of similar shopper portions, capacity to make microenterprise opportunities and demeanor to sustain them, would be excited about order microfinance to such open doors. This grants MFIs to augment their shopper base at no further costs.

Those organizations that secure from provincial Republic of India like farming and homestead normally focus fund as an imperative to value creation. Such organizations could understand complementarities between A MFI's abilities in administration of credit procedures and their own particular qualities in give chain administration.

ITC limited, with its solid give chain procurement, country vicinity and a creative gathering activity stage, the echoupal, has begun investigating collaborations with cash administration suppliers and MFIs through pilots with vegetable underwrite and agriculturists. Correspondingly, monster FIs like Spandana anticipate a greater part for themselves inside of the rustic economy ably bolstered by value making associations with players like Mahindra and Western Union money Transfer.

ITC has started a trial alluded to as 'handcars plan' along the edge of BASIX (a microfinance association in Hyderabad). Underneath this pilot, it meets expectations with twenty young ladies head load merchants marketing vegetables of around 10- fifteen kgs for each day. BASIX develops resources advances of Rs.15, 000/ - , ability building and business advancement backing to the women. ITC gives bolster through give chain advancements by:

1. Creating the Choupal contemporary stores out there to the merchants, this maintains a strategic distance from the exertion of transaction and undependability at the ordinary mandis (neighborhood vegetable markets). The women region unit prepared to make full the stock from the stores as over and over inside of the day as required. This has positive ramifications for nature of the turnout oversubscribed to the tip customer.

2. Incessantly testing to augment strength, expanding salaries and diminishing vitality use over the value chain. as an illustration, its strong an association with National Institute of style

(NID), a pioneer inside of the field of style instruction and investigation, to style simple carts which will decrease the physical weight.

3. Taking lessons from the pharmaceutical and medium segment to spot innovations which will spare vitality and surety temperature administration in push trucks to keep up nature of the vegetables for the duration of the day. The model increases the wages of the sellers from around Rs.30-40 for each day to a mean of Rs.150 every day. From AN ecological reason for read, push trucks territory unit way more vitality conservative as unfriendly mounted arrangement stores.

4. HR Issues

Enrollment and maintenance is that the significant test since quite a while ago confronted by MFIs as they endeavor to succeed in extra buyers and grow their land scope. Drawing in the right ability demonstrates intense as a consequence of applicants ought to have, as a need, a brain set that matches with the association's central goal.

Numerous idea mechanical banks are at present coming into microfinance, WHO are readiness laborers from MFIs and MFIs are not able to hold them for diverse openings for work.

87% of the poorest buyers served by microfinance are young ladies. In any case, young ladies outline however a large portion of all microfinance laborers individuals, and fill even less of the senior administration parts. The test in many nations comes from social thoughts of ladies' parts, as a sample, though young ladies are single there can be a bigger manner on the a part of ladies' families to permit them to act as front specialists, however as in no time as they wed and without a doubt once they start having youths, it gets to be unsuitable. Long separations and extend periods of time detached from the family are extreme for women to suit and for his or her families to handle.

1. Micro insurance

First and foremost huge issue inside of the small scale protection area is creating stock that really answer to the prerequisites of customers and in an exceedingly approach that is industrially feasible.

Besides, there's hearty must be propelled to improve conveyance channels. These conveyance channels are nearly powerless to date. Small scale protection firms supply insignificant stock and don't wish to go forward and supply propelled stock that will react higher. Miniaturized scale protection covets a conveyance channel that has brisk access to the low-pay market, and preferably one that has been occupied with fiscal exchanges so they need controls for overseeing cash furthermore the capacity to follow entirely unexpected individuals.

Thirdly, there's a longing for business sector instruction. People either haven't any information concerning small scale protection or they require a pessimistic viewpoint towards it. we've got the chance to counter that. We've got to by one means or another get people - while not needing to take a seat at a table - to recognize what protection is, and why it focal points them. That may encourage to illustrate smaller scale protection so once operators return, people are willing to communicate with them.

2. Adverse choice and good danger

The joint risk component has been depended upon to beat the double issues with unfavorable decision and monetary misfortune. The group transfer models range unit relying upon the procurement of curve assets for bunch advancement and involve an organic time of six months to no less than one year. Notwithstanding, there's not extra comprehension of the drivers of default and credit hazard at the degree of the person. This has strained the occasion of individual models of little back. The bunch model was A development to beat the specific issue of the standard of the portfolio, given the inadequacy of the poor to supply guarantee. Be that as it may, from the point of scaling up little money related administrations, its important to proactively find models that may change direct fund to individuals.

FINDINGS

Comparison of alternative microfinance model client

In the above study an attempt has been made to compare 2 of the major micro-finance model prevalent in India (i.e. SHG's and MFI's).

Level of literacy

The majority of households interviewed are illiterate with almost 42% responding that they were never been to school.

Housing

The focus of our study is rural areas and about 95% of the respondents lives in self-owned dwellings

Landholdings and sources of income

Only about 25 % of the households were self-employed among all the SHG clients. Almost all MFI clients were self-employed and engaged in activities like dairy farms, tailoring shops or street hawkers.

CONCLUSION

Micro-Finance is based on a simple idea that if deprived are provided access to financial services which includes credit, then they will be able to start or expand a micro-enterprise which will allow them to be self-sufficient. In totality, the main focus of micro-finance is on abolition of poverty form grass-root level, women empowerment, creating SME's thereby adding something to the economy of the country.

Comparison of two microfinance models in the research area reveals that the level of obligation to moneylenders is higher in the case of clients of MFI model. Such cases tells us about the difficulties MFI clients face when they have unproductive financial requirements and are compelled to take further loans from the moneylenders. In short run this escalates the poverty and makes it harder to escape from poverty and traps laid by the moneylenders.

RECOMMENDATIONS

Access to Credit

The reach of MFI’s in India is currently very limited and it need to be expanded throughout the country so that the needy should have proper access to credit whenever needed. The NABARD with the help of various agencies should consider setting up a committee to formulate proper strategies for the purpose. This committee should also take into account special targets like SC/ST’s and other minorities.

Formation of Consortiums by Banks

Bank of both public and private sectors should come together and form a consortium to formulate a strategy about how to expand MFI’s at the national level as banks have the expertise in the financial intermediation. Also they can provide capital to different MFI’s and help them to survive.

Uniform Legal Framework

The Centre Government should prepare a Money Lending bill and should circulate it to every state government for requesting similar legislations. The Reserve Bank has constituted a ‘Technical Group for Review of Legislations on Money-lending’. The group is already drafting a model Bill which is expected to be completed by June 30. This draft bill can be used as an input for preparing model bill by the Central Government.

National Policy on Micro-Finance

Currently there are individual strategies adopted by both Government and private agencies. There is a requirement for a National Policy on Micro-Finance so that micro-finance services are provided to the needy in a standard way. The new policy should include provisions about regulators, accounting and auditing standards, consumer protection, subsidies etc.

Even Geographical Growth

Government should focus on even geographical growth of micro-finance institutions by providing equal and unbiased support to every zone of the country. Politics should be avoided while making policy decisions regarding micro-finance.

Mobilization of Savings by MFIs

MFI's should be allowed to mobilize savings in order to provide better financial services to the poor. In India savings is only done by the cooperatives and MFI's survive on borrowed funds only. The proposed Microfinance Bill is expected to address this issue.

Cost Covering Interest Rates

Rate of Interest in MFI's is based on cost of funds, cost of delivery and payment and cost of margin. MFI's should include these costs while coming up with interest rates for their survival. Innovative techniques should be used to cut these costs and finally the interest rates.

Credit-Linked Subsidy

The subsidies provided to MFI's should be credit linked. There is a need to work out long term strategies to use the subsidies for survival of MFI's.

Role of Technology

CSC (Common Service Centers) implemented by the Department of Telecom (DOT) should be used to provide the information and communication technology. This move be quite beneficial in those areas where internet connectivity is still not there.

ATMs and Gramteller (rural ATM)

ATM's can be set up in Post Offices and can be linked to CSC's for the internet.

Maintaining Standard Accounting System

Each MFI should maintain a standard accounting system based on the guidelines of NABARD and RBI.

Extension Services

Services of MFI's should be extended to many different areas like animal husbandry etc. These services can be provided with the help of different agencies like NGO's and State Governments.

Micro Insurance

Micro-Insurance should also be provided by MFI’s as there is a lack of infrastructure in rural areas when it comes to proving insurance to the people. Insurance products should be based on IRDA (Insurance Regulatory and Development Authority) regulations.

Capacity Building

Some financial institutions, particularly SIDBI, are tying up with capacity building providers to provide assistance to the microfinance institutions. A need-based capacity building programme to meet the requirements of all categories of MFOs is essential to bring about sustainability in the sector. Some of the important areas of capacity building are transformation, best practices, interest rate management, delivery management, managing growth, risk mitigation, product designing etc. Additional infrastructure for capacity building may be created on PPP basis with appropriate government assistance.

Formalities to access the credit are required to be simplified

Formalities like paperwork and forms or identification documents should be simplifies in order to extend the services to illiterate peoples also. All these formalities can be associated with the AADHAR card to simplify the whole process.

Transparency

Consumers must be educated with their roles and responsibilities and also with their rights. There should be proper mechanisms in place to ensure transparency.

Availability of Information/Statistics

Information and Statistics about the MFI’s should be readily available to the governmental agencies so that Government can make proper policy decisions keeping in view the available statistics.

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