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Economic Empowerment through Microfinance in India: Theoretical Perspective

Dr.Satya Bhan Yadav Associate Professor, BSR Govt Arts College, Alwar (RAJASTHAN)-301001

Abstract

Micro Finance has emerged as a powerful tool in the recent past to uplift the poor from poverty. As the most recent literature has recognized, microfinance institutions have economically performed well in operating microcredit. However, the aim of raising the living standard of their indigent clients has not been generally met. The purpose of this paper is to examine the role of micro finance in the empowerment of people and the realisation of financial inclusion in India. All MFIs want the government to empower them for mobilising savings for generating resources. However, in the light of recent experiences, and the need for qualitative growth, we suggest that MFIs should be managed with better scrutiny in terms of finance and technology as well as social responsibility. Lifting poor from poverty has been a sole goal of the economic planning. NGOs have played a commendable role in promoting Self Help Groups linking them with banks. There is, therefore, a need to evolve an incentive package which should motivate these NGOs to diversify into other backward areas. This article brings new empirical elements of discussion pointing to many aspects of the economic empowerment through micro-finance in India. It also focuses on the SHGs-Bank Linkages which strengthen financial inclusion of the deprived sections of the society along with growth path of inclusive growth.

Keywords: Poverty, Financial Inclusion, Savings, Economic Planning, Social Responsibilities.

Introduction

Finance is one of the critical inputs for economic development. Its timely availability in the right quantity and at an affordable cost goes a long way in contributing to the well-being of the people especially in the developing society. It is one of the three main challenges to input management in agriculture, the other two being physical and human (Hans, 2006). Thus access to finance, especially by the poor and vulnerable groups is a prerequisite for employment, economic growth, poverty reduction and social cohesion. Further, access to finance will empower the vulnerable groups by giving them an opportunity to have a bank account, to save and invest, to

insure their homes or to partake of credit, thereby facilitating them to break the chain of poverty. But India is lagging behind in this respect so it has become the matter of concern.

In 1947, the first survey of rural indebtedness (All India Rural Credit Survey) conducted by the Reserve Bank of India (RBI) documented that moneylenders and other informal lenders met more than 90 per cent of rural credit needs. The share of banks in particular was only about 1 per cent in total rural household debt. The ratio remained low until 1971 when it was 2.4 per cent, although the share of formal sources of credit in rural areas increased steadily to 29 per cent due to the rising share of cooperatives.

The Situation Assessment Survey (NSSO, 2003) indicated that out of the total 89.3 million farmer households in the country, 84 percent (750 million) households were small and marginal farmers and more than half (51.4 percent) of the total households were non-indebted. Further, out of the total 43.4 million indebted households, 20.3 million (46.8 percent) households had availed financial services from informal sources. The NSSO survey of farmer households for 2003 shows that 45.9 million farmer households in the country that is, 51.4 per cent out of the total 89.3 million households do not access credit either from institutional and non-institutional sources. Further, only 27 per cent of the total farm households are indebted to formal sources; in other words 70 per cent of the farmhouses do not have access to formal credit sources (Rangarajan, 2007). Banking data reveal that credit exclusion is severe in 139 districts of the country. In these districts, only 10 per cent or less out of 100 persons have access to credit from the fact that the exclusion is large, there is also a wide variation across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion (Rangarajan, 2007). It's very surprising fact that brought by the results of the All-India Debt and Investment Survey of 2002, which indicate that the share of the non-institutional sources, in the total credit of the cultivator households, had increased from 30.6 percent in 1991 to 38.9 percent in 2002 (Karmakar, 2002).

The inference of these findings is that in spite of a large network of the institutional credit system, it has not been able to adequately penetrate the informal rural financial markets and the non-institutional sources continue to play a dominant role in purveying the credit needs of the people residing in rural areas. Thus, important challenge facing the banking sector is to extend financial services to all sections of society. Like others, the poor need a range of financial services that are convenient, flexible, and affordable.

At this juncture the introduction on “financial inclusion” comes from the recognition that this can serve the interests of both society and the banking system.

Objectives

Followings are the objectives:

- To define the role and importance of financial inclusion in Indian.
- To examine the different approaches of financial inclusion.
- To analyse the role of banking system in extending banking services for financial inclusion.
- To enumerate the achievements and problems of SHG microfinance in including the excluded section of the society.
- To suggest remedial to improve the policy.

Financial Inclusion in India: Different Approach

Financial inclusion is termed as a very important tool for improvement of the living conditions of the economically weaker section of the society. Various studies have been conducted to assess the role of MFIs in financial inclusion. According to **C. Rangarajan** there are six approaches in the system of Financial Inclusion, they are, as follows:

1. First, credit to the farmer households is one of the important elements of financial inclusion among them providing credit to the marginal and sub marginal farmers as well as other small borrowers is crucial to the need of the hour.
2. Second, rural branches must go beyond providing credit and extend a helping hand in terms of advice on a wide variety of matters relating to agriculture.
3. Third, in district where population per branch is much higher than the national average commercial banks may be encouraged to open the branches.
4. Fourth, there is need for the simplification of the procedures in relation to granting of loans to small borrowers.
5. Fifth, the further strengthening the SHG-Bank Linkage Programme (BLP), as it has proved to be an effective way of providing credit to very small borrowers.
6. Sixth, the business facilitator and correspondent model needs to be effectively implemented.

Inclusive Growth: Issues before Economy

The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services (Thorat, 2007a). So,

this lead to the emergence of for Financial Inclusion as a strategy to bring so called excluded people in to the mainstream. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy (ibid). Although credit is the most important component, financial inclusion covers various financial services such as savings insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded (Mahendra.S, 2006).

Fig.1: Trends in Inclusive Growth



In India, the drive for financial inclusion, initiated by the Reserve Bank of India, has thus far involved ensuring access to at least one zero minimum-balance ‘no frills’ savings bank account to every household. In this context, at least one district in each state has been brought under the purview of this drive with public sector banks in the region taking the lead to open at least one bank account per family in the district.

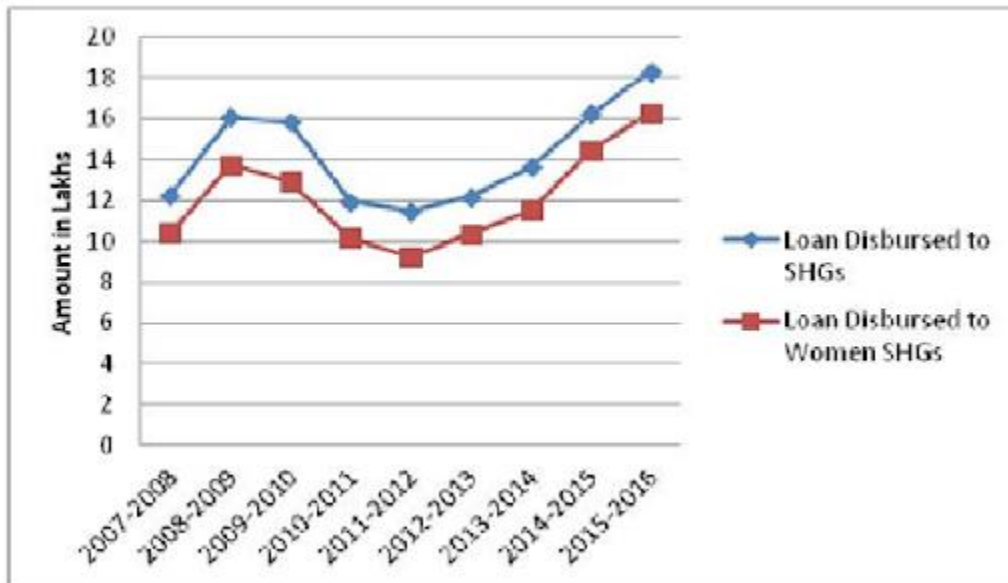
The broad objective of Financial Inclusion (FI) is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempts must be to lift the poor from one level to another so that they come out of poverty (Rangarajan, op. cit.).

Inclusive growth encompasses ideas related to basic needs and equity. It focuses on broad – based growth so that growth covers all strata of society. It seeks to bridge the various divides that may fragment the society. Reduction in poverty and disparities of income and ensuring everyone a basic minimum standard of living are the objective of inclusive growth. In this context access to finance by the poor and vulnerable groups has to be recognized as a pre requisite for poverty reduction and social cohesion. It has to become an integral part of the efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups (ibid).

Thus, limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural areas and unorganized sector is believed to be acting as a constraint to the growth impetus in these sectors. Access to affordable financial services - especially credit and insurance - enlarges livelihood opportunities and empowers the poor to take charge of their lives. Such empowerment aids social and political stability. Apart from these benefits, FI imparts formal identity, provides

access to the payments system and to savings safety net like deposit insurance. Hence FI is considered to be critical for achieving inclusive growth; which itself is required for ensuring overall sustainable overall growth in the country. The financially excluded sections largely comprise marginal farmers, landless labourers, oral lessees, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women (Thorat, 2007b).

Fig.2: Loan Distributed to SHGs and Women SHGs in India



The above diagram reveals that the rate of loan disbursement to SHGs and women SHGs is almost parallel and indicates that Inclusive financial system, that allows broader access to financial services, can lead to faster and more equitable growth. Such a system allows poor households to save and manage their money securely, decreases their vulnerability to economic shocks and allows them to contribute more actively to their development. Increasingly, with the proliferation of micro finance initiatives, there is evidence that inclusive financial systems can empower poor households socially as well in other words financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups (Thorat, 2007a). Although credit is the most important component, financial inclusion covers various financial services such as savings insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded (S. Mahendra, op. cit.). In the context of India becoming one of the largest micro finance markets in the world especially in the growth of women's savings and credit groups such as Self Help Groups (SHGs) and the sustaining success of such institutions which has been demonstrated by the success of SEWA bank in Gujarat, low cost banking is not necessarily an unviable venture/proposition. One common measure of FI is the percentage of adult population having bank accounts. Going by the available data of 2005 on the number of savings bank accounts and assuming that one person has only one account, (which assumption may not be correct as many persons could have more than one bank account) we find that on an all India basis 59 per cent of adult

population in the country have bank accounts – in other words 41 per cent of the population is un-banked. In rural areas the coverage is 39 per cent against 60 per cent in urban areas. The un-banked population is higher in the North Eastern and Eastern regions (Thorat, 2007b). The extent of exclusion from credit markets is much more, as number of loan accounts constituted only 14 per cent of adult population. In rural areas, the coverage is 9.5 per cent against 14 per cent in urban areas. Regional differences are significant with the credit coverage at 25 per cent for the Southern Region and as low as 7, 8 and 9 per cent respectively in North Eastern, Eastern and Central Regions (Thorat 2007b).

The extent of exclusion from credit markets can be observed from a different viewpoint. Out of 203 million households in the country, 147 million are in rural areas – 89 million are farmer households. 51.4 per cent of farm households have no access to formal or informal sources of credit while 73 per cent have no access to formal sources of credit (ibid).

The figures ultimately reveal that there is lack of outreach of banking services to the population, at this juncture micro finance services doing well in bringing excluded population to the main stream of formal banking system.

Micro finance to Self Help Groups: Growth Path

After independence, the structure of rural credit institutions, with co-operative bank and mortgage bank catering to short term and long term credit needs respectively. The assessment of performance of co-operative by All India Rural Credit Survey Committee in 1954 brought the fact that volume of credit supplied by the co-operative movement was insignificant, accounting only 3per cent of the total borrowing of cultivators. It revealed that the share of Institutional agencies, comprising the Government, the co-operative and commercial banks in financing the borrowings of rural household was only 7.3per cent in 1951-52 corresponding to the share of private money lenders was high as 68.6per cent (Lalitha, 1998).

The Nationalization of SBI in 1955 had drawn in to rural banking. But other commercial bank kept away from it. The All India Rural Credit Review Committee appointed by RBI under the chairman, B. Venkatappaih, submitted its report in 1969, showed the inadequacy of co-operative system alone to meet the credit requirements of rural sector. Committee prepared the multi agency approach to rural finance. It was only with social control banks in late 1960's and Nationalization of 14 commercial banks in 1969, followed by 6 more in 1980, that rural orientation of commercial banks started in a systematic way. (Lalitha, 1998) In 1980-81 the Government initiated Integrated Rural Development Programme (IRDP) with objective of directing subsidized loan to poor self-employed people through banking sector.

The financial sector developed in India by the late 1980s was criticized as largely target and supply driven. High default rates; corruption and high degree of suspicion among bankers about the credit worthiness of poor people were the major features of the time. On the credit side, in the rural borrowing supplied by informal sources

fell to 40 per cent in 1991, household with the least assets were far more dependent on informal sources (Mahajan, 2000, cited in Sriram and Fisher). Borrowers faced high transaction costs to secure subsidized loans, making their real cost 22 to 33 percent. Fisher Sriram and points out that, formal financial sector unsuccessful to recognize the divergence between the hierarchies of credit needs and credit availability. The result is the adverse use of credit. Credit use start with consumption purpose, which are only being met, through informal sources at high cost. Higher needs come in to play when the lower needs are satisfies. However credit (often subsidized rate) is usually available for new enterprises (i.e. for diversification).

In 1991, the macro economic conditions propelled the government to introduce structural changes in the economy, commonly referred to as economic reforms of 1991. Karmakar remarked that the immediate impact of reform to the financial sector become necessary by 1990's have in many ways made things worse for the poor people. There has been drastic fall in rural credit. The share of rural credit in the total credit disbursement by commercial banks, which grew from 3.5 to 15 percent form 1971 to 1991, has now declined again to 11 percent in 1998 (Sa-Dhan, 2004).

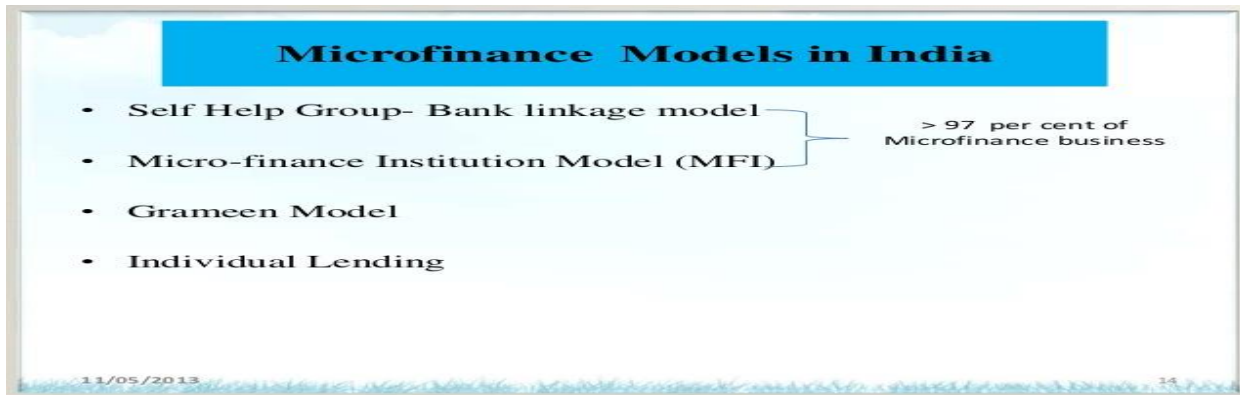
Even after the institutional finance came in to being as banking sector emerged, the need for 'micro' credit characteristically for the poor section of the society was unmet by the formal banking sector. The nature of formal banking sector, with its emphasis on 'collateral based lending' could not cater the needs of smaller borrowers, especially women, who were typically resource poor and possessed negligible assets to offer as collateral. Given the male dominated rural society, prior to 1990s there were hardly any credit schemes designed for rural women (Karmakar, 2002). All these development resulted in a fall in the availability of credit from formal financial system, leaving informal sources as well as SHGs and MFIs to fill this gap (Fisher and Sriram, 2002). Even the government policies are also stared focusing from development towards empowerment of women through group-based approach.

Micro finance: Issues of Concern

The linkage between "self help groups" and banks has been highly successful in furthering financial inclusion. The cooperation between the formal banking system and micro-finance organisations has also been encouraging. Micro finance (MF) in the recent past has emerged as a potential instrument for poverty alleviation and women empowerment. MF intervention refers to provision of access to small loans without physical collateral to the poor, especially the women, while encouraging them to save regularly in order to combine thrift and self-help for their own development. MFIs consist of Refinance Institutions, Banks, Non Government Organisations and Self Help Groups dealing with small loans and deposits in rural, semi urban or urban areas enabling people to raise savings, productive investments and thereby their standard of living (Nadarajan and Ponmurugan, 2006). As already told one of the ways in which access to formal banking services has been provided very successfully since the early 90s is through the linkage of Self Help Groups

(SHGs) with banks. SHGs are groups of usually women who get together and pool their savings and give loans to members. Usually there is a NGO that promotes and nurture these groups.

Fig.3: Micro finance Model in India



National Bank for Agriculture and Rural Development has played a very significant role in supporting group formation, linking them with banks as also promoting best practices. The SHG is given loan against guarantee of group members. The recovery experience has been very good. Banks provide credit to such groups at reasonable rates of interest. However the size of loans is quite small and used mostly for consumption smoothing or very small businesses. In some SHGs, credit is provided for agricultural activities and other livelihoods and could be several times the deposits made by the SHGs.



Table.1:Progress in SHG-Bank Linkage Programme (All India).

Table 1: Progress in SHG-Bank Linkage Programme (All India)

| Year (End March) | Number of SHGs financed by Banks | | Bank loan (Rupees crore) | | Refinance assistance (Rupees crore) | |
|------------------------|-------------------------------------|------------|-----------------------------|------------|--|------------|
| | During the year | Cumulative | During the year | Cumulative | During the year | Cumulative |
| 1992-93 | 255 | 255 | 0.29 | 0.29 | 0.27 | 0.27 |
| 1993-94 | 365 | 620 | 0.36 | 0.65 | 0.19 | 0.46 |
| 1994-95 | 1502 | 2122 | 1.79 | 2.44 | 1.67 | 2.13 |
| 1995-96 | 2635 | 4757 | 3.62 | 6.06 | 3.53 | 5.66 |
| 1996-97 | 3841 | 8598 | 5.78 | 11.84 | 4.99 | 10.65 |
| 1997-98 | 5719 | 14317 | 11.92 | 23.76 | 10.74 | 21.39 |
| 1998-99 | 18678 | 32995 | 33.31 | 57.07 | 30.70 | 52.09 |
| 1999-00 | 81780 | 114775 | 135.91 | 192.98 | 98.04 | 150.13 |
| 2000-01 | 149050 | 263825 | 287.89 | 480.87 | 250.61 | 400.74 |
| 2001-02 | 197653 | 461478 | 545.47 | 1026.34 | 395.76 | 796.50 |
| 2002-03 | 255882 | 717360 | 1022.33 | 2048.67 | 622.30 | 1418.80 |
| 2003-04 | 361731 | 1079091 | 1855.53 | 3904.20 | 705.40 | 2124.20 |
| 2004-05 | 539365 | 1618456 | 2994.26 | 6898.46 | 967.80 | 3092.00 |
| 2005-06 | 620109 | 2238565 | 4499.00 | 13397.46 | 1067.70 | 4159.70 |
| 2006-07 | 1105749 | 3344314 | 6570.00 | 19967.50 | 1292.86 | 5452.56 |
| 2007-08 | 1227770 | 4572084 | 8849.26 | 28816.70 | 1615.50 | 7068.06 |
| 2008-09 | 1609586 | 6181670 | 12253.51 | 41070.20 | 2620.03 | 9688.09 |
| 2009-10 | 1586822 | 7768492 | 14453.30 | 55523.50 | 3173.56 | 12861.65 |

Notes : Data for 2009-10 are provisional. Data relate to Commercial Banks, RRBs and Cooperative Banks. From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of 'Swarnajayanti Gram Swarozgar Yojana' (SGSY).

Sources: NABARD (2010); Reserve Bank of India (2010, 2011).

Table 1 shows that SHGs- Bank linkage for credit and loan availability by banks to SHGs in India. During the last almost two decades banks have financed to a large number of SHGs with loan and refinance for financial inclusion in the nation. The number of SHGs have grown up rapidly with credit facilities to those downtrodden section of society.

Fig.4: SHG-Bank Linkage programme(All India)

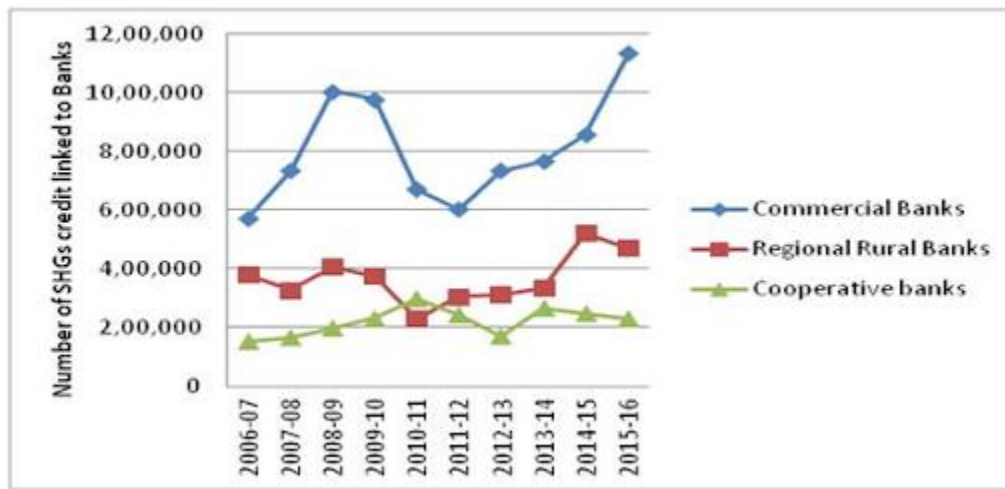


Fig.4 also reveals that the commercial banks playing major role in providing finance than the Regional Rural Banks(RRBs) and Co-operative Banks in India. However, RRBs and Co-operative banks need to focus on the finance requirements of the SHGs. The trend of lending share of all the three institutional agencies seem to very uneven in the SHGs credit units. Till now, micro financing has been a grey area in the finance sector as the current laws allow only the entities registered with RBI to raise deposits and lending activities. In view of the rising micro-financing activities in the country, a need has been felt to regulate the unregulated business in this sector and also provide legal framework to facilitate the credit flow in rural areas.

Microfinance has drawn attention to an entire sector of borrowers who had been previously poorly served by the formal financial sector - and MF has demonstrated how to make lending to this sector a viable proposition. However the rates of interest charged are quite high, typically 12 to 30 per cent, mainly on account of the high transaction cost for the average loan size that can be quite small. Compared to the informal sector, perhaps the rates are lower, but issues are raised whether these rates are affordable - in the sense whether they would any surplus in the hands of the borrowers and lead to higher levels of living •

The financial inclusion attained through SHGs is sustainable and scalable on account of its various positive features. One of the distinctive features of the SHG-BLP has been the high recovery rate. However the spread of SHGs is very uneven and is more concentrated in southern states. This regional imbalance needs to be corrected and special efforts in this regard may have to be made by NABARD. SHGs also needed to graduate from mere providers of credit for non-productive purposes to promoting micro enterprises. However, there is no need to provide interest rate subsidy to the SHGs. Banks do provide them credit at reasonable rate of interest (Rangarajan, 2007). There have been several institutional innovations in financial services by including civil society. Followed by the success of SHG- BLP and Bangladeshi Grameen model, many of the NGO's have taken to financial intermediation by adopting innovative delivery approaches. MFIs have been playing an important role in substituting moneylenders and reducing the burden on the formal financial institutions. With the

objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks have been allowed to use the services of NGO's, SHGs, MFIs and other civil society organizations as intermediaries in providing financial and banking services through the use of business facilitator and correspondent models. Provision for this kind of financial intermediation has opened new and diverse avenues to address the issue of financial inclusion by banks (S. Mahendra, op. cit.).

The SHG-Bank Linkage Programme launched by NABARD in 1992 continues to be the predominant Micro-Finance (MF) model in the country. It represents the union of the banking system comprising the public and private sector commercial banks, Regional Rural banks (RRB), and Co-operative Banks with several organizations in the formal and semiformal sectors to facilitate the provision of financial services to a large number of poor clients. It is a proven method of financial inclusion, providing un-banked rural clientele with access to formal financial services from the existing banking infrastructure. During the year 6, 86,408 new SHGs were credit linked with banks as against 6, 20,109 during 2005-06, taking the cumulative number of credit linked SHGs to 29, 24,973. The phenomenal outreach of the programme has enabled an estimated 409.5 lakh poor households to gain access to MF from the formal banking system as on 31 March 2007, registering a growth of 24.2 per cent over the previous year (NABARD, 2007).

However, one has to be very cautious about the attempts being made by the vested interest groups to substitute the need for expansion of formal banking structure to the hitherto un-banked areas with SHGs and NGOs, where complaints of high interest rates charged from ultimate borrowers and examples of coercion are not too insignificant (Mitra, 2007). The Reserve Bank of India has identified large gap in the demand and supply of credit to the poor and suggests the urgent need to widen the scope, outreach and scale of financial services to cover the un-reached populace. Estimates reveal that the credit support for poor households in India is of the order of Rs.450,000 crore. Some micro level studies show that the poor still continue to depend on informal sources of credit, up to 60 per cent of the household demand. These initiatives, which were started as an outreach programme, not only aimed to promote thrift and credit but made immense contribution towards empowerment of rural women (The Hindu Business Line, 2007).

Micro finance still plays a modest role in India. At the All India Level less than 5 per cent of poor rural households have access to micro finance (as compared to 65per cent in Bangladesh) with significant variation exists across the states (Basu and Srivastava, 2005).

There is skewed growth of SHGs across the regions. The year 2006-07 witnessed the spread of the MF programme in resource-poor regions of the country indicating a marked shift from its initial concentration in the southern region. The cumulative share of non southern regions rose from 29 per cent as on March 2001 to 48 per cent as on March 2007. This is mainly because of presence of large number of NGOs operating in South Region.

During the last two decade there has been a profile growth of voluntary organizations in India. The main causes for such proliferation are; the increase in the number of people below poverty line, the increase in the flow of funds for this sector from various sources and the increase in the number of unemployed in the country. From the above description it could be stated here that, formation of SHGs in rural areas through NGOs has kindled new hope of change and development in the status and role of women folk, who are otherwise powerless and marginalized members of the society. Now they are able to grow economically and socially as members have also accepted the changed role of their women folk and most of the time they are supportive to them. In addition they are able to get financial assistance from women folk, which were not possible earlier (Patil, 2006).

Conclusion

It is becoming increasingly apparent that addressing financial exclusion will require a holistic approach on the part of the banks in creating awareness about financial products, education, and advice on money management, debt counselling, savings and affordable credit. The banks would have to evolve specific strategies to expand the outreach of their services in order to promote financial inclusion. One of the ways in which this can be achieved in a cost-effective manner is through forging linkages with microfinance institutions and local communities. Banks should give wide publicity to the facility of no frills account. Technology can be a very valuable tool in providing access to banking products in remote areas. According to Prof. M.S. Swaminathan, the noted agricultural scientist, “SHGs, will however, become sustainable only if they have backward linkages with technology and credit and forward linkages with processing and marketing organisations” (Swaminathan, 2006). ATMs cash dispensing machines can be modified suitably to make them user friendly for people who are illiterate, less educated or do not know English. The banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income group treating it both a business opportunity as well as a corporate social responsibility. They have to make use of all available resources including technology and expertise available with them as well as the MFIs and NGOs. NGOs have played a commendable role in promoting SHGs and linking them with banks. NGOs, being local initiators with their low resources, are finding it difficult to expand in other areas and regions. There is, therefore, a need to evolve an incentive package which should motivate these NGOs to diversify into other backward areas. Our banking system must be prepared to deal with the opportunities of higher growth, and the challenges of ensuring more equitable growth. In dealing with the needs of rural enterprises and of small and medium enterprises in urban areas, banks have to look for new delivery mechanisms. These must economize on transaction costs and provide better access to the currently under-served. To serve new rural credit needs, innovative channels for credit delivery will have to be found. A key requirement of greater “financial inclusion” would be a reduction of transaction costs. (PM's Address at the Canara Bank Centenary Celebrations, June 23, 2006 Bangalore).

The Micro Financial Sector (Development and Regulation) Bill 2007 has been tabled in the Parliament (The Hindu Business Line, March 2007). MFIs fear that regulation might stifle growth, but analysts say that it is important to put them under scanning (Patnaik, 2006). Micro-insurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face more risks than the well off. It is becoming increasingly clear that micro-insurance needs a further push and guidance from the Regulator as well as the Government. (GOI, 2008) Our study reveals that micro credit is not always the final answer or the best solution for unemployment or poverty or any other situation. Destitute and hungry people with no income or means of repayment need other kinds of support before they can make good use of the loans.

Also, financial inclusion as a policy measure should be followed up by building up suitable database, which could serve as a guide to assess the impact of credit policies from time to time and reorient schemes of financial assistance to the targeted groups. The MFIs should be strengthened with the tools of managerial expertise, user-friendly technology and with the principles of good governance and social responsibility.

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