Evolution and Progress of Microfinance in India

Aadil Rashid
PhD Research Scholar Department of Commerce,
AVS college of arts and science, Salem-106,
Tamil nadu, India.

Dr. P. Ashok Kumar
Head, PG & Research department of commerce,
AVS College of Arts and Science, Salem-636106,
Tamil nadu, India.

ABSTRACT: Poverty is a major concern in India, being one of the rapid-growing economies in the world, with a growth rate of 7.6 percent in 2015, and a considerable consumer economy. According to World Bank there are about 179.6 million people who live below the poverty line in India. So it is one of the greatest challenges in India to deal with one of the BRIC nations with such a huge population are seen by many countries as an emerging economy. India has failed to make a significant improvement in its poverty alleviation. Government of India with its concern started various poverty alleviation programs but they have failed to deliver the objectives to the level which is desired. The poverty alleviation programs in India can be differentiated on different basis for rural or urban areas. Most of them are designed to cover rural as it is high in such areas. The programs can be mainly grouped into, wage employment, self employment, food security, social security, and urban poverty alleviation. All these programs were programmed with the one theme to minimize and eradicate the poverty and thus uplift the socioeconomic status at individual level. The subsidized credit used by many countries including India was also a failure because of rising Nonperforming assets (NPA). The microfinance came forward and became the most popular tool to fight against the poverty when the Muhammad yunus a noble laureate from Bangladesh came up with the modern microfinance model called Grameen model. On the basis of that India progressed forward and was successful to make self help groups (SHGs) with the help of NABARD. A number of NGOs and MFIs have also delved into the business. From the past years government and various organizations like NABARD and national banks are thrusting to promote the microfinance at various levels but there is a long way to go because the outreach is too small as compared to the requirement and potential. The paper defines three distinct facets of microfinance, first is microfinance and its history, secondly Growth of microfinance in India from last decade, third is role played by the government of India with NABARD and other National banks in growth of SHGs and Grameen bank. The paper also discusses the evolution of microfinance and its role in global scenario.

KEYWORDS: Microfinance, Microfinance institutions, NABARD, SHGs, Grameen bank, India, poverty alleviation.

INTRODUCTION

Poverty is said to exist when the people lack the means to satisfy their basic needs which are in different forms like nutrition, housing, clothing. The standard definitions of poverty focus on the lack of income or economic deprivation. But poverty also encompasses the lack of access to an education, basic health care's or cleans drinking water, or to influence political process and other factors that matter to people. Mehta and Shah(2001-02)defines poverty as the sum total of a multiplicity of factors that include not just income and calorie intake but also access to land and credit, nutrition, health and longevity, literacy and education and safe drinking water, sanitation and other infrastructural facilities. Poor people are particularly exposed to unhelpful events beyond their control. It is also seen that poor doesn't have much voice in the institutions of the state and society. World Bank defines poverty as survival of an individual on less than $1.25 per day. The poverty line in India measures only the most basic calories intake. It records not nutrition but the satiation of hunger. At present the poverty line stands at Rs 27/- and Rs 33/- per person per day for rural and urban areas respectively. The official line of government of India delivers a poverty rate of around 32% of the population as opposed to 42% according to World Bank. India still accounts for one-third of the world's 1.4 billion poor people. It is evident from this statistics that, it is all about the line one is drawing, one can loosen it to exclude people or tighten the line to include people.

According to world Bank report,(2017) the expenditure of poor on education and health care is only 6% of their income while 81% on food and others, 6% of poor's have access to tape water, 61% have access to electricity and 21% latrines. Children are malnourished, over 35% of Indians are illiterates and more than 20 million children are out of school. The extremely poor people in India are largely involved in subsistence type of activities. Their earnings are so meager that their expenditure and survival- need exceeds income. Anyhow, they manage their daily requirement with their small earnings. But at the time of need, they are forced to borrow from local money lenders. This often results in borrowing small amount of money at exorbitant rate of interest of as much as 120% per annum to meet urgent needs like treatment of ill and sick family members or repayment of previous loans etc. Thus the need for an institutional mechanism is felt. Some individuals tried to address the problem in an organized way in the form of micro-credit. In fact the concept of micro-credit is not new. Credit has been available to poor for centuries in one form or other. But they are not organized and institutionalized. Money lenders and chettiars (local money lenders of China) have existed for a long time in Chinese and Indian communities to provide credit at high interest rate. Money lenders were providing credit mortgaging land records and other valuable assets like gold and silver ornaments and other domestic asset base like domestic animals. In case of non-recovery of loans, these mortgage items were being impounded throwing the borrowers to hardship. Poverty in rural area is a combination of factors like need of micro credit, social disgrace from failed attempt at entrepreneurship, institutional constraints on lending and inability to recover quickly from setback such as death and natural disasters of earning members. This realization has led to modern microcredit practices to address the social and political impediments to entrepreneurship as much as they try to solve the problem of credit availability, adverse selection and moral hazard (Hollis and Sweetman, 1998)Oxford dictionary defines microfinance as:" A world in which as many poor and near-poor households as possible have permanent access to an appropriate rang of high quality financial services, including not just credit but also saving, insurance and fund transfers."

HISTORY OF MICROFINANCE

The history of micro financing can be traced back as long to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of poverty. But it was at the end of World War II in 1945 with the Marshall plan the concept had a big impact. The today use of the expression micro financing has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Mohammad Yunus, where starting and shaping the modern industry of micro financing. Another pioneer in this sector is Akhtar Hameed Khan. At that time a new wave of microfinance initiatives introduced many new innovations into the sector. Many pioneering enterprises began experimenting with loaning to the deprived people. The main cause why microfinance is dated to the 1970s is that the programs could show that people can be relied on to repay their loans and that it´s possible to provide financial services to poor people through market based enterprises without subsidy. Shore bank was the first microfinance and community development bank founded 1974 in Chicago. An economical historian at Yale named Timothy Guinnane has been doing some research on Friedrich Wilhelm Raiffeisen´s village bank movement in Germany which started in 1864 and by the year 1901 the bank had reached 2million rural farmers. Timothy Guinnane means that already then it was proved that microcredit could pass the two tests concerning people's payback moral and the possibility to provide the financial service to poor people..Another organization, the caisse populaire movement grounded by Alphone and Dorimène Desjardins in Quebec, was also concerned about the poverty, and passed those two tests. 1900 to 1906 when they founded the first caisse, they passed a law governing them in the Quebec assembly; they risked their private assets and must have been very sure about the idea about micro credit. Today the World Bank estimates that more than 16 million people are served by some 7000 microfinance institutions all over the world. CGAP experts mean that about 500 million families benefits from these small loans making new business possible. In a gathering at a Microcredit Summit in Washington DC the goal was reaching 100 million of the world´s poorest people by credits from the world leaders and major financial institutions. The year 2005 was proclaimed as the International year of Microcredit by The Economic and Social Council of the United Nations in a call for the financial and building sector to "fuel" the strong entrepreneurial spirit of the poor people around the world.

"The Norwegian Nobel Committee has decided to award the Nobel Peace Prize for 2006, divided into two equal parts, to Muhammad Yunus and Grameen Bank for their efforts to create economic and social development from below. Lasting peace cannot be achieved unless large population groups find ways in which to break out of poverty. Micro-credit is one such means. Development from below also serves to advance democracy and human rights. Muhammad Yunus has shown himself to be a leader who has managed to translate visions into practical action for the benefit of millions of people, not only in Bangladesh, but also in many other countries. In India, the history of microfinance dates back to establishment of Syndicate Bank in 1921 in private sector. During the early years, Syndicate Bank came up with the idea to raise micro deposits in the form of daily/weekly basis and provide micro loans to its clients for shorter period of time. But microfinance got the attention globally only when Dr Muhammad Yunus gave it a mass movement in Grameen Bank experiment. Microfinance is a novel approach to provide saving and investment facility to the deprived people around world. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to fight and come out of poverty, manage their risks better, gradually build their asset base, develop their business, enhance their income earning capacity, and enjoy an improved quality of life. In India, microfinance mainly operates through Self Help Group (SHGs), Non Government Organizations (NGOs), and Credit Agencies. It provides poor people with the means to find their own way out of poverty. It put the power directly in their hands, giving them a larger stake in their own success than one –time donation of food, goods, or cash. The initiatives of Government for poverty alleviation could not be successful to the desired level, may be due to the fact that they do not take cognizance of power of the poor to deal with their own problems. Government tries to help them by way of subsidies and other help but these initiatives hardly reduce their poverty levels and are not a long term solution. This section of society if given with guidance, power of capital and productive assets can emerge as the successful entrepreneur. This can easily be achieved by empowering them with power of microcredit. The poor do not have any worthy asset base. Hence they have to be provided with mortgage free loan (Akula, 2008). It has been proved beyond doubt from Grameen Bank experiment.

GROWTH OF MICROFINANCE IN INDIA

Poverty alleviation has been one of the guiding principles of the planning process in India. Government has considerably enhanced allocation for the provision of education, health, sanitation and other facilities which promote capacity building and well being of the poor. The Indian government puts emphasis on providing financial services to the poor and under-privileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan at concessional rate to priority sector. The priority sector included agriculture and other rural activities and weaker section of society in general. The aim was to provide resources to help the poor to start their micro enterprise to attain self sufficiency. The government of India had also launched various poverty alleviation programs like Small Farmers Development Scheme (SFDS) 1974-75, Twenty Point Program(TPP) 1975, National Rural Development Program (NRDP)1980, Integrated Rural Development Program(IRDP)1980,Rural Landless Employment Guarantee

Program(RLEGP)1983, Jawhar Rozgar Yojna(JRY)1989, Swarna Jayanti Gram Swarojgar Yojana(SGSY)1999 and many other programs. But none of these programs achieved their desired goal due to poor execution and mal -practices on the part of government officials. To supplement the efforts of micro credit government of India had started a very good scheme viz. Integrated Rural Development Programme (IRDP) in 1980. But this supply side program (ignoring demand side of economy) achieved little. It involved the commercial banks in giving loan of less than Rs 15000/- to socially weaker section. In a period of nearly 20 years the total investment was around Rs 250 billion to roughly 55 million families. But it was far from realizing its desired goal. The problem with IRDP was that its design incorporated a substantial element of subsidies (25-50% of each family's project cost) and this resulted in extensive malpractice and misutilisation of funds. This situation led bankers to view the IRDP loan as motivated handout and they largely failed to follow up with borrowers. The net result is that estimates of repayment rates in IRDP ranged from 25-33%.The two decades of IRDP experience in the 1980s and 1990s affected the credibility of micro borrowers in the view of bankers and ultimately, hindered access of the less literate poor to banking services. This act of government had a serious long term impact on development of micro entrepreneurship among the underprivileged of the society. Thus a very good and potential program which once claimed to be "the world's largest microfinance program failed due to poor execution and political interference. On 1st April 1999 a new programme called Swarnajayanti Gram Swarojgar Yojana(SGSY) was launched by amalgamating programmes like IRDP(Integrated Rural Development Programme) and a number of allied programmes such as TRYSEM(Training of Rural Youth for Self Employment), DWCRA(Development of Women and Children in Rural Areas),SITRA(Supply of Improved Toolkits to Rural Artisans), GKY(Ganga Kalyan Yojana) and MWS(Million Wells Schemes). This is a holistic program covering all aspects of self-employment such as formation of Self Help Groups (SHGs), training, credit, technology, infrastructure and marketing. The program aims at establishing a large number of micro-enterprises in rural areas. SGSY is a credit-cum- subsidy program.

MODES OF DELIVERY MICRO FINANCE:

Micro Finance Institutions (MFIs) around the world follow a variety of different methodologies. The focus of such service is women rather than men for the reason women are more judicious and economical to men. The following are major methodologies employed by MFIs for delivery of financial services to low income families.

SELF HELP GROUPS (SHGS)

The Self Help Groups (SHGs) is the dominant microfinance methodology in India. In this case the members of Self Help Group pool their small savings regularly at a prefixed amount on daily or weekly basis and SHGs provide loan to members for a period fixed. SHGs are essentially formal and voluntary association of 15 to 20 people formed to attain common objectives. People from homogenous groups and common social back ground and occupation voluntarily form the group and pool their savings for the benefit of all of members of the groups.

INDIVIDUAL BANKING PROGRAMMES (IBPS)

In Individual Banking Programmes (IBPs) there is provision by Microfinance institutions for lending to individual clients though they may sometimes be organized into joint liability groups, credit and saving cooperatives. This model is increasingly popular through cooperatives. In cooperatives, all borrowers are members of organization directly or indirectly by being member of cooperative society. Credit worthiness and loan securing are a function of cooperative membership in which member's savings and peer pressure are assumed to be key factors. BAXIS a MFI based in Ahmadabad offers both the joint liability group and individual lending loans in addition to loans to intermediaries. Bank of Rakyat at Indonesia, arguably the world's biggest and profitable microfinance institution is following this model.

GRAMEEN MODEL

Grameen Model was pioneered by DR Mohammed Yunus of Grameen Bank of Bangladesh. It is perhaps the most well known and widely practiced model in the world. In Grameen Model the groups are formed voluntarily consisting of five borrowers each. The lending is made first to two, then to the next two and then to the fifth. These groups of five meet together weekly, with

Seven other groups, so that bank staff meets with forty clients at a time. While the loans are made to the individuals, all in the group are held responsible for loan repayment. According to the rules, if one member ever defaults, all in the group is denied subsequent loans

Mixed Model

Some MFIs started with the Grameen model but converted to the SHG model at a later stage. However they did not completely do away with Grameen type lending and smaller groups. They are a mix of SHG and Grameen model. The main difference between these programs is rather marginal. Grameen programmes have traditionally not given much importance to savings as a source of funds where as SHGs place considerable emphasis on the source of funds. The SHG programs have compulsory deposit schemes in which the members themselves determine the amount. The SHGs model is widely used in India.

Among all methodologies, Self Help Groups (SHGs) model is more popular in India. There are three models of SHGs. The salient features are given below:-

SHGs-Bank Linkage model: This model involves the SHGs financed directly by the banks via .CBs (Public sector and Private Sector), RRBs, and Cooperative Bank

MFI-Bank Linkage model:-This model covers financing of microfinance institutions (MFIs) by banking agencies for on ward lending to SHGs other small borrowers.

NGOs-Bank Linkage Model:-Under this model NGOs promote the linkage between banks and SHGs for savings and credit.

OVERALL PROGRESS UNDER SHG-BANK LINKAGE PROGRAMME DURING PAST THREE YEARS

(No. of SHGs in lakh, Amount in* Rs *crore)

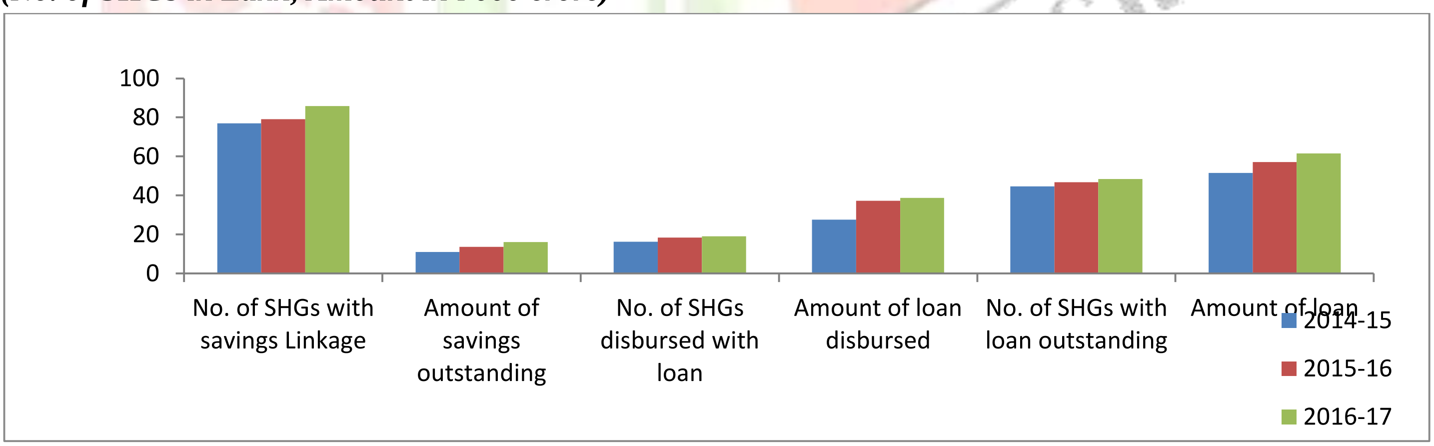
Particulars		2014-15		2015-16		2016-17	
		No. of SHGs	Amount	No. of SHGs	Amount	No .of SHGs	Amount
SHG Savings with Banks as on 31st March	Total No. of SHGs	76.97 (3.59%)	11059.84 (11.74%)	79.03 (2.68%)	13691.39 (23.79%)	85.77 (8.53%)	16114.23 (17.69%)
	Of Total, All Women SHGs	66.51 (6.38%)	9264.33 (15.61%)	67.63 (1.68%)	12035.78 (29.92%)	73.22 (8.26%)	14283.42 (18.67%)
	% of Women Groups to Total	86.41	83.77	85.58	87.91	85.36	88.64
	Of Total, NRLM/SGSY Groups	30.52 (34.92)	4424.03 (78.56%)	34.57 (13.27%)	6244.97 (41.16%)	37.44 (8.30%)	7552.70 20.94%
	% of NRLM/SGSY Groups to Total	39.65	40.00	43.74	45.61	43.65	*46.87*
	Of Total, NULM/SJSRY Groups	4.33	1071.81	4.46 (3.00%)	1006.22 (6.12%)	5.45 (22.42%)	1126.86 (11.99%)
	% of NULM/SJSRY Groups to Total	5.63	9.69	5.64	7.35	6.36	6.99
Loans Disbursed to SHGs during the year	Total No. of SHGs	16.26 (19.03%)	27582.31 (14.84%)	18.32 (12.67%)	37286.90 (35.18%)	18.98 (3.60%)	38781.16 (4.01%)
	Of Total, All Women SHGs	14.48 (25.69%)	24419.75 (16.07%)	16.29 (12.50%)	34411.42 (40.92%)	17.16 (5.34%)	36103.13 (4.92%)
	% of Women Groups to Total	89.05	83.53	88.92	92.29	90.42	93.09
	Of Total, NRLM/SGSY Groups	6.43 (28.45%)	9487.69 (27.26%)	8.16 (26.91%)	16785.78 (76.92%)	8.86 (8.58%)	17336.26 (3.28%)
	% of NRLM/SGSY Groups to Total	39.54	34.40	44.54	45.02	46.69	44.70
	Of Total, NULM/SJSRY Groups	1.05	1871.55	1.11 (5.71%)	2620.22 (40.00%)	1.06 (-4.5%)	2675.77 (2.12%)
	% of NULM/SJSRY Groups to Total	6.46	6.79	6.06	7.03	5.60	6.90
	Total No .of SHGs	44.68 (6.46%)	51545.46 (20.06%)	46.73 (4.59%)	57119.23 (10.81%)	48.48 (3.74%)	61581.30 (7.81%)

Loa outstanding against SHGs as on31st March	Of Total, All Women SHGs	38.58 (13.27%)	45901.95 (26.97%)	40.36 (4.61%)	51428.91 (12.04%)	42.84 (6.14%)	56444.24 (9.75%)
	%of Women Groups to Total	86.35	89.05	86.37	90.04	88.36	91.66
	Of Total, NRLM/SGSY Groups	18.46 (41.24%)	19752.74 (94.08%)	21.91 (18.69%)	26610.16 (34.72%)	24.91 (13.69%)	29994.43 (12.72%)
	% of NRLM/SGSY Groups to Total	41.32	38.32	46.89	46.59	51.37	48.71
	Of Total, NULM/SJSRY Groups	3.18	3462.62	3.13 (-1.57%)	3979.75 (14.93%)	3.18 (1.60%)	4133.29 (3.86%)
	% of NULM/SJSRY Groups to Total	7.12	6.72	7.00	6.97	6.55	6.71

PROGRESS OF SHG-BLP DURING PAST THREE YEARS

No. of SHGs with savings Linkage		Amount of savings outstanding	No. of SHGs disbursed with loan	Amount of loan disbursed	No. of SHGs with loan outstanding	Amount of loan
2014-15	76.97	11.06	16.26	27.58	44.68	51.55
2015-16	79.03	13.69	18.32	37.29	46.73	57.12
2016-17	85.77	16.11	18.98	38.78	48.48	61.58

(No. of SHGs in Lakh, Amount in* r*'000 crore)



The number of savings linked SHGs has shown a huge jump of 8.53% during the year. The increase is highest during this decade. With the expanding coverage of SHG-Bank Linkage Programme in Eastern and North Eastern Regions and other priority States during the last three years, there has been perceptible correction in the Southern bias of the Programme (Figure4.2).Bihar, Maharashtra, Rajasthan and West Bengal account for 63% of the net addition of SHGs during the year. The share of Southern Region in terms of number of SHGs declined to 43.4% in 2016-17 from almost half (48.3%) in 2014-15. There was a slight decline in the percentage share of SHGs in Southern Region as well as Central Region during 2016-17 over the previous year in spite of an absolute rise in number of SHGs Major States like Telangana ,Maharashtra, Gujarat, Chhattisgarh, Uttarakhand, West Bengal, Bihar, Jharkhand, and Rajasthan have recorded higher growth rate. The State-wise details of number of SHGs are given in Statement II-A.

AGENCY-WISE STATUS OF SHG-BLP IN 2016-17

Category of Agency	Total Savings of SHGs with Banks as on 31 March 2017		Loans disbursed to SHGs by Banks during the year		Total Outstanding Bank Loans against SHGs		NPAs	
	No. of SHGs	Savings Amount	No of SHGs	Loans disbursed	No. of SHGs	Loans outstanding	Amount of Gross NPA	NPA (%)
Commercial Banks	4444428	1017002	1116442	2429702	267030	3866847	264112	6.83
% Share	51.8	63.1	58.8	62.7	55.1	62.8	66.0	
Regional Rural Banks	2586318	363176	557540	1161300	161184	1911991	104500	5.47
% Share	30.2	22.5	29.4	29.9	33.2	31.0	26.1	
Cooperative Banks	1546129	231244	224138	287113	566141	379292.2	31607	8.33
% Share	18.0	14.4	11.8	7.4	11.7	6.2	7.9	
Total	8576875	1611423	1898120	3878116	484828	6158130	400219	6.5

The share of RRBs in quantum of credit disbursement to SHGs stood at 30%, about 27% more than the previous year. Further, the number of SHGs provided credit support also increased by 18.5%. The average loan disbursement by RRBs during the year was R2, 08,290 increasing from R1, 94,833 during last year. The share of Cooperative Banks both in number of SHGs provided bank loan during the year as well as the quantum of loan disbursed declined in 2016- 17 as compared to previous year. The average loan per SHG provided by Cooperatives was R1, 28,097, marginally increasing from R1, 27,894 in the previous year. Bank-wise details of loans disbursed during the year under SHG-BLP are given in Statement-B.

The number of SHGs having loan outstanding as on 31 March 2017 increased in case of RRBs and Commercial Banks, however, the increase was more prominent in case of RRBs (18.7%). Commercial Banks accounted for about two thirds of the bank loan outstanding under SHG- BLP. The average loan outstanding in case of Commercial Banks was R1,44,809 where as it was R1,18,622 in case of RRBs and R66,966 in case of Cooperative Banks. Bank-wise details of loans outstanding at the end of financial year 2016-17 under SHG-BLP are given in Statement I-C.

The overall NPA rate in bank loan to SHGs was 6.5% during 2016-17 near about the level in the previous year. The Commercial Banks as well Cooperative Banks have witnessed a rise in NPAs over the previous year while there was a fall by 114 basis points for RRBs (Figure4.11).

Progress under MFI-Bank linkage (Amount in crore)

Particulars	2014-15		2015-16		2016-17	
	No. of accounts	Amount	No. of accounts	Amount	No .of accounts	Amount
Loans disbursed by Banks/ FLs to MFIs	589	15190.13 (47.73%)	647	***20795.57 (36.90%)***	2314	19304.38 (-7.17%)
Loans outstanding against MFIs as on 31th	4662	22500.46 (36.22%)	2020	***25580.54 (13.69%)***	5357	29225.45 (14.25%)
Loans outstanding as % of fresh loans		148.13		***123.00***		151.39

***(Figures in parenthesis indicates growth/decline over the previous year) Source: Reporting Banks*)**

IMPACT OF MICROFINANCE

A number of researches have been conducted by various agencies to study the impact of microfinance on various variables like income, health, education of the clients. These field studies include study commissioned by NABARD in 2016, the positionofMicrofinanceinIndiastatementhasbeenpreparedbasedonthedatacompiledandcollatedbyusasreceivedfro mvarious reporting banks across the country. The World Bank Policy Paper details in the findings of Rural Finance Access Survey (RFAS) finished by World Bank in association with NCAER. These field studies reveal different research findings. But the common results are of the opinion that there is some increase in income levels and household assets in real terms among the clients. These studies also brought out the fact that major occupation of group members was agriculture along with other activities like farm labour and poultry. Being rain fed area, lack of irrigation facility; declining agricultural outputs and fragmentation of land have accentuated their vulnerabilities over a period of time. The group members lack any sort of specific handicraft skills and do not receive any skill development training for undertaking any other non- farm activities. It also shows that group members do not have confidence to use credit for productive purposes in view of lack of opportunities and skills. Irrigation and depressed commodity prices act as deterrent in farm sector investments, while lack of skills and invasion of rural market by big consumer goods companies reduce the scope for rural micro enterprises. In this scenario it seems rather naïve to visualize flourishing of micro enterprises through provision of microcredit.

The growth of microfinance organizations in India has also to be seen in the light of financial sector reforms in India. Under the new approach, institutional viability is of prime concern and instruments of directed credit and interest rate directives have been totally diluted or done away with. As a consequence, banks are increasingly shying away from rural lending as well as rationalizing their branch net work in rural area. Burgess and Pandey (2004) have brought out this fact in their study by stating that while between 1977 and 1990 (Pre reform period) more bank branches were opened in financially less developed states, but the pattern was reversed in post reform period. Thus the access of the rural poor to credit through traditional bank lending has been reduced in post reform era. The policy recommendation is to fill up this gap through microfinance. As per the new design NABARD is aggressively lending rural poor through Self Help Groups and Microfinance Institutions. High recovery rate under the program is used to justify the dictum that poor need timely and adequate credit rather than cheap credit.

Robinson (2001) is probably right in observing that commercial microfinance is not meant for core poor or destitute but is rather aimed at economically active poor. He opines that providing credit to people who are too poor to use it effectively helps neither borrower nor lender and would only lead to increasing debt burden. He suggests that this segment should not be the target market for financial sector but of state poverty and welfare programs.

DISCUSSION AND CONCLUSION Microfinance is multifaceted and works in an integrated system. There are many stake holders and each one has a definite role to play. In the core there is client. There is a second level called micro level where MFIs, NGOs, SHGs and Grameen work to provide financial support to individual client. Apex institutions like NABARD, SIDBI and other nationalized Banks operate in Meso-Level to provide infrastructure, information and technical support to micro level players. Around all these levels, there are financial environment, Regulations, legislations and regulators called Macro level. With passage of time new opportunities and new challenges are being felt in the field of microfinance. In recent years microfinance is in news for bad reasons. There are a number of suicide cases of micro credit clients all over India for excess interest charges and high handedness of recovery agents in recovery of loans. So, government of India has brought out a legislation to check the high interest rate on micro credit and protect the poor from clutches of greedy MFIs. Government of India introduced Micro Finance Institutions (Development and Regulation) Bill 2012 on May 22, 2012 to establish a regulator under RBI to regulate and supervise the activities of NGOs and MFIs. The main features of the Bill are as follows: the Bill allows the central government to create a Microfinance Development Council with officers from different ministries and Departments. The Bill requires all MFIs to obtain a certificate of registration from RBI. The RBI has the authority to set maximum annual percentage rate charged by MFIs and sets a maximum limit on the margin MFIs can make. Margin is defined as the difference between the lending rate and the cost of funds. It is also responsible for redressed of grievances for beneficiaries of microfinance services. These initiatives may go long way in strengthening the micro finance status in India.

Lending to the poor through microcredit is not the end of the problem but beginning of a new era. If effectively handled, it can create miracle in the field of poverty alleviation. But it must be bundled with capacity building programs. Hence it is very important to provide skills development training program like handicraft, weaving, carpentry, poultry, goat rearing, masonry, bees farming, vegetable farming and many other agricultural and non agricultural training. Government has to play proactive role in this case. People with some special skills have to be given priority in lending microcredit. These clients should also be provided with post loan technical and professional aid for success of their microenterprises. If government and MFIs act together then microcredit can play a great role in poverty alleviation.

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