By the end of 2008, nearly $15 billion of foreign investment had been channelled into micro-finance institutions, the majority still from government development organisations such as the World Bank, but with large amounts arriving from a variety of private and commercial sources.

Recent Innovations

In recent years micro-finance has been the subject of various innovations and experiments, from leveraging the hugely popular mobile banking industry, where mobile phones are used to send and receive money, for the purpose of micro-finance; to the introduction of new loan products tailored to local contexts, such as machinery loans, harvest stock spaces, and cattle fattening loans.

Loan methodologies have also diversified, and the original model of supportive group loans pioneered by the Grameen Bank, which have become more complex and adapted to local realities. Currently, products such as micro-insurance and micro-savings, which previously

Meaning of Micro Finance

It is the finance that is provided to unemployed or low-income people or groups. It is the provision of small loans (microcredit) to poor people to help them engage in productive activities or grow very small businesses. The term may also include a broader range of services, including credit, savings, and insurance. Microcredit is the extension of very small loans to those in poverty designed to spur entrepreneurship.

In other words, Microfinance serves as a tool for providing financial services to the low-income population, which do not have access to the mainstream financial services.

Definitions of Micro Finance

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

In India, Microfinance has been defined by "The National Microfinance Taskforce, 1999" 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".

"Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers a range of services which include, in addition to the provision of credit, many other services such as savings, insurance, money transfers, counselling etc." – ***Reserve Bank of India***

6. The inability to reach the poorest of the poor is a problem that plagues most poverty alleviation programs. As Gresham's law reminds us, if the poor and non-poor are combined within a single program, the non-poor will always drive out the poor. To be effective, the delivery system must be designed and operated exclusively for the poor.

7. Some criticize that microfinance programs benefit the moderately poor more than the destitute, and thus impact can vary by income group.

8. Most microfinance programs target women (due to higher repayment rates), which may result in men requiring wife to get loans for them.

9. Vicious cycle of debt, microcredit dependency, increased workloads and domestic violence associated with participation in microfinance programs.

10. Low repayment rates in comparison with traditional financial institutions.

11. Use of harsh and coercive methods to push and excessive interest rate.

ELEMENTS/ACTIVITIES IN MICROFINANCE

The activities of microfinance as discussed below:

Microcredit

It is a small amount of money loaned to a client by a bank or other institution. Microcredit can be offered, often without collateral, to an individual or through group lending.

Micro savings

These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these savings accounts allow households to save in order to meet unexpected expenses and plan for future expenses. Micro insurance: It is a system by which people, businesses and other organizations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their businesses while mitigating other risks affecting property, health or the ability to work.

Micro insurance

It is a system by which people, businesses and other organizations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their businesses while mitigating other risks affecting property, health or the ability to work.

- Relief of poverty.
- Advancement of education Advancement of religion.
- Purposes beneficial to the community or a section of the community.

2. Indian Trusts Act, 1882

Some MFIs are registered under the Indian Trust Act, 1882 either as public charitable trusts or as private, determinable trusts with specified beneficiaries/ members.

3. Not-For-Profit Companies Registered Under Section 25 of Companies Act, 1956

An organization given a license under Section 25 of the Companies Act 1956 is allowed to be registered as a company with limited liability without the addition of the words "Limited" or "Private Limited" to its name. It is also eligible for exemption from some of the provisions of the Companies Act, 1956. For companies that are already registered under the Companies Act, 1956, if the central government is satisfied that the objects of that company are restricted to the promotion of commerce, science, art, religion, charity or any other useful purpose; and the constitution of such company provides for the application of funds or other income in promoting these objects and prohibits payment of any dividend to its members, then it may allow such a company to register under Section 25 of the Companies Act.

ADVANTAGE OF REGULATION

Following are the advantages and benefits of regulation and supervision of /MFIs:

a) Protects the interest of the depositors.

b) Put in place prudential norms, standards and practices.

c) Provides sufficient information about the true risks faced by the banks/MFIs.

d) Promoters systemic stability and thereby sustains public confidence in the banks/ MFIs.

e) Prevents a bank's/MFI's failure/potential dangers through timely interventions.

f) Penalizes the violations, misconducts, non-compliance to the norms of behavior.

g) Provides invaluable advisory inputs for problem-solving and overall improvement of the banks/MFIs.

h) Promoters safe, strong and sound banking/MF system and effective banking/MF policy.

i) Promotes and enhances orderly economic growth and development.

14) To be always ready to help each other.

15) To help and restore order if we learn that discipline is not respected in a centre.

16) To introduce physical culture in all centres and to take part in all social events.

Working model of Grameen Bank

a) Manager first makes a round to the appointed area to introduce Grameen policies and programs.

b) Try to make the group of 5 people.

c) Only two members can obtain loan at first. After 6 weeks of successful repayment another two can apply for loan. The leader can only receive loan at last.

d) Repayment responsibility solely rests on the individual borrower.

e) However if one member of a group defaults, that group will never receive a loan from Grameen.

Women were initially given equal access to the schemes, and proved to be not only reliable borrowers but also astute entrepreneurs as well. Grameen Bank has successfully reversed conventional banking practices by removing collateral requirements and has developed a banking system based on mutual trust, accountability, participation and creativity.

According to Professor Yunus the founder of the Grameen Bank , credit is seen as a cutting edge tool for affecting those inequalities that confine the poor to a poverty cycle and for releasing the inherent capacities in people. Thus, it restores some sort of social power which has been denied to the poor because they lack collateral. Professor Muhammad Yunus argued that the conventional banking system is anti-poor, anti-women and anti-illiterate and thus, has contributed to maintaining the statusquo between the rich and poor. Thus microcredit issued to small groups, is purported to enable them the opportunity to purchase equipment and other inputs and engage in micro enterprises of their choice.

Methodologies of the Grameen Bank Model

The Grameen Bank is based on the voluntary formation of small groups of five people to provide mutual, morally binding group guarantees in lieu of the collateral required by conventional banks. Women were initially given equal access to the schemes and contrary to what was thought of, they proved to be not only reliable borrowers but also astute entrepreneurs. Intensive discipline, supervision and servicing, characterize the operations of the GB, which are carried out by bicycle bankers in branch units with considerable delegated authority.

f) The interest rate charged by the Grameen bank is by far higher than those charged by conventional banks. They charge more than 7% monthly, with the credit terms remaining inflexible and ill adapted to the activities of the poor clients.

g) Again, agriculture which in most developing countries is the principal activity of the poor is neglected. The Grameen model calls for the dynamics of joint liability. This mean that groups screen and self select their members to form a relatively homogeneous groups and consequently members typically share similar probability of defaulting on a loan. Again, the poor are again left out due to negative perception of poor people in a community, with no social groups willing to accept the poor.

JOINT LIABILITY GROUP (JLG)

A joint Liability Group (JLG) is an informal group comprising preferably of 4 to10 individuals coming together for the purposes of availing bank loan either singly or through the group mechanism against mutual guarantee. The JLG members would offer a joint undertaking to the bank that enables them to avail loans. The JLG members are expected to engage in similar type of economic activities like crop production.

OBJECTIVES JLG

1. To augment flow of credit to farmers, especially small, marginal, tenant farmers, oral lessees, share croppers / individuals taking up farm activities.
2. To serve as collateral substitute for loans to be provided to the target group.
3. To build mutual trust and confidence between bank and the target group.
4. To minimize the risks in the loan portfolio for the banks through group approach, cluster approach, peer education and credit discipline.
5. To provide food security to vulnerable section by enhanced agriculture production, productivity and livelihood promotion through JLG mechanism.

CRITERIA FOR MEMBERSHIP

1. Members should belong to similar socio-economic status, background and environment carrying out farming and Allied activities and who agree to function as a joint liability group. This way the groups would be homogeneous and organized by likeminded farmers/Individuals and develop mutual trust and respect.
2. The members should be residing in the same village/area/neighbourhood and should know and trust each other well enough to take up joint liability for group/ individual Loans.

Less chances of getting back the money	Chances of repayment are more
Get the benefit of government scheme	There is no such benefit

SELF HELP GROUP MODEL

In SHG Model the members form a group of around twenty members. The group formation process may be facilitated by an NGO or by the MFI or bank itself, or it may evolve from a traditional rotating savings and credit group or other locally initiated grouping.

SHG is a registered or unregistered group of micro entrepreneurs having homogeneous social and economic background, voluntarily coming together to save small amount regularly, to contribute a common fund and to meet their emergency needs on mutual help basis. Around Twenty persons are selected, one each from a BPL family to form a group which is expected to implement following code of conduct like Assigning name to the SHG, Regular meetings in a Democratic way, Open exchange of thoughts in these meetings, Participation in the Decision Making process, Bank Account in the name of the SHG and Selecting a President and Secretary from the SHG.

FEATURES OF SHGS

1. Is a small group of rural poor, who have voluntarily come forward to form a group for improvement of the social and economic status of the members.
2. Homogeneous group of about 15 to 20.
3. Every member to save small amounts regularly.
4. Every member learns prioritization and financial discipline.
5. Members should be between the age group of 21-60 years.
6. From one family, only one person can become a member of an SHG. (Morefamilies can join SHGs this way).
7. The group normally consists of either only men or only women.
8. Members should be homogenous i.e. should have the same social and financial background.

GOALS OF SHGS

Self-help groups are started by non-profit organizations (NGOs) that generally have broad anti-poverty agendas. Self-help groups are seen as instruments for a variety of goals including empowering women, developing leadership abilities among

1. SHG-Bank Linkage Programme

This is the bank-led microfinance channel which was initiated by NABARD in 1992. Under the SHG model the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings in the group periodically and from these savings small loans are provided to the members. In the later period these SHGs are provided with bank loans generally for income generation purpose. The group's members meet periodically when the new savings come in, recovery of past loans are made from the members and also new loans are disbursed. This model has been very much successful in the past and with time it is becoming more popular. The SHGs are self-sustaining and once the group becomes stable it starts working on its own with some support from NGOs.

Microfinance Institutions

MFIs are the main players in the microfinance space in India; their primary product is microcredit. Other players that extend microfinance services, in addition to their core businesses, include banks and insurance companies, agricultural and dairy cooperatives, corporate organisations such as fertiliser companies and handloom houses, and the postal network. Additionally, there are specialised lenders, called apex MFIs that provide both loans and capacity building support to MFIs.

Those institutions which have microfinance as their main operation are known as micro finance institutions. A number of organizations with varied size and legal forms offer microfinance service. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. The reason for existence of separate institutions i.e. MFIs for offering microfinance are as follows:

- High transaction cost - generally micro credits fall below the break-even point of providing loans by banks
- Absence of collaterals - the poor usually are not in a state to offer collaterals to secure the credit
- Loans are generally taken for very short duration periods
- Higher frequency of repayment of installments and higher rate of Default

Non-Banking Financial Companies (NBFCs), Co-operative societies, Section-25 companies, Societies and Trusts, all such institutions operating in microfinance sector constitute MFIs and together they account for about 42 percent of the microfinance sector in terms of loan portfolio. The MFI channel is dominated by NBFCs which cover more than 80 percent of the total loan portfolio through the MFI channel.

c) Large segment is still untouched due to access problem.

d) Many poor still prefers informal providers (local Zamindars, Chit Funds) of finance which charge at a high interest rate.

e) MFIs targets Women.

f) Many places in States such as Uttar Pradesh, Bihar and Madhya Pradesh are under-served.

g) Not properly regulated. Loan fatigue- poor recovery, politicized.

Opportunity

a) Huge demand and supply gap.

b) Huge potential and heavy need for this market.

c) Inclusion of innovative models and initiatives.

d) Employment Opportunity.

e) Opportunity for Pvt. Banks, NBFCs, Foreign Banks to enter this business segment.

Threats

a) Global financial storm.

b) Uncertain regulatory underlined concerns.

c) High Competition.

d) Policies and procedures of central banks which might pose hurdles to poor people.

e) Risks to MFIs – Credit risk, Operational risk, strategic risk, liquidity risk, market risk, fraud and legal risks, reputation risk, External business risk.

NABARD INITIATIVES IN MICRO FINANCE

National Bank for Agriculture and Rural Development (NABARD) was established as an apex rural development bank in the year 1982, through an Act of Parliament.

ROLE AND FUNCTION OF NABARD

1. Providing Refinance to lending institutions in rural areas.
2. Evaluating, monitoring and inspecting the client banks.
3. Providing support to NGOs through a variety of schemes.
4. Making model projects/development schemes for banks and farmers.
5. It prepares, on annual basis, rural credit plans for all districts in the country.

Evolution of Indian Rural Banking System

The post-independence era witnessed a gradual change in the banking sector. In the area of rural finance two broad categories of banking gradually evolved in the Indian Financial System; a) Social Banking and b) Priority Sector Banking (Lending). Each of these categories developed gradually with some specific objectives to achieve. The broad objectives of these sectors are a) increasing bank presence in rural areas and to equalizing population per bank branch across Indian states, b) directed bank lending towards priority sectors which included agriculture and small scale industries and within these sectors to individuals belonging to "weaker sections" of society, which included scheduled castes and scheduled tribes.

a) Social Banking

Indian rural banking system evolved around 1950s with establishment of cooperative banks to cater to the need of agriculture and small scale industry sectors. Since then, it was only big corporate and commercial banks that cornered much of the bank credit. Though there were many banks in early 1960s, most of them failed to survive because of multiple reasons. These and many other reasons compelled the then Indian government to go for nationalization of banks in 1969 broadly to prevent a few corporations to control all the banks, to limit the concentration of wealth and economic

power, to enhance deposit mobilization from the public, mostly from the rural area and to pay more attention to priority sectors. Even the process started much before in the year 1955 with partial nationalisation of private banks and formation of State Bank of India (SBI).

The period 1969-1990 was the period of greatest prosperity and productivity for Indian banking sector. Between 1969 and 1980, thousands of new bank branches were established across rural India. This period was well known as the evolution of "Social Banking" in India where social benefit rather than profitability was the overriding objective of the banking sector. As per Weber (2014), social banking provides long term relationships with clients and a direct understanding of their economic activities and the risks involved. During this period banks came up with various innovative methods and developed strategies to reach the rural poor, who were unbanked and underprivileged. Banks provided targeted and low-priced loans for the lower income households residing in rural areas and came up with credit planning, quantitative credit targets and subsidised credit for the same customer segments. Banks adopted 'service area approach' to focus on Clients. Under this approach, each of the banks was to identify and select 15-20 operational villages per branch to provide banking services. No other banks were allowed to open their branches in these villages without a proper no-objection certificate (NOC) from the bank which was allowed to open its branches. However, many banks faced severe constraints on operational and financial autonomy because of this restriction.

However, though there was huge expansion of bank branches during this period, The Industrial policy of 1977 placed huge importance on the small scale sector and decided to take the focal point of development of small scale from big cities to districtheadquarters. A District Industries Centre (DIC) was set up in each district to provide the required supports and services to the small industries. To assist in the growth of small units, a scheme of building buffer stock of essential materials utilizing Small Industries Development Corporations (SIDC) was introduced in the year 1980. In 1986, in order to coordinate the financial assistance to small units a separate special fund called the Small Industries Development Fund (SIDF) was set up with IDBI. In 1988, the Small Industries Development Bank (SIDBI) was proposed to be set up which would administer both SIDF National Equity Fund to provide equity support to tiny and small scale sector Projects.

SHG-Bank linkage Programme (SBLP)

A significant portion of Indian population, particularly from rural areas remained outside the formal banking system in spite of expansion of bank networks. Considering this fact, alternative models were experimented to meet the objective of financial inclusion and providing access to different financial services to these unbanked communities. The SHG-Bank linkage model was the indigenous model of microfinance evolved in India and was widely applauded as a successful model (Kumar and Golait, 2009). SBLP is considered as a promising approach to reach the poor and had since its inception made rapid developments showing considerable characteristics of democratic functioning and group dynamism. NABARD experimented this programme with NGOs establishing credit

management groups with concept developed by GTZ (German Technical Cooperation). The decisive event which brought the linkage approach to the attention of policymakers and banks in India was the APRACA (Asia-Pacific Rural and Agricultural Credit Association) regional workshop in Nanjing and China in May 1986. The linkage approach was subsequently adopted by APRACA as its priority program and supported by a GTZ regional project. Its operational guidelines were reviewed and revised by NABARD and discussed at a joint workshop in Jakarta in February 1992 (Seibel, 2005). Inspired by the APRACA-GTZ regional project, NABARD carried out its own pilot project from the year 1992 to 1996. On that basis, NABARD initiated mainstreaming of SHG banking, setting up a Credit and Financial Services Fund in 1996 for extensive capacity building and a Micro Credit Innovations Department (MCID) in 1998, with MCI cells in every state.

Seibel (2005) concludes from his study that SHG-Bank linkage programme brought a paradigm shift in rural finance in India. Through this programme, rural women got better access to formal finance which substantially reduced their dependency on money lenders and diminished capital costs. The improved access to financial services has benefited SHG members and their households in maintaining, intensifying and diversifying their economic activities, with positive effects on income and employment generation. This programme was conceived to fill the gap in the formal financial network and extending the outreach of banking to the poor. However, it has been uneven across the regions on account of various factors like role of State Governments, performance of NGOs (SHG promoting institutions), socio-cultural factors, performance of SHGs, etc. More detailed studies have been done on this field by authors like Bansal (2003), Suran (2007), Vasudevan and Ghaisas (2013), Puhazhendi & Badatya (2002), and Reddy &

Major Milestones in Evolution of Rural Finance in India

Since pre-independence era Indian banking system has gone through several restructuring and modifications to cater to the broad social needs and providing access to financial services for mostly rural and unbanked population. The following table gives an abstract on major happenings in the field of rural finance in India. More detailed information can be referred from the works done by various author like Gupta (2015), Kumar (2014), Williams & Abbas (2014), Shah & Shankar (2007).

Year	Events
1904	The first Cooperative Law of India was enacted by the British, which was amended in 1912.
1921	Establishment of Imperial Bank of India
1950	Establishment of Cooperative banks
1956	Nationalization of Imperial Bank of India and formation of State Bank of India.
1969	Nationalization of commercial banks and Introduction of Lead bank scheme
1975	Establishment of Regional Rural Banks.
1977	Introduction of 1:4 license policy by RBI
1980	Introduction of Priority Sector Banking
1982	Establishment of NABARD
1988	Establishment of SIDBI
1991	Narshimham committee report on financial sector reform and bank liberisation
1992	Launching of Self Help Groups Linkage Programme by NABARD
1998	Launching of Kishan Credit Cards
2000	Establishment of SIDBI foundation for micro credit
2001	Vyas expert committee on rural credit and establishment of PACS
2007	Proposed bill on Microfinance Regulation introduced in parliament.
2008	Rangarajan Committee report instituted by NABARD
2011	Malegam Committee Report by Reserve Bank of India
2012	Microfinance Institutions (Development and Regulations) Bill by Finance Department, Government of India
2014	Establishment of Small Finance Banks and Payment banks

Way forward

Access to financial Services is important for poor people. Low-income households and microenterprises can benefit from credit, savings, and insurance services. Access to financial services for the rural households is still the need of the hour and in spite of decades of experiments Indian banking sector is struggling to address the problem of access and this is being proved by the following few findings. World Bank Global Findex (2011) report tells that 38% of age group of 25+ years do not have a bank account and only 8.8% of the same age group have a loan from formal financial institutes (FIs). RBI (2013) report suggests that 90% of small businesses have no links with formal FIs and 60% of the rural and urban population do not even have a functional bank account. As

The microcredit loan cycles are usually shorter than traditional commercial loans with terms from typically six months to a year with payments plus interest, payed weekly. Shorter loan cycles and weekly payments help the borrowers stay current and not become surprised by large payments. Clearly the transaction-intense nature of weekly payment collections, often in rural areas, is more expensive than running a bank branch that provides large loans to economically secure borrowers in a metropolitan area. As a result, MFIs must charge interest rates that might sound high.

Data from the MicroBanking Bulletin reports that 63 of the world's top MFIs had an average rate of return, after adjusting for inflation and after taking out subsidies programs, of about 2.5% of total assets. This lends to the hope that microfinance can be sufficiently attractive for investors, as well as the mainstream in the retail banking sector.

Typical microcredit products look like this (the numbers are only hypothetical):

Product	Purpose
Income Generation Loan (IGL)	Income generation, as development
Mid-Term Loan (MTL)	Same as IGL, available (week 25) of IGL
Emergency Loan (EL)	All emergencies such a funerals, hospitalizati
Individual Loan (IL)	Income generation, as development

The Emergency Loan is available to all clients over the course of a fiscal year. The loan is interest free and the amount and repayment terms are agreed upon by the MFI and the client on a case by case basis. The amount is small compared to the income generating products and is only given in times of dire need to meet expenses such as funerals, hospital admissions, prenatal care and other crisis situations.

Banks typically lend up to four rupees for every rupee in the group fund;

- **Micro insurance** – Gives the entrepreneurs the chance to focus more on their corebusiness which drastically reduces the risk affecting their property, health or workingpossibilities. The is different types of insurance services like life insurance, property insurance, healt insurance and disability insurance. The spectrum of services in this sphere is constantly expanded, as schemes and terms of providing insurance services are determined by each company individually;
- **Micro leasing** – For entrepreneurs or small businesses who can´t afford buy at full cost they can instead lease equipment, agricultural machinery or vehicles. Often no limitations of minimum cost of the leased object;
- **Money transfer** – A service for transferring money, mainly overseas to family or friends. Money transfers without opening current accounts are performed by a number of

since in case of microcredit non-repayment they will have more debts, becoming poorer. For such people special programs of social assistance are needed, which are able to support main needs of people living in the poorest dwellings, lacking garments and food.

There is some restrictions regarding what the money is used for. Usually micro credits can´t be used for the purposes like:

- Payments of other loans or other debts;
- Production of tobacco and liquor;
- Forming turnover capital of trade and intermediary business;
- Organization or purchasing products for gambling or entertainment services for the population;
- Establishing trading points;
- Purchase of property that´s not used for business.

In the microfinance sector there´s other