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Microfinance and Its Models: A Model to Eradicate Poverty and Its Analysis

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ABSTRACT :"Microfinance is not simply banking; it is a development tool. It has been estimated that there are 500 million economically active poor people in the world operating microenterprises and small business" (Joann ledgerwood, 1998). This paper highlights the microfinance and direct towards the position of microfinance in India."Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Majority of poor are excluded from financial services" (Vivek Kumar Tripathi, 2014).Microfinance is a programme that assists and supports the poor in obtaining loans and repaying their obligations, allowing them to preserve their social and economic standing in the country. Microfinance is the provision of financial services to self-employed people who are low-income, poor, or very poor.

Objectives of the study: The present study intends to know how microfinance as a financial sector has emerged in the rural areas of India. The paper intends to scrutinise the pros and cons of various models of microfinance. Efforts have been made to structure the SWOT analysis of the same sector and then conclude whether India needs more of such microfinance institution.

Research Methodology: The research methodology adopted here is based on secondary data. The information is taken from prominent journals, websites, and textbook.

Findings: Indian rural finance sector is at crossroads today. Following the financial sector reforms with its emphasis on profitability as the key performance benchmark, banks are increasingly shying away from rural lending as well as rationalizing their branch network in rural areas. While rural poor access to credit has decreased in the post-reform period, the policy advice is to replace the gap with microcredit. The government is working hard to revive the economy; however, in order to move forward, it must take into account the existing microfinance sector and related institutions.

Suggestions: Field supervision of these loans should be implemented, and microfinance institutions should assess the ground realities and operational effectiveness of such lending. Microfinance should now focus on underserved and underserved areas, with incentives granted to microfinance institutions. Savings, self-help, education, and training, rather than only lending, should be encouraged by regulations.

Key Words: Microfinance, Microcredit, Non-Government Organization, Poverty, Self-Help Group, Women Empowerment, performance benchmark

OVERVIEW OF MICROFINANCE:

Microfinance is a set of financial services accessible to small-scale business owners who lack collateral, lack access to banking services, and would not otherwise qualify for a traditional bank loan. It comprises loans, savings, and insurance. These help the poor people to start up and grow their businesses. Microcredit or microloans are generally given to do different businesses related to fishing, carpentry, transportation, food products in developing countries. "The amount of loan is less and do insist that the loan is repaid within 6 months to 1 year", (Saptarshi M and Prashant P).

I. INTRODUCTION:

Microfinance in India: A Quick Overview

The post-nationalization period in the banking sector, circa 1969, witnessed a substantial amount of resources being earmarked towards meeting the credit needs of the poor. "With the recognition of the Nobel Peace Prize in 2006, Muhammad Yunus's vision of extending credit to the poor has reached a global level", (Rajdeep Sengupta and Craig P. Aubuchon, 2008),The bank nationalisation policy had numerous goals, one of which was to broaden the reach of financial services to underserved groups. The financial network underwent an expansion phase unlike any other in the world as a result of this strategy. Credit came to be seen as a panacea for many of the problems that plagued the poor. "Only by achieving a high degree of sustainability has microfinance gained access to funding they need over time to serve significant numbers of their poverty level clients. This image reveals that there is in fact only one objective outrage. Sustainability is but the means to achieve it," (Rhyne E, 1998).While the goals were admirable and much progress was made, credit to the poor, particularly impoverished women, remained limited. This resulted in institution-led initiatives aimed at bringing together the existing capabilities of rural banking infrastructure and leveraging them to better serve the poor. The National Bank for Agriculture and Rural Development (NABARD), which was tasked with developing appropriate policies for rural credit, providing technical assistance-backed liquidity support to banks, supervising rural credit institutions, and other development initiatives, was the first to do so.

The Integrated Rural Development Initiative (IRDP), a significant poverty reduction credit scheme initiated by the Indian government in the early 1980s, provided poor people with federally loans through banks. In this context, there was a need for alternative policies, processes, and procedures, along with savings and loan products, other supplementary services, and new delivery mechanisms, to address the needs of the poorest, especially the women who make up these households. As a result, rather than focusing on microcredit, the focus was on enhancing impoverished people's access to microfinance. In response to the poor's demand for microfinance, the government and non-governmental organisations (NGOs) have supported a range of microfinance initiatives throughout the last 25 years. In 1999, the Government of India consolidated several lending schemes, streamlined them, and established the Swaranjayanti Gram SwarazagarYojana (SGSY).SGSY's mission is to continue providing subsidised loans to the poor through the banking sector in order to generate self-employment through a self-help group method, and the programme has developed to tremendous proportions. Microfinance has recently received a lot of attention from all over the world as a successful instrument for poverty reduction. Self-Help Groups and Microfinance Institutions (MFIs) are the two most common types of microfinance today.

NEED OF MICROFINANCE

1. Provide training to underprivileged people for their basic needs.
2. Empowering women and to encourage them to become social entrepreneurs.
3. To strengthen self-help groups so that economic transformation happens
4. Special programs for underprivileged people in society.
5. Maximum usage of local resources for the development and livelihood for the people.

EVOLUTION OF THE CONCEPT OF MICROFIANCE

The concept of microfinance can be traced for decades; it is Bangladeshi national Dr. Muhammad Yunus who is known as front runner of microfinance. In 1970 when Dr. Yunus was working at Chittagong University he was moved by the level of poverty of basket weaves. Then he experimented by offering small amount of loans to these women. Yunus worked on this aim for more than ten years before establishing the Grameen Bank in 1983 to help the impoverished. More over 8 million borrowers in around 81,000 villages are served by the Grameen Bank's 2,500 branches now. Grameen Bank claims that its clientele, 97 percent of whom are women, repay loans in excess of 97 percent of the time, a percentage that is higher than any other banking system. Yunus and Grameen Bank shared the Nobel Peace Prize in 2006 for their efforts and achievements in the field of microcredit and microfinance.

Despite the fact that middle and higher class farmers benefited from increased agricultural output through heavy use of inputs, the given credit model failed in the 1960s and 1970s. Rapid disbursement of funds with greater political emphasis, failure to collect loans due to a lack of proper institutional arrangements, and clients' attitude toward loans as grant money were the main reasons for state failure of credit provision, and in the 1990s Microfinance began to develop as an industry.The microfinance industry's goal in the

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2000s was to meet unmet demand on a much greater scale and contribute to poverty reduction. The World Bank has called South Asia the "Cradle of Microfinance". "Instead of focusing on becoming self-sufficient, Schreiner (2002, p. 82) argues for more quantitative evaluation of MFIs".

The Evolution of Microfinance around the World

People have traditionally saved and borrowed small amounts of money from individuals and groups in the context of self-help in order to launch companies or farming activities. The following stages are discussed in detail: The development of the microfinance sector can be divided into four stages:

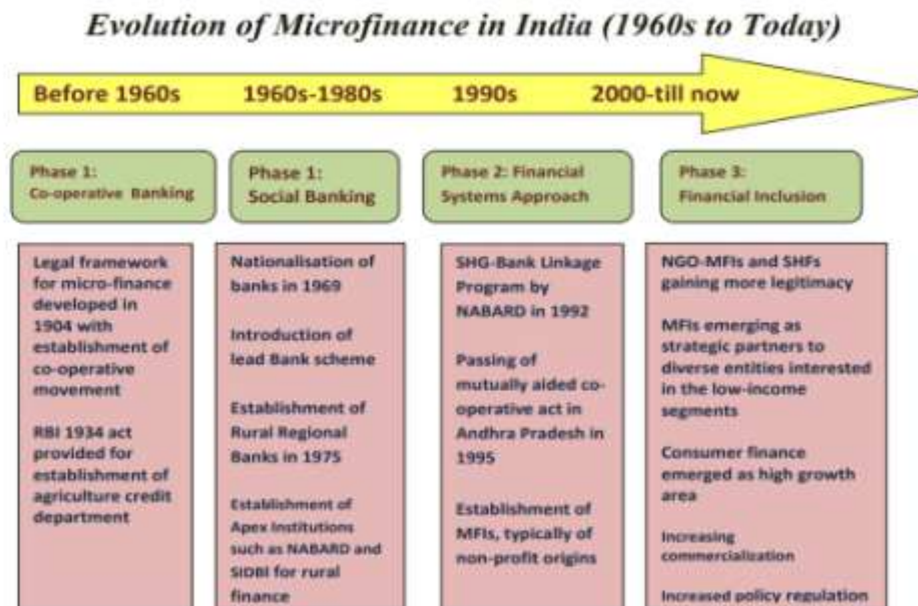

Image 1: Evolution of Microfinance in India

Phase 1: The cooperative movement is the first phase (1900-1960) during this time, credit cooperatives served as vehicles for extending government-sponsored discounted loans to villages.

Phase 2: Social banking was subsidised from the 1960s until the 1990s. In response to the failure of cooperatives, the government took steps such as nationalising banks, expanding rural branch networks, establishing Regional Rural Banks (RRBs), and establishing apex institutions like the National Bank for Agriculture and Rural Development (NABARD) and the Small Scale Industries Development Bank of India (SIDBI), among them, the launch of a government-sponsored Integrated Rural Development Program (IRDP). While these actions enabled the reach of a vast population, the period was marked by widespread credit abuse, leading to an unfavourable view of micro borrowers among bankers, further limiting low-income people's access to banking services.

Phase 3: NGOMFI expansion and the SHG-Bank connection programme (1990–2000) the failure of subsidised social banking sparked a paradigm shift in rural credit delivery, with NABARD launching the Self Help Group (SHG) Bank Linkage Programme (SBLP), which aims to connect informal women's organisations to formal banks. The programme helped expand banking system outreach to previously unreached populations and shift the bank's attitude toward low-income households from "beneficiaries" to "clients." As a result, credit was extended at market rates throughout this timeframe. The approach piqued the attention of newly growing Microfinance Institutions (MFIs), the majority of whom are non-profits, to partner with NABARD under this programme. The early 1990s macroeconomic crisis ushered in a new generation of private sector banks that would go on to become major players in the microfinance sector a decade later.

Phase 4: Microfinance's Inclusion: The New Millennium's First Decade Rural markets have arisen as new growth drivers for MFIs and banks following the reforms, with the latter investing in the area not only as part of their corporate social responsibility but also as a new business line.

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GROWTH OF MICROFINANCE

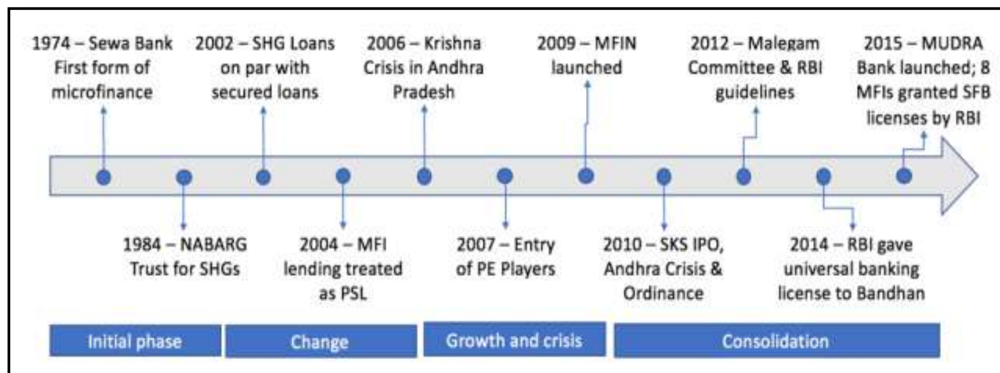


Image 2: Growth of Microfinance

Since independence, the Indian government has placed a high priority on providing financial services to the poor and underserved. In 1969, commercial banks were nationalised, and they were required to lend 40% of their loans to the priority sector at a discounted rate.The goal was to provide resources to assist the impoverished in starting their own microbusiness in order to achieve self-sufficiency. In 1980, the Indian government launched a very successful programme called the Integrated Rural Development Programme (IRDP) to augment the efforts of micro credit. These supply-side initiatives, on the other hand, were largely ineffective. The difficulty with IRDP was that it was designed with a significant amount of subsidies, which led to widespread fraud and mismanagement of finances. As a result, a solid and promising initiative that once claimed to be "the world's largest microfinance programme" was thwarted by bad implementation and political meddling.

The first microfinance effort in India was launched in 1974 by Shri Mahila SEWA (Self Employed Women's Association) Sahakari Bank in Ahmadabad, Gujarat, with the goal of providing financial services to poor women working in the unorganised sector. In India, initially many NGO microfinance institutions (MFIs) were funded by donor support in the form of revolving funds and operating grants. However, it was only after the National Bank for Agriculture and Rural Development (NABARD) intervened in the field of microcredit in 1992 that the microfinance movement in India gained traction. For our country's economic progress, the Reserve Bank of India has called for financial inclusion of the majority of the population. Financial services at a reasonable cost Poor people's livelihood opportunities are widened through credit and insurance, in particular. “Apart from social and political empowerment, financial inclusion imparts formal identity and provides access to the payment system and to saving safety net like deposit insurance. Hence financial inclusion is considered to be critical for achieving inclusive growth” (U Thorat, 2007). In India, private institutions that primarily provide microfinance services are known as Micro Finance Institutions (MFIs).

DEVELOPMENT OF MICROFINANCE

The government started focusing on financial development and credit planning. As a result, banks began to disseminate advances to agricultural and small-scale businesses in rural areas. The goal was to use credit distribution to effect financial and social transformation. Microfinance institutions (MFIs) became well-known in India after two decades in the 1990s, as the economy expanded and became more focused. The National Bank for Agriculture and Rural Development (NABARD) launched a programme in 1992 to support and encourage the disbursement of advances to self-help organisations. Rashtriya Mahila (RMK or the National Loans Fund for Women) was established after a year in 1993 to redistribute credit from NGOs to independently employed women in the unorganised sector. Different microfinance institutions (MFIs) in India founded SaDhan, the Association of Community Development Finance Institutions, in 1998. Rivalry has grown in the financial sector, particularly among public sector banks.

Whatever the case may be, the legislature has relaxed some banking laws in the hopes of increasing the number of rural family units. Because many banks do not perceive rural populations to be profitable, they only issue loan when the government requests it. It is extremely difficult for the poor to obtain loans from banks due to their lack of collateral and inability to obtain

adequate finances, as they typically obtain cash from moneylenders and shops (informal finance).Because poor people do not have permanent jobs, their pay is intermittent and inconsistent, and banks have no certainty that they will be able to return their loans. Furthermore, "distance, lack of knowledge, and borrowers' diverse histories," as well as the recurrence of high operating costs, make it difficult and unappealing for banks to lend to country poor groups. Banks also believe that government regulations and controls make it difficult to provide credit to the poor. The shared responsibility that the entire group bears for the advances granted to individual borrowers is a major component of this joint risk bunch loaning arrangement.

IMPORTANCE OF MICROFINANCE

In 2004-2005, the Planning Commission estimated that 27.5 percent of India's population was living below the poverty level. Around 75% of India's poor live in rural areas, with the vast majority of them being landless workers, daily bread earners, and families who are self-employed. India has one of the world's highest rates of poverty, with a widening divide between the rich and the poor. Indians have a fascinating cultural, political, and economic past that has influenced poverty and gender inequality in the country. Following India's independence from the United Kingdom in 1945, a new democratic government was formed with the goal of giving equal rights, freedom, opportunities, and financial stability.

Because Indians require opportunities such as financial possessions and the ability to find work, they are trapped in an endless cycle with no open doors for individuals to elevate themselves out of poverty. Microcredit has been used as a method by governments in developing countries, international funding organisations, and philanthropist offices since the 1950s, with the purpose of assisting the needy. The Indian government began administering advances to families in rural zones who worked in the agricultural sector, as well as city-staying families, in the 1950s and 1960s, in collaboration with the Indian banking system, to enhance financial development throughout India.

RBI REGULATIONS

Kolkata: The Reserve Bank of India said that it would simplify regulations for banks and microfinance institutions in order to improve last-mile credit delivery and promote consumer protection. While the RBI did not provide any additional details, industry leaders expect activity-based regulation to replace the current structure of institution-based regulation, bringing all microfinance lenders onto the same playing field. In addition, the RBI's current restrictions limit single micro borrowers to a borrowing limit of Rs 1.25 lakh. A maximum of two NBFC-MFIs can lend to a single borrower, according to the regulator. Banks, on the other hand, are allowed to lend to the same borrower indefinitely creating an uneven playing field. Further “We have brought these issues to the notice of the regulator several times,” said P Satish, executive director of microfinance industry body Sa-Dhan.

At the end of September 2020, the microfinance industry had served 5.71 crore borrowers through 10.50 crore loan accounts, with a total loan portfolio of Rs 2, 31,778 crores. Banks maintain the largest portion of the microfinance portfolio, accounting for 40.71 percent of overall micro-credit with a total loan outstanding of Rs 94,355 crore. With a loan portfolio of Rs 69,933 crore, NBFC-MFIs are the second largest supplier, accounting for 30.17 percent of the entire industry portfolio.

Policy to set up social microfinance institution in the works: Gadkari.

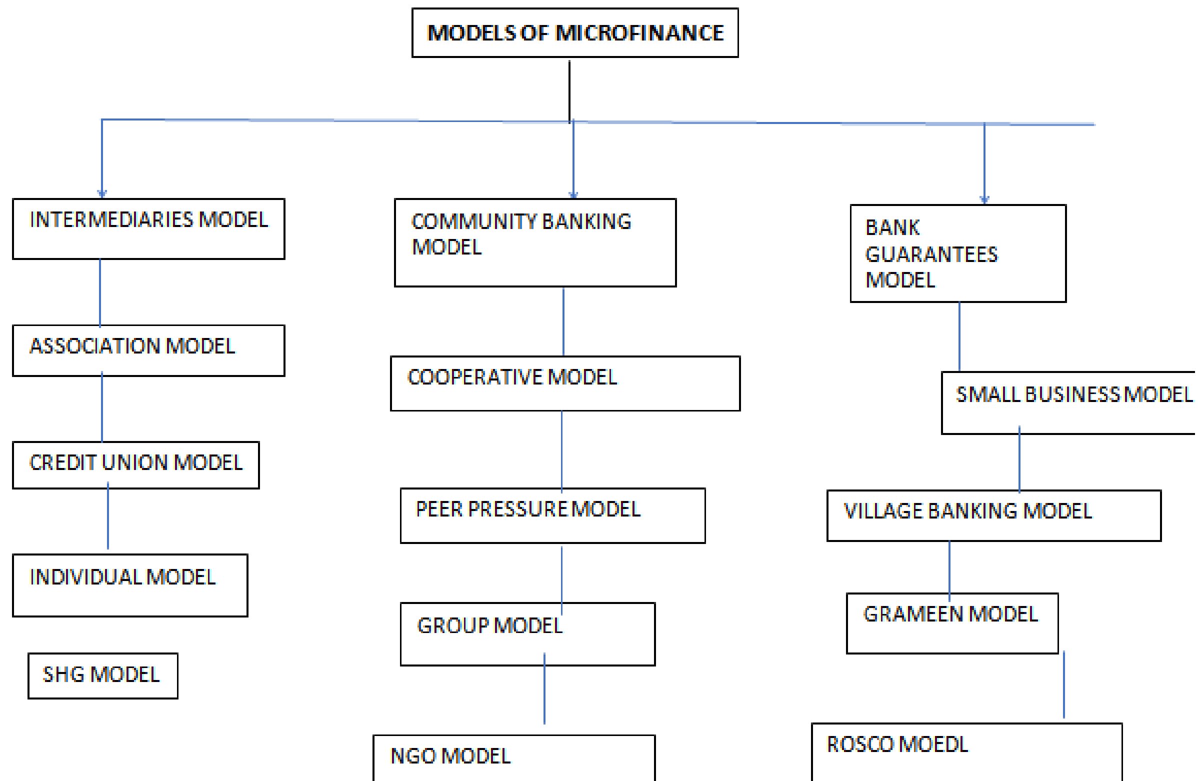
New Delhi: Nitin Gadkari, the Union minister for micro, small and medium enterprises (MSMEs), said the government is working on a strategy to establish a social microfinance institution to help micro and small businesses. “For the very poor, microfinance becomes a liquidity tool that helps smooth their consumption patterns and to reduce their level of vulnerability” (Jennefer Sebstad and Monique Cohen).

The minister also stated that think tanks should research ground-level challenges on a sector- and industry-by-sector basis so that new policies may be formed based on their recommendations. He asked industry groups to work together to reduce the country's import bill and create jobs by boosting manufacturing and production in the country.

MODELS OF MICROFINANCE

The following are 15 models that are currently being adopted by microfinance organisations around the world. Associations, bank guarantees, community banking, cooperatives, credit unions, Grameen, group, individual, intermediates, NGOs, peer pressure, ROSCAs, small business, and village banking models are only a few examples.

Many of these models are "formalised" versions of previously unregulated financial systems. Informal banking systems have a long history that predates modern banking institutions. People who do not have access to conventional banks or who have a low income and cannot pay significant collaterals typically use these.



Microfinance models across the world

COUNTRY	MODELS
India	SHG Model, Joint Liability Group Model
Bangladesh	Grameen Bank Model
Indonesia	Individual Lending Model
Philippines	ROSCAs
Kenya, Indonesia	The Group Model
Bolivia, Thailand	Village banking Model
Srilanka	Credit Unions and Cooperatives

Source: Textbook

1. ASSOCIATIONS MODEL

The target community forms an 'association' through which microfinance and other operations are launched. Savings is one of these activities. Youth and women can form associations or groups around political, religious, and cultural themes, as well as support structures for microenterprises and other work-related issues. In some countries, an 'association' can be a legal entity with benefits such as fee collecting, insurance, tax exemptions, and other safeguards. On the one hand, there is a distinction established between associations, community groups, people's organisations, and other mass, community-based organisations, and NGOs, etc., which are mainly external organisations.

2. BANK GUARENTEES MODEL

A bank guarantee is used to acquire a loan from a commercial bank, as the name implies. This assurance can be obtained from an external source, such as a donor or a government agency, or it can be obtained internally using member savings. The loans collected can be given to an individual or a self-formed group. A capital guarantee programme is a type of bank guarantee. Guaranteed funds can

be utilised for a variety of things, such as loan repayment and insurance claims. Several international and UN agencies have been working on developing international guarantee funds that banks and NGOs can join to lend or start microcredit programmes.

3. COMMUNITY BANKING MODEL

The Community Banking concept takes the entire community as a single unit and builds semi-formal or formal institutions to disburse microfinance. Such institutions are frequently founded with the assistance of NGOs and other organisations, which also teach community members in the community bank's numerous financial activities. Savings components and other revenue-generating projects may be included in the structure of these institutions. Community banks are frequently part of larger community development programmes that employ financial incentives to motivate people to take action. It has a lot in common with the village banking paradigm.

4. COOPERATIVES MODEL

A co-operative is an autonomous group of people who have come together voluntarily to achieve their common economic, social, and cultural needs and objectives through a democratically governed and collectively owned business. The mandate of certain cooperatives includes member-financing and savings operations. "Taking into consideration the growth and potential of microfinance sector in India , other organisation ad international agencies have also made their entries in the sector by providing loans and grants to NGO's for different income generating projects as well as for incorporating microfinance in the service delivery projects of social development"(Nair and Tara, 2000). "Co-operative banks have been late entrants to micro-finance through SHGs. The performance of co-operative banks has to a large extent been influenced by the state government policies" (Joy, Deshmukh, and Murthy, Ranjani 2007).

The model's unique features are as follows:

- "It consists of around 250 to 300 people.
- It started with smaller groups but slowly and gradually became bigger group.
- The group is divided into smaller groups and each group has a leader who is an elected member.
- The leader of the group has to keep the track records of savings, credit and loan creation and scrutiny of repayment of loans.
- The primary cooperatives constitute the General body and adopt a uniform set of laws. The Director and Chairperson are elected."(Saptarshi M and Prashant P, YEAR?)

5. CREDIT UNIONS MODEL

A credit union is a member-owned and operated financial cooperative. It is operated by and made up of members of a specific group or organisation who have agreed to pool their funds and offer loans to one another at reasonable rates of interest. Members have a shared link, such as working for the same company, belonging to the same church, labour union, social fraternity, or living/working in the same neighbourhood. A credit union's membership is open to everyone who wants to be a part of the organisation, regardless of race, religion, colour, or creed. A credit union is a non-profit financial cooperative that is democratically run. Each is owned and administered by its members, who have a say in who the directors and committee representatives are elected.

6. GRAMEEN MODEL

The Grameen model emerged from the poor-focussed grassroots institution, Grameen Bank, started by Prof. Mohammed Yunus in Bangladesh. It essentially adopts the following methodology:

A bank unit is set up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarize themselves with the local milieu in which they will be operating and identify prospective clientele, as well as explain the purpose, functions, and mode of operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to rules of the bank.

Only if the first two borrowers repay the principal plus interest over a period of fifty weeks do other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, collective responsibility of the group serves as collateral on the loan.

Features of Grameen Bank:

- High Recovery rate
- Women empowerment
- Low Transaction Cost
- No collaterals

- Repayment of Loans quicker and in smaller amounts
- Bank goes to customers.
- Less formalities
- 5 members as Team
- Training given for 7 days which is compulsory.
- 8 groups to form a centre.
- Bank official meets centre once a week.
- Discipline and dedication is encouraged.
- Loan generally varies from Rs. 4000 to Rs. 10,000. Loan amount increases every year by Rs. 1000.
- Benefit of timely payment is to repeat loans and continuing access for the credit.

7. GROUP MODEL

The Group Model's basic philosophy lies in the fact that shortcomings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group of such individuals. The collective coming together of individual members is used for a number of purposes: educating and awareness building, collective bargaining power, peer pressure etc. The Group model is closely related to, and has inspired, many other lending models. These include Grameen, community banking, village banking, self-help, solidarity, peer pressure etc. “Apart from the SHG-bank linkage programme, many NGOs are using a variety of delivery mechanisms (including adaptations of Bangladesh Grameen Bank) for providing micro credits services with financial support from external donors and other apex institutions, including the Rashtriya Mahila Kosh (RMK) set up by the Government and the SIDBI Foundation for micro credit set up by a sister apex development institution”(Misra and Indira 2003).

One example of the Group Model is "Joint Liability". When a group takes out a loan, they are jointly liable to repay the loan when one of the group's members defaults on the repayments.

8. INDIVIDUAL MODEL

This is a straightforward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups or generating peer pressures to ensure repayment. The individual model is, in many cases, a part of a larger 'credit plus' programme, where other socio-economic services such as skill development, education, and other outreach services are provided. “While the individual banking model is suited to lending to enterprises, the group model is best suited to lending to pre-micro enterprises and micro enterprises” (Vikas Batra and Sumanjeet, 2011).

9. INTERMEDIARIES MODEL

Intermediary model of credit lending positions a 'go-between' organization between the lenders and borrowers. The intermediary plays a critical role of generating credit awareness and education among the borrowers including, in some cases, starting savings programmes. These activities are geared towards raising the 'credit worthiness' of the borrowers to a level sufficient enough to make them attractive to the lenders. The links developed by the intermediaries could cover funding, programme links, training and education, and research. Such activities can take place at various levels from international and national to regional, local, and individual levels. Intermediaries could be individual lenders, NGOs, microenterprise/microcredit programmes, and commercial banks (for government financed programmes). Lenders could be government agencies, commercial banks, international donors, etc. Most models mentioned here invariably have some form of organizational or operational intermediary - dealing directly with microcredit, or non-financial services. It is also called the 'partnership' model.

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10. NGO MODEL

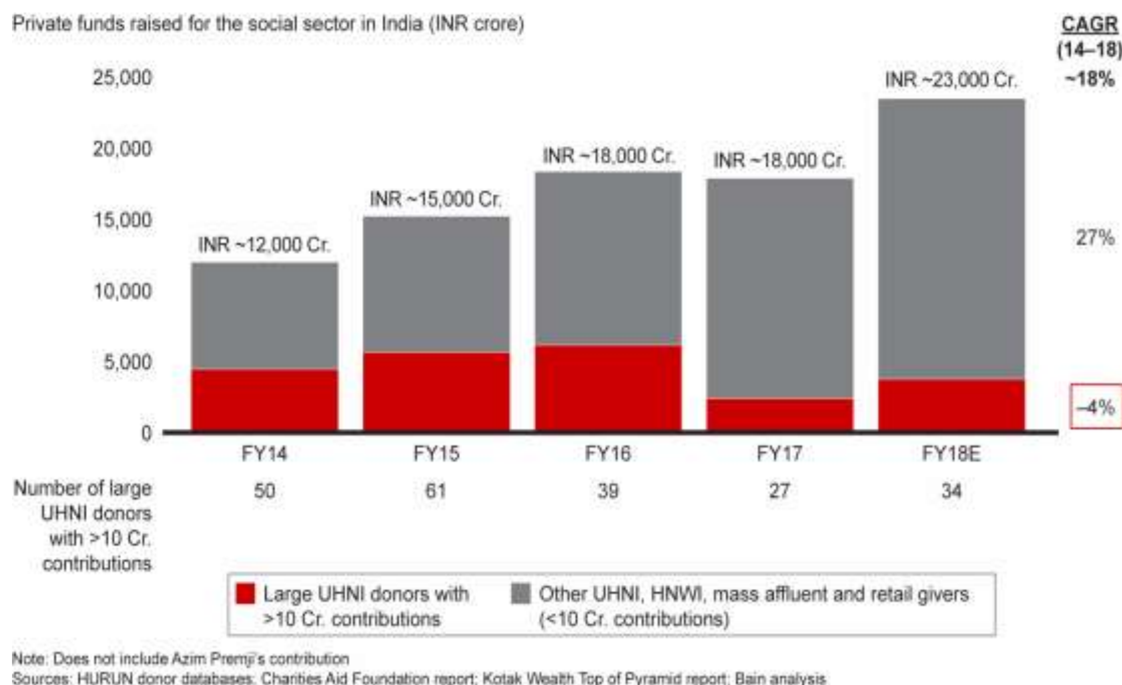

Image 3: NGO's contribution in India.

In the realm of microcredit, non-governmental organisations (NGOs) have emerged as a major stakeholder. In many dimensions, they have performed as a middleman. Microcredit programmes have been started and participated in by NGOs. This includes raising community understanding of the necessity of microcredit, as well as partnering with national and international funding agencies.They've created information and tools to help communities and microcredit organisations track progress and spot best practises. They've also developed opportunities for people to learn about microcredit's principles and practises. Publications, workshops and seminars, as well as training programmes, fall under this category."Not surprisingly, philanthropy is not a requirement of microfinance- not all MFIs are non-profit organizations. While MFIs such as Banco Sol of Bolivia operate with the intent to return a profit, other MFIs like the Grameen Bank charge below-market rates to promote social equity". (Armendáriz de Aghion, Beatriz and Morduch, Jonathon.)

➢ The NGOs work on:
- Providing Basic Education
- Promoting a feeling of Health and Hygiene in addition to developing saving and credit facilities.
- Encourage couples to start a family.
- Raising awareness about the importance of environmental protection
- Most importantly, fostering a gender-equal environment.

11. PEER PRESSURE MODEL

Peer pressure relies on moral and other connections between borrowers and project participants to guarantee that microcredit programmes are completed and reimbursed. Peers could be other members of a borrowers group (in which the other members do not receive loans unless the original borrowers in the group repay).Hence pressure is put on the initial members to repay); community leaders usually identified, nurtured, and trained by external NGOs; NGOs themselves and their field officers; banks etc. Frequent visits to the defaulter, community meetings where they are recognised and asked to comply, and other forms of 'pressure' can be used. To ensure repayment among its loan groups, the Grameen model heavily relies on peer pressure.

12. ROSCA MODEL

ROSCAs, or Rotating Savings and Credit Associations, are simply a group of people who assemble together and make regular cyclical contributions to a common fund, which is subsequently handed as a lump amount to one member each cycle. A group of 12 people, for

example, might give Rs. 100 (US$33) per month for a year.The Rs. 1,200 collected each month is given to one member. Thus, a member will 'lend' money to other members through his regular monthly contributions. When it is his turn to receive the lump sum money (i.e., 'borrow' from the group), he pays it back in regular/further monthly contributions. The lump payment is distributed by consensus, lottery, auction, or other agreed-upon mechanisms.

13. SMALL BUSINESS MODEL

"The prevailing vision of the 'informal sector' is one of survival, low productivity and very little value added. But this has been changing, as more and more importance is placed on small and medium enterprises (SMEs) - for generating employment, for increasing income and providing services which are lacking"(Srinivas, 2021).Direct interventions in the form of supporting systems such as training, technical advice, management principles, and so on, as well as indirect interventions in the form of an enabling policy and market environment, have traditionally been the focus of policies. Finance, notably microcredit, has always been a significant component that has been introduced as a sort of common denominator. Microcredit has been provided to SMEs directly, or as a part of a larger enterprise development programme, along with other inputs.

Features

- Self-dependence between poorer sections of the society
- Leadership qualities generated within the community.
- Creation of Savings, credit and loan is being created.
- Training to the members by the members
- NGO trying to spread SHG model for educating and networking.
- Group members are generally of the same social strata.
- This is driven by women and women empowerment.

14. THE SHG MODEL

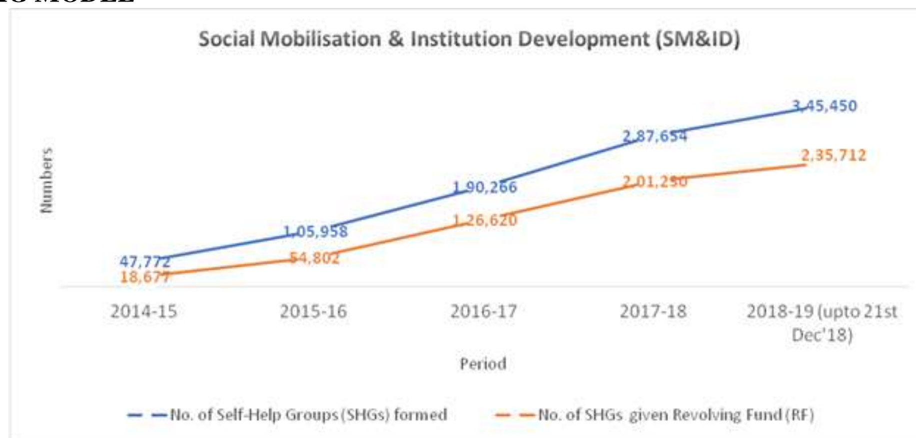

Image 4: Growth of SHG's in India

Structure of SHG

A savings and credit organisation (SHG) is a group of roughly 10 to 20 people, often women, from a similar social class and region who come together to join a savings and credit organisation. They pooled their financial resources to provide their members with small interest-bearing loans. This technique instils a value system that prioritises saving over spending. "Many believe that savings mobilized from local depositors will ultimately be the largest source of capital for microfinance. Foreign capital provides 22 percent of funding for the 'Top 100' MFIs, but savings is the first source of capital, representing 41 percent of all assets in 2005", (Reddy 2007). The setting of terms and conditions and accounting of the loan are done in the group by designated members.

SHG Federation

SHGs have also federated into larger organisations, as previously indicated. A Cluster / VO typically consists of 15 to 50 SHGs, with one or two representatives from each SHG. Several clusters or VOs come together to form an apex body or a SHG Federation, depending on geography.In Andhra Pradesh, the Village Organizations, SHG Clusters and SHG Federations are registered under the Mutually Aided Co-operative Society (MACS) Act 1995. Inter-group borrowings, exchange of ideas, cost sharing, and

discussion of common interests occur at the cluster and federation levels. Various subcommittees usually deal with a variety of concerns, such as debt collections, accounting, and social issues.

Financing the SHGs

Various financial institutions cater to the financial needs of SHGs, including Commercial Banks, Co-operative Banks, Co-operative Credit Societies, and Regional Rural Banks (RRB). There are around 94000 Co-operative outlets, 14000 RRB branches, and 33,000 suburban commercial bank branches. (Financial Services for Low Income Families: An Appraisal, by Sanjay Sinha 2003) They finance the SHGs directly or route their funds through a Microfinance Institution set up by an NGO (NGOMFI) or Non-Banking Financial Companies (NBFC).

15. VILLAGE BANKING MODELS

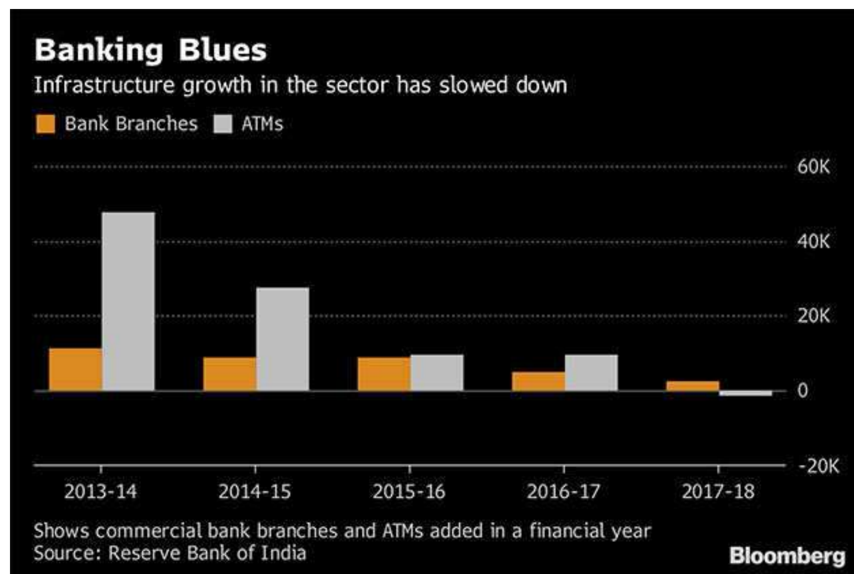

Image 5: Indian banking revolution has left its villagers behind.

Village banks are credit and savings cooperatives that serve their local communities. They are often made up of 25 to 50 low-income people who want to improve their life through self-employment.The village bank's initial loan capital may originate from outside sources, but the members manage the bank: they choose their own members, elect their own executives, write their own bylaws, distribute loans to individuals, and collect payments and savings.Their loans are secured by moral collateral, which is the pledge that the collective would stand behind each individual loan. The Community Banking and Group models are closely related to the Village Banking model. FINCA has widely embraced and implemented this model.

Women's Indicators of Empowerment through Microfinance

In India and other Asian countries, the majority of SHGs consist of women because, in these countries, Self-Employment through Microfinance was perceived as a powerful tool for emancipation of women. It has been observed that gender equality is a necessary condition for economic development. The World Bank reports that societies that discriminate on the basis of gender are in greater poverty, have slower economic growth, weaker governance, and lower living standards. (World Bank. Engendering Development: Through Gender Equality in Rights, Resources,)

- Ability to save and access loans.
- Opportunity to undertake an economic activity.
- Mobility-Opportunity to visit nearby towns.
- Awareness- local issues, MFI procedures, banking transactions
- Skills for income generation
- Decision making within the household.
- Group mobilization in support of individual clients- action on social issues
- Role in community development activities

Source: Impact Assessment, Frances Sinha (2003)

MFIs REVIVAL:Does India really need a new microfinance institution?

Union Minister for Micro, Small & Medium Enterprises and Road Transport & Highways Nitin Gadkari said the government is working on the idea of a social microfinance institution to help people run small shops and businesses while speaking at a recent virtual MSME conclave organised by the FICCI Karnataka State Council. When he emphasised that handloom, handicrafts, khadi, and agro-based sectors should be fostered, he was expressing a positive sentiment, especially in the 115 aspirational districts. The government is working hard to revitalise the economy; but, in order to move forward, it must take into account the existing microfinance sector and allied organisations.

ROAD AHEAD

Today, the Indian rural finance sector stands at a fork in the road. Banks are increasingly shying away from rural lending and reducing their branch network in rural regions as a result of financial sector reforms that emphasise profitability as the major performance standard."Burgess & Pande (ibid) 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 areas, the pattern was reversed in post reform period". While rural poor access to credit has decreased in the post-reform period, the policy advice is to replace the gap with microcredit. Impact evaluation is an important aspect of the triangle of criteria that must be considered while judging microfinance intervention.Incorporating impact evaluation into the SHG-Bank linkage programme will necessitate additional time and resources, as well as conflict with the current emphasis on numerical growth. The realisation of a significant trade-off between long-term economic impact and exponential growth necessitates bold public policy decisions. In line with the program's flexible approach, the SHG Bank linkage programme currently has no defined social or economic standards for inclusion of members into credit-linked groups. The inclusion of the program's core poor, who have limited expertise with economic activities, also limits capital's productive usage.Segmentation of credit demand based on economic and social status is key to optimum utilization of scarce resources. 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 this segment should not be the target market for financial sector but of state poverty and welfare programmes".Furthermore, credit, regardless of socioeconomic position, can be put to little effective use in resource-poor and isolated locations. Credit flow must follow public infrastructure improvements and the provision of forward and backward economic links in such places. Homogenization of service delivery without fully taking into account situational context and client needs will continue to have limited impact.

KEY MARKET SEGMENTS:

By Service Type

- Group and Individual Micro Credit
- Leasing
- Micro investment Funds
- Insurance
- Savings and Checking Accounts

By Providers

- Banks
- Non-banks

By Region

- North America
- Europe
- Asia-Pacific
- LAMEA

SWOT ANALYSIS

Strengths

- Providing impoverished and unreached individuals with savings and credit opportunities
- Reducing poor people's reliance on informal money lenders and non-institutional sources of income
- Providing employment and income through microenterprises
- Improving rural economic productivity by facilitating access to capital
- Savings mobilisation and capacity building for women's empowerment.
- Strengthening SHGs or community groups to address their problems and promoting leadership qualities among the members.

Weaknesses

- Disparities in credit disbursement across the country by region
- High administrative costs and interest rates
- Multiple lending and over indebtedness
- People's financial illiteracy
- There is no suitable regulatory authority or legal structure in place to oversee the operations of MFIs.
- Pricing that is not transparent.

Opportunities

- In India, a large number of individuals and areas remain untouched. • Various regions remain untouched.
- Support for the scheme from the government and banks
- The range of services available can be expanded to include financial, non-financial, and other services.
- Members can be encouraged to invest in asset creation, diversify their careers, and increase their risk tolerance.

Threats

- Cutthroat competitions among MFIs
- MFIs vested interests like to grab the market led to non-required lending even.
- Loans for initiatives that are either unprofitable or impossible.
- Multiple loans to the same borrower resulted in loan non-recovery.
- No use of SHGs peer pressure group for repayment

PROBLEMS/ISSUES FACED

"In India, so many microfinance lending institutions are working. Some are in a very good condition in terms of lending, training to their customers for saving and small level entrepreneurship. Some are in a bad condition and struggling for their existence" (Saptarshi M and Prashant P)

1. Low Outreach In India

MFI outreach is very low as it is only 8% as compared to 85% in Bangladesh. As per the data, it has been observed that MF programmes focus or emphasize more attention towards women. It has also been observed that women are better clients for the MFI's as they tend to save money more than men, they borrow smaller amount of loan and their repayment performance is way better than men. These characteristics of women have made the MFI's to extend their support towards women by catering the service they need. Women may be better clients for MFI's however the men as clients cannot be ignored.

2. High interest rates

MFI's are charging higher interest rates which has made the poor unable to pay the debt. As the MFI's are private entities and they do not receive any subsidies from the government for their lending activities and that is why they need to cover the operational costs from the borrowers by offering the higher rates because at the end the question is about the financial sustainability of institution.

3. Negligence of urban poor

It has been noted that the MFI's concentrated more over the rural areas when compared to urban locations. Out of more than 800 MFI's a very smaller number of institutions are focusing on the urban poor. However, considering the population the urban poor is quite large and it is increasing rapidly. In such situations, the MFI's have to give equal importance for the urban poor as the need for financial assistance is more required in urban for various employment activities.

4. Debt Management

Clients are not educated to know how to manage their debt which they owe to MFI. It is observed that about 70% of the clients lack in education and hence they fall apart from managing the loan provided to them. This issue is also considered as a crucial part for the organisations to digest because if the client is not able to pay back loan, then no doubt that the MFI's are going to decline from the growth and expansion.

5. Low education and language barrier

As discussed earlier, the level of education of clients is low and also language is also considered as a major issue in the MFI's because about 70% of clients are from rural areas, the communication (verbal and written) with clients is an issue that creates a problem in growth and expansion of the MFI's. This issue has made the MFI's employees a very hard task to make their clients understand the policy, regulations, etc.

6. Geographical factors

Around 60% of the MFI's agree that, it is really difficult to communicate with the clients who belong to far-flung areas due to no or fewer infrastructures in rural areas which have made the11 MFI's unreachable or not possible to tap the many rural areas. Hence, again it is an issue for the MFI's in development of the organization.

"The Krishna crisis - A frenzy of lending (by MFIs, and by banks to MFIs) was already underway when a first stark warning came in 2006 from the Krishna District. After a popular demonstration by borrowers demanding back their house title deeds, which had been seized as collateral, turned violent and, consequently, more than 50 MFI offices of Spandana Sphoorty and SHARE Microfin were temporarily closed by the government, the government of AP ordered an inquiry into allegations of MFIs pushing reportedly up to 200 borrowers into committing suicide. Repayment rates went down to between 10% and 20% for several months in the district" (Ghate, 2006, pp. 61–66, 2007a; Sharma, 2006).

Significant challenges faced:

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"Poor people do not live in a static environment of poverty. Many millions of people get out of poverty by successfully embracing new farming technologies, investing in new business opportunities, or by locating new jobs. At the same time, large numbers of people fall back into poverty due to financial setbacks, health problems, and other shocks" (Dr.Sanjeeb Kumar Dey,2015).

1. Over-Indebtedness

Over-indebtedness provides a serious impediment to the microfinance sector's expansion because it deals with neglected parts of Indian society who want to enhance their standard of living. The most major challenges that stress the microfinance business in India are the growing trend of multiple borrowing by clients and ineffective risk management.The microfinance sector gives loans without collateral, which increases the risk of bad debts.

2. Higher Interest Rates in Comparison to Mainstream Banks

When compared to commercial banks in India, MFIs' financial success is modest. The centuries-old banking system has a deep foundation in Indian soil and is steadily developing to meet modern needs. When compared to commercial banks, most microfinance institutions charge a fairly high rate of interest (12-30%). (8-12 %).

3. Widespread Dependence on Indian Banking System

Because most microfinance organisations are registered as non-profits, they depend on financial institutions such as commercial banks for stable funding to carry out their lending activities. The majority of these commercial banks are private entities with higher interest rates.Indian MFIs are incompetent lending partners due to their heavy reliance on banks.

4. Inadequate Investment Validation

Investment valuation is a critical capacity for an MFI's smooth operation. Because the marketplaces in which MFIs operate are still growing, market activity is often limited. As an outcome, MFI finds it difficult to obtain market data for valuation reasons.

5. Lack of Enough Awareness of Financial Services in the Economy

India, a developing country in the making, has a low literacy rate that is even lower in rural areas. A significant chunk of India's populace is unaware of basic financial principles. The general public is mostly unaware of the financial services provided by the microfinance industry.The rural population's lack of understanding is a major barrier to them being able to retrieve easy credit from MFIs to meet their funding requirements.

6. Regulatory Issues

The Reserve Bank of India (RBI) is the country's most important microfinance regulator. However, the RBI favours commercial and established banks over microfinance institutions. Microfinance institutions' needs and structures are vastly different from those of other typical lending institutions.Despite occasional and exceptional regulatory reforms, the Microfinance sector appears to be battling to stay afloat.

7. Choice of Appropriate Model

The Self-Help Group (SHG) or Joint Liability Group (JLG) lending models are used by the majority of Indian MFIs. They seldom choose a model based on scientific evidence. Regardless of the scenario, most MFIs chose models at random. In the end, the model decision has an impact on the MFI organization's long-term viability.

MEASURES TO OVERCOME CHALLENGES:

1. Proper Regulation

When the microfinance was in its nascent stage and individual institutions were free to bring in innovative operational models, the need for a regulatory environment was not a big concern. However, as the sector completes almost two decades of age with a high growth trajectory, an enabling regulatory environment is needed that protects interest of stakeholders as well as promotes growth.

2. Field Supervision

In addition to proper regulation of the microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action if needed. This will also encourage MFIs to abide by proper code of conduct and work more efficiently.

3. Encourage Rural Penetration

It has been seen that instead of reducing the initial cost, MFIs are opening their branches in places which already have a few MFIs operating. Encouraging MFIs for opening new branches in areas of low microfinance penetration by providing financial assistance will increase the outreach of the microfinance in the state and check multiple lending and increase rural penetration of microfinance in the state.

4. Complete Range of Products

MFIs should provide complete range of products including credit, savings, remittance, financial advice and also non-financial services like training and support. As MFIs are acting as a substitute to banks in areas where people do not have access to banks, providing a complete range

of products will enable the poor to avail all services.

5. Transparency of Interest Rates

As it has been observed that, MFIs are employing different patterns of charging interest rates and a few are also charging additional charges and interest free deposits. All this make the pricing very confusing and hence the borrower feels incompetent in terms of bargaining power.

6. Technology to Reduce Operating Cost

MFIs should use new technologies and IT tools & applications to reduce their operating costs. Microfinance institutions should be encouraged to adopt cost-cutting measures to reduce their operating costs. Also, initiatives like development of common MIS and other software for all MFIs can be taken to make the operation more transparent and efficient.

7. Alternative sources of Fund

In absence of adequate funds, the growth and the reach of MFIs become restricted and to overcome this problem. MFIs should look for other sources for funding their loan portfolio. Various alternative sources of fund for the MFIs may be by getting converted to for-profit company i.e., NBFC, Portfolio Buyout, and Securitization of Loans etc.

Recommendations based on the study:

Based on above SWOT analysis some recommendations are given below to overcome weaknesses of Microfinance sector

- "Microfinance sector should be regulated by the government and regulation has to be tempered by a sensible institution like Reserve Bank of India (RBI)"(Dimple Vij, 2013)
- There should be field supervision of these loans and micro finance institutions should check ground realities and the operational efficiency of such lending.
- Microfinance now should focus on untapped and lean regions and incentives should be offered to microfinance institutions. "Lessons of efficiency and innovation should not be forgotten in the field of Micro finance", (Diamond J, 1999).
- Regulation should encourage bonding with their members with savings, self-help, education, and training and not just lending. Money should be provided in those cases only wherever it is required and productive also. The capacity of a village or cluster to support income generating activities has to be worked out and to tap MFIs lending geographically.
- Last but not the least microfinance institutions should be encouraged to offer a complete range of services to their clients. For this a holistic scheme to help the poor that includes insurance, self-help, education, and training and finally credit should be introduced, and MFIs should now come out of merely tapping saving and providing credit facilities to poor.

CONCLUSION:

Microfinance has come of age in India. It must be understood that microfinance in itself is no magic bullet – not for poverty eradication, livelihood creation, empowerment of women or the poor, financial inclusion, or economic equality. But it can be developed as a powerful tool for reaching the poor and unprivileged people by providing a whole range of services from financial to non-financial to them as well as creating employment opportunities, reducing gender and geographical disparities by overcoming its weaknesses through the suggestions as given above. Though some efforts have been done recently to strengthen and regulating the microfinance sector as enactment of Microfinance Regulation Bill by government of Andhra Pradesh after getting complaints of anomalies and suicide of women due to torture of MFIs, acceptance of Malegam Committee Recommendations by RBI and implementation of sector specific regulation by Reserve Bank of India and most recently release of draft microfinance institution Development and Regulation Bill, 2011. But much has to done to make this sector a powerful tool of inclusive growth and sustainable development of Indian economy. The interest rates are on a higher side which is a concern that should be monitored by the government. The level of competition makes the way for better growth in this industry. Improvements happening to the infrastructural development and governance. The market potentiality of growth exists and depends on region based equality. It is high time to do so if we implement above recommendations our microfinance sector can be made more efficient and more inclusive.

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