Microfinance in India: Self Help Groups - Bank Linkage Model

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While the MFI model of microfinance is unsustainable, the SHG-Bank Linkage approach can make a positive impact on security and empowerment of the disadvantaged. Much more than microfinance is needed to overcome the problems that have persisted over the last 100 years. The findings from this study suggest that there is rise in the history and perspectives of rural credit in India in form of microfinance. And there is need for improved governance to manage challenges for future so that inclusive growth is possible.

Microfinance in India started in the early 1980s with small efforts at forming informal self-help groups (SHG) to provide access to much-needed savings and credit services. From this small beginning, the microfinance sector has grown significantly in the past decades. National bodies like the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are devoting significant time and financial resources to microfinance. There are so many schemes for the upliftment of poor in India. One of them Micro-credit programmes is run primarily by NABARD in the field of agriculture and SIDBI in the field of Industry, Service and Business. Poor people need access to credit. Absence of formal employment make them non`bankable'. This forces them to borrow from local moneylenders at exorbitant interest rates. Many innovative institutional mechanisms have been developed across the world to enhance credit to poor even in the absence of formal mortgage. The present paper discusses conceptual framework, growth of SHG linked microfinance programme, types of micro finance services and developmental role of these institutions in India. It also focuses on the status of microfinance and provides some policy framework to meet the challenges facing Indian microfinance. The article traces that the evolution of the microfinance revolution in India as a powerful tool for poverty alleviation and women empowerment.(Where institutional finance failed microfinance delivered, but the outreach is too small.)

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Concept and Background of Microfinance

In a simple language microfinance means provision of financial services on a small scale to the rural and urban poor, including the self employed. Broadly, 'Microfinance refers to small scale financial services for both credits and deposits- that are provided to people who farm or fish or herd; operate small or micro enterprise where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas'. (Marguerite S. Robinson.)

The term microfinance sometimes is used interchangeably with the term micro credit. However while micro credit refers to purveyance of loans in small quantities, the term microfinance has a broader meaning covering in its ambit other financial services like saving, insurance etc. as well.The taskforce on Policy and Regulatory Framework for Microfinance has defined microfinance 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". The term "Micro" literally means "small". But the task force has not defined any amount. However as per Micro Credit Special Cell of the Reserve Bank Of India , the borrowing amounts up to the limit of Rs.25000/- could be considered as micro credit products and this amount could be gradually increased up to Rs.40000/- over a period of time.–As per international perceptions a standard for South Asia roughly equals to $500.

The Indian state put stress on providing financial services to the poor and underprivileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40 per cent of their loanable funds, at a concessional rate, to the priority sector. The priority sector included agriculture and other rural activities and the weaker strata of society in general. The aim was to provide resources to help the poor to attain self sufficiency. They had neither resources nor employment opportunities to be financially independent and meet their consumption needs.To supplement these efforts, the credit scheme Integrated Rural Development Programme (IRDP) was launched in 1980. But these supply side programs (ignoring the demand side of the economy) aided by corruption and leakages, achieved little. Further, the share of the formal financial sector in total rural credit was 56.6 per cent, compared to informal finance at 39.6 per cent and unspecified sources at 3.8 per cent. (RBI 1992). Not only had formal credit flow been less but also uneven. The collateral and paperwork based system shied away from the poor. The vacuum continued to be filled by the village moneylender who charged interest rates of 20 to 30 per cent per month (Rural Credit and Self Help Groups- Microfinance needs and Concepts in India- K.G.Karmakar 1999). 70 per cent of landless/marginal farmers did not have a bank account and 87 per cent had no access to credit from a formal source. (World Bank NCAER, Rural Financial Access Survey 2003). It was in this background that the microfinance revolution occurred worldwide. In India it began in the 1980s with the formation of pockets of informal Self Help Groups (SHG) engaging in micro activities financed by microfinance. But India's first Microfinance Institution 'Shri Mahila SEWA Sahkari Bank' was set up as an urban co-operative bank, by the Self Employed Women's Association (SEWA).

According to recent RBI estimates there are over 450 million "unbanked people" in India, most of whom live in rural areas. The term "unbanked" refers to people who have no access to formal financial services, but rather must rely on either family, or informal providers of finance, such as the village moneylender. It is undisputed that access to finance is critical for enabling individuals and communities to climb out of poverty. It is also generally agreed that relying on the limited resources of village moneylenders exposes the poor to coercive lending practices, personal risks and high interest rates. The goal of financial inclusion must include the private sector. Therefore the Indian Government and the RBI have a policy of "financial inclusion". As part of this policy, the government requires Indian banks to lend to "priority sectors", one of which is the rural poor. Until recently, banks were happy to lend money to MFIs who would then on-lend funds, primarily to poor women across rural India. The banks have welcomed this policy because historically they tended to charge MFIs average interest rates of 12-13 per cent and benefited from100 per cent repayment rates. Thus, by lending to MFIs, banks have been able to meet their "priority sector" lending requirements with what historically has amounted to a risk-free and very profitable arrangement. But this is not actually helping the needy or poor people.

Currently Microfinance in India is being provided by three sectors: the government, the private sector and charities. These three sectors, as large as they are, have only a small fraction of the capital and geographic scale required to meet the overwhelming need for finance amongst India's rural poor. The top 10 private sector microfinance providers in India together serve less than 5 per cent of the unbanked population of India.

Review of Literature

One of the key assumptions of microfinance programmes is that it can help the poor, especially women, to develop new income generating activities (IGA) or at least strengthen existing IGA. Available empirical studies give controversial results. While some studies give positive results (Kevane and Wydick, 2001), other studies emphasize the very limited effects in terms of IGA and some time the drawbacks of microfinance: loans mainly used for "non productive purpose" or appropriated by males, women confined into the least profitable sectors, market saturation and displacement effects, etc. (Kalpana, 2008; Rahman, 1999, 2004; Rankin, 2002). In-depth analyses report a diversity of women profiles and therefore a diversity of effects and results. For instance, Kabeer (2001) shows that in Bangladesh, the effects of microcredit depend in part on caste and class.

In India, recent studies (Basu, 2008; Fernandez, 2008; Karmakar, 2008) advocate that microcredit for entrepreneurship is only possible beyond the 'minimalist approach' of mere financial intervention. They are of the opinion that credit for enterprise development is important but can be achieved only with the provision of support services preferable by other development promoters (government agencies, Non Governmental Oorganisations (NGOs), insurance companies, etc.) and not by the credit provider itself. Contrary to the minimalist approach, support services for livelihood promotion do have a long history in India promoted by the government, by the people's movement; by the NGOs and the Corporate sector (Mahajan et *al*., 2008). Nair's (2005) study on attitudes to income generation and work among fishermen. She discusses here how the introduction of microcredit financed fishing nets, "increased the productivity of fishing activity technically" but "the average income and consumption levels of many of the households" did not increase "to any significant extent". She explains how this is linked to many fishermen cutting down on the number of fishing days. This means planning is not just done at the policy level but also at the beneficiary level where local social dynamics play a key role.

Need

In the development strategy adopted by independent India, institutional credit was perceived as a powerful instrument for enhancing production and productivity and for alleviating poverty. The growth of institutional credit is given in Table-1. The formal view was that lending to the poor should be a part of the normal business of banks. To achieve the objectives of production, productivity and poverty alleviation, the stance of policy on rural credit was to ensure that sufficient and timely credit was reached as expeditiously as possible to as large a segment of the rural population at reasonable rates of interest. The strategy devised for this purpose comprised:

- Expansion of the institutional structure,
- Directed lending to disadvantaged borrowers and sectors and
- Interest rates supported by subsidies.

The institutional vehicles chosen for this were cooperatives, commercial banks and Regional Rural Banks. Between 1950 & 1969, the emphasis was on the promoting of cooperatives. Regional Rural Banks were set up in 1976 as low cost institutions mandated to reach the poorest in the credit-deficient areas of the country. It may not be wrong to say that RRBs are perhaps the only institutions in the Indian context which were created with a specific poverty alleviation - microfinance – mandate. The proportion of borrowings of rural households from institutional sources increased from 8 per cent in 1951 to more than 60 per cent at present (table-1). This significant increase in the credit flow from institutional sources gave rise to a strong sense of expectation from the state agencies. But this could not be sustained due to loan defaults by the borrower. End result was a disturbing growth in over dues, which not only hampered the recycling of scarce resources of banks, but also affected profitability and viability of financial institutions.

Table-1

Share of Rural Household Debt by Source, India, 1951- 2010(%)

Credit Agency	**1951**	**1961**	**1971**	**1981**	**1991**	**2010**
Cooperatives and Commercial Banks	5.7	10.3	24.4	58.6	58.8	52.8
Government and other formal sources	3.1	5.5	5.5	4.6	7.5	7.8
All Institutional Agencies	**8.8**	**15.8**	**31.7**	**63.2**	**66.3**	**60.6**
Professional and Agriculturist Moneylenders	68.6	62.0	36.1	16.1	17.5	18.2
Traders		7.2	8.4	3.1	2.2	4.8
Landlords		7.6	8.6	4.0	4.0	5.7
Relatives and Friends	14.4	6.4	13.1	11.2	4.6	4.4
Other Sources	8.2	0.8	2.1	2.4	2.3	4.6
All Non-Institutional Agencies	**91.2**	**84.0**	**68.3**	**36.8**	**30.6**	**37.7**
Sources not specified	0	0.2	0	0	3.1	1.7
Total	**100**	**100**	**100**	**100**	**100**	**100**

Note: In 1951, landlords and traders are lumped together within "other sources"
Source: All-India Rural Credit Survey for 1951, All-India Debt and Investment Survey for the others

It is found that the share of "exploitative" sources (professional moneylenders, landlords and agriculturist moneylenders) in rural credit fell from an average of over 75 per cent in 1951-1961 to less than 25 per cent in 1991. The share of formal sector lending more than doubled between 1971 and 1991 but it declines after that due to liberalization policy and financial sector reforms.

The object of this narrative is manifested in two facts. They are:

- That right from the time of independence, the concern of development policymakers has been to find ways and means to finance the poor and reduce the burden upon them.
- Between the concern of the policy makers and the quality of the effort, however, there has been a gap. The efforts made were not able to achieve the success envisaged for a variety of reasons mainly, defects in policy design and infirmities in implementation.

The consequences flowing from these facts are:

i) That the banking system - was not able to internalise lending to the poor as a viable activity but only as a social obligation – something that had to be done because the authorities wanted it.

ii) In banking language loans to the poor were part of social sector lending and not commercial lending; the poor were not borrowers, they were beneficiaries ; poor beneficiaries did not avail of loans they availed of assistance.

iii) The attitude was that the poor can never be bankable, that commercial principles cannot be applied in lending to the poor and what the poor require are not loans but charity.

Once this mindset hardened it became more and more difficult for commercial bankers to accept that lending to the poor could be a viable activity. Traditionally, the formal sector Banking Institutions in India have been serving only the needs of the commercial sector and providing loans for middle and upper income groups. Following risks are generally perceived by the formal sector financial institutions:

• Credit Risk

• High transaction and service cost

• Absence of land tenure for financing housing

• Irregular flow of income due to seasonality

• Lack of tangible proof for assessment of income

• Unacceptable collaterals such as crops, utensils and jewellery

As far as the formal financial institutions are concerned, there are Commercial Banks, Housing Finance Institutions (HFIs), NABARD, Rural Development Banks (RDBs), Land Development Banks Land Development Banks and Co-operative Banks (CBs).As regards the Co-operative Structures, the Urban Cooperative Banks (UCB) or Urban Credit Cooperative Societies (UCCS) are the two primary co-operative financial institutions operating in the urban areas. The Government has taken several initiatives to strengthen the institutional rural credit system. The rural branch network of commercial banks have been expanded and certain policy prescriptions imposed in order to ensure greater flow of credit to agriculture and other preferred sectors. The informal financial sources generally include funds available from family sources or local money lenders. The local money lenders charge exhorbitant rates, generally ranging from 36 per cent to 60 per cent interest due to their monopoly in the absence of any other source of credit for non-conventional needs. Thus micro finance in India has emerged in the seventies to provide poor people access to credit and free them from the clutches of money lenders.

Sources and Types of Micro Finance

There are two models in India that link the formal financial sector with lending to low-income households that cannot afford collateral. The first is the bank-led SHG model, promoted by the State through commercial banks, which lends to groups of 10 to 20 women called the Self-Help Groups (SHGs). The other model is that of micro-finance institutions (MFIs) which private sector entities are lending to small groups similar to the SHGs.

In the Indian microfinance landscape, SHG is the dominant practice (Ghate, 2007). SHGs are like micro banks of fifteen to twenty people who manage two types of loans; internal and external. Internal loans are based on the savings of members, whilst the external loans are of various origins. Banks are the most frequent sources, generally *via* an NGO or a federation of SHGs which act as social intermediaries. Some MFIs, however, also use the SHG model. External loans are collective and the group decides on the allocations (selecting the recipients and amounts to be loaned). In the two areas under study, the microfinance supply is similar to what is observed at the national level: loan amounts vary from Rs.500 - 20,000 with an average amount of approximately Rs.5000 loaned over relatively short durations. Some NGOs operate microfinance programmes by organizing federations of SHGs to act as the MFI which obtains external loans in bulk to be channeled to the members via SHGs. NABARD has facilitated and extensively supported a programme which entails Commercial Banks lending directly to SHGs rather than via bulk loans to MFIs. NABARD refinances the loans of the Commercial Banks to SHGs. Besides there are now a large number of “new generation” Cooperative Credit Societies in India devoted particularly to provide financial services to the poor.

Types of MFIs

i) Domestic Commercial Banks including Public Sector, Private Sector and Local Banks
ii) Regional Rural Banks
iii) Co-operative Banks
iv) Co-operative societies
v) Registered NBFCs
vi) Unregistered NBFCs
vii) Others include Societies and Trusts

Factors influencing Microfinance in India

There have been two significant factors driving the development of the micro-finance industry in India. The first has been the implementation of the government goals of financial inclusion by setting priority sector lending targets for banks. Priority sector lending requires banks to lend between 32-40 per cent of net bank credit to specific areas at a rate lower than the prime lending rate of the bank. This rate is called the priority sector lending (PSL) rate. Traditionally, most PSL was targeted towards the poor engaged in agricultural or allied activities. These were monitored by the National Bank for Agriculture and Rural Development (NABARD), a department of the RBI. The definition of what PSL activities entail have been steadily modified, and today include consumption loans for weaker sections, as well as micro-loans to SHGs, either directly or through any intermediary including NGOs. The second has been the role played by the state government of Andhra Pradesh, a state that has been centre-stage in promoting micro-credit in India.

Growth of Micro-Finance

Table 2
Client outreach (outstanding accounts)
(in millions)

Segment	2006-07	2007-08	2008-09	Growth-2009 over 2008
Banking system	38.02	47.1	54.0	6.9
MFIs	10.04	14.1	22.6	8.5
Total	48.06	61.2	76.6	15.4

Source: www. Microfinanceindia.org

Micro finance generated through banking system as shown in table-2 is gradually increasing and reached 54 million outstanding accounts up to 2009.Whereas the MFIs reported a total client base of 22.6 million as at the end of March 2009. The overall coverage of the sector as narrowly defined (outstanding accounts of members of SHGs and clients of MFIs) is estimated to have reached 76.6 million in 2008-09 against 61.2 million last year a growth of around 25 per cent. This paper highlights the SHG- Bank Linkage model of microfinance as it is more popular and less exploitative.

SHG- Bank Linkage Programme

Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, Microfinance scene is dominated by Self Help Group (SHGs)-Bank Linkage Programme as a cost effective mechanism for providing financial services to the "Unreached Poor" which has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self help capacities of the poor, leading to their empowerment. Rapid progress in SHG formation has now turned into an empowerment movement among women across the country. The SHG – Bank Linkage Programme started as an Action Research Project in 1989. In 1992, the findings led to the setting up of a Pilot Project. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, Banks and Non Governmental Organisations (NGOs).The SHG Bank linkage Programme which started in 1992 has grown exponentially over two decades and around 74.62 lakh SHGs are linked to different Banks up to 2011 . Of these nearly 65 per cent have direct credit link with bank. Out of these 74.62 lakh SHGs 60.98 lakh are women SHGs. The overall progress under microfinance from the period 2006-07 to 2010-11 is presented in table-3.

Table-3

The Overall Progress under Micro-Finance, 2007-08 to 2010-11

Sl. No.	Particulars	2007-08		2008-09		2009-10		2010-11	
		No. of SHGs (in Lakh)	Amount (Cr.)	No. of SHGs (in Lakh)	Amount (Cr.)	No. of SHGs(in Lakh)	Amount (Cr.)	No. of SHGs(in Lakh)	Amount (Cr.)
1	Savings of SHGs with Bank	50.09	3785.4	61.21	5545.62	69.53	6198.71	74.62	7016.3
				(22.21)	(46.5)	(13.6)	(11.8)	(7.3)	(13.2)
2	Bank Loans disbursed to SHGs	12.28	8849.3	16.09	12253.5	15.86	14453.3	11.96	14547.7
				(31.1)	(38.5)	(-1.4)	(17.9)	(-24.6)	(0.01)
3	Bank Loans Outstanding with SHGs	36.25	16999.9	42.24	22679.8	48.51	28038.3	47.87	31221.17
				(16.5)	(33.4)	(14.8)	(23.6)	(-1.3)	(11.4)

Source: NABARD,
Note: Figures in parentheses are percentages

Table-3 shows that, though savings of number of SHGs with the bank is increasing over the years the growth rate of SHGs in percentage terms is declining from 22.21 in 2009 to 7.3 in 2011.Regarding the amount of savings it has a significant growth during 2008 to 2009 (46.5 per cent) but after that it declines. Regarding bank loan disbursement to SHGs it shows a declining trend and in terms of number of SHGs became negative in 2011. The cause may be non repayment of loan. With regard to bank loan outstanding the growth in amount is declining, which is a good sign.

Table-4

Position of Women SHGs (in Lakh)

Particulars	Year	Total SHGS	Women SHGs	% of Women SHGs to Total SHGs
Saving Linked of SHGs	2010	69.53	53.1	76.37
	2011	74.62	60.98	81.72
	% Growth	(7.32)	(14.84)	
Bank Loans disbursed to SHGs	2010	15.87	12.94	81.54
	2011	11.96	10.17	85.03
	% Growth	(-24.64)	(-21.41)	
Bank Loans Outstanding with SHGs	2010	48.51	38.97	80.33
	2011	47.87	39.84	83.23
	% Growth	(-1.32)	(2.23)	

Source: NABARD

Table-4 shows that in terms of percentage growth bank loans disbursed to women SHGs is declining from 2010 and negative in 2011. But percentage of women SHGs to total SHGs is showing an increasing trend in all the three cases. Again it is observed from the data (NABARD) that, with regard to amount of saving with banks percentage of women SHGs has increased from 1.46 per cent in 2009-10 to 17.8 per cent in 2011. But as regards to the growth in amount of loan disbursement to SHGs, the data shows a continuous declining trend from 40.8 per cent in 2008-09 to 18.1 per cent in 2009-10 and 1.6 per cent in 2010-11. Whereas, percentage growth in loan outstanding is gradually declining from 39.4 per cent in 2008-09 to 13.4 per cent in 2010-11, showing a positive aspect about microfinance in India.

The SBL approach involves the formation of self-help groups (mainly of women). These women regularly save money that is placed in a local (generally public sector) bank account. Many studies have shown that creation of a safe avenue for savings (on which interest is earned) is an attractive feature of SHGs, which has led to significant promotion of savings (NABARD, 2002, Hashemi et al,1996, Rajasekhar, 2000). This is supported by the data presented in table-4 which signifies the growth of women SHGs in relation to total.The SHG has a set of byelaws devised and agreed by the members themselves. These include rules for monthly savings, lending procedures, periodicity and timing of meetings, penalties for default etc. Meticulous accounts and records are maintained. The SHG itself functions like a small bank. The group lends money to its members. After a certain period (six months to a year) of disciplined functioning, it becomes entitled to a loan from the bank where it has an account. A number of studies document the positive economic impact of SHGs on indicators such as average value of assets per household, average net income per household, employment and borrowing for income generation activities (Puhazhendi and Satyasai, 2000; Puhazhendi and Badatya, 2002; Harper et al, 1998). It has been shown that SHGs help inculcate the banking habit in rural women (Varman,2005). From various studies conducted on microfinance it has been observed:

1. SHGs were to facilitate collective decision-making by the poor and provide 'doorstep banking’;
2. Banks as wholesalers of credit, were to provide the resources and
3. NGOs were to act as agencies to organise the poor, build their capacities and facilitate the process of empowering them.

Of the total SHGs formed more than 1.6 million have been linked with 35,294 bank branches of 560 banks in 563 districts across 30 States of the Indian Union. Cumulatively, they have so far accessed credit of Rs.6.86 billion.

Women empowerment and micro finance

From the early 1970s women's movements in a number of countries became increasingly interested in the degree to which women were able to access poverty-focused credit programmes and credit cooperatives. In India organizations like Self- Employed Women's Association (SEWA) among others with origins and affiliations in the Indian labour and women's movements identified credit as a major constraint in their work with informal sector women workers. The problem of women's access to credit was given particular emphasis at the first International Women's Conference in Mexico in 1975 as part of the emerging awareness of the importance of women's productive role both for national economies, and for women's rights. The 1980s and 1990s also saw development and rapid expansion of large minimalist poverty-targeted micro-finance institutions. Micro-finance for women has recently been seen as a key strategy in meeting not only Millennium Goal 3 on gender equality, but also poverty Reduction, Health, HIV/AIDS and other goals.

Women's empowerment is seen as an integral and inseparable part of a wider process of social transformation. The assumption is that increasing women's access to micro-finance will enable women to make a greater contribution to household income and this, together with other interventions to increase household well-being, will translate into improved well-being for women and enable women to bring about wider changes in gender inequality.

Micro Finance is emerging as a powerful instrument for poverty alleviation. In India, micro finance scene is dominated by Self Help Groups (SHGs) – Bank Linkage Programme, aimed at providing a cost effective mechanism for providing financial services to the "unreached poor". Based on the philosophy of peer pressure and group savings as collateral substitute , the SHG programme has been successful in not only in meeting peculiar needs of the rural poor, but also in strengthening collective self-help capacities of the poor at the local level, leading to their empowerment.

However impact on incomes is widely variable. Studies which consider income levels find that for the majority of borrowers income increases are small, and in some cases negative. All the evidence suggests that most women invest in existing activities which are low profit and insecure and/or in their husband's activities. In many programmes and contexts it is only in a minority of cases that women can develop lucrative activities of their own through credit and savings alone. There have undoubtedly been women whose status in the household has improved, particularly where they have become successful entrepreneurs. Even where income impacts have been small, or men have used the loan, the fact that micro-finance programmes may give some women more negotiating power.

Although in some contexts women may be seeking to increase their influence within joint decision-making processes rather than independent control over income (Kabeer 1998), neither of these outcomes can be assumed. Women's perceptions of value and self-worth are not necessarily translated into actual well-being benefits or change in gender relations in the household (Sen 1990, Kandiyoti 1999). Men are often very enthusiastic about women's credit programmes, and other income generation out programmes, because their wives no longer 'nag' them for money (Mayoux 1999). It is likely that changes at the individual, household and community levels are interlinked and that individual women who gain respect in their households then act as role models for others leading to a wider process of change in community perceptions and male willingness to accept change (Lakshman, 1996).

Micro-finance has also been strategically used by some NGOs as an entry point for wider social and political mobilisation of women around gender issues. For example SEWA in India, CODEC in Bangladesh and CIPCRE in Cameroon, indicate the potential of micro-finance to form a basis for organization against other issues like domestic violence, male alcohol abuse and dowry. Small increases in access to income and influence may therefore be at the cost of heavier workloads, increased stress and women's health. Although in many cases women's increased contribution to household well-being has improved domestic relations, in other cases it intensifies tensions.

Impact of the SHG Bank Linkage Programme

Given these quantitative achievements and observed from various literature what has been the impact of the programme;

The main findings are that:

i. Microfinance has reduced the incidence of poverty through increase in income, enabled the poor to build assets and thereby reduce their vulnerability.

ii. It has empowered women by enhancing their contribution to household income, increasing the value of their assets and generally by giving them better control over decisions that affect their lives.

iii. In certain areas it has reduced child mortality, improved maternal health and the ability of the poor to combat disease through better nutrition, housing and health – especially among women and children.

iv. It has contributed to a reduced dependency on informal money lenders and other non-institutional sources.

v. It has facilitated significant research into the provision of financial services for the poor and helped in building "capacity" at the SHG level.

vii. Finally it has given scope to different stakeholders to innovate, learn and replicate. As a result, some NGOs have added micro-insurance products to their portfolios.

Problems

The problem with SBL is that it is largely a government "pushed" model and has, therefore, suffered from all the infirmities of any bureaucratic programme, run in a mindless, target-driven way. Secondly, The other side of the problem is the attitude of bankers towards SHGs, partly because of bad experiences of poorly run SHGs. There is some critique of SHGs charging high rates of interest to their members (Chavan and Ramakumar, 2006). But we must remember that SHGs (unlike MFIs) are member-run mini-banks. What they charge is also what they earn. The money remains with them. Of course, there is a need for interest rate caps in microfinance. It is useful to remember that the money earned on interest by an SHG accrues to itself. But still it can be observed from table-5 which shows agency–wise NPA of bank loans to SHGs, that the percentage of NPA in case of commercial banks and cooperatives is increasing. And in case of cooperatives it is nearly double which is not a good sign for this scheme. In case of RRBs it is almost stable over 2010-2011, but in terms of total it is also increasing which may impact the loan disbursement by banks and other institutions.

Third, in a penetrating analysis of rural finance, Bhaduri (2006) argues that the administrative costs of lending are bound to be high in rural areas as the loan per borrower is typically low. Additional problems include high interest rates charged on, and mis-selling of, micro credit products.

Table-5

Agency-wise NPA of Bank Loans to SHGs

Institutions	Percentage of NPAs	
	2010	2011
Commercial Banks	2.6	4.7
RRBs	3.5	3.6
Cooperatives	3.8	7.1
Total	2.9	4.7

Source: NABARD

Table-6 provides a comparison between Indian microfinance with other developing countries.

Table - 6

Indian Microfinance—a global comparison

Country	**OSS**	**ROA**	**Profit margin**	**Average Loan US $**	**Yield on gross portfolio**
Kenya	118.1	-1.0	-0.2	463	31.3
Uganda	116.1	2.7	9.4	325	53.7
Bangladesh	106.6	-0.3	-1.2	80	24.3
Pakistan	85.1	-6.6	-47.4	187	27.9
Philippines	113	0.5	6.7	288	38.5
Brazil	133.6	6.4	19.4	820	41.5
Mexico	113.2	3.0	10.2	468	62.8
Indonesia	142.8	3.1	15.4	915	22.5
India	111.4	0.7	7.9	146	21.2

Source: State of Micro Finance Report-2009

On a range of financial ratios, a comparison was made by Mix Market Database (2007) to understand the position of Indian MFIs across countries. Bangladesh MFIs with a large client base and loan volumes still struggle to cover their operational costs, even after 15 years of functioning. Brazil and Mexico are countries where MFIs are profitable, but on high interest rates and high average loans. Indonesia has average loans that are more than 10 times that of Bangladesh. Pakistan MFIs continue to struggle to cover costs. Indian MFIs with the lowest yield to gross portfolio, manage to cover costs even on low average loan size. The inference is that Indian MFIs have efficient systems and are able to manage their businesses on thin margins. The challenge would be to find funds for increasing the average loan size which could significantly improve return on assets and operational self sufficiency.

Conclusion and Recommendation

Financial inclusion is an important element through which the welfare of the poor can be improved. In addition, some poor people use borrowing in order to embark on entrepreneurship, and thus extricate themselves from poverty. A main conclusion of this paper is that microfinance can contribute to poverty alleviation programmes. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrowers.

Any policy action, such as regulation, should therefore concentrate first on the protection of the borrower from the distribution practices of the MFIs. Policy measures should be implemented on a time-line to facilitate robust and stable growth of the industry that promises to deliver a solution to poverty alleviation.

There should simultaneously be a move towards strengthening consumer protection and other laws that empower the micro-borrower. Policy should act to establish a full-edged regulator for the distribution of all financial services including micro-finance. This would complete the existing landscape of financial regulation more efficiently.

To meet the requirements of finance in rural India, what we require is
a package of changes that includes:

i) Reforms of public sector banking (including RRBs) aimed at strengthening their capacity to deliver high quality credit. This includes debureaucratisation of procedures and personnel and the infusion of professional staff. And reforms of the cooperative credit structure on the lines proposed by the Task Force on Revival of Rural Cooperative Credit Institutions in order to make PACS truly democratic, member-driven, professional strengthening of the SHG-bank linkage programme, with the state (especially NABARD) bearing promotional costs in the initial years;

ii) SHG Federations must be facilitated and linked to various apex development agencies so that they become a vehicle of macro-finance, human development and sustainable livelihoods for the rural poor;

iii) The SHGs are to use part of their funds (almost 60%) for lending to their members and the rest for depositing in a bank to serve as the basis for refinancing from the bank;

iv) Savings are to come first: no credit will be granted by the SHG without savings by the individual members of the SHG. These savings are to serve as partial collateral for their loans. The ratio of credit to savings will be contingent upon the creditworthiness of the group and the viability of the projects to be implemented, and is to increase over time with repayment performance.

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