*International Review of Business Research Papers*
*Vol. 5 No. 5 September 2009 Pp. 131-146*

# Micro Finance Practices In India: An Overview

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*New micro finance approaches have emerged in India over the past decade, involving the provision of thrift, credit and other financial services and products, with the aim to raise income levels and improve living standards. The most notable among these micro finance approaches is a nationwide attempt, pioneered by Non-Governmental Organizations and now supported by the state, to create links between commercial banks and NGOs and informal local groups. Micro finance through Self Help Groups (SHGs) is propagated as an alternative system of credit delivery for the poorest of the poor groups. Recognizing their importance, both Reserve Bank of India and National Bank For Agriculture and Rural Development (NABARD) have been spreading the promotion and linkage of SHGs to the banking system through refinance support and initiating other proactive policies and systems. This paper attempts to give a comprehensive overview of all aspects of micro finance in India – its essence, the different institutions involved in its promotion, the different modes of delivery, its weakness and the challenges that lie ahead, the programme of micro finance that has made rapid strides in India. Micro finance is a participative model that can address the needs of the poor especially women members. The origin of SHGs is from the brainchild of Grameen Bank of Bangladesh, which was founded by Mohammed Yunus. SHG was started and formed in 1975.*

Field of Research: Micro finance

## 1. Introduction

Micro finance has become one of the most discussed subjects in the last two decades all over the world. Today micro finance programs and institutions have become increasingly important components of strategies to reduce poverty or promote micro and small enterprise development.

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The Task Force on Supportive Policy and Regulatory Framework for Micro Finance has defined it as under: “Provision of thrift, credit and other financial services and products for very small amounts to the poor in rural, semi-urban or urban areas for enables them to raise their income levels and improve living standards”. Micro finance is a participative model that can address the needs of the poor especially women members. It envisages the empowerment of the members by promoting their saving habits and extending bank loans to them. Robinson (2001) defines micro finance as “small-scale financial services primarily credit and savings-provided to people who farm, fish or herd” and adds that it “refer to all types of financial services provided to low-income households and enterprises”. Micro finance is recognized and accepted as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor with special emphasis on empowering women. In India, micro finance is generally understood but not clearly defined.

It has been approximately 25 years since the birth of micro finance with the Founding of the Grameen Bank in Bangladesh by Professor Mohammed Yunus. The field has since spread with the adaptation and evolution of Prof. Yunus’ ideas to various countries and context. The UN Year of Micro Credit in 2005 indicated a turning point for micro finance as the private sector began to take a more serious interest in what has been considered the domain of NGOs. The year has seen the launch of a wide array of programmes throughout the UN system to raise public awareness about micro credit and micro finance. Micro credit is a powerful economic tool, expected to transform the social and economic life of the poor. The primary differentiator between micro finance and the conventional credit disbursal mechanism lies in the “join liability” concept. A group of individual (in most instances, all women) get together to form an association. The groups in India, for instance are called “Self Help Group” (SHGs), all the members of which undergo a training programme on the basic procedures and system requirements. The members of the SHG save regularly, to minimize the financial burden. There are limits to the amount lent and the repayment is typically over 50 weeks.

## 2. Literature Review

These literatures include books written on the subject by experts and also journals, manuals etc. In fact, there are very few literatures available, regarding socio-economic, political and entrepreneurial development of women. Philanthropic views and ideas of great people also reviewed. Most of the studies are more general in nature and some are more scientifical. “The habit of looking upon marriage as the soul economic refuge for women will have to go before women can have any freedom. Freedom depends on economic conditions, even more than political, and even if women is not economically free and self earning she will have to depend on the husband or someone else, and dependents are never free” (Jawaharlal Nehru).Dr.C.Rangarajan (2006) in his topic ‘Microfinance and its future directions’ in the introductory part of the book, outline the evolution of SHG through microfinance evolve through in three stages. First, to meet survival requirement need, in the second stage is to meet the subsistence level through investing in tradition activities and in the final stage by setting up of enterprises for sustainable income generation. Robert Peck Christen (2006) in his paper “Microfinance and Sustainable International Experience and lesson for India”, he articulates the changing general perception of bankers, that SHGs are profitable clients or bank. Lanmdau Mayoux’s study (1998) on Participatory Learning for Women’s Empowerment in Micro Finance Programs (IDS Bulletin, Vol. 29 No.4, 1998) proposes a participatory approach for integrating women’s empowerment concerns into ongoing programs learning, which itself would be a contribution to empowerment. Micro finance programs for women are currently promoted not only as a strategy for poverty alleviation but also for women’s empowerment.

## 3. Methodology And Research Design

The study is basically based on both primary and secondary data. The primary data has been collected through questionnaire and several structured and unstructured interviews were also conducted to elicit fast hand information with the theme of the research work. However, secondary data is collected from various sources like journals, books, manuals, and reports of the state concerned for literature part. Data collected both from primary and secondary sources have been interpreted with the help of statistical devices. The study was conducted in 13 priority states during the period from 2003-2007, actually focusing on growth of linked SHGs through microfinance.

## 4. Genesis Of Micro Finance

The origin of Micro finance or micro credit can be traced to the 1976 when Mohammed Yunus set up the Grameen Bank experiment on the outskirts of Chittagong University Campus as an experiment. Grameen we mean ‘rural or village’ in Bangladesh language. These Grameen banks provide loans to the poor who do not have anything to put up for collateral. Grameen banks are the largest rural financial institution in Bangladesh. Their lending guidelines and procedures are mainly for women, 97% are women. In terms of clients, Grameen Bank is doing very well.

## 5. Features Of Micro Finance

Some important features of micro finance are as follows:

a) Micro finance is a tool for empowerment of the poorest women.
b) Micro finance is essentially for promoting self-employment; the opportunity of wage employment is limited in developing countries – not increases the productivity of employment in the informal sector of the economy.

c) Micro finance is not just a financing system, but a tool for social change, especially for women.
d) Micro credit is aimed at the poorest, micro finance lending technology needs to mimic the informal lenders rather than formal sector lending.

## 6. Profile Of Micro Finance In India

The profile of micro finance in India at present can be traced out in terms of poverty it is estimated that 350 million people live Below Poverty Line. The following are some components of micro finance:

**a)** This translates to approximately 75 million households.
**b)** Annual credit demand by the poor in the country is estimated to be about Rs 60,000 crores.
**c)** A cumulative disbursement under all micro finance programmes is only about Rs. 5000 crores.
**d)** Total outstanding of all micro finance initiative in India estimated to be Rs. 1600 crores.
**e)** Only about 5% of rural poor have access to micro finance.
**f)** Though a cumulative of about 20 million families have accepted accessed.
**g)** While 10% lending to weaker sections is required for commercial banks, they neither have the network for lending and supervision on a larger scale or the confidence to offer term loan to big micro finance institutions.
**h)** The non poor comprise of 29% of the outreach.

## 7. Need For Micro Finance

Micro finance aims at assisting communities of the economically excluded to achieve greater levels of asset creation and income security at the household and community level. Access to financial services and the subsequent transfer of financial resources to poor women enable them to become economic agents of change. Women become economically self-reliant, contribute directly to the well being of their families, play a more active role in decision making and are able to confront systematic gender inequalities. Access to credit has long been considered a major poverty alleviation strategy in India. Micro credit has given women in India an opportunity to become agents of change. Poor women, who are in the forefront micro credit movement in the country use small loans to jump start a long chain of economic activity.

Micro finance is accessing financial services in an informally formal route, in a flexible, responsive and sensitive manner which otherwise would not have been possible for the formal system for proving such services because of factors like high transaction cost emanating from the low scale of operation, high turnover of clients, frequency of transaction etc. (Vijay Mahajan and G. Nagasri, 1999). Micro finance and Self Help Group (SHG) must be evolved to see that SHGs do not charge high rates of interest from their clients and improve access to those who cannot sign by making their use through thumb impression.

The current literature on micro finance is also dominated by the positive linkages between micro finance and achievement of Millennium Development Goals (MDGs). Micro Credit Summit Campaign's 2005 report argues that the campaigns offers much needed hope for achieving the Millennium Development Goals especially relating to poverty reduction. IFAD along with Food and Agriculture Organisation (FAO) and the World Food Programme (WFP) declared that it will be possible to achieve the eight MDGs by the established deadline of 2015 "if the developing and industrialized countries take action immediately" by implementing plans and projects, in which microc credit could play a major role (Alok Misra, 2006)

## 8. Key Players In The Micro Finance System

### i) National Bank for Agricultural and Rural Development (NABARD):

NABARD is an apex institution, accredited with all matters concerning policy, planning and operations in the fields of credit for agriculture and other economic activities in rural areas in India. NABARD was established in 1982 as a Development Bank, in terms of the Preamble of the Act, "for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto". The corporate mission set by NABARD for making available microfinance services to the very poor envisages coverage of one third of the rural poor through one million SHGs by the year 2006-07. The propose targets are given in the following table:

**Table 1. Target of SHG and Bank**

| Year | No. of New SHGs to be linked during the year | Cumulative No. of SHGs to be linked at the end of the year | Bank Loan requirement during the year (Rs in million ) | Cumulative Bank Credit involved at the end of the year (Rs. In million) |
|---|---|---|---|---|
| 2002-03 | 1,25,000 | ** 5,85,000 | 7,909 | ** 18,172 |
| 2003-04 | 1,10,000 | 6,95,000 | 14,172 | 32,884 |
| 2004-05 | 1,05,000 | 8,00,000 | 28,184 | 61,068 |
| 2005-06 | 1,00,000 | 9,00,000 | 41,256 | 1,02,234 |
| 2006-07 | 1,00,000 | 10,00,000 | 49,588 | 1,51,912 |

Source: NABARD

In November 1998 a high-powered Task Force on Supportive Policy and Regulatory Framework for Micro finance (henceforth referred to as the Task Force) was set up by NABARD at the instance of RBI. The objective of the Task Force were among others, to come up with suggestions for a regulatory framework that brings the operations of the Microfinance Institutions into the mainstream, to access the possible role of self-regulatory organizations and to explore the need for a separate legal framework for micro finance.

### ii) Reserve Bank of India

The earliest reference to micro credit in a formal statement of monetary and credit policy of RBI was in former RBI President Dr. Bimal Jalan's Monetary and Credit Policy Statement of April 1999. The policy attached importance to the work of NABARD and public sector banks in the area of micro credit. The banks were urged to make all out efforts for provision of micro credit, especially forging linkages with SHGs, either at their own initiative or by enlisting support of Non-Government Organisation (NGOs). The micro credit extended by the banks is reckoned as part of their priority sector lending, and they are free to device appropriation loan and saving products in this regard (Y.V. Reddy, 2005).

Considerable work had been done by RBI in this sector since 1991. In 1991-92 a pilot project for linking up SHGs with banks was launched by NABARD in consultation with the RBI. In 1994, the RBI constituted a working group on SHGs. On the recommendation of the SHGs would be reckoned as part of their lending to weaker sections and such lending should be reviewed by banks and also at the State Level Bankers' Committee (SLBC) level, at regular interval. Banks were also advised that SHGs, registered or unregistered, which engaged in promoting the saving among their members, would be eligible to open savings bank accounts with banks irrespective of their availment of credit facilities from banks.

### iii) Self Help Groups

The origin of SHGs is from the brainchild of Grameen Bank of Bangladesh, which was founded by Mohammed Yunus SHG was started and formed in 1975. The establishment of SHGs can be traced to the existence of one or more problem areas around which the consciousness of rural poor is built and the process of group formation initiated. SHG are considered a new lease of life for the women in villages for their social and economic empowerment. SHG is a suitable means for the empowerment of women. Since SHGs have been able to mobilize savings from persons or groups who were not normally expected to have any 'saving' and also to recycle effectively the pooled resources amongst the members, their activities have attracted attention as a supportive mechanism for meeting the credit needs of the poor (NABARD, 2004). The main characteristics of SHGs are as follows:

a) The ideal size of an SHG is 10 to 20 members. (In a bigger group, members cannot actively participate)

b) The group need not be registered.
c) From one family, only one member. (More families can join SHGs this way)
d) The group consists of either only men or of only women. (Mixed groups are generally not preferred)
e) Women's groups are generally found to perform better.
f) Members have the same social and financial background. (Members interact more freely this way)
g) Compulsory attendance. (Full attendance for larger participation)

*Function of SHGs*

The following are the main functions of SHGs:

1) The amount may be small, but savings have to be a regular and continuous habit with all the members. 'Savings first – Credit later' should be the motto of every group member.
2) The savings to be used as loans to members. The purpose, amount, rate of interest, etc. to be decided by the group itself. Enabling SHG members to attain loans from banks, and repaying the same.
3) Every meeting, the group will discuss and try to find solutions to the problem faced by the members of the group.

**iv) Micro Finance Institutions (MFIs)**

A range of institutions in public sector as well as private sector offers the micro finance services in India. Based on asset sizes, MFIs can be divided into three categories:
1) 5-6 institutions which have attracted commercial capital and scaled up dramatically when last five years. The MFIs which include SKS, SHARE and Grameen Style program but after 2000, converted into for-profit, regulated entities mostly Non-Banking Finance Companies (NBFCs).
2) Around 10-15 institutions with high growth rat,e, including both News and recently form for-profit MFIs. Some of MFIs are Grameen Koota, Bandhan and ESAF.
3) The bulk of India's 1000 MFIs are NGOs struggling to achieve significant growth. Most continues to offer multiple developmental activities in addition to microfinance and have difficulty accessing growth trends.

Private MFIs in India, barring a few exceptions, are still fledging efforts and are therefore unregulated. They secure micro finance clients with varying quality and using different operating models. Regulatory framework should be considered only after the sustainability of MFIs Model as a banking enterprise for the poor is clearly established.

### v) Non Government Organizations (NGOs)

The Non Government Organizations involved in promoting SHGs and linking them with the Formal Financial Agencies (FFAs) perform the following functions:

- Organizing the poor people into groups
- Training and helping them in the organizational, managerial and financial matters
- Helping them access more credit and linkage with formal financial agencies
- Channelizing the group effort for various development activities
- Helping them in availing opportunities, widening the options available for economic development
- Helping them in sustaining the group effort independently even after withdrawal of the NGO.

## 9. Models of Micro Finance Practices:

The following are the variety of delivery models of micro finance in India:

**a)** The SHG-Bank Linkage Model – The predominant model in the Indian Micro finance context continues to be the SHG-Bank Linkage Model that accounts for nearly 20 million clients. It started as an Action Research Project in 1989. Under this model, Self Help Promoting Institution usually a NGO, helps groups of 15-20 individuals through an incubation period after which time they are linked to banks.The SHG had proved their efficacy over time but they suffer from a meager resource base which handicapped their capacity to expand the economic activities of their members. The factors received by the SHG members were the lack of information, time consuming and expensive procedures for obtaining bank loans, rigid lending policies of banks in respect of unit costs, unit sizes and group guarantee for loans. There are three linking model in the country:

***Model I -*** SHG formed and financed by banks: - In this model, the banks play the dual role of promotion of SHGs and also provider of credit to SHGs. Upto March 2005, 21% of SHGs financed were from this category.

***Model II -*** SHGs formed by formal agencies other than banks (NGOs and other), but directly financed by banks: - In this model, the NGOs and other agencies have played the role of facilitator. Upto March 2005, 72% of SHG financed were from this category. Model III- SHGs financed by banks using NGOs and other agencies as financial intermediaries: - In this model, the NGOs and other agencies play the role of financial intermediation. Upto March 2005, only 7% of SHG financed were from this category.

Thus in 2006-07, the country witnesses a marked proliferation of SHGs to the extent of 24,76,492. In no less discouraging terms the bank loans also amounted to Rs 13, 511.86 crores as indicated in the following table:

**Table 2. Progress of SHg Bank Linkage in India**

| Year | New SHGs financed by Banks | | | Bank Loan (Rs crores) | | |
|---|---|---|---|---|---|---|
| | During the year-No. | Growth (%) | Cumulative No. | During the year-Amount | Growth (%) | Cumulative Amount |
| 1992-99 | 32,995 | - | 32,995 | 57 | - | 57 |
| 1999-00 | 81,780 | 148 | 1,14,775 | 136 | 138 | 193 |
| 2000-01 | 1,49,050 | 82 | 2,63,825 | 288 | 112 | 481 |
| 2001-02 | 1,97,653 | 33 | 4,61,478 | 545 | 89 | 1026 |
| 2002-03 | 2,55,882 | 29 | 7,17,360 | 1022.34 | 87 | 2048.68 |
| 2003-04 | 3,61,731 | 41 | 10,79,091 | 1855.33 | 81 | 3904.21 |
| 2004-05 | 5,39,365 | 41 | 16,18,456 | 2994.25 | 62 | 6898.46 |
| 2005-06 | 6,20,109 | 15 | 22,38,565 | 4499.09 | 50 | 11,397.55 |
| 2006-07 | 2,37,927 | - | 24,76,492 | 2114.31 | - | 13,511.86 |

Source: NABARD

**Table 3. Agency-wise No. of SHG financed**

| Agency | During 2004-05 | | | | Cumulative upto 31st March '05 | | | |
|---|---|---|---|---|---|---|---|---|
| | SHGs | | Bank Loan | | SHGs | | Bank Loan | |
| | No | % | No. | % | No. | % | No. | % |
| CBs | 3,05,051 | 57 | 19,042 | 64 | 8,43,473 | 52 | 41,590.19 | 60 |
| RRBs | 1,57,848 | 29 | 8,213 | 27 | 5,63,846 | 35 | 20,995.47 | 30 |
| Coops. | 76,466 | 14 | 2,687 | 9 | 2,11,137 | 13 | 6,398.94 | 10 |
| Total | 5,39,365 | 100 | 29,942 | 100 | 16,18,456 | 100 | 68,948.60 | 100 |

Source: NABARD

**b)** Grameen Model – Potential clients are asked by the MFO to organize themselves into 'groups' of five members which are in turn organized into 'centres' of around five to seven such groups. The loans for productive purposes are provided by the MFO directly to the members of small groups directly on the strength of group assurance. Grameen Model is being followed in India by Association for Sarva Seva Farms (ASSEFA), Activists for Social Alternatives (ASA) and Other Financial and Technical Services Ltd.

**c)** Cooperative Model – This has been initiated by Cooperative Development Forum (CDF), Hyderabad which has relied upon a "Credit Union" involving the Saving First Strategy. It has built up a network of Women Thrift Groups (WTGs) and Men Thrift Groups (MTGs). They are registered under Mutually Aided Cooperative Society Act (MACs) and mobilize savings resources from the members and access outside/ supplementary resources from the institutional systems.

**d)** Partnership Model – The partnership model pioneered by ICICI Bank attempted to address the following key gaps:

– To separate the risk of the MFI from the risk inherent in the Micro Finance portfolio.
– To provide a mechanism for banks to incentivize partner MFIs continuously, especially in a scenario when the borrower entered into a contact directly with the bank and role of the MFI was closer to that of an agent.
– To deal with the inability of MFIs to provide risk capital in large amounts, this limits the advances from banks, despite a greater ability of the latter to provide implicit capital.

In this model, the MFI collects a 'service charge' from the borrowers to cover its transaction costs and margins. The lower the defaults, the better the earnings of the MFI as it will not incur any penalty charges vis-à-vis the guarantee it provides.

Assessment of SHG – The following table will help to assess each SHG in a simple effective manner (NABARD, 2004).

**Table 4 Assessment of SHG**

| Sl.No. | Factors to be check | Very good | Good | unsatisfactory |
|---|---|---|---|---|
| 1 | Group size | 15 to 20 | 10 to 15 | Less than 10 |
| 2 | Type of members | Only very poor members | 2 or 3 not very poor members | Many not poor members |
| 3 | No. of meetings | Four meeting in a month | Two meetings in a month | Less than two meetings in a month |
| 4 | Timing of meetings | Night or after 6 p.m. | Morning between 7 and 9 a.m. | Other timing |
| 5 | Attendance of members | More than 90% | 70 to 90% | Less than 70 % |
| 6 | Participation of members | Very high level of participation | Medium level of participation | Low level of participation |
| 7 | Savings collected within the group | Four times a month | Three times a month | Less than three times a month |
| 8 | Amount to be saved | Fixed amount | Varying amount | - |
| 9 | Interest on internal loan | Depending upon the purpose | 24 to 36 % | More than 36 % |
| 10 | Utilization of savings amount by SHG | Fully used for loaning to members | Partly used for loaning | Poor utilization |
| 11 | Loan Recoveries | More than 90% | 70 to 90% | Less than 70% |
| 12 | Maintenance of books | All books are regularly maintained and updated | Most important registers (minutes, savings, loan etc) are updated | Irregular in maintaining and updating books |
| 13 | Accumulated savings | More than Rs 5000 | Rs 3000 – Rs 5000 | Less than Rs 3000 |
| 14 | Knowledge of the rules of SHG | Known to all | - | Not known to all |
| 15 | Educational level | More than 20% of members can read and write | - | Less than 205 know to read and write |
| 16 | Knowledge of Govt. programs | All are aware of Govt. program | Most of the members know about Govt. program | No one know |

## 10. Region – Wise Penetration Of Shgs

Andhra Pradesh is the leading state of India in the size of the SHG movement, measuring more than three standard deviations above the mean, i.e. 279 households participating in SHGs foe every 1000 households. Orissa, Pondicherry, Tamil Nadu and Karnataka formed the second leading group, with more than one standard deviation above the mean. Himachal Pradesh, Kerala, Assam, Rajasthan, West Bengal and Maharashtra formed an intermediate group with ratios within one standard deviation of the mean with 94, 85, 82, 65, 61 and 56. The other states had one unit of standard deviation below the mean. In Uttaranchal and Jharkhand there were less than 32 households participating in SHGs for every 1000. In Jammu and Kashmir, Haryana, Punjab and Arunachal Pradesh there were less than ten households participating in SHGs for every 1000 of the total households.

## 11. Rectifying Regional Skew

The SHG – Bank Linkage Program (SBLP) expanded by 37 percent in 13 priority states which account for 67 percent of the rural poor (table 5). These states were identified by NABARD in 2005 for special efforts and location-specific strategies. Growth was particularly rapid in Maharashtra (72 percent). As a result, the western region (Maharashtra and Gujarat) experienced the fastest growth (63 percent) of all the regions, an d its share in the total number of groups linked is now only 5 percentage points behind its share of the total number of poor. the two regions which have the most catching up to do are the central (Chhattisgarh - 33 percent, Madhya Pradesh - 24 percent, Uttar Pradesh - 23 percent) and eastern (Bihar - 57 percent, Jharkhand - 21 percent, Orissa – 30 percent, West Bengal – 33 percent) regions, whose share of groups lag behind their share of the poor by 21 and 11 percentage points, respectively. Growth in the East was 33 percent about the same as overall national growth of 31 percent, and well below the previous year’s growth of 48 percent. Growth in the central region was only 24 percent. Despite relatively rapid growth in the priority states, the programme continues to remain heavily skewed in favour of South. While the share of the South in linked groups came down marginally during the year.

**Table 4 Growth of linked SHGs in 13 priority states**

| State | 2003 | 2004 | 2005 | 2006 | 2007 | Percent growth |
|---|---|---|---|---|---|---|
| Assam | 3,477 | 10,706 | 31,234 | 56,449 | 81,454 | 44 |
| Bihar | 8,161 | 16,246 | 28,015 | 46,221 | 72,339 | 57 |
| Chhattisgarh | 6,763 | 9,796 | 18,569 | 31,291 | 41,703 | 33 |
| Gujarat | 13,875 | 15,974 | 24,712 | 34,160 | 43,572 | 28 |
| Himachal Pradesh | 8,875 | 13,228 | 17,798 | 22,920 | 27,799 | 21 |
| Jharkhand | 7,765 | 12,647 | 21,531 | 30,819 | 37,317 | 21 |
| Maharashtra | 28,065 | 38,535 | 71,146 | 131,470 | 225,856 | 72 |
| Madhya Pradesh | 15,271 | 27,095 | 45,105 | 57,125 | 70,912 | 24 |
| Orissa | 42,272 | 77,588 | 123,256 | 180,896 | 234,451 | 30 |
| Rajasthan | 22,742 | 33,846 | 60,006 | 98,171 | 137,837 | 40 |
| Uttar Pradesh | 53,696 | 79,210 | 119,648 | 161,911 | 198,587 | 23 |
| Uttaranchal | 5,853 | 10,908 | 14,043 | 17,588 | 21,527 | 22 |
| West Bengal | 32,647 | 51,685 | 92,698 | 136,251 | 181,563 | 33 |
| Total | 249,462 | 397,464 | 667,761 | 1,005,272 | 1,374,917 | 37 |
| Percent increase | | 59 | 68 | 51 | 37 | |

Source: NABARD Annual Reports

## 12. Challenges Ahead

There have definitely been significant advances in recent years and the concept and practice of SHG-based microfinance has now developed deep roots in many parts of the country. The efficacy of SHG based microfinance has been established firmly enough that micro credit has effectively graduated from an "experiment" to a widely accepted paradigm of rural and developmental financing in India. The following are the challenges ahead in Indian microfinance:

a) Appropriate legal structures for the structured growth of microfinance operations.
b) Finding adequate levels of equity for the new entities to leverage loan funds.
c) Ability to access loan funds at reasonably low rates of interest.
d) Ability to attract and retain professional and committed human resources.
e) Design of apt MIS including user friendly software for tracking accounts and operations.
f) Appropriate loan provide for different segments.
g) Ability to innovate, adapt and grow.
h) Bring out a compendium of small and micro enterprises for microfinance clients.

i) Identify and prepare a panel of locally available trainers.
j) Ability to train trainers.
k) Capacity to provide backward linkages or create support structures for marketing.

However, so far the evidence points to the several benefits of microfinance. In particular, empowerment of women and the inculcation of financial training and discipline amongst the poor will undoubtedly have long-term socio economic benefits. The principles of Self Help and micro credit thus hold the key to economic and socio-cultural freedom for India's millions of poor opening the gates of a hitherto untapped reservoir of human enterprise.

## 13. Discussion of Findings

After discussing we found that microfinance tries to assist the communities of economically excluded for achieving greater levels of asset creation and income security of the household and community level. Micro Finance System have included five key players viz. National Bank for Agricultural and Rural Development (NABARD), Reserve Bank of India (RBI), Self Help Groups (SHGs), Micro Finance Institutions, Non Government Organizations. The SHG-Bank Linkage Program expanded by 37 percent in the 13 priority states which account for 67 percent of the rural poor. These states were identified by NABARD in 2005 for special efforts and location specific strategies. Despite relatively rapid growth in these priority states, the programme continues to remain heavily skewed.

## 14. Conclusions

Some valuable lessons can be drawn from the following experience of successful microfinance operations. India is to stand among the country of developed nation and there is no denying the fact that poverty alleviation and reduction of income inequalities has to be the top most priority. In this backdrop impressive gain made by SHG-Bank Linkage Programme in coverage of rural population with financial services offers a ray of hope. The paper argues for mainstreaming of impact assessment and incorporation of local factors in service delivery to maximize impact of SHG Bank Linkage Programme on achievement of Millennium Development Goals (MDGs) and not letting go the opportunities.

The main conclusion of this topic is that micro finance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programmes. The challenges 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 without improving unbearably high cost of monitoring to end use lenders. A promoting solution is to provide multipurpose loans or composite credit for income generation, shousing improvement and consumption support. Micro finance can indeed be sustained in the long run in a profitable manner; going by the increasing number of commercial banks that have evinced interest in this area, the future does seem bright.

The changing face of microfinance in India appear to be positive in terms of the ability of microfinance to attract more funds and therefore increase outreach and we are now interested in measuring how this positions microfinance in terms of poverty alleviation and social impact a going forward. Micro finance remains a powerful tool for development. It may not be a panacea, but it has brought a sea of change in the lives of many. Only spreading the outreach of micro finance will bring down the cost of capital and the operating cost and to strengthen the bonding between micro finance and the formal financial system. However, for sustainable development the poor rural economy, focus must be on development of rural infrastructure and rural economy, to ensure that there will exist activities that require finance.

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