MICRO–FINANCE – A CRITICAL ANALYSIS OF RURAL INDIA

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ABSTRACT

Purpose - Rural is often looked down upon as a not a healthy place to live, where that place is a secluded place for the underprivileged and where only the down trodden people can live. On the other side, micro is a word that has its presence that reflects only the small and the underprivileged. Lack of access to finance is often cited as a key reason why poor people remain poor. This paper will throw light on the Indian rural sector as the emerging and vibrant sector which will take India to fulfill the dream of the developed country. India can be divided into two parts on the basis of development: one is Developed India and other is Undeveloped India, there arises a need of Development of the underdeveloped Area. The research will focus to determine that, what various Factors are contributing to the development of Rural India. It will focus on how the micro finance Institutions can help the people of Rural India, so that they can get the Equal opportunity for the Industrial and Agriculture growth.

Approach – Secondary data taken from the RBI and Central Bank Website and The Microfinance conference in South Asia Conference, 5-7 December 2005, sponsored by the World Bank and the Consultative Group to Assist the Poor (CGAP) available on the internet and the journals.

Findings - over 87% of India’s poor do not have access to credit from a formal source, and people had to rely on moneylenders who charge them interest rates as high as 120%. Conventional models of microfinance in India are community-based or in-house banking with reserves supported by non-profit microfinance institutions. There are better ways to utilize the amount offered and to make the best use of the support.

Research Limitation – Only secondary data is available and accuracy is limited on the reliance of the same.
Practical Implications – The way forward on the unorganized sector and better allocation of the funds and optimum support from the organizations is carried out in the analysis.

Value – This is a third party view on the practical implementations of the micro finance methods and there utilizations. This will also throw light on the untouched sectors of the rural India.

Keywords – Rural, resources, growth, utilization, development

Paper Type – Secondary research and analysis

INTRODUCTION

Microfinance is defined as, “a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services” (refer to bibliography). In other words it is provision of financial services such as savings, credit and insurance to individuals that fall below the poverty line. Microfinance therefore is also stated as creation of social value for these individuals by elevating their circumstances and helping them to envision the livelihood opportunities. Through the provision of capital for micro enterprise, savings for risk mitigation and insurance the purpose or the goal for the sustainability of rural developers is achieved.

It is stated that private corporations, individual donors and government schemes are using range of microfinance methods. There are some banks like ICICI that provide access to help the rural developers by means of financial services. The Indian government adopts piloted national programs to contribute to the microfinance for the rural developments. NGO’s on the other hand undertake fund raising activities and encourage donors to participate in microfinance as much as they can.

The purpose of this research is not only to understand the broad definition of microfinance and its structure and purpose but it is mainly to project the creation of social value by showing and proving how microfinance has been capable in proving itself for the rural dwellers.
RESEARCH QUESTION

This research paper answers the question, “What is the role of microfinance in the lives of underprivileged from the rural developments in terms of the equal opportunity for their agricultural and industrial growth? The approach to this question is based upon secondary data retrieved from the RBI and the Central Bank website together with the conclusions made at the microfinance conference in South Asia held from 5-7th December, 2005.

LIMITATIONS OF THIS RESEARCH

This project report is based on the secondary data collection and therefore the accuracy and the reliability of the data is based on the same.

PRACTICAL IMPLICATIONS

Practical implications are to encourage the better allocation of the funds and optimum support from the organizations to help the unorganized sector (rural development).

RELIABILITY OF THIS PROJECT REPORT

This report is based on third party analysis. The practical implementations and utilizations of the micro finance methods in the rural areas. This report also wants to focus on the untouched sectors of the rural India.

MICROFINANCE IN DETAIL

According to the International Labor Organization (ILO), Microfinance is also defined as, “an economic development approach that involves providing financial services through institutions to low income clients” (Bib). Alternatively, the second definition of the same stated by ‘The National Microfinance Taskforce, 1999’ states that, “it is the 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” (Bib). An article on ‘Microfinance - A small ideal with a big impact’ stated that, “The poor stay poor, not because they are lazy but because they have no access to capital” (Bib, Feb 27, 2008). Alternatively, the definition of finance is simple as it simply quotes that it is the, “management of money” (Bib). Management of money means
acquiring and using money. Now microfinance word is created from bringing the finance and money related definitions together to conclude that in simple terms, ‘we are financing the micro entrepreneurs’.

As already stated microfinance is emerged in need of acquiring special goals to empower under-privileged of the society. The underprivileged of the society can include women, men, low caste, etc. The principles of microfinance have been established on the philosophy of cooperation, equality, equity and self sustenance. In the heart of these underlined principles is the concept of human development and brotherhood expressed via people working together to live a better life for themselves and their children.

It is stated that traditionally microfinance was used to provide standardized credit to the poor. Now there is earnest longing to use microfinance as just not a product of credit but rather a quality credit that extends good livelihood for those that have the capability and potential to sustain their livelihood. This paper reflects microfinance as a quality measurement than the quantity measurement. Microfinance plays a huge role in changing one persons or a family’s life. Further on, this research will unfold to share more secrets on microfinance in today’s world.

THE CLIENTS OF MICROFINANCE

This paper is reflective of the low-income and underprivileged groups that may be self-employed or small scale household entrepreneurs such as farmers or small industrialist from the rural settings. Microfinance for the poor means it is for those that has limited access or no access to formal financial institutions. Unlike, the urban dwellers like shopkeepers, artisans, providers, and street vendors etc, those that can depend on other conventional financial institutions for the sustenance of their businesses. It is stated that the poorer you are, it seems less likely that you have the access to the conventional formal financial institutions. Additionally, the informal financial arrangements also seem more expensive and seem to be unreasonable for ordinary poorer person.

The strength of the microfinance therefore reflects the weaker population of our society those that are excluded from the norms.

THE TYPES OF SERVICES MICROFINANCE UNDERTAKES

The services of microfinance is stated to depend upon the factors such as political and local situations, the cooperation received from cooperative, self housing groups, NGOs and other support system. It is assumed that there are eight types of lending models that fall under
the category of microfinance. These models were created by microfinance hub in 2010 (See Bibliography). We will look at the models that are relevant to the Indian rural community.

The first lending model 1: Associations

The targeted population that is the poor community forms an association to offer microfinance services for example micro credit, micro savings, micro-insurance etc to support themselves. This association that can be formed on the basis of religion, gender, cultural or political orientation of its members then gathers capital and acts as intermediate between MFIs, banks and its members. The example given is of the self help groups in India.

Microfinance lending model 2: Bank Guarantees

In this type of lending model the government agency or the donor guarantees microloans by a commercial or microfinance bank to a group of borrowers or individuals. This model includes compulsory deposits made by the borrowers in the mentioned banks.

Microfinance lending model 3: Village Banking/ Community Banking

Village banks are considered as formal associations formed by members of a specific community. These associations are created by the groups to generate employment and improve the living standards. These banks provide microfinance services to develop their own communities. Each member’s eligibility for the loan depends on his/her peers performance as these services are distributed through member groups.

Microfinance lending model 4: Non-Governmental Organizations (NGOs)

NGOs are termed as external organizations that offer microfinance services such as insurance, savings, loans etc. They help the poor by improving their credit and additionally assist them in education, training and research. NGOs mainly act as intermediates between the donor agencies (UN, World Bank, ADB) and the poor. NGOs operate locally and globally via their online and physical presence.

Microfinance lending Model 5: For-Profit Banks

The specialized microfinance banks tend to offer limited financial services to the poor. The main purpose these banks are to secure investment or high returns along with the aim to better the social development and financial progress.

In addition to the above given information it is stated that the Central Government in India has established extensive and stronger link between the National Bank for Agriculture
and Rural Development, State Cooperative Bank, The District Cooperative Banks, Primary Agriculture and Marketing Societies at State, National, District and the Village level.

THE HISTORY OF MODERN MICROFINANCE

The concept of microfinance is said to have evolved in the late 1970s. Although a long history is associated with microfinance the primary involvement or use of microfinance has been stated to start from the beginning of the 20th century. There were numerous credit groups that were operating globally for example the ‘chit funds’ in India, ‘tonties’ in West Africa, ‘susus’ in Ghana, ‘pasanaku’ in Bolivia and etc. In addition to the mentioned, there were many credit and formal savings institutions that have long been working throughout the world.

In the 1990s it is stated that the poor from the rural and urban Europe formed credit institutions. These institutions were recognized as Credit Unions or People’s Bank etc. The goal of these institutions was to provide smooth or easy access to finance to the poor people overlooked by the huge financial institutions and banks.

It is also stated that during the early 1970s, few experiential programs on microfinance had started in Brazil, Bangladesh and some other countries. The micro credit was based on group lending as mentioned above where the peer group members took the responsibility of paying the loan.

Some of the banks and financial institutions pioneered the microfinance program after 1970. ACCION International is the institution established by a law student from Latin America. The purpose of this institution was to help the poor people residing in the urban and rural communities of the Latin America. In the year 2008, it is marked as one of the most influential and efficient microfinance institutions of the world. Its networking partners consist of the United States of America and Africa.

The SEWA bank was established in the year 1973 named as Mahila SEWA cooperative bank with the aim of accessing financial services easily. The meaning of SEWA is, ‘The Self Employed Women’s Association’. As for the updates on this bank, it is stated that the bank accommodates over 30,000 clients.

The Grameen Bank was founded by Dr. Mohammad Yunus in the year 1983 who began experimenting in lending financial services to the poor women population in the village of Jobra, Bangladesh. He has served as a professor of economics at Chittagong University in the 1970s. This bank is unlike the lending cooperatives and the Credit Unions
that have been around for years. Since the time the Grameen Bank was established, innovation in microfinance continued and financial services to the poor never stopped.

It is stated by the World Bank that estimated number of 160 million people in developing countries are services by microfinance, Grameen Bank in Bangladesh established by Dr. Muhammad Younus in 1983. This bank is stated to serve approximately more than 400,000 underprivileged populations in Bangladesh. In addition to the stated, this bank has received Nobel Prize in the year 2006 and it has also stimulated the formation of other microfinance institutions like PROSHIKA, BRAC and ASA.

GOVERNMENTS ROLE IN SUPPORTING MICROFINANCE

Government plays huge role in setting sound macroeconomic policy that provides low inflation and stability, avoids interest rate ceilings etc. When the government tends to set interest rate limits then automatically political factors involve high administrative cost therefore minimizing loan amounts to the targeted group (poor people). Such ceilings paralyze the supply of credit more than protecting the poor.

Some of the procedures that can be promoted by government are creating wholesale government funds to support retail MFI’s if funds can be insulated from politics and this way they can hire and protect strong technical management and avoid disbursement pressure that forces fund to support unpromising MFIs. Government must promote microfinance as a key in overcoming poverty along with it being a vital part of the financial system. Government should create regulations, politics and legal structures that encourage sustainable and responsive microfinance. It should also encourage a range of regulated and unregulated institutions that have the set standards.

Government should support wholesale structures and also encourage competition, capacity building, and innovation to lower interest rates, and costs in microfinance. The data retrieved by the RBI shows that there are unstated informal sources which provide a significant part of the total credit needs to the targeted population. Author Devraja an Associate Professor in the Department of Commerce at the University of Mysore states in his study that, “RBI estimates that there are over 450 million unbanked people in India who live in rural areas” (Bib). He also further writes that unbanked is a term referred to people who do not have access to formal financial services and they tend to depend on the informal providers of finance such as village money lenders or they depend on their family members. He further states that there is a risk involved in relying on the limited resources from the
village. The personal risk involved is the high interest rates that can be high as much as 150%.

Therefore RBI and Indian Government state to have a policy where the Indian banks are required to lend to the priority sectors one of which includes the rural poor. So far the banks were lending money to MFI/s who would then on-lend funds especially to the rural women across India. Therefore this arrangement instituted by the government in agreement with the RBI is stated to not only help the banks meet their priority sector lending requirement to 100% repayment rates but it is also profitable arrangement for the rural sector.

Therefore as per the current reports it is stated that the microfinance in India is provided by three sectors which are the private, charities and government sectors. Finally it is stated that the agri-input and processing companies such as EID Parry, fast moving consumer goods companies such as Hindustan Levers and other consumer durable companies such as Philips have realized the potential of this big market and are actively using SHGs as entry points. On the whole, the economic attractiveness of microfinance as a business is getting established and this is a firm step towards mainstreaming.

MICROFINANCE IN THE 21ST CENTURY

It is stated that over the last ten years there has been successful experiences in providing finance to small entrepreneurs. Small entrepreneurs being the poor people where able to demonstrate that they were able to repay their loans and in return increase their income and assets. They were productive and worked in timely manner to meet the needed guidelines and policies of financial services. It has also been demonstrated that Community banks, NGOs and grass root savings and credit groups around the world have proved that these microenterprise loans are profitable for borrowers and vice versa for the lenders, hence proving that microfinance is one of the most effective poverty reducing strategies.

SUCCESS FACTORS FOR NGOs

NGOs have played a huge role in promoting microfinance by partnering with influential so called actors for microfinance. This included the National Bank for Agricultural and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Friends of Women’s World Banking (FWWB), Rashtriya Mahila Kosh (RMK), Council for Advancements of People’s Action and Rural Technologies (CAPART), Rashtriya Gramin Vikas Nidhi (RGVN). Additionally the other donor funded programs included International Fund for Agricultural Development (IFAD), United Nations Development Program (UNDP),
World Bank and Department for International Development in UK and recently even the commercial banks have been added to the idea pull. Induced by the worldwide focus on microfinance, donor NGOs too have been funding microfinance projects therefore this can be called as a supply push.

Microfinance has shown positive results than the other projects. Most microfinance schemes led by NGO are for the rural women who are given access to small loans to meet their emergency needs. The idea of microfinance is promoted by NGOs with the help of self help groups. Self help groups formed in groups of three or five people generate their own savings.

Finally, it is stated that for many NGOs, microfinance is a way to financial sustainability. Especially for the medium to large NGOs that are able to access bulk funds for on-lending. For example from SIDBI, the interest rate spread could be an attractive source of revenue than revenue generated from an uncertain highly increasing and competitive donor funding.

THE NEED OF MICROFINANCE IN INDIA

India is considered to host around one–third of world’s rural population. The official estimates range between 26-50% percent of the total population. It is stated that around 87% of the rural households do not have access to credit. The demand for micro credit has been estimated around $30 billion, however, the supply is less than $2.2 billion as combined by all involved in the sector. Due to the estimated size of the population living in poverty, India is considered to be strategically significant in the global efforts to alleviate poverty and to achieve the millennium development goal of minimizing the world’s poverty by half till 2015. Microfinance is classified as much of an better option than the charity. Microfinance provides grants to families that are destitute or so below the margin line that they are unlikely to generate the cash flow required to repay a loan.

While India is one of the largest and has rapid growing economies in the world, it is known that poverty runs deep throughout the country. It is more prominent amount the scheduled castes and tribes. It is also states that poverty is a chronic condition in India and that needs to be alleviated sooner or later.

There is no doubt that microfinance in India is poised for continued growth and high valuation but it also faces challenges amidst growing opportunities. Those challenges also should be addressed to avoid negative implications on the positive results generated by microfinance for the rural population of India. This industry therefore needs to move past a
single-minded focus to double bottom line and expand in products and services offered through microfinance and therefore, overcome the hurdles faced in uplifting the poor. Therefore considering the present conditions, India needs microfinance.

MICRO-FINANCING REGULATION IN INDIA
The bulleted points are stated as the advantages and benefits of supervision and regulation of MFIs:

- Protects the interest of the depositors
- Put in place prudential norms, standards and practices
- Provides sufficient information about the true risks faced by the banks/ MFIs
- Promotes systemic stability and thereby sustain public confidence in the banks/MFIs
- Prevents banks/MFIs failure or potential dangers through timely interventions
- Penalizes the violations ,misconducts, non-compliance to the norms of behavior
- Provides invaluable advisory inputs for problem-solving and overall improvement of the MFIs
- Promotes safe, strong and sound banking/ MFI system and effecting banking and MFI policy and enhances orderly economic growth and development.

In addition to the above information, the development and regulation bill for the Microfinance institutions was introduced in Lok Sabha on May 22, 2012 (see bibliography). The purpose of the bill is to provide regulation and development of micro finance institutions. The bill allows the central government to develop a Micro finance development council with offices from different departments and ministries (see bibliography).

This particular council will advise the central government on the measures and policies for the development of MFIs. This bill also allows the central government to form councils. State microfinance councils will review the MFIs in their state and coordinate the activities of District Micro Finance Committees. The District Micro finance committees will monitor the methods of recovery and over indebtedness and develop micro finance activities within the district. Additionally RBI can appoint these committees (see bibliography).

THE UNIFIED REGULATION SYSTEM

The Rural Planning and Credit Department takes charge of rural lending, therefore all the regulatory aspects of microfinance are not centralized. MF-NBFCs are overseen by the department of Non-Banking Supervision (DNBS) and external commercial debt is taken
charge by the Foreign Exchange department. The committee assumes that RBI may consider bringing all the regulatory aspects of microfinance under one single mechanism.

In addition there is also a possibility that the supervision of MF-BMFCs may be delegated to NABARD by RBI. It is stated that, “at the end of every financial year, MFIs are required to provide an annual balance sheet and profit and loss account for audit to the RBI. They will also have to provide a return detailing their activities within 90 days of the Bill being passed” (see bibliography).

**LEGAL FORMS OF MFIS IN INDIA**

According to the current phase of expansion of the self help groups-bank linkage programs and other MF initiatives in the country, the informal microfinance sector in India is now beginning to take a new shape. The MFIs in India can be divided into three categories of organizational forms (see Table 1.1). Though there is no published or concrete data on private MFIs operating in the country, the total MFIs is estimated to be around 800. However, it is said that not more than 10 MFIs are reported to have an outreach of 100,000 microfinance clients. Overwhelming figures of MFIs are operating on a smaller scale with clients ranging from 500 to 1500 per MFI. The geographical distribution of MFIs is very much unbalanced with concentration in the southern India where the rural branch network of formal banks is excellent. It is understood that the share of MFIs in the total micro credit portfolio of formal and informal institutions is about 8%. The estimated number includes only those MFIs that are currently involved in lending.

### Table 1.1

<table>
<thead>
<tr>
<th>Types of MFIs</th>
<th>Estimated Number</th>
<th>Legal Registration Acts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Not for Profit MFIs</td>
<td>400 to 500</td>
<td>Societies Registration Act 1860 or similar Provincial Indian Trust Act, 1882</td>
</tr>
<tr>
<td>2. NGO-MFIs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Non-Profit Companies</td>
<td>10</td>
<td>Section 25 of the Companies Act, 1956</td>
</tr>
<tr>
<td>• Mutual Benefit MFIs</td>
<td>200-250</td>
<td>Mutually Aided Cooperative Societies Act enacted by the State Government</td>
</tr>
<tr>
<td>• Mutually Aided Cooperative Societies (MACS) and set up institutions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• For Profit MFIs</td>
<td>6</td>
<td>Indian Companies Act, 1956</td>
</tr>
<tr>
<td>Non-Banking Financial Companies (NBFCs)</td>
<td>Reserve Bank of India Act, 1934</td>
<td></td>
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<td>----------------------------------------</td>
<td>---------------------------------</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>700-800</td>
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</tbody>
</table>

**RECOMMENDATIONS BY RBI MICRO-CREDIT INSTITUTIONS**

There are underlined recommendations proposed by RBI:

- Company Law Board to allow SHGs to be members of the Section 25 of the companies act
- There will be no ceiling in respect of loan amount extended by Section 25 companies to self help groups. However, self help groups may get credit not exceeding Rs 50,000 per member. This is applicable until RBI considers revised instructions on the rule.
- As regards to the capital, to encourage more flow of contributions/donations. Donors to be exempted from income tax under Section 11c of the Income Tax Act.
- As regards to the capital adequacy, minimum standards need not be considered.
- Savings of SHGs promoted by Section 25 companies should be maintained with permitted organizations.
- Complete income tax exemption for Section 25 companies providing micro-credit to the donor and to the receiver.

**MICRO-FINANCE MODELS**

Bank Partnership Model -

Bank Partnership Model information is retrieved from the media coverage edited on June 04, 2007. Therefore, in this news it was stated that the Bank Partnership Model is considered as an innovative model for financing MFIs. The bank acts as the lender and the MFI acts as an agent which takes care of work related to supervision, recovery and credit monitoring. MFIs responsibility is to maintain relationship with the client starting from the initial stage to final stage of repayment. This type of model is suggested to have the potential of increasing the amount of funding that MFIs can leverage on a relatively small equity base. A sub-branch of this model is where the MFI acts an NBFC and holds the individual loans on its books for a while before selling them to the bank. Such refinancing method is said to enable large funding access to the MFI.
Banking Correspondents -

The model of banking correspondents takes a step further in extending it to the savings deposit from the poor. In this case MFIs are allowed to collect the savings from the targeted population on behalf of the bank. In this case though there is reliability on the bank for financial strength even then the bank will use the ability of the MFI to get a step near to the targeted population. There is a risk of misuse with banking correspondents because there could be agents who act on behalf of banks and loot the savings of the gullible people.

Service Company Model -

In this type of model, bank forms its own MFI perhaps as an NBFC, and then it works together with that particular MFI to provide loans and other services. Officially it is stated that this type of model is similar to the partnership model. However, the interesting feature of this model comprises of two interesting operational features. Firstly the MFI uses the branch network of the bank as a possible target to reach the clients. This process allows MFI to get in contact with the client at lower cost. Secondly, in the Partnership model both the finance and infrastructure strength of the bank is used to create faster and lower cost growth. As stated earlier that the Service Company Model many have the potential to carry the burden of overseeing microfinance operations but then delegate it to the MFI managers who are focused on individual loans for self help group graduates and remittances, therefore, without disrupting bank operations they provide advantageous cost structure for microfinance.

HOW WILL MICROFINANCE SAVE THE RURAL UNDERSERVED POPULATION?

This is one of the important questions as even the ILO raises this crucial concern. As far as child labor is concerned it is said that through access to micro-credit and other financial services the problem of child labor can be solved. Additionally, credit with education, conditional loans, incentives like interest rate rebates and linkages with NGOs and social partners, provision of micro-insurance and conditional cash transfers or good health care should decrease the vulnerabilities and raise awareness and create incentives to improve working conditions. Further will look at the types of services microfinance undertakes to help the rural vulnerable population.

THE TYPES OF SERVICES MICROFINANCE UNDERTAKES
The services of microfinance is stated to depend upon the factors such as political and local situations, the cooperation received from cooperative, self housing groups, NGOs and other support system. It is assumed that there are eight types of lending models that fall under the category of microfinance. These models were created by microfinance hub in 2010 (See Bibliography). We will look at the models that are relevant to the Indian rural community and which has the potential of safeguarding this underserved population.

SWOT ANALYSIS FOR MICROFINANCE MANAGEMENT

Strengths
- Experienced senior management team
- Great IT system
- Clear defined HR policies and procedures
- Infusion of own equity-commitment from promoters
- Process Innovation
- Clear visionary goals
- Transparency at all levels
- Plans for value added and livelihood support services
- Shared ownership

Weaknesses
- Limited resources
- Micro managing
- Start up organization
- Holding on to the staff
- Refine the processes for growth

Opportunities
- Huge potential for this market
- Scope of introducing livelihood related services
- Financial crunch is helping organization to be cost effective
- IT systems

Threats
- Financial Crisis
- Increasing competition
• Disorganized banking infrastructure
• Political instability

Now considering the SWOT analysis let us look at Microfinance in detail.

THE ROLE OF MICROFINANCE INSTITUTION

Microfinance institution is defined as, “an organization that provides microfinance services to the poor” (see bibliography). MFIs range from large commercial banks to small size non-profit organizations like NGOs, other financial cooperatives, credit unions and state owned development and postal savings banks. It is said that the increasing number of MFIs are organized as for-profit entities because it is one of the requirements to obtain a license from banking authorities to offer saving services.

The microfinance service providers include institutions like Small Industries Development Bank of India, the National Bank for Agriculture and Rural Development and the Rashtriya Mahila Kosh. It is also stated that commercial banks, regional rural banks and cooperative banks provide micro financial services. There are about 60,000 retail credit outlets of the formal banking sector in the rural areas therefore this can be considered as an unparalleled achievement of the Indian banking system in providing savings, credit and other banking services to the rural community.

MICROFINANCE MANAGEMENT

The objective of this program is to enable the participants to get a clear understanding of various operational and conceptual issues in developing successful and effective microfinance interventions. The innovative methodology includes cost reduction and innovating non conventional management which is assumed to be cheaper. Some of the innovative management strategy is explained belo

• It is a specialized and simple operation
• Documentation of essentials as needed
• Simple loan application and verification process
• No requirement of guarantor
• Staff recruitment
• On job training
• Standard loan registry with cash book and ledger
• Requirement of furniture, fixtures and collective use of facilities in the office
• Branch level financial planning
ACTIVITIES IN MICROFINANCE

**Micro-Credit:** This is a system where small amount of money is loaned to a client by an institution or a bank. Micro-credit is offered without collateral to a group or an individual.

**Micro-Savings:** These are specific deposit and saving services to allow the individual to save money for the future. This is one of the effective ways in meeting unexpected future expenses.

**Micro-Insurance:** There is risk involved in this type of microfinance. Access to this type of insurance enables entrepreneurs to concentrate on developing their businesses while mitigating other risks affecting health, property or the ability to work.

**Remittances:** This is transfer of funds to the people from one place to the other. This service often may involve transferring of funds across borders. It is said depending on the sources of capital, political and economic structure, remittances are relatively steady source of funds.

FUTURE OF MICROFINANCE INSTITUTIONS

It has long been stated that microfinance in India is in critical situation because of the backlash against lenders in the southern state of Andhra Pradesh. Andhra Pradesh is considered as the heart of the industry, where politicians have ordered borrowers not the repay their debts. The state imposed new restrictions on lenders and the finance minister Mr. Pranab Mukherjee stated that he will formulate new rules to govern the industry once he receives a report from a committee of the RBI. The industry is also said to face uncertain regulatory future due to the underlined concerns.

However on the positive side, it has been predicted that in these next five years around 65% of the rural population will have access to MFIs. Many private international banks will enter this business segment due to low NPAs. It is also estimated that 5% of the people below the poverty line will be reduced in the next five years according to the World Bank Report. ICICI bank plans to provide farmers credit from seed, sugar, diary, NGOs, micro-credit, and food processing industries.

SIG is said to be involved in a project headed in the southern state of Tamil Nadu to further the revolution of microfinance. Wireless technology is said to be applied as the low cost
models of banks. Second plan is to launch mobile ATM services in the rural areas to increase the rural mobility. ICICI bank branded trucks have already started carrying ATMs through number of village. Therefore, it is stated that the microfinance expansion over the next decade is expected as an extension of what has been achieved so far. This is attained while overcoming the necessary hurdles that pose difficulty in the effective running of microfinance.

Existing microfinance institutions are said to expand their operations to areas where there are no trails of microfinance programs. NGOs and other private institutions may also expand the programs. The government channels at the grass root level may be used to serve the rural community with microfinance. Postal saving banks may participate not in mobilizing deposits and savings but they might start providing loans to the poor and on-lending funds to the MFIs. Commercial banks are also said to participate both in microfinance wholesale and retailing.

It seems that even the international NGOs and agencies may develop microfinance programs in areas of the world where micro financing is still alien concept. It is estimated that considering 360 million poor households both urban and rural lack access to the formal financial services, there is huge numbers of customers to be reached and quantum of services to be provided at large. In order to fulfill the above given requirements around 90 million farm holdings, 30 million non-agricultural enterprises and 50 million landless households in India collectively need approx US $30 billion credit annually. In continuation, positive news revealed was that the, 80% of the financial sector is controlled by the public sector institutions. In addition, there are many private and international banks that are said to enter the Indian microfinance sector because of its low MPAs and high repayment rate of more than 95% despite of offering loans without any collateral security.

The recent news was published by the newspaper editors on ICICI bank offering micro-finance to sex-workers. It was stated that the program will be launched with the collaboration of Durbar Mahila Samwanaya Samittee an NGO that is currently working for the welfare of around 65,000 sex workers in the city. ICICI bank will partner together with the NGO to open the planning offer of financial assistance to this sector of the community. This indeed is one of the most rapid future plans for the benefit of the sex-workers (Press Trust of India, March 14, 2007).

It is also said that ICICI bank has taken a stake of under 20% in Financial Information Network and Operations Private Ltd launched on Thursday, July 13, 2001. This initiative hopes to provide technological solutions as well as services to finance providers to reach the
underserved in the country. FINO is an initiative in the micro-finance sector that is stated to target around 300-400 million people who do not have access to basic financial services (see bibliography).

MICROFINANCE CURRENT ISSUES

It is important for the MFIs to achieve financial, operational and institutional sustainability as the long term future of the microfinance is dependent on the MFIs. Secondly, innovative method of cost reduction is an important way to balance the microfinance operation. Thirdly, through substantial outreach there is guarantee of efficiency in leveraging large amount of funds. The last important segment that is the outreach is crucial to solve many challenges that remain hurdles in microfinance.

Findings in this research suggest that the formal sources of microfinance are still new in India. Not many people are aware of the microfinance industry. There are still many people who are below the poverty line; therefore, there is great need of microfinance industry. Therefore, there is huge need of financial assistance to the targeted population. It is also stated that one of the drawbacks is the cooperation from the government. The lack of government support is sometimes experienced which therefore stands as a hurdle for the MFI’s. The other drawback is the ratio of the licensed microfinance banks which is stated to be low as compared to the population of the poor entrepreneurs.

RECOMMENDATIONS AND SUGGESTIONS

- People should come forward to create awareness about Microfinance industry.
- MFIs in India have great potential as there is heavy need for microfinance in India based on the India’s poverty line.
- The private industries should participate actively in this initiative
- Government should limit their involvement to avoid stunted growth of MFIs
- As per my observation micro loan should be given to the rural women only. MFIs can maintain their repayment ratio, without any collateral.
- My research predicted that high interest rates are justifiable because if a commercial bank gives around one million to one individual it is considered same if MFI gives Rs 100 to 10,000 clients. This comparison proves that the operating cost and the man power cost is higher for the MFIs.
Additionally, it is stated that, large groups of the poor sometimes lack access to basic rights (see bibliography). Poor people usually, ‘have no proof of property, or proper identity papers etc’ (see bibliography). Therefore, due to these couple of listed problems they are sometimes deprived of their rights to avail the microfinance scheme. Lawyers are inaccessible for the poor people because the fees are unaffordable and drastically high that a poor person will not take a chance even to consider that option. Therefore, improving the access to justice for the poor people can be seen as one way in contributing to combating poverty.

It is stated that in most countries microfinance institutions do not keep an obligation for its clients to have valid property or identity paper. However, considering if microfinance clients have these relevant papers then this can make their life a little easier. This issue has been addressed recently as some microfinance institutions fall under the supervision of Central banks those that keep the standards of the bank. The policies and procedures of such banks might pose hurdle for the poor people who do not have needed documents to proceed with the loans. To address some of these hurdles, micro justice is a new concept introduced for the benefit of the low-income people. Micro-justice and microfinance work hand in hand to serve the one purpose of helping the underserved population.

“Micro-justice develops specific programs for each country… it starts by identifying the two or three most common legal problems of low-income people” (see bibliography). It is stated that microfinance institutions can benefit from cooperating with micro-justice by hosting outlets of micro-justice in their branch offices as the poor people need to avail the services of micro justice for their benefit (see bibliography). Although micro-justice is an international concept it can be considered as one of my recommendations in enhancing the MFIs system in India.

**CONCLUSION**

In conclusion, I will like to say that it has been an interesting endeavor to research on the Microfinance industry. There is no doubt that this industry has great potential in the future. If the plans for microfinance are executed then India will definitely have new dimension to it. It will increase India’s standard and make it one of the powerful nations of the world economically.

The plans for microfinance if implemented will provide an ongoing financial stability and sustenance for the poor in both the rural and urban area. The obstacles and challenges can be taken as a bold step in bridging the missing gaps that are hurdles to the development of
microfinance. ICICIs success in microfinance resulted due to series of innovative models and initiatives. One huge step of faith has enabled some banks and MFIs to grow beyond a certain point.

Every middle and rich class worker should be encouraged to donate Rs 3,000 to the MFIs perhaps this can add to the enhancement of microfinance initiative in India. Lastly, I want to end this paper with the famous saying by William Surds, “Don’t wait; the time will never be just right. Start where you stand and work with whatever tolls you may have at your commands and the better tools will be found as you go along”.

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Ravi Verma
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Discover In – Enrich Potential

Born In the capital city of Rajasthan, Jaipur. I graduated in bachelors of commerce from university of Rajasthan from Commerce College, Jaipur in the year 2006 and later pursued professional degree of management from the Amity University in Noida, Uttar Pradesh in the year 2009.

I pursued a dedicated job with Deutsche Asset management after being selected from the campus in the slowdown of 2009 and soon after switched to the Indian banking industry into investments and relationship management.

After taking the carrier to the peak in the banking Industry, Year 2012 marked the beginning of partnering with an American company Discover In and soon I registered my own company Enrich Potential dealing scientifically in brain mapping and Development.

This step was taken as a result of the struggle that I had seen during the selection of interest areas.

My top strengths:
- Being able to take decisions quickly and grab the opportunities that come my way.
- I have a strong inclination to reasoning and unless satisfied I do not move forward.
- Administration and people management is the natural ability governing me for my business.
- I do not regret decision that I make.

My vision:
To enrich potential of every child for pursuing the excellence areas

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Currently working as Assistant professor – Accounting and Finance with Amity College of Commerce and Finance and Amity School of Hospitality – Noida, Uttar Pradesh. Have a work experience of 3 years in teaching filed and a year corporate experience. Have authored and presented 4 research papers in national and international conference. Graduated in Bachelors of Commerce with Honors in Business Economics from Panjab University, Chandigarh in the year 2006 and later pursued professional degree of Master of Business Administration from Amity University, Noida-Uttar Pradesh in the year 2009 with Finance and Operations management as specialization. Certified in Quality management system from British standard institutions. I qualified UGC-NET in June 2011. Have also worked on a pilot project of Establishment of cost centre structure in Perfetti Van Melle India Pvt Ltd - Rudrapur, which got implemented in the plant.
To
The Editor In Chief
Society for Human Transformation and Research
Delhi
28th August 2012.

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Subject: Letter of Authorization

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