Vol 6 Issue 7 Jan 2017

ISSN No :2231-5063

International Multidisciplinary Research Journal

Golden Research Thoughts

Chief Editor
Dr.Tukaram Narayan Shinde

Publisher
Mrs.Laxmi Ashok Yakkaldevi

Associate Editor
Dr.Rajani Dalvi

Honorary
Mr.Ashok Yakkaldevi

Welcome to GRT

RNI MAHMUL/2011/38595 ISSN No.2231-5063

Golden Research Thoughts Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial board.Readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

Regional Editor

Dr. T. Manichander

International Advisory Board

Kamani Perera
Regional Center For Strategic Studies, Sri Lanka

Janaki Sinnasamy
Librarian, University of Malaya

Romona Mihaila
Spiru Haret University, Romania

Delia Serbescu
Spiru Haret University, Bucharest, Romania

Anurag Misra
DBS College, Kanpur

Titus PopPhD, Partium Christian University, Oradea,Romania

Mohammad Hailat
Dept. of Mathematical Sciences, University of South Carolina Aiken

Abdullah Sabbagh
Engineering Studies, Sydney

Ecaterina Patrascu
Spiru Haret University, Bucharest

Loredana Bosca
Spiru Haret University, Romania

Fabricio Moraes de Almeida
Federal University of Rondonia, Brazil

George - Calin SERITAN
Faculty of Philosophy and Socio-Political Sciences Al. I. Cuza University, Iasi

Hasan Baktir
English Language and Literature Department, Kayseri

Ghayoor Abbas Chotana
Dept of Chemistry, Lahore University of Management Sciences[PK]

Anna Maria Constantinovici
AL. I. Cuza University, Romania

Ilie Pintea,
Spiru Haret University, Romania

Xiaohua Yang
PhD, USA

......More

Editorial Board

Pratap Vyamktrao Naikwade
ASP College Devrukh,Ratnagiri,MS India

R. R. Patil
Head Geology Department Solapur University,Solapur

Rama Bhosale
Prin. and Jt. Director Higher Education, Panvel

Salve R. N.
Department of Sociology, Shivaji University,Kolhapur

Govind P. Shinde
Bharati Vidyapeeth School of Distance Education Center, Navi Mumbai

Chakane Sanjay Dnyaneshwar
Arts, Science & Commerce College, Indapur, Pune

Awadhesh Kumar Shirotriya
Secretary,Play India Play,Meerut(U.P.)

Iresh Swami
Ex - VC. Solapur University, Solapur

N.S. Dhaygude
Ex. Prin. Dayanand College, Solapur

Narendra Kadu
Jt. Director Higher Education, Pune

K. M. Bhandarkar
Praful Patel College of Education, Gondia

Sonal Singh
Vikram University, Ujjain

G. P. Patankar
S. D. M. Degree College, Honavar, Karnataka

Maj. S. Bakhtiar Choudhary
Director,Hyderabad AP India.

S.Parvathi Devi
Ph.D.-University of Allahabad

Sonal Singh,
Vikram University, Ujjain

Rajendra Shendge
Director, B.C.U.D. Solapur University, Solapur

R. R. Yalikar
Director Managment Institute, Solapur

Umesh Rajderkar
Head Humanities & Social Science YCMOU,Nashik

S. R. Pandya
Head Education Dept. Mumbai University, Mumbai

Alka Darshan Shrivastava
Shaskiya Snatkottar Mahavidyalaya, Dhar

Rahul Shriram Sudke
Devi Ahilya Vishwavidyalaya, Indore

S.KANNAN
Annamalai University,TN

Satish Kumar Kalhotra
Maulana Azad National Urdu University

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.aygrt.isrj.org

GRT GOLDEN RESEARCH THOUGHTS

ISSN: 2231-5063
IMPACT FACTOR : 4.6052(UIF)
VOLUME - 6 | ISSUE - 7 | JANUARY - 2017

MICRO FINANCE IN INDIA COMPHRENSIVE DEVELOPMENT

Aluvala Karthik
Dept of Commerce and Business Management,
Kakatiya University, Warangal.Telangana.

ABSTRACT

Micro Finance Services and Affordability (i) Micro-Credit 31. Clause 2(1) (h) of the Bill defines micro credit facilities 'means any loan, advance, grant or any guarantee given or any other credit extended in cash or kind with or without security or guarantee. 32. Clause 2(1)(j) of the Bill defines -micro finance services' as any one or more of the following financial services provided by any MFI, namely (A) Micro credit facilities involving such amount, not exceeding in aggregate five lakh rupees for each individual and for such special purposes, as may be specified by the Reserve Bank from time to time, such higher amount, not exceeding ten lakh rupees, as may be prescribed; (B) Collection of thrift (C) Pension or insurance services (D) Remittance of funds to individuals within India subject to prior approval of the Reserve Bank and such (E) Any other such services, as may be specified.

NABARD and RBI define microfinance as the ''provision of thrift, credit and other financial Services and products of very small amounts to the poor enabling them to raise their income levels and Improve living standards'' (NABARD 2000; RBI 1999). There are two broad approaches that characterize the microfinance sector in India—SHG–bank Linkage (SBL) and Microfinance Institutions (MFIs). SBL is a larger model than MFIs in India, contrary to the global practices of other MFIs.

KEYWORDS:*Micro Finance , India Comphrensive Development , micro finance services.*

INTRODUCTION :

Close to three billion people-half of the world's population-live on less than two dollars a day. Within these poor communities, one child in five will not live to see his or her fifth birthday.(2) To boost international development, the United Nations (UN) announced the Millennium Development Goals, aimed at eradicating poverty by 2015. A number of countries responded at the International Conference for Financing International Development in Monterrey, Mexico, by creating action plans to begin to implement the Millennium Development Goals. Yet the Millennium Development Goals will prove difficult to achieve. International institutions, developed nations, and the developing world are approaching these development goals from many different perspectives. Much of the development community's energy and efforts seem to be focused on cultivating long-term donors and securing foreign aid. The United States is focusing development assistance to countries that it views as having sound policies, through its Millennium Challenge Accounts. Additionally, many organizations are increasingly focused on international trade as a means to increase development. Indeed, the Doha round of World Trade Organization (WTO) negotiations explicitly addressed the role of trade in development, and high-level working groups are focusing on the importance of real development for trade.9 Others focus on the critical importance of international capital flows, which swamp official governmental assistance." Currently, much attention is given to the development of efficient capital markets, emphasizing corporate governance, disclosure, and shareholder rights. In the banking sector, negotiations over the financial services agreement in the WTO have opened the banking sectors of many developing countries to foreign involvement, which in some instances is helping to deepen banking markets and strengthen banking institutions. " The Basel Committee on Banking Supervision"' has focused on developing supervisory capacity and the best practices in bank regulation to match this financial deepening, building on the Basel Committee's success in promulgating the original Basel Capital Standards and its ongoing work on a new capital accord. At the same time, many developing countries have focused on lifting internal restrictions on credit, such as directed lending and interest rate caps, which had blocked the growth of retail and consumer finance.

In India, the history of microfinance dates back to establishment of Syndicate Bank in 1921 in private sector. During the early years, Syndicate Bank concentrated on raising micro deposits in the form of daily/weekly basis and sanctioned micro loans to its clients for shorter period of time. But microfinance came to limelight only when Dr Yunus gave it a mass movement in Grameen Bank experiment. Microfinance can be called a novel approach to provide saving and investment facility to the poor around world. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, gradually build their asset base, develop their business, enhance their income earning capacity, and enjoy an improved quality of life. In India, microfinance mainly operates through Self Help Group (SHGs), Non Government Organizations(NGOs), and Credit Agencies. It provides poor people with the means to find their own way out of poverty. It put the power squarely in their hands, giving them a larger stake in their own success than one time donation of food, goods, or cash. The initiatives of Government for poverty alleviation could not succeed to the desired level, may be due to the fact that they do not take cognizance of power of the poor to deal with their own problems.

Government tries to help them by way of subsidies and other help but these initiatives hardly reduce their poverty levels and are not a long term solution. This section of society if given with guidance, power of capital and productive assets can emerge as the successful entrepreneur. This can easily be achieved by empowering them with power of microcredit. The poor do not have any worthy asset base. Hence they have to be provided with mortgage free loan (Akula,2008). It has been proved beyond doubt from Grameen Bank experiment. The system of microfinance was introduced about 28 years back with an organization of Grameen Bank in Bangladesh by a famous economist Prof. Mohammed Yunus. He observed that most villagers were unable to obtain credit at reasonable rates. So he began to lend them money from his own pocket, allowing the villagers to buy materials for projects like weaving bamboo tools and making pots (New York Times, 1997). Ten years later, Dr Yunus had set up Grameen Bank as a project in one of the village in Bangladesh in 1976 to assist poor families by providing credit to them. Today micro-finance has been widely spread all over the world as an effective tool to poverty eradication. It is found that microfinance has reached about 80 million households and about, 20000 micro-finance Institution are operating in developing countries of Asia, Africa, Europe and Latin America (Pillai, 2011).

GROWTH OF MICRO FINANCE

Poverty alleviation has been one of the guiding principles of the planning process in India. Government has considerably enhanced allocation for the provision of education, health, sanitation and other facilities which promote capacity building and well being of the poor. The Indian government puts emphasis on providing financial services to the poor and under-privileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan at concessional rate to priority sector. The priority sector included agriculture and other rural activities and weaker section of society in general. The aimwas to provide resources to help the poor to start their micro enterprise to attain self sufficiency. The government of India had also launched various poverty alleviation programs like Small Farmers Development Scheme (SFDS) 1974-75, Twenty Point Programme(TPP) 1975, National Rural Development Programme (NRDP)1980, Integrated Rural Development Programme(IRDP)1980,Rural Landless Employment Guarantee Programme(RLEGP)1983, Jawhar Rozgar Yojna(JRY)1989, Swarna Jayanti Gram Swarojgar Yojana(SGSY)1999 and many other programs. But none of these programs achieved their desired goal due to poor execution and mal - practices on the part of government officials. Public funds meant for poverty alleviation are being misappropriated or diverted through manipulation by the locally powerful or corrupt (Mehta,1996). To supplement the efforts of micro credit government of India had started a very good scheme viz. Integrated Rural Development Programme (IRDP) in 1980. But these supply side program (ignoring demand side of economy) achieved little. It involved the commercial banks in giving loan of less than Rs 15000/- to socially weaker section. In a period of nearly 20 years the total investment was around Rs 250 billion to roughly 55 million families. But it was far from realizing its desired goal. The problem with IRDP was that its design incorporated a substantial element of subsidies (25-50% of each family‟s project cost) and this resulted in extensive malpractice and mis-utilisation of funds. This situation led bankers to view the IRDP loan as motivated handout and they largely failed to follow up with borrowers. The net result is that estimates of repayment rates in IRDP ranged from 25-33%.The two decades of IRDP experience in the 1980s and 1990s affected the credibility of micro borrowers in the view of bankers and ultimately, hindered access of the less literate poor to banking services.

This act of government had a serious long term impact on development of micro entrepreneurship among the underprivileged of the society. Thus a very good and potential program which once claimed to be “the world‟s largest microfinance programme” failed due to poor execution and political interference. The mid- term appraisal of the ninth plan had indicated that these programmes presented a matrix of multiple programmes without desired linkages. The programmes suffered from critical investments, lack of bank credit, over-crowding in certain projects and lack of market linkages. The programmes were basically subsidy driven and ignored the process of social intermediation necessary for success of self-employment programmes. A one-time provision of credit without follow up action and lack of a continuing relationship between borrowers and lenders also contributed to the failure of the programmes. The planning commission constituted a committee in 1997 to review the effectiveness of self-employment and wage employment programmes. The committee recommended the merger of all self employment programmes. It also recommended a shift of importance from individual beneficiary approach to a group based approach. It emphasized the identification of activity clusters in specific areas and strong training and marketing linkages.

The government of India accepted the recommendations of the committee. On 1st April 1999 a new programme called Swarnajayanti Gram Swarojgar Yojana(SGSY) was launched by amalgamating programmes like IRDP(Integrated Rural Development Programme) and a number of allied programmes such as TRYSEM(Training of Rural Youth for Self Employment), DWCRA(Development of Women and Children in Rural Areas),SITRA(Supply of Improved Toolkits to Rural Artisans), GKY(Ganga Kalyan Yojana) and MWS(Million Wells Schemes). This is a holistic programme covering all aspects of self-employment such as formation of Self Help Groups(SHGs),training, credit, technology, infrastructure and marketing. The programme aims at establishing a large number of micro-enterprises in rural areas. SGSY is a credit-cum- subsidy programme. It lays emphasis on activityclusters. This programme has got tremendous response from the beneficiaries. The number of SHGs under this program is about 2.25million with an investment of Rs 14,403 crore, profiting over 6,697million people (Wikipedia).Similarly, the entire network of primary cooperatives and RRBs, established to meet the need of the rural sector in general and poor in particular, has proved a colossal failure. Saddled with burden of directed credit and a restrictive interest regime, the position of the RRBs deteriorated quickly while cooperatives suffered from the malaise of mismanagement, privileged leadership and corruption born of excessive state patronage (Sinha, 2003).

OBJECTIVES OF THE STUDY

1.To examine the current status of microfinance industry in India
2.To highlight the measures taken by the Government of India and for promoting financial Inclusion
3.To highlight the Micro finance institution (development and regulation) bill, 2012

RESEARCH METHODOLOGY

This is a descriptive research paper based on secondary data. Data have been collected through books and various websites and publications of recent research papers available in different websites and magazines. Cf Books, Newspapers, Research Articles, Research Journals, E-Journals, RBI Report, Report of NABARD , The micro finance institution (development and regulation) bill, 2012 etc.

Establishment of Self-Help Groups (SHGs) Linkage

Microfinance is seen as an important tool for poverty alleviation and over the years, microfinance institutions (MFIs) have placed themselves as fulfilling this developmental goal. The microfinance movement was initiated by NABARD in collaboration with Banks and Non-Government Organisations (NGOs) for unbanked population known as Self Help Group (SHG) – bank linkage program in 1992. The program was government initiated program with refinancing to banks from NABARD. SHG bank linkage program involved NGOs to form Self Help Group (SHGs) and train them. Each SHG typically consists of a group of women/men members interested in accessing financial services including savings, credit insurance etc. Post the training, NGOs provided SHGs access to funds by linking them to banks which provided financial services (including thrift, credit etc) to them directly. NGOs' role was to ensure financial discipline of the SHGs. Apart from this there were state government run SHG programmes. Thus microfinance in this phase was government driven.

The microfinance sector started evolving with private sector participation leading to formation of microfinance institutions (MFIs). The MFIs accessed bulk funds from banks and did on-lending to the end borrowers (either SHG members or joint liability group1JLG members). From there on the microfinance activities were being implemented by the two channels including MFI model and SHG bank linkage model. The sector witnessed high growth rate during the period from 2006 to 2010 supported by funding availability and potential demand in the sector. The growth was mainly driven by the MFIs due to large scale availability of funding in terms of both debt and equity. The overall loan portfolio increased from Rs.13,950 crore as on March 31, 2007 to Rs.38,186 crore as on March 31, 2010 which included growth from SHG bank linkage and MFI model. However focus of the microfinance sector is mainly on micro-credit with other products still evolving including thrift, insurance and remittance.

One of the most important events toward financial inclusion program by NABARD is to facilitate the development of bank–SHGs linkage. NABARD provides refinance support to banks at very low interest rates for financing SHGs. The bank promoted SHGs lending program has attained another important goal to bring rural women under institutional credit as most of the SHGs comprise women members. Hence, empowerment of rural women through economic empowerment was achieved with this innovation. The main problem with the SBLmodel is similar to that of the rural branches of commercial banks. It is primarily collateral based and very limited in its distribution. Loan to the SHG is issued mainly for productive purposes. The consumption needs of rural households are completely ignored in this model. Further, bank officials do not have sufficient interest to go beyond their routine job, so that the aggressive drive for financial inclusion is attained. These problems are overcome in the microfinance institutions model.

WOMEN EMPOWERMENT UNDER SHGS

The microfinance initiative in the private sector in India can be traced back to initiative undertaken by Swashrayi Mahila Sewa Sahakari Bank or Self-Employed Women's Association Bank or SEWAbank, which is one and only cooperative bank in India of its kind, operated and maintained by self-employed women , it is providing banking services to the poor women employed in the unorganized sector in Ahmadabad in Gujarat. This Bank was established at the initiative of 4000 self-employed women workers have successfully reached the 92 % loan repayment rate which is highest across all the financial intermediaries in India. SEWA bank has created a history in women empowerment through economic empowerment, not only in India but in the global perspective. Chandaben, an old clothes seller, is a founder member of SEWAbank. The bank was established in 1974 with 4,000 members each contributing Rs. 10 as share capital. It has 93,000 active depositors today. It has made poor women free from vicious circle moneylenders and traders and has empowered them to plan for their children's education, health, etc. Currently SEWA Bank has over 318,594 account holders with total working capital of Rs 1291.89 million(Mar?09).

Women entrepreneurship is perceived as an important tool for empowerment, effectively increases women participation in intra-household decision making, and allows them to access information. The ownership and control over various assets enabling her to take decisions that makes a women entrepreneur more powerful. Regarding access to financial services, women depend largely on their own limited cash resources or, in some cases, loans from extended family members for investment capital. Smaller amounts of investment capital effectively limit women to a narrow range of low-return activities, which require minimal capital outlays, few tools and equipment, and rely on farm produce or inexpensive raw materials. In general, women need access to small loans (especially for working capital), innovative forms of collateral, frequent repayment schedules more appropriate to the cash flows of their enterprises, simpler application procedures, and improved access to saving accounts. Women owned businesses are one of the fastest growing sectors of microenterprises. Economic growth, stability, and equity can be achieved significantly through microenterprises (Sridhar Krishna 2007).

MICROFINANCE INSTITUTION PRODUCTS AND SERVICES

MFIs provide similar products and services to their customers as formal sector financial institutions. The scale and method of delivery differ, but the fundamental services of savings, loans, and insurance are the same. Notwithstanding, to date most efforts to formalize microfinance have focused on enterprise lending (loans for enterprise formation and development) which remain by far today the dominant product offered by MFIs (Nourse (2001), Woller (2002a)). This, however, has slowly begun to change. Increasingly today MFIs have begun to offer additional products, such as savings, consumption or emergency loans, insurance, and business education. Nourse (2001) reviews the context and rise of microfinance products and argues there is a need for savings and insurance services for the poor and not just credit products. He goes on to argue that MFIs need to provide tailored lending services for the poor instead of rigid loan products. Supporting this latter assertion of Nourse (2001), Eyiah (2001) develops a model of small construction management contractors and MFIs in developing countries that provides a tailored lending structure for microenterprise contractors. Similarly, Woller (2002a), Cohen (2002), and Dunn (2002) argue that MFIs need to be more client-focused, including offering a mix of financial products tailored to the varied needs and wants of poor consumers.

Microcredit is most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most MFI clientele would be unable to participate due to their extreme poverty level. Because borrowers do not have physical capital, MFIs focus on using social collateral, via group lending. Group lending encompasses a variety of methodologies, but all are based on the principal of joint liability. In essence, the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution (Wenner (1995)). Under joint liability each group member is made responsible for the loans of other group members. If one member defaults, the other group members are required to cover the loan from their own resources, and if they do not, they lose access to future loans.

It is thus in each member’s interest to ensure that the other members pay. Social collateral also works through reputational effects on group members in which repayment of loans is seen by group members as necessary to maintain their social standing in the community (Woolcock (2001)). Goldmark (2001) suggests methods that may help build social collateral, thereby making loans even more secure. Van Tassel (1999) constructs a model and one-period game to determine the optimal group lending contract under asymmetric information. He concludes that agents will always form groups with agents of the same type and that agents' types can be distinguished according to the rate at which they are willing to trade increased joint liability commitments for lower interest rates. Ghatak (1999) concludes that group lending not only increases repayment rates and welfare via social collateral, but also due to peer selection by members of the lending group. Similar to Ghatak, Islam (1995) concludes that lenders using peer-monitoring systems can charge lower rates relative to conventional lenders and that at the same interest rate, the expected rate of repayment is higher with lower risk when using peer monitoring.8 Within the lending function of microfinance, it is useful to divide loans into enterprise loans and consumption/emergency loans. As mentioned above, the loan programs typical of MFIs almost entirely consist of enterprise loans. Nonetheless, significant unfulfilled market demand also exists for consumption and emergency loans (Woller (2002a)).

The demand for consumption/emergency loans is evident in developing countries by the thriving business of the local moneylenders. Although stereotyped as a loan shark preying on the desperation of the poor by charging exorbitant interest rates and employing unsavory collection methods, the traditional moneylender provides a valuable service for poor people who require quick and flexible infusions of cash to meet immediate and pressing consumption needs or to cope with emergencies. Like savings, consumption/emergency loans form an integral component of poor households' risk management and coping strategies. Those in the microfinance industry who assumed that formal MFIs would drive the traditional money lenders out of business have been shocked to learn that the demand for moneylenders has remained robust, even among clients of microfinance programs. A good illustration is the case described by Perry (2002), in which women moneylenders in Senegal used loans from a local MFI to finance their own money lending businesses. It turns out that just as the terms of the loans offered by moneylenders (rapid loan approval, flexible terms, repayment periods measured in days or weeks, and lump-sum payments at exorbitant interest rates) makes them generally ill-suited as a source of enterprise financing, the terms of enterprise loans offered by MFIs (slow turnaround, inflexible terms, repayment periods measured in months or a year, and regular small payments at relatively low interest rates) are generally ill-suited for emergency/consumption purposes. An important source of consumption/emergency loans in developing countries are pawn shops. Ismail and Ahmad (1997), for example, discuss the role of pawnshop lending in Malaysia.

They report that Malaysian pawnshops have increased in importance as lending institutions and are projected to continue to do so due to more affordable transportation, interest rate regulations, and financial liberation, among other factors. Along with the lending function, a market for savings exists in poor areas around the world. Savings services offered by MFIs can be divided into forced and voluntary savings, with forced savings far exceeding voluntary savings. In a forced savings program, microfinance participants are required to save a minimum amount each week (or other set period of time). Forced savings ostensibly teaches financial discipline and provides the MFI with additional information about clients. In practice, forced savings serve primarily as a form of cash collateral. Rules regulating when and how clients may withdraw forced savings are typically highly restrictive. The second form of savings is voluntary, flexible savings (Nourse (2001), Montgomery (1996)). Millions from all strata of poor do not operate enterprises, but they do save, albeit often in very small amounts and at inconsistent intervals (Beverly and Sherraden (1999)). Savings are integral to poor households' risk management strategies; they constitute the first line of defense to help poor households cope with the external shocks, emergencies, and life-cycle events to which they are so vulnerable; and they play a crucial role in allowing the poor to take advantage of productive investment opportunities (Grosh and Somolekae, (1996)).9 A reasonable estimate of the market for savings among the poor indicates that savings demand substantially exceeds the demand for enterprise loans. Christen (2001), for example, reports that over a space of two to three years, retail banks in Latin America opened millions of small deposit accounts in countries in which MFIs added fewer than 200,000 loan customers over the same period. At MFIs that offer both enterprise loans and voluntary savings, moreover, savers typically exceed borrowers by large multiples. Characteristic of poor households is extreme vulnerability to risk and external shocks. Traditionally, poor households have managed risk and coped with external shocks through a combination of informal social support networks, savings, and borrowing from informal moneylenders. Participation in microfinance programs offers another set of risk management and coping options for poor households. Participation in formal microinsurance schemes offers yet another option. Just as a large demand for formal savings and loans exist among the poor, there is also believed to exist a large demand for formal insurance (Churchill (2002)). Although microinsurance is in the early stages of development, efforts are being made to formalize and design the process.

There are some success stories (e.g., FINCA Uganda offers its clients health and other types of insurance through an AIG subsidiary based in South Africa), but overall progress is modest so far owing in part to the very different nature of insurance compared to savings or loans and to the fact that few MFIs possess specialized knowledge of how to set up or run insurance programs.10 In another example of microinsurance research, Mishra (1994) analyzes crop insurance in Gujarat and finds that the availability of crop insurance resulted in increased loan repayments in absolute terms, although it is not clear if the propensity to repay improved. Additionally, Mishra documents a significant increase in the flow of credit to insured farmers after the introduction of the insurance program. Our overview of issues related to microfinance products and services would not be complete without brief discussion of integrative approaches integrating non-financial services (usually education) with financial services to microfinance. A handful of articles have examined integration of microfinance with other development services. Smith (2002) compares minimalist MFI services in Ecuador and Honduras to those offering financial services integrated with health education. Using surveys of 963 Ecuadorian clients and 981 Honduran clients, he finds that clients in integrated programs experienced improved family health, while those in minimalist programs did not. Using 20 minimalist MFIs and 84 banks that offered health education, Smith finds no significant difference in the performance of the MFIs. Also in support of an integrative approach, Edgcomb (2002), Cook et al. (2001), and Dumas (2001) each use case methodology to analyze MFIs offering integrated business development training. They conclude that business development training significantly improves microenterprise performance and micro entrepreneur empowerment. A final issue meriting mention is provision of equity in lieu of credit for enterprise formation and start-up capital. Pretes and Seibel (2002) discuss several cases of this practice in East Africa. They refer to this service as providing enterprise equity; however, in finance vernacular, this service would most likely be considered a grant. They argue that those who invest (donate) the equity in such cases receive their returns intrinsically, as they do not receive a financial ownership position in the startup firm (microenterprise). The discussion in this section has demonstrated that at the core, the issues challenging microfinance institutions and formal sector institutions are very similar. The commonalities between both sectors encourages us that mainstream finance tools can be applied to microfinance. At the same time, the unique characteristics of microfinance provide an interesting laboratory to test existing financial theory and to create new theory. Having addressed microfinance products and services, we now turn our attention to the management of microfinance institutions.

DISCURSION AND CONCLUSION

Microfinance is multifaceted and works in an integrated system. There are many stake holders and each one has a definite role to play. In the core there is client. There is a second level called micro level where MFIs, NGOs, SHGs and Grameen work to provide financial support to individual client. Apex institutions like NABARD, SIDBI and other nationalized Banks operate in Meso-Level to provide infrastructure, information and technical support to micro level players. Around all these levels, there are financial environment, Regulations, legislations and regulators called Macro level. With passage of time new opportunities and new challenges are being felt in the field of microfinance. In recent years microfinance is in news for bad reasons. There are a number of suicide cases of micro credit clients all over India for excess interest charges and high handedness of recovery agents in recovery of loans. So, government of India has brought out a legislation to check the high interest rate on micro credit and protect the poor from clutches of greedy MFIs. Government of India introduced Micro Finance Institutions (Development and Regulation) Bill 2012 on May 22, 2012 to establish a regulator under RBI to regulate and supervise the activities of NGOs and MFIs. The main features of the Bill are as follows: the Bill allows the central government to create a Microfinance Development Council with officers from different ministries and Departments. The Bill requires all MFIs to obtain a certificate of registration from RBI. The RBI has the authority to set maximum annual percentage rate charged by MFIs and sets a maximum limit on the margin MFIs can make. Margin is defined as the difference between the lending rate and the cost of funds. It is also responsible for redressal of grievances for beneficiaries of microfinance services. These initiatives may go long way in strengthening the micro finance status in India.

Microfinance uses as a tool for eliminating poverty in India and other developing nations. Micro Finance Industry has the huge potential to grow in future, if this industry grows then one day we'll all see the new face of India, both in term of high living standard and happiness. After all, microfinance has the appeal of bringing financial power to the people who need it most and whose resourcefulness and ingenuity it will fuel. Nationalized banks have not encouraged loans for SHGs because of lack of creditworthiness, but these banks have excellent reach to SHGs so that they should come forward to exploit this business opportunity . SHG programme has indeed helped in the social and economic empowerment of rural poor, especially for women, time delivering essential and much-needed financial services at low transaction costs for both banks, poor borrowers and villagers .

However, slow progress of graduation of SHG members, poor quality of group functioning, dropout of members from groups etc., have also been reported various study findings in different parts of the country, which need to be taken into account while designing the road map for the next phase of the SHG programme The microfinance institution (development and regulation) bill , 2012has passed to design interventions that increase the impact of microfinance on borrowers, lenders, company and other institutions. Further, bank officials do not have sufficient interest to go beyond their routine job, so that the aggressive drive for financial inclusion is attained. These problems are overcome in the microfinance institutions model. With more stable regulatory environment which provide steady availability of funds, improving profitability with comfortable asset quality & capital adequacy and relatively lesser impact of concentration risk. Financial inclusion has been recognized as a priority goal of the microfinance sector and efforts were made in this report to identify the critical areas of interventions for greater success of the initiatives in the future.

The purpose of this article has been to introduce the finance academic community to the discipline of microfinance and microfinance institutions. We have discussed the issues of MFI sustainability, products and services, management practices, client targeting, regulation and policy, and impact assessment in a summary literature review. Our hope is that this article will help turn the attention of finance researchers to the important issues in microfinance. Many of the tools, models, and frameworks in the existing finance literature can be brought to bear on the problem of world poverty and have the potential to significantly move both the theory and practice of microfinance forward. Microfinance offers the finance discipline a possible avenue to make a significant difference in the lives of millions of poor people.

REFERENCES

1.International journal of marketing, financial services and management research vol.I, issue.II, November ,2012.

2.Tactful management research journal vol.II, issue10, July 2014 pp3.

3.Morduch (2000) reports a rough estimate that only 1 percent of MFIs are currently financially self-sustainable and that no more than 5 percent ever would be.

4.Additionally, Bennett and Cuevas (1996) argue for the need of building sustainable financial systems for the poor from three perspectives: a) financial sector development, b) enterprise formation and growth, and c) poverty reduction.

5. Depth of outreach here refers to servicing the very poorest of clients, whereas breadth refersto servicing large numbers of clients, even if they are only marginally poor or non-poor.

6.Although social collateral is widely used, it is not universally accepted by all as the optimal approach. For example, Mustafa (1994) concludes that alternate forms of institutional arrangements may be better than credit cooperatives in alleviating poverty.pp6-7

Publish Research Article
International Level Multidisciplinary Research Journal
For All Subjects

Dear Sir/Mam,

We invite unpublished Research Paper,Summary of Research Project,Theses,Books and Book Review for publication,you will be pleased to know that our journals are

Associated and Indexed,India

- International Scientific Journal Consortium
- OPEN J-GATE

Associated and Indexed,USA

- EBSCO
- Index Copernicus
- Publication Index
- Academic Journal Database
- Contemporary Research Index
- Academic Paper Databse
- Digital Journals Database
- Current Index to Scholarly Journals
- Elite Scientific Journal Archive
- Directory Of Academic Resources
- Scholar Journal Index
- Recent Science Index
- Scientific Resources Database
- Directory Of Research Journal Indexing

Golden Research Thoughts
258/34 Raviwar Peth Solapur-413005,Maharashtra
Contact-9595359435
E-Mail-ayisrj@yahoo.in/ayisrj2011@gmail.com
Website : www.aygrt.isrj.org