Micro Finance in India- Growth, Trends and Emerging New Issues in India

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ABSTRACT

The present paper highlights the micro finance delivery channels and evaluates the present position of micro finance. The paper analyzes micro finance by the various agencies, model-wise credit disbursement, regional pattern of bank link programme and also highlighted recovery performance of banks during the study period. The study explores some glaring issues, challenges and offers some suggestions to make micro finance more effective. On the basis of trends, issues and challenges related to micro finance, the study predicts the new agenda for future.

Keywords: Micro Finance, Challenges, Future Opportunities

1-Introduction

Micro finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. It has been recognized that micro finance helps the poor people meet their needs for small credit and flexible services offered to low income borrowers for meeting their modest consumption and livelihood needs have not only made micro finance movement grow at a rapid pace across the world, but in turn has also impacted the lives of millions of poor positively.

Concept of Micro Finance

The task force on micro finance set up by NABARD came up with a definition which has become the definitive one "micro-finance is provision of thrift credit and other financial services and products of very small amounts to poor in rural, semi-urban or urban areas, for enabling them to raise their income levels and improving living standards". In other words, Microfinance is financial services of small quantity that provide by financial institution to the poor. These financial services may include saving, credit, insurance, leasing money, transfer of funds, equity transfer etc. type of financial services provide to customers to meet their financial needs (Das Gupta and Rao, 2003). **A**nd finally we can say's that microfinance is a finance which full fill two conditions Firstly is transfer value of funds is small and secondly is costumers are poor.

Need of Micro Finance

India is agriculture based rural economy and about 60 percent of total population still resides in villages. Villages are heart of India. The main occupation of rural people is agriculture and usually they take agriculture as their way of life. Indias repaid development depends on the developments of rural sector. Micro finance need has increased after reading the report of NSSO". According to NSSO "the income of rural farmer is Rs2115 per month in 2007. They family of this farmer consists 5 members and 2 animals. So MF becomes essential for rural India.

Components of Microfinance

Micro- savings

Mico-savings is an important part of micro-finance. It enables poor people (especially in developing countries) a small cash cushion them. Micosaving can either be voluntary or it may be a forced savings requested to secure loans from the lender. This is particularly interesting in risky investments but usual. Voluntary savings usually serves as security against unpredictable risks, such as infectious disease or epidemic, natural disasters, etc.. In general, small business use the option of micro-savings.

Micro-credit

Micro-credit is the extension of very small loans (**micro-loans**) to the unemployed, to poor entrepreneurs and to others living in poverty that is not considered bankable. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Micro-credit is a part of microfinance, which is the provision of a wider range of financial services to the very poor. Micro-credit has successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begins to build wealth and exit poverty. Due to the success of micro-credit, many in the traditional banking industry have begun to realize that these micro-credit borrowers should more correctly be categorized as pre-bankable; thus, micro-credit is increasingly gaining credibility in the mainstream finance industry and many traditional large finance organizations are contemplating micro-credit projects as a source of future growth.

Micro-insurance

Micro-insurance is a term increasingly used to refer to insurance characterized by low premium and low caps or low coverage limits, sold as part of a typical risk-pooling and marketing arrangements, and designed to service low-income people and businesses not served by typical social or commercial insurance schemes. Micro-insurance products are mainly targeted at low income groups in the un-organized sector- farmers and craftsmen. The amount of premium in these schemes ranges between Rs. 200 to Rs. 500. The coverage provided by these products is in the range of Rs. 5000- Rs. 50000. These products are available in various categories such as health insurance, personal accident cover, crop insurance and insurance for equipments. Finance ministry recently considered two schemes Aam Admi Bima Yojana to extend death and disability insurance and Rashtriya Swasthya Bima Yojana, a health insurance scheme for below poverty line (BPL) families which provides benefits upto Rs. 30000. The premium in the second scheme is parltially borne by center and state government.

Microfinance Delivery Models In India

Several non-government and co-operative organizations initiated savings and thrift led models of helping the poor demonstrating that the poor have urge to save and enjoy the gains of their savings through collective and mutually beneficial credit and microfinance arrangements.

Self-help is the best approach

Most of the microfinance models are working through financing directly or indirectly to self-help groups (SHGs). The SHGs constitutes 15-20 likeminded poor people living below the poverty line. Often people belonging to neighbourhood communities, sharing thoughts and problems with one other, form into Self Help Group. Members of SHGs save equal amounts as decided by their groups. They open an account in either a bank or post office in the name of the group and authorize a member to operate the account. These groups are quite disciplined in their approach. In India, women SHGs have become the ray of hope to the development practitioners as they found that women are the best agents to touch the core of poverty. Microfinance is adopted with different financial structure in India. Few of them can be summarized as below.

1. SHGs promoted and financed by various agencies like banks, financial institutions, government, non-government organizations, societies, federations, microfinance institutions, etc.
2. Individuals directly financed by Micro Finance Institutions.
3. Urban co-operative banking model
4. Non-Banking Financial Corporation approach.

SHG-Bank Linkage model

Amongst various models for delivery of micro-finance, the SHG-Bank Linkage programme has emerged as a major micro-finance model in the country. SHG-Bank Linkage programme was launched by NABARD for purveying micro credit by linking Self-Help Groups (SHGs) with banks in 1991-92 with a view to facilitating smoother and more meaningful banking with the poor. The SHG-Bank Linkage programme aims at connecting SHGs of poor people with banks and in process created a largest microfinance network in the world. SHG-Bank Linkage model works on the principle of thrift, lending and peer pressure. The savings of members are deposited in a bank and on the basis of it bank lends to SHG for productive exercises at low rate of interest normally after six months of account opening in the ratio of 4:1 of credit to saving (Chart 1).

The success of the model depends critically on the task of promoting, nurturing, strengthening and monitoring SHGs. The growth of this model in India is remarkable with the initiatives of the banks to enter into this sector but outreach remains modest in terms of proportions of poor household served. SHG-Bank Linkage model is be scaled -up to offer mass access to finance for the rural poor by giving more attention in promotion of high quality SHGs that are sustainable, clear targeting of clients, and ensuring that banks linked to SHGs price loans at cost-covering levels.

Under the SBLP the following three different models have emerged:

- Moder I- SHGs promoted, guided and financed by banks
- Model II- SHGs promoted by NGO/Governments agencies and financed by banks
- Model III- SHGs promoted by NGOs and financed by banks using NGOs/formal agencies as financial intermediaries.

Model II has emerged as the most popular model under the SBLP programme. Commercial banks, co-operative banks & the regional rural banks have been actively participating in SBLP.

Micro Finance Institution Approach: While the SBLP model remains the most widely used model of micro-finance in India, the MFI model has also gained momentum in the recent past. The MFI model in India is characterized by a diversity of institutional and legal forms. The MFIs are scattered across the country and due to multiplicity of registering authorities, there is no reliable estimate of the number of MFIs. The most frequently used estimate is that their number is likely to be around 800.

Bank Partnership Model: Banks can use MFIs as their agent for handling credit, monitoring, supervision and recovery. In this model, the bank is lender the MFI acts as an agent for handling items of work relating to credit monitoring, supervision and recovery, while the borrower is individual. The MFI acts as an agent-it takes care of all relationship with the clients from first contact through final repayment.

Banking Correspondents: The banking correspondents model allows banks to do 'cash in-cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem. The banking correspondents model uses the MFIs ability to get close to poor clients-a necessity for saving mobilization from the poor-while relying on the financial strength of the bank to safeguard the deposits.

II

2- Review of Related Studies

Annas (1993) explains that two actual norms for human life exist globally: in no society is it indifferent to the shape of ones life and what one can make of it, whether one is a man or a woman. One's sex may close some options completely, or make them less available but it always makes a difference to what ones options is over ones life as a whole. According to her, in a traditional society norms for the lives of men and women are enforced strongly and there exists actual division of activities and ways of living.

Andre Beteille (1999), India is the contradiction case of egalitarian political order and is a hierarchicsocial structure. Thus economic and social inequalities rooted in traditions and cultural norms need to be changed as political measures alone cannot bring empowerment. He points out that empowerment is invoked in the context of economic weakness and insecurity, particularly of marginalised, unorganised and other disadvantaged groups.

Bhatt, S.K. and Jhaveri, H. (2008) examined that micro-finance has been hailed as a new age solution to alleviate poverty and bring economic prosperity to the rural economy. MFIs contribute to improving lives of the poor people but they have a long way to go.

Basu, S.C. (2006) examined that micro-finance is a good way to benefit the poor and that it was not the classic trickle down approach but a trickle up one. This strategy is redistributive, entrepreneurial and empowering. The concept of trickle up economics directly benefiting the poor has been found to be working better for economies like india's.

Holvoet (2005), finds that in direct bank-borrower minimal credit, women do not gain much in terms of decision-making patterns. However, when loans are channeled through women's groups and are combined with more investment in social intermediation, substantial shifts in decision-making patterns are observed. This involves a remarkable shift in norm-following and male decision-making to more bargaining and sole female decision-making. She finds that the effects are even more striking when women have been members of a group for a longer period and especially when greater emphasis has been laid on genuine social intermediation. Social group intermediation had further gradually transformed groups into actors of local institutional change.

Jeyaseelan, N. (2005) analyzed that lending is outside the purview of the individual credit risk rating framework right now and only the portfolio approach is adopted, as the bank's exposure in SHG lending is on the increase day by day, all the banks have necessarily to be ready with a roadmap for managing both the credit risk and the operational risk in micro finance.

Mayoux (2001) also warns about the inherent dangers in using social capital to cut costs in the context of other policies for financial sustainability. The reliance on peer pressure rather than individual incentives and penalties may create disincentives and corruption within groups. Reliance on social capital of women clients along with increasing emphasis on ideals on strict economic accounting at the programme level require increased voluntary contribution by the members in terms of time and effort. It has been noted that those putting in voluntary contributions also expect to be repaid in the form of leadership of the group

Myrada (2002) A study conducted by NABARD in the mid-eighties revealed that financial services required by poor households are: safe-keeping of small surpluses in the form of thrift; access to consumption loans to meet emergency needs and financial services and products that did not require collateral

Malhotra et. al (2002) constructed a list of the most commonly used dimensions of women's empowerment, drawing from the frameworks developed by various authors in different fields of social sciences. Allowing for overlap, these frameworks suggest that women's empowerment needs to occur along multiple dimensions including: economic, socio-cultural, familial/interpersonal, legal, political, and psychological. Since these dimensions cover a broad range of factors, women may be empowered within one of these sub-domains. They give the example of "socio-cultural" dimension which covers a range of empowerment sub-domains, from marriage systems to norms regarding women's physical mobility, to no familial social support systems and networks available to women.

Singh, B. and Chawla, S. (2007) analyzed that major hindrance in the development of the poor is not lack of opportunities, but the availability of the credit and the related support services to promote sustainable livelihood activities. During later years, the concept of micro finance gained popularity to meet the credit requirement of poor through and with the help of self-help groups like BASIX. SHG model is clear indication of the domination of this model over other models.

Sekhri, V. (2007) proposed a view that micro finance has been proved to be powerful poverty alleviations tool. It is one of the only development tools with the potential to be financially self-sustaining. Furthermore, certain micro-finance programmes have gained prominence in the development field and beyond. However after more than 30 years of industry effort, 80 pc of the working poor is still without access to micro-finance services. For micro-finance to achieve its potential as poverty alleviation tool, the micro finance industry must grow to scale.

Singh, B. and Chawla, S. (2007) analyzed that major hindrance in the development of the poor is not lack of opportunities, but the availability of the credit and the related support services to promote sustainable livelihood activities. During later years, the concept of micro finance gained popularity to meet the credit requirement of poor through and with the help of self-help groups like BASIX. SHG model is clear indication of the domination of this model over other models.

Research Gap

After analyzing various studies we conclude that very few studies have been analyzed the concept of micro finance in rural areas. The present paper will explores trends and effectiveness of micro finance delivery models.

III

3-OBJECTIVES, RESEARCH METHODOLOGY AND DATABASE

Objectives

- To study and evaluate the trends in micro finance
- To study the effectiveness of micro finance delivery models
- To explore the key issues in micro finance in India

Database

Report on Trend and Progress of Banking in India 2007-08

Research Methodology

The present study is concerned with the micro finance of commercial banks. In this study only 2 bank groups have been included-

G-I Public Sector Bank Group (28 banks)*

G-II Private Sector Bank Group (26 banks)**

Note: *= It includes nationalized banks as well as state banks

**= It includes only Indian private sector banks i.e. old private sector banks and new private sector banks

Parameters of the study: The present study is based on following parameters:

- SHG financed by commercial banks
- Agency wise SHG bank linkage position
- Bank loans outstanding under SBLP
- Model wise cumulative linkage position
- Regional pattern of SBLP

- Savings of SHGs with banks
- Recovery performance of bank loans to SHGs
- Bank loans provided to MFIs.

IV

4-Progress of Micro Finance in India

The micro finance movement has come a long way since its inception in the early 1990s and has assumed enormous significance in the delivery of credit to the hitherto excluded sections of the population. While the SBLP has emerged as the most dominant model, the MFI model has also been gaining importance.

Table 1 exhibits that the SBLP has made considerable progress since its inception in the early 1990s, both in terms of the number of SHGs credit linked with banks as also the bank loans disbursed by SHGs. The cumulative number of SHGs credit linked with bank increased sharply from 33,000 in 1992-99 to 264,000 in 2000-01 and further to 2,239,000 in 2005-06. during the above period, the cumulative bank loans disbursed to SHGs also witnessed a sharp increase from Rs. 57 crore in 1992-99 to Rs. 481 crore in 2000-01 and further to Rs.11,398 crore in 2005-06.

Table :1

SHG Bank Linkage Programme

In crore

Year	Total SHGs Financed by banks (in 000)		Bank Loans		Refinance	
	During the Year	Cumulative	During the Year	Cumulative	During the Year	Cumulative
1992-99	33	33	57	57	52	52
1999-00	82(147.9)	115 (247.9)	136(138.1)	193(238.1)	98(88.5)	150(188.5)
2000-01	149(82.3)	264(29.9)	288(112.0)	481(149.2)	244(149.0)	394(162.7)
2001-02	198(32.6)	461 (74.9)	545(89.0)	1.026(113.4)	395(61.9)	790(100.5)
2002-03	256(29.5)	717(55.4)	1.022(87.0)	2.049(99.6)	622(57.2)	1.412(78.7)
2003-04	362(41.4)	1.079 (50.4)	1.856(81.0)	3.904(90.6)	705(13.3)	2.118(50.0)
2004-05	539(49.1)	1.618(50.0)	2.994(61.0)	6.898(76.7)	968(37.3)	3.086(45.7)
2005-06	620(15.0)	2.239(38.3)	4.499(50.3)	11.398(65.2)	1.068(10.3)	4.153(34.6)
2006-07	1.106	-	6.570	-	1.293	5.446
2007-08	740	-	4.228	-	1.616	7.062

Source: Report on trend and Progress of Banking in India, 2007-08

Table 2 indicates that in terms of relative shares of different agencies, commercial banks continued to account for the largest share, both in terms of number of SHGs credit linked and bank loans disbursed, followed by regional rural banks and co-operative banks.

Table 2

Agency Wise SHG-Bank Linkage Position

Agency	**SHGs Credit Linked (in 000)**		**Bank Loans Disbursed**	
	2006-07	**2007-08**	**2006-07**	**2007-08**
Commercial Banks	572 (52)	312(42)	3,919(60)	2,043(48)
RRBs	381(34)	241(33)	2,503(31)	1,599(38)
Co-Operative Bank	153(14)	187(25)	599(09)	586(14)
Total	1,106	740	6,570	4,228

Source: Same as Table 1

Under the SBLP, as on March 31,2007, 2.9 million SHGs had outstanding bank loans of Rs. 12,366 crore (Table 3)

Table 3

Bank Loans Outstanding Under SBLP

(as at end-March 2007)

In Crore

Agency	No.of SHGs	Loans Outstanding
Comercial Banks	1,893,016(65.4)	8,760(70.8)
Regional Rural Banks	729,255(25.2)	2,802(22.7)
Co-Operative Banks	272,234(9.4)	804(6.5)
Total	2,894,505(100.0)	12,366(100.0)

Source: Same as Table 1

Of the three models under the SBLP, the SHGs promoted by NGOs/Government agencies and financed by banks has emerged as the most dominant model in the case of India (Table 4)

Table 4

Model Wise Cumulative Linage Position

(as at end-March)

Model Type	**2004**		**2005**		**2006**	
	No. of SHGs(000)	**Bank Loans (Rs.crore)**	**No. of SHGs(000)**	**Bank Loans (Rs.crore)**	**No. of SHGs(000)**	**Bank Loans (Rs.crore**
Model I- SHGs promoted guided & financed by banks	218 (20.0)	550 (14.0)	343 (21.2)	1,013 (14.7)	449 (20.1)	1,637 (14.4)

Model II- SHGs promoted by NGOs/Government agencies & Financed by banks	777 (72.0)	3.165 (81.0)	1.158 (71.6)	5,529 (80.2)	1,646 (73.5)	9,200 (80.7)
Model III- SHGs promoted by NGOs & financed by banks using NGOs/formal agencies as financial intermediaries	84 (8.0)	189 (5.0)	117 (7.2)	356 (5.2)	143 (6.4)	561 (4.9)
Total (I+II+III)	1,079	3,904	1,618	6,898	2,239	11,398

Source: Same as Table 1

Table 5 indicates that the region wise pattern of SHGs linked to banks showed greater concentration in the southern region, although the spatial disparity has declined in the last few years with some increase in the share of other regions, particularly the eastern region.

Table 5

Regional Pattern of SBLP

(as at end March)

Percent to total

Region	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Northern	3.4	4.2	4.9	4.9	5.3	5.9
North-Eastern	0.2	0.3	0.6	1.1	2.1	2.8
Eastern	8.4	9.9	12.7	14.7	16.4	17.6
Central	10.9	10.4	11.4	11.8	12.2	12.0
Western	5.9	6.4	5.9	5.1	5.9	7.4
Southern	71.1	68.8	64.6	62.5	58.0	54.3
All India	100.0	100.0	100.0	100.0	100.0	100.0

Source: Same as Table 1

Table 6 indicates that as on March 31, 2007 the number of SHGs maintaining savings bank accounts with the banking sector was 4.2 million with outstanding savings of Rs. 3,513 crore, thereby covering more than 58 million poor households under the programme, commercial banks had the maximum share of the SHGs savings (53.9 per cent), followed by RRBs (32.9 per cent) and co-operative banks (13.2 per cent)

Table 6

Savings of SHGs with Banks

(as at end March 2007)

In crore

Agency	Total Savings		Exclusive Women SHgs	
	No. of SHGs	Amount of outstanding savings	No. of SHGs	Amount of outstanding savings
Commercial Banks	2,293,771(55.1)	1,892(53.9)	1,794,720(54.9)	1,651(54.6)
Regional Rural Banks	1,183,065(28.4)	1,158(32.9)	974,811(29.8)	1,043(34.5)
Co-Operative Banks	683,748(16.4)	462(13.2)	501,708(15.3)	331(10.9)
Total	4,160,584(100.0)	3,513(100.0)	3,271,239(100.0)	3,025(100.0)

Source: Same as Table 1

About 37 per cent of banks reported recovery of above 95 per cent under the programme, 36 per cent banks reported recovery in the range of 80-94 per cent and another 20 per cent banks reported recovery in the range of 50-79 per cent. Some differences were observed in recovery rates of commercial banks, co-operative banks and regional rural banks.

Table 7

Recovery Performance of Bank loans to SHGs

(as at end March 2007)

Agency	Total No. of Reporting Banks	Recovery Performance of Bank Loans to SHGs			
		95 per cent and above	80-94 per cent	50-79 per cent	Less than 50 per cent
Commercial Banks	36	11 (30.6)	15 (41.7)	10 (27.8)	0 (0.0)
Regional Rural Banks	73	20 (27.4)	35 (47.9)	13 (17.8)	5 (6.8)
Co-Operative Banks	181	76 (42.0)	55 (30.4)	35 (19.3)	15 (8.3)
Total	290	107(36.9)	105(36.2)	58(20.0)	20(6.9)

Source: Same as Table 1

The emerging role of MFIs as institutions other than banks engaged in providing financial services to the poor is being recognized and the banking sector has been extending loans to MFIs for on-lending to SHGs. During the year 2006-07, bank loans amounting Rs.1,152 crore were disbursed to 334 MFIs, taking the total loans outstanding to Rs.1,584 crore to 550 MFIs as on March 31,2007.

Table 8

Bank Loans Provided to MFIs

(as at end March 2007)

In crore

Agency	Loans Disbursed by Banks to MFIs during 2006-07		Outstanding bank Loans to MFI as on March 31,2007	
	No. of MFIs	Amount	No. of MFIs	Amount
Commercial Banks	327	1,151	541	1,584
Regional Rural Banks	7	0.2	8	0.2
Co-Operative Banks	-	-	1	0.01
Total	334	1,152	550	1,584

Source: Same as Table 1

It is observed from table 9 that among the public sector banks 19 banks have shown excellent initiative to disbursed the micro finance. But on the other hand, State bank of Indore, Punjab & Sind bank, IDBI bank, State bank of Patiala, State bank of Saurashtra, Oriental Bank of Commerce has low performance to disbursed the micro finance.

Table 9

Bank Loans Disbursed to SHGs in 2006-07

Scale	Name of Public Sector banks
0.1 to 10 Lac	State bank of Indore, Punjab & Sind bank, IDBI bank, State bank of Patiala, State bank of Saurashtra, Oriental Bank of Commerce
10.1 to 20 Lac	Union Bank of India, Dena Bank, United bank of India
>20 Lac	Allahabad bank, Andhra bank, Bank of baroda, Bank of India, Bank of Maharashtra, Canara Bank, Corporation Bank, Central Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank, State Bank of India, State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Travancore, UCO Bank, Vijaya Bank, Syndicate Bank

Source: Same as Table 1

Similarly, table 10 indicates that among the private sector banks majority of banks have shown for performance to disburse the commercial loans. But on the other hand, HDFC Bank, ICICI Bank have shown excellent performance.

Table 10

Bank Loans Disbursed to SHGs in 2006-07

Scale	Name of Private Sector banks
0.1 to 10 Lac	Bank of Rajasthan, Catholic Syrian Bank, City Union Bank, Dhanalakshmi Bank, Jammu & Kashmir Bank, Karnatka Bank, Karur Vysa Bank, LakshmiVilas Bank, Lord Krishna Bank, Nainital Bank, Ratnakar Bank, South Indian Bank, Tamilnad Mercantile Bank, Axis Bank
10.1 to 20 Lac	ING Vysa Bank, Federal Bank
>20 Lac	ICICI Bank, HDFC Bank
NA	Bharat Overseas Bank, Centurion Bank of Punjab, Development Credit Bank, Ganesh Bank of Kurundwad, Induslnd Bank, Kotak Mahindra Bank, SBI Commercial & International Bank, Yes Bank

Source: Same as Table 1

Table 11 witnesses that in case of savings of SHG with commercial banks in 2007, 17 banks out of 28 public sector banks has excellent savings with commercial banks.

Table 11

Savings of SHGs with Commercial Banks as on March 31, 2007

Scale	Name of Public Sector banks
0.1 to 10 Lac	State Bank of Bikaner & Jaipur, Oriental Bank of Commerce, State Bank of Indore, Dena Bank, Punjab & Sind Bank, State Bank of Saurashtra, State Bank of Patiala, IDBI Bank
10.1 to 20 Lac	United Bank of India, Vijaya Bank, Bank of Maharashtra
>20 Lac	Allahabad bank, Andhra Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, Corporation Bank, Indian Bank, Indian Overseas Bank, Punjab National Bank, State Bank of Hyderabad, State Bank of India, State Bank of Mysore, State Bank of Travancore, Syndicate Bank, UCO bank, United Bank of India

Source: Same as Table 1

In case of private sector banks only 1 bank (Dhanalakshmi Bank) has excellent performance.

Table 12

Savings of SHGs with Commercial Banks as on March 31, 2007

Scale	Name of Private Sector banks
0.1 to 10 Lac	Axis Bank, Bank of Rajasthan, Catholic Syrian Bank, City Union Bank, Federal Bank, HDFC Bank, ICICI Bank, ING Vysa Bank, Karur Vysya Bank, Lakshmi Vilas Bank, Lord Krishna Bank, Nainital Bank, Ratnakar Bank, South Indian Ban, Tamilnad Mercentile Bank
10.1 to 20 Lac	Karnatka Bank
>20 Lac	Dhanalakshmi Bank
NA	Bharat Overseas Bank, Centurion Bank of Punjab, Development Credit Bank, Ganesh Bank of Kurundwad, Induslnd Bank, Kotak Mahindra

	Bank, SBI Commercial & International Bank, Yes Bank, Jammu & Kashmir Bank

Source: Same as Table 1

It is necessary for the banks to recover loans from the borrowers. In case of public sector banks 22 banks have shown excellent performance, except 5 banks (Allahabad Bank, Canara Bank, Punjab National Bank, State Bank of Biakner & Jaipur, Union Bank of India, Vijaya Bank)

Table 13

Recovery Performance of Bank Loans to SHG position as on March 31, 2007

Scale	Name of Public Sector banks
0.1 to 10 Lac	- - -
10.1 to 20 Lac	- - -
>20 Lac	Andhra Bank, Bank of Baroda, Bank of India, Bank of Maharashtra, Corporation Bank, Central Bank of India, Dena Bank, IDBI Bank, Indian Bank, Indian Overseas Bank, Oriental Bank of Commerce, Punjab & Sind Bank, State Bank of India, State Bank of Hyderabad, State Bank of Indore, State Bank of Mysore, State Bank of Patiala, State Bank of Saurashtra, State Bank of Travancore, Syndicate Bank, United Bank of India, UCO Bank
NA	Allahabad Bank, Canara Bank, Punjab National Bank, State Bank of Bikaner & Jaipur, Union Bank of India, Vijaya Bank

Source: Same as Table 1

Among the private sector banks, 14 banks have shown excellent results regarding the recovery aspects.

Table 14

Recovery Performance of Bank Loans to SHG position as on March 31, 2007

Scale	Name of Private Sector banks
0.1 to 10 Lac	- - -
10.1 to 20 Lac	- - -
>20 Lac	Bank of Rajasthan, Dhanalakshmi Bank, Federal Bank, HDFC Bank, ICICI Bank, ING Vysya Bank, Jammu & Kashmir bank, Karur Vysya Bank, Lakshmi Vilas Bank, Nainital Ban, Ratnakar Bank, South Indian Bank, Tamilnad Mercantile Bank, Axis Bank
NA	Bharat Overseas Bank, Catholic Syrian Bank, Centurion Bank of Punjab, City Union Bank, Development Credit Bank, Ganesh Bank of Kurundwad, Induslan bank, Karnatka Bank, Mahindra Bank, Lord Krishna Bank, SBI Commercial & International Bank, Yes Bank

Source: Same as Table 1

5-DECREASING RATE OF MICRO FINANCE, CHALLENGES, STRATEGIES AND IMPLICATIONS

- High cost of delivery
- Low level of grants to micro finance
- Fear of increasing NPAs with micro finance

- An unfavorable policy environment
- Substantial traditional banking infrastructure

In our country micro finance is facing some glaring challenges

- *Problem of SHG outreach :* The SHG programmes show a very skewed growth pattern in the country. The programme is largely concentrated in southern region of the country. It is important that the microfinance programmes spread more evenly so that the benefits are available especially in regions where the need is more accurate. This calls for increased investment in SHG formation and development by banks and government. The programmes have to orient themselves to the needs of the very poor as the existing SHG models have not been able to cover this section significantly.
- *Restrictive Policies of formal Agencies:* The second major constraints faced by SHGs is the continued restrictive loan policies of the commercial banks. the commercial banks took a long time to clearly recognize and internalize the concept. The SHG model is primarily a savings based model. The commercial banks have been following largely 1:4 savings-credit ratio prescribed more as a norm for lending. Even the loan terms are uniformly prescribed. SHGs having lower savings ability find the lending ratio highly restrictive. As a result, many SHGs are unable to access credit adequately. This is forcing SHG members to restrict loan size/period and even distribute loan amount equally. There are instances of SHG members going back to moneylender. In many cases banks are also not able to give adequate time to SHGs forcing SHGs to operate more in ways which suit banks than the SHGs. If SHGs, whose strength lies in informality, have to make a better impact, the formal system has to tune itself to the needs of SHGs and their members. This calls for adopting highly proactive and innovative policies to deal with the SHGs.
- *Lack of SHG quality and leadership:* The performance of SHGs to a great extent depends upon their quality of governance and management. Available evidence clearly suggests that the quality of SHGs has suffered due to their fast growth. In Andhra Pradesh which is one of the leading states in SHG formation, it was found that about one-third of SHGs were of unsatisfactory quality with regard to their organizational and financial management abilities. It is also found that as SHGs grow older their quality further deteriorates. In many cases SHGs even break down or wind-up their operations. The major reasons attributed for the poor quality of SHGs are target based promotion of SHGs, inadequate training and capacity building and widespread illiteracy of the members. Continued and specialized trainings can help develop the abilities of SHGs in maturing fully.
- *Unskilled Staff to recover loans:* the success of SHGs in contributing to poverty alleviation and empowerment depends on the ability of members to take up newer and productive investment activities. Even where there is positive impact, it has been found that SHG members have utilized the loans mainly in conventional activities like agriculture, animal husbandry and petty

business. Such an investment pattern has resulted mainly in women channelising their loans to meet mainly the needs of other households members.

- Appropriate legal structure for the structured growth of micro finance
- Bring out a compendium of small and micro enterprises for the micro finance clients
- Capacity to provide backward linkages or create support structures for marketing
- Designing financially sustainable models
- Build professional systems and processes
- Increase outreach and scale up operations
- Demonstrate that banking with the poor is viable
- Provide support for capacity building initiatives

To enhance the micro finance may be miracle for the banking industry as well as for the economic development of the country. We may suggest the following strategies to strenghten micro credit in India;

- Grants should make available to micro finance institutions
- DRTs and SARFESHI Act should implement to reduce the fear of NPAs
- Special training programmes should implement
- Rate of interest should be low on micro finance
- The bank should create awareness among the students also.
- Awareness or educating people about the schemes should be on large.
- A part from the training supervision about the utilization of the amount so availed under the scheme is must.
- There is also a need to shift the focus from quantity of credit to the quality of credit.

The study implicit that micro finance definitely a good way to benefit the poor and for the development of a country. The bank is considered to be the pioneer in the field of micro finance. The importance of micro-credit is that it avoids the pitfalls of an earlier generation of targeted development lending. It emphasizes on repayment, it charges interest rate that cover the cost of delivery and focuses on client groups; thus improving on the disbursal and accountability.

6-AGENDA FOR FUTURE

The present study highlights the growth of micro finance, although its growth is slow but keeping in mind the prevailing economic situation, needs of the poor and middle class, its future is bright. All the banks should give high priority to micro finance. In the future, some areas have been needed to research i.e.

- Category wise micro finance in rural areas.
- Segment wise reasons for growing need of micro finance.
- Bank group wise micro finance.
- Population group wise micro finance.

V

7-CONCLUSION

The study concludes that micro finance is an important tool for improving the standard of living of poor. Inspite of many organizations of micro finance, micro finance is not sufficient and decreasing in India. Shelf-help-groups play a vital role in poverty reduction. Shelf help is reducing dependence of labour on agriculture. Hence the SHGs banks program has been much successful in achieving quantities targets. The banks should give demo in the rural sector about the micro finance and they also provide short term training to the unemployed youth. The banks should educate to the students to spread the schemes of the banks in rural sector. The credit should be given on the basis of the requirements of the borrowers. The banks should also create a separate wing to provide the facilities of micro finance. The need of the hour is to make the program more qualitative. That is enriching the lives of poorest of the poor in the context of globalize socio-economic environment. The need of the hour is to make the program more qualitative.

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