



Full Length Research Article

MICROFINANCE - EVOLUTION, AND MICROFINANCE-GROWTH, OF INDIA

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ARTICLE INFO

ABSTRACT

Article History:

Received 15th May, 2014
Received in revised form
06th May, 2014
Accepted 19th May, 2014
Published online 31st May, 2014

Key words:

Microfinance,
Microcredit,
Poverty,
Financial development,
Financial services,
Indian financial Sector,
NABARD

The present paper highlights the microfinance & evaluates the position of micro-finance. The concept of microfinance is not new in India. Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. Majority of poor are excluded from financial services. Microfinance is a programme to support the poor rural people to pay its debt and maintain social and economic status in the villages. Microfinance is an important tool for improving the standard of living of poor. In spite of many organizations of microfinance, microfinance is not sufficient in India. The study explores some suggestions to make microfinance more effective. The potential for growing micro finance institutions in India is very high. Microfinance market in India is expected to grow rapidly, supported by government of India's initiatives to achieve greater financial inclusion, and growth in the country's unorganized but priority sector. Microfinance has evolved rapidly into a global movement dedicated to providing access to a range of financial services to poor and nearpoor households. The organizations that provide these services, known as Microfinance institutions (MFIs) may operate as formal micro banks, non-bank financial institutions, non-governmental organizations, or community-based financial institutions. These providers offer a range of financial services from small business loans to savings accounts, money transfers, insurance, and consumer loans. Growth of the microfinance industry, however, the microfinance is important as a minimum condition for achieving these social missions. Major Cross-section can have benefit if this sector will grow in its fastest pace. On the basis of growth and evolution related to microfinance, the study predicts the new agenda for future. The microfinance industry being very small in terms of value added to the Indian financial sector. It examines the experience, of India, which has one of the largest microfinance sectors in the world. Globally, over a billion poor people are still without access to formal financial services. Some 200 million of these people live in India. Microfinance, the provision of a wide range of financial services to poor people, has proved a very successful way of providing immensely valuable services to poor people on a sustainable basis. Access to financial services has allowed many families throughout the developing world. It is incontestable that an efficient and effective microfinance system is essential for building a sustained. Economic growth. The Indian Government should find an avenue for creation of awareness on how microfinance can benefit from loans and monitors closely to ensure disbursement of loans and grants to entrepreneurs.

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Evolution of Microfinance

“Microfinance recognizes that poor people are remarkable reservoirs of energy and knowledge and while the lack of financial services is not just a sign of poverty. Today it is looked as an untapped opportunity to create markets, bring people in from the margins and give them the tools to help themselves.”

-Kofi Annan (Sec.General of UN)

“The Poor stay poor, not because they are lazy but because they have no access to capital.”

-Laureate Milton Friedman

“Yunus first came across the idea of microcredit while studying the lives of poor entrepreneurs in his native Bangladesh during the famine of 1974. He began by loaning to groups of women, and his program soon proved that small loans could not only quickly improve lives but were paid back with interest and on time.”

-By Rob Krieger

“Microfinance is an idea whose time has come.”

Kofi Annan - Former United Nations Secretary-General

“The key to ending extreme poverty is to enable the poorest of the poor to get their foot on the ladder of development . . . the poorest of the poor are stuck beneath it. They lack the minimum amount of capital necessary to get a foothold, and therefore need a boost up to the first rung.”

Jeffrey Sachs - American economist and director of the Earth Institute at Columbia University

“Give a man a fish, [and] he’ll eat for a day. Give a woman microcredit, [and] she, her husband, her children and her extended family will eat for a lifetime.”

Bono - Lead singer for the Irish band U2 and humanitarian advocate

“This is not charity. This is business: business with a social objective, which is to help people get out of poverty.”

Muhammad Yunus - Founder of Grameen Bank and Nobel Peace Prize recipient

“Unfortunately, the hype about microfinance is, well, just that – hype”.

Ha-Joon Chang

Microfinance Concept

Microfinance is the provision of financial services to low-income, poor and very poor self-employed people (Otero, 2000). Robinson (2001) as cited in Ogunleye (2009) defined microfinance as small scale financial services that involve mainly savings and credit services to the poor. (Samson Alalade Y., Olubunmi Amusa B., Adekunle Olusegun A. 2013)

According to Alemu Kassa, T. (2008) The Concept of Microfinance have very important thing. According to Patrick Meagher, microfinance is defined as 'lending small amounts of money for short periods with frequent repayments' (Meagher 2002:7). However, this definition equates the concept with micro-credit, which is rather a part of microfinance service. For Van Maanen, 'microfinance is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral' (Maanen 2004:17). In broader understanding, Ledger wood conceived that financial services generally include savings and credit; however, some MFIs also provide credit cards, payment services, money transfers, and insurance services. Besides, many MFIs undertake social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus, the concept of microfinance often includes both financial and social intermediations (Ledger wood 1999: 1)

In India, Microfinance has been defined by "The National Microfinance Taskforce, 1999" as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and Improve living standards Microfinance is a term used to refer to the activity of provision of financial services to Clients who are excluded from the traditional system on account of their lower economic status. The financial services will most commonly take the form of loan and savings by removing collateral requirement and creating banking system which is based on mutual trust. (www.wikipedia.org).

"What is the exact definition of microfinance?" is the underlying question of understanding microfinance. According to Consultative Group to Assist the Poor (CGAP)'s homepage, microfinance's definition is: "Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and microinsurance" (www, Consultative Group to Assist the Poor, 1, 2011). In his essay, Robinson (1998) defines microfinance as follows: "Microfinance refers to small-scale financial services for both credits and deposits – that are provided to people who farm or fish or herd; operate small or microenterprises where goods

are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas" Additionally, Schreiner (2001) also describes the definition of microfinance as "Formal schemes designed to improve the wellbeing of the poor through better access to savings services and loans" As mentioned above, it is shown that there is no rigid definition of microfinance; nevertheless, we can summarize its general idea as "the openness of banking opportunities to poor people in reaching financial services, such as microcredit, microsavings, microinsurance, risk management and etc". Concept of microfinance Meaning can be defined in many ways and intersects with several different realities. Marc Labie proposed a comprehensive definition of relevance to define the characteristics of the beneficiaries. "We call microfinance, the provision of financial services (usually credit and or savings) to people developing a productive activity, usually craft and trade, and not having access to commercial financial institutions because of their socio-economic profile"(Labie, 1999). Microfinance is the provision of the financial services to those not included in the formal sector based not only on wealth but also social, cultural and gender barriers (Burrit, 2006). In this concept, microfinance refers to loans, savings, insurance, transfer services, micro-credit loans and other financial products targeted at low-income clients (United Nations. 2005a). Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services (CIA, 2013a). (Daley Harris 2002) Microfinance is simply defined as credit advanced to the poor who normally do not have collateral to pledge. Microfinance is 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. It involves the provision of financial services via microfinance institutions (MFIs) either to the working poor or those people who rely on their small businesses for income and who are not considered bankable because they lack collateral to be pledged as security or are considered high risk by the mainstream or traditional commercial banking sector. Otero (1999) Microfinance as "the provision of financial services to low-income poor and very poor self-employed people." Microfinance is financial services. Schreiner and Colombet (2001) Microfinance can also be defined as the "attempt to improve access to small deposits and small loans for poor households neglected by banks." Microfinance brings together credit, savings and insurance services to poor people across diverse socioeconomic settings. (Hulme, 2000) Microfinance is the provision of abroad range of financial services to low-income

microenterprises and households. The range of financial services usually includes savings and loans, other products also include insurance, leasing, and money transfers. The provision of financial services to low-income clients is the sole of an organization.

INTRODUCTION

Before the microfinance industry, people around the world have been borrowing and saving using various sources outside of the formal financial sector. Informal financial services ranging from loan sharks, community members and saving groups were once the only source for low income individuals who were unbanked or under banked. Such sources are still commonly used in both rural and urban areas, but now microfinance is a new source for loans, savings and insurance for the estimated of Indians who do not have access to any type of financial services and the Indians who might be unhappy with the informal financial services they use. The World Bank has estimated that upwards of 100 million individuals have taken advantage of microfinance. As much as \$25 billion might be circulating in the industry, a turnover statistic which represents some fraction of the unmet demand. The extent of the overall microfinance market is up for debate. After all, extreme poverty continues to limit billions in the developing world from accessing basic services and realizing their potential. Microfinance organizations have spread all over the developing world. The concept has also expanded to include a variety of small-sized but high-impact financial services beyond traditional credit. These products have been customized to the diverse interests, demands, and capabilities of the global poor, also referred to as the "bottom of the pyramid." Microfinance has proven to be an effective and powerful tool for poverty reduction. Microfinance is one of those small ideas that turn out to have enormous implications. Microfinance is not entirely an innovative phenomenon.

Particularly, the first forms of microcredit's existed already in the XIX century with the experience of the rural banks and the creation of informal credit and saving institutions in the various areas of the world. Also around the 50-70 we find out various public programs subsidized, turned mainly to the agricultural sector, in many countries of the North of the world. But only thanks to the Bengalese Muhammad Yunus, winner in the 2006 of the Nobel Prize for Peace, microfinance is known to international level as important tool of socio-economic development. Its relevance in the fight against the poverty has been recognized by the United Nations that, in 2005, proclaim the International Year of the Microcredit. Microfinance born with a not for profit logic. For instance, up to mid 1900's microcredit essentially turned to the support of the agricultural sector, with low interest rates, strong government subsidies and institutions for the most part not sustainable. During the last years, the sector has been characterized by a fast evolution and a commercialization process: reduction of grants and increment of equity investments; the approach moved to sustainability in terms of operational and financial self-sufficiency.

The evolution of microfinance

Alemu Kassa, T. (2008) is given overview of microfinance evolution, from the 1950s onwards, governments and international donors have been assisting subsidized credit for small holder farmers in developing countries with the aim to

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Increase agricultural productivity (Beshir 2005:6) development financial institutions such as agricultural development banks were established to deliver subsidized credit to those farmers. Unfortunately the failure of state implemented credit schemes has been more the rule than the exception. (Sida 2004:23). In the 1960s and 1970s the supplied credit approach ended up with failure, despite the middle and upper class farmers benefited in increasing agricultural productivity through intensive use of inputs. Main reason for state failure of credit provision were rapid disbursement of funds with greater political emphasis, failure to collect loans stemming from lack of proper institutional arrangements and clients' attitude towards loan as grant money (Assefa et al) demonstrated that 'microfinance could provide large scale outreach profitably,' and in the 1990s Microfinance began to develop as an industry (Robinson 2001:54). In the 2000s, the microfinance industry's objective is to satisfy the unmet demand on a much larger scale, and to play in reducing poverty. The World Bank has called South Asia the "Cradle of Microfinance."

Statistics indicate that some 45% of all the people in the world who use microfinance services are living in South Asia. According to (Singh. R., I. 2014) Overall percentage of the poor and vulnerable people with access to financial services remains small, amounting to less than 20 % of poor households in India. The World Bank estimates that more than 87% of India's poor cannot access credit from a formal source and therefore they are not borrowing at all or have to depend on money-lenders who charge them interest rates ranging from 48% to 120% per annum and sometimes much higher. (Singh. R., I. 2014). This fact alone is very compelling and is reason enough to occupy oneself with the careful questioning of how microfinance can be provided to as many of the poor with a demand for it as possible. (Singh Robin Inderpal, 2014, p.387). The provision of such services, if done correctly, could have a significant impact on the poor. This fact alone is very compelling and is reason enough to occupy oneself with the careful questioning of how microfinance can be provided to as many of the poor with a demand for it as possible. (Singh Robin Inderpal, 2014, p.387). There are potential clients for financial services in India, depending on the level of demand for financial services, from those poor without access to it. The provision of such services, if done correctly, could have a significant impact on the poor. (Singh Robin Inderpal, 2014, p.387)

Statement of the Research Problem

Microfinance is miserably getting downfall due to the problems regarding lack of deployment strategy, institutional support, lack of promptness among the borrowers etc. The phenomenon (Chandasekhar and Jayati Ghosh, 2012) of microfinance group lending, whereby borrowers are clubbed into small groups whose members typically received sequential loans, has been seen as the fundamental innovation that allows micro finance institutions to service clients without

collateral. (Anbuoli, 2013). Professionalisation and Commercialisation of MFIs provided the basis for growth and prosperity of the microfinance industry. Former financial constraints of MFIs were increasingly relaxed, as the industry was able to attract private funds in addition to funds provided by development institutions and local governments. (Lützenkirchen Cédric & Weistroffer C, 2012). Although there is no clear evidence from Ethiopia, literature from other countries shows that using microfinance as a strategy to reduce poverty is controversial. According to David Hulme, microfinance has become an increasingly important component of strategies to reduce poverty. This research, therefore, is to analyse and see how microfinance Evolution and growth is used as an effective poverty reduction strategy in India based on the analysis of institutional design, achievements, impacts on the poor clients, and the role of governments and donors in supporting the microfinance program. MFI industry is exclusively or even mainly related to the financial crisis. True, for some countries, a more direct line can be drawn from the global crisis to domestic problems in microfinance than for others. Microfinance crisis in the Indian state of Andhra Pradesh followed suit in 2010, but was driven by homemade problems rather than the global crisis. Excessive market growth and saturation at the core of problems. High market growth rates or had reached a penetration rate at some countries. Expansion of microfinance in some markets led to an increase in the share of wealthier and more risky borrowers, leaving MFIs more vulnerable to an economic downswing. Second, MFIs that now face difficulties failed to live up to the challenge of constantly adjusting their internal structure and lending policies to keep up with fast market growth. (Lützenkirchen Cédric & Weistroffer C, 2012). The evolution of the microfinance in India as a powerful tool for poverty alleviation. Where institutional finance failed microfinance delivered, but the outreach is too small. There is a question mark on the viability of the microfinance institutions. There is a need for an all round effort to help develop the fledgling microfinance industry while tackling the tradeoff between outreach and sustainability. (Lützenkirchen Cédric & Weistroffer C, 2012). (Bhatia Anshu Malik Deepak & Sindhi Vikas 2013) uses specific details to draw the reader into the scene: It is stated that in India have brought a fresh focus upon the problem of regulation in the field of microfinance. Three (3) distinct aspects where government needs to play role. The first is to services. The second is that of prudential oversight of risk-taking by firms operating in microfinance, since this could have systematic implications. The third is development role, emphasizing scale up of the microfinance industry where the key issues are diversification of access to funds, Innovations in distributions and product structure, and the use of new technologies such as credit bureaus and the uid. Microfinance was more successful in its initial stage since at the outset, consideration of micro finance was mainly serving the poor to climb the income ladder and even at presents taking various forms microfinance serves the economy. History of microfinance runs back to 16th and 17th centuries and its evolution has occurred in an informal way (Seibel and Dieter, 2005) and, most of the researchers have recognized Bangladesh as the birth place of microfinance basically due to the massive contribution made by Professor Muhammad Yunus. The establishment of Grameen Bank in Bangladesh became a famous activity as it paid a significant attention to poverty reduction and women empowerment. This effort was

recognized by awarding the Nobel Peace prize to Prof. Muhammad Yunus in 2006. (Meyer and Nagarajan, Kumari P.W.N.A, & Singhe. P.J.K. 2014. p87. Even origin in Bangladesh dates back to more than 100 years and despite a large numbers of microfinance institutions (MFI) are working there Azad and Shamsuddoha (2004) stated that poverty level has not reduced significantly. (Okibo Bichanga Walter and Makanga Njage, 2014) Stated that rigorous empirical analysis in the issue of statistical impact of microfinance began in the 1990s. However, the studies so far remain few in addressing the effectiveness of microfinance in poverty alleviation (Adam & Von Pische, 1992). The introduction of MFIs is seen as the best alternative source of financial services for low income earners in rural areas as a means to raise their income, hence reducing their poverty level. However evidence has shown that these MFIs are faced by a myriad of challenges which are not to limited coverage, poor organizational structures and some is donor driven. Strategies such as formation of microcredit programmes. A study by Aigbokhan and Asemota (2011) revealed that selected microfinance variables such as volume of loan last taken, cumulative loan, loan cycle, experience with the microfinance institution and education had positive significant impact on clients poverty status. However, more research needs to be done in regard to whether microfinancing has effect on poverty reduction as will be done through this study. This is because despite efforts of micro financing, more people are still living with poverty. Therefore research problem of this study is to ‘Microfinance-Evolution, and Microfinance-Growth, of India’ assess the impact of microfinance on poverty alleviation in India and identify the influence of macroeconomic condition on the net impact of microfinance. At this point, it is therefore important to re-examine the impact of microfinance policies and its operations on the development of Microfinance in India.

Need of the study

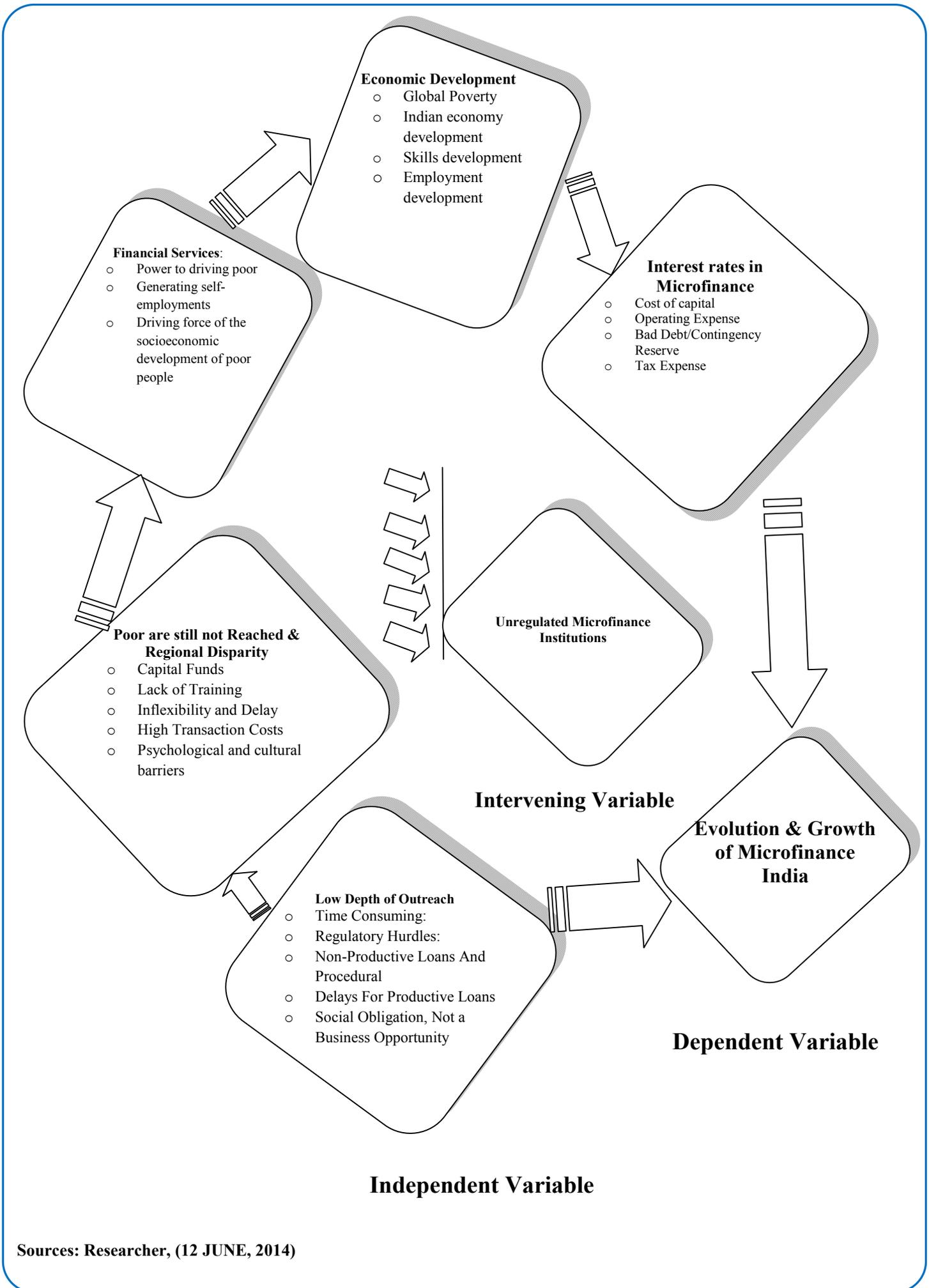
Microfinance plays a vital role in finance to socially and economically equally, it is a finance based. Bangladesh has been acknowledged as the pioneer in the field of micro-finance. The Indian economy and government of India authorities should realize the consequences of awareness evolution to the economic growth and betterment of poor people in India. More microfinance evolution and growth in making their standard of living better, helps also in making the society better as a whole. The micro-finance has poverty reduction and employment generating tool and act as catalyst, for poor people. Microfinance is a to spread weaker section of poor people for their upliftment of society. Financial services include savings and credit provision (Jammeh, 2002). poor people are poor in every aspect. The overall need of this study is microfinance evolution and growth in India.

RESEARCH METHEDODOLOGY

Precisely the study undertaken has one aspect. The study of finance structure of microfinance of effective and efficient use of the growth of microfinance. It is mainly concerned with peculiar sources of secondary data collection are tapped. Secondary data are collected from the research papers, dissertations of the scholars, books of references, standard publication and reports by institutes and organizations, magazines, periodicals, internet etc.

Purpose of Study

The purpose of the study was to examine the overview of microfinance institutions evolution and growth on poverty reduction in India.



Sources: Researcher, (12 JUNE, 2014)

Relevance and Justification

Alemu Kassa, T. (2008) is given overview of Microfinance has been viewed as one way of dealing with poverty by expanding services to the poor. It is therefore, important to analyze how microfinance can be used as an effective strategy to poverty reduction and able to realize its intended objectives. The study will contribute to the debate on microfinance and its evolution and growth impact on the poor and an indication will be made on whether there is a need to come up with other interventions for the different groups, so as to make an impact in terms of fighting poverty

Research Objective of the Study

- To take an overview of global microfinance and its impact on the economy in India.
- To study the status and potential of microfinance in India.
- To examine the finance structure of the basic microfinance in India.

Research Questions of the Study

- What role does Microfinance play in poverty reduction in India?
- How do beneficial use microfinance facilities?
- Is there a significant between microfinance & microfinance penetration, global ranking, evolution, growth of Indian microfinance?
- Are the expectations of the poor met through microfinance interventions in India?

Conceptual Framework on the “Micro Finance - Evolution, and Microfinance-Growth, of India”

Figure. Conceptual Framework on the “Micro Finance - Evolution, and Microfinance-Growth, of India”

In order to uncover the “Micro Finance - Evolution, and Microfinance-Growth, of India”, the study strived to isolate the important key variables of Indian Microfinance System.

Mainly

Interest rates in Microfinance: Cost of capital, Operating Expense, Bad Debt/Contingency Reserve Tax Expense

Economic Development of Microfinance Global: Poverty, Indian economy development, Skills development, Employment development

Financial Services of Microfinance: Power to driving poor, Generating self-employments, Driving force of the socioeconomic development of poor people

Poor are still not Reached & Regional Disparity of Microfinance: Capital Funds, Lack of Training, Inflexibility and Delay, High Transaction Costs, Psychological and cultural barriers

Low Depth of Outreach: Time Consuming, Regulatory Hurdles, Non-Productive Loans And Procedural, Delays For Productive Loan Social Obligation, Not a Business Opportunity.

Unregulated Microfinance Institution

Research Gap

The literature reviewed shows that the debate on microfinance is inconclusive on the evolution of microfinance on poverty reduction as the study. It should be noted that the varying conclusions in the text may be accounted for by differences in the methodology used to measure the impact, among other biases. Conducting such a study is justified by the increased rate of people living with poverty in India. This situation forces re-evaluating the plans and programmes put in place by various stakeholders including the Indian government on poverty reduction. It is against this background that the researchers find it necessary to make a study on the effects of MFIs evolution and growth on poverty reduction in India. Microfinance awareness in the area of internal microfinance is still limited Microfinance evolution and growth disaggregated data is lacking the focus is rather on poor credit studies instead of a poverty reduction approach. Often the negative aspects of female gender are stressed country like nation India development with insufficient attention to poor people income group changes induced by microfinance institutions, and the increasing economic impact (access to credit etc.) Resulting from access to credit is issues for at least poor people. There are still too few analyses of the needs, priorities and resources of evolution and growth of microfinance. That also gives sufficient regard to financial performance and inequality. There is only limited analysis of the social and economic impact context.

The History of Micro Finance

Microcredit issuance of small loans to the poor for entrepreneurial purposes 16th Century: Pawn Shops – collateral based loans 18th Century: Irish Loan Fund System – non-collateral based loans 19th century Financial Cooperatives – Germany Indonesian People’s Credit Banks.1950s – 1980s Development and Subsequent Failure of State Owned Development Banks 1970’s associated with the formal birth of microcredit Grameen Bank in Bangladesh – established by Professor Yunus Accion International FINCA SEWA – Self-Employed Women’s Association Bank – India Bank Rakyat Indonesia (BRI) Aga Khan Agency. The history of microfinance goes back to 1974 when professor of economics at Chittagong, Dr. Muhammad Yunus, with the intent of finding a practical solution to poverty, experienced the first microfinance attempt himself. During visit to a rural village in Bangladesh, he lent 27\$ to a community of 42 people who were otherwise unable to make out a living. The result was that those people were able to invest that amount in their small woodwork business, sell their products, buy food and other basic stuff and give to the money back to the professor with interest .inspired by his successful experience and after in depth studies on the topic, he today accounts for 1 billion \$ in loans spread to over 7 millions borrowers.

During the 80’s and 90’s, after many researchers and experiment proving the business viability and profitability of Yunus’ concept microfinance institutions grew constantly in number till topping 3000 in 2006.most microfinance institutions started their business as nonprofit organization sustained by grants and subsidies, and have been able to turn into for profit corporations attracting investors globally. Major banks, attracted by high growth rates ,started instituting funds

focused on microfinance that allow investors from all over the world to invest in this new industry. The history of micro credit is traced back to the early 1700s when Jonathan Swift, an Irishman, had the idea to create a banking system that would reach the poor. He created the Irish Loan Fund, which gave small short term loans to the poorest people in Ireland who were not being served by commercial banks, in hopes of creating wealth in the rural areas of Ireland. This idea took years to catch on, but then grew quickly and expanded globally. By the 1800's, the Irish Loan Fund had over 300 banks for the poor and was serving over 20% of the Irish population. In the 1800s similar banking systems showed up all across Europe targeting the rural and urban poor. Friedrich Wilhelm Raiffeisen of Germany realized that the poor farmers were being taken advantage of by loan sharks. He acknowledged that under the current lending system, the poor would never be able to create wealth; they would be stuck in a cycle of borrowing and repaying without ever making personal economic development. He founded the first rural credit union in 1864 to break this trend. This system was different than previous banks because it was owned by its members, provided reasonable lending rates and was created to be a sustainable means of community economic development. The idea of credit unions spread globally and by the end of the 1800s, these micro credit systems had spread all the way from Ireland to Indonesia. At the turn of the century similar systems were opening in Latin America. Whereas in Europe the credit unions were owned by its members, in Latin America the institutions were owned by the government or private banks and were not as efficient as they were in Europe. In the 1950's donors and government subsidies were used to fund loans primarily for agricultural workers to stimulate economic growth but these efforts were short lived.

The loans were not reaching the poorest farmers; they were often ending up in the hands of the farmers who were better off and didn't need the loans as critically as others. Funds were being lent out with an interest rate much below the market rate and there were not enough funds to make this viable long term. These loans were rarely being repaid, so the banks' capital was depleting quickly and when the subsidized funds ran out, there was no more money to pump into the agricultural economy in the form of micro credit. In the 1970s the biggest developments in micro finance occurred. Grameen Bank in Bangladesh started off as an action based research project by a professor who conducted an experiment credit program. This nonprofit program dispersed and recovered thousands of loans in hundreds of villages. The professor tried to extend this idea to other bankers in Bangladesh, but they were afraid that it was too risky as a business and turned down the offer. Grameen Bank is now one of the world's largest micro finance institutions with over 4 million lenders. By the 1990's lenders had learned how to increase loan repayment rates enough to make micro finance institutions sustainable.

They targeted women as borrowers and gave them money to invest in businesses that would increase their income and charged very low interest rates so the borrowers could pay back their loans and still have money, i.e. create wealth, for themselves. The term microfinance was coined to replace micro credit, because the new institutions were doing more than making loans; they were offering other financial services to the poor like savings accounts, insurance and money

transfers. Microcredit is a new form of lending to the poor, hailed as a social innovation of the 1970s, resulting in loans to about 200 million people (Maes and Reed 2012; Reed 2013) and impacting about a billion people (taking a family size of five). Figure 1 illustrates the evolution of microcredit: the top curve uses the secondary axis and indicates that today, 3,703 MFIs report to the Microcredit Summit Conference, indicating that they have reached 195 million clients out of which 124 million are very poor. Microcredit is staged today as a global movement and part of a globalization process, and is considered as an excellent indicator of economic, social, and cultural opportunities, 'an important lever for change, contributing to local development ...' (Gentil and Servet, 2002). The number of customers has more than doubled from 2003 to 2011 (Table 2). (Table 3) provides the failure of commercial banking to provide financial services to the poor coupled with disadvantages of using informal markets are major rationales for intervention in the market for financial services at the micro level. Consequently, microfinance emerged as an economic development approach intended to address the financial needs of the deprived groups in the society. The term microfinance refers to "the provision of financial services to low-income clients, including self-employed, low-income entrepreneurs in both urban and rural areas" (Ledgerwood, 1999). The emergence of this new paradigm was encouraged by the successful story of microfinance innovations serving the poor throughout 1970s and 1980s. The most quoted examples are Grameen Bank Bangladesh, the unit desa system of Bank Rakyat Indonesia, ACCION International in United States and Latin America and PRODEM, BancoSol's predecessor in Bolivia. The microfinance adopts market-oriented and enterprise development approach.

It emphasises institutional and programme innovations to reduce costs and risks and has greater potential to expand the financial frontier to the poor in sustainable manner (Littlefield et al., 2003). Microfinance requires innovative approaches beyond the traditional financial intermediary role. Among others, building human capacity through social intermediation and designing group-based lending programmes are proven to be among the effective tools to reduce transaction costs and lower exposure to numerous financial risks in relation to providing credit to the rural poor. Group-based approach also fosters a better flow of information between lenders and borrowers and hence less adverse selection and moral hazard in the credit market. The evolution of microfinance in the 1970s is to break the barricade to access capitals by low income individuals for developmental purposes. Microfinance is the provision of financial services to low-income, poor and very poor self-employed people (Otero, 2000). To say that microfinance empowers the entrepreneurial spirits that exist among small-scale entrepreneurs worldwide is not an exaggeration. Microfinance has the ability to strengthen micro enterprises and encourage best practices among operators of small and medium scale enterprise. Microfinance has been in practice for ages (though informally).

Legal framework for establishing the co-operative movement set up in 1904. Reserve Bank of India Act, 1934 provided for the establishment of the Agricultural Credit Department. Nationalisation of banks in 1969, Regional Rural Banks created in 1975. NABARD established as an apex agency for

rural finance in 1982. Passing of Mutually Aided Co-op. Act in AP in 1995. Microfinance in Ireland the author dean Jonathan swift initiated entities called “loan fund” these fund accommodated microcredits to entrepreneurs starting 1720. about one hundred years later, the government established a statutory basis resulting in a boom of “loan funds” a second example is the German “sparkassen” and cooperative banking system. The first “sparkasse” was established 1778 in Hamburg. In addition to saving deposits, services included loans for business and farmers. In 1864, Friedrich Wilhelm Raiffeisen and Hermann Schulze-Delitzsch founded cooperatives focusing on saving and lending deposits for small businesses and farmers. All three mentioned German banking institutions are major retail banks today: “sparkassen”, “raiffeisen” and “volksbanken”. The roots of today’s microfinance in emerging markets lie in the mid 1970s Mohammed Yunus started in 1976 during a famine period to lend money to people of his community. Seven years later, Grameen Bank was founded and Bangladesh became a textbook example for microfinance. During the same period, ACCION in Brazil and Bank Rakyat in Indonesia developed similar microcredit business models. Failed subsidy programmes are one of the major reasons for the popularity of these and other microfinance institutions in emerging markets. Local government set up rural development programmes financed by development finance institutions such as the World Bank, its private sector affiliate, the International Finance Corporation or the German Kreditanstalt für Wiederaufbau (KfW). However several factors led to a failure of these subsidized development aid programmes firstly local banks were not able to work profitably with the regulated interest rates, because operating costs were too high in many regions secondly, many debtors considered the loans as gifts from the government and hence did neither pay interest nor the credit amount at maturity. Thirdly, the rationing of credit programmes fostered corruption in bank lending. Hence, locally originated microfinance proved to be the better solution. It has become one of the rare financial and sustainable success stories of today’s emerging and developing markets financial system.



From the earliest of time in Traditional societies Informal savings and credit groups have operated for centuries across the developing world
 In the middle Ages... **1462:**
 An Italian monk created the first official Pawn shop to counter usury practices.



1515: Pope Leon X authorized pawn shops to charge interest to cover their operating costs.
 In the eighteenth century...
 Irish Loan Fund System initiated
 Provides small loans to poor farmers who have no collateral.
 Covers, at its peak, 20 percent of all Irish households annually.

In the nineteenth century

In Germany, emergence of larger and more formal savings and credit institutions that focused primarily on the rural and urban poor.

From **1865**, the cooperative movement expands rapidly within Germany and other countries in Europe, North America, and eventually developing countries.

In **1895** Indonesian People’s Credit Banks (BPRs) became the largest microfinance system in Indonesia, with close to 9,000 branches.

In the early twentieth century...

Rural finance adaptations in Latin America aimed to: modernize the agricultural sector mobilize “idle” savings increase investment through credit reduce oppressive feudal relations that were enforced through indebtedness
 In most cases, these new in the early twentieth century banks for the poor were owned by government agencies
 Over the years, these institutions became inefficient and, at times, corrupt.

1950–1970: Efforts to expand access to agricultural credit

Governments used state owned development finance institutions to channel concessional Loans for agricultural credit

These interventions were rarely successful: Institutions went bankrupt Subsidized lending rates did not cover their costs, including the cost of massive default Customers had poor repayment discipline, saw their loans as gifts from the government.

1970s: Microcredit is born!

Experimental programs extend tiny loans to groups of poor women to invest in micro-businesses. Early pioneers include: Grameen Bank in Bangladesh (winner of Nobel Peace Prize) ACCION International in Latin America

Self-Employed Women’s Association (SEWA), India

1980s: Microcredit Programs continue to improve Microcredit programs improved on original methodologies and proved that: Poor people, especially women, paid their loans more reliably than better-off people with loans from commercial

banks Poor people are willing and able to pay interest rates that allow MFIs to cover their costs. Cost recovery interest rates and high repayment permit MFIs to achieve long term sustainability and reach large numbers of clients.

Early 1990s: “Microcredit” begins to be replaced by microfinance....MFIs and their networks pursue strategy of commercialization. MFIs transform into for profit companies that could attract more capital Emphasis growing strong institutions is a core element of this recent history.

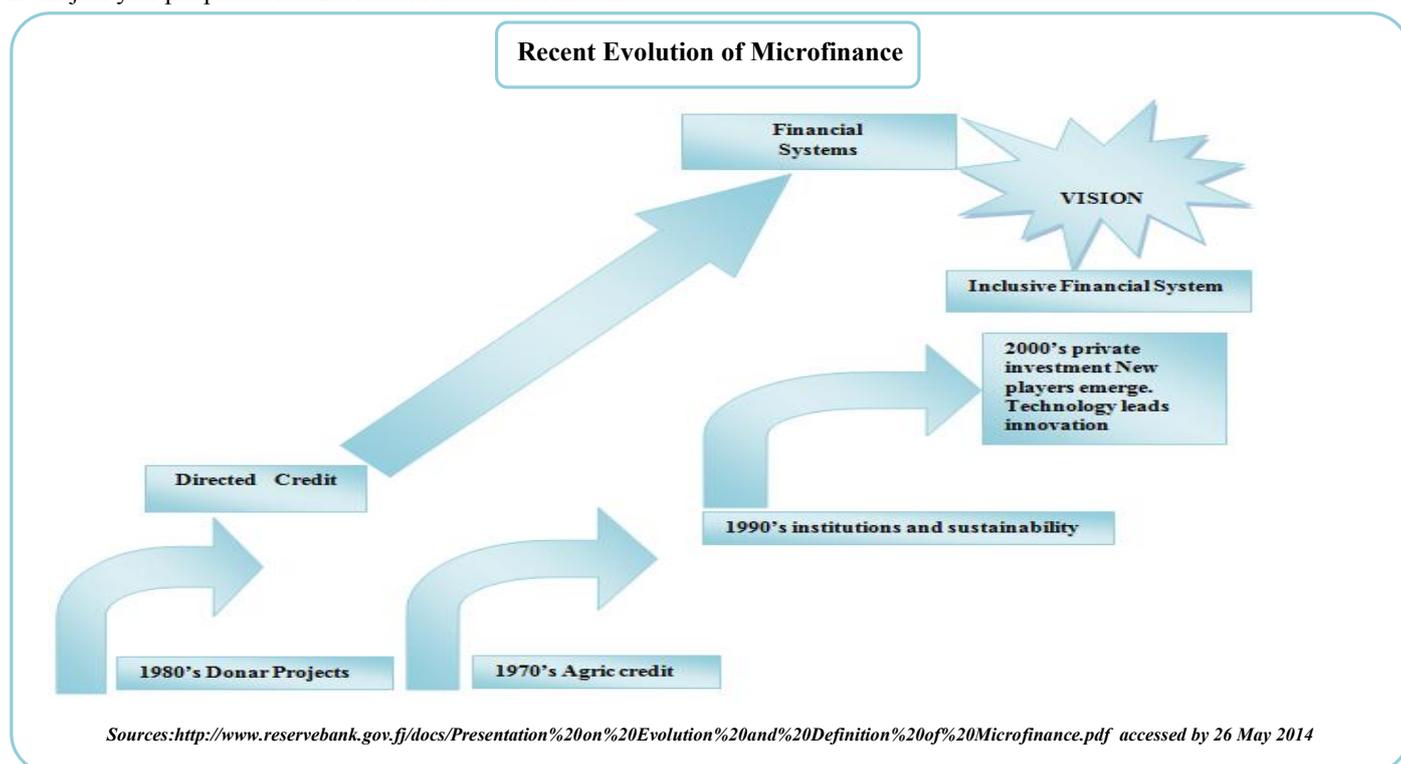
Sources: <http://www.reservebank.gov.fj/docs/Presentation%20on%20Evolution%20and%20Definition%20of%20Microfinance.pdf> accessed by 26 May 2014.

The Beginnings of Microfinance: Modern microfinance arose as a response to the fact that banks were not extending credit to the poor and particularly the rural poor of developing countries, and as a result people were forced to endure the usurious practices of moneylenders. Though several microfinance programs came into being in different parts of the world at around the same time, the most celebrated of these The Grameen Bank traces its origin to 1974-1975, when a famine raged in the countryside of Bangladesh. At the time, Dr. Muhammad Yunus, the founder of Grameen Bank and co-recipient of the 2006 Nobel Peace Prize, was an economics professor at Chittagong University in rural Bangladesh. As Yunus writes in his book *Creating a World Without Poverty*, he “found it increasingly difficult to teach elegant theories of economics and the supposedly perfect workings of the free market in the university classroom while needless death was ravaging Yunus decided to go into the villages to find out why the poor were not able to bring themselves out of poverty. What he saw were “people working hard to try to help themselves growing crops in their tiny yards, making baskets, stools and other craft items to sell, and offering their services for practically any kind of labor.”¹⁹ Yet despite their efforts, the majority of people were unable to increase their income.

Yunus great insight came to him thanks to a village woman, who showed him that the main problem lay in the fact that she “relied on the local moneylender for the cash she needed to buy the bamboo for her stools [that she sold in the market]. But the moneylender would give her the money only if she agreed to sell him all she produces at a price he would decide. Between this unfair arrangement and the high interest on her loan, she was left with only two pennies a day as her income.”²⁰ Armed with this knowledge, Yunus and a student began identifying all the people in the village who were receiving loans from the moneylender, and found that dozens of villagers 42, in total were borrowing an average of a measly \$1.55 USD per person per week. He realized that if they could borrow the money at a reasonable interest rate, they would be able to pay back the loan and increase their income. To test the idea, he lent \$26 USD to those 42 villagers, and after a successful pilot, began looking for ways of dramatically expanding the practice of microlending.

Evolution of Microcredit to Microfinance 1990s

Microcredit began with the narrow focus of providing small business loans Focus expanded to include not only the issuance of small business loans, but accepting savings deposits facilitating money transfers issuing insurance providing small consumer loans for such things as housing, education, household capital goods and other consumption activities. Microfinance has existed for centuries in Africa and around the world. Everyone, no matter how poor, needs and uses financial services all the time. Many people use moneylenders that usually charge high interest rates on loans.



There are many global examples of the history of microfinance, ranging from informal, small-scale, rotating savings-and-loans clubs in England, Ireland, and Germany during the eighteenth century to savings and credit cooperatives in Indonesia in the nineteenth century. In **Nigeria**, microfinance goes back to the fifteenth century and was carried from there to the Caribbean by slaves. The original Yoruba term, *Susu*, for the practice is still in use today. In Africa, mainstreaming, formalization, and recognition of microfinance as part of the formal financial sector began to gain momentum in the late 1990s. The beginnings of the microfinance movement are most closely associated with the economist Muhammed Yunus, who in the early 1970's was a professor in Bangladesh. In the midst of a country-wide famine, he began making small loans to poor families in neighboring villages in an effort to break their cycle of poverty. The experiment was a surprising success, with Yunus receiving timely repayment and observing significant changes in the quality of life for his loan recipients. Unable to self-finance an expansion of his project, he sought governmental assistance, and the Grameen Bank was born. In order to focus

years alone. Alongside the explosion of the microfinance industry in absolute terms, there has been a steady growth in private financing for MFIs. The bulk of microfinance funding is still provided by development-oriented international financial institutions and NGO's. Yet estimates place demand for unmet financial services at roughly 1.8 billion individuals. Even at its current growth rates, it is clear that microfinance will only be extended to meet this enormous demand by leveraging private capital, flows of which dwarf all other potential sources. Commercial financing has grown most rapidly in Latin America, where regulated financial institutions now serve 54% of the continent's microfinance clients and, importantly, are now responsible for 74% of the region's loans. Overall, 2005 saw private lending to MFIs jump from \$513 million to \$981 million. This jump in investment is a reflection of an increasing number of sustainable MFIs worldwide. In addition to earning a profit, sustainable microfinance providers are in a better position than their subsidized peers to expand their operations and share of the market. Thus in a study by the Consultative Group to

Expansion Years of Microfinance

Association	This is where the target community forms an "association" through which various microfinance (and other) activities are initiated. Associations or groups can be composed of youth, or women; they can form around political/religious/cultural issues; can create support structures or microenterprises and other work based issues.
Bank Guarantees	As the name suggest, a bank guarantee is used to obtain a loan from a commercial bank. This guarantee maybe arranged externally (through a donor/donation, government agency etc.) or internally (using member savings) loans obtained may be given directly to an individual, or they may be given to a self –informed group. Several international and UN Organizations have been creating international guarantee funds that banks and non-government organization (NGOs)can subscribe to, to on lend or start microcredit programmes.
Community banking	The community banking model essentially treats the whole community as one unit, and establishes semi formal or informal institutions through which microfinance is dispensed. Such institutions are usually formed by extensive help from NGOs and other organization, who also train the community members in various financial activities of the community bank.
Cooperatives	A co-operative is an autonomous association of person united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly –owned and democratically- controlled enterprise.
Credit Unions	A credit union is a unique member –driven .self help financial institution. It is organized by and comprised of members of a particular group or organization, who agree to save their money together and to make loans to each other at reasonable rates of interest. A credit union is a democratic, not-for profit financial cooperative.
Intermediaries	Intermediary model of credit lending position is a 'go between' organization between the lenders and borrowers. The intermediary plays critical role of generating credit awareness and education among the borrowers.
Non-governmental organizations (NGO)	NGOs have emerged as a key player in the field microcredit. They have played the role of intermediary in various dimension including; creating awareness within a community, developing resources and tools for communities and microcredit organization and opportunities to learn about the principle and practice of
Village banking	Village banks are community-based credit and savings association. They typically consist of 25 to 50 low income individuals who are seeking to improve their lives through self employment activities.

Source: Figure. Models of microlending, Grameen Bank. (n.d.). Credit lending models. Retrieved from http://www.grameen-info.org/index.php?option=com_content&task=view&id=43&Itemid=93 accessed by 26 May 2014

on the very poor, the Bank only lent to households owning less than a half-acre of land. Repayment rates remained high, and the Bank began to spread its operations to other regions of the country. In less than a decade, the Bank was operating independently from its governmental founders and was advertising consistent repayment rates of about 98%. In 2006 Yunus was awarded the Nobel Peace Prize. The success of the Grameen Bank did not go unnoticed. Institutions replicating its model sprang up in virtually every region of the globe. Between 1997 and 2002, the total number of MFIs grew from 618 to 2,572. Altogether, these institutions claimed about 65 million clients, up from 13.5 million in 1997 and still growing at 35% a year. The amount of money flowing to clients also continues to climb rapidly and the Grameen Bank has extended over \$750 million worth of credit in the past two

Assist the Poor (CGAP) in which operationally-sustainable MFIs represented only 46% of the sample, they accounted for 77% of borrowers served. The push towards sustainable institutions and the resulting growth of commercial financing raise some important questions about the true mission of MFIs and how best to expand their reach. These issues are further developed in the materials below.

Microfinance in India

An overview: The field of microfinance is much researchable. There is a lot of literature on microfinance is available but there is hardly any universally accepted definition of microfinance. Researchers and microfinance visionaries have not a single opinion when it comes to microfinance. According to Sriram and Upadhyayula "It appears that what microfinance

means is well understood, but of clearly articulated". However microfinance is term that refers to the provision of a payment services such as deposits, loans payment services, money transfers and insurance to the poor and low income households and their microenterprises. The need of microfinance comes from the disadvantaged sections of the society-who are unable to access to services of formal sector financial intermediaries – and are typically excluded from the formal banking system for lack of survival, collateral, in short the poor and the very poor. The definitions of these groups vary from country to country. The clients of the microfinance institutes are normally employed in the informal sector, with closely interlinked household and business activities and earning low income. In much narrower sense though, microfinance is often referred to as microcredit for tiny informal business of micro entrepreneurs. Terms micro – loans and micro – crediting did not exist until the '70s of the last century, when Muhammad Yunus, and his Grameen Bank, commenced with his activities in the village Jobra in Bangladesh. He was providing loans to poor women, living in rural areas, for starting a small business aimed at the improvement of their living conditions in their households. Amounts of these loans were minimal, being used for the purchase of small livestock and tools. Women – loan beneficiaries, would form solidarity groups for the purpose of guaranteeing for each other. None of the known collateral forms were used other than their oral promises. Thanks to the Bangladesh's success, Brazil, Peru and many other underdeveloped countries of the world have started with the application of similar programmes. The basic principle of the Grameen Bank was that the clients should not go to the bank, but rather the bank should come to them.

Therefore, officers of micro credit organization worldwide are operating on the field, working from door to door, providing for unfettered access to loans to the people from the remotest areas. In October 2006, Muhammad Yunus won the Nobel Peace Prize for his efforts made in addressing the economic and social development issues, not only in Bangladesh, but all over the world. In the rationale, the Nobel Prize Committee emphasized that the ultimate peace in the world may not be achieved until the majority of the world's population does not find a way out from poverty, and micro - credits represent the right way. Nowadays, micro financing services are provided by more than eight thousand institutions only in the Europe and Central Asia Region, being one of the smallest regions of the world. The total portfolio is exceeding US\$ 16 billion, with more than 9 million clients. New data on the number of institutions and clients in the world haven't been released, but it is estimated that the number of clients is exceeding 100 million. Microcredit and microfinance are relatively new terms in the field of development, first coming to prominence in the 1970s, according to Robinson (2001) and Otero (1999).

Prior to then, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programmes. These often resulted in high loan defaults, high loses and an inability to reach poor rural households (Robinson, 2001). Robinson states that the 1980s represented a turning point in the history of microfinance in that MFIs such as Grameen Bank and BRI 2 began to show that they could provide small loans and savings services profitably on a large scale. They received no continuing subsidies, were commercially funded

and fully sustainable, and could attain wide outreach to clients (Robinson, 2001). It was also at this time that the term "microcredit" came to prominence in development (MIX 3, 2005). The difference between microcredit and the subsidised rural credit programmes of the 1950s and 1960s was that microcredit insisted on repayment, on charging interest rates that covered the cost of credit delivery and by focusing on clients who were dependent on the informal sector for credit (ibid.). It was now clear for the first time that microcredit could provide large-scale outreach profitably. The 1990s "saw accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale" (Robinson, 2001, p.54). Dichter (1999, p.12) refers to the 1990s as "the microfinance decade". Microfinance had now turned into an industry according to Robinson (2001). Along with the growth in microcredit institutions, attention changed from just the provision of credit to the poor (microcredit), to the provision of other financial services such as savings and pensions (microfinance) when it became clear that the poor had a demand for these other services (MIX, 2005).

Growth of Microfinance

The term microfinance came into existence in 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of microfinancing. Even Microfinance in India can map out its origins back to the early 1970s when the Self Employed Women's Association ("SEWA") of the state of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the objective of providing banking services to poor women employed in the unorganized sector in Ahmadabad City, Gujarat. The microfinance sector went on to evolve in the 1980s around the concept of SHGs, informal bodies that would provide their clients with much-needed savings and credit services. Due to large size and population of around 1000 million, India's GDP ranks among the top 20 economies of the world. However, around 400 million people or about 60 million households, are living under the poverty line. It is further predictable that of these households, only about 20 percent have access to credit from the formal sector. As well, the segment of the rural population has no good access to the recognized financial intermediary services, including savings services. Credit on rational terms to the poor can bring about a significant fall in poverty. Hence micro credit assumes significance in the Indian context.

With about 60 million households below or just above the strictly defined poverty line and with more than 80 percent unable to access credit at reasonable rates, it is obvious that there are certain issues and problems, which have banned the reach of micro finance to the needy. With globalization and liberalization of the economy, opportunities for the unskilled and the illiterate people are not increasing fast enough, as compared to the rest of the economy. In this context, the institutions involved in micro finance have a significant role in reducing inequality and contribution in rural development for overall growth. Microfinance, now clearly a worldwide movement, is embraced by governments, corporation, banks, development agencies, business communities, civil societies. Although the exact scale of the microfinance industry is imperfect because of incomplete data and self-reporting,

several data sources shed some light on the industry. The growth of microfinance is visible in many aspects. There are more than 2000 NGOs involved in the NABARD SHG-Bank linkage program. Out of these, approximately 800 NGOs are involved in some form of financial intermediation. Further, there are 350 new generation co-operatives providing thrift and credit services. According to our estimate, the present total outstanding, including Sa-Dhan members and bank linkages is approximately Rs.700 crores (Rs. 150 crores of Sa-Dhan members and another Rs. 550 crores from the Banking system). The total client base is estimated at 6-8 million as opposed to the Government of India (GOI) intention to reach 25 million clients. The growth of community institutions has taken place with the role to take social and financial intermediation. A numbers of community banks have come into existence at village and block levels call ' Federation of Self Help Groups'. The inadequacies of the formal financial system to cater to the needs of the poor and the realization of the fact that the key to success lies in the evolution and participation of community based organizations at the grassroots level led to the emergence of new generation of MFIs. One kind of MFI is an NGO engaged in promoting Self Help Groups (SHGs) and their federations at a cluster level and linking SHGs with Banks under the Scheme. Examples are Myrada in Karnataka, which has promoted Sanghmitra, a company of its village saving and credit sanghas, PRADAN which has established a large number of SHGs and federated them under Damodar in Bihar, Sakhi Samiti in Rajasthan.

Another kind is NGO-MFI directly lending to the poor borrowers, who are either organized into SHGs or into Grameen Bank type of groups after borrowing bulk funds from SIDBI, RMK and FWFB. Examples in this category are Rashtriya Gramin Vikas Nidhi (RGVN) which runs credit and savings programme in Assam and Orissa on the lines of Grameen Bank, Bangladesh. Also we have SHARE in AP, ASA in Tamil Nadu under this category. There are MFIs which are specifically organized as cooperatives, such as over 500 Mutually Aided Cooperative Thrift and Credit Societies (MACTS) in AP, promoted among others by Cooperative Development Foundation (CDF) and the SEWA Bank in Gujarat which also runs federations of SHGs in nine districts. Then we have MFIs, which are organized as Non-Banking Finance Companies (NBFC) such as BASIX, CFTS Mirzapur, SHARE Microfin. Ltd. and Sarvodaya Nanofinance Ltd.

Growth of Microfinance in India

Indian 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 underprivileged 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 aim was 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 programs (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 microenterprises in rural areas. SGSY is a credit-cum- subsidy programme. It lays emphasis on activity clusters. This programme has got tremendous response from the beneficiaries. The number of SHGs under this program is about 2.25 million 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).The microfinance initiative in the private sector in India can be traced back to initiative undertaken by Shri Mahila SEWA (Self Employed Women's Association) Sahakari Bank in 1974 for 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 who contributed a share of Rs10 each with a specific objective of providing credit to these women so as to empower them and free them from vicious circle of debt. Currently SEWA Bank has over 318,594 account holders with total working capital of Rs 1291.89 million (Mar'09).

India has advocated for financial inclusion of majority of population for economic development of our country. Access to affordable financial services specially credit and insurance enlarges livelihood opportunities of poor. Apart from social and political empowerment, financial inclusion imparts formal identity and provides access to the payment system and to saving safety net like deposit insurance. Hence financial inclusion is considered to be critical for achieving inclusive growth (U Thorat, 2007). The RBI Governor, Y.V.Reddy (2007) gave a simple definition of financial inclusion as "Ensuring bank account to all families that want it". He said it would be the first step towards reaching the goal of bank credit as a human right as advocated by Nobel laureate Professor Mohammed Yunus. Now the microfinance service providers include apex institutions like National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and Rashtriya MahilaKosh (RMK). At the lower level we have commercial Banks, Regional Rural Banks and cooperatives to provide microfinance services. The private institutions that undertake microfinance services as their main activity are generally referred to as Micro Finance Institutions (MFIs) in Indian context. There are also some NGOs which lend credit to SELF HELP GROUP (SHGs). The NGOs that support the SHGs include MYRADA in Bangalore, Self Help Women's Association (SEWA) in Ahmadabad, PRADAN in Tamilnadu

Growth of Microfinance in India

	Number(Million)		Amount(Rs.Million)	
	2008-09	2011-12	2008-09	2011-12
1.Self help groups loans disbursed by banks	1.61	1.37	122,540	152,314
Savings with banks	6.12	7.57	55,460	75120
2.Microfinance Institutions:				
Loan disbursed by banks	581	5.64	373,200	780,430
Loans outstanding with banks	1915	2069	50,090	111,685

Source: Compiled from Trends and Progress of Banking in India 2011-2012

MYRADA (Mysore Rehabilitation and Development Agency) of Karnataka was another NGO to start in 1968 to foster a process of ongoing change in favour of the rural poor. While the objective is to help the poor help themselves, MYRADA achieves this by forming Self Help Affinity Groups (SHGs) and through partnership with NGOs and other organization in 1984-85. At present it is managing 18 projects in 20 backward districts of Karnataka, Tamil Nadu and Andhra Pradesh. These initial initiatives had a much localized operation and were limited to their members only. Hence it failed to take the shape of a mass movement. In India, initially many NGO microfinance institutions (MFIs) were funded by donor support in the form of revolving funds and operating grants. But it is only after intervention of National Bank for Agriculture and Rural Development (NABARD) in 1992 in the field of microcredit, the movement of microfinance got a boost in India.

In India around 70% of landless and marginal farmers did not have a bank account and 87% of poor had no access to credit from a formal source (NCAER Rural Financial Access Survey 2003). The share of formal financial sector in total rural credit was 56.6% compared to informal finance at 39.6% and unspecified source at 3.8% (RBI Report 1992). There is a huge potential of microcredit in rural India. The Reserve Bank of

and Bihar, ADITHI in Patna, SPARC in Mumbai. The NGOs that are directly providing credit to the borrowers include SHARE in Hyderabad, ASA in Trichy, RDO LOYALAM Bank in Manipur (Tiwari, 2004).

Evolution of MFIs Industry

Microfinance has built a solid track record as a critical tool in the fight against poverty and has entered the financial mainstream. The rapid growth of the industry over the past 15 years has reached approximately 130 million clients according to recent estimates. Yet microfinance still reaches less than 20 percent of its potential market among the world's three billion or more poor. Nearly three billion people in developing countries have little or no access to formal financial services. Financial services for poor people are a powerful instrument for reducing poverty, enabling them to build assets, increase incomes, and reduce their vulnerability to economic stress. Formal financial services such as savings, loans, and money transfers enable poor families to invest in enterprises, better nutrition, improved living conditions, and the health and education of their children. Microfinance has also been a powerful catalyst for empowering women. The evolution of the industry has been driven by many factors which include the transformation of microfinance providers, the sizable supply gap for basic financial services, the expansion of

funding sources supporting the industry and the use of technology. As the industry has developed, there has been a shift from specialized NGOs to an increasing number of regulated and licensed MFIs which stress that sustainability and impact go hand in hand. Furthermore, The World Bank Group is working with private microfinance institutions and stakeholders to incorporate responsible finance practices into all aspects of business operations. Since pioneering commercial microfinance in the early 1990s, IFC has continued to lead innovation in microfinance, using developments in technology, financial products, and policy to help financial institutions reach a greater number of people in a more cost-effective way. IFC's goal for microfinance is to scale up access to a range of high quality financial services for underserved populations, maximizing development impact and ensuring institutional sustainability. IFC achieves this goal by effectively combining investment and advisory services to a range of financial intermediaries. IFC is the World Bank Group's lead investor in microfinance, and is one of the leading multilateral investors in terms of outreach to microfinance institutions, working with more than 100 institutions in over 60 countries. Within the microfinance industry, the majority of MFIs are subsidized, either by governments or by NGOs.

According to the World Bank, although there are over 10,000 microfinance institutions (MFIs), serving over 150 million poor people in developing countries, they only reached 4 percent of the potential market. In the recent years there has been a tremendous growth in the number of microfinance borrowers, growing over the past five years, between 25 and 30 percent annually and it is expected a similar growth in the coming years¹⁸ Microfinance industry is segmented, ranging from very small NGOs with few clients to large institutions with millions of clients and it is a highly concentrated industry. One need only consider that the median share of the largest MFI in a country is one third of the entire market and the median share of the top ten MFIs is about 95 percent of the all industry¹⁹. The microfinance investment market is also growing in size and maturity and it is increasing the need of investors for transparency through market research, data provider and analysis of MIFs. Transparency is encouraged by the launch of open data for microfinance such as MIXMarket²⁰, which publishes data on more than 1,500 microfinance institutions (MFIs) in more than 190 countries, and helps to build the information infrastructures needed in developing countries. The MIX Market database is publicly accessible and it is a powerful reporting platform for academic researchers, private investors and microfinance institutions.

Microfinance Historical Evolution Worldwide

Traditionally, people have saved with and taken small loans from individuals and groups within the context of self-help to start businesses or farming ventures. These stages are described below: The evolution of Microfinance sector can be broadly divided into four distinct phases:

Phase 1: The cooperative movement (1900-1960)

During this phase, credit cooperatives were vehicles to extend subsidized credit to villages under government sponsorship.

Phase 2: Subsidized social banking (1960s – 1990)

With failure of cooperatives, the government focused on measures such as nationalization of Banks, expansion of rural branch networks, establishment of Regional Rural Banks (RRBs) and the setting up of apex institutions such as the National Bank for Agriculture and Rural Development

(NABARD) and the Small Scale Industries Development Bank of India (SIDBI), including initiation of a government sponsored Integrated Rural Development Programme (IRDP). While these steps led to reaching a large population, the period was characterized by large-scale misuse of credit, creating a negative perception about the credibility of micro borrowers among bankers, thus further hindering access to banking services for the low-income people.

Phase 3: SHG-Bank linkage program and growth of NGO-MFIs (1990 – 2000)

The failure of subsidized social banking triggered a paradigm shift in delivery of rural credit with NABARD initiating the Self Help Group (SHG) Bank Linkage Programme (SBLP), aiming to link informal women's groups to formal banks. The program helped increase banking system outreach to otherwise unreached people and initiate a change in the bank's outlook towards low-income families from 'beneficiaries' to 'customers'. This period was thus marked by the extension of credit at market rates. The model generated a lot of interest among newly emerging Microfinance Institutions (MFIs), largely of non-profit origin, to collaborate with NABARD under this program. The macroeconomic crisis in the early 1990s that led to introduction of the Economic Reforms of 1991 resulted in greater autonomy to the financial sector. This also led to emergence of new generation private sector banks that would become important players in the microfinance sector a decade later.

Phase 4: Commercialization of Microfinance: The first decade of the new millennium

Post reforms, rural markets emerged as the new growth drivers for MFIs and banks, the latter taking interest in the sector not only as part of their corporate social responsibility but also as a new business line.

Historical Evolution of Microfinance in India

1960 to 1980	1990	2000
Phase 1: Social banking	Phase 2: Financial Systems Approach	Phase 3: Financial Inclusion
1. Nationalization of private commercial banks 2. Expansion of rural branch network 3. Establishment of rural regional banks 4. Establishment of apex institutions such as national bank for agriculture and rural development and small industries development bank of India.	1. Peer-pressure 2. Establishment of MFIs, typically of nonprofit origins	1. NGO-MFIs and SHGs gaining more legitimacy. 2. MFIs emerging as strategic partners to diverse entities interested in the low income segments 3. Consumer finance emerged as high growth area Increased policy regulation Increasing commercialization

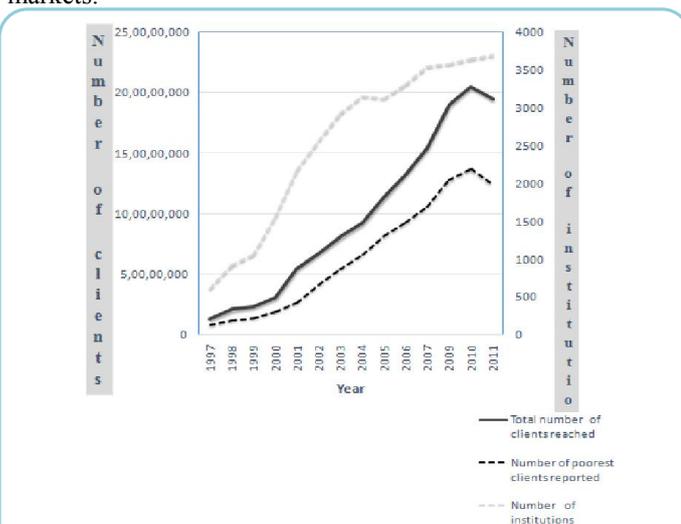
Source: Report on "Status of Microfinance sector 2010"

On the demand side, NGO-MFIs increasingly began transforming themselves into more regulated legal entities such as Non Banking Finance Companies (NBFCs) to attract commercial investment. MFIs set up after 2000 saw themselves less in the developmental mould and more as businesses in the financial services space, catering to an untapped market segment while creating value for their shareholders. This overriding shift brought about changes in institutions' legal forms, capital structures, sources of funds, growth strategies and strategic alliances.

Phase 1: In the 1960's, the credit delivery system in rural India was largely dominated by the cooperative segment. The period between 1960 and 1990, referred to as the "social banking" phase. This phase includes nationalization of private commercial banks, expansion of rural branch networks, extension of subsidized credit, establishment of regional rural banks (RRBs) and the establishment of regional rural banks and the establishment of apex institutions such as national bank for agriculture and rural development (NABARD) and small scale industries development board of India (SIDBI).

Phase 2: After 1990, India witnesses the second phase "financial system approach" of credit delivery. In this phase NABARD initiated the self help group (SHG)-bank linkage program which links informal women's groups to formal banks. This concept held great appeal for non government organization (NGOs) working with poor, prompting many of them to collaborate with NABARD in the programme.

Phase3: In 2000, the third phase in the development of Indian microfinance began, marked by further changes in policies, operating formal, and stakeholder orientations in the financial services space. This phase emphasizes on "inclusive growth and financial inclusion". This period also saw many NGO-MFI transform into regulated legal formats such as Non banking finance companies (NBFCs). commercial banks adopted innovative ways of partnering with NGO-MFI and other rural organization to extend their reach into rural markets.



Source: Evolution of microfinance. Base on data from Microcredit Summit report (Maes and Reed 2012; Reed 2013). Ashta et al. Journal of Innovation and Entrepreneurship 2014 3:4 doi:10.1186/2192-5372-3-4

Figure 1. Evolution of Microfinance

Indian microfinance sector is expected to grow nearly ten times by 2011 to a size of about Rs250 billion from the current market size of Rs27 billion, at a compounded annual growth rate of 76%. Microfinance in India started evolving in the early 1980s with the formation of informal Self Help Group (SHG) for providing access to financial services to the needy people who are deprived of credit facilities. National Bank for Agriculture and Rural Development, the regulator for microfinance sector, and Small Industries Development Bank of India are devoting their financial resources and time towards the development of microfinance. Microfinance has enormous growth potential as half the world's population earns less than US\$2 per day, which is insufficient to meet their basic needs. One of the fastest growing sectors of India, microfinance is spearheading intense competition among the largest players. By the end of March 2009, microfinance institutions expanded their outreach to 50 million households and about 38 million borrowers. These institutions are organized under three models: SHG, Grameen model/Joint liability groups and Individual banking groups as in cooperatives. As of March 2009, both SHG bank linkage and MFIs have collectively disbursed US\$3.9 billion to the poor. In India the number of borrowers increased 5-fold in just six years until 2010. In 2011, there was an estimated \$4.3 billion given out as loans to around 26.4 million borrowers in India, most of whom (nearly 90%) were concentrated in just two states: Andhra Pradesh and Tamil Nadu.

Microfinance in India, as elsewhere, originally began as part of a developmental and poverty-reduction project, led by NGOs who thought this would be an effective way of allowing the poor to lift themselves out of poverty by their own efforts. Many NGOs began the process of group lending based on self-help groups (SHGs) and the linkage with commercial banks (whereby banks were allowed to lend to groups with a proven track record of repayment) further enlarged its scope. SHGs and their federations became the intermediaries between individual clients (who were mostly women) and the commercial banking system through the SHG-Bank Linkage Programme (SBLP). The basic methodology being used in commercial microfinance in India was broadly along the lines innovated by Grameen Bank and later adapted by several players. These involved three steps: (i) identifying potential customers, typically on the basis of some measure of poverty, which also ensured significant homogeneity among customers; (ii) organising them into groups (SHGs) that effectively dealt with the problems of information asymmetry described earlier; and (iii) offering standardised products based on standardised operating systems, with strict enforcement of discipline.

The focus on women borrowers has been a major feature of microcredit provision in India as in Bangladesh and is frequently cited as one of the ongoing public strategies for women's economic empowerment. Figures 4, 5 and 6 are based on data provided by the Microfinance Information Exchange (www.themix.org) on MFIs in India. A sample of 26 reasonably large MFIs for which data are available from 2005 to 2011 have been taken. These include some of the more prominent NGO providers (such as Self Employed Women's Association SEWA Bank and Shri Kshetra Dharmasthala Rural development Project SKDRDP) as well as some not-for-profit companies, some of which 'transformed' into for-profit companies (such as Share Microfin Ltd, Spandana, BASIX and SKS Microfinance Ltd). The figures

Figure 2. Number of People Served by Microcredit

Number of people Served by Microcredit

	Minimum number of MFIs reporting	Customers served (millions)	Number of poorest in first loan(millions)	Number of women among the poorest(millions)	Percentage of women among the poorest
31 December 2003	2,931	81	55	45	82.5
31 December 2009	3,589	190	128	105	81.7
31 December 2010	3,652	205	138	113	81.9
31 December 2011	3,703	195	124		

Source: State of the Microcredit Summit Campaign Report 2004, 2011, and 2012 (Daley-Harris 20042011; Maes and Reed 2012; Reed 2013). Astha et al.

Astha et al. Journal of Innovation and Entrepreneurship 2014 3:4 doi:10.1186/2192-5372-3-4

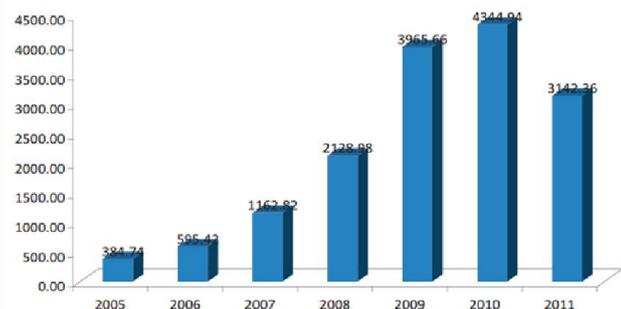
Figure 3. Number of Active Borrowers of Microcredit

Number of Active Borrowers of Microcredit

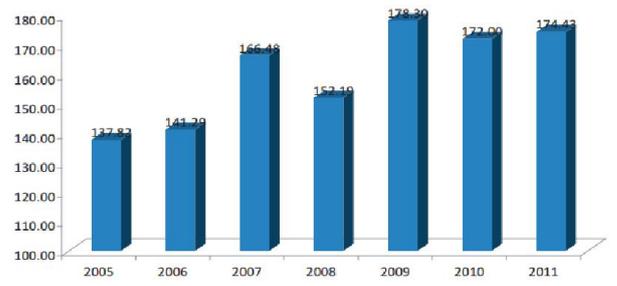
Regions	Number of Microcredit Institutions	Actives Borrowers(millions)
Sub-Saharan Africa	1,009	12.7
Asia and the Pacific	1,746	169.1
Latin America and the Caribbean	647	13.8
Middle East and North Africa	91	4.3
Eastern Europe and Central Asia	73	5.2
North America and Western Europe	86	0.2

Source: State of the Microcredit Summit Report 2012 (Maes and Reed 2012) Astha et al

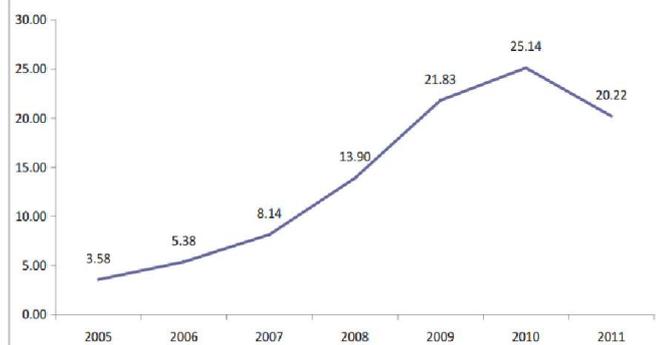
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Gross loans of 26 large MFIs in India (\$ mn)

(Source: The Hindu Business Line, 18th September 2012)
Fig. 4. Gross loans of 26 large MFIs in India (\$ million)

Gross loan per active borrower of 26 large MFIs in India (\$)

(Source: The Hindu Business Line, 18th September 2012)
Fig. 6. Gross loan per active borrower of 26 large MFIs in India (\$)

Active borrowers of 26 large MFIs in India (mn)

(Source: The Hindu Business Line, 18th September 2012)
Fig. 5. Active borrowers of 26 large MFIs in India (million)

Table 7. Microfinance penetration by country (and region) in 2008

Global Ranking	Country	Borrowers accounts/population
1	Bangladesh	25%
	(Andhra Pradesh State, India)	17%
2	Bosnia and Herzegovina	15%
3	Mongolia	15%
4	Cambodia	13%
5	Nicaragua	11%
6	Srilanka	10%
7	Montenegro	10%
8	Vietnam	10%
9	Peru	10%
10	Armenia	9%
11	Bolivia	9%
12	Thailand	8%
13	India	7%
14	Paraguay	6%
15	El Salvador	6%
16	Burkina Faso	5%
17	Kyrgyzstan	5%
18	Ecuador	5%
19	Guatemala	5%
20	Mexico	5%
21	Colombia	5%
22	Morocco	4%

Sources: Gonzalez, 2010. Rozas and Sinha, 2010

show clearly how the main indicators of MFI performance peaked in 2010 and thereafter have been declining. The gross loan per active borrower is the only indicator that shows some increase but this is probably illusory, since many loans that should be written off because of low possibility of being repaid.

Conclusions

Indian Microfinance today is a dynamic space with multitude of players offering various products and services to low income clients with different approaches. Banking system along with other legal forms such as NBFCs, Section 25 companies, cooperatives and NGO-MFIs all are approaching rural markets. Many new forms of relationships are emerging among these entities to leverage on each others strength. However, despite such new developments the penetration of microfinance remains low and spread highly skewed in Southern India. Indeed there are ample gaps to be filled and this would lead to further changes in Microfinance space in future. Microfinance a powerful tool to address challenge of poverty eradication, raise caution regarding overwhelming push for mfis to become financially self sustainable, mission drift / questionable practices, call for greater transparency and (public) awareness. Indeed, microfinance in India is a multifaceted and dynamic industry. The country's unique economic circumstances in the mid-1980s created a situation that was ripe for a commercialized microfinance industry.

With the help and support from international organizations, local businessmen and the government, the microfinance sector in India has evolved into a highly profitable and commercialized industry. As the sector began to flourish, a few microfinance institutions proved to lead the way with regard to innovation and profitability. The path these institutions paved eased the road for other institutions that followed. Their strong institutional structure and tailored lending technologies created a wave of emulation that resulted in a highly competitive commercial industry. Consequently, competition provoked more efficient operations which lent to lower costs and more options for clients; in addition, outreach expanded and profits increased. Therefore, commercialization has produced effective and successful financial institutions that positively contribute to the banking system in India. competitive forces have helped to integrate the low-income population into a more formal financial sector. Thus, while the microfinance industry in India promotes development of the country's financial system, the informal sector is both included and empowered. 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. 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. 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. New opportunities and new challenges are being felt in the field of microfinance. In recent years microfinance is in news for bad reasons.

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Microfinance evolutionary growth has given a great opportunity to the rural poor to attain reasonable economic, social and cultural empowerment, leading to better living standard and quality of life for participating households. Microfinance has been a panacea for poverty reduction in India and thus it is profoundly promoted by our financial system throughout the economy. Financial constraints need to be removed by make favourable Microfinance policy which can lead to entrepreneurial development in India. For example, improve the environmental conditions for the microfinance to operate including microfinance market, and microfinance infrastructures. The potential for growing micro finance in India is very high. Microfinance institutions need to educate villagers on the ease of procedures for availing loans. Access to microfinance improved their living standards. From the

study, Poor people respondents reported an improvement in their quality of food, clothing, education, housing, health services and access to quality life. From the above findings it is evident that clear micro finance has had a positive impact on its client's living standard hence economically active. MFIs overall continue their efforts to become more efficient and productive. Growth and expansion the essence of microfinance as a programme for reaching the poor and excluded has lost its focus. It is necessary to shift the focus from quantity of microfinance to the qualitative usages of microfinance and it is crucial to supervise the utilization of the microfinance.

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