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# Status of Microfinance in India - A Review

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**ABSTRACT**

One of the greatest challenges before the Indian sub- continent which accommodates more than one-third of the population is poverty. India, one of the BRIC nations with more than 1.2 billion population is seen by many developed countries as an emerging economy. India's economic growth has failed to make a significant improvement in its poverty figures with 400 million-more than the total in the poorest African Nations- still stuck in poverty. Government of India with its concern started various poverty alleviation programs but they have failed to deliver the objectives to the level which is desired. The reasons may be many such as failure to reach the target group, loopholes in the system, developing a robust mechanism to name a few. Many countries including India experimented with subsidized credit which only led to increase in the NPAs. The microfinance has come forward to fill up the gap. But the outreach is too small as compared to the requirement and potential. However there is some progress in this regard after active role played by NABARD and formation of SHGs groups. A number of NGOs and MFIs have also delved into the business. Some of them have also started in a big way and have started making profit by issuing IPOs (Initial public offers). But certain development in recent years has brought a fresh focus on the problem of regulation in field of microfinance. The paper delineates three distinct aspects of microfinance, first growth of microfinance in India and some other countries; secondly it discusses the role played by NABARD and other National Banks in growth of SHGs and Grameen Bank. Third, it deals with the role of government in framing legislation for protection of right of micro borrowers. The study also deals with the need for a regulatory body to regulate, develop and guide the numerous MFIs and NGOs who work in the field of microcredit. The paper discusses the factors and theoretical position associated with evolution of microfinance and its role in global scenario.

**Keywords: Grammen Banks, India, Microfinance, NABARD, SHGs.**

## I. INTRODUCTION

The poverty has been described as a situation of "pronounced deprivation in well-being" and being poor as "to be hungry, to lack shelter and clothing, to be illiterate and not schooled" (World Bank, 2000-2001). Mehta and Shah(2001-02)defines poverty as „the sum total of a multiplicity of factors that include not just income and calorie intake but also access to land and credit, nutrition, health and longevity, literacy and education and safe drinking water, sanitation and other infrastructural facilities. Poor people are particularly vulnerable to adverse events beyond their control. It is also seen that poor doesn't have much voice in the institutions of the state and society. World Bank defines poverty as survival of an individual on less than $1.25 per day. The poverty line in India measures only the most basic calories intake. It records not nutrition but the satiation of hunger. At present the poverty line stands at Rs 28/- and Rs 32/- per person per day for rural and urban areas respectively. The official line of government of India delivers a poverty rate of around 32% of the population as opposed to 42% according to World Bank. India still accounts for one-third of the world's 1.4 billion poor people. It is evident from this statistics that, it is all about the line one is drawing, one can slacken it to exclude people or tighten the line to include people.

According to same world Bank report,(2008) 43% of Indian children are malnourished, over 35% of Indians are illiterates and more than 20 million children are out of school. The extremely poor people in India are largely involved in subsistence type of activities. Their earnings are so meager that their expenditure and survival- need exceeds income. Anyhow, they manage their daily requirement with their meager earnings. But at the time of exigency, they are forced to borrow from local money lenders. This often results in borrowing small amount of money at exorbitant rate of interest of as much as 120% per annum to meet urgent needs like treatment of ill and sick family members or repayment of previous loans etc. Thus the need for an institutional mechanism is felt. Some individuals tried to address the problem in an organized way in the form of micro-credit. In fact the concept of micro-credit is not new. Credit has been available to poor for centuries in one form or other. But they are not organized and institutionalized. Money lenders and chettiars (local money lenders of China) have existed for a long time in Chinese and Indian communities to provide credit at high interest rate. Money lenders were providing credit mortgaging land records and other valuable assets like gold and silver ornaments and other domestic asset base like domestic animals. In case of non-recovery of loans, these mortgage items were being impounded throwing the borrowers to destitution. Poverty in rural area is a combination of factors like lack of micro credit, social stigma from failed attempt at entrepreneurship, institutional constraints on lending and inability to recover quickly from setback such as natural disasters and death of earning members. This realization has led to modern microcredit practices to address the social and political impediments to entrepreneurship as much as they try to solve the problem of credit availability, adverse selection and moral hazard (Hollis and Sweetman, 1998).

Robinson (2001) gives a very plausible definition of microfinance. According to him, "Microfinance refers to small scale financial services for both credit and deposit-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 amount of land, vehicle, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas".

**Concept of Microfinance**

In India, the history of microfinance dates back to establishment of Syndicate Bank in 1921 in private sector. During the early years, Syndicate Bank concentrated on raising micro deposits in the form of daily/weekly basis and sanctioned micro loans to its clients for shorter period of time. But microfinance came to limelight only when Dr Yunus gave it a mass movement in Grameen Bank experiment.

Microfinance can be called a novel approach to provide saving and investment facility to the poor around world. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smoothen their consumption, manage their risks better, gradually build their asset base, develop their business, enhance their income earning capacity, and enjoy an improved quality of life. In India, microfinance mainly operates through Self Help Group (SHGs), Non Government Organizations (NGOs), and Credit Agencies. It provides poor people with the means to find their own way out of poverty. It put the power squarely in their hands, giving them a larger stake in their own success than one –time donation of food, goods, or cash. The initiatives of Government for poverty alleviation could not succeed to the desired level, may be due to the fact that they do not take cognizance of power of the poor to deal with their own problems. Government tries to help them by way of subsidies and other help but these initiatives hardly reduce their poverty levels and are not a long term solution. This section of society if given with guidance, power of capital and productive assets can emerge as the successful entrepreneur. This can easily be achieved by empowering them with power of microcredit.

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

## II. GROWTH OF MICROFINANCE IN INDIA

Poverty alleviation has been one of the guiding principles of the planning process in India. Government has considerably enhanced allocation for the provision of education, health, sanitation and other facilities which promote capacity building and well being of the poor. The Indian government puts emphasis on providing financial services to the poor and under-privileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan at concessional rate to priority sector. The priority sector included agriculture and other rural activities and weaker section of society in general. The 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 program (ignoring demand side of economy) achieved little. It involved the commercial banks in giving loan of less than Rs 15000/- to socially weaker section. In a period of nearly 20 years the total investment was around Rs 250 billion to roughly 55 million families. But it was far from realizing its desired goal. The problem with IRDP was that its design incorporated a substantial element of subsidies (25-50% of each family"s project cost) and this resulted in extensive malpractice and mis-utilisation of funds. This situation led bankers to view the IRDP loan as motivated handout and they largely failed to follow up with borrowers. The net result is that estimates of repayment rates in IRDP ranged from 25-33%.The two decades of IRDP experience in the 1980s and 1990s affected the credibility of micro borrowers in the view of bankers and ultimately, hindered access of the less literate poor to banking services.

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

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

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).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 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 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).

## III. MODES OF DELIVERY OF MICROFINANCE

Micro Finance Institutions (MFIs) around the world follow a variety of different methodologies. The focus of such service is women rather than men for the reason women are more judicious and economical to men. The following are major methodologies employed by MFIs for delivery of financial services to low income families.

### Self Help Groups (SHGS)

The Self Help Groups ( SHGs) is the dominant microfinance methodology in India. In this case the members of Self Help Group pool their small savings regularly at a prefixed amount on daily or weekly basis and SHGs provide loan to members for a period fixed. SHGs are essentially formal and voluntary association of 15 to 20 people formed to attain common objectives. People from homogenous groups and common social back ground and occupation voluntarily form the group and pool their savings for the benefit of all of members of the groups. External financial assistance by MFIs or banks augments the resources available to the group operated revolving fund. Saving thus precede borrowing by the members. NABARD has facilitated and extensively supported a program which entails commercial banks lending directly to SHGs rather than via bulk loan to MFIs. If SHGs are observed to be successful for at least a period of six months, the bank gives credit usually amounting 4 times more than their savings.

### Individual Banking Programmes (IBPS)

In Individual Banking Programmes (IBPs) there is provision by Microfinance institutions for lending to individual clients though they may sometimes be organized into joint liability groups, credit and saving cooperatives. This model is increasingly popular through cooperatives. In cooperatives, all borrowers are members of organization directly or indirectly by being member of cooperative society. Credit worthiness and loan securing are a function of cooperative membership in which member’s savings and peer pressure are assumed to be key factors. BAXIS a MFI based in Ahemadabad, offers both the joint liability group and individual lending loans in addition to loans to intermediaries. Bank of Rakyat at Indonesia, arguably the world‟s biggest and profitable microfinance institution is following this model.

### Grameen Model

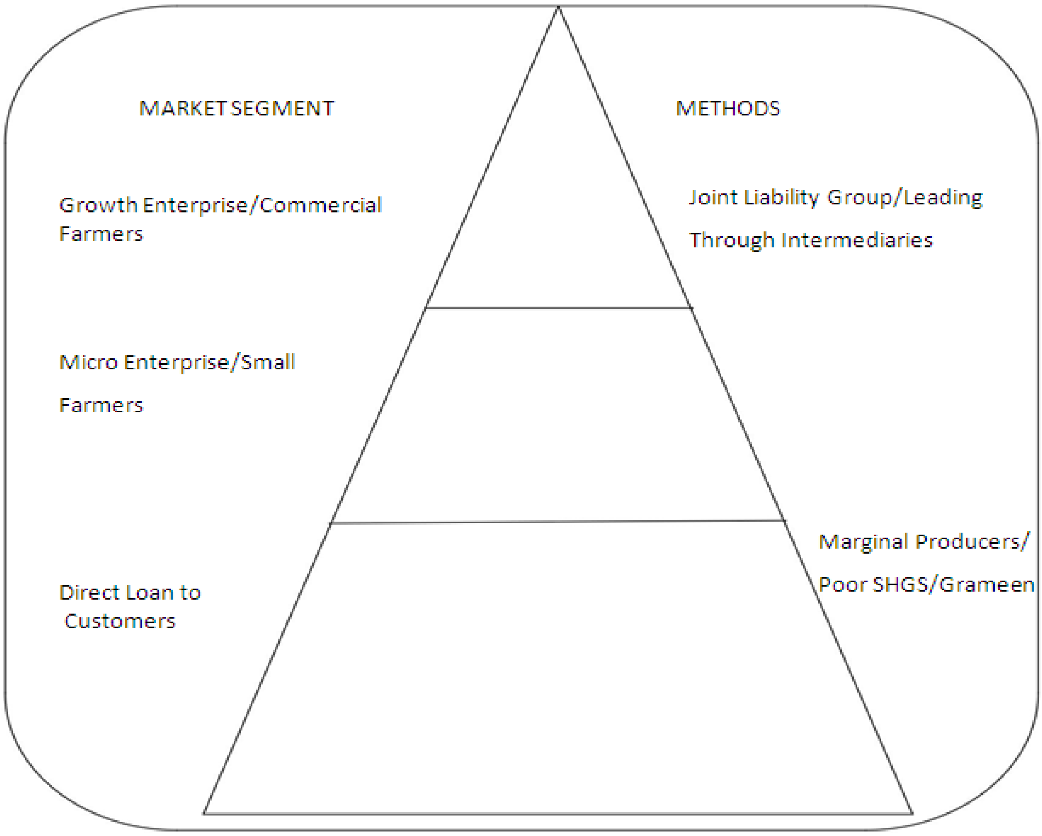
Grameen Model was pioneered by DR Mohammed Yunus of Grameen Bank of Bangladesh. It is perhaps the most well known and widely practiced model in the world. In Grameen Model the groups are formed voluntarily consisting of five borrowers each. The lending is made first to two, then to the next two and then to the fifth. These groups of five meet together weekly, with seven other groups, so that bank staff meets with forty clients at a time. While the loans are made to the individuals, all in the group are held responsible for loan repayment. According to the rules, if one member ever defaults, all in the group are denied subsequent loans.

### Mixed Model

Some MFIs started with the Grameen model but converted to the SHG model at a later stage. However they did not completely do away with Grameen type lending and smaller groups. They are a mix of SHG and Grameen model. The main difference between these programs is rather marginal. Grameen programmes have traditionally not given much importance to savings as a source of funds where as SHGs place considerable emphasis on the source of funds. The SHG programs have compulsory deposit schemes in which the members themselves determine the amount. The SHGs model is widely used in India.

According to Vijay Mahajan (2003), Managing Director of BASIX, the SHGs and Grameen models offer economies of transaction cost to MFIs, but at the cost of members time because the unit of dealing is “group” rather than individual. In contrast, MFIs offering individual loans incur higher transaction costs for serving their borrowers. In summary, Exhibit 1 capture the appropriateness of each of the models described and discussed above.

**Figure1: Market Segment and Methodology Applied**




Among all methodologies, Self Help Groups (SHGs) model is more popular in India. There are three models of SHGs. The salient features are given below:-

SHGs-Bank Linkage model:-This model involves the SHGs financed directly by the Banks viz. (Public Sector and Private Sector), RRBs, and Cooperative Banks.

MFI-Bank Linkage model:- This model covers financing of Institutions (MFIs) by banking agencies for on ward lending to SHGs borrowers.

NGOs-Bank Linkage Model:- Under this model NGOs promote the linkage between banks and SHGs for savings and credit.

## IV. PRESENT STATUS OF MICROFINANCE IN INDIA

Microfinance sector has traversed a long journey from micro savings to microcredit and then to microenterprises and now entered the field of micro insurance, micro pension. Financial institutions in the country continue to play a leading role in the microfinance program for nearly two decades now. They have joined hands proactively with informal delivery channels to give microfinance sector the necessary momentum. The data for the year 2010-11 along with a few preceding year have been presented and reviewed under two models of microfinance (i) SHG-Bank Linkage model (ii)MFI-Bank Linkage model.

**TABLE.1. OVERALL PROGRESS UNDER SHG-BANK LINKAGE**

| | Particulars | **2008-2009** | | **2009-2010** | | **2010-2011** | |
|---|---|---|---|---|---|---|---|
| | | No of SHGs | Amount | No of SHGs | Amount | No of SHGs | Amount |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **SHG Savings with Banks as on 31st March** | Total SHGs No | 61.21 | 5545.62 | 69.53 | 6198.71 | 74.62 | 7016.30 |
| | Of which SGSY groups | 15.06 | 1563.38 | 16.94 | 1292.62 | 20.23 | 1817.12 |
| | All women SHGs | 48.64 | 4434.03 | 53.10 | 4498.66 | 60.98 | 5298.65 |
| **Loan Disbursed to SHGs during the year** | No of SHGs extending Loans | 16.10 | 12253.51 | 15.87 | 14453.3 | 11.96 | 14547.73 |
| | Of which SGSY Groups | 2.65 | 2015.22 | 2.67 | 2198 | 2.41 | 2480.37 |
| | All women SHGs | 13.75 | 10527.38 | 12.94 | 12429.37 | 10.17 | 12622.33 |
| **Loan outstanding Against SHGs as on 31st March** | Total No SHGs Linked | 42.24 | 22679.84 | 48.51 | 28038.28 | 47.87 | 31221.17 |
| | Of which SGSY Groups | 9.77 | 5861.72 | 12.45 | 6251.08 | 12.86 | 7829.39 |
| | All Women SHGs | 32.77 | 18583.54 | 38.98 | 23030.36 | 39.84 | 26123.75 |

Source: Status of microfinance in India report 2010-11, NABARD
N.B. In table the amount is in Rupees crore and number in lakhs

**TABLE. 2. PROGRESS UNDER MFI-BANK LINKAGE PROGRAMME**

| | 2008-2009 | | 2009-2010 | | 2010-2011 | |
|---|---|---|---|---|---|---|
| | **No. of MFI's** | **Amount** | **No. of MFI's** | **Amount** | **No. of MFI's** | **Amount** |
| **Loans Disbursed by Banks** | 581 | 3732.33 | 691 | 8062.74 | 471 | 8448.96 |
| **Loans Outstanding against MFI's as on 31st March** | 1915 | 5009.09 | 1513 | 10147.54 | 2315 | 13730.6 |

Source: Status of microfinance in India report 2010-11,NABARD N.B. In table the amount is in Rupees crore and number in lakhs

The SHGs-Bank Linkage programme has received wide acceptance among multiplicity of stake holders, civil society organizations, bankers and the international communities. Around 1.2 million new SHGs had credit link with banks and bank loans of Rs 14,547 crore(including repeat loan ) was disbursed to these SHGs in the financial year 2010-11. During same period 7.46 million SHGs maintained saving account with banks. On an average, the amount of saving per SHGs was Rs 9,405.00 as compared to the amount of credit of Rs 65,180.00 in 2010-11. During the same period 471 MFIs were provided loans by banks to the tune of Rs 8448 crore. Under the MFI- Bank Linkage Programme number of MFIs disbursed loans by Banks is less than previous years but amount of loan is much higher than the previous years. The growth is also higher than corresponding growth under the SHGs-Bank Linkage Programme in 2010-11. This is due to proactive role of the MFIs in micro credit and professional management of funds from banks.

## V. IMPACT OF MICROFINANCE

A number of field researches have been conducted by various agencies to study the impact of microfinance on socio-economic aspects of the clients. These field studies include study commissioned by NABARD in 2002 with financial assistance from SDC where GTZ which covered 60 SHGs in eastern India. The World Bank Policy Paper details in the findings of Rural Finance Access Survey (RFAS) done by World Bank in association with NCAER. The RFAS covered 736 SHGs in the state of Andhra Pradesh and Uttar Pradesh. These field studies reveal divergent research findings. But the common findings are of the opinion that there is some increase in income levels and household assets in real terms among the clients. These studies also brought out the fact that major occupation of group members was agriculture along with other activities like farm labour and poultry. Being rain fed area, lack of irrigation facility;

declining agricultural outputs and fragmentation of land have accentuated their vulnerabilities over a period of time. The group members lack any sort of specific handicraft skills and do not receive any skill development training for undertaking any other non- farm activities. In most of the cases, loans from financial organizations are used by them for meeting their consumptions and emergency requirement. It also shows that group members do not have confidence to use credit for productive purposes in view of lack of opportunities and skills. Irrigation and depressed commodity prices act as deterrent in farm sector investments, while lack of skills and invasion of rural market by big consumer goods companies reduce the scope for rural micro enterprises. In this scenario it seems rather naïve to visualize flourishing of micro enterprises through provision of microcredit (DEVRAJA, 2011).

The growth of microfinance organizations in India has also to be seen in the light of financial sector reforms in India. Under the new approach, institutional viability is of prime concern and instruments of directed credit and interest rate directives have been totally diluted or done away with. As a consequence, banks are increasingly shying away from rural lending as well as rationalizing their branch net work in rural area. Burgess and Pandey (2004) have brought out this fact in their study by stating that while between 1977 and 1990 (Pre reform period) more bank branches were opened in financially less developed states, but the pattern was reversed in post reform period. Thus the access of the rural poor to credit through traditional bank lending has been reduced in post reform era. The policy recommendation is to fill up this gap through microfinance. As per the new design NABARD is aggressively lending rural poor through Self Help Groups and Microfinance Institutions. High recovery rate under the program is used to justify the dictum that poor need timely and adequate credit rather than cheap credit.

Robinson (2001) is probably right in observing that commercial microfinance is not meant for core poor or destitute but is rather aimed at economically active poor. He opines that providing credit to people who are too poor to use it effectively helps neither borrower nor lender and would only lead to increasing debt burden. He suggests that this segment should not be the target market for financial sector but of state poverty and welfare programs.

## DISCUSSION AND CONCLUSION

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

Lending to the poor through microcredit is not the end of the problem but beginning of a new era. If effectively handled, it can create miracle in the field of poverty alleviation. But it must be bundled with capacity building programs. Government cannot abdicate its responsibility of social and economic development of poor and down trodden. In absence of any special skills with the clients of microcredit, the fund is being used in consumption and procurement of non-productive assets. Hence it is very important to provide skills development training program like handicraft, weaving, carpentry, poultry, goat rearing, masonry, bees farming, vegetable farming and many other agricultural and non agricultural training. Government has to play proactive role in this case. People with some special skills have to be given priority in lending microcredit. These clients should also be provided with post loan technical and professional aid for success of their microenterprises. If government and MFIs act together then microcredit can play a great role in poverty alleviation.

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