EVOLUTION OF MICROFINANCE IN INDIA

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This paper aims to bring forth the historical review of the development of the microfinance sector in India. India has the fastest growing microfinance sector in the world and is rapidly moving towards having the largest microfinance sector as well. The paper focuses on evolution of microfinance sector over the past quarter century across India into various operating forms and to a varying degree of success. The paper divides the historical evolution of microfinance sector into four phases and explains these phases in detail. In India self help group (SHG) Bank Linkage programme is the dominant form of microfinance in addition to microfinance institutions (MFI). MFI's have come a long way from the non-profit organizations to assuming for profit form, attracting huge commercial borrowings and equity investments. To revitalize the SHG movement NABARD has launched SHG 2. Each year, new issues, new challenges are thrown up. Regulatory stance on microfinance is changing. The year 2010-11 is one of the most happening periods for regulation of microfinance. The year saw several unprecedented and quick developments in regulation of the sector than ever in the past. The unintended fallout of Andhra Pradesh legislation had been one of its redeeming features. Both Reserve Bank of India (RBI) and Government of India (GOI) had been pushed in to action to have a relook at regulation of the sector and to restore the credibility of the Indian microfinance sector. Emerging regulations and schemes are steps in direction of achieving financial inclusion for India's 450 million "unbanked people."

INTRODUCTION

Poverty alleviation still is an unfinished agenda in India. The prevalence of poverty and inequality has been attributed both to the failure of growth to trickle down adequately to the poor as well as the limitation of state-led poverty alleviation programmes to make sustained impact on poverty conditions. Contrary to a common impression, poor people need and use a variety of financial services, including deposits, loans, and other services. They use financial services for the same reasons as anyone else: to seize business opportunities, improve their homes, deal with other large expenses, and cope with

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emergencies. For centuries, the poor have used a wide range of providers to meet their financial needs. While most poor people lack access to banks and other formal financial institutions, informal systems like moneylenders, savings and credit clubs, and mutual insurance societies are pervasive in nearly every developing country. However, the financial services usually available to the poor are limited in terms of cost, risk, and convenience. Certain types of credit, especially from moneylenders, are extremely expensive. Rotating savings and credit clubs are risky and usually don't allow much flexibility in amount or in the timing of deposits and loans. Deposit accounts require minimum amounts and may have inflexible withdrawal rules. Loans from formal institutions usually have collateral requirements that exclude most of the poor. Microfinance institutions (MFIs) have emerged over the past three decades to address this market failure and provide financial services to low-income clients.[1]

Armendariz & Morduch (2007) gives theoretical basis for providing microfinance to poor.[2] It can be explained why lenders have hard time serving the poor, once the asymmetry of information is brought into picture (together with lack of collateral). Banks have incomplete information about poor borrowers and poor borrower's lacks collateral to offer it as security to banks. Banks typically face relatively high transaction costs while working in poor community as handling many small transactions is far more expensive than servicing one large transaction for a richer borrower. In this context microfinance is seen as a way to break the vicious circle by reducing transaction costs and overcoming information problem. Microfinance presents itself as a new market based strategy for poverty reduction using SHG or Grameen type model where social capital like trust and reciprocation helps in replacing physical capital and the principle of joint liability and peer pressure ensures prompt loan recovery from members.

In India, the historical evolution of microfinance can be divided into four phases. Phase 1 is period up to 1990 where microfinance evolved and took roots. This phase is termed as phase of "old microfinance" where the emphasis was on provision of subsidized credit to poor. Period after 1990 is the period of "new microfinance" where the focus shifted from the subsidized credit to the use of market based strategy for provision of credit to poor. The new paradigm emphasizes financial intermediation with self-

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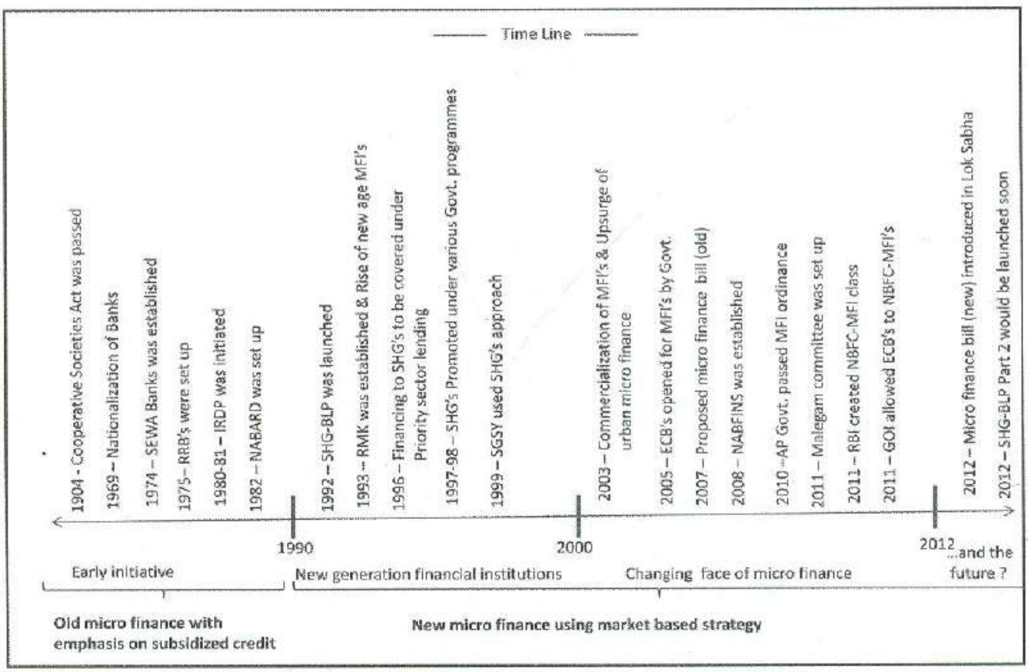
[1] Littlefield, Elizabeth and Richard Rosenberg , "Microfinance and the poor" Finance & Development June 2004

[2] Armendariz.B and J.Morduch, " The Economics Of Microfinance"MIT Press,2007

sustainability of institutions and qualitative/quantitative outreach to the poor.[3] The decade of 1990's has been termed as phase 2 where with economic reforms, new generation of financial Institutions emerged. Phase 3 is period from year 2000 to 2012 which experienced the changing face of microfinance. Phase 4 is period after 2012 where the government regulations and policies will decide the future of microfinance.

Figure 1: Evolution of Micro Finance



PHASE – 1: (period up to 1990) Early Initiatives – Development Finance in India – old microfinance

In the development strategy adopted by independent India, institutional credit was perceived as a powerful instrument for enhancing production and productivity and for alleviating poverty. There was an urgent need to replace costly informal credit with institutional credit. All India Rural Credit Survey report of 1954 found that informal sources dominated by private moneylenders accounted for 70 percent of rural credit, while the cooperatives accounted for 6.4 percent and commercial banks accounted for just 0.9 percent. Between 1950 and 1969, the emphasis was on the promoting of

[3] Kaladhar .K, "Microfinance in India: Design, Structure & Governance" Economic& Political Weekly , Vol.32,no.42,Oct 18-24,1997

cooperatives. The Lead Bank Scheme was introduced in 1969. The same year also saw the nationalization of 14 commercial banks. Regional Rural Banks were set up in 1975 as low cost institutions mandated to reach the poorest in the credit-deficient areas of the country. This resulted in the creation of one of the largest networks of banks in the world. Not surprisingly, the All India Debt and Investment Survey of 1981 found that in total credit, the share of the formal financial sector had risen to over 60 percent.[4]

Subsidized Credit for Development

The government initiated the Integrated Rural Development Programme (IRDP) in 1980-81 with the objective of directing subsidized loans to poor self-employed people through the banking sector, NABARD was established in 1982. In the same year the government also introduced the Development of Women and Children in Rural Areas (DWACRA) scheme as a part of IRDP. IRDP, despite its immense outreach, experienced very low repayment rates and accounted for 40 million defaulters, which ruled out long-term sustainability of the programme. Cooperative institutions, the Regional-Rural Banks (RRBs) and the rural branches of Commercial banks have been providing subsidized credit to the poor under a variety of schemes such as (IRDP) and revamped programme named as Swarnajayanti Grameen Swarojgar Yojana (SGSY). But unfortunately these highly subsidized low interest bearing loans never reached intended beneficiaries viz the rural poor as they were largely cornered by the better off section of the rural society. Banks have incurred heavy losses in financing the poor, as interest rates charged by the banks on these loans have not been sustainable. The financial margin is, usually, not sufficient to cover the transaction cost. Added to this the financial performance of banks has been adversely affected as the recoveries of loan under such programmes have been extremely low. Because of such a poor track record of subsidized and subsidy linked credit, neither the bank nor the customers at large, view microfinance as a bankable function. The banking system was thus not able to internalize lending to the poor as a viable activity but did it only as a social obligation – something that had to be done because the authorities wanted it so.

Given the high rates of default, a formal loan waiver was announced by the government in the year 1989 which had a negative impact on credit discipline. This decision also reinforced the long-held view among the mainstream financial institutions that lending

[4] Sa-dhan, Occassional paper series, December 2004

to the poor was not a profitable business.[5] The attitude was that the poor are not bankable, commercial principles cannot be applied in lending to the poor and that what the poor require are not loans but charity. The search for an alternative mechanism for catering to the financial service needs of the poor was thus imperative.

Emergence of New Microfinance

PHASE – 2: (period 1990-2000) Economic Reforms and a New Generation of Financial Institutions

SHG – Bank Linkage Programme is born

The financial sector reforms motivated policy planners to search for products and strategies for delivering financial services to the poor in a sustainable manner consistent with high repayment rates. NABARD during the year 1987 to 1992 undertook studies of existing self-help groups (SHGs) in the country and provided grant assistance to a NGO, MYRADA which paved way for framing the operational guidelines for SHGs. These SHGs were large enough for the banks to have transactions with, and were also very responsive and flexible to the needs of their members. In 1992, the SHG-bank linkage programme was formally launched by NABARD .The good repayment rate gave the bank the confidence to continue financing SHGs in the coming years. This encouraged the Reserve Bank of India (RBI) to include financing to SHGs as a mainstream activity of banks to be covered under their Priority Sector lending in 1996.

Other Apex Institutions promoting microfinance

In 1993, the Rashtriya Mahila Kosh (RMK) was established to accelerate the flow of credit to self-employed women in the unorganized sector. It is worth mentioning here that the Self Employed Women's Association (SEWA) Cooperative Bank, operating in Gujarat with similar objectives since 1974, is arguably the first microfinance programme in India. Microfinance received greater recognition in 1998 when Small Industries Development Bank of India (SIDBI) set up the Foundation for Microcredit with an initial capital of Rs 100 crores. The same year also saw the formation of Sa-Dhan as an apex level association of community development finance institutions. The passing of the Mutually Aided Cooperative Societies Act (MACS Act) by Andhra

[5] Sa-dhan, Occassional paper series, December 2004

Pradesh in 1995, followed by some other states, also acted as a stimulant and many new microfinance initiatives came up under the MACS Act.[6]

SHGs promoted under Government Programmes

After observing the success of the programme, Govt. of India also adopted this approach in its new poverty alleviation programme, SGSY since April 1999. Further several State Govt.s have launched projects and schemes such as "MahalirThittam" in Tamil Nadu (1997-98), Kudumbashree, launched by the govt. of Kerela in 1998 involving the organization of saving and credit group, usually of poor women, often as a part of programmes supported by bilateral and multilateral agency funding. Indira Kranthi Pratham (IKP), started in year 2000-2001 in Andhra Pradesh, is a statewide poverty reduction project to enable the rural poor to improve their livelihoods and quality of life through their own organizations. National Rural Livelihood Mission (NRLM), a sequel to the SGSY has been modeled on IKP, using SHG and their higher level federation.

Rise of microfinance institution (MFI)

The early Nineties also witnessed the rise of several microfinance institution (MFI) initiatives – some prominent MFIs such as SHARE were conceived during this period. Despite the increased participation of Commercial Banks, the SHG-Bank Linkage programme reaches only about one third of potential borrowers and one tenth of the estimated demand for credit. The rationale for existence of MFIs comes from the fact that there is still a big gap in provision of financial services demanded by the poor. These new age MFI's started coming up in 1990s. However most of these MFI's at that time were not-for profit organizations and started microfinance solely as another development service to community. The idea of growth, size and financial sustainability were not of primary concern at that time. Terms like "income" and "profit" were still considered to be taboo in this sector. The "new age" MFI's proved that they can maintain high rates of repayments from this sector which was considered risky segment. MFI's started focusing on high efficiency, good repayments and good service to their clients & soon started assuming high scales.

Contrary to the experience of the past in the field of subsidized credit under govt. sponsored programmes, the new experiments in microfinance were able to demonstrate

[6] Sa-dhan, Occassional paper series, December 2004

that it is possible for financial institutions to provide financial services to the poor in a sustainable manner. It broke a long standing myth that poor were unbankable and can be helped only through subsidies and charity as no business model of credit was possible to be built with them. With the NABARD programme on SHG's in 1992, the emphasis shifted to loans without collateral, 100 percent repayment norms and lending to group of people who would also invest their saving & regulate their groups & group loans, thus reducing transaction cost for the borrower and for the banks. The operating strategy under the new microfinance involves several features such as simple procedures for reviewing and approving loan applications, delivery of credit and related services at commercial rate of interest, quick disbursement of small & short term loans, clear recovery procedures & strategies, maintaining high recovery rates, incentives of access to larger loans immediately following successful repayment of first loan, organizational culture, structure, capacity & operating system that can support and sustain delivery to a significant & growing number of poor clients & encouraging & accepting savings in concert with lending programmes (micro credit summit 1997, Draft Declaration). In other words, as against old microfinance, the new microfinance focuses on the "process" retaining most of the old characteristics such as farm & non-farm credit, target group being the poor, operating largely in rural & semi-urban areas and small borrower accounts, the new paradigm emphasizes financial intermediation with self-sustainability of institutions and qualitative/quantitative outreach to the poor (Kaladhar 1997).[7]

PHASE - 3: (period 2000-2011) Changing face of microfinance

The success of MFIs encouraged commercial banks to start lending to MFIs, as soon as that happened MFIs started growing fast. However, as the lending in the sector increased and the size of MFIs became big, other financial parameters such as of capital adequacy and risks emerged. The sector started assuming shape of more formal financial system. Credit rating agencies came up to rate MFIs and soon rating became a common and essential feature. The sector got major recognition when UN declared 2005 the year of micro-credit and Prof. M. Yunus and Grameen Bank jointly got Nobel Peace Prize in 2006. As the sector matured, it soon became evident that if microfinance has to be done on sustainable basis, it would require scale & profitability.

[7] Kaladhar.K, "Microfinance in India:Design, Structure & Governance" Economic& Political Weekly , Vol.32,no.42.Oct 18-24,1997

Commercialization of MFIs

NGOs and MFIs together have helped in bringing microfinance to the forefront. However, as they found themselves unable to raise adequate resources for a rapid growth of the activity, they converted themselves into for-profit Non Banking Finance Company (NBFC). As microfinance became to be seen as a viable business proposition, others entered the field directly as for-profit NBFCs. Since this sector was proving a success story, it attracted private equity funds and other investors to invest in the equity of the MFIs. But, this could be possible only if the MFIs had the appropriate legal form to provide return to these investors. The creation of legal framework was also necessary from regulatory perspective as these MFIs were dealing with increasingly significant amounts of money, and a very delicate market segment, lenders also needed assurance that the MFIs they lent to were properly regulated entities. Thus, in many countries microfinance regulation Acts were passed and in several others debate has started on having regulations for microfinance. In India a Microfinance Bill was prepared and that is lying pending with the parliament.

The MFIs have come a long way from not-for-profit organizations to assuming for profit form, attracting huge commercial borrowings and equity investments. As the sector evolved the MFIs have now started using sophisticated means for raising funds such as securitization, debentures and are now at the verge of reaching out to capital markets. Microfinance while retaining its objective of serving the poor has adopted various practices of mainstream finance and has evolved as a complete industry. In July 2010 SKS (www.sksindia.com), India's largest microfinance institution (MFI) became the first MFI in India to float its shares through an IPO (initial public offering, public listing of shares at the stock exchange).[8]

Hadia Hina et-al[9]. stated that emergence of microfinance revolution has resulted in a new debate that either increased commercialization mission of microfinance will change or institutions can achieve objective, poverty alleviation and sustainability of the institutions, both at the same time. Empirical studies shows mix results and experiences in terms of mission drift. According to M-CRIL and EDA(2010), large MFIs have reduced their operating expense ratios over the past few years by reducing their

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[8] CGAP, "Indian Microfinance Goes Public: The SKS Initial Public Offering",No.65,September 2010.

[9] Hadia Hina, Geoff Lightfoot and David Harvie, Microfinance, "Sustainable Entrepreneurship and the Funding Gap", School of Management, The University of Leicester.

relationship with their clients, thereby altering the nature of the relationship .This is apparent by the extent to which loan officer caseloads have increased over the period. To this extent micro-credit has evolved from poverty-based lending to exclusively commercial lending. This needs to be re-balanced to enable MFIs to understand their clients better and to focus on serving client needs (with more appropriate products) rather than merely revolving money to generate an income without caring about those needs.[10]

Contribution of various Institutions in growth of MFI's

Contrary to the perceived notion that NABARD's sole preoccupation is with SHG-bank linkage programme, it has pro-actively set up a variety of instrumentalities for encouraging partnership between banks and MFI's. It provides loan funds in the form of Revolving Fund Assistance (RFA) on selective basis to MFI's, technical support in form of capacity building to staff of MFI's and also bankers in appraisal of MFI's for providing wholesale resources support. It has tied up with a few reputed credit rating agencies like CRISIL, M-CRIL and CARE that enables MFI's to get themselves rated so as to obtain bank finance. Since 2000, NABARD has opened a refinance window for banks for their credit to MFI's. The linkages of MFI's with banks enable the MFI's to overcome the problem related to regulation & supervision, accessing public deposits & reliance on donor & grant funding apart from NABARD, the bulk funds required by MFI's for lending to their clients are met by Small Industrial Development Bank of India (SIDBI), Rashtriya Mahila Kosh (RMK), Commercial Bank (both Public & Private Banks) and Regional rural banks (RRB's).

In 2005, the GOI in the annual budget mentioned that MFIs would be eligible for external commercial borrowings which would allow MFIs and private banks to do business thereby increasing the capacity of MFIs. Finding microfinance, an important component for inclusion, Dr. C.Rangarajan's Committee report[11] on financial inclusion (Jan'2008) focuses on strategies, technologies and a delivery mechanism for reaching the poor and providing them timely, adequate and affordable financial services. Rangarajan's Committee has recommended amendment to NABARD Act to enable it to provide microfinance services to urban poor. After examining the available technologies

[10] M-CRIL and EDA, " Of interest rates, margin caps & poverty lending , How the RBI policy will affect access to microcredit by low income clients."July 2010

[11] Rangarajan, " Committee Report on Financial Inclusion ",NABARD,January 2008.

called for low-cost technology solutions, it recommended the creation of a Financial Inclusion Technology Fund (FITF) and Financial Inclusion Promotion and Development Fund with NABARD. These two funds have been operationalised.

The Reserve Bank of India guidelines[12] on "Business Facilitator" and "Business Correspondent" Model is a recent example of new delivery mechanisms. Currently, NGO-MFIs, Cooperative societies, section 25 companies, post offices and select organizations and individuals are permitted by the law to work with banks to undertake micro finance services under RBI's Business Facilitator and Business Correspondent models. Branchless models are operated by banks through BC's services. Handheld devise based technology with or without biometric recognition, smart cards, mobile phones, information kiosks etc have been used by BC's for reaching the unbanked population and carrying out variety of transactions. Similarly, mobile phone banking systems, ATM and biometric cards as technological innovations for MF have also been emerged to provide savings, credit and remittance services.

Spread of Microfinance in Urban areas

In the recent past there has been upsurge of interest in urban microfinance. Not only MFI's, but also the banking system has woken to the potential of microfinance clients in urban areas. Urban microfinance while holding considerable growth potential is not a market that is easy. This market is beset with several problems and difficulties. The client profile, their expectations, time availabilities, average loan size and the processes required to be effective in urban areas are very different. Recognizing the diversity of occupational, economic and social backgrounds and very different financial requirements, group lending as a delivery vehicle has becomes suboptimal in the urban context. Therefore MFI's are experimenting with smaller sized joint liability groups (JLG's), and individual loans. With MFI's growing operations in urban areas, urban clients as percentage of total MFI's clients have increased from 25 percent in 2008 to 38 percent in 2011 and 44 percent in 2014.[13] With increasing migration from rural to urban areas, many MFI's are now increasing their focus on urban areas. This trend is likely to continue; hence the proportion of urban clients will also swell further in the coming years.

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[12] Reserve Bank of India, Circular on Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents, Mumbai, January 2006.

[13] Sa-dhan, Bharat Microfinance Report (2008,2011,2014)

Policy environment & the regulations

The year 2010-11 is one of the most happening periods for regulation of microfinance. Andhra Pradesh had been leading the microfinance movement almost since beginning. In case of regulation too Andhra Pradesh took the lead and the state govt. issued MFI ordinance which was duly passed as a law by the state legislature. The law was aimed at protecting the members of SHG's from exploitation & abusive practices of the MFI's. The law required the MFI's to take permission from the district authority before making a loan to a member of SHG or his/her household member. MFI's were asked to hold meetings in the panchayat offices for their transactions. MFI staff was barred from visiting homes & place of work of borrowers to eliminate coercion & high handed dealings. The interest levied in no case should exceed the principal. If MFI's fail to comply with the law, fines and imprisonment can be awarded not only to the staff concerned but also to the directors on the board of MFI's. The effect of the regulation was immediate on recoveries of MFI's. The recovery rates that were 99 percent plummeted to 10 percent.[14]

The unintended fallout of AP legislation had been one of its redeeming features. Both RBI and GOI had been pushed in to action to have a relook at regulation of the sector from a very different point of view. The RBI set up a committee of the board under the chairmanship of Y.H. Malegam to study issues and concerns the MFI sector, that has been hurt by State legislation in AP, its biggest market. On May 3, 2011, RBI issued a circular[15] implementing some of the Malegam recommendations. The RBI had created a separate class of NBFC's as MFI and made regulations applicable on this class of institutions. These NBFC-MFI's are non-deposit taking NBFC's (other than companies licensed under section 25 of Indian Companies Act, 1956) with a minimum net owned funds of Rs. 5 crores and not less than 85 percent of its net assets are in the nature of "qualifying Assets". An interest rate cap of 26 percent and the margin cap of 12 percent were the chief instruments through which the pricing abuses were sought to be curbed. RBI also restricted the MFI's from charging any other charges except a service charge of 1 percent . While the regulations introduced by RBI signaled its intention to micro-regulate the MFI's in terms of their business operations & practices the overall outcomes in the short & long run do not seem to be very favorable.

[14] Srinivasan, N (2011), "Microfinance India: State of the Sector Report 2011", Chapter 4,Access Report, Sage publication.

[15] Reserve Bank of India Cicular, "RBI introduces new category of NBFC-MFI's",December 2,2011

PHASE 4: (2011 onwards): The Future of Microfinance

Consequences of Andhra Pradesh - Crisis

The Andhra Pradesh (AP) Act that was aimed at protecting the poor, in fact had the opposite effect viz. harming the poor by starving them of access to credit and basic financial services. In AP, repayment rates have dropped to as low as 5 percent, and even outside the state repayment rates nationally continue to fall from a historic average of 99 percent down to 97 percent. A strong culture of the poor repaying their loans is crucial to the long term success of the model and for financial inclusion as a whole. As a result of the AP Act and the RBI's capital adequacy requirements, many MFIs are on the brink of failure, which will negatively impact the financial inclusion agenda for India, and millions of poor households. Lending to MFIs has dried up, eliminating access to credit for the poor both now and into the future. MicroSave[16] conducted the study to examine the impact of AP crises on borrowers and found that most clients have been forced to return to money-lenders and "daily finance corporations".

However, the Govt. of India signaled its stance on the sector through an announcement in the budget for the year 2011-12 that it is setting up an equity fund for providing equity support to needy MFI's and also promising to bring in a legislation for the microfinance sector.

In December, 2011, the RBI opened up the external commercial borrowings (ECBs) channel for NBFC-MFIs, something that was previously open only to non-profit MFIs.

The Microfinance (Development & Regulation) Bill, 2012

The Micro Finance Institutions (Development & Regulation) Bill[17], 2012 was introduced in the Lok Sabha on May 22, 2012. The Bill aims to provide for the development and regulation of micro finance institutions. The Bill views microfinance institutions as extended arms of banks and financial services. Micro finance services are defined as micro credit facilities not exceeding Rs 5 lakh in aggregate, or with the Reserve Bank's (RBI) specification Rs 10 lakh, to each individual. Other services like collection of thrift, pension or insurance services and remittance of funds to individuals

[16] MicroSave, November 2011,"What are Clients doing Post the Andhra Pradesh MFI Crisis?"

[17] The Microfinance Institutions (Development & Regulation) Bill, 2012

within India also come under micro finance services. Those MFIs registered with the apex bank won't be treated as moneylenders, thereby keeping them out of the purview of the Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act, 2010. If this bill was passed by Parliament in its present form it would have signalled the beginning of the end of the Indian microfinance crisis. However Microfinance Institutions (Development and Regulation Bill 2012) got lapsed in the 15th Lok Sabha. The Government is presently seeking the opinion of different stakeholders, primarily the state governments, before redrafting a new MFI Bill.[18]

SHG – Bank Linkage Programme – Part 2

The NABARD circular[19] revisited the SBLP and acknowledged SHG's inadequate outreach in many regions in recent years, delays in opening of savings accounts and disbursement of loans, and non-approval of repeat loans even when first loans are repaid on time and proposed the launching of SHG-2. This has motivated it to prepare a strategy to revitalize the SHG movement leading with the launch of SHG-2 model. The focus of SHG-2 would be on voluntary savings, cash credit / overdraft system of lending for SHGs for a longer operational tenure, scope for multiple borrowings by SHG members in keeping with repaying capacity, graduating selected members of the group that have entrepreneurship potential into a joint liability groups for borrowing larger amounts, SHG Federations as non-financial intermediary, rating and audit of SHGs as part of risk mitigation system and strengthening monitoring mechanisms.

NBFC – MFIs as Business Correspondents

RBI in its notification dated June 24, 2014 allowed for non-deposit taking NBFC-MFIs to operate as Business Correspondents/ Facilitators) to commercial banks, removing an earlier restriction that was placed on NBFCs. Making it more conducive, RBI has removed the maximum distance requirements on banks in choosing their BC's outlet locations.[20]

Emerging Regulations

Recently, the Reserve Bank of India has created the Financial Inclusion and

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[18] Sa-dhan, Bharat Microfinance Report (2014)

[19] NABARD, Circular No: 65(A)/ MCID-04 / 2011-12, 27 March 2012,s SHG2: Revisiting the SHG Bank Linkage Programme

[20] Sa-dhan, Bharat Microfinance Report (2014)

Development Department to boost the measures for inclusive financial services.[21] RBI has approved Bandhan Financial Services Pvt. Ltd, which is the leading microfinance institutions in India, to function as a private bank with full focus on rural regions/areas of India. On 24 August 2015, Bandhan Bank was officially inaugurated in Kolkata with 501 branches across India. Recent years have also been all about financial inclusion and has seen many a positive turn to the microfinance sector.

Pradhan Mantri Jan Dhan Yojana

The Government of India has launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) on 28th August,2014 which is a mission on financial inclusion that includes opening up of a bank account, financial literacy and other financial services. The scheme also extended insurance benefits, along with Rupay Debit cards and overdraft facilities up to Rs.5000 for active account holders. However, it misses out one key component that vulnerable section of society still remains out of reach from formal credit.

MUDRA

Prime Minister Narendra Modi launched the promised Micro Units Development and Refinance Agency (MUDRA) Bank on April 8, 2015 for refinancing and regulating the microfinance sector. MUDRA Bank proposes refinancing all Micro-finance Institutions that are in the business of lending to micro/ small business entities, who are most commonly engaged in manufacturing, trading, and service activities and regulating MFIs which are outside the RBI's regulatory umbrella. The provisions of Microfinance (Regulation and Development) Bill, 2012 should ideally be incorporated into the proposed MUDRA legislation.[22]

Small Finance Banks / Payments Banks

Small Finance Banks (SFBs)

On 16 September 2015, RBI granted in-principle approval to 10 entities to set up Small Finance Banks. These include eight MFIs, one Local Area Bank and one NBFC. These institutions have been given a time frame of 18 months to complete the process of setting up these banks. The fact that eighty percent of the institutions receiving green signal for

[21] Sa-dhan,Bharat Microfinance Report (2014)

[22] Sa-dhan,Bharat Microfinance Report (2015)

SFBs are MFIs outlines the significance of microfinance for the Indian banking landscape. Small finance banks essentially undertake basic banking activities that include: accepting deposits and lending to under-served sections, particularly to small and marginal farmers, micro and small industries and unorganized sector entities and small business units.

Payment Banks

Based on the recommendations of the Nachiket Mor committee in January, 2014, the RBI issued a notification to issue licenses to payment banks in the country for furthering financial inclusion. Payment Banks promote payment and remittance services through various channels, and they issue only debit (but not credit) cards. Additionally, they are not permitted to carry out any lending activity. As of April 2015, the RBI received 41 applications for payments banks. On August 19, 2015, the RBI approved 11 applications, including five of India's Mobile Network Operators (MNOs), to organize and launch payments banks by early 2017.[23]

CONCLUSION

Microfinance has evolved in India over the past quarter century in various operating forms and with a varying degree of success. Each year, new issues, new challenges are thrown up. The rise of SHGs and more formal SHG Federations coupled now with SHG Bank Linkage have made this a dominant form of microfinance in addition to microfinance institutions (MFI). The policy environment in India has been extremely supportive for the growth of the microfinance sector in India. Portfolio of microfinance products and services has dramatically changed in the past one decade with entry of a variety of microfinance service providers and intermediaries. In recent years, several new approaches, new products and delivery mechanisms have been evolved to provide finance to India's poor. Microfinance sector is using technology for its different operations ranging from client acquisition to provision of services. Regulatory stance on microfinance is changing. It is essential that any regulations have the overriding principle of leaving the levelling and innovative forces of market competition and market pricing intact,while removing the impediments and uncertainty created by the AP Act. The emerging regulations and schemes are steps in direction of achieving

[23] Sa-dhan,Bharat Microfinance Report (2015)

financial inclusion for India's 450 million "unbanked people."

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