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MICROFINANCE DELIVERY: INNOVATIVE STRATEGIES

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ABSTRACT

Microfinance is the provision of financial serves to the poor people with very small business or business projects. These Microfinance institutions (MFIs) face the challenge of sustainability and outreach. As the MFIs industry grow in size, the need for increased financing coupled with unpredictability of donor funds trigger the issue of building a sustainable MFIs that stand on their own leg that is MFIs shall start covering their own cost of operation from their program revenues. The paper is an attempt to understand the operational difficulties faced by MFIs and commercial banks and shall discuss simple means of reaching the noble credit to vast majorities of the rural population. Workable strategies developed to meet the challenges and effectively implement the micro finance delivery modes. This study is based on both primary and secondary data. The primary data was collected through extensive interviews held with Micro finance institutions like the Gujarat based NGO, SEWA (Self Employed Women's Association) which is carrying out extensive micro credit activities through both SEWA Bank and its various micro credit trusts, and micro credit associations . Extensive interviews were held with the Head – Rural Operations –'Rural Operations Group', Central Operations , Mumbai of ICICI

Bank , which is carrying out pioneering work in the area of micro credit. The secondary data has been sourced from the activities carried out by prominent Microfinance organizations like BASIX, SEWA and research done by IFMR. (Institute of Financial Management and Research). An interview method of survey was adopted to collect primary data. The data collected by primary and secondary sources has been qualitatively analyzed and our research findings have been checked for implementability with the Rural Operations Head of ICICI Bank.

INTRODUCTION

Microfinance is the provision of financial serves to the poor people with very small business or business projects (Marzys, 2006). Only a small fraction of the world population has access to financial instruments, essentially because commercial banks consider the poor people as unbankable due to their lack of collateral and information asymmetries. Microfinance Institutions (MFIs) have shown how the poor can be profitably financed for meeting their credit requirements through the Self Help Groups (SHGs). Even though the size of loan outlay is small and risky but given the high number of loans and the group lending mechanism, both the problems can be easily tackled. Innovative ideas are emerging in the areas of microfinance through dedicated research. Microfinance has provided access to finance to an entire sector of people left behind by the formal financial sector and has demonstrated how these low-income categories are indeed a 'bankable' proposition. However, the cost remains an issue.

These Microfinance institutions (MFIs) face the challenge of sustainability and outreach. These challenges are surveyed e.g. by Robinson (2001), or Armendariz de Aghion and Morduch (2005). Empirical analysis of the operational trade-offs faced by MFIs trying to meet this challenge in practice, is just beginning. An interesting performance analysis of an international set of MFIs was started independently by Cull, Demirguc-Kunt and Morduch (2007). The survey of Hernes and Lensink (2007) points to the need for further evidence on the specific mechanisms which explain different performances of various delivery models of microfinance.

OBJECTIVE OF THE STUDY

- To understand the macro and micro challenges faced in the delivery of micro finance in rural India.
- To focus on the operational difficulties faced by Micro Finance Institutions and commercial banks in extending micro credit to the rural population.
- To arrive at innovative yet simple workable strategies to counter these delivery challenges, with an aim of assisting in reaching this noble credit to vast majorities of the rural population.

RESEARCH METHODOLOGY

This study is based on both primary and secondary data. The primary data was collected through extensive interviews held with Micro finance institutions like the Gujarat based NGO, SEWA (Self Employed Women's Association) which is carrying out extensive micro credit activities through both SEWA Bank and its various micro credit trusts , and micro credit associations . Extensive interviews were held with the Head – Rural Operations –' Rural Operations Group' , Central Operations , Mumbai of ICICI Bank , which is carrying out pioneering work in the area of micro credit. The secondary data has been sourced from the activities carried out by prominent Microfinance organiations like BASIX, SEWA and research done by IFMR. (Institute of Financial Management and Research). An interview method of survey was adopted to collect primary data. The data collected by primary and secondary sources has been qualitatively analysed and our research findings have been checked for implementability with the Rural Operations Head of ICICI Bank.

REVIEW OF THE LITERATURE

Priya Basu & Pradeep Srivastava (June 2005), reviewed the current level and pattern of access to finance for India's rural poor and examines some of the key microfinance approaches in India, taking a close look at the most dominant among these, the Self Help Group (SHG) Bank Linkage initiative. It empirically analyzes the success with which SHG Bank Linkage has been able to reach the poor, examines the reasons behind this, and the lessons learned. The analysis in the paper draws heavily on a recent rural access to finance survey of 6,000 households in India, undertaken by the authors. The main findings and implications of the paper are as follows: India's rural poor currently have very little access to finance from formal sources. Microfinance approaches have tried to fill the gap. Among these, the growth of SHG Bank Linkage has been particularly remarkable, but outreach remains modest in terms of the proportion of poor households served. The paper recommends that, if SHG Bank Linkage is to be scaled-up to offer mass access to finance for the rural poor, then much more attention will need to be paid towards: the promotion of high quality SHGs that are sustainable, clear targeting of clients, and ensuring that banks linked to SHGs price loans at cost-covering levels. At the same time, the paper argues that, in an economy as vast and varied as India's, there is scope for diverse microfinance approaches to coexist. Private sector microfinanciers need to acquire greater professionalism, and the government, too, can help by creating a flexible architecture for microfinance innovations, including through a more enabling policy, legal and regulatory framework. Finally, the paper argues that, while microfinance can, at minimum, serve as a quick way to deliver finance to the poor, the medium-term strategy to scale-up access to finance for the poor should be to 'graduate' microfinance clients to formal financial institutions. The paper offers some suggestions on what it would take to reform these institutions with an eye to improving access for the poor.

Deepak Barman, Himendu P. Mathur and Vinita Kalra (2009), studied that microfinance intervention is considered an important component of development strategy to mainstream the poor rural households with the formal financial system in India. However, there is some evidence for the reverse, that microfinance may, in fact, increase informal money lending, if clients need to 'top up' microloans, or borrow to repay according to the installment schedule. The objective of this paper is to examine the relationship between the level of indebtedness to moneylenders and the type of microfinance model through a case study in Varanasi, U.P. Comparing two microfinance models prevalent in the research area, the authors conclude that the level of indebtedness to moneylenders is higher in the case of clients of Microfinance Institutions (MFI) model and without complete information on the credit-worthiness of borrowers, MFIs may contribute to the over-indebtedness of their clients as well as damage in their performance.

Mahajan Vijay and Nagasri G,(1999) in his paper "Building Sustainable Microfinance Institutions in India" tries to examine what comes in the way of making Indian MFIs sustainable and what can facilitate this. An attempt has been made in this paper to look at sustainability from multiple dimensions such as demand, mission, legal and regulatory framework, ownership, governance and human resources and financial sustainability.

Jordan Pollinger, John Outhwaite & Hector Cordero-Guzmán (2010) seek to better understand the implications for providers of "microfinance" in pursuing such a strategy. We discuss relationship-based financing as practiced by microfinance institutions (MFIs) in the United States, analyze their lending process, and present a model for determining the break-even price of a microcredit product. Comparing the model's results with actual prices offered by existing institutions reveals that credit is generally being offered at a range of subsidized rates to microentrepreneurs. This means that MFIs have to raise additional resources from grants or other funds each year to sustain their operations as few are able to survive on the income generated from their lending and related operations. Such subsidization of credit has implications for the long-term sustainability of institutions serving this market and can help explain why mainstream financial institutions have not directly funded microenterprises. We conclude with a discussion of the role of nonprofit organizations in small business credit markets, the impact of pricing on their potential sustainability and self-sufficiency, and the implications for strategies to better structure the credit market for microbusinesses.

Alain de Crombrugghe, Michel Tenikue and Julie Sureda (2010) , use regression analysis to study the determinants of self-stainability of a sample of microfinance institutions in India. These institutions stand out by their ability and willingness to report financial and operational data to Sa Dhan, a know-how sharing organization. We investigate particularly three aspects of sustainability: cost coverage by revenue, repayment of loans and cost-control. Our results suggest that the challenge of covering costs on small and partly unsecured loans can indeed be met, without necessarily increasing the size of the loans or raising the monitoring cost. The analysis suggests other ways to improve the financial results, like a better targeting of the interest rate policy or increasing the number of borrowers per field officer especially in collective delivery models.

MICROFINANCE IN INDIA

India is perhaps the largest emerging market for microfinance. Over the past decade, the microfinance sector has been growing in India at a fairly steady pace. India has over 500 MFIs. Their Geographical areas of operation are states like Rajasthan, Uttar Pradesh, Bihar, Orissa, Andhra Pradesh and Tamil Nadu. Microfinance is lent through Self Help Groups(SGHs) like

Kosh - Gram Sabha Nidhi Foundations, ASSIST – Credit Unions, YCO – Mutually Aided Thrift and Credit Cooperative Society- MACTS), The Grameen methodology like SEWA BANK ,SHARE, ASA and through direct individual lending by institutions like BASIX and Lupin. They are legally registered as NGOs (ASSIST, Lupin, and ASA), Cooperatives (YCO Swayamkrushi), NBFCS (BASIX, Kosh) and Banks (SEWA Bank and RRBs).

TABLE 1: SUMMARY OF 12 PROMINENT MFIS OPERATING IN INDIA

Summary of 12 Prominent MFIs operating in India												
Sl. No	Name	Period of Operation	Credit Delivery	Group Size	Avg. Loan Size	Lending Rates	Re-payment Rates	Cumulative Borrowers/ Members	Cumulative Disbursement	Loans Outstanding	Estimated Credit Demand for 2-3 years	Remarks
		Years			Rs.				Rs. in Million			
1	SEWA Bank	25	Credit union/bank	-	10000	18%	95%	200,000	n.a	86	0	India's only MFI licensed as a bank.
2	BASIX	3	Various	-	7000	24%	95%	20,000	130	60	100	Professionally managed MFI with aggressive growth plans.
3	SHARE	7	Grameen	5	3000	15% flat	100%	14,000	130	43.9	100	Promising growth, transforming to NBFC
4	Kosh	10	SHG	10-15	5000	14%	67%	100,000	225	100	30	Unique. Fund manager for people's federations at

												village level
5	PREM	17	SHG	15-20	2000	10% to 30%	90%	20,000	n.a	20	5	First federation of SHGs in Orissa
6	ASA	10	Grameen variation	5	4500	15% flat	98%	6,000	23	7	60	Promising. Needs to increase operations to become viable
7	Lupin	11	SHG, direct	15-20	4000	12%	90%	2,000	11.5	0.6	5	Micro-credit is one of the several programs. Potential for more focused management.
8	FWWB	17	Wholesaler	n.a	400000	13.50%	88%	146	80	40	30	Wholesaler: clients widespread. Capacity building is strong.
9	YCO	13	SHG	10	5000	various	78%	6,300	9.8	4	4	Organised a MACTS
10	Adithi	11	SHG	10-20	5000	12% flat	90%	5,000	10	7.5	15	Operates in Bihar, planning to set up a cooperative bank
1	ASSIS	14	SHG	15-	3000	12%	n.a.	4,000	n.a.	4.5	20	Planning to set up a

1	T			20								MACTS
12	UPBSN	3	SHG facilitator	20	9000	12	n.a.	40,000	n.a	n.a	n.a	UP Govt owned. Path breaking work at ground and policy level
13	Jamuna Grameen Bank	2	SHG	20	6000	12%	100%	852	0.6	0.4	0	RRB trying to increase its SHG portfolio
13												

Source www.basixindia.com/apmat.asp

LENDING METHODOLOGIES

It can be observed that four different patterns of lending methodology are being used by different groups/ micro-Finance Institutions in the state.

- Group lending, where the loans are given to a group, which in turn on-lends to its members. Here the group is responsible for repayment and may enter into any kind of arrangement with its own defaulting sub-borrowers.
- Group guaranteed, individual lending, where the loans are made to individual borrowers with each guaranteeing the repayment by the other and default by any one member leading to stoppage of further loans to all others.
- Individual lending, without collateral security and without any group guarantee.
- Individual lending, with collateral security.

The first methodology is popularly known as the Self-Help Group (SHG) methodology. Groups comprising of 15-20 women from nearly homogeneous socio-economic background who know each other and have frequent interactions with each other act as the financial intermediary. They meet periodically (once a week, fortnight, or month) and each member agrees to contribute a specified amount per meeting to the common pool. Usually an SHG elects a President, a Secretary and a Treasurer and they maintain the books of account and minutes. Once the monthly "thrift" contributions add up to a reasonable amount, after some months, the SHG members start lending to some of their members. The decision is taken collectively, based on need, repayment capacity and funds availability. A stage comes when SHG members need more funds than the thrift amount accumulated by them. They then try to access funds from various external sources such as the specialised micro-finance funding agency: RMK, NABARD, SIDBI, FWWB, or the Government Departments: Social Welfare Department, DRDA, or other financial institutions like commercial banks, non-banking finance companies:

SOME OF THE COMMONLY PRACTICED MODELS INCLUDE

- Many SCGs in one village federate to form a Village Organisation, e.g. UNDP SAPAP in Kurnool, Ananthpur and Mahaboobnagar.
- In some cases, the village level federation is registered as MACS, e.g. groups promoted by CDF.
- Many SCGs in nearby villages form a cluster association, e.g. CARE, Chevella
- Many SCGs promoted by a DRDA in a mandal (a revenue circle) form a federation, e.g. Padmavathi Mahila Sangham, Chitoor.
- In some cases, all the Village Organisations within a mandal have federated together to form a MACS or Mandal Samakhyas.

Many SCGs promoted in different parts of the state federate together as MACS at the state level, e.g. Mahila Vikasa Mutually Aided Co-operative Thrift Societies Ltd

CHALLENGES FACED BY MFIS AND BANKS WHILE EXTENDING MICROFINANCE

We have bifurcated the challenges into Macro and Micro Issues to:

MACRO CHALLENGES

One of the major challenges to delivery and conduct of microfinance is the set of assumptions associated with this activity. These assumptions are as follows:

- Assumption that the poorest wish to be self-employed: Most of the proponents of micro-credit as the strategy for poverty eradication make the explicit assumption that the poor would all like to be self-employed. It is true that a certain proportion of poor people do like to take up micro-scale farming, processing, manufacturing or trading activities, but usually they do so to supplement their income from wage-employment. A majority of poor people, particularly the poorest (such as landless labourers in India) want steady wage-employment, on- or off-farm.
- Assumption that credit is the main financial service needed by the poor: The experience of SEWA Bank in India for example, shows that women, at least, value a safe place to keep their savings as an important service. However, the field in general does not adequately emphasize other financial services, such as savings and insurance. Savings are particularly

important, as they provide the "equity" for borrowing; act as a cushion for sudden demands of cash such as due to illness in the family or natural disasters; and finally, to some extent act as a guarantee for repayment of loans, where savings are deposited with lenders.

- Assumption that credit can automatically translate into successful micro-enterprises:

  Microfinance is a necessary but not a sufficient condition for microenterprise promotion. Other inputs are required, such as identification of livelihood opportunities, business and production training, establishing of market linkages for inputs and outputs, sub-sectoral analysis and policy reform.

- Assumption that those slightly above the poverty line do not need microcredit, and giving it to them amounts to mis-targeting: This assumption has come from the Grameen Bank experience of successfully reaching microcredit to the poorest, mainly landless women (there is no other example of comparable scale and targeting). However, almost all other programs mainly reach the upper layers among the poor and some, mainly those above the poverty line. Yet this experience is not as well regarded by the field, even though access to credit by those who are not among the poorest is not very much better than for the poorest, and what is more, these people generate much needed wage employment opportunities for the poorest.

- Assumption that microcredit institutions can all become financially self-sustaining:

  While one supports the overall move for financial self-sustainability, the assumption that this can be possible for all microcredit institutions, needs to be examined. Even the best cases are either still not there (e.g. Grameen) or have got there by shedding their NGO avatar which needed early subsidies (e.g. Bancosol/PRODEM).

CONVERTING MICROFINANCING INTO A SAVINGS AND CREDIT MOVEMENT

It can be observed that in Andhra Pradesh the organisational energy that grew with the total literacy campaign leading to the anti-arrack movement of the women was channeled to steer the savings and credit movement. Many organisations, government and non-government took part in this. Large number of women got organised around thrift and credit, forming a very large number of women’s groups. This experience clearly demonstrates that it is possible to make financial services available to a large number of people from the disadvantaged sections of the society, primarily the women. At this juncture, when most other states in India recognise that extending financial services is a critical step towards poverty alleviation, but where the savings and credit activities have not yet taken the form of a movement, it may be worthwhile taking a look at some of the factors that has made it possible in AP.

MICROFINANCE INSTITUTIONS FACE THE CHALLENGE OF SIMULTANEOUSLY ACHIEVING HIGH ACCESS BY THE POOR WHILE MAINTAINING SUSTAINABILITY, WHICH IS DIFFICULT UNDER THE EXISTING POLICY AND REGULATORY FRAMEWORK

Mainstream Financial Institutions(FIs) find it difficult to significantly expand into microfinance for the various reasons. Firstly, Policy makers' view of the market for microfinance services stems from over a 100 years of attempts to get farmers out of the clutches of "usurious" moneylenders. Secondly, Consequently microfinance has historically been seen as a social obligation rather than a potential business opportunity. Thirdly, There are specific problems with legislation: for example the NABARD Act does not allow it to refinance any private sector FI and do any direct financing (NABARD's direct lending to micro-finance NGOs so far has been out of donor funds) NABARD also refinances commercial banks/RRBs/cooperative banks who lend to mFIs.

THE PROBLEM OF CAPITAL ADEQUACY AMONG INSTITUTIONS INVOLVED IN MICROFINANCE

NGOs invented micro-finance but NGOs are not the best type of agencies to carry out micro-finance on a long-term sustainable basis. This is because the main funds of NGOs are grants, which are very limited. Moreover, if NGOs earn a substantial part of their total income from lending activity, they violate section 11(4) of the Income Tax Act and can lose their charitable status under section 12. This is because microfinance, even for the poorest, is not a charitable activity under section 2(15) of the IT Act. Moreover, NGOs do not have the appropriate financial structure for carrying out micro-finance activities. Because NGOs are registered as societies or trusts, they do not have any equity capital and can never be "capital adequate".

CARRYING OUT ENORMOUS PROJECTS AND BRINGING MILLIONS OF PEOPLE WITHIN THE FOLD OF MICRO FINANCE IS NOT AN EASY TASK

A survey by NCAER in 1994-95 showed that the bottom three income categories, with per capita income up to Rs 250 per month, accounting for 31.7 percent of all rural households, actually reported incomes below expenditures, making them net dis-savers. The inadequacy of livelihood opportunities which would generate a living wage and an income surplus is the major problem. Moreover the survey revealed that this section of the poor comprising 32% of rural household, are all agricultural labourers and non agricultural wage labourers. Bringing them into the fold of microcredit is going to be a major challenge.

DEMAND - SUPPLY GAP IN THE PROVISION OF MICROCREDIT AND MICROSAVINGS IN RURAL AREAS

The existing credit institutions and the initiatives taken by the authorities have not helped the rural poor to improve their standard and welfare. Further with regard to the provision of rural credit there seems to be a big gap between the requirement of rural people in terms of savings and credit options, and the receipt of the same from various financing institutions. The statistics given by Reserve Bank of India , in Banking Statistics, RBI,2003, and by Rural Population Census India, 2001, show that the availability of Banking services to the rural population is just 18.4% through saving/accounts, while the availability of rural loans is still lower at 17.2% coverage of the rural population. Therefore there is a huge gap in the supply of both savings and credit facilities to the rural population, which needs to be covered by the Microfinance institutions.

LACK OF WOMEN ORIENTATION IN MARKETING, EVALUATION AND DELIVERY OF MICROFINANCE

It has been observed out of the history of Microfinance that generally the main consumers of microcredit and the micro savings are the rural women. One of the reasons being the social system and culture of rural India, where men do not approach SHG or NGOs for small amount of credit or savings. Moreover they being busy with agricultural operations do not find the time to spend with an SHG/MFI. Therefore Microfinance institutions to succeed, need to address the women in their schemes for savings and lending. Moreover their evaluation process for giving credit has to be based on the status of women in the rural areas. It is also necessary to have a women oriented approach in marketing Microfinance. This women orientation has been the root cause of success of the Andhra Pradesh Microfinance Model.

MICRO CHALLENGES

Operational factors hampering extension of rural credit are High Transaction costs, document/collateral based lending, repayment issues and removal of the role of money lenders. The amount saved or required by people in rural areas is often miniscule and providing it through the conventional banking system/other formal financial institutions has not proved to be cost effective. The mainstream finance is based on documentary evidence of identity and income streams. But both of these are generally not available with poor in the rural areas. Conventional banking requires that some assets be pledged with the lender as a security, to ensure that the loan would be repaid. In the event of a default the lender has the right to amortise the asset to recover his losses. People in rural areas hardly own any assets (land, jewellery) and as such are left stranded by the conventional banking system. Further since micro credit is not based on documentary evidence, repayment tracking becomes a huge operational issue. Moreover in times of emergencies like natural disasters where the entire rural economy is destroyed, the financing institutions are faced with a situation of write off of the entire portfolio, as there is no alternative for risk mitigation. Moreover majority of the rural population is dependant on the local money lenders for fulfilling their adhoc fund requirements. Moreover moneylenders provide the same, without basing it on any particular need. Therefore MFIs have the challenge of lending to the same population without terming the loan under specific title, or offering micro loans for general purposes, to replace the role of the money lenders.

STRATEGIES

MACRO CHALLENGES

CHALLENGE OF SAVINGS AND CREDIT MOVEMENT

For increasing the accessibility and the reach of the MFI activity to a large volumes of the rural poor, especially the poorest, the challenge of creating this activity into a savings and credit movement, can be met by involving the state machinery. The polity not only gives the mandate to the movement, it also gets the bureaucracy involved in the effort in an active manner and gives it the necessary freedom. As the resources at the command of the state, including both financial and non-financial resources, is very high, this could give a major impetus to the movement.

Apart from giving it the size, involvement of the State also gives it the legitimacy. The Andhra example has amply proved the above statements.

STRATEGY FOR CAPITAL ADEQUACY

A large part of the capital adequacy issues faced by NGOs, can be solved by following the model of Banks-NGO- SHG Linkage, where banks both public and private lend capital to the NGOs actively involved in lending funds to SHGs and other institutions involved in micro credit. Funds can also be garnered from various world and national level developmental bodies, which lend credit for developmental purposes. This example has been successfully practiced by leading organizations like BASIX, which has borrowed from banks like HDFC, ICICI, SIDBI and developmental institutions like Swiss Agency for Development Corporation and Shorebank Corporation,USA, etc. and lent the same to NGOs and SHGs in AndhraPradesh for providing micro credit. Today one has the opportunity **to** bring in private capital to fund outreach programmes. The private capital could be used to as the equity component of Micro finance institutions MFIs.

STRATEGY FOR INCLUSION OF VAST MAJORITIES ESPECIALLY THE WAGE WORKERS INTO MICRO CREDIT

Firstly, microcredit programs can be re-engineered to target not the poorest (whom it can harm) but the poor and indeed some non-poor micro entrepreneurs. Because commercial farmers and micro entrepreneurs run enterprises which generate much needed wage employment opportunities for the poor and the poorest. There is no harm in supporting the poorest first with wage employment before they become self-employed. Once they get wage employment, they would automatically get in to the fold of micro savings and then perhaps go for micro credit. Secondly MFIs and banks working through the NGO-SHG linkage model can fund NGOs for increase their activities relating to providing opportunities for wage employment or for becoming micro entrepreneurs.

MICRO CHALLENGES

STRATEGY FOR RECOVERING TRANSACTION COST

- Use of Post office as a physical contact point for delivery of micro finance.
- Every post office can have nodal agency which can help the villagers to form an SHG and process the project towards securing microfinance.
- Post offices network and post office staff can be used to deliver banking services through Banko Postal.
- Technological upgradation in operations of the micro and small scale sectors would increase the efficiency, speed up disbursals and accounting processes empowering the participants as also the administrators.

- Use of ATMs to accept payment, opening of a/cs, with out checkbook, collection of Small deposits, provision of microcredits, selling of saving bonds and insurance.

- Automation in a phased manner will surely help in realizing bigger, faster, bigger growth at all levels of financial industry.

- Further tie ups with NGOs and SHGs already functioning in the rural area, could help reducing transaction cost, by making them to deliver the finance. These institutions with their database and history on the consumers of the area, will be effective micro credit deliverers with little amount of training given to them. This will result in increase of micro credit and reach for the MFIs at the same time reducing direct cost of lending.

STRATEGY TO OVERCOME DEFAULT/ RECOVERY ISSUES

- A well established lending mechanism through groups should be set up wherein periodic reviews meetings are conducted to monitor the working of the same.

- Lending without documentation is a necessity of micro credit. Here social collaterals, in the form of group liability/undertaking can be implemented for lending to an individual. Since in the village the reputation is matter of great concern, borrowers generally do not default when they have been backed by a group of peers and seniors. Involving the SHG or NGO in lending would therefore be a prudent option for MFIs, as they bring with them the transaction histories of borrowers of the village. Another innovative approach to manage repayment issues and default problems would be tie up with local panchayat or village head (mukhia) and bring them into the lending operations as an Advisory committee. This would ensure personal history of the individual borrowers being known as a village is generally a small place, where people know each other. Moreover for the borrowers when they are being assessed by the village chief would be on guard about their reputation.

- Lending needs to be coupled with insurance and other services such as training and marketing support, govt. subsidies etc.

CONCLUSION

There has been an increasing tendency to use the term microfinance seen to be the most effective intervention towards poverty alleviation, to refer solely to formalized institutions - leaving aside a large informal section that could include individuals and informal association as well current efforts to mainstream microfinance operations in the non-financial sector of the country. An integrated participation approach can be adopted by all sectors of banks, also including NBFC and MFIs for ensuring the effectiveness of delivery system as well as for recovering transaction costs. This could be achieved by tieing for all resources. Encouraging new microfinance institutions (MFIs) with a supportive policy and regulatory framework and financial resources to enlarge and expand their services. Building a strong demand system in the form of community-based development financial institutions (CDFIs), with the help of NGOs and others. Incentivizing existing mainstream financial service providers (apex financial institutions, such as NABARD, SIDBI and HUDCO, commercial banks, insurance companies, co-operatives, and

NBFCs) to enter the microfinance sector as a serious business proposition.

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