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Books

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio," Ohio State University.

Contributions to books

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

Journal and other articles

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.
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Conference papers

- Chandel K.S. (2009): "Ethics in Commerce Education." Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

Unpublished dissertations and theses

- Kumar S. (2006): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University.

Online resources

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- Kelkar V. (2009): Towards a New Natutal Gas Policy, Economic and Political Weekly, Viewed on 11 September 2009 http://epw.in/epw/user/viewabstract.jsp

MICRO FINANCE IN INDIA AND MILLENNIUM DEVELOPMENT GOALS: MAXIMIZING IMPACT ON POVERTY

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ABSTRACT

The context for this paper derives from the current overriding emphasis on microfinance in rural finance discourse and its celebration as the new 'magic wand' in the fight against poverty. The paper discusses the factors and theoretical position associated with evolution of microfinance and its global acclaim based on it being a Win-Win proposition for both Micro Finance Institutions (MFIs) and Clients. The paper brings out the missing link of impact assessment in the Indian context, which is a precondition for poverty reduction on account of the influence of new paradigm of Institutional viability under commercial microfinance. The paper argues for mainstreaming impact assessment in evaluation of programmes for realizing the full potential of microfinance in achievement of Millennium Development Goals (MDGs).

This paper also draws on the doctoral field research conducted by the author in 2005 to assess socio economic impact of Self Help Group (SHG)-Bank Linkage programme of microfinance in India.

INTRODUCTION:

MICROFINANCE – 'THE NEW MANTRA IN RURAL FINANCE'

The rural finance policy pursued in most developing countries beginning from 1950s was based on providing subsidized credit through state controlled or directed institutions to rural segments of population. Expansion of credit coverage through state interventions was based on various theoretical assumptions. Seibel & Parhusip (1990) mention that this approach was based on the premise that rural micro-entrepreneurs are unable to organize themselves, they need subsidized credit for increasing their income and are too poor to save. Yaron, Benjamin & Piprek (1997)have traced this traditional approach in rural finance leaning heavily towards direct interventions to Keynesian influence. Under this approach, in addition to the assumptions listed above, the key problem areas visualized in rural financial markets included a lack of credit in rural areas, absence of modern technology in agriculture, low savings capacity in rural areas and prevalence of various moneylenders.

On account of the above developments, the resultant shift in rural finance discourse and operational paradigm is shown in Table

Features	Old Paradigm	New Paradigm
Problem Definition	Overcome market imperfections	Lower risks and transaction costs
Role of Financial Markets	Implement State plans Help the poor	Intermediate resources efficiently
View of users	Beneficiary	Clients
Subsidies	Create subsidy dependence	Create independent institutions
Sustainability	Largely Ignored	A major concern
Evaluations	Credit impact on beneficiaries	Performance of financial Institutions

Emergence of micro credit in late 1970s and early 1980s in the backdrop of growing world attention on deficiencies of earlier approach in rural finance explains much of its dominant theoretical underpinnings. The initial micro credit innovations in disparate settings of Bangladesh, Bolivia and Indonesia demonstrated the success of micro lending to poor without collateral requirements. Rhyne (2001) observes that these interventions demonstrated techniques for lending to the poor with better outreach and cost recovery. Despite the contextual differences, the unifying thread of these early innovations lay in their certain common principles like reliance on character or peer pressure rather than collateral as loan security, leveraging social capital, positive incentives for repayment and interest rates that approached or covered cost. These innovations acted as catalysts for replication across the globe and their underlying principles continue to form the bedrock of microfinance interventions till date.

The universal appeal of microfinance stemmed from its ability to reach the poor without social collateral and generation of near full recovery rates through what has been described as a Win-Win proposition. The mainstreaming of microfinance worldwide and its global acceptance in development community is based on this Win-Win proposition. This concept of provision of sustainable financial services at market rates has been termed as 'Financial System' approach or 'Commercial microfinance'. The progress report submitted by Micro credit summit campaign indicates that as of Dec.31, 2004, 3,164 microcredit institutions have reached 92.27 million clients translating into microcredit interventions having reached 333 million poor families worldwide. The obsession with microfinance in development sector is succinctly captured by Remenyi (2000, p30) , "every bilateral donor and NGO seems to believe that it too must be involved in microfinance if it is to retain credibility as a development agency with an option for the poor".

GLOBAL ACCEPTANCE OF MICROFINANCE

It is claimed that this new paradigm of unsecured small scale financial service provision helps poor people take advantage of economic opportunities, expand their income, smoothen their consumption requirement, reduce vulnerability and also empowers them (CGAP,2003; ADB, 2004)

Former World Bank President James Wolfensohn said "Microfinance fits squarely into the Bank's overall strategy. As you know, the Bank's mission is to reduce poverty and improve living standards by promoting sustainable growth and investment in people through loans, technical assistance, and policy guidance. Microfinance contributes directly to this objective". The emphasis on microfinance is reflected in microfinance being a key feature in Poverty Reduction Strategy Papers (PRSPs).

Realising the importance of microfinance, World Bank has also taken major steps in developing the sector. Formation of Consultative Group to Assist the Poor (CGAP) in 1995 as a consortium of 33 Public and private development agencies and establishment of Microfinance Management Institute (MAFMI) in 2003 are significant landmarks. CGAP acts as a "resource center for the entire microfinance industry, where it incubates and supports new ideas, innovative products, cutting-edge technology, novel mechanisms for delivering financial services, and concrete solutions to the challenges of expanding microfinance" . MAFMI was established with support of CGAP and Open Society Institute for meeting the technical and managerial skills required for microfinance sector.

Current World Bank President in his message to CGAP annual meeting in 2005 acknowledged this by saying "CGAP has helped build consensus around the fundamentals of an inclusive financial system. The CGAP Key Principles of Microfinance, endorsed last year by the G8, have this year been championed by Worldwide, as a result of the CGAP system, good practice is increasingly becoming standard practice".

MICROFINANCE & MDG

The current literature on microfinance is also dominated by the positive linkages between microfinance and achievement of Millennium Development Goals (MDGs). Microcredit Summit Campaign's 2005 report argues that the campaign offers much needed hope for achieving the Millennium Development Goals, especially relating to poverty reduction. CGAP (ibid) lends support to this by saying that the growing body of evidence suggests microfinance to be a critical contextual factor in achievement of MDGs. ADB (ibid) in its theme chapter on microfinance also cites access to financial services as critical for eliminating poverty and reaching MDGs. IFAD along with Food and Agriculture Organization (FAO) and the World Food Programme (WFP) declared that it will be possible to achieve the eight Millennium Development Goals (MDGs) by the established deadline of 2015 "if the developing and industrialized countries take action immediately" by implementing plans and projects, in which microcredit could play a major role.

INDIAN MICROFINANCE CONTEXT

Indian public policy for rural finance from 1950s to till date mirrors the patterns observed worldwide. Increasing access to credit for the poor has always remained at the core of Indian planning in fight against poverty. The assumption behind expanding outreach of financial services, mainly credit was that the welfare costs of exclusion from the banking sector, especially for rural poor are very high. Starting late 1960s, India was home to one of largest state intervention in rural credit market and has been euphemistically referred to as 'Social banking' phase. It saw nationalisation of existing private commercial banks, massive expansion of branch network in rural areas, mandatory directed credit to priority sectors of the economy, subsidised rates of interest and creation of a new set of rural banks at district level and an Apex bank for Agriculture and Rural Development (NABARD) at national level. These measures resulted in impressive gains in rural outreach and volume of credit. As a result, between 1961 and 2000 the average population per bank branch fell tenfold from about 140 thousand to 14000 (Burgess & Pande, 2005) and the share of institutional agencies in rural credit increased from 7.3% 1951 to 66% in 1991 .

These impressive gains were not without a cost. Government interventions through directed credit, state owned Rural Financial Institutions (RFI) and subsidised interest rates increased the tolerance for loan defaults, loan waivers and lax appraisal and monitoring of loans. The problem at the start of 1990s looked twofold, the institutional structure was neither profitable in rural lending nor serving the needs of the poorest. In short, it had created a structure, 'quantitatively impressive but qualitatively weak'.

Microcredit emergence in India has to be seen in this backdrop for a better appreciation of current paradigm. Successful microfinance interventions across the world especially in Asia and in parts of India by NGOs provided further impetus. In this backdrop, NABARD's search for alternative models of reaching the rural poor brought the existence of informal groups of poor to the fore. It was realised that the poor tended to come together in a variety of informal ways for pooling their savings and dispensing small and unsecured loans at varying costs to group members on the basis of need. This concept of Self-help was discovered by social-development NGOs in 1980s. Realising that the only constraining factor in unleashing the potential of these groups was meagreness of their financial resources, NABARD designed the concept of linking these groups with banks to overcome the financial constraint. The programme has come a long way since 1992 passing through stages of pilot (1992-1995), mainstreaming (1995-1998) and expansion phase (1998 onwards) and emerged as the world's biggest microfinance programme in terms of outreach, covering 1.6 million groups as on March, 2005 . It occupies a pre-eminent position in the sector accounting for nearly 80% market share in India.

Under the programme, popularly known as SHG-Bank Linkage programme there are broadly three models of credit linkage of SHGs with banks. However, the underlying design feature in all remains the same i.e. identification, formation and nurturing of groups either by NGOs/other development agencies or banks, handholding and initial period of inculcating habit of thrift followed by collateral free credit from bank in proportion to the group's savings. In accordance with the flexible approach, the decision to borrow, internal lending and rate of interest are left at the discretion of group members. Its design is built on combining the "collective wisdom of the poor, the organizational capabilities of the social intermediary and the financial strength of the Banks".

The success factors of the programme lie in it being beneficial for both banks and clients – another example of Win-Win proposition. The programme is an attractive proposition for banks due to high recovery rates and lowering of transaction costs by outsourcing costs associated with monitoring and appraisal of loans. Records show a recovery rate as high as 95% for loans extended by banks to SHGs and a study sponsored by FDC , Australia, it was observed that the reduction in costs for the bankers is around 40 % as compared to earlier loans under Integrated Rural Development Programme (IRDP). Similar findings in respect of commercial benefit of SHG lending to banks were reported by Siebel & Dave (2002) . The programme's exclusive focus on reaching those sections of population, who were hitherto out of reach of financial system, has increased the coverage of poor. Non reliance on physical collateral and total flexibility in loan purpose and amount has also resulted in increased coverage of the poor and the marginalised.

The programme has received strong public policy support from both Government of India and Reserve Bank of India. The importance attached to it by Government is exemplified by mention of yearly targets by Finance Minister in his annual budget speech as well as introduction of similar group based lending approach in government's poverty alleviation programme. The success of the programme in reaching financial services to the poor has won international admiration. World Bank policy paper hails the programme and states that it is particularly suited to India because the model capitalises on country's vast network of rural bank branches that are otherwise unable to reach the rural poor.

"FINANCIAL SYSTEM' APPROACH – SHIFTING OF 'GOALPOST' & ITS IMPACT

The growth of microfinance in India has also to be seen in the light of financial sector reforms in India starting from 1991 and the global emphasis on commercialization of the sector. Under the new approach has been deeply influenced by the reorientation among international rural financial policy makers centering around concepts such as self-help, self sustained growth and institutional viability. As the size limitations of paper constrain a detailed enumeration of field research findings, only the key findings of the field research having a bearing on the central aspect of the paper are listed -

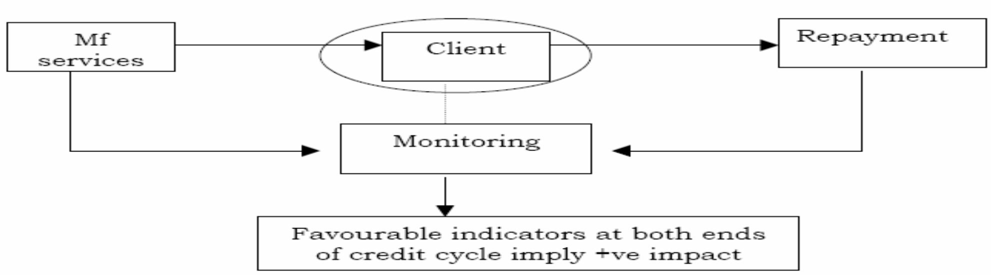
- All clients were saving regular amounts of money at monthly/bimonthly interval building up the group savings
- Internal loaning of group funds was very high resulting in significant waiting time for members interested in borrowing
- Social awareness index of group members as measured on Likert Scale showed a definite positive trend after joining the group
- Reliance on moneylenders for credit eliminated or decreased in case of approx 2/3rd of clients
- No specific benchmarks for group membership leading to inadequate poverty targeting
- Only 6% clients had taken up any economic activity post group formation
- Marginal increase in real term income level after joining the group
- Bank credit to group often a result of banker's zeal to achieve targets rather than based on group demand
- Bank credit as well as loans used overwhelmingly for consumption purpose
- Group members not willing to borrow to take up economic activity on account of credit risk and absence of skills
- Prompt Repayment a factor of group pressure and sourced out of reduced consumption, extra work and borrowing from other sources
- High rates of interest in internal lending among group members (2-3%) was seen by members as prescribed by the group forming agency and accepted as being better than even higher rates of informal sector.

INDUSTRY INSIGHT: INDIAN RETAIL BANKING (2006 EDITION)

Retail banking in India has fast emerged as one of the major drivers of the overall banking
Industry and has witnessed enormous growth in the recent past. This report helps in Banks, financial institutions, MNC Banks, academicians, consultants and researchers to have a better understanding of the booming opportunities in retail banking in India.

In this scenario, it seems rather naïve to visualize flourishing of microenterprises through provision of microcredit. Dichter (2006) in his paper drawing on African experience rightly draws attention to both these aspects by pointing to the "infertile context" of rural settings and says "if the large majority of us in the advanced economies are not entrepreneurs, and have had in our past little sophisticated contact with financial services, and if most of us use credit, when we do, for consumption, why do we make the assumption that in the developing countries, the poor are budding entrepreneurs".

In the absence of any significant economic development, the findings logically point to an unmistakable trend of repayments being made out of reduced consumption, increased working time as farm labour and borrowing from relatives, other groups in vicinity or moneylenders in extreme cases. In such a scenario, while loan volume, outreach and repayment may outwardly justify the intervention and make it attractive for bankers, its impact on economic gains for clients gets missed out. The common underlying assumption behind reliance on such parameters is belief in the linear cycle of credit, starting from credit off take followed by economic activities, rise in income/assets and repayment out of additional income.



Reliance on credit off take and recovery as a proxy for positive economic development ignores the critical issue of 'impact assessment' at client level. This aspect of microfinance has received increasing attention. Dichter (ibid) feels that the use of proxies like repayment rate to justify impact is not tenable as it does not examine the source of repayment. Money being fungible, repayment needs to be traced to income from business activity to justify it as criteria. Deubel (2006) citing (Buckley, 1997) states that loan repayment rate as an indicator may show participant's ability to repay but does not take into account the impact of loan on enterprise. Weiss & Montgomery (2004) observe that high recovery rates may be due to intense group pressure and do not reflect capacity to repay.

While microfinance may be a winning proposition for banks, the winning evidence on client's side seems doubtful. The institutional approach flowing out of past negative experiences has shifted the goalpost to financial solvency but in the process missed the vital link of credit usage.

In this scenario, it can be said with certainty that potential of microfinance to contribute to achievement of MDGs in India, especially reduction of poverty remains suspect. Greeley (2005) rightly notes that in absence of specific poverty targeting and mainstreaming of impact assessment, the claims about the impact of microfinance on the achievement of MDG lacks credibility.

ROAD AHEAD

Indian rural finance sector is at crossroads today. Following the financial sector reforms with its emphasis on profitability as the key performance benchmark, banks are increasingly shying away from rural lending as well as rationalizing their branch network in rural areas. Burgess & Pande (ibid) 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 areas, the pattern was reversed in post reform period. Thus while, access of credit to the rural poor has reduced in post reform period, the policy recommendation is to fill this gap through micro credit. The SHG-Bank linkage programme has witnessed phenomenal growth and the current strategy is to focus on 13 underdeveloped states as also graduate the existing SHGs to the next stage of micro enterprises.

Adequate emphasis on impact assessment is an integral part of the **triangle of factors** necessary for judging microfinance intervention.

Impact

Institutional innovations

Financial sustainability Outreach to the poor

Critical Triangle

Mainstreaming of impact assessment in the SHG-Bank linkage programme will call for extra efforts and resources as also create conflict with the present focus on numerical growth. In addition to this, irrespective of socio economic status, credit can be put to little productive use in resource deficient and isolated areas. In such areas, credit flow has to follow public investments in infrastructure and provision of forward and backward linkages for economic activities.

CURRENT STATUS RELATING TO MICROFINANCE SECTOR IN INDIA

The term microfinance is defined in the Indian context as "the provision of thrift, credit and other financial services and products of small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards"

i. In 2000, it was indicated that loans up to Rs.50,000 (Rs.125,000 in the case of housing finance) were considered as microfinance
ii. The draft microfinance Bill(2007) reiterated the same definition. The average loan per customer in the Indian microfinance sector however is much smaller and ranges between Rs. 3500 and Rs. 5000 for both models. While the upper limit of microfinance loans has been specified as Rs.50,000, the lowest end loans of most commercial banks, namely personal loans, start at Rs. 100,000
iii. The definitions pertain to the microcredit aspect, though increasingly microfinance providers are also offering micro insurance, micro pensions and remittances by tying up with mainstream providers.

RECENT DEVELOPMENTS IN INDIA RELATING TOTHE SECTOR

ELIGIBILITY FOR PRIORITY SECTOR LENDING

The Reserve Bank of India (RBI) encouraged banks to participate in microfinance by reckoning Lending to the sector as part of their priority sector lending, which needs to account for 40% and 32% of net bank credit in the case of domestic and foreign banks respectively.

OTHER GOVERNMENT INITIATIVES

In 1993, the Ministry of Human Resource Development, Government of India set up the Rashtriya Mahila Kosh (RMK) with initial funding of Rs.310 million to act as a provider of wholesale funds for the sector and to develop the sector through capacity building and advocacy. In 1999, the SIDBI Foundation for microcredit was launched to provide both financial and non financial support to MFIs.

In 2001, the microfinance development fund of Rs. 1 billion was set up under NABARD to fund various development activities relating to microfinance. It was later in 2005-06, re-designated as Regulating India's Microfinance Sector: the Microfinance Development and Equity Fund with an increased corpus of Rs.2 billion. In 2005, NBFCs engaged in microfinance were permitted to obtain foreign equity investment subject to the permission of the Foreign Investment Promotion Board. The minimum amounts were \$0.5 million when investment was less than 51% of the total equity, \$5 million when it was less between 51% and 75% of total equity and \$7.5 million when investment was greater than 75% of total equity.

PROPOSED MODEL FOR REGULATION OF MICROFINANCE IN INDIA

MFI BANK PARTNERSHIP MODEL

In 2002, India's largest private sector bank, ICICI Bank, initiated an MFI partnership model according to which MFI loans remained on the bank's balance sheet though the loan origination; monitoring and collection services were performed by the MFI for a fee. The MFI also shared the credit risk up to a specified level. The policy environment largely supported this innovation which increased considerably the pool of funds available for MFIs. In 2006, undesirable practices of some MFIs in Andhra Pradesh led the RBI to initiate new measures. RBI urged banks to strengthen their know- your-customer (KYC) procedures by ensuring receipt of day-end transaction information, as the loans were on the books of the bank. This means that the model can be used only in situations where the bank and MFI have the technology necessary to meet the above requirement.

BUSINESS FACILITATOR/ BUSINESS CORRESPONDENT MODEL

First, the eligibility criteria excluded a number of large MFIs in the country. While most other kinds of MFIs are eligible to function as BCs, NBFCs not registered as not-for-profit companies were excluded through subsequent notification.

Second, BCs are not permitted to charge fees from the clients as banks are expected to remunerate them. In the case of loans, this results in effective capping of the overall interest rate that the borrowers could be charged as banks are not permitted to charge interest rates above their benchmark prime lending rate for loans which are lower in amount than Rs. 200,000. This caps the interest rate of all microfinance loans as these loans by definition are lower than Rs.50,000.

Third, in a later notification, RBI stipulated that every BC should be attached to a particular bank branch (called the base branch) and the distance between the place of business of a BC and that of the branch should not exceed 15 km in rural, semi-urban and urban areas and 5 km in metropolitan areas. This restriction also reduced the attractiveness of the scheme.

CAPITAL ADEQUACY REQUIREMENTS OF NBFC MFIs

In 2008, RBI increased the capital adequacy ratio of MFIs registered as NBFCs and having an asset size of Rs. 1 billion. As against 10%, their minimum capital to risk assets ratio was required to be 12% by March 31, 2009 and 15% by March 31, 2010.

MOBILE BANKING GUIDELINES

With growth in number of mobile phone subscribers in the country, some banks have started offering mobile based services to customers including mobile payments, which implies debit or credit of funds in a customer's account based on instructions received over mobile phones.

CURRENT REGULATORY STRUCTURE IN INDIA

First, the Bill permitted MFOs to register with NABARD and accept savings from members subject to their meeting the following conditions: it should have been in existence for at least three years, it should have net owned funds of at least Rs.0.5 million and it should have satisfactory management.

Second, the Bill provided for mandatory registration and periodic report submission (including annual audited reports) by all MFOs, seeking to accept deposits. This has the potential to build a robust database of the sector over time; and help institute greater professionalism in the functioning of the MFOs.

Third, it provided for inspection of MFOs by the regulatory authorities in case of complaints and a dispute resolution mechanism. These steps could serve as important consumer protection steps in the microfinance sector.
There are several provisions in the Bill which, however, merit reconsideration.

UNIQUE CHALLENGES OF MICROFINANCE REGULATION IN INDIA

Regulation of the microfinance sector poses unique challenges. They are worth enumerating as there appears to be inadequate appreciation of these challenges in India.

1) MFIs may not pose systemic challenges in the sense that it is unlikely that even the largest MFIs are "too big to fail". For example, the asset size of one of the largest MFIs in the country, SKS Microfinance Private Limited in March 2009 was Rs.24.6 billion while that of the largest private sector bank in the country, ICICI Bank, was around Rs. 3793 billion, approximately 154 times as large (www.icicibank.com and www.sksindia.com). MFIs however deal with low income groups least likely to bear downside risks, in a democratic country, politically the MFIs may be "too sensitive to fail". The implicit contingent liabilities are on the State, making their effective regulation in the interest of the Government.
2) In the case of bank regulation, banks are often required to make full provisions for loans without collateral. In the case of MFIs, most loans are collateral free and hence no such measures are possible. On-time repayments on microfinance loans however tend to be high, though experience shows that once a loan is overdue, the ultimate collection of the loan is less likely, than in the case of loans that are backed by collateral (Rosenberg, 2008). As a result, provisioning already delinquent loans needs to be more aggressive for microcredit loans as compared to other loans.
3) While bank failures may be contagious in the sense that the failure of one bank is likely to impact solvency of others due to the interdependent nature of the payments system, the interdependencies between group members in microfinance can lead at times to a different kind of contagion effect. Widespread defaults can occur either if some members start consistently defaulting or if there are rumors of MFI failures. An important incentive for repayment of collateral free MFI loans is the ability to obtain larger loans in the future. A regulator of MFIs has therefore to be highly sensitive to these realities.
4) MFI customers are often first time users of financial services and usually have low education. The responsibility on the MFI to offer the right products which suit their members' needs as well as provide adequate financial education and training to them is considerable. Regulation needs to necessarily oversee this important element of MFI operations.

5) Merely formulating regulation regarding codes of conduct for MFIs and providing channels for dispute resolution regarding MFI practices is not sufficient. MFI customers need to be made aware of them by using appropriate communication. Moreover the channels need to be easily accessible.
6) The cost that MFIs would incur in complying with regulation needs to be considered, as it may have an impact on their lending rates.

PRUDENTIAL ISSUES

Some of the main issues include minimum capital limits, capital adequacy requirements and loan loss provisions. A minimum capital limit is usually set which is often used as a rationing device in order to keep the number of MFIs to be supervised within manageable limits (Rosenberg, 2008). Capital adequacy requirements are based on the premise that capital acts as a cushion against possible losses for depositors and creditors. Similarly loan loss provisions are required so as to build reserves to provide for future losses. The peculiarities of MFI portfolios discussed earlier need to be taken into account while setting these requirements.

NON PRUDENTIAL ISSUES

Transaction costs in microfinance typically include cost of group formation, group training and cost of weekly collections at the customer's doorstep. As the value of the loans are typically small, these transaction costs are high on a percentage basis and contribute to higher interest rates as interest rates are a function of risk, cost of funds and transaction costs.

MAJOR FINDINGS

Retail lending across the globe has been a showcase of innovation in the commercial banking sector. Countries like China and India have emerged as potential markets with huge investment opportunities. The higher growth of retail lending in emerging economies is attributable to fast growth of personal wealth, favourable demographic profile, rapid development in information technology, the conducive macro-economic environment, financial market reforms, and several micro-level supply side factors. The retail banking strategies of banks are undergoing major transformation, as banks adopt a mix of strategies like organic growth, acquisitions and alliances. This has resulted in a paradigm shift in the marketing strategies of the banks. Public Sector Banks players are adopting aggressive strategies, leveraging their branch network and their customer vase to earn a larger share of the retail pie. Banks are also going in for innovative strategies like cross selling and packaged selling of retail products. At the same time, new foreign players are also entering this high growth sector.

CONCLUSION

The Indian economy at present is at a crucial juncture, on one hand, the optimists are talking of India being among the top 5 economies of the world by 2050 and on the other is the presence of 260 million poor forming 26 % of the total population. The enormity of the task can be gauged from the above numbers and if India is to stand among the comity of developed nations, there is no denying the fact that poverty alleviation & reduction of income inequalities has to be the top most priority. India's achievement of the MDG of halving the population of poor by 2015 as well as achieving a broad based economic growth also hinges on a successful poverty alleviation strategy. In this backdrop, the impressive gains made by SHG-Bank linkage programme in coverage of rural population with financial services offers a ray of hope. The paper argues for mainstreaming of impact assessment and incorporation of local factors in service delivery to maximize impact of SHG –Bank linkage programme on achievement of MDGs and not letting go this opportunity. In conclusion, it is time to address regulatory issues to enable the microfinance sector to contribute more effectively to the goal of financial inclusion, and to provide an environment in which all stakeholders can participate with confidence of zero-based poverty level.

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