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   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

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

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- Garg, Sambhav (2011): "Business Ethics" 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**UNPUBLISHED DISSERTATIONS AND THESES**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. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

# REACHING THE UNREACHABLE THROUGH MICROFINANCE: CHALLENGES BEFORE INDIA

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**ABSTRACT**

*It is also widely accepted that poverty and hunger arise not because there are no goods or food, but because billions of people lack income to purchase them (Chatterjee, 2009). Although the Indian economy has grown steadily over the last two decades, its growth has been uneven when comparing different social groups, economic groups, geographic regions, and rural and urban areas. Through this paper the author tries to make a humble effort to give a vivid picture of what has been done for inclusive development through the framework of microfinance in India. This section of people have been reported to have very little access to finances, timely access too is another constraint. Microfinance has been one of the most innovative as well as challenging measures for policy makers as well as implementers. This study will be a systemic review of available authentic documents to understand the existing framework of microfinance in India and its challenges.*

**KEYWORDS**

Microfinance, Unreachable, Challenges.

## INTRODUCTION

Poverty has always been around with humanity, and so we are all to some extent habituated to it - it is for most people a fact of life, as natural as the sun and moon. Thus the poor have always been a neglected section of the society as this section does not offer any luring rewards for investment. The maximum that we have seen limits itself to charity, donations, aids, grants, sanctions and subsidies etc with a view of "neki kar aur kuein mein daal" (do good deeds say like charity and then forget about it, no further contemplation is required). This has done more harm than help as it has further aggravated their present situation by making them more dependent on external sources and moreover by not taking any initiative towards making them realize their own potential. Yunus & Weber (2007) are also a critic of development aid and the welfare state, which inculcate in the individual a sense of dependence or natural entitlement. "Charity, like love, can be a prison," he declares. For this very reason these people at the Bottom of the financial Pyramid (BOP) have been hitherto unreachable not so much in terms of policies as in terms of their implementation and efficient execution. But by thinking of the poor as not creditworthy because they possess no collateral, banks in Yunus's opinion, practice a kind of "financial apartheid". Micro-credit, in his view, uses the power of cash capital to liberate the potential of human capital. He reminds us that the etymological root of the word credit is "to believe, put trust in".

"Microfinance" segregated into 'micro' and 'finance' implies micro or small loans and finance or financial services here are meant for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as "Micro Finance Institutions" (MFIs). In microfinance, small amounts of loan, coupled with financial discipline, ensure that loans are given more frequently; thus credit needs for a variety of purposes and at shorter time intervals can be met (Vatta 2003). More broadly, microfinance refers to a movement that envisions a world in which low-income households have permanent access to a range of high quality financial services (taking little or no collateral) to finance their income-producing activities, build assets, stabilize consumption, and protect against risks. Its clientele usually includes self-employed, household-based entrepreneurs. Microfinance is synonymous with rural and semi-urban credit delivery system (Kaladhar 1997; Vatta 2003). Women often comprise the majority of clients. An MFI can operate as a nonprofit such as a Non Government Organization (NGO), Credit Cooperative, Non Bank Financial Institution (NBFI), or even a formal, regulated for profit bank. Poverty reduction is the ultimate motive of microfinance (Kaladhar 1997).

It is now widely accepted that poverty and hunger arise not because there are no goods or food, but because billions of people lack income to purchase them (Chatterjee 2009). India is the second largest country in terms of population next only to China and is heading towards being the first. According to a 2005 World Bank estimate, 456 million Indians (41.6 % of the total Indian population) now live under the global poverty line of $1.25 per day. Although the Indian economy has grown steadily nearing a double digit growth rate (Indian Economy grew by 8.9% in the second quarter of the current fiscal year 2010-11) over the last two decades, its growth has been uneven when comparing different social groups, economic groups, geographic regions, and rural and urban areas.

This section of people have been reported to have very little access to finances, timely access too is another constraint. Challenges lie both in policy formulation and their implementation. Microfinance has been one of the most innovative as well as challenging measures for policy makers as well as implementers. In the early years of microfinance, most organizations lending to the poor were funded by private or government grants. In the1990s, it became apparent that microfinance institutions would be unable to sustain their rapid growth rates if they depended solely on grants for funding. Many microfinance institutions started to restructure their operations to make themselves attractive to investors. As Yunus & Jolis (2003) put it that difficult it may seem it is not impossible to seep in the idea that the poor are not only worthy of a subsidy or a grant or charity but they are bankable, credit worthy as they have abilities that they can bank on to repay their loans. A harsh aspect of poverty is that income is often irregular and undependable. Access to credit helps the poor to smooth cash flows and avoid periods where access to food, clothing, shelter, or education is lost.

Though the concept of microfinance has a foreign birth place it has well spread not only in less developed and developing countries like India but also across indigenous areas of developed countries. But India is a typical study and not a type study even amongst developing nations and reasons are galore. The vast geographical spread (It is the seventh-largest country in the world), various physiographic regions (as varied as Mountains, Plains, Deserts etc.), massive population (more than 1.18 billion as on April, 2010), widespread illiteracy [According to the latest survey by the National Sample Survey Office (NSSO) in June 2008, the literacy rate among the population with age 7 and above was 72% whereas the adult population (age 15 and above) had a literacy rate of 66% which is well below the world average literacy rate of 84% and India currently has the largest illiterate population of any nation on earth.] and subsequently poverty, further lead to lopsided economic development.

Is it the population that leads to illiteracy and poverty or the illiteracy that leads to population and poverty? Whatever the case, the fact of the matter is that India needs to immediately address the above issues with utmost sincerity. The most peculiar aspect is the uniqueness in terms of socio-cultural-economic-political-geographical aspects of the North East West South (NEWS) of the country. Hence it is difficult to replicate one single thing in all parts of the country. This paper makes an effort to understand the challenges faced in reaching the hitherto unreachable through microfinance in a country like India.

## REVIEW OF LITERATURE

### GENESIS

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world. But the latest version of the same 'Microfinance' received an impetus in the mid-1990s, after the World Summit for Social Development was held in Copenhagen in March 1995 and with the United Nations declaring the year 1996 as the International Year of Eradication of Poverty and 1997-2006, as the first International Decade for the Eradication of Poverty. Around the same time, the World Micro Credit Summit at Washington D C in

February 1997 announced a global target of supporting 100 million of the world's poorest families, especially women, with micro credit for self employment and other financial and business services by the year 2005(Nair 2001).

The initial idea of the creation of buyer power was conceptualized around grassroots cooperatives and micro-credit and number of initiatives around the provision of small loans to get the disadvantaged out of poverty and to make them accept entrepreneurial responsibilities were central considerations (Chatterjee 2009). But what we see as a formal microfinance today evolved in Bangladesh, Indonesia, Philippines and Sri Lanka and has now been customized and adopted in India too. In India, a very large number of the poor continued to remain excluded from the large and organized formal banking system hence the need for an alternative credit delivery mechanism which would meet the requirements of the poor was acutely felt in the late 1980s (A Ramanathan 2009). Though the concept of micro-finance in India was introduced sometimes in 1985, yet by 1996 it was widely accepted and implemented. The National Bank for Agriculture and Rural Development (NABARD) was the pioneer which initiated a search for alternative policies, systems and procedures, savings and loan products, other complementary services, and new delivery mechanisms, that would fulfill the requirements of the poorest by improving their access efficiency with the help of an already existing wide network of bank branches. Thus the Self Help Group (SHG) - Bank Linkage Program (BLP) took shape. The intent initially was philanthropy and charity but gradually microfinance gained ground as a profitable business proposition. The charity model gels well with the destitute i.e. the poorest of the poor but the relative poor will benefit more from the business model (Srnec & E.Svobodová 2009). As on date, microfinance has multiple players the Cooperatives, Regional Rural Banks (RRBs), Commercial Banks (CBs), MFIs, Non Governmental Organization (NGOs) etc.

**THE GROWTH**

The following figure 1 depicts the journey of the development of microfinance institutes in less developed countries (LDCs). The informal types Microfinance Institutes (MFIs) gradually are getting transformed to formal types of MFIs. In India, NABARD launched a Pilot Project by linking 255 SHGs with banks in 1992, the programme has reached to linking of 69.5 lakh saving-linked SHGs and 48.5 lakh credit-linked SHGs and thus about 9.7 crore households are covered under the programme, envisaging synthesis of formal financial system and informal sector (NABARD 2009-10). Microfinance sector has traversed a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance, micro remittance and micro pension.

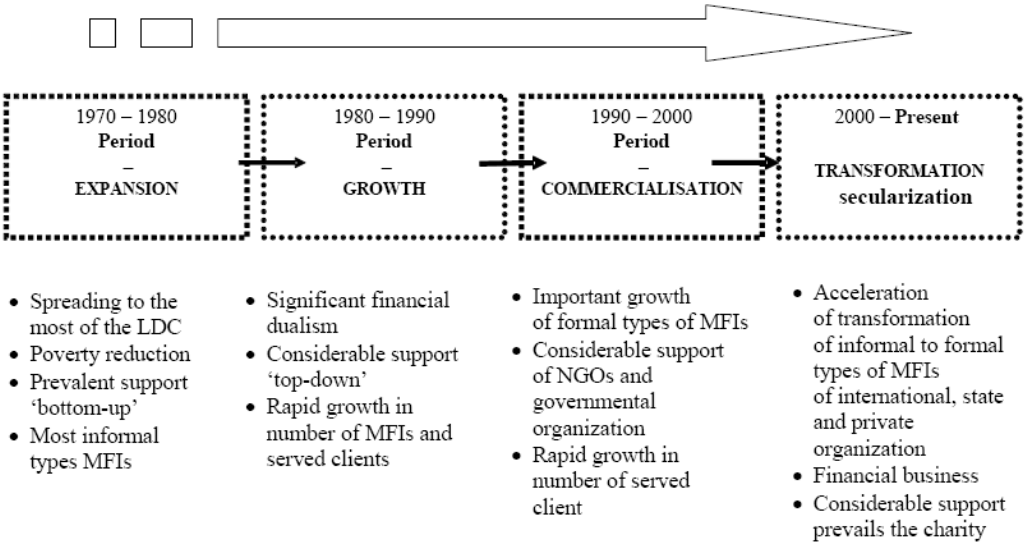


Figure 1. Development of MFIs' activities

Source: Srnec (2007)

## THE PROCESS: THE TWO MODELS SHG-BLP AND MFI

SHG - Bank Linkage Model involves the SHGs financed directly by the banks viz., CBs (Public Sector and Private Sector), RRBs and Cooperative Banks. MFI - Bank Linkage Model covers financing of Micro Finance Institutions (MFIs) by banking agencies for on-lending to SHGs and other small borrowers. SHG-Bank Linkage Programme, in the past eighteen years, has become a well known tool for bankers, developmental agencies and even for corporate houses.

## PRESENT STATUS

Figure 2 gives an overview of the progress of microfinance under the two models: SHG and MFI in India.

FIGURE 2

**Progress under Microfinance – Bank loans disbursed to SHGs**
**Agency-wise loans disbursed during 2009-10**

(Amount ₹ lakh)

| Sr. No. | Name of the Agency | Loans disbursed to SHGs by Banks during the year | | Out of Total – Under SGSY | | Out of Total – Exclusive Women SHGs | |
|---|---|---|---|---|---|---|---|
| | | No. of SHGs | Loans disbused | No. of SHGs | Loans disbused | No. of SHGs | Loans disbused |
| 1 | Commercial Banks | 977521 | 978018.55 | 157560 | 121549.57 | 889177 | 904331.26 |
| 2 | Regional Rural Bank | 376797 | 333320.06 | 67531 | 68241.02 | 284120 | 273912.79 |
| 3 | Cooperative Bank | 232504 | 133991.75 | 42312 | 30009.47 | 121179 | 64692.75 |
| | **Total** | **1586822** | **1445330.36** | **267403** | **219800.06** | **1294476** | **1242936.80** |

**Agency wise Bank Loans provided to MFIs during 2009-10 and loans outstanding as on 31 March 2010**

(Amount ₹ lakh)

| Sr. No. | Name of the Agency | Loans disbursed by Banks / FI to MFIs during the year | | Bank Loans Outstanding against MFIs as on 31 March 2010 | |
|---|---|---|---|---|---|
| | | No. of MFIs | Amount | No. of MFIs | Amount |
| 1 | Commercial Banks | 645 | 803860.64 | 1407 | 1009531.79 |
| 2 | Regional Rural Bank | 46 | 2413.61 | 103 | 5221.62 |
| 3 | Cooperative Bank | NA | NA | 3 | 0.73 |
| | **Sub Total** | **691** | **806274.25** | **1513** | **1014754.14** |
| 4 | SIDBI | 88 | 266575.10 | 146 | 380820.43 |
| | **Total** | **779** | **1072849.35** | **1659** | **1395574.57** |

**Note :** The actual number of MFIs would be less as some MFIs have availed loan from more than one bank.

NA = Not Available \ Not Reported

(Source: Report on Status Of Microfinance in India 2009-10 by NABARD (Data provided to NABARD by respective banks).

SGSY- Swarnjayanti Gram Swarojgar Yojna

As per statistics available from NABARD (2003), more than 8.67 lakh SHGs in India made successful functioning, while NABARD targeted bank loans to one million SHGs in 2008 with an average membership of 17 this resulted into bank's outreach to some 17 million members, the vast majority of whom were women, with an average size of Rs. 1766 per family, banks loans were made available to 11.6 million families in 2002-03. Beside the donor agencies like NABARD, SIDBI etc. there are 2800 partner NGO's working extensively in this field.

From the above we may conclude that though substantial efforts are being put to deliver the benefits of microfinance the impact is still far from substantial as compared to the outreach required in terms of quantity and quality.

## THE SCOPE

A report titled 'Micro Finance and Empowerment of Scheduled Caste Women: An Impact Study of SHGs in Uttar Pradesh and Uttaranchal' (2005) of the Planning Commission of India stated that India has nearly 400 million people, living below or just above an austerely defined poverty line. About 75 million households therefore need micro-finance. Of these, nearly 60 million households are in rural India and remaining in urban seams. The current annual credit usage by these households was estimated in 1998 to be Rs. 4,65,000 million ($ 10 billion). The number of small loan accounts from banks covered some 40 million households in 2000. The remaining 35 million households perhaps meet their credit needs from the informal sector. The demand (for multiple purposes example consumption, production, marriage etc.) of people is continuously rising almost more than 100 times but this massive scale needs to be managed systematically. According to the Ministry of Statistics and Program Implementation the percentage of people Below Poverty Line (BPL) is on the decline and the gap between the rural and urban poor is also decreasing but the existence of almost one third of the world's poor in India defines the scope of microfinance. It still requires a deeper penetration and needs to grow at a rate that surpasses the high rate of population growth.

## THE CHALLENGES

"The poor are poor not because they are untrained or illiterate, but because they cannot retain the return of their labour," argues Yunus. "It is not work which saves the poor, but capital linked to work." Microfinance has been adjudged the sure shot tool for poverty alleviation with profitability, what better alternative than this but some studies challenge the overemphasis given to it (Srnec & E.Svobodová 2009).

Any effort will have its teething troubles and so did microfinance which still faces some relevant issues that need to be tackled well in time to bring out the maximum benefit of the concept. The planning commission report (2005) based on the field survey, brought out some general problems of micro-financing as those related to proper documentation, lack of awareness, lack of witnesses, lack of cooperation, illiteracy, proper training, lack of knowledge, dependency on grant-in-aids and in-sufficiency or out-reach of banking system. In short it states that challenges lie across the supply chain. But if these challenges are to be converted into opportunities every element of the supply chain needs to seen, analyzed and worked upon. To understand them from a broader perspective we can divide these challenges under broad heads of Political, Economic, Social and Technological (PEST) environment that the microfinance programme exists in, apart from other issues of process and implementation.

### SOCIAL CHALLENGES

*Challenges of mental blockage*:

Karnani in Chatterjee's (2009) argued with considerable conviction that the following challenges make it impossible to make a difference without a very deep and shared commitment through public private partnership:

- Inequality of income or gender imbalance is deeply entrenched in the Bottom Of Pyramid.

- Moreover 79 per cent of Indians are below the commonly defined $2 per day poverty line.
- He claimed that 39 per cent of adults in India are illiterate. Ten per cent of boys and 24 per cent of girls have no opportunity of schooling. Forty-nine percent of the children are underweight for their age.

The self-help group programme is largely focused around women working within their communities and in their home. Though with microfinance the women were now working, they are still responsible for the majority of household duties with little or no help from their husbands (Moyle, Dollard, & Biswas 2006). Lack of family assistance and support with domestic duties and childcare restrict time for activities pursued outside the home (United Nations Capital Development Fund 2002). Over and above the caste and sub caste system, superstitions, domestic violence aggravated by alcohol abuse etc have acted as impediments for their growth.

Illiteracy does not allow them to understand the utility of loan, how to use it in productive income generating activities and further restricts access to information and resources offered by formal institutions, which would otherwise provide support and services for women (Moyle & Dollard 2008). One should also remember that group dynamics does not always work towards the success of the group.

**POLITICAL CHALLENGES**

*Challenges Of Political Will*

We are, after all, home to one third of the world's poor, and our politicians routinely come to power speaking of poverty alleviation. The challenge actually remains for all the stakeholders' viz. Government, Bankers, NGOs etc. to join hands in the collective efforts for the economic upliftment of SHG members through various repeat cycles of credit infusion (Ramanathan 2009). India is known for its rollbacks, abrupt withdrawals and rechristening of programmes to suit political and administrative ends. Moreover it needs to be noted that already a large number of poor have been made to pool their meager resources in common kitties (the internal circulation of many groups has crossed millions of rupees) but, ironically, at least half of these institutions are functioning without proper legal sanction for doing banking business (Nair 2001). There is, hence, an urgent need to streamline the norms and institutions to govern microfinance initiatives without causing deterioration in the commercial discipline instilled by microfinance programmes in poor borrowers.

*Challenges of policy formulation*

Microfinance is set up with the best of motives—not looking to maximize returns for its operators or passive investors, but to reduce poverty, empower women and involve them in good development projects—to assist the poorest of the poor. Though the intentions of many involved in microcredit schemes are honorable and worthy but the effectiveness of schemes may be questionable as MFIs are often reliant on outside sources of funding to keep monetized interest charges low, and in consequence are likely to exhibit a high degree of volatility thus offering problems with sustainability (Jackson & Islam 2005). This leads to regulation issues but complete regulation does not guarantee removal of imperfections. The focus on financial inclusion has to come from the recognition that this serves the interests of both civil society and the banking system. This would also require suitable policy measures and enabling regulatory guidelines by the State/Central Governments and the Reserve Bank of India (Ramanathan 2009).

Dasgupta (2001) in the report by Planning Commission (2005) says that there is no single appropriate form of legislation for institutions undertaking micro credit as these institutions can be registered under different legislations, categorized under three heads:

1. Not-for-profit MFIs
- Societies registered under the Societies Registration Act, 1860 or similar State Acts.
- Public Trusts registered under the Indian Trust Act, 1882
- Non-profit companies registered under Section 25 of the Companies Act, 1956

2. Mutual Benefit Companies
- State Credit Cooperatives
- National Credit Cooperatives
- Mutually Aided Cooperative Societies

3. For Profit MFIs
- NBFCs registered under the Companies Act, 1956

Hence all of them are guided by different norms that make the situation more complex. The previous experiences of abysmally low success in terms of functionalities of credit through primary agricultural cooperatives and other systems under the government patronage has been disheartening and does not provide any strength to this comparatively newly emerged microfinance (Reddy 2005). Policy makers need to demonstrate that programmes that look theoretically and conceptually successful will be practically viable also. Strategies should have a wider coverage (Mohan 2005)

**ECONOMIC CHALLENGES**

*Challenges of process*

As in general, low bank loan per SHG member i.e. small per capita loans do not enable the members to overcome poverty or acquire capital assets. This pushes them into the vicious circle of multiple borrowing thus further aggravating their dependency. The planning commission report (2005) came out with details on the main problems in bank linkages which were reported to be lack of cooperation, lack of government support, lack of bank staff, procedural delays, apathetic attitude of bank officials, poor training, poor saving rates, lack of community participation, lack of awareness and insufficiency of banking staff. All this boils down to the fact that missing inter linkages between the elements of the supply chain have only escalated the problem rather than providing solutions for it. Near saturation with microfinance accompanied with rapid expansion of bank lending to MFIs together with political investment or in short to put it too many players in the market has lead to no one institution taking the responsibility (Ghate 2007).

*Challenges of implementation*

Ramanathan (2009) in his report points out the regional imbalances of the SHG – BLP. 52% of the credit-linked SHGs are located in the southern States of the country. There is a need for a better distribution of group formation and linkage efforts especially in the northern, central, eastern and northeastern States as these States have a higher concentration of the rural poor. But for that he states that the implementation challenges require a deeper understanding of the causes of poverty in a given context. A number of deficits or gaps exist that may lie in 'object gap' or 'idea gap'. The object identifies shortages in basic commodities and infrastructure including roads and factories. The 'idea gap' emphasizes the lack of access to information and knowledge. This is where the opportunity actually lies. And so the available manpower needs to be reoriented for taking up and addressing the challenges faced by rural masses.

As Ghate (2007) puts it in the financial markets, formal and informal MFIs work parallel but just formal MFIs are distinguished by a larger scope of activities and are governed and controlled by the given public institutions. The growing trend is towards formalization of NGO-MFI from unregulated, not-for-profit institutions into for-profit Non-Banking Finance Companies (NBFCs). The sector of microfinance is witnessing diversification in its services into insurance and money transfer. A new set of incentives and innovation in new product design and service delivery has been described for the insurance industry to tackle issues and priorities for action research.

Srnec & E.Svobodová (2009) have suggested that in LDCs poverty is solved from the point of view of financing in two basic directions:

(1) The initiative 'bottom-up'; informal self-help groups, profit and non-profit MFIs

(2) The initiative 'top-down'; profit organizations (formal MFIs or middle- and large-scale financial organizations)

Creating an awareness of the need to charge cost-recovering interest rates for their survival and growth is one of the daunting tasks for MFIs in India. Though their interest rates are amongst the lowest in the world because of high repayment, highly productive field staff and good portfolio quality but failure to bring transparency in dealings with borrowers and educate the public on the need for higher interest rates to recover costs and attain viability led to the 2006 Andhra Pradesh Crisis with the sector facing a public attack by the state government (Ghate 2007).

MFIs have become too big leading to multiple sources of financing for the poor and hence there needs to be some kind of centralized regulation (Mohan 2005). Moreover the easy access to credit would only make people more and more indebted (Reddy 2005). It is still unregulated sector not supervised by any dedicated body. Further a regional imbalance does not make microfinance the national answer to problems like poverty alleviation.

*Challenges of sustainability*

Ramanathan (2009) observed that many SHGs are more than 3 years old and hence can diversify from simple loan takers or beneficiaries to social entrepreneurs. Thus many NGOs are trying to promote micro enterprises among SHG members. But their experience is rather limited. The critical constraining factor is that SHG members face a lot of problems in marketing of their produce besides low level of skills.

The planning commission report (2005) made it clear that problems are mainly related with entrepreneurship development, skill up-gradation, enhancing managerial efficiency, technology transfer, market linkages, low level of confidence and low educational standards among women entrepreneurs.

Some studies have showed that only some 60-70 MFIs are sustainable world over but the scene is different in India as it is a large market thus it will make these institutions sustainable. The only issue to realize is that the gestation period is longer than the normal business. Thus microfinance is one of the unique business propositions that guarantee poverty alleviation if the challenges are converted into opportunities.

*Challenges throughout the supply chain*

A tool-kit perspective of anti-poverty intervention without reference to the larger issues like inadequate agricultural infrastructure, highly inegalitarian distribution of the basic asset, i e, land etc will only prove to be a quick fix solution to the aforesaid problem moreover no study has so far assessed systematically the opportunity cost of micro-credit funds in specific community situations by relating it with investment funds foregone in other sectors (Nair 2001). Both internal and external factors influence the proper functioning of Microfinancing. The informal financial system needs to complement the financial sector.

**TECHNOLOGICAL CHALLENGES**

Collection and delivery model requires individuals to give and collect cash personally. It can do wonders with portable swiping machines for cards. The RBI says doorstep banking for villagers is the only model that can achieve financial inclusion. Banks though remain unsure about it as a business model (Ghosh 2010). The business correspondent model might give the push required by the formal banking sector to reach the unreachable. Technology can also play a major role in bridging the information asymmetry gap (Sriram 2005). The whole system was basically envisioned by NGOs and so to some extent a professional approach is missing.

The planning commission report (2005) talks about problems in capacity building to SHGs and its members which include poor educational standards, non-availability of competent, experienced and qualified staff and resource persons, lack of quality reading materials, non-participative methods and training, lack of community support, non availability of adequate funds, poor documentation etc. Management Information Systems can aid in the aforesaid.

**THE NEWER CHALLENGES**

Till now SHG-BLP and MFIs have been functioning but now the emerging trend is on Joint Liability Group (JLG). Tara Nair (2001) stated that the success of the efficacy of micro finance interventions can be understood at three levels mainly: (1) outreach and financial sustainability of the programme; (2) income or poverty impact on the users; and (3) development of financial market at the local level.

Das (2010) in his recent article on microcredit in the Sunday Times briefed on the nuances of introducing bureaucratic mode (Malegam recommendations) of doling out approvals to agencies which want to work as MFIs. This implies that they will have to take permission from government to give loans to the poor aspirants. It may have its benefits in terms of proper controls but that also has disadvantages in terms of corruption, time consumption and withdrawal by many genuine players because of the inbuilt process bottlenecks. McDonnell in Moyle and Dollard (2008) identified barriers to accessing credit amongst indigenous entrepreneurs such as no collateral, lack of savings, lack of employment opportunities, language barriers and limited credit records.

## CONCLUSIONS

All the challenges discussed above can be translated into opportunities if key issues are taken care of. There is no doubt that microfinance is one of the basic and most important tools of the century to alleviate poverty nationally and in the most sustainable manner. Technology could help in the same (Mohan 2005). To fill the knowledge gap w.r.t. policy and regulatory issues a specialized research centre at the Institute of Financial Management and Research (IFMR) in Chennai, the Centre for Microfinance (CMF) was established in 2005 which looks into sections like impact evaluation, product design, financial and organizational issues, sectoral and policy issues etc (Ghate 2007).

In a scenario where financial inclusion is still far from being satisfactory, gradual maturing of microfinancing movement in India is a healthy development but to make this movement a tool of pervasive socio-economic transformation the asymmetrical growth in outreach should be given first priority (kumar 2008). Though Political, Social, Economic and Technological challenges act as deterrents to the effective formulation of policy reforms for development through microfinance, all of them can be scrutinized to ultimately deliver the purpose it intends to and hassle free. Fighting the mind set to bring about self management and finally making the beneficiaries independent of microfinance is the best that microfinance can deliver. A discipline across the supply chain will definitely guarantee the same.

## RECOMMENDATIONS

The study of various challenges faced by microfinance boils down to a few recommendations which if taken care of can prove to be worthwhile in effective implementation of the whole concept from the initial giver to the end receiver. The process of microfinance is rather a cycle than a chain with two end points. The giver needs to get back something in return to restart the cycle again and this feedback will help sustain the process for a long time. Thus we need to touch upon every part of the cycle in a manner that creates a positive cascading impact at the end. A strong political will accompanied with the desire to bring a change is the main ingredient for the success of microfinance. If other government schemes are seriously and sincerely implemented it will have a strong effect on this programme also. For example widespread Education: the sword of literacy, will solve more than half of the problems as it will bring about an understanding of issues like family planning(there is no power in numbers), capacity building programmes etc. The micro-financing institutions need technology, proper regulation and operation of business transactions. Therefore, RBI, SIDBI, NABARD and other organizations should evolve proper mechanism for monitoring, supervision, direction, appraisal and evaluation of such institution.

Microfinance is not an answer to poverty alleviation but an intermediate step. It needs to move to microenterprise through business counseling. Regional strategies need to be formulated as there is little doubt what microfinance can deliver in terms of economic, social and personal empowerment to the poor. But the challenges faced by it for its efficacy need to be studied, analyzed and addressed for it to show and prove that impact.

## FUTURE SCOPE

Though the study is primarily based on existing literature it offers a sound ground for future researchers to take up the challenge of understanding the challenges faced in spreading the concept of microfinance to the hitherto unreachable and forwarding solutions for the same. These people at the Bottom of the Pyramid have time and now proved themselves credit worthy but what remains to be addressed is reaching them through innovative practices in terms of policies and their implementation. How to overcome these challenges might be of interest to future researchers. It is important to realize that money alone is not the solution to a quality life (Reddy et al 2005). It needs to be used in productive manner to be tuned with livelihoods.

Ever optimistic, Yunus spreads the belief that poverty can be eliminated,"...the poor, once economically empowered, are the most determined fighters in the battle to solve the population problem; end illiteracy; and live healthier, better lives. When policy makers finally realize that the poor are their partners, rather than bystanders or enemies, we will progress much faster than we do today, obviously self-employment has limits, but in many cases it is the only solution to help the fate of those whom our economies refuse to hire and whom taxpayers do not want to carry on their shoulders."

Dr. Yunus's efforts prove that hope is a global currency. --Shawn Carkonen

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