INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

CONTENTS

CALL FOR ARTICLES/RESEARCH PAPERS

We invite original research papers in the area of finance, marketing, HRM, Banking, Insurance, and other allied subjects. The above mentioned tracks are only indicative, and not exhaustive. The journal expects unpublished and original quality research articles/papers only.

You may submit your articles/papers at the email addresses, info@ijrcm.org.in or infoijrcm@gmail.com.

GUIDELINES FOR SUBMISSION OF ARTICLE/PAPER

1. **COVERING LETTER FOR SUBMISSION:**

The Editor
IJRCM

Subject: **Submission of Manuscript**.

Dear Sir,

Find my submission of research paper/article for possible publications in your e-journal.

I hereby affirm that the content of this manuscript are original. Furthermore it has been neither published elsewhere fully or partially or any language nor submitted for publication (fully or partially) elsewhere simultaneously.

I affirm that the all author (s) have seen and agreed to the submitted version of the paper and their inclusion of name(s) as co-author(s).

Also, if our research paper/article accepted, I/We agree to comply with the formalities as given on the website of journal.

Name of Corresponding Author (s)

Affiliation:

Mailing address:

Mobile Number (s):

Landline Number (s):

E-mail Address (s):

2. **INTRODUCTION:** Manuscript must be in English prepared on a standard A4 size paper setting. It must be prepared on a double space and single column with 1” margin set for top, bottom, left and right. It should be typed in 12 point-Times New Roman Font with page numbers at the bottom and centre of the every page.
3. **MANUSCRIPT TITLE:** The title of the paper should be in a 14 point Times New Roman Font. It should be bold typed, centered and fully capitalised.
4. **AUTHOR NAME(S) & AFFILIATIONS:** The author(s) full name, affiliation(s), mobile/landline numbers, and email/alternate email address should be in 10-point Times New Roman. It must be centered underneath the title.
5. **ABSTRACT:** Abstract should be in fully italicized text, not exceeding 300 words. The abstract must be informative and explain background, aims, methods, results and conclusion.
6. **KEYWORDS:** Abstract must be followed by list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stop at the end.
7. **HEADINGS:** All the headings and sub-headings should be in a 12 point-Times New Roman Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.
8. **MAIN TEXT:** The main text should be in a 12 point-Times New Roman Font, single spaced, fully justified.
9. **FIGURES &TABLES:** These must be simple, centered & numbered, and table titles must be above the tables. Sources of data should be mentioned below the table.

10. **REFERENCES:** The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to Harvard Style of Referencing. The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow the references as per following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order…
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- Note that italics are used only for titles of books and names of journals. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- Use endnotes rather than footnotes.
- The location of endnotes within the text should be indicated by superscript numbers.
- For sources which have insufficient details to be included in the Reference, use endnotes (such as interviews, some media sources, some Internet sources).

<u>See the following for style and punctuation in References:</u>

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.
- Kiran Ravi, Kaur Manpreet (2008), Global Competitiveness and Total Factor Productivity in Indian Manufacturing, International Journal of Indian Culture and Business Management, Vol. 1, No.4 pp. 434-449.

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

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

Website

- 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: ITS ROLE AND IMPLICATIONS FOR THE SOUTH ASIAN FINANCIAL CRISIS.

AMISHA GUPTA
ASSISTANT PROFESSOR
THE BUSINESS SCHOOL
UNIVERSITY OF JAMMU
JAMMU

ABSTRACT

This paper examines the impact of global financial crisis on South Asia in terms of trade shocks, effects on financial sector, and external sector. It also studies the growth prospectus, challenges and provides alternative strategies in terms of growth and investment with special reference to microfinance and its role in investment decision making process in this part of the globe. The paper is divided into five sections: Section I studies Impact of Global Financial Crisis on South Asia in terms of trade shocks, Section II studies the Impact on Financial Sector and External Sector, Section III studies the Impact on Growth and Investment, Section IV studies Role of Micro Finance in boosting investment and growth in South Asia in emerging scenario, Section V draws some Conclusions.

KEYWORDS
Global financial crisis, Investment implications, Microfinance, South Asia.

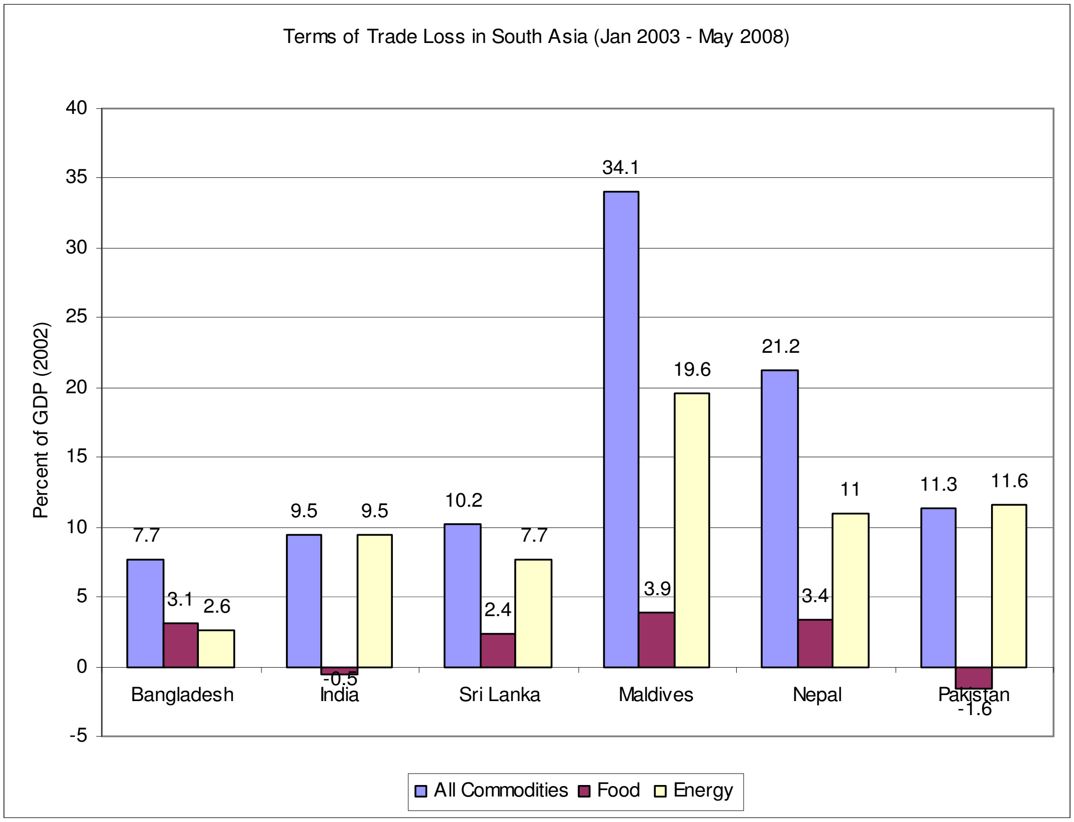
INTRODUCTION
South Asia has been on a rising growth path since 1980, reaching a peak of 8.7 percent in 2006 supported by growth and investment. The region has averaged more than 7.5 percent growth since 2003 allowing it to reduce poverty levels in India, Pakistan and Bangladesh. It has been possible due to opening up of the major economics of South Asia and their gradual integration with rest of the world. In the early nineties, India, biggest economy of South Asia with highest growth rate of 9.2 percent, introduced major financial sector reforms. These reforms transformed the investment scenario particularly securities market substantially both in respect of operation and structure. Entry of foreign institutional investors, emergence of mutual funds, primary dealers along with corporate houses and banks and financial intermediaries together have made the stock market quite sensitive and extensive after these reforms. On functional front, important instruments, certificate of deposits and commercial papers, have been introduced to provide opportunity to corporate houses for mobilising resources in addition to their primary issues and operation in the secondary market. With the entry of new financial investors, both national and international, the stock markets have become vibrant with consequent rapid response of the market to any change in the national and international scenario. Pakistan also followed India in terms of introducing major financial sector and market reforms in early nineties.

However, in the last five years (2003–2008), price increases of global commodities, especially those of oil, metal and food, took a toll on South Asia (Asian Development Outlook, 2007). Budget deficits widened and trade balances worsened. With this, the growth softened and inflation reached double digits. Before the region could recover from the adverse impact of high commodity prices, the global financial crisis has come knocking. The cascading effects of these crises will present daunting policy challenges to South Asia. The adverse impact has the potential to reverse elements of impressive development gains that.

South Asia has achieved over the past decade and impede its progress towards achieving the Millennium Development Goals (MDGs) (www.un.org/millennium goals). The paper studies the impact of Global Financial Crisis on South Asia in terms of trade shocks, effect on the financial sector, effect on the external sector, growth prospects, policy issues and suggesting alternative measures for banking as well as investment. The paper is divided into five sections: **Section I** studies Impact of Global Financial Crisis on South Asia in terms of trade shocks, **Section II** studies the Impact on Financial Sector and External Sector, **Section III** studies the Impact on Growth and Investment, **Section IV** studies Role of Micro Finance in boosting investment and growth in South Asia in emerging scenario, **Section V** draws some Conclusions.

I.TERMS OF TRADE SHOCKS PREVAILING IN SOUTH ASIA (2003-2008)
Huge Terms of Trade Shock: Between January 2003 and May 2008 South Asia suffered a huge loss of income from a severe terms-of-trade shock owing to the surge in global commodity prices. While Middle East and North Africa (MENA), Latin America and Caribbean (LAC) and Europe and Central Asia (ECA) gained from higher prices on a net basis, South Asia lost substantially from both higher food and petroleum prices. Within South Asia, losses range from 36 percent of GDP for the tiny Island country of Maldives to 8 percent for Bangladesh (Figure 1). Much of the loss came from higher petroleum prices, where all countries lost. On the food account, Bangladesh lost most, followed by Nepal and Sri Lanka. Pakistan and India actually gained, being significant rice exporters. Although reliable data is not available for Afghanistan, losses from the oil and food price crisis are believed to be substantial.

Deterioration in external and fiscal balances: The large loss of income from the terms of trade shock was partially compensated by rising remittances (Maimbo & Ratha, 2005). Nevertheless there has been a negative impact on the external balances of most South Asian countries. Pakistan suffered the most rapid deterioration in the current account balance, which turned from a surplus of around 4 percent of GDP in 2003 to a deficit of over 8 percent in 2008 (Statistics Division, Government of Pakistan). Sri Lanka similarly registered a sharp increase in current account deficit. Even in India, the current account widened sharply from a surplus of more than 2 percent of GDP in 2004 to a deficit of over 3 percent in 2008 (Economic Survey, 2007-08). The current balance in Nepal that was in surplus for a fairly long period finally turned into a deficit in 2008. Only Bangladesh continued to enjoy a surplus in its current balance. These differential effects reflect a number of factors including: the relative magnitude of terms of trade shocks, the differences in compensating growth of remittances, and policy responses. Bangladesh in particular benefitted tremendously from the growth in remittances. Pakistan and Sri Lanka have been facing balance of payments pressures from expansionary fiscal and monetary policies; the terms of trade shocks accelerated the deterioration.



Source: DECPG, The World Bank

Figure 1

Concerning fiscal balance, all countries except Sri Lanka registered sharp deterioration. The fiscal deficit widened most for Pakistan, rising from 2.4 percent of GDP in 2004 to 7.4 percent in 2008 (Hussain, 2005). India had made good progress in reducing fiscal deficit between 2003 and 2007. This progress was reversed in 2008 as sharp increase in fuel subsidies (growing from 1% of GDP in FY 2007 to an estimated 4% of GDP in FY 2009) threatens to wipe off the gains made so painfully over the past few years. Bangladesh also struggled quite a bit.

Budget deficit widened to almost 4 percent in 2008 and is projected to grow further to over 5 percent, mostly due to increases in food and petroleum subsidies. Nepal's fiscal deficit has grown from its low level in 2004 owing mainly due to fuel subsidy. Sri Lanka has long suffered from high fiscal deficits; as a result, it seceded to pass on the global price increases in petroleum to consumers.

Impact on inflation: rising food and fuel prices have been a major source of inflationary pressure in South Asian countries. In Afghanistan, Sri Lanka, Pakistan, Bangladesh and Nepal, food prices made a bigger impact on inflation than fuel. In India, however, the main surge to inflation came from fuel price increases. Afghanistan saw the steepest increase in staple food prices between 2007 and August 2008, with wheat prices more than doubling, due to poor domestic production and export restrictions by Pakistan (Zoellick, 2008).

Other South Asian countries saw staple food price increases ranging from a low of only 12 percent for India to 83 percent for Sri Lanka. Prices of staple food have started to come down in all South Asian countries owing to good harvests in 2008 and falling global prices. The global oil prices have also come down sharply to around $70/barrel level as compared with the spike at $150/barrel (Industrial Information Resource, 2008). The combined effects of lower food and fuel prices along with demand management are reducing inflationary pressure in most South Asian countries except Pakistan.

II.EFFECTS OF THE EMERGING GLOBAL FINANCIAL CRISIS

As noted, the South Asia economies are already limping from the adverse effects of the huge terms of trade shocks of the past 6 years. The reduction in global petroleum and food prices observed over the past few months provides a silver lining for South Asia in an otherwise difficult external environment. Yet this silver lining is now heavily clouded by the emerging global financial crisis that poses tremendous downside risks to South Asia.

These risks can transmit from both the financial sector in terms of volume and price of foreign capital flows as well as from the external sector based on adverse effects of a global slowdown on South Asian exports, possible downward pressure on remittances, and slowdown in private and public investment owing to higher interest rates as well as lower export demand.

Financial sector: South Asia is fortunate to have a broadly resilient financial sector due to a combination of past financial sector reforms and capital controls that insulate these economies to a great extent from the risk of a financial crisis transmitted from abroad. However, individual country risks vary substantially as the macroeconomic performances, financial sector health and exposure to foreign capital markets differ considerably by countries.

The largest economy, **India**, is relatively more exposed to the contagion effects of global financial markets through adverse effects on capital flows from portfolio and direct foreign investments, and also through exposure of domestic financial institutions to troubled international financial institutions and to contracts — including derivatives — that have undergone large value changes. The evidence so far shows significant losses in the stock market and a reduction in the flow of foreign capital. Yet these risks are countered by a fundamentally strong macro economy including prudent foreign debt management, high savings rate, solid financial sector health, and a pro-active monetary policy management that will likely allow India to ride the crisis without destabilizing the financial sector.

The Central Bank has already responded by letting the exchange rate depreciate to stem the outflow on the current account, by providing extra liquidity to the financial sector, and by raising the limit on private foreign borrowing. The nature and depth of the global financial crisis is still evolving and there is a significant downside risk of further slowing down of net capital flows and a hardening of terms. But these are countered by an overall healthy banking sector with low non-performing loans and a comfortable capital base and a pro-active monetary and exchange rate management. Foreign debt and debt service is low, and reserve cover ($274 billion) is still substantial (RBI, 2008). The high domestic saving rate (34 percent of GDP) provides added cushion (RBI, 2008). The main effects of the global financial crisis will be to reduce the availability of funds leading to higher interest rate and lower public and private investment that will hurt growth.

The second largest economy, **Pakistan**, is much more fragile and faces the most vulnerability in the region. High fiscal and current account deficits, rapid inflation, low reserves, a weak currency, and a declining economy put Pakistan in a very difficult situation to face the global financial crisis. Efforts are now underway to arrest the decline of the macro economy through appropriate demand management including tightening of monetary and fiscal policies (State Bank of Pakistan, 2008). Pakistan's ability to borrow externally is already heavily constrained and bond spreads are very high. The global financial crisis means that non-official foreign capital flows would be even more expensive than now. The contagion effects on domestic financial sector could be substantial, but stress test suggests that the banking sector as a whole is likely to withstand the shocks. This is mainly due to the improved health of the financial sector based on past reforms (Qayyum, 2007).

Sri Lanka suffers from high inflation and large current and fiscal account deficits. To stem the deteriorating macro-balances Sri Lanka has started tightening monetary policy and is also trying to contain the fiscal deficit by passing on the energy price increases to consumers. The performance of the financial sector has improved over time, although there is a slight upward trend in Non-performing loans (NPL) in recent years. The role of foreign capital in Sri Lanka's domestic financial sector is limited. The main downside risk on the financial sector is a reduction in capital flows from outside, including for the government. There is already evidence of a rise in spreads for Sri Lanka bonds. Switching of demand to domestic financing in an environment of high inflation and further tightening of monetary policy would raise interest rates and slowdown economic activity. Financial difficulties in domestic firms could also adversely affect NPLs. Overall, though, there is little risk of a financial collapse.

Bangladesh has maintained generally prudent macroeconomic policies. Balance of payments is in surplus owing to rapidly rising remittances and prudent demand management. Inflation, which reached double digit, is now coming down due to falling food prices. Fiscal deficit has increased to 5–6 percent, but remains manageable in view of falling global oil and food prices from their global peaks last fiscal year. The financial sector is showing signs of improved health from past reforms and is mostly insulated from foreign markets because of very low private capital inflows. External debt is low and reserves are comfortable. In this environment, the effect of the global financial crisis on the financial sector is likely to be negligible. Bangladesh is relatively more exposed from the real economy effects of a possible slowdown in exports, especially garments, and from remittances.

Nepal is emerging from a conflict situation with low growth and the adverse effects of a global food and fuel crisis. Inflation is showing signs of deceleration due to reduction in international food and fuel prices. Its domestic financial sector is very weak in terms of financial indicators with large non-performing loans and low capital adequacy. However, the financial sector is pretty much insulated from global finances due to the negligible amount of foreign private capital flows. The risks to the macro economy come from a potential expansionary budget in an environment of a deteriorating global economy.

The External Sector: The possible downside effects of the financial sector crisis are much more direct and substantial from the real economy implications. These will work through trade, remittances and investments.

Exports: Based on progress on trade reforms, South Asian economies have become much better integrated with the global economy than in the early 1990s. Exports are now over 20 percent of GDP and are a major source of growth stimulus. The recession in OECD countries will almost certainly lower the export prospects for all South Asian countries, but especially India that has done remarkably well in the services sector and now faces a sharp slowdown in demand. South Asia is also a major exporter of textiles and garments that are vulnerable to the recession in the OECD economies. Depending on the magnitude and the period of this recession, the adverse effects on exports can be large.

Imports: One redeeming feature emerging from the import side is the observed downward trend in commodity prices, especially food and fuel. The import bills on these accounts, especially fuel, are already coming. The recession in OECD countries will likely cause a further reduction in commodity prices with positive effects for South Asia.

Remittances: Foreign remittances have grown rapidly in South Asia over the past few years. These have not only provided an offsetting cushion on the balance of payments, but more importantly they have been a huge source of income and safety net for a large number of poor households in South Asia, especially in the poor countries of Afghanistan, Bangladesh and Nepal. Much of these remittances come from low-skilled workers engaged in the oil-rich countries of the Middle East. These earnings do not face an immediate risk as these economies have huge earnings and reserves from the oil price boom and oil prices are still substantially higher than in 2002 in real terms. However, remittances from OECD countries can be adversely affected. India and Pakistan are particularly exposed to this slowdown. On balance the downside risk of substantial lower earnings from remittances appear low.

III.IMPACT ON GROWTH AND INVESTMENT

Since 1980, South Asia has been on a rising growth path, reaching a peak of around 9 percent in 2006. Growth has been on a declining trend since then. In particular, the adjustment to the terms of trade shock brought about a slowdown in growth in 2008 for all South Asian countries, not withstanding the benefits of a strong agriculture recovery. The onset of the global financial crisis suggests a significant slowdown in South Asia's growth prospects for 2009-10 (Figure 2). The slowdown will be particularly notable for India and Pakistan. India's prospects will be hurt by the reduction in capital flows and possible slowdown in the growth of exports. Pakistan's economy is already facing difficulties; the financial crisis will aggravate it.

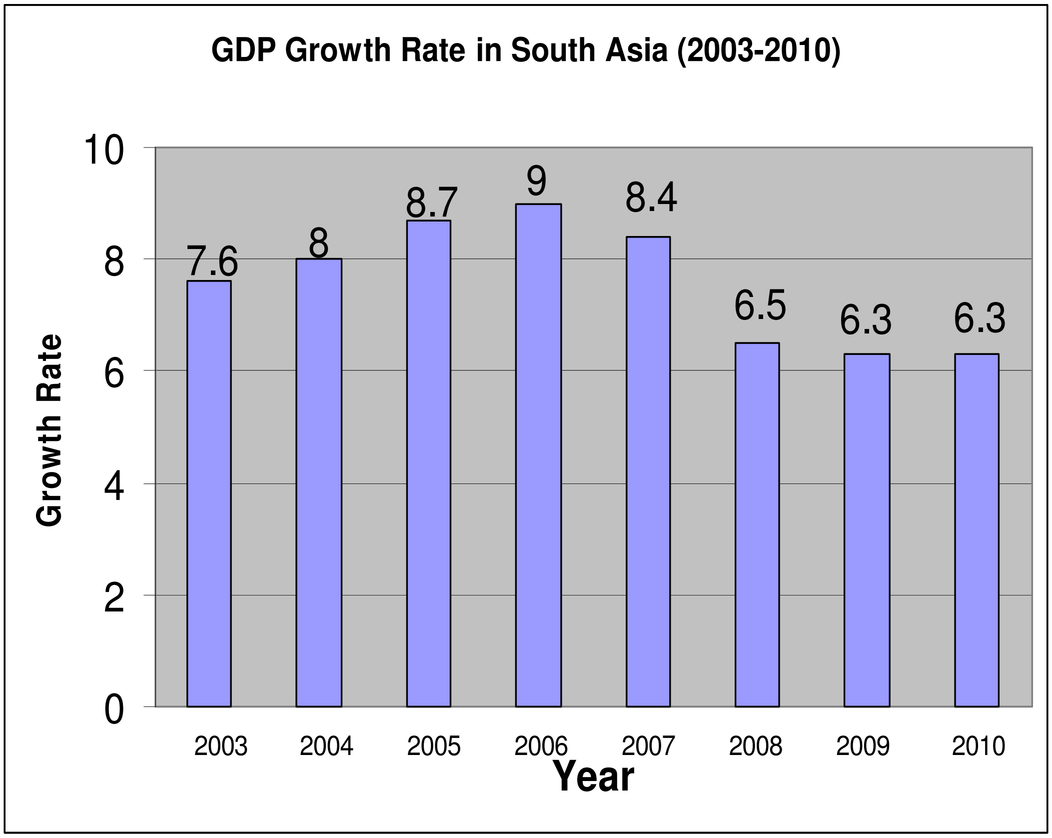


Figure 2

INVESTMENT

The main risk to growth comes from the likely adverse effects on investment of the combined effects of a slowdown of foreign funding and a possible increase in non-performing assets of domestic banks owing to lower profitability of firms producing for export markets. At the same time, higher inflation has required tightening of monetary policy. All of these factors will reduce the availability of domestic financing of private investment. Public investment is already constrained by rising fiscal deficits. Overall, there is likely to be a slowdown in the rate of domestic investment. Improvements in saving rates in South Asian economies have been an important cushion. But inadequate adjustment to the losses from terms of trade combines with a possible slowdown of exports earnings and foreign capital flows will almost certainly reduce investment and growth.

IV.ROLE OF MICRO FINANCE IN SOUTH ASIA

In the emerging investment scenario in South Asia, due to global meltdown the desire source of funds should be less volatile to stock market vagaries. The author has studied the financial intermediaries both traditional commercial banks and micro-financial institutions (Table 1) to highlight why micro-finance may be less exposed to market risks. (Nicolas Krauss and Ingo Walter, 2008).

BUSINESS MODEL OF COMMERCIAL BANKS VERSUS MFIs

	Commercial Banks	Microfinance Institutions
Ownership and Governance	Generally publicly traded companies Domestic and international portfolio investors Highly sensitive to market signals	Virtually all privately held companies Profit and non-profit inv. With long-term strategic interest Less driven by market forces
Client Characteristics	Monthly salary and collateral Higher consumption rate More dependent on imported inputs Exposed to currency devaluations Exposed to imposition of FX controls	Very low and instable income with virtually no collateral Mainly micro-entrepreneurs; higher investment rate Mainly women; better repayment discipline Limited sources of fin. Lead to better repayment discipline Customers move 'down-market' in times of distress

Product Characteristics	larger loans (no effect) lower interest rate (no effect) longer maturity with flexible borrowing rate and 'sticky' lending rate increases systemic risk	smaller loans (no effect) higher interest rate (no effect) shorter maturity
Lending Techniques	Various loan covenants Decrease systemic risk	Lack of collateral Close ties to and knowledge of borrowers and local markets Solid screening and incentive mechanisms to identify and encourage good and strong clients Disadvantages regarding collateral offset with screening and relationship management?
Operating Leverage	Commercial banks tend to be highly dependent on fee-based services More volatile Generate higher fixed costs	MFIs tend to generate mainly interest-based income Less volatile Mainly variable costs
Financial Leverage	Highly leveraged (D/E ratio of approx. 7.5)	Less leveraged (D/E ratio of approx.3) MFIs would need equity beta of ~2 times equity beta of commercial banks to incur same market risk exposure

Source: Partially adopted from Tor Jansson : Microfinance: From Village to Wall Street", Inter-American Development Bank, Washington, D.C., 2001.

At World Economic Forum at Davos 2008, **Bill Gates** put his mouth where he had long ago put his money, calling for a "creative capitalism" in which companies embrace, "a twin mission: making profits and also improving lives for those who don't fully benefit from market forces". India saw a 76 percent increase in microloans from March 2006 to March 2007(Otero, 2008). The growth of Micro Finance Institutions (MFIs) coupled with limited pools of traditional capital is resulting in an unlikely alliance: Stock market and poor micro-entrepreneurs. (Davis and Dubitsky, 2008)

The modern microfinance movement was born in Bangladesh in the 1970s as a response to the prevailing poverty conditions among its vast rural population. Astonishing growth rates in Bangladesh, particularly during the 1990s, created a new dimension for microfinance worldwide as microfinance institutions grew to include millions of clients. For the first time, a substantial proportion of the low-income families of major developing country were served by the activity. The start of the twenty first century reinforced this trend as the Bangladesh numbers continued to grow impressively. In India, a substantial microfinance system based on self-help groups (SHGs) developed. Other countries of the region made slower and later starts but have since established active microfinance sectors.

By 2005, microfinance covered at least 35 million of some 270 families in the region and met around 15 per cent of the overall credit requirements of low-income families. Coverage was particularly impressive in Bangladesh and Sri Lanka, where microfinance services reached more than 60 per cent of the poor. In addition, the focus on engaging women as essential contributors to economic and social well-being has had important spill over effects throughout the region. Even in a socially conservative country such as Afghanistan, microfinance activity has focused on women, thereby according them more explicit recognition as economic agents. In India, the SHGs movement has become the basis for programs promoting empowerment and overall improvement of the status of women in society. In Bangladesh, microfinance has become the basis of micro-enterprise promotion by some of the large microfinance institutions, although it also has been extended to the 'ultra poor' through targeted programs. In both Pakistan and Nepal, the potential of microfinance demonstrated by these experiences has captured the attention of governments that have created specific legal frameworks to facilitate its growth.

The era of organized sector finance in much of South Asia (Bangladesh, India, and Pakistan) is generally acknowledged to have started with the Cooperative Credit Societies Act of 1904. The Act's objectives make it clear that the cooperative movement in South Asia was initiated to reach out to those who were otherwise excluded by the formal financial system–farmers, artisans, and other persons of limited means. The failure of cooperatives to serve this purpose adequately is noteworthy because some seven decades later, in the 1970s, it was still thought necessary to nationalize commercial banks throughout the region, and the first attempts were made to launch microfinance as we know it today.

Although the microfinance movement in South Asia has permanently changed the face of the financial sector through innovation and challenges to conventional thinking, the limits of the microfinance model become evident when it comes to serving many more poor people who are still excluded and to capturing a larger share of the financial service business of the existing clientele. Recent research shows that formal financing channels meet only 15 per cent of the needs of the poor in South Asia, with the proportion ranging from 2 per cent in Afghanistan to 55 per cent in Bangladesh.

Outreach is highly variable across the region. The six countries can be classified into high (Bangladesh and Sri Lanka), medium (Nepal and increasingly India), and low (Pakistan and Afghanistan) coverage levels.

Financing Structures: Micro Financial Institutions (MFI) essentially perform the role of intermediating financial resources and services between investors, banks, donors, and depositors, and the poor. Like any other financial intermediary, MFIs need risk capital that can be leveraged to add to their funding base for operations and on-lending to low-income clients, either through debt finance or by raising additional deposits. Unlike commercial financial institutions, MFIs in South Asia have evolved largely from non-profit entities. Given that the transaction costs of microfinance delivery are high and account sizes are small, it typically has taken three to seven years for leading MFIs to become financially strong enough to attract commercial risk capital. As a result, donor funding has had to play the key role of "venture capital" in stimulating microfinance investment and promoting microfinance markets.

To the extent that MFIs address market failure and help to develop the financial sector by providing new avenues for low-income clients to access financial services, this role is justified and has a clear "public good" element.

The challenges everywhere are surprisingly similar. MFIs must develop management capacity at every level, which will enable them to run efficient operations to attract commercial finance from equity investors, financial institutions, and voluntary depositors in the long term, thereby enabling microfinance services to reach increasing proportions of the large number of low-income families in the region.

Five countries in South Asia already have national microfinance associations, while Sri Lanka is in the early stages of a second attempt to form a viable national association. All of these associations have taken on the role of industry advocates with various degrees of skill and success. While the associations have emerged out of the NGO-MFIs sector, it is clear that they will have to evolve if they are to keep-up with the changes, increase their value to the industry, and strengthen their ability to influence positive change.

South Asia is a worldwide pioneer in the field of MFI ratings; Micro-Credit Ratings International Limited (M-CRIL), based in India, is one of the first three international microfinance raters. Since then, two corporate rating agencies have entered the microfinance rating business, one in Pakistan and one in India. This puts South Asia in a good position to further facilitate links between MFIs and investors.

V. CONCLUSIONS

During the past 25 years, the microfinance movement has challenged conventional financial sector and government thinking, and, in the process, fundamentally altering the financial landscape. Today, it provides most of the access to financial services available to low-income people in South Asia, but it is still largely a separate part of the financial system, with few examples of direct service provision to the poor by mainstream commercial institutions. Despite the growing discussion about the enthusiasm for developing a seamless and inclusive financial sector, there is little evidence that this has happened yet.

Over the next few years, most of the growth in microfinance will come from a few large, profitable, specialized institutions that might in some ways rival small banks. These institutions will provide a range of diversified and flexible products and will do more to reach out to even poorer people. These dominant institutions will make more use of commercial funding, both debt and equity from commercial banks and the growing number of social investment funds.

Another step in the region's financial liberalization could occur if the wider political and social environment changes to recognize that economies of scale exist in financial service deliver. Cost is inversely proportional to the size of the accounts. Central banks and finance professionals will need to take the lead to urge politicians and media to help change the conservative economic environment relative to the poor. Without such liberalization, the process of microfinance evolution is likely to slow down as it hits the barrier of sustainability, particularly if the formal sector reaches a point at which the marginal return to corporate social responsibility falls below the losses associated with microfinance service providers and low-income clients. That point has not been reached yet, although in India some banks are already testing its limits. As long as engagement with low-income clients in South Asia is largely a matter of social responsibility, financial inclusion will remain a dream.

On the financial front, MFIs must meet the high standards of transparency and operational efficiency required of regulated financial institutions. Clearing this bar is the only route to offering savings accounts to clients and accessing local and international capital markets — all vital sources of funds if microfinance is to fulfil its potential.

REFERENCES

ADB Annual Economic Publication, Asian Development Outlook, March 2007.

Akhavein, J.D.; Swamy, P.A.V.B; Taubman, S.B., and Singamsetti, R.N. (1997): "A General Method of Deriving the Efficiencies of Banks From a Profit Function", *Journal of Economics and Finance*, Vol.24(2), pp.127-140.

Akhter, M.H. (2002): X-Efficiency Analysis of Commercial Banks in Pakistan: A Preliminary Investigation", *The Pakistan Development Review Part II*, (Winter, 2002), pp.567-580.

Benerjee, Amalesh Chandra (2000): "Second Generation of Financial Reform", Conference Proceedings, IEA 83rd Conference.

Davis Susan and Dubitsky Rod (2008):"Microfinance Meets Wall Street", March 26, http://www.forbes.com/opinions/2008/03/22/brac-microfinance-creditsuisse-oped-cx_sdrd_0326brac.html accessed on 2008, June2.

Deepening Financial Sector Reforms and Regional Cooperation in South Asia, India Habitat Centre, New Delhi, Nov. 6-7, 2008.

Economic Survey 2005-06, p.101

Economic Survey 2007-08, p.16.

Global Financial Crisis: Are Sterns gathering over South Asia? World Bank Publication, Oct. 21, 2008.

Hussain, Ishrat (2005): "Economy of Pakistan: An Overview", Keynote address at the Expo 2005, Karachi, Feb. 3.

Kose, M.Ayhan; Prasad, Eswar; Rogoff, Kenneth & Wei, Shang-Jin (2005): "Effects of Globalization on Developing Countries: Some Empirical Evidence", International Monetary Fund, March 17.

Maimbo, Samuel Munzale & Ratha, Dilip (2005): "Remittances: Development Impact and Future Prospectus", World Bank, 2005.

Nicolas Krauss and Ingo Walter (2008): "Can Microfinance Reduce Portfolio Volatility?" at Conference –Microfinance Cracking the Capital Markets-South Asia, Delhi, April 29-30, hosted by ACCION and Standard Chartered Bank.

Otero Maria (2008): "Microfinance at The Crossroads", May 19, http://www.forbes.com/opinions/2008/05/19/microfinance_accion_oped_cx_mot_0519accion.html accessed on 2008, June 2.

Qayyum, A. and Ahmad, M. (2006): Efficiency and Sustainability of Micro Finance Institutions in South Asia, South Asian Network of Economic Research Institutes (SANEI).

Qayyum, Abdul (2007): "Financial Sector Reforms and Efficiency of Banks in Pakistan", Pakistan Institute of Development Economics, Islamabad.

RBI Handbook of Statistics on Indian Economy, p.40.

RBI Report on Foreign Exchange Reserves, March, 2008.

State Bank of Pakistan, "Pakistan Financial Sector Assessment 1999-2000", 2004.

Statistics Division, Government of Pakistan.
USA Government, Department of Energy, "Industrial Information Resources, Inc. Database, Nov.25, 2008.
www.un.org/millennium goals assessed on December 1, 2008.
Zoellick, Robert B. (2008): World Food Prices: South Asia's Poor at Risk, April 2.

REQUEST FOR FEEDBACK

Esteemed & Most Respected Reader,

At the very outset, International Journal of Research in Commerce and Management (IJRCM) appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to take this opportunity to request to your good self to supply your critical comments & suggestions about the material published in this issue as well as on the journal as a whole, on our E-mails i.e. **info@ijrcm.org.in** or **infoijrcm@gmail.com** for further improvements in the interest of research.

If your good-self have any queries please feel free to contact us on our E-mail **enquiryijrcm@gmail.com**.

Hoping an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Editor