THE CHALLENGES OF MICROFINANCE: IN INDIA AND BANGLADESH

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1. Introduction

This study explores the hotly debated issue of challenges of Microfinance and how it is uprising towards the achievement of its goal. Nowadays Microfinance plays an eminent role in helping the low- income households to get out of poverty. It touches on the conflict of opinion in the attempts of some key actors, the donors; the financial institutions (FIs) group an uprising impacted the existence of Microfinance. In general, micro finance means providing very poor families with very small loans (microcredit) to help them to engage in productive activities or to grow their tiny businesses. Over time, micro finance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very poor that are lacking to access the traditional formal financial institutions, require a variety of financial products. Thus Microfinance may be defined as ‚small loans given to impoverished people, especially in developing countries, to help them become self-employed'. It refers to the whole range of financial services for poor people; including loans, savings, credit, money transfers, insurance and pension. The analysis of this paper is based on the role of Micro finance and its challenges in India and Bangladesh.

This paper attempts to show how poor households face many constraints in trying to save, invest, and protect their livelihoods. And how they take financial intermediation seriously and devote considerable effort to finding workable solutions based on their financial needs that identify the constraints in carrying out business, and find out solutions to those problems Research shows that poor people value financial services, want more of them, worry when they don't have them, but are often frustrated by them when they do get them. They know that managing money is important, and that managing money well gives them a better chance to manage their lives and livelihoods well [3, 7]. It discusses the merit of linkage of formal and informal systems of financial operations and evaluates the functioning of different models of micro financing in India. This paper tries to identify and highlight who are the clients of microfinance? How the poor people are getting benefit from this micro finance? How the microfinance institution's providing loan to these poor people to sustain their livelihoods and develop a countries economic status? And the role of Government's in supporting the microfinance activities. Whereas the formal system ensures access to large and cheap financial source, the informal system facilitates convenient financial transactions according to need.

Microfinance clients are BORROWERS: Low- and lower-middle income men & women who farm or fish or herd; who operate micro enterprises where goods are produced, repaired, recycled or sold; who provide services; or work for wages commissions SAVERS: people of all income levels who live or work near a branch or unit of the financial institution BORROWERS: LOW & LOWER-MIDDLE INCOME SAVERS: ALL INCOME GROUPS[2].Most micro-finance institutions (MFI) use some sort of group system to distribute their services to their clients. One is the Bangladesh Grameen Bank method, which we shall refer to as the Grameen system, and the other is the so-called Self Help Group, or SHG, system.The so-called poor are getting benefited through microfinance by getting small loans and subsidies to become self-help group (SHG), specially the women in rural and also in urban area started to stand on their own feet and reducing the family burden. Governments have a complicated role when it comes to microfinance. Until recently, governments generally felt that it was their responsibility to generate 'development finance', including credit programs for the disadvantaged people in each country as well as in the world [6].

1.1 Background of the Rise of Microfinance

Microfinance brings its importance to the poor like everyone else; most poor people who need and use financial services to take advantage of business opportunities, invest in home repairs and improvements, and meet seasonal expenses like school fees and holiday celebrations. But the financial services available to the poor, however often have serious limitations in terms of cost, risk, and convenience. Even moneylenders, for example, often charge high interest rates on loans. On the other hand buying goods on credit is far more expensive than paying in cash. Local rotating savings and credit circles are also rigid.

Beginning in the 1950s, development projects began to introduce subsidized credit programs targeted at specific communities. During this period banks suffered massive erosion of their capital base due to subsidized lending rates and poor repayment discipline, that often ending up concentrated in the hands of better-off farmers.

In the 1970s, experimental programs started in Bangladesh, Brazil, and a few other countries also extended tiny loans to groups of poor women to investment in micro-businesses. This type of micro enterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members.

During this period governments mainly provided subsidized credit to low-income households in rural areas. In the 1980s microfinance arose as a capacity of the state to deliver subsidized (i.e. cheap) credit to poor farmers. In addition to providing subsidized credit, donors set up credit unions in rural areas, which was inspired by the Raiffeisen model developed in Germany in 1864. In the mid-1980s, this model of subsidized, targeted credit supported by many donors was the object of steady criticism, as most programs accumulated large loan losses and required frequent recapitalisation to continue their operations. It became more evident that market-based solutions were required for a specific new approach. This specific new approach considered micro finance as an integral part of the overall financial system. As a result of this impact the emphasis of Micro finance shifted from the rapid disbursement of subsidized loans to target populations towards the building up of local, sustainable institutions to serve the poor. Since the 1980s the field of micro finance has grown substantially.

In 1980s and 1990s, through out the world microcredit programs started to improve upon the original methodologies and bucked conventional wisdom about financing the poor. First, it showed that poor people, especially women, had excellent repayment rates among the better programs, rates that were better than the formal financial sectors of most developing countries. Second, the poor were willing and able to pay interest rates that allowed microfinance institutions (MFIs) to cover their costs.

The two important features of microfinance like: high repayment and cost-recovery interest rates permitted some MFIs to achieve long-term sustainability and reach large numbers of clients. In fact, the promise of microfinance as a strategy to combines massive outreach, far-reaching impact, and financial sustainability makes it unique among development interventions.

Today, the microfinance industry and the greater development community share the view that permanent poverty reduction requires addressing the multiple dimensions of poverty. For the international community, this means reaching specific Millennium Development Goals (MDGs) in education, women's empowerment, and health, among others. In short it can be said that microfinance mainly focuses the essential element in any country's financial system and attempt to ‚teach poor farmers how to save'[8].

1.2 Emergence of Microfinance in India

The emergence of micro finance has one of the most sustainable and effective tools for enabling the economically under privileged to access institutional financial services. It refers to small savings; credit and insurance services extended to socially and economically disadvantaged segments of society. In the Indian context terms like „small and marginal farmers", „ rural artisans" and „economically weaker sections"1 have been used to broadly define micro-finance customers. The recent Task Force on Micro Finance has defined the "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income levels and improve the standards of living „. At present, a large part of micro finance activity is confined to credit only. Women constitute a vast majority of users of micro-credit and savings services. In India, banks, Non Governmental Organizations (NGOs), MFIs and Government Agencies play a vital role in Micro finance to provide savings and credit facilities to the poor. And there are one and half million of Self Help Groups (SHGs) providing the loans to the lower-income groups. The main aim of these organizations were to reach out to the poorest of the poor; up scaling the programme in hitherto unreached areas, especially in the northern and the northeastern states; and, successfully transforming microfinance clients into micro entrepreneurs.

Micro finance is gathering momentum to become a major force in India. The self-help groups (SHGs) lending fund to the groups of poor women without any collateral, has become an accepted part of rural finance. Traditionally loss-making rural banks shifting their portfolio away from the rural poor in the post-reform period. SHG-based microfinance nurtured and aided by NGOs, have become an important alternative to traditional lending in terms of reaching the poor without incurring a fortune in operating and monitoring costs. The government and NABARD have recognized this importance and put special effort to emphasize the SHG. Over half a million SHGs have been linked to banks over the years. Mostly in South India, three-fourth of this figure can be compare with Andhra Pradesh. In spite of the impressive activities, micro finance in India is still too small to create a massive impact in poverty alleviation. But if it pursued with skill and opportunity development of the poor, it holds the promise to alter the socioeconomic face of the India [9, 10, 11].

2. Demand of Microfinance Services in India

The demand of Micro finance services in India rises due to its large size and population of around 1000 million. According to GDP, India ranks among the top 15 economies of the world. However, around 300 million people or about 60 million households, are living below the poverty line. Further it has been observed that out of these households, only about 20 percent have access to credit from the formal sector. A group of micro-finance practitioners approximately recognizes that the annualized credit usage of all poor families (rural and urban) at over Rs 45,000 crores, of which some 80 percent is met by informal sources.

Credit on reasonable terms to the poor can bring about a significant reduction in poverty. It is based on hypothesis; that micro credit assumes significance in the Indian context. With about 60 million households below the poverty line and with more than 80 percent unable to access credit at reasonable rates, it is obvious that there are certain issues and problems, which have prevented the reach of micro finance to the needy.

With globalization and liberalizations of the economy, the opportunities for the unskilled and the opportunities for the illiterate are not increasing fast enough, as compared to the rest of the economy. This is leading to a lopsided growth in the economy thus increasing the gap between the haves and have-nots. Thus in this context, the financial institutions involved in micro finance and plays a significant role to reduce this disparity and lead to more equitable growth.

2.1 Demand for Credit

In terms of the demand for micro-credit, there are three segments as follows:

The demand for the micro-credit rises from the very bottom line in terms of income and assets. The most numerous, are those who are landless and are engaged in agricultural work on a seasonal basis, and manual laborers in forestry, mining, household industries, construction and transport.

This segment highlighted the importance of micro-credit first and then foremost consumption credit for contingencies such as illness. They also need credit for acquiring small productive assets, such as livestock, by using which they can generate additional income in an emergency and crisis period.

The next market segment is small and marginal farmers and rural artisans, weavers and the self-employed in the urban informal sector as hawkers, vendors, and workers in household micro-enterprises. This segment highlighted mainly the credit needs for working capital, a small part of which also serves consumption needs. Where they need terms credit for acquiring additional productive assets like looms, machinery, irrigation pump sets, bore wells to maintain a harmony in the crop production, which largely comprises the poor but not the poorest.

The third market segment put emphasis on the small and medium farmers who have gone in for

Tab. 1: Census Report of World Bank 1991

Assistance Required By (women marginal workers seeking for work at their household premises.)	Percentage of women seeking assistance
No assistance	2.1
Initial finance on easy terms	53.6
Working capital facilities	22.2
Raw materials availability	4.6
Marketing	1.7
Training	10.5
Accommodation	0.4
Other assistance	4.9
Total	100

Source: Microfinance in India, BASIX, (http://www.basixindia.com/micro_finance_in_india.asp)

commercial crops such as surplus paddy and wheat, cotton, groundnut. They are also engaged in dairying, poultry, fishery, etc. Among non-farm activities, this segment includes those villages and slums; engaged in manufacturing activity, running provision stores, repair workshops, te-ashops, and various service enterprises. These persons are not always poor, though they live barely above the poverty line and also suffer from inadequate access to formal credit.

One market segment of great importance to micro-credit is women. According to the Census of 1991 figures, it shows that out of total 2.81 million marginal workers, 2.54 million were women, 2.67 million rural marginal workers, and 2.44 million were females, who were willing to work. This analysis has been corroborated by the results of a survey done by the National Sample Survey Organization (NSSO), 43rd round. Which has revealed that there is a vide variety of work which rural women combine with household work.

In the NSSO survey it has also been estimated that a large percentage of rural women in the age group of 15 years and above, are usually engaged in household work. And all these women's are willing to work at household premises, i.e. (29.3 percent), in activities such as dairy (9.5 percent), poultry (3 percent), cattle rearing, spinning and weaving (3.4 percent), tailoring (6.1 percent) and manufacturing of wood and cane products etc. The surveyed amongst the women shows that, (27.5 percent) rural women were seeking regular full-time work, and (65.3 percent) were seeking part-time work. To start such work, (53.6 percent) women wanted initial finance on easy terms, and (22.2 percent) wanted working capital facilities, as can be seen from the Tab. 1.

2.2 Demand for Savings and Insurance Services

In India the demand for savings services is ever higher than for credit. It has been observed that the rural household in various states in India shows that the poor, particularly women, are looking for a way to save small amounts whenever they can. The irregularity of cash flows and the small amounts available for savings at one time, determined them from using formal channels such as banks. In urban areas, in spite of better banking facilities, the poor want to save for various reasons – as a cushion against contingencies like illness, calamities, death in the family, etc.

The demand for savings services is high in rural areas that can be seen from a study of women's savings and credit movement in Andhra Pradesh. The demand for insurance services is needed for assets like livestock and pump sets, for shelter. Crop insurance could be very useful to the rural poor. Finally, insurance against illness, disability

Tab. 2: Sources of Various Occupational Categories of Rural Households as a Percentage

Year	Cultivators	Non- Cultivators	All
1961	81.6	89.5	83.7
1971	60.3	89.2	70.8
1981	36.8	63.3	38.8
1991	33.7	44.7	36.0

Source: Microfinance in India, BASIX,(http://www.basixindia.com/micro_finance_in_india.asp)

and death would also reduce the shocks caused by such contingencies, which lead the poor to take loans at such times at high interest.

3. Supply of Microfinance Services

According to the Reserve Bank of India (RBI) the supply of the microfinance services shows that informal sources provide a significant part of the total credit that needs for the rural population.

The magnitude growth and the dependence of the rural poor on informal sources of credit can be observed according to All India Debt and Investment Survey, 1992, which shows how the share of the non-institutional agencies (informal sector) in the outstanding cash dues the rural households. However, the dependence of rural households on such informal sources had reduced their total outstanding dues steadily from 83.7 percent in 1961 to 36 percent in 1991. This is shown in the Tab. 2.

Beside these among formal institutional sources, banks and co-operatives provided credit support to almost 56 percent of the rural households, while the professional and agricultural moneylenders were also providing credit to almost one sixth of the rural households. The details sources are given in Tab. 3.

On the other hand though the overall share of institutional credit for rural households has gone up steadily, but the households in the lower asset groups were more dependent on the non-institutional credit agencies. The share of debt from the non-institutional credit agencies was 58 percent in the case of lowest asset group of „less than Rs 5,000" as against a low of 19 percent in the highest asset group of" Rs 2.5 lakh and above". These share of the Debt from the institutional and non-institutional sources; those who are holding the asset like households are shown in Tab. 4.

It is to be noted that over the decades following India's independence in 1947, Government of India (GOI) has made continuous and concerted efforts to provide micro-finance to the rural poor through the formal financial sector namely the co-operatives. In the mid-1970s, Regional Rural Banks (RRB) was also established to further continue the outreach of the banking sector in reaching the rural poor. In 1971, the need for nationalization of commercial banks (CB) raises its great importance to provide a network to reach every village and every segment of the population. The Integrated Rural Development Program (IRDP), launched in 1980, to provide a mix of subsidy from the government and credit from the banking system to the poor, to enable them for the asset acquisition.

By the introduction of these programs, India has become one of the largest banking networks in the world with close to 50,000 CB outlets; 14,420 RRBs; and 90,000 primary agricultural co-operative societies. Close to 43 percent of the CB, and RRB branches are mostly located in the rural areas for the benefit of the rural people. Even it is more impressive and attractive that, there is a financial intermediary branch for every 15,000 households, and a co-operative in every village.

Due to the extensive expansion of the banking network and emphasis on lending to small borrowers, it has been noticed that there have

Tab. 3: Sources of Credit for Rural Households, 1991

Credit Agency	Percentage of Rural Households
Government etc.	6.1
Cooperative Societies	21.6
Commercial Banks and RRBs	33.7
Insurance	0.3
Provident Fund	0.7
Other institutional Sources	1.6
All Institutional Agencies	64.0
Landlord	4.0
Agricultural Money-lenders	7.0
Professional Money-lenders	10.5
Relatives and Friends	5.5
Others	9.0
All Non-institutional Agencies	36.0
All Agencies	**100.0**

Source: Microfinance in India, BASIX, (http://www.basixindia.com/micro_finance_in_india.asp)

been a lot of small loans by banks. In terms of amount, it can assess that the 13.2 percent of the total credit outstanding comes from commercial banks and RRBs. According to the report of Reserve Bank of India, March 1994, the number of accounts below Rs 25,000 was 5.6 million, of total loan accounts, with 18.6 percent of the outstanding amount. Of these, accounts with outstanding below Rs 7500 comprised 80.5 percent of the number of accounts and 49.5 percent of amount outstanding. In terms of purpose, 45.8 percent of amount was for small agricultural loans, 20.2 percent for industry and 18.8 percent for trade and services.

This has been gradually changed by March 1997, the number of small borrower accounts with a credit limit below Rs 25,000, had come down by 0.6 million accounts to 5.0 million, of the outstanding loan accounts. This decline in number of accounts clearly shows that the post liberalizations trend, with banks concentrating their efforts on larger loans to extend credit to small borrowers. While the way the banks have been engaged in financing the small borrowers, can also be called as micro-finance, where the procedures are not very linear and user friendly. The transaction cost is also high; repeat loans, except for crop production, are rare, even for, borrowers who have repaid fully. Thus all the financial difficulties like: factoring in out-of-pocket costs, payments to middle men, wage and business loss due to time spent in getting the loan approved. On the other hand the total cost of funds to the borrower were ranges between 22–30 percent as against and the 12-14 percent nominal lending rates are specified for commercial bank loans below Rs 200,000. All these hurdles results in low repayment rates, which lead to a vicious cycle of non-availability and non-repayment.

3.1 Supply of Savings and Insurance Services

From the Supply of Savings and Insurance Services point of view it has been observed

Tab. 4: Sources of Share of Debt from Institutional and Non-institutional, Household Assets

Household Assets (Rs 000)	Institutional Agency Share a Percentage	Non-Institutional Agency Share a Percentage	All
Less than 5	42	58	100
5-10	47	53	100
10-20	44	56	100
20-30	68	32	100
30-50	55	45	100
50-70	53	47	100
70-100	61	39	100
100-150	61	39	100
150-250	68	32	100
250 and above	81	19	100
All Classes	64	36	100

Source: Microfinance in India, BASIX, (http://www.basixindia.com/micro_finance_in_india.asp)

that though the banks have provided access to a large number of small depositors, the demand is nowhere being met, particularly for small, frequent „recurring" deposits.2 Hence the poor turn to other means such as chits, bishis and savings mobilization companies like Peerless and Sahara. Many such companies are fly-by night and as a result, the poor lose their money. To control and monitor this kind of situation the RBI (Reserve Bank of India) has tightened up deposit taking activity since 1997. But the transaction costs of savings in formal institutions were as high as 10 percent for the rural poor, because of small average transaction size and distance of the bank from villages.

On the other hand the supply of insurance services to the poor has been increased substantially over the 1990s, and a large number of low premium schemes covering them against death, accidents, natural calamities, and loss of assets due to fire, theft, etc. Beside these there is also the insurance for Crop and livestock. But as the Crop and Livestock insurance is quite expensive it is subsidized by the IRDP to create awareness among the customers.

4. Microfinance Institutional Structure

There are different organizations in the field of Micro finance. The organizations can be classified as „Mainstream" and „Alternative" Micro Finance Institutions (MFI).

4.1 Mainstream Microfinance Institutions

A microfinance institution (MFI) is an organization that provides financial services to the poor. As well as this broad definition includes a wide range of providers that varies from one another in their legal structure, mission, methodology, and sustainability.

Historically MFIs developed between the 1950s and 1970s. Governments and donors focused on providing subsidized agricultural credit to small and marginal farmers, in a hope of raising productivity and incomes. During the 1980s, micro enterprise credit concentrated on providing loans to poor women to invest in tiny businesses, enabling them to accumulate assets and raise household income and welfare. These experiments resulted the emergence of NGOs who provided financial services for the poor. In the 1990s, these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, to enhancing their outreach. On the other hand an Alternative MFI can also be defined as any organization that provide credit union, downscaled commercial bank, financial NGO, or credit cooperative financial services for the poor.

Characteristics of Microfinance Institutions

Formal providers are sometimes defined as those that are not only subject to general laws but also to specific banking regulation and supervision (development banks, savings and postal banks, commercial banks, and non-bank financial intermediaries

Semiformal providers are registered entities subject to general and commercial laws but are not usually under bank regulation and supervision (financial NGOs, credit unions and cooperatives).

Informal providers are non-registered groups such as rotating savings and credit associations (ROSCAs) and self-help groups.

Ownership structures of MFIs can be of almost any type imaginable. They can be government-owned, like the rural credit cooperatives in China; member-owned, like the credit unions in West Africa; socially minded shareholders, like many transformed NGOs in Latin America; and profit-maximizing shareholders, like the microfinance banks in Eastern Europe.

Focus of some providers is exclusively on financial services to the poor. Organizations providing financial services to the poor like training and technical assistance, or social services, like health and empowerment training.

Services that poor people need and demand the same types of financial services as everyone else. The most well known service is non-collateralized „micro-loans," delivered through a range of group-based and individual methodologies. The types of services offered are limited by the legal structure of the provider non-regulated institutions.

In general, a microfinance institution is an organization that offers financial services to the very poor. Most MFIs are non-governmental organizations committed to assisting some sector of the low-income population. Thus the Mainstream Micro finance Institutions in India are as National Agricultural Bank for Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Housing Development Finance Corporation (HDFC), Commercial Banks, Regional Rural Banks (RRBs), the credit co-operative societies etc are also involved in extending micro finance.

4.2 Alternative Microfinance Institutions

The Alternative Micro finance Institutions, have come up to fill the gap between the demand and supply for micro finance. These institutions are namely known as the Task Force as „those, which provide thrift, credit and other financial services and products of very small amounts. The main aim of these institutions is to raise income level and improve the living standard of the poor people. This can broadly be classified as:

- The NGOs, Non-Governmental Organizations are mainly engaged in promoting self-help groups (SHGs) and linking the Self Help Groups (SHGs) with banks, under the NABARD scheme.
- Sometimes the NGOs are also directly lending to borrowers, either through the Grameen Bank or through several funding agencies like RMK, SIDBI, FWWB and various donors.
- In India the Micro finance Institutions are specifically organized as cooperatives, such as the SEWA Bank and various Mutually Aided Cooperative Thrift and Credit Societies (MACTS).
- Micro finance Institutions are also organized as non-banking finance companies, such as BASIX, CFTS, Mirzapur and SHARE Micro fin Ltd.

Beside these institutions there are also some leading alternative micro finance institutions in this segment are SEWA Bank in Gujarat, ASSEFA and its Sarva Jana Seva Kosh Ltd. in Tamil Nadu MYRADA in Karnataka which also runs federations of SHGs in nine districts;: SHARE, BASIX, CARE and MACTs. The Cooperative Development Foundation (CDF); promoted Sanghamitra, a company of its village savings and credit sanghas, PRADAN which has established a large number of SHGs and etc.

5. The Problems Associated with Mainstream MFIs

To enable the services of microfinance effective, there arises a problem associated with the legal, regulatory, organizational systems.

Though the mainstream financial institutions are flush with funds but the lower credit deposit ratio was not that much attractive. The most accessing are from eastern UP, Bihar, Orissa and the Northeast. They have Credit Deposit ratios of 20-30 percent. Some of the main reasons of ineffectiveness uses are as follows:

Borrower Unfriendly Products and Procedures

Due to illiteracy a majority of the customer could not able to access it. As to get a loan high documentation is required. Another ways it can be said that the products were also not reaching to the rural poor.

Inflexibility and Delay

The rigid systems and the various documentation procedures de-motivate the borrowers to take further loans.

High Transaction Costs, both Legitimate and Illegal

The transaction costs in terms of the number of trips making it less attractive to the borrowers.

Social Obligation and not a Business Opportunity

Micro-finance has been historically seen as a social obligation rather than a potential business opportunity.

Financing to Alternative MFIs

Financing to Alternative MFIs, NABARD Act does not permit them to refinance any private sector financial institutions. On the other hand similarly SIDBI Act restricts loans to the agricultural and allied sectors, though many of the members of the self-help groups are engaged in such activities.

Legal and Regulatory Framework

- Policymakers feel and believe that poor people cannot save, and they are unwilling to repay the loans, and the administrative costs of servicing them are also very high.
- The mainstream institutions feel that these loans are risky, difficult to serve and have a low or negative net spread. Hence RRB Act does not permit private sharing holding, led monopoly.

6. Problems for Alternative Microfinance Institutions

Though the main aim of the Microfinance Institutions is to bridge the increasing gap between the demand and supply. But a vast majority of them set up as NGOs for getting access to funds as, the existing practices of mainstream financing institutions such as SIDBI and NABARD and even of the institutions specially funding alternatives, such RMK and FWWB, is to fund only NGOs. Beside these problems there are also several reasons such as [12]:

- financial problems leading to setting up of inappropriate legal structures;
- lack of commercial orientation;
- lack of proper governance and accountability;
- isolated and scattered legal structures;
- inappropriate legal forms.

7. The Role of Microfinance in Bangladesh

In the 1970s, experimental programs in Bangladesh, and a few other countries extended tiny loans to groups of poor women to investment in micro-businesses. This type of microenterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members.

The emergence of the microfinance in Bangladesh presents a tremendous change and opportunity to expand the financial services in Bangladesh. In Bangladesh more than 50 percent of a 128 million population are reckoned to live below the poverty line. The Commercial banks have no such effective influence for the betterment of the lower-income group.

In the last twenty years it has been observed that NGOs and the Microfinance Institutions in Bangladesh have greatly modified the Grameen Bank's methodology and devised appropriate financial service technologies to uplift and serve the poor people [13].

7.1 Activity of Microfinance in Bangladesh

In Bangladesh the Microfinance consists of NGOs, Cooperatives, public sector programs and the Grameen Bank. The country is now teeming with more than 1000 micro finance NGOs. Each and every NGO has taken up micro finance as a core activity. NGOs led the micro finance industry in a monopolistic Competition. Many people realize and maintain that there is a need to review whether micro finance programs should be separated from other development. Though the activities of the banks in Bangladesh moves very slowly, but nowadays they put more emphasis for the betterment of the poor to keep pace with new trend and maintain a sustainable economic condition. Savings is also growing over time with clear and huge savings potential. But the clients need quality saving services and dependable organizations to save with. On the other hand, demand for money to provide as credit is also increasing. To avail this opportunity, many NGO-MFIs having been mature, will eventually feel the need to enter the formal financial system to fund their growth and provide diversified financial services as demanded by their target markets.

According to the statistical data of December 1999 show that the position and activity of Microfinance in Bangladesh, currently cover 100% poor households, representing about 13 million in the country. The Bangladesh Rural Development Board (BRDB) and the Ministry of Youth sponsored programs have outstanding loans of Tk 2,337 million. The Grameen Bank clients have accumulated savings of Tk 9,676 million and have outstanding loans of Tk 13,724 million. While the aggregate picture shows that micro savings constitutes 3% of the total sectoral savings and micro credit contributes 6% of total sectoral advances made in the financial sector.

Efforts are seen ever stronger than in the past in mobilizing local resources by bringing in various savings and credit products. The savings products of NGOs now include daily savings, mandatory savings, voluntary savings, forced savings, contractual savings, and time deposits. The NGOs are also trying to become more responsive to the demand for credit facilities. Over time, the credit products have been diversified. Today there exist more than 15 credit products including daily credit, leasing loans, housing loans etc. Normally, the loan ranges from Tk 1000 -15,000 for one year. The average loan size is Tk 3500 ($70). Organizations providing loans above Tk 3000 is very few. Only a handful of organizations can adequately support the real needs of their clients. The clients' opinion, that the money that is given as credit is not sufficient for the actual need.

Again, the NGO-MFIs in this country practically do not judiciously determine the price of savings, credit or insurance. They just set the prices on the basis of on-going prices and practices without looking at its cost of operations. According to the Statistical data about 52% NGOs provide interest on savings @ 6-7%, which is a little less than the commercial banks do. As the Micro finance industry in the country is growing and evolving as new issues, it has been observed that the role of marketing in the Micro finance Institution is one of the vital and most important factor [4].

8. Social Mission and Commercial Strategy

NGO-MFIs in Bangladesh are not professionally very cost-conscious and hardly cast their eyes on the matter. The trend of the NGOs is to remain within the bounds of social objectives - a kind of safe custody, which is being seen among many. In fact, it is to be noted that the NGO-MFIs have both social mission and commercial motive. The concept of Social mission assumes that more and more poor people should be covered and continuity of the service should be maintained through plough back of the recovered fund. The commercial sector means in terms of employment generation, contribution to GDP and export earnings. They too are working for the welfare of the people satisfying their needs regardless of who are rich or who are poor. Social mission of NGO-MFIs is to go to the doorstep of the poor people with appropriate financial services with a view to eradicating poverty.

8.1 Commercialization of Microfinance in Bangladesh

The term „commercialization" in the microfinance industry of Bangladesh is relatively a promising idea and wide. It is to be noted that, forty percent of a large population are activating these ideas and receiving grants from various micro finance institutions and donors.

In Bangladesh Micro credit and Microfinance are contributing significantly to the achievement of the United Nations Millennium Development Goals. They have a goal to eradicate the poverty by 2015. The Year of Micro credit 2005 was to enhance the impact of micro credit and micro finance with the aim of meeting the Goals. According to the report of the World Bank it shows that in Bangladesh, 48 % of the poorest households access to micro credit loans.On the other hand 5 % of the Grameen Bank's clients were holding micro credit loans to sustain these gains overtime [4].

9. Challenges of Microfinance in India and Bangladesh

To study the challenges of Micro Finance in India and Bangladesh, first of all we have to say that both the countries are developing. The most important hindrance of the developing countries is illiteracy and poverty. Illiteracy and poverty plays a dominant role in the economic performance of a country. To reduce illiteracy level and to eradicate the poverty Microfinance has played an eminent role to uphold the countries economic standard. Here in this study we try to compares the following aspects like (i) Individualistic and cooperation approach, (ii) Self Help Group (SHG) and Bangladesh Grameen Group (BGG) models and (iii) Federation and Cooperatives. It argues that though individualistic approach has less hassle, but the transaction cost and risk are high for both the countries

Though the group formation cost in cooperation approach is high in short run, but it may be fruitful in the long run. From the empowerment point of view in India SHG is much higher than in BGG as to make them aware. As the scope of savings and self-reliance so far as financial dependence is much higher in SHG. That's why in Bangladesh most of the financial institutions prefer BGGs with whom they may have credit relationship for a longer period. In India the micro credit is in a dismal situation. Even among the 196 Regional Rural Banks, 28 per cent have Credit-Deposit (CD) ratio of less than 25 per cent; only 25 per cent have more than 50 per cent of CD ratio.

Only 22 per cent of public sector banks have financed 10 per cent of their net bank credit to the weaker section i.e. to the customers of micro credit.

This gap arises mainly because of two types of constraints: (i) attitudinal and (ii) institutional. Appropriate policies are required to overcome these constraints. These are (i) official definition of micro finance, (ii) ensuring the micro finance services, (iii) approach to subsidy, (iv) Banking policies, (v) Management information system and (vi) legislation processes [1].

10. Exciting about Indian Microfinance

In spite of several loopholes in Indian Microfinance, still we have observe that it has some exciting area in comparison with Bangladesh that attracts our vision to put a great emphasis to find out the reason. A Task Force is one of the important aspect on Microfinance that recognized in 1999 which is much more effective than micro credit, stating: „Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and or urban areas for enabling them to raise their income levels and improve living standards". The Self Help Group promoters emphasize that mobilizing savings is the first building block of financial services.

On the other hand Microfinance programmes have rapidly expanded in recent years. Some examples are:

- Membership of Sa-Dhan (a leading association) has expanded from 43 to 96 Community Development Finance Institutions during 2001-04. During the same period, loans outstanding of these member MFIs have gone up from US$15 million to US$101 million.
- The CARE CASHE Programme took the challenge of working with small NGO-MFIs and community owned-managed micro finance organizations. Outreach has expanded from 39,000 to around 300,000 women members over 2001-05. Many of the organizations like NGO-MFIs work and represent the next level of emerging MFIs and some of them are already dealing with ICICI Bank and ABN AMRO.
- In addition to the dominant SHG methodology, the portfolios of Grameen replicators have also grown dramatically. The outreach of SHARE Micro fin Limited, for instance, grew from 1,875 to 86,905 members between 2000 and 2005 and its loan portfolio has grown from US$0.47 million to US$40 million.

Since banks face substantial priority, they sets targets and then micro finance is beginning to be recognized as a profitable opportunity (high risk adjusted returns) to a variety of partnership models between banks and MFIs that have been tested. All varieties of banks - domestic and international, national and regional - have become involved, and ICICI Bank has been at the forefront of some of the following innovations such as:

- lending wholesale loan funds;
- assessing and buying out micro finance debt (securitisation);
- testing and rolling out specific retail products such as the Kissan (Farmer) Credit Card;
- engaging micro finance institutions as agents, which are paid for loan origination and recovery, with loans being held on the books of banks;
- equity investments into newly emerging MFIs;
- banks and NGOs jointly promoting MFIs.

In 2005 national budget, the Finance Minister Mr. P. Chidambram has further strengthened this policy and announced „Government intends to promote MFIs in a big way. What is beginning to happen in micro finance can be seen from the perspective of what has happened to phones in India. With the right of enabling environment, and intense competition amongst private sector players, mobile phones in India expanded by 160% during just one year 2003-04 (from 13 to 33 million). Mobile tariffs fell by 74% during the same period [14].

Key Challenges of Microfinance

According to "CGAP" microfinance have certain key principles and challenges. As per their analysis microfinance has certain following principles [15]:

- Poor people need a variety of financial services, not just loans.
- Microfinance is a powerful tool to fight poverty.
- Microfinance means building financial systems that serve the poor.
- Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people.
- Microfinance is about building permanent local financial institutions.
- Microcredit is not always the answer. Microcredit is not the best tool for everyone for every situation.
- Interest rate ceilings hurt poor people by making it harder for them to get credit.
- The role of government is to enable financial services, not to provide them directly.
- Donor funds should complement private capital, not compete with others.
- The key bottleneck is the shortage of strong institutions and managers.
- Microfinance works best when it measures and discloses its performance.

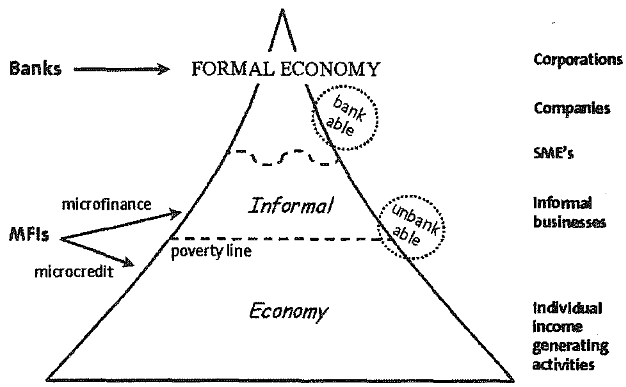
11. Challenges Remain

Though there are some exciting activities of Micro finance in India has been observed but for the new vision of a world it should access to a wide range of financial services to reach. Many of the necessary elements needed to scale up in microfinance. A great deal of the knowledge about the requirements of sustainable microfinance already exists. High-performing microfinance institutions have developed innovative methodologies to extend credit, savings and other services to poor clients. A number of banks and other institutions with nationwide distribution systems are beginning to take active interest in reaching poorer clients. Advances in information technology have the opportunity to lower the cost and risk of providing microfinance to the poor. The challenge is to mobilize this knowledge and apply it on a much vaster scale, creating financial systems that work for the poor and boost their contribution for economic growth.

11.1 Challenges Ahead

Now the question arise that how the microfinance industry today is scaling up services to reach the estimated three billion people in developing countries who are still lack of access to formal financial services. Successful microfinance institutions have proven that providing financial services to the poor can be an effective means of poverty reduction and be a profitable business. There is greater consensus than ever before on what is needed to make microfinance sustainable? But a major development of sustainable microfinance is limited institutional and managerial capacity at the level of retail microfinance institutions, as reflected in inadequate management information systems, poor strategic planning, and high operating costs. There is also a marked of shortage of organizations that can provide safe savings facilities for the poor and can sustainably mobilize these domestic savings for on-lending [16].

Fig. 1: Pyramid Status of Microfinance



Source: Future Funding of Microcredit, Gert van Mannen

11.2 Future of Microfinance

According to Gert van Maanen, the future of microfinance and microcredit is basically depends on three facts and three layers in the economy of a country are as follows: The donors, lenders and financial institutions i.e. FIs (banks) play with microfinance to uplift the poor.

The diagram (Fig. 1) shows the pyramid status of microfinance and how they act and going to act in future. A recent study by CGAP has shown that more than 70% of all foreign investments in microfinance land with regulated MFIs. In fact, more than 60% is received by MFIs only, from the front-runners whose profit makes them qualify for investors. Most of them serve the upper layer of the pyramid, some serve a mix of stronger and weaker clients, and none of them focuses specifically on the poorer clients below the poverty line, because it is almost mutually exclusive to serve the very poor and to be profitable enough for investors [2].

12. Conclusion

Hence we can conclude that the story of the Indian micro finance and Bangladeshis micro finance is associated with both governmental and non-governmental (NGO) initiatives that took place in the mid-Eighties and early Nineties. It is incorporated with lessons from the micro finance movement in Bangladesh and similar participatory development programmes in India. The self--help group (SHG)-bank linkage programme of the National Bank for Agriculture and Rural Development (NABARD) accelerated the growth of the micro finance movement in India latter in the half of the Nineties. Now the SHG-bank linkage programme is one of the largest micro finance programmes in the world with 10.79 lakh SHGs covering nearly 167 lakh poor families till March 31, 2004 [17].

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Acronyms:

ASSEFA	The Association for Sarva Seva Farms
BASIX	Bharatiya Samruddhi Investments and Consulting Services Ltd.
BGG	Bangladesh Grameen Group
BRDB	Bangladesh Rural Development Board
CARE	Community Action for a Renewed Environment
CASHE	Credit and Savings for Household Enterprise
CB	Commercial Bank
CD	Credit Deposit
CDF	Cooperative Development Foundation
CFTs	Community Family Trusts
CGAP	Consultative Group to Assist the Poor
FI	Financial Institutions
FWWB	Friends of Women World Banking
GDP	Gross Development Product
GOI	Government Of India
HDFC	Housing Development Finance Corporation
IRDP	Integrated Rural Development Programme
MACTS	Mutually Aided Cooperative Thrift and Credit Societies
MFIs	Micro Finance Institutions
MDGs	Millennium Development Goals
MsM	Maastricht School of Management
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Agricultural Bank for Rural Development
NGOs	Non Governmental Organizations
NSSO	National Sample Survey Organization
NUFFIC	Netherlands Organization for International Cooperation in Higher Education and Research
PRADAN	Professional Assistance for Development Action
RMK	Rashtriya Mahila Kosh
RBI	Reserve Bank of India
RRBs	Regional Rural Banks
ROSCAs	Rotating Savings and Credit Associations
SEWA	Self Employed Women's Association
SHARE	Shareholder Association for Research and Education
SHGs	Self Help Groups
SIDBI	Small Industries Development Bank of India

ABSTRACT

THE CHALLENGES OF MICROFINANCE: IN INDIA AND BANGLADESH

Nibedita Saha, Wei-Xin Huang

Microfinance means giving very small loans to very poor people to help them to grow their tiny businesses, as well as to pull themselves out of poverty by increasing the level of income and building viable businesses. It includes a broader range of services as credit, savings, insurance etc. Sometimes it is called as "banking for the poor people" Recently it has been observed that the importance of "Microfinance" is rising high to maintain a sustainable socio-economic status of all developing countries. In this paper we try to highlight the challenges of microfinance especially in India and Bangladesh.

A study of these two countries shows us that how the microfinance helping and assisting the lower income groups and self help groups to get rid out of the poverty, which is a great slur and hindrance of a developing country. With the help of microfinance, microcredit and financial institutions, the poor people can survive their livelihoods in a very a stable and secured way. The poor people become self sufficient and self employed by getting microcredit, which enables them to engage in productive activities.

Key words: *financial institutions, task force, small marginal farmers and rural artisans, economically weaker sections, self help group*

JEL Classification: *G21*