

CHAPTER 1

mF Scenario in the Country

1.1. Background

1.1.1. Microfinance (mF) has become, in recent years, a fulcrum for development initiatives for the poor, particularly in the Third World countries. It has been practised in varying forms in different countries and has come to be regarded as an important tool for poverty alleviation. Although mF could possibly include a range of financial services targeted to the poor, in common parlance, however, micro-credit and mF are often used interchangeably with emphasis on provision of credit to the poor.

1.1.2. The need for rural credit in India had been recognised even before independence by the erstwhile British Government as early as 1793 when it issued regulations for Taccavi loans to farmers and subordinate tenants for various purposes. The measures initiated to reduce indebtedness and regulating money lending activities for agricultural purposes failed to provide a long term solution. The Cooperative Societies Act which was passed in 1904 to provide necessary legislative support to the financing of agriculture and regulating credit in the interest of cultivators then signalled the entry of credit for agriculture from the institutional sector. Since then, and till the late Fifties, cooperatives have been the major institutional source for all agricultural loans.

1.2. Expansion of Banking Network

1.2.1. The last four decades witnessed a rapid growth of banking network in India under the guidance and initiative of the Reserve Bank of India (RBI). A vast cooperative branch banking network was developed in the Fifties and Sixties for purveying agricultural credit. The nationalisation of the Imperial Bank of India in 1955, 14 major commercial banks in 1969 and another 6 commercial banks in 1980, the setting up of the Farmers Service Societies (FSS) in 1973 and Regional Rural Banks (RRBs) in 1975 have enabled the creation of an extensive financial infrastructure for taking banking to the far-flung rural areas. A multi-agency approach has been adopted for rural credit delivery, involving commercial banks, RRBs and cooperatives. A vigorous rural branch expansion programme by commercial banks and RRBs was undertaken to increase the rural credit flow. The main emphasis in the spread of the banking network and introduction of new instruments, credit packages and programmes, and sectoral and institutional 'benchmarks' was to make the financial system responsive to the needs of the weaker sections in the society comprising small and marginal farmers, rural artisans, landless agricultural and non-agricultural labourers and other small borrowers falling below the poverty line.

1.2.2. As a result, the rural and semi urban areas of the country are served today by more than 1,50,000 retail credit outlets comprising over 92,000 cooperative societies, 12,128 branches of DCCBs, 14,142 branches of RRBs, and 20571 rural and 12,283 semi urban branches of commercial banks ([Annexure I](#)). In other words, there is at least one retail credit outlet for a rural population of 4,700 (based on 1991 Census). This should normally be regarded as an extensive network and should be capable of meeting the financial needs of the entire rural population. Reaching out to the far-flung rural areas to provide credit and other banking services to the hitherto neglected sections of the society is an unparalleled achievement of the Indian banking system.

1.3. Focus on the Poor and Weaker Sections

1.3.1. With the establishment of RRBs for serving the poor exclusively, and a direction to the commercial banks to route at least 10% of net bank credit to the weaker sections, a clear policy environment was created for providing small loans to the poor. This dispensation was in addition to the cooperatives which were the earliest institutional channel for credit to the rural poor. The direction to the banks to provide credit to the poor on their own accord was also preceded by the implementation of focused programmes by both central and state governments, viz., Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Labourers (MFAL), Drought Prone Area Programme (DPAP), etc. In absolute terms, there has been a phenomenal growth in the flow of institutional credit for agriculture during the last 3 decades from a level of Rs. 885 crore in 1970-71 to Rs. 38,054 crore in 1998-99 (estimated).

1.4. Priority of Financial Services

1.4.1. It is very often said that credit 'per se' is not a sufficient factor for economic development, but assumes significance when preceded by or accompanied with sustained economic and social activities. In a study commissioned by Asia Technical Department of the World Bank (1995), it was observed that the priority across different types of financial services among the rural poor was consumption credit, savings, production credit and insurance. Not only consumption constituted two-thirds of credit usage, but even within consumption credit, almost three fourths of the demand was for short periods for meeting emergent needs such as illness and household expenses during the lean season. While almost 75% of the production credit (which accounted for about one-third of the total credit availed of by the rural masses) was met by the formal sector, mainly banks and cooperatives, almost entire demand for consumption credit was met by the informal sources at high to exploitative interest rates that varied from 30 % to 90 % p.a. Due to the inability of the poor borrowers to offer any security for their small consumption loans, they were unable to take short term consumption loans from the formal banking system even though RBI guidelines did provide for granting of consumption credit by banks. Consequently, a large number of the rural poor continued to remain outside the fold of the formal banking system.

1.5. Dependence of the Poor on Informal Sources

1.5.1. The magnitude of the dependence of the rural poor on informal sources of credit can be observed from the findings of the All India Debt and Investment Survey, 1992, which shows that the share of the non-institutional agencies (informal sector) in the outstanding cash dues of the rural households continued to be quite high at 36% even though the dependence of the rural households on such informal sources had reduced marginally from 38.8% to 36% over the last decade (1981 - 1991).

Table - 1.1

Occupational Categorywise Dependence of Indebted Rural Households

on Non-Institutional Agencies

(in percentage terms)

Year	Cultivators	Non-Cultivators	All
1961	81.6	89.5	83.7

1971	68.3	89.2	70.8
1981	36.8	63.3	38.8
1991	33.7	44.7	36.0

1.5.2. Banks and cooperatives provided credit support to almost 55% of the rural indebted households, while professional and agricultural money-lenders were providing credit to almost one sixth of the rural households (as on 30 June 1991) as shown below

Table 1.2

Credit Agency -wise Distribution of Rural Indebted Households

Credit Agency	% of Rural Households
Government etc.	6.1
Cooperative Societies	21.6
Commercial Banks & 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 & Friends	5.5
Others	9.0
All Non-institutional Agencies	36.0
All Agencies	100.0

Source : Debt & Investment Survey, GOI, 1992 1.5.3. Further, the percentage share of the amount of debt contracted from institutional and non-institutional credit agencies by each asset holding classes at All-India level revealed that 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 as high as 58% in the case of the lowest asset group of less than Rs.5,000 as against a low of 19% in the highest asset group of Rs. 2.5 lakh and above (as on 30 June 1991).

Table 1.3

Share of Debt by Different Asset Holding Classes

(in percentage)

Household Assets (Rs. '000)	Institutional Agency	Non-institutional Agency	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 & above	81	19	100
All Classes	66	34	100

Source : Debt & Investment Survey, GOI, 1992

1.5.4. Agricultural purposes constituted the bulk of the lending of the banks in the rural areas, and it was the landless agricultural and non-agricultural labourers, rural artisans and asset-less poor who had not received adequate attention from banks.

1.5.5. Data on operational holdings bring out that 57% of the holdings are in the range of 0-1 hectare (average holding 0.41 ha) and further 18% are in the range of 1-2 ha; together these 75% holdings account for only 26% of the area under cultivation. Since about two thirds of the land is still rainfed, most of the new entrants to the labour market are from these small land-holding families who are forced to rely on the informal market for credit support. The ultimate result has been that there are a large number of relatively poor rural households both in the agricultural and non-agricultural sectors who are dependent on the informal sector for meeting their credit requirements.

1.6. Wage and Self Employment Programmes

1.6.1. Several programmes to improve the incomes of the disadvantaged sections of the society have been implemented in the past that promoted self-employment opportunities through credit supported asset creation. Additionally, several programmes for rural housing, drinking water supply, sanitation etc. have also been designed and implemented, not only as a means of providing these basic services to the poor, but also for providing wage employment opportunities to them. Over the years, special poverty alleviation wage and self employment programmes like Jawahar Rozgar Yojana, Indira Awas Yojana, Employment Assurance Scheme, Integrated Rural Development Programme (IRDP), Development of Women and Children in Rural Areas (DWCRA), Training of Rural Youth for Self Employment (TRYSEM), etc. have been implemented by the GOI and state governments for creation of wage and self-employment opportunities. Besides, there have been programmes like Scheme for Development of Women and Children in Urban Areas, Self-employment Scheme for Urban Unemployed etc., with exclusive focus on urban poor.

1.6.2. As regards wage-employment schemes, Jawahar Rozgar Yojana (JRY) started in April 1989, by merging ongoing National Rural Employment Programme and Rural Landless Employment Guarantee Programme, has led to the strengthening of rural infrastructure through the creation of durable community and social assets in favour of the rural poor. Since inception of the JRY in 1989-90, about 71,906 lakh mandays of employment have been generated at a cumulative total expenditure of Rs. 28,893 crore till November 1998. The Million Wells Scheme (MWS), originally a sub-scheme of National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP), was converted into an independent scheme from January 1996 to provide open irrigation wells free of cost to poor small and marginal farmers. Since inception of the scheme in 1988-89, about 12.63 lakh wells have been constructed with an expenditure of Rs. 4,728 crore till November 1998. The Employment Assurance Scheme introduced in 1993-94 provides gainful employment during the lean periods to adults in rural areas, thus creating infrastructure and community assets for sustained employment and development in drought-prone, desert, tribal and hilly areas. From 1993-94 till November 1998, employment of 17,823 lakh mandays had been generated with an expenditure of Rs. 8,665 crore.

1.6.3. At the forefront of the self-employment programmes was the Integrated Rural Development Programme (IRDP) which was not only the largest mF programme in the country but also by far the largest of such programmes in the world. From 1982-83 to November 1998, more than 5.38 crore below poverty line (BPL) families were covered with bank loans aggregating over Rs. 19,500 crore. With a view to involving the rural women more intensively in economic activities, DWCRA was launched in 1982-83 covering 50 districts as a sub-scheme of IRDP with exclusive focus on providing credit, training and management skills to poor women and was subsequently extended to all districts in 1994-95. As at the end of January 1999, about 2.45 lakh groups were formed covering more than 38 lakh rural women. The training component for capacity building of the borrowers under these programmes was provided by TRYSEM which aimed at providing basic technical and managerial skills to the rural youth from families below the poverty line to enable them to take up self-employment in the field of agriculture, industries, services and business. Since inception in 1979-80, about 41.42 lakh rural youth have been trained. The GOI has since decided to restructure the existing rural self-employment programmes like IRDP, DWCRA, TRYSEM etc., by launching a new programme known as Swarnjayanti Gram Swarozgar Yojana (SGSY) from April 1999. The Prime Minister's Rozgar Yojana (PMRY), launched in 1993, aimed at assisting educated unemployed urban youth in establishing self-employed ventures. The scheme was later expanded to cover rural areas also.

1.6.4. Notwithstanding the degree of success or failure of these programmes, they have contributed to the improvement in the socio-economic status of the poor. The incidence of poverty has declined considerably over the past two decades from 56.4% in 1973-74 to 37.3% in 1993-94 in the rural sector and from 49% to 32.4% in the urban sector. The All-India Poverty

Ratio declined from 55% to 36% over the period 1973-93 (Economic Survey, 1998-99). However, due mainly to the population growth, the population living below the poverty line continues to be very high in absolute numbers at about 35 crore.

1.7. Involvement of Banks

1.7.1. After the institution of social control in banks and their nationalisation, a big thrust was given on provision of credit to the weaker sections by commercial banks while RRBs were established to provide credit exclusively to the poor. The policies concerning rural credit through the banking system were hitherto pursued on certain assumptions such as, (i) the rural poor have no capacity to save, (ii) could only be developed through subsidy linked poverty alleviation credit programmes, and (iii) interest rates of credit from informal sources were exploitative, etc. These assumptions led to the policy orientation focusing on capital subsidies and low rates of interest on loans, target oriented poverty alleviation programmes, credit guarantee for small loans, fixing up of sectoral targets for disbursement of credit, soft lending terms including nil or very low down payment, long loan maturities and grace periods, relegation of savings as a source of funds, increasing reliance of the rural credit system on concessional refinance from higher financial institutions, etc.

1.7.2. The above policy framework often resulted in excessive target orientation in government sponsored programmes, improper selection of clients and projects and leakages. Poor interest margins practically forced banks to cut down on appraisal and monitoring costs which further resulted in low recoveries stifling the recycling of credit which neither contributed to the sustained growth of the rural credit system nor did it adequately serve the rural poor to make them self-supporting and self sustaining. The main constraint with regard to flow of credit to assetless poor borrowers, therefore, seems to be the comparatively high transaction cost to the banks in financing a large number of small borrowers who require credit frequently and in small quantities. The same holds true of the costs involved in providing savings facilities to the small, scattered savers in the rural areas. Both rural savers and borrowers with small amounts of the transactions also have to bear high transaction costs while dealing with the banks due to distances, loss of earnings on being away from work while visiting bank branch, etc. Besides, the perception of risks in financing small borrowers who are unable to offer physical collaterals, the urban orientation of field staff and their mindset, inflexibility in their operations in terms of procedures and policies are the other constraints which restrict the outreach of the formal banking system to the poor. The poor also often perceive banks as alien institutions which exist to serve the needs of others.

1.8. Emerging Initiatives

1.8.1. In the midst of the apparent inadequacies of the formal financial system to cater to the needs of the rural poor despite its phenomenal physical outreach, and with the active support and patronage of some NGOs, an informal segment comprising small, indigenous self - help groups (SHGs) has started mobilising thrift and savings of their members and lending these resources among their members on a micro scale. The amounts involved are small, the processes followed are simple, but the operations seem to be successfully and effectively meeting at least the immediate needs of the poor. The potential of these SHGs to develop as local financial intermediaries to reach the poor has eventually gained wide recognition in many developing

countries, especially in the Asia-Pacific Region. Many NGOs have played an active role in fostering the growth of SHGs in furtherance of their basic objectives.

1.8.2. As the concept of informal self help groups was relatively new, the National Bank for Agriculture and Rural Development (NABARD), the apex development institution with exclusive focus on integrated rural development, supported and funded in 1986-87, a MYRADA-sponsored action research project on *Savings and Credit Management of Self-Help Groups* for assessing its efficacy to help the target groups. Thereafter, in collaboration with some of the other member institutions of Asia Pacific Rural and Agricultural Credit Association (APRACA), NABARD undertook a survey of 43 NGOs spread over 11 States in India to study the functioning of SHGs and possibilities of collaboration between banks and SHGs in mobilisation of rural savings and improving the delivery of credit to the poor. Further, 10 other initiatives in the NGO and formal banking sector which specifically aimed at improving the access of the poor to banking were studied and analysed in great detail under a Government of Germany (BMZ) funded research programme.

1.8.3. Encouraged by the results of these studies on SHGs and other initiatives, NABARD launched in 1991-92 a Pilot Project on Linking SHGs with Banks. Steady progress of the pilot project led to the mainstreaming of the SHG-Bank Linkage Programme in 1996 as a normal lending activity of the banks with widespread acceptance. A detailed analysis on the SHG-Bank Linkage Programme is presented in chapter 2.

1.8.4. In the wake of the successful involvement of NGOs in promoting SHGs for the benefit of the rural poor in the Eighties, particularly the women, there have been some notable initiatives under the aegis of various state governments such as Community Development Societies (CDS) in Kerala, Uttar Pradesh Land Development Corporation (UPLDC) in UP, and under DWCR and UNDP groups in Andhra Pradesh. These initiatives have tried to build NGO-like flexible and responsive structures within the formal systems. Some of them have also tried to develop structures of the poor themselves which take on the responsibilities usually shouldered by NGOs.

1.8.5. Taking due note of the emergence of the NGO sector in the country and their endeavours to provide micro-credit and support to micro-entrepreneurs, several other institutions, agencies, ministries and government departments of the central and state governments have started associating NGOs for reaching out credit and other welfare services to the rural and urban poor, particularly women. Rashtriya Mahila Kosh (RMK), Small Industries Development Bank of India (SIDBI), Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC), National Housing Bank (NHB), and Ministries of Agriculture and Human Resources Development (Department of Women and Child Development) and Rural Development Department are prominent among them.

1.8.6. The RMK was set up in 1993 for providing various financial services to poor women in different parts of the country using the NGO channel and adopting SHG approach. Similarly, SIDBI, with a mandate for development of small and tiny enterprises, has been actively supporting promotion of micro enterprises through NGOs.

1.9. Other Micro Credit Delivery Initiatives

1.9.1. It is now being widely accepted that a large segment of population traditionally excluded by the formal financial sector can in fact be a profitable market niche for innovative banking services. Therefore, in addition to engaging in the promotion and nurturing of SHGs for linkage with the banking system, a number of NGOs have been implementing a variety of approaches for delivery of micro-financial services to the poor, specially poor women. The success achieved by

Grameen Bank, Bangladesh in meeting the credit needs of the rural poor, particularly women, through group approach has inspired a number of NGOs in India to replicate the Grameen model with suitable variations and thus take on the responsibilities of financial intermediation themselves. Several large NGOs have networked with smaller NGOs for providing credit and other management inputs to them. Some NGOs have tried to promote SHGs' Federations to take on the role of NGOs, while some have tried financing through cooperatives formed under certain new Acts. Specialised agencies in the form of NBFCs which cater to the needs of the poor have also come up.

1.10. International Experience

1.10.1. There has been increasing awareness and realisation among developing countries of the Asia-Pacific, Latin America and Africa that financial services to the poor and disadvantaged, particularly women, hold the key to their mainstreaming with the development of the country. While the formal banking sector in most of these countries may not be in a position to provide such services in a cost-effective way, financial intermediation by various agencies in the non-formal sector has gained urgency and importance in these countries. Successful mF interventions in these countries are closely studied and replicated in some cases by the institutions in India. Replication of the Grameen, perhaps leads such initiatives.

1.10.2. mF has been given due recognition by various world bodies and the last Micro-credit Summit held in Washington in 1997 resulted in 137 countries gathering together to launch a campaign for reaching 100 million of the world's poorest families, especially the women from such families, with credit for self-employment along with other financial and business services by the year 2005. In the wake of this, a number of initiatives have been taken by the government, banks and financial institutions and the voluntary sector to enhance the flow of credit and other financial services to the poor. The budget announcements of the Hon'ble Union Finance Minister in 1998 and 1999 to assist 2,00,000 SHGs in the next 5 years, which would cover almost 40 lakh families, is a step in that direction.

1.11. A New Approach - Level Playing Ground for Different Institutions

1.11.1. There is no gainsaying that the provision of financial services to the poor will generally remain beyond the outreach of the formal banking institutions if they use only the traditional delivery mechanisms and products. In other words, not only newer delivery mechanisms, but also newer savings, credit and other financial products and services may have to be developed which meet the needs of the poor. While many NGOs have been responsive in this direction, given the size of the poor population and its scatter, it is also not possible for the NGO sector alone to bridge the gap, both from the point of view of number of NGOs as also financial resources that would be required. The need of the hour is probably a concerted approach with symbiotic action both by the formal banking system and the voluntary sector which complement each other's initiatives. This would necessitate a level playing ground for various agencies and institutions engaged *in development* through mF .

1.11.2. The following three approaches for providing mF services to the poor, therefore, seem possible :

1. The conventional weaker section lendings of the banks to individuals, groups, and cooperatives, for which instructions are already laid down by the RBI,
2. The SHG-bank linkage programme, where banks lend to groups with or without the support from NGOs and other SHPIs, and

3. The lendings of the banks and specialised financial institutions to various financial intermediaries in the non-formal sector for further on-lending to ground level groups or individuals.

1.11.3. This scenario, therefore, calls for a clear definition of mF and mF institutions so that all the involved stakeholders understand and play their distinct roles.

1.12. micro-Finance

1.12.1. The Task Force deliberated intensively on a working definition of mF and proposes to define it as :

"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 living standards".

1.12.2. The Task Force would like to emphasise that mF will cover not only consumption and production loans, but also include other credit needs such as housing and shelter improvement, while other financial services like savings and insurance are also included under it. It may be left to the mF institutions (mFIs) to identify the poor. However, the selection criterion so adopted will have to be in conformity with the poverty line adopted by the GOI. mF is very often accompanied by non-financial and other business services like capacity building, forward and backward linkages, etc. , provided either by the same or by some other institutions, mainly for enhancing the productivity of credit.

1.12.3. Having defined mF as above, the Task Force emphasises that mF may (but not necessarily) cover programmes implemented by governments, both directly or through various agencies as also programmes implemented by banks, NGOs, cooperatives, etc., provided that the components of mF as explained above are adhered to. While exclusively covering the poor, mF emphasises on graduating the borrowers from the pre - micro-enterprise stage to the post-micro-enterprise stage with the support of financial and non-financial services. The emphasis of support under mF is, therefore, on building up capacities to handle larger resources rather than on financing micro-enterprises which could be otherwise covered by the direct lending programmes of banks or through specific poverty alleviation programmes of the government. While the Task Force would not want to indicate any specific limit for "small amount" of financial services under mF, it would emphasise that the mF services and products need to be dynamic to take care of the emerging requirements of the poor under pre-micro-enterprise stage.

1.13. mF Institutions (mFIs)

1.13.1. As has been indicated earlier, a very large number of institutions, both in the formal and non-formal sectors, are today providing a variety of financial services using different delivery mechanisms. The Task Force observes that while certain institutions provide only financial services to the poor, there are others who provide such services along with regular banking services to all types of customers. The Task Force would therefore, like to accept the following definition of mFI :

"mF institutions (mFIs) are those which provide thrift, credit and other financial services and products of very small amounts mainly to the poor in rural, semi - urban or urban areas for enabling them to raise their income level and improve living standards"

1.13.2. Institutions like NGOs, federations of SHGs, Mutually Aided Cooperative Societies (MACS), state and national cooperatives and NBFCs which provide specified financial services targeted to the poor, may be classified as mFIs, while banks which provide mF along with their other usual banking services could be termed as mF service providers to distinguish them from exclusive mF institutions, which are expected to focus only the poor, at least at the entry level. The Task Force also observes that although the mFIs are expected to serve only the poor, for the sake of continuity and convenience, they may have to continue to serve members who have graduated upwards, at least for some time. Depending upon their constitution, mFIs may comprise 'Non-profit', 'For-profit' and 'Mutual-benefit' organisations for delivering various mF services with focus on poor. A detailed analysis of the organisational arrangements of different categories of existing mFIs and mF service providers is presented in chapter-2.

1.14. Demand and Supply of mF Services

1.14.1. The perpetual dependence of the rural poor on various informal sources of credit, widespread unemployment, illiteracy and non-availability of technical support to such households demonstrate the high level of demand for credit. The Task Force attempted to make an estimate of the demand for credit in the rural areas, particularly among the unorganised workforce and the women. One estimate made by EDA Rural Systems, Gurgaon, assumes that the total requirement of credit for the rural poor families would be of the order of at least Rs. 15,000 crore on the basis of a minimum need of Rs. 2,000 per family. Another estimate for mF services made by Sa-Dhan, Hyderabad, indicates the need at Rs. 50,000 crore. This estimate envisages that approximately 7.5 crore households would need mF, of whom 6 crore families will be in the rural areas while the remaining 1.5 crore families would be in the urban areas. The annual credit usage by rural households is assumed to be Rs. 6,000 per household, while for the urban poor households an average of Rs. 9,000 has been estimated. In addition to the demand for credit, there is demand for other financial services as well. While savings as a service is provided by various institutional sources, insurance as a financial service has hardly been provided by any agency.

1.14.2. The credit estimates indicated above do not include the requirement of funds for housing. According to the estimates of the National Housing Bank, the rural housing shortage to be tackled during the Ninth Five Year Plan period has been estimated as 176.70 lakh units, of which 73.60 lakh units are to be constructed and 103.10 lakh existing units to be repaired and upgraded. Assuming 10% of the houses to be upgraded in rural areas are to be taken up through mF each year at a cost of Rs. 10,000 per unit, the requirement of funds would work out to an additional Rs. 1,000 crore per year.

1.14.3. As against these demand estimates, the Task Force attempted to make a rough estimate of the supply of credit from the mF sector to the poor. The bulk of the supply of credit to the poor comes from the banks which disbursed about Rs. 9,700 crore during 1997-98 (based on compiled figures) under various schemes including the government sponsored poverty alleviation programmes. Further, it has been observed that an aggregate of about Rs. 137 crore covering around 10 lakh families had been disbursed upto September 1998 through SHG linkage programme and other credit delivery models by mFIs (Source : EDA Rural Systems, Gurgaon). Thus, there is a vast unmet demand in the rural and urban sectors, and there is ample scope for the growth of different kinds of mFIs and mF service providers. From this point of view, the potential demand for mF among the poor can be considered to be very high.

1.15. Highlights of the Chapter

1. *A vast network of commercial banks, cooperatives and RRBs plays an important role in providing small loans to the poor under various programmes.*
2. *Various wage and self-employment schemes have been implemented in the country with varying degrees of success. The poor, however, still depend very largely on informal sources of credit.*
3. *Three possible approaches for providing mF services to the poor indicated. These are :*
 - *Conventional weaker section lendings by the banks*
 - *SHG-Bank linkage approach, and*
 - *Wholesale lending by banks and specialised financial institutions through mFIs*
 - *Microfinance (mF) defined as "**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 living standards**".*
 - *Microfinance institutions (mFIs) defined as "**those which provide thrift, credit and other financial services and products of very small amounts mainly to the poor in rural, semi urban or urban areas for enabling them to raise their income level and improve living standards**".*
 - *Banks classified as mF service providers. NABARD and SIDBI classified as apex mF service providers, Rashtriya Mahila Kosh [RMK] classified as apex mFI*
 - *Different estimates of the credit requirements of the poor have been analysed bringing out the demand for micro-credit and the unmet gap in credit supply to this sector.*