Microfinance

Microfinance was developed as an alternative to provide loans to poor people with the goal of creating financial inclusion and equality. Muhammad Yunus, a Nobel Prize winner, introduced the concept of Microfinance in Bangladesh in the form of the "Grameen Bank".

Women are often among the most vulnerable and poorest members of low-income societies

Obvious economic and social benefits to involving women in microfinance programs

Microfinance is a powerful instrument of social change, particularly for women

70% of the world's poor are women

Women are the family nucleus, that is vital for societal improvement and progress

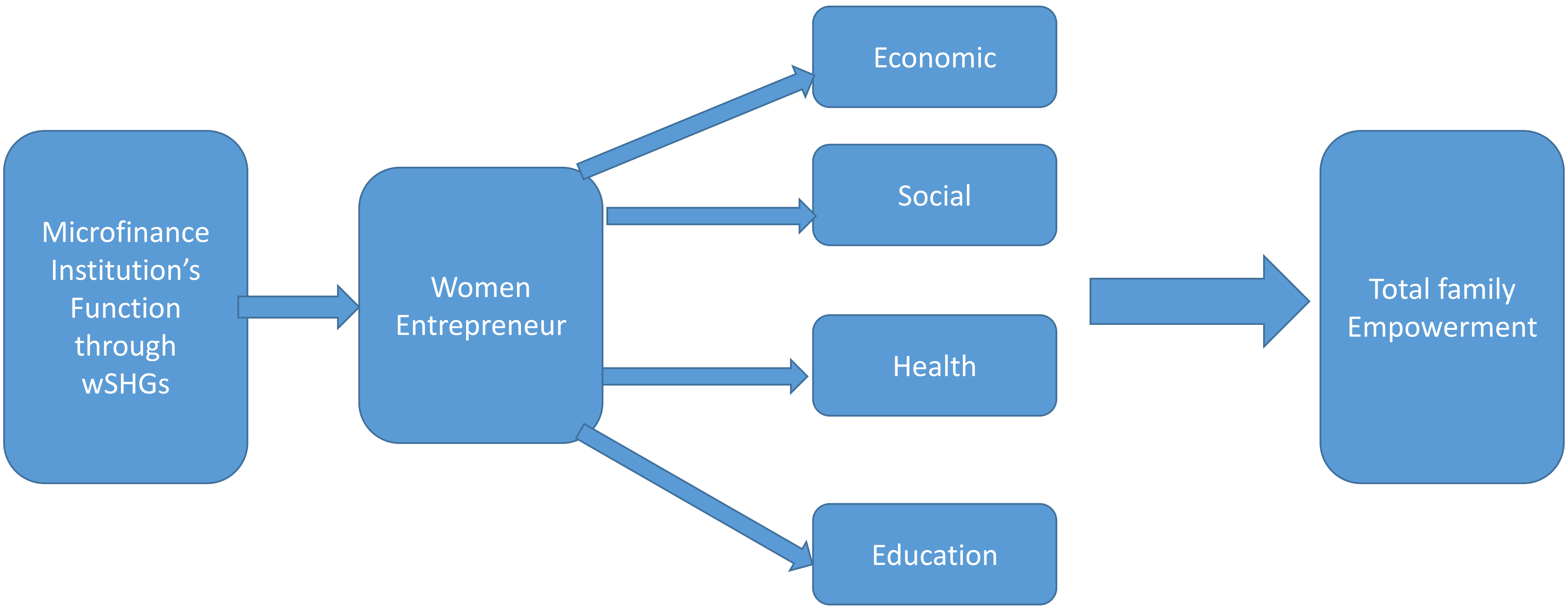
Microcredit, or microfinance, is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral.

In general, banks are for people with money, not for people without.

Microcredit is based on the premise that the poor have skills which remain unutilized or underutilized.
It is definitely not the lack of skills which make poor people poor, charity is not the answer to poverty. It only helps poverty to continue.

Objectives of Microfinance

- To improve the quality of life for the poor
- To mobile resources for variable productive income generating activity.
- To create opportunities for self employment
- To train rural poor in simple skill and contribute to employment and income generation rural areas.
- To be a viable financial institution developing sustainable communities.


Microfinance Institution’s Function through wSHGs
Women Entrepreneur
Economic
Social
Health
Education
Total family Empowerment

Introduction

Microfinance is an economic development tool whose objective is to assist the poor to work way their way out of poverty. It covers a range of services which include, in addition to provision of credit, many other services such as savings, insurance, money transfer, counselling etc. - RBI (Reserve Bank of India).

Microfinance refers to the provision of affordable financial services extended to socially and economically poor and disadvantaged segments of the society to enable them to increase their income levels and standard of living.

Microfinance

Microfinance is often defined as financial services for poor and low-income clients offered by different types of service providers.
The term is often used more narrowly to refer to loans and other services from providers that identify themselves as “microfinance institutions” (MFIs).

Microfinance institutions commonly tend to use new methods developed include, group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly.

Microfinance organizations envision a world in which low-income households has permanent access to a range of high quality and affordable financial services offered by a range of retail providers to finance income-producing activities, build assets, stabilize consumption, and protect against risks.

Microfinance aims at assisting communities of the economically excluded to achieve greater levels of asset creation and income security at household and community level.

- The formula for beating extreme poverty.
- Boost agriculture and promote food security.
- Access to health care
- Promotes gender equality.
- Promotes inclusive economic growth and stimulates productive employment for the poor.

Evolution of Microfinance

- Concept of Microfinance was introduces by Mohammad Yunus (1974), Nobel Prize winner (2006) in the form of Grameen Bank.

- In India, the Microfinance evolved with the establishment of SIDBI (Small Industrial Development Bank of India) on April 02, 1990 under Small Industrial Development Bank of India act 1989. NABARD in 1992 initiated the concept of microfinance and established the link between Self Help Groups (SHGs), Non Government Organization and Bank.

- In 2006, NABARD (National Bank for Agriculture and Rural Development) launched MEDP Micro Enterprise Development Programme for skill development

Features of Microfinance

- The borrowers are low income groups
- The loans are for small amounts
- The loans are without collateral
- Loans are generally taken for income generating activities, although the loans are also provided for consumption, housing and other purpose.
- The tenure of the loan is short.
- The frequency of the repayment is greater than for traditional commercial loans.

Microcredit vs. Microfinance

Microcredit refers to very small loans for unsalaried borrowers with little or no collateral, provided by legally registered institutions. Currently, consumer credit provided to salaried workers based automated credit scoring is usually not included in microcredit.

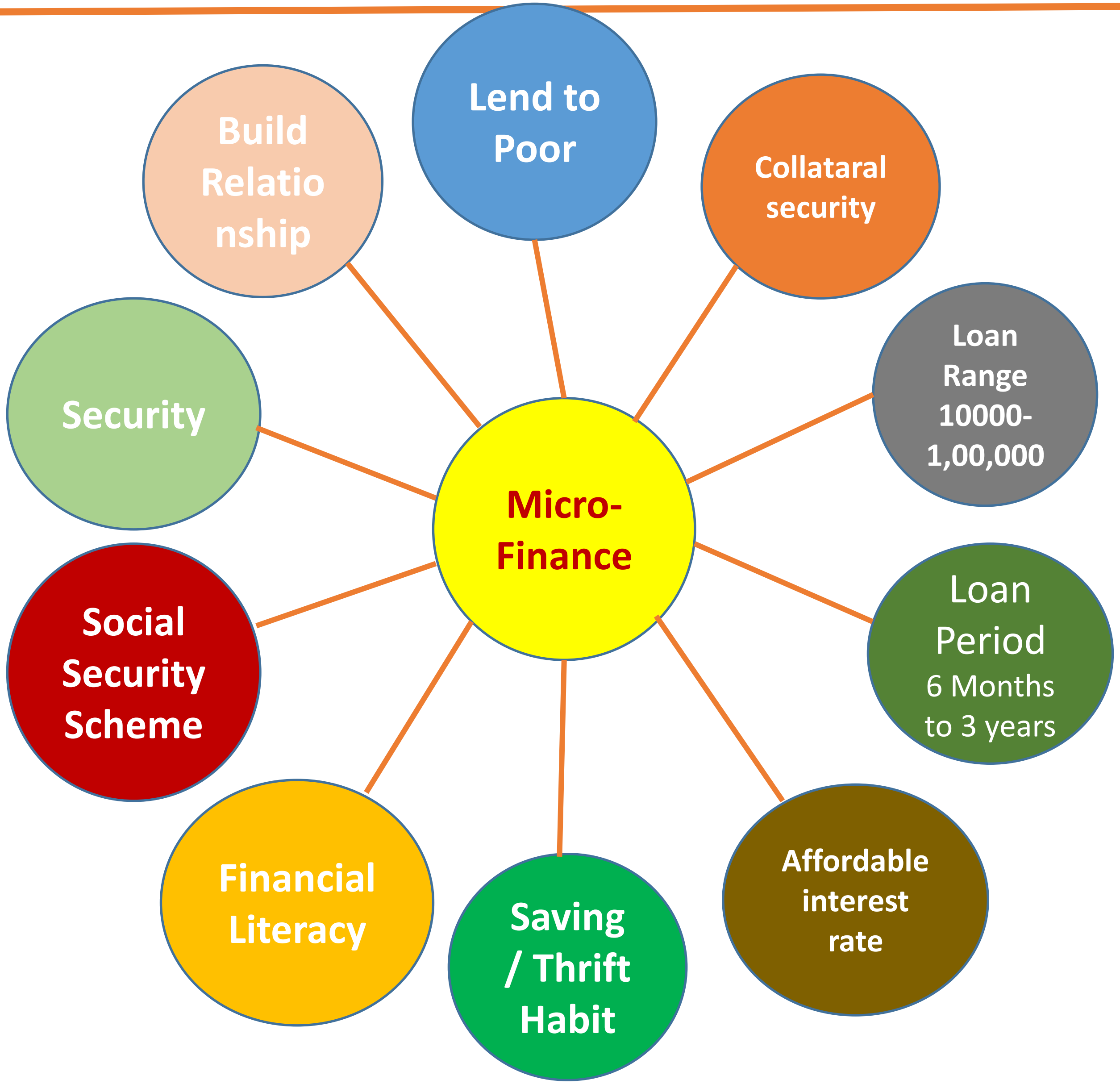
Microfinance refers to micro credit, small savings, insurance and money transfers of poor and low income people. Microfinance is a broad category of financial services which includes microcredit also.

Need of Microfinance

The Banks have been more or less hesitant in providing microfinance to poor people with little or no cash income as they incur substantial amount to manage the borrowers accounts.

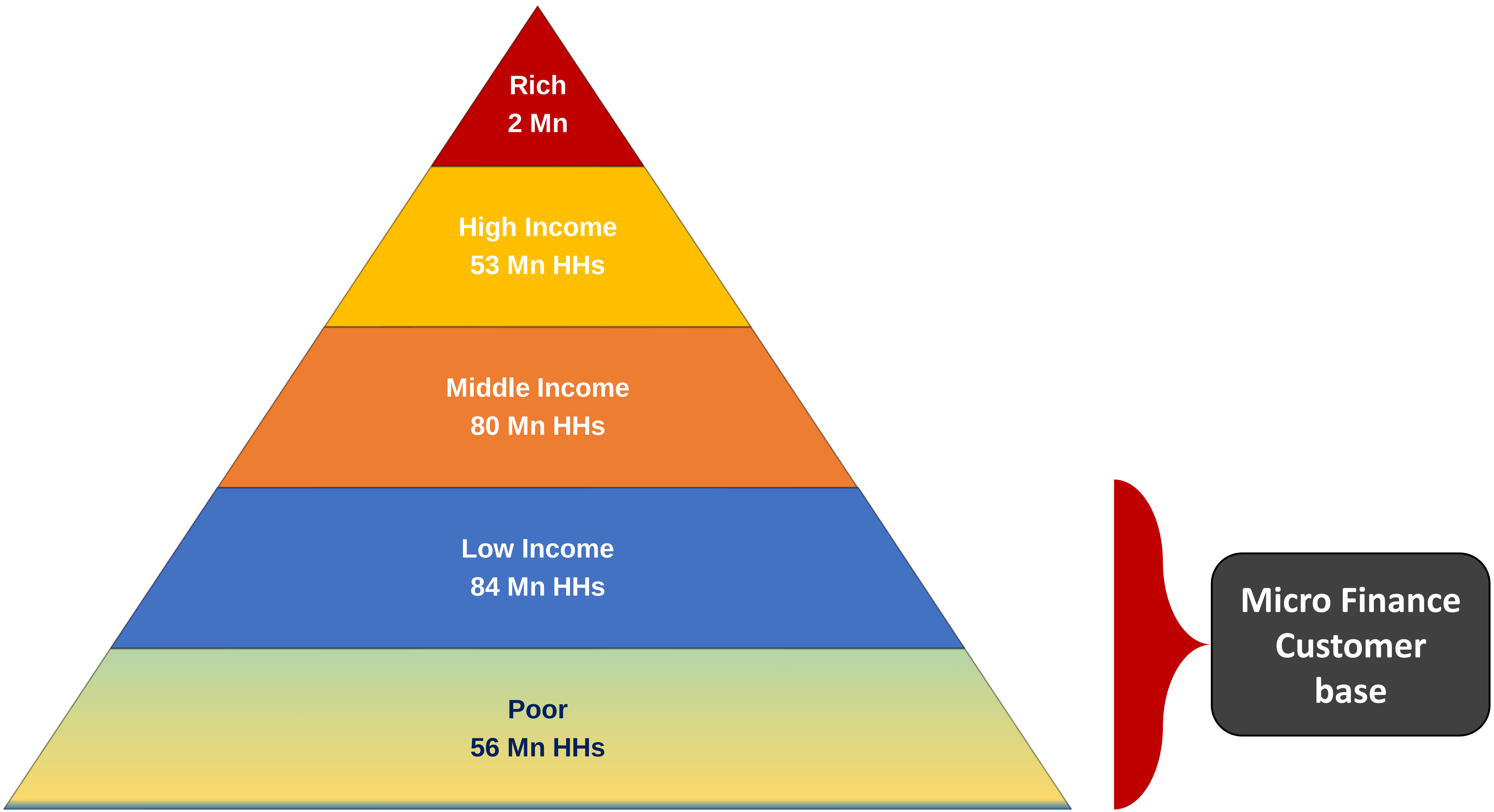
The poor people have no or few assets to offer as collateral security for the loans to the banks. Thus banks fear having little recourse against the defaulting borrowers.

The majority of the poor people does not have saving bank account in the bank and bank need proper identity and address proof before providing microcredit to them.


Micro-Finance
Lend to Poor
Collataral security
Loan Range 10000-1,00,000
Loan Period 6 Months to 3 years
Affordable interest rate
Saving / Thrift Habit
Financial Literacy
Social Security Scheme
Security
Build Relatio nship

MF provides financial services to those whose income is small and unstable.

- There needs are small and arise suddenly.
- Banks demand collateral security.
- Most of the time, they are in need of funds to meet their consumption demands.
- For purpose of investment in income generating activities.



Average monthly income of Households (HHs) in USD: Rich ~1,450; High Income 460; Middle Income ~200; Low Income ~115; Poor is less than USD 55 per month

Types of microfinance Institutions in India

The different types of institutions that offer microfinance are:

- **Credit unions**
- **Non-governmental organizations**
- **Commercial banks**

1. Joint liability Group (JLG):-

- Generally a small, informal group of 4-10 people who seek loans on the basis of mutual assurance.
- The loans are typically used for agriculture or related operations. This group of debtors includes farmers, rural labourers, and renters.
- Each member of a JLG is equally liable for the timely repayment of the loan. Because it is basic in nature, this entity does not require any financial administration. However, one of the structure's major flaws is personal preferences in credit lending, which has resulted in the system's partial failure.
- The legitimacy of the Joint Liability Group model has recently gotten a boost thanks to several promotional measures conducted by institutions like Indian Bank, Karur Vysya Bank, and Indian Overseas Bank.
- It is still remembered as a watershed moment in the fight to defend farmers' land ownership rights.

Self-help Group:-

- A Self-Help Collection is a group of people from similar socioeconomic circumstances who get together to help one other.
- These small company owners band together for a limited time to form a shared fund for their mutual business requirements.
- These organizations are classed as non-profits.
- The debt collection is handled by the organization.
- This type of cooperative financing does not necessitate the use of collateral.
- In addition, borrowing rates are often cheap.
- Several banks have formed partnerships with SHGs in order to increase financial inclusion in the country's rural areas.
- One of the most important is the NABARD SHG linkage program, which allows numerous self-help groups to borrow money from banks if they can show that their borrowers have made regular payments.

3. Grameen bank model

- Nobel Laureate Prof. Muhammad Yunus developed the Grameen Model in Bangladesh in the 1970s.
- Regional Rural Banks (RRBs) have been established in India as a result. The main purpose of this strategy is to boost the rural economy from start to finish.
- In India, however, SHGs have done better as MFIs than Grameen Banks.
- However, in India, this approach has not been completely implemented since rural credit and recovery systems are a major issue. These regional banks also failed due to a large volume of non-performing assets (Shastri, 2009).
- Self Help Groups have fared better than this approach since they are more suited to India's population density and significantly more sustainable (Dash, 2013).

4. Rural cooperatives

- At the time of India's independence, rural co-operatives were founded. Poor people's resources were pooled, and financial services were offered through this fund.
- This approach, however, had complicated monitoring systems and was only useful to creditworthy borrowers in rural India. As a result, this strategy did not meet with the expected success.
- Furthermore, this system exclusively served credit-worthy persons in rural regions, excluding a substantial portion of the country's financially disadvantaged population.

Who are the clients of microfinance?

- The typical microfinance clients are **low-income persons that do not have access to formal financial institutions**.
- Microfinance clients are typically self-employed, often household-based entrepreneurs.

Credit Delivery Methodologies

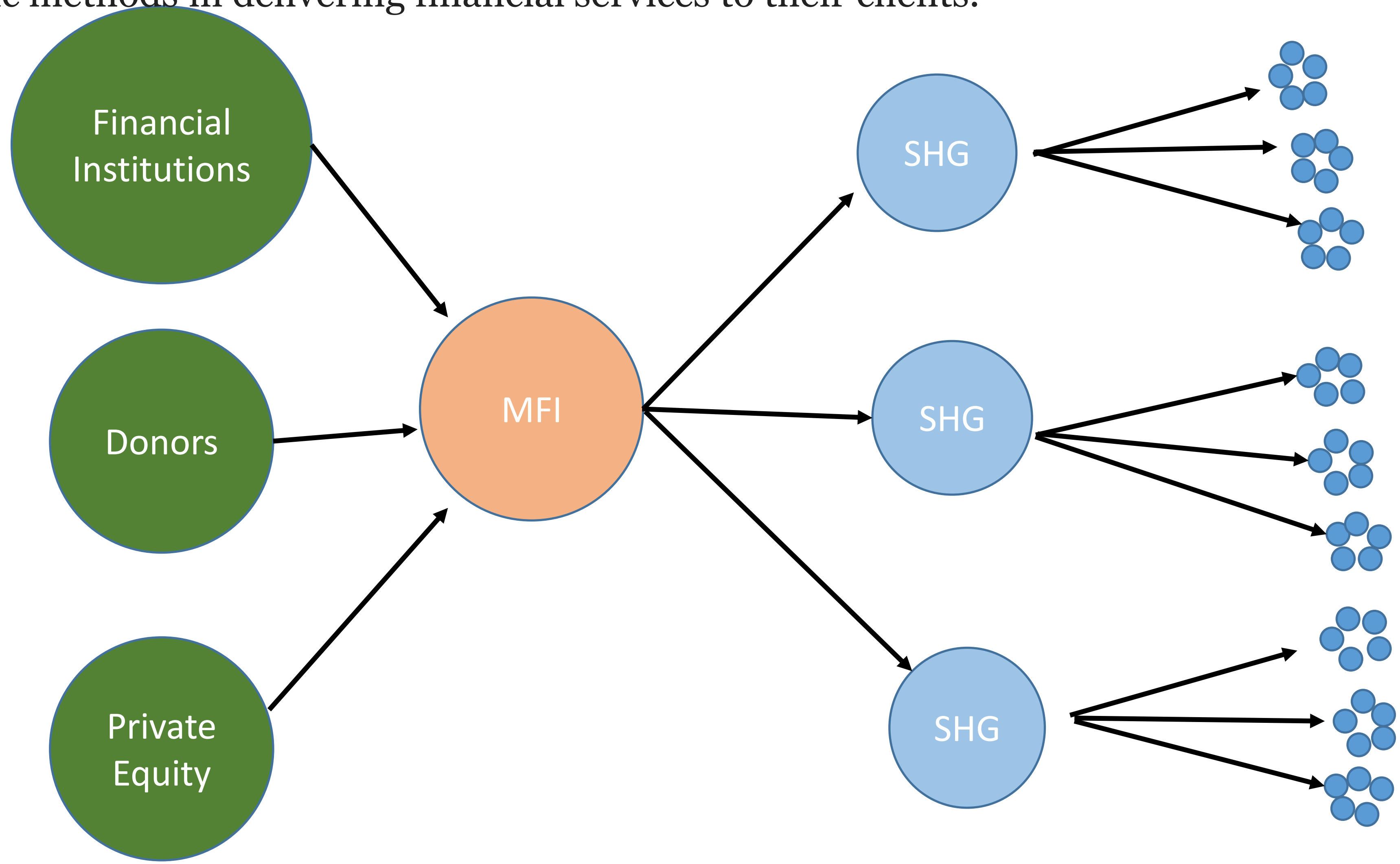
In this system, the borrowers are allowed to draw funds from the account to the extent of the value of inventories and receivables less stipulated margin within the maximum permissible credit limit granted by the bank.

The priority sector lending (PSL) mechanism **seeks to provide an access to credit for those vulnerable sections of the society, who are often deprived of it due to their perceived lack of credit worthiness**.

MFI's use two basic methods in delivering financial services to their clients.

•Group Method

•Individual method



1. Group Method

This is one of the most common methodologies for providing micro-finance. The group method primarily involves a group of individuals, which becomes the basic unit of operation for the MFIs. MFIs have to provide collateral-free loans, group methodologies help in creating social collateral (peer pressure) that can effectively substitute physical collateral. A group becomes a basic unit with which MFIs deal. The advantage of group methodology is that

- Groups are trained to own joint responsibility for loans that are taken by individuals in the group.
- Groups ensure repayments from all individuals in that group and in case of a default
- Groups functions as the forum where the credit discipline and other related issues are discussed.
- Group may have to jointly own the responsibility of defaults and pay on behalf of defaulting clients.
- Group also helps credit appraisal and provide opinion on the creditworthiness of each individual in the group.
- Groups methodology also helps in controlling cost

This ensures that even without taking any physical collateral, the MFI is able to manage its credit risk (loan-related risk).

MFIs actually deliver the financial service at the client's location which could be a village in rural areas or a colony/slum in the urban areas. Having a group helps the MFIs in getting all clients at one spot rather than visiting each individual's house. This helps the MFI in increasing the efficiency of staff and controlling the cost. Group methodology creates a forum where individuals come and discuss, can provide an opinion, and exert social pressure.

The advantage of Group methodology can easily be appreciated by the fact if an MFI employee has to visit each individual house in isolation, it would be very difficult. Also in the absence of a group, if a client refuses to pay there is no forum where such a case can be discussed or there is no method through which the MFI can expert pressure on the client.

Group methodology is also important because in case of larger loan defaults financial institutions can take recourse of legal action but in small loans, legal recourse is not an economically sound option. An MFI who may have an outstanding or Rs 3,000 at default cannot apply legal pressure as the cost of recovery through that method can be higher than the amount to be recovered itself.

MFIs are dealing with are generally poor and may face genuine problems at times. Rather than taking an aggressive/legal approach, which such vulnerable clients it is always better to have a more constructive and collective approach, which is provided by the Groups.

Due to the various advantages, as indicated above provided by groups, this methodology is widely accepted and used in micro-finance across the world.

Self-help Group and Joint Liability Groups (Grameen model and its variants) are two common credit delivery models in India.

2. Individual Method

MFIs are also increasingly providing loans to individuals. In the Individual lending method, MFIs provide loans to an individual based on his/her own personal creditworthiness. Individual lending is more prevalent with clients who generally need bigger size loans and have the capacity to produce guarantee and generate enough comfort to the MFI.

MFIs generally base their decision on personal knowledge of the client, his/her reputation among peers and society, client's income sources, and business position. MFIs also ask for individual guarantors or take post-dated cheques from clients.

Individual guarantors come from friends or relatives well known to the borrower and who are ready to take the liability of repaying the loan, should the borrower fail to do so. If the loan is significantly larger, then MFIs may also take some collateral security.

Concept of SHG

- Generally Self-Help Group consists of 10 to 20 members.
- The member saves some amount that they can afford. It is small amount ranging from Rs. 10 to 200 per month.
- A monthly meeting is organized, where apart from disbursal & repayment of loan, formal and informal discussions are held on many social issues also. Members share their experiences in these groups.
- The minutes of these meetings are documented and the accounts are written.
- The President, Secretary and Treasurer are three official posts in any SHG. If the SHGs are connected with some NGOs, they take part in other social activities of those NGOs.
- The primary focus of self-help groups is to provide emotional and practical support and an exchange of information. Such groups use participatory processes to provide opportunities for people to share knowledge, common experiences, and problems.
- Through their participation, members help themselves and others by gaining knowledge and information, and by obtaining and providing emotional and practical support.

- These groups have been particularly useful in helping people with chronic health conditions and physical and mental disabilities. Traumatic life events such as death and divorce are also the basis for groups.
- Self-help groups are voluntary, and they are mostly led by members.
- Generally, groups meet on a regular basis, and are open to new members.
- Self-help group, nonprofessional organization formed by people with a common problem or situation, for the purpose of pooling resources, 5 gathering information, and offering mutual support, services, or care.
- The group should maintain simple basic records such as Minutes book, Attendance register, Loan ledger, General ledger, Cash book, Bank passbook and individual passbooks.

Defining

SHGs: Self-Help Group (SHG) is a small voluntary association of poor people, preferably from the same socio-economic background. They come together for the purpose of solving their common problems through self-help and mutual help. The SHG promotes small savings among its members. The savings are kept with a bank. This common fund is in the name of the SHG. Usually, the number of members in one SHG does not exceed twenty.

Objectives of SHGs:

- The SHGs comprise very poor people who do not have access to formal financial institutions. They act as the forum for the members to provide space and support to each other.
- It also enables the members to learn to cooperate and work in a group environment. The SHGs provide savings mechanism, which suits the needs of the members.
- It also provides a cost effective delivery mechanism for small credit to its members. The SHGs significantly contribute to the empowerment of poor women.

Support Base for the formation of SHGs:

Non-Governmental Organisations (NGOs) Social Workers, health workers, village level workers, etc Informal Associations of local people, Development oriented government departments, Banks, Bank personnel and other individuals (in their personal capacities) Farmers' Clubs under the Vikas Volunteer Vahini (VVV) Programme of NABARD Other development institutions

Target group of SHGs:

The SHG-bank linkage programme is targeted to reach the poorest sections, which are bypassed by the formal banking system. Therefore, it is essential that only the very poor be considered as the target group for the SHG -bank linkage programme.

SHG members:

An SHG can be all-women group, all-men group, or even a mixed Group. However, it has been the experience that women's groups perform better in all the important activities of SHGs. Mixed group is not preferred in many of the places, due to the presence of conflicting interests.

Formation and Operation of SHGs:

After seeding the concept of SHG, steps to form the groups are taken up. In this stage, the steps are initiated to name the groups and frame norms and operational guidelines relating to functioning, saving and lending of the groups. In addition, groups can be assisted for selection of office-bearers such as president, secretary and the treasurer and defining their roles and responsibilities.

Quality Check

1) Whether the members are from the poorest category?
2) What is the motive of the members in forming the SHG?
3) Whether they framed by-laws and selected the office bearers? And
4) What is the number of the members?

After considering the various aspects, if it is found that the group consists of the poorest women and is formed with the motive of initiating and managing savings and credit activities independent of external support, the group can be recognized as an SHG. The group is provided with the necessary inputs for developing bye-laws and role clarity.

Regularizing the group level system

- The minutes are written every month and read at the end of every meeting;
- Simple accounting system and necessary books are opened and maintained from the first day itself.
- Awareness of the norms of the groups among all members is created and
- Training is imparted to the office-bearers and group accountants for clarifying their role.

Process of Team Development:

- A survey is made to get the number of helpless women from each family in a particular village.
- Next step is to make aware of this team to the rest of the villages.
- Illiterates of the village are also made aware of this team.
- A team consist of 10 to 20 women and remembers from one team are restricted to join other teams.
- Ladies from family's poor in income, education, job and assets are only eligible to be the member of this self-help group.
- Team should not be farmed with making false offerings of loans
- Only one person from each family can be included in teams.

Eligibility for membership:

- Belonging to poor family.
- Residing in same village
- The age limit for women is 16-60 year.

Team Administration:

- Two representatives are to be selected from each teams for mere guiding purpose. Every member is equal. They are elected to continue for 2 years.
- Initial expenses of the team for 3 years would be undertaken by government and later they have to manage with their profit.
- A proper financial records of the team has to be kept and maintained by the member of the team and if they are illiterate some other ladies can be kept after being paid, but not any gents.
- They have to maintain a joint account in the name of their team in any of the banks.
- The main of this project is that they develop and flourish by making other sub units under them and taking up its administration all by themselves.

Issue of Loans:

- The team starts issuing the loan after 3 months and it’s up to the team members about fixing the interest rate, repayment, maximum loan and etc.
- The repayment of instalment amount depends upon the loan taken i.e higher the loan, higher the repayment amount. During initial period small loans are issued so that they can be repaid completely within 6 months.
- The team also issues loan for the medical expenses, education expenses, business investment or any other emergency expenses of the members.
- The teams can issue loans only to the team members and they have to maintain proper record of the cash repaid by the members and have to give them the correct receipts regularly.

Indicators of a good SHG:

- Homogeneous Membership:

The membership of an SHG may comprise people from comparable socio-economic background

- No discrimination:

There should not be any discrimination among members based on caste, religion or political affiliations.

- Small membership:

Ideally, the group size may be between 15 and 20, so that the members are participative in all activities of the SHG. In a smaller group, members get opportunity to speak openly and freely.

- Regular Attendance:

Total participation in regular group meetings lends strength to the effectiveness of SHGs. The SHGs should place strong emphasis on regular attendance in the group meetings.

- Transparency in functioning:

It is important that all financial and non-financial transactions are transparent in an SHG. This promotes trust, mutual faith and confidence among its members.

- Set of Byelaws:

The SHG may discuss and finalise a set of byelaws, indicating rules and regulations for the SHG's functioning and also roles and responsibilities of members.

Indicators of a good SHG: continue…

- Thrift:

The habit of thrift (small savings) is fundamental to the SHG and helps in building up a strong common fund.

- Savings for loaning:

Once an SHG has accumulated sizeable amount in the form of savings say for a period of about 3-6 months, the members may be allowed to avail loans against their savings for emergent consumption and supplementary income generating credit needs.

Joint Liability Group (JLG)

A Joint Liability Group is usually a group of five to ten who come together to borrow from an MFI. The members in a JLG are also from similar socio-economic backgrounds and usually the same village. A JLG is different from SHGs in that the members share liability, or stand guarantee for each other. If any of the members default, the other members need to pool in money to repay the MFI. This ensures a greater effort on part of the members to ensure that everyone repays, thus ensuring resulting in better accountability and security for the MFI involved.

Each year the group members who want to borrow for seasonal production costs sign a contract in which they accept liability not only for their own individual loans, but also for the loans borrowed by other members of their group and hence the term 'joint-liability'.

A basic requirement for joint-liability security for Bank loans is that the farmers concerned, form themselves into groups of people who know and trust each other. These groups may vary in size from a minimum of 4 to a maximum of 10 farmers depending on the need and circumstances. The loans are made by the bank to individual farmers or to the group collectively.

The amounts borrowed by each person depend on his or her individual needs, subject to a maximum of certain prescribed amount in the policy (say Rs. 50,000) which can be borrowed with this form of security. The JLGs should necessarily comprise the farmers or entrepreneurs (undertaking production of the same crops or group of crops or undertaking non-farm activities to ensure cohesive functioning and facilitate procurement of inputs, processing, marketing, etc.)All the members of the JLG should be residing in the same village / compact area and not drawn from different / distant places

Size of the JLG: The group should be formed preferably with 4 to 10 members (up to 20 members) to enable the group members to offer mutual guarantee.

Formation of JLGs:

- Banks may initially form JLGs by using their own staff wherever feasible. Banks may also engage business facilitators like NGOs and other individual rural volunteers to assist banks in promoting the concept and formation of groups.
- State Government Departments like Agriculture Department also could form JLGs of tenant farmers and small farmers not having clear land title.
- The JLGs of such eligible farmers can also serve as a conduit for technology transfer, facilitating common access to market information; for training and technology dissemination in activities like soil testing, training, health camps and assessing input requirements.

General features of JLG:

A Joint Liability Group (JLG) is an informal group comprising of 4-10 individuals coming together for the purpose of availing bank loan on individual basis or through group mechanism against mutual guarantee. Generally, the members of a JLG would engage in a similar type of economic activity in the Agriculture and Allied Sector. The members would offer a joint undertaking to the bank that enables them to avail loans. JLG members are expected to provide support to each other in carrying out occupational and social activities.

Criteria for membership: Members should belong to similar socio-economic status, background and environment carrying out farming and Allied activities and who agree to function as a joint liability group. This way the groups would be homogeneous and organized by likeminded farmers/Individuals and develop mutual trust and respect. The members should be residing in the same village / area / neighborhood and should know and trust each other well enough to take up joint liability for group/ individual Loans. Members who have defaulted to any other formal financial Institution, in the past, are debarred from the Group Membership. More than one person from the same family should not be included in the same JLG.

Group Approach:

- All members of the JLG should be active enough to assume leadership of the group to ensure the activities of the JLG.
- The selection of an effective / able / active leader for the JLG is essential as this will ultimately benefit all the JLG members.
- The leader fosters a sense of unity, oversees and maintains discipline, shares information and facilitates repayments. For the bank, he is the focal point for group activities.
- The JLG should hold regular meetings which must be attended by all the members regularly to discuss issues of mutual interests.
- The principles of self - help and group strength need to be emphasized. Group cohesion has to be ensured. Adequate emphasis should be placed on the roles, expectations and functions of the group/ members & the benefits of group dynamics.
- The JLG can easily serve as a conduit for technology transfer, facilitating common access to market information, for training and technology dissemination in activities like soil testing, training and assessing input requirements.
- The JLGs for specific nonfarm activity, e.g. production of handicrafts / other non-farm products may be federated at village/ block level for development of the product.

Group Approach:

- The JLG in the clusters on their stabilization could come together in the form of cluster federation or producers' companies with a view to contributing the entire value chain and thereby achieving economies of scale in production and marketing of the product.

- The JLGs and evolving JLG structures are expected to build up empathy and understanding and create responsive lending mechanisms leading to greater interaction and interdependence between the members of JLGs

Credit Assessment:

The JLG would prepare a credit plan for its individual members and an aggregate of that is submitted to the banks. Banks may evolve simple loan application for this purpose. The individual members of JLG would be eligible for bank loan after the bank verifies the individual members‟ credentials.

Purposes of credit:

The finance to JLG is expected to be a flexible credit product addressing the credit requirements of its members including crop production, consumption, marketing and other productive purposes. Banks may consider cash credit, short-term loan or term loan depending upon the purpose of loan.

JLG MODELS:

Banks can finance JLG by adopting any of the two models.

Model A –

Financing Individuals in the Group:

- Each member of the JLG should be provided an individual KCC.
- The financing branch could assess the credit requirement, based on the crop to be cultivated, available cultivable land / activity to be undertaken and the credit absorption capacity of the individual.
- All members would jointly execute a loan document, making each one jointly and severally liable for repayment of all loans taken by all individuals belonging to the group.
- The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created including liability created out of the individual KCC.
- Any member opting out of group or joining the group will necessitate a new loan agreement, to be kept on record in the branch.

Model B –

Financing the Group:

- The JLG functions, operationally, as one borrowing unit.
- The group would be eligible for accessing one loan, which could be combined credit requirements of all its members.
- The credit assessment of the group could be based on the micro enterprise / activity to be undertaken.
- All members would jointly execute the document and own the debt liability jointly and severally.
- The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created.
- Any change in the composition of the group, will lead to a new document being registered by the branch.

- WHO CAN FORM JLGS?

Business Facilitators, NGOs, Farmers Clubs, Farmers Associations, Panchayat Raj Institutions (PRIs), Krishi Vikas Kendras (KVKs), State Agriculture Universities (SAUs), Agriculture Technology Management Agency (ATMA), Bank branches, PACS, other cooperatives, Govt. Depts., Producer Associations , Artisan Guilds, Department of SMEs, Small Scale industries / Agro industries, Individuals, Input dealers, and Document writers (in cooperative banks),MFIs / MFOs, etc.

- SAVINGS:

JLG members need to be encouraged to save regularly. Branches may open savings account by the JLG / individual members of the JLG to ensure regular savings and thrift habit amongst them. However, the quantum of loan to be given to the groups should be related to the credit needs of the enterprise and not to the quantum of savings.

Difference between JLGs and SHGs

- SHGs are units oriented to the communities when compared to JLGs. Members own and control SHGs and they decide all terms and conditions associated with the group's functioning. Banks and NGOs provide support to these units so that they can prosper.
- SHGs have internal control, but this can lead to conflict among members. JGs are controlled externally by the institutions that promote them. The terms and conditions of the JLG are also determined by the promoting institution. The operations of JLGs are more standardised and easier to replicate, when compared to SHGs.
- Under an SHG, the group members will be required to save before they are eligible for a loan. In a JLG model saving is not compulsory; groups need not build internal capital for inter-loaning. Most of the times, MFIs initiate the formation of JLGs by asking members to form such groups with the motive of getting a loan.
- Donor agencies support SHGs in skill development and capacity building through NGOs. This process of internal capacity building makes the process of getting a bank loan more time-consuming for an SHG. Since JLGs are managed externally, there is very little focus on capacity building. Hence, these units may find it easier to procure loans. JLGs are hence, referred to as "fast growth models". SHGs are more decentralised and democratic than JLGs.

•SHGs are self-managed and self-reliant. Hence, an MFI representative has to spend very little time over the management of the group. This implies that several groups can be managed by a single representative, resulting in low cost management. In the JLG model, the MFI's employees are responsible for monitoring the routine operations of the group. This makes it an expensive model.

•JLGs are more immune to internal and external threats as they have better protection from the supporting MFIs. However, they are less empowered in comparison to SHGs.

Parameter	SHG Model	JLG Model
Financial focus	Based on savings	Based on credit
Control and ownership	With members	With the promoting microfinance institution
Capacity targets	Builds internal capacity	Depends on external capacity
Functional focus	Poverty	Finance
Decentralisation	High	Low
Cost	Low	High
Flexibility	High	Low

Top Microfinance Companies in India

1. Equitas Small Finance
2. ESAF Microfinance and Investments (P) Ltd
3. Fusion Microfinance Pvt Ltd
4. Annapurna Microfinance Pvt Ltd
5. Arohan Financial Services Limited
6. BSS Microfinance Limited
7. Asirvad Microfinance Limited
8. Cashpor Micro Credit
9. Bandhan Financial Services Limited
10. Fincare Business Services Limited

Regulations for MFIs

- The regulations pertaining to MFIs are usually based on their statuses.
- A microfinance bank will be required to adhere to all banking regulations like traditional banks.
- Cooperatives and NGOs will not be expected to comply with the same regulations. However, they may be regulated by similar oversight authorities.