



SIES College of Management Studies

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Microfinance in India: Challenges and Opportunities

Abstract

Microfinance is gathering momentum to become a significant force in India. The self-help group (SHG) model with bank lending to groups of (often) poor women without collateral has become an accepted part of rural finance. The paper discusses the state of SHG-based microfinance in India and the opportunity untapped because of the huge existing demand-supply gap. With 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 and have emphasized the SHG approach and working along with NGOs in its initiatives. In spite of the impressive figures, the supply side of microfinance in India is still presently grossly inadequate to fill the gap between demand and supply but it holds the promise to act as a great opportunity for the financial sector and the economy as a whole.

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