Form of Micro finance services in early days:

- The need for rural credit was recognized in as early as 1793 when regulation for Taccavi loans to the farmers and subordinate tenants for various purposes were issued that primarily aims at regulating money lending activities to reduce the indebtedness of the rural poor and provide solution for it;
- Co-operative Societies came into existence in 1904 that financed agriculture and regulate credit for the farmers;
- Therefore, till 1950s, co-operative societies were the main institutional source of loans for agricultural purposes;

Emergence of Banking Networks:

Emergence of Extensive Banking Networks in Rural were due to the following reasons:
- The Nationalization of the Imperial Bank in 1955;
- The Nationalization of 14 Commercial Banks in 1969;
- The Nationalization of six Commercial Banks in 1980;
- The setting up of Farmers Service Societies (FSS) in 1973;
- The setting up of the Regional Rural Banks (RRBs) in 1975;

Banking Networks for Poverty Alleviation:

The government of India adopted multi-agency approach to deliver the credit needs of the rural poor with the involvement of the above agencies including the co-operatives.
- This led to the creation of 1,50,000 retail credit outlet comprising 94,100 co-operatives, 14,474 branches of RRBs, and 32,890 rural and 13,876 semi-urban branches of commercial banks
- Despite the priority and focused given to the rural poor, a large number of them remained outside the fold of the formal banking sector;
- According to All India Debt and Investment Survey 1992, the share of internal sector stood at 36 percent, though the rural households on such informal sources had reduced marginally from 38.8% to 36% over the last decade (1981-91);
- Banks and Co-operatives provided 55% of the rural households. It means that 45% of the credit needs of the rural households were provided by professional and agricultural money lenders;
- 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% among the lowest Asset Groups (less than Rs. 5000) while, it was 19 % for the highest Asset groups (Rs.2.5 lakhs and above);
- As bulk of the bank financial products constitutes agricultural loans, the assetless poor had not received adequate attention from the banks. Land holdings are very small. 57% were in the range of 0-1-hectare. 18% of the land holdings are in the range of 1-2 hectares. 75% of the holdings account for 26% of the net sown area; the rests are either rain-feed or draught areas.
Wage and Self-Employment Programs:

- The Government of India with a view to fight poverty initiated several wages and self-employment programs since 80s. These include Indira Awas Yojana, Employment Assurance Schemes, IRDP, DWCRA, TRYSEM, PMRY etc.
- Million Wells Scheme: For small farmers about 12.63 lakh wells with exp. Of 4,728 crores (1997-98)
- Employment Assurance Scheme gainful employment in lean periods: Nov. 1998 17,823 mandays with exp. Of 8,665 crores
- This reduced the incidence of poverty from 56.4% in 1973-74 to 37.3% in 1993-94 in rural areas, and from 49% to 32.4% in urban areas.

Bank Involvement:

The policies concerning Rural credit through the banking system were pursued with the following assumptions:

- The rural poor have the capacity to save;
- Subsidy link poverty alleviation programs could succeed;
- Interest rates of credit from informal sources were exploitative.

This has led the policy makers to focused on:
- Capital subsidy and low interest rates on loans;
- Target oriented poverty alleviation program;
- Credit guarantee for small loans;
- Fixing of sectoral target for disbursement of credit;
- Soft lending terms with nil or low down payment;
- Long loan maturity and grace periods;
- Regulation of savings as a source of funds;
- Reliance on concessionary refinance from financial institutions has increased.

The problems in the above Policy Framework:

- Poor interest margin that forced banks to cut down their appraisal and monitoring cost which further resulted in low recoveries which neither contributed the growth of the rural credit system nor did it adequately serve the rural poor in making them self-supporting and self-sustaining;
- Credit to the assetless poor borrowers is another constraint due to the high transaction cost involved mainly because it requires regular interactions. As a result, the poor cannot effort credits.

Emerging Initiatives:
New initiatives in the form of Self-help groups (SHGs) emerged in the early 80s with the active support of NGOs by mobilizing thrift and saving to cater the needs of the rural poor; 
The potentiality of SHGs model promoted by NGOs led to the emergence of local financial intermediaries; 
The support for micro-credit and micro-entrepreneurs by several institutions and agencies including government department pronounced and they started associating themselves with the NGOs for reaching out credit and other welfare services to the rural and urban poor; 
Rashtriya Mahila Kosh (RMK) was set up in 1993 to provide various financial services to the poor women using NGO channel which adopt the SHG approach; 
Small Industry Development Bank Of India (SIDBI) support small and tiny enterprises through non-governmental organizations (NGOs); 
HUDCO, HDFC, NHB and other institutions cropped up, including Govt. department and ministries to provide microfinance to the poor, specially women;

**Other models:**

- Grameen Model; 
- SHG Federation Model; 
- New Co-operative Model under the AP MACs,1995; and 
- Specialize NBFCs catering the needs of the poor.

**International Experience:**

- Financial intermediation by various agencies in the non-formal sector began to recognized in the developing countries; 
- Due recognition have been given by various world bodies; 
- The last Microfinance Summit in 1997 also campaign in reaching out 100 million poor by 2005; 
- In pursuance of this summit, the GOI decided to cover 25 million poor families in India by 2005; 
- To cover 4 million poor in the next five years was announced by the Finance Minister in his budget speech;

**A New Approach: A Level Playing Ground for different Institutions:**

- By using the traditional delivery system and products, the formal banking institutions will not be able to meet the financial needs of the poor. Therefore, newer delivery mechanism, savings, credit and other financial products and services have to be develop; 
- While many NGOs have been responsive in this direction but given the size of the poor in a vast country, it is not possible for NGOs alone to bridge the gap; 
- Therefore, concerted approach with symbiotic action from both the formal banking sector and the voluntary sectors;
This would necessitate a level playing ground for various agencies and institutions engaged in rural development through microfinance;

Suggestions:

For providing microfinance services to the poor, the following three approaches seems possible:

- Instructions to be laid down by RBI, particularly of the conventional methods of lending by banks to the groups or individuals and co-operatives;
- The SHG bank linkage programs in which bank lends to group with or without the support from NGOs and other SHPIs; and
- Banks to lend to various financial intermediaries in the non-formal sector for on lending to group or individual levels.