THE PARADIGM SHIFTS IN THE EVOLUTION OF MICROFINANCE AND THE CONCEPT OF RESPONSIBLE MICROFINANCE- A CRITICAL REVIEW

By

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Abstract

The research paper traces the origin of microfinance, establishes the fact it existed in some form since early days and that it is as old as human civilisation itself. The study also analyses the growth, spread and development of the sector in terms of the transformations undergone from its humble beginning and relates it with some of the fundamental objectives for which it came into being. Seven distinct phases have been identified in the growth of this vital sector. The study attempts to analyse and bring in the transformational changes that have come in the microfinance sector with its growth. It also seeks to understand, classify and categorise these changes and tries to establish explanations for the possible reasons. The most important part is that it identifies nine major aspects that are the paradigm shift in the process of transformation to its present stage. These aspects are termed as social drift, mission drift, vision drift, operational drifts, commercialisation drifts, modernisation drift, realisation drift, survival drift and regulatory control drifts. Each aspect is explained based on the current level of knowledge and research outcomes. Based on the analysis of trends the study proposes a route map that paves the way for the future termed as Responsible Microfinance outlining the various aspects that have to come in under this broad umbrella. The possible regulations and rulkes to establish a level playing ground which warrants fair and just practices are also spelled out. The study also proposes a model of responsible microfinance combining the basic ethos on which it s founded and the modern principles of financial management.

Key words: microfinance, chronic poor, mission, vision, paradigm shift, regulatory controls, responsible microfinance.

1. Introduction

Of all the efforts and hype on microfinance the one reason as to why it has been widely acclaimed is as a powerful tool to fight poverty. Critically analysing the studies, the schools of thought in this direction can be categorised as three major groups a) The optimists who believe that this has contributed to poverty alleviation either from in depth studies or experience b) The pessimists- tending to argue that the worst will have to happen and leading to more debt traps or indebtedness and the c) belong to neither of the two and having a dodged view.

Poverty is the biggest problem in the world, addressing poverty the biggest challenge and today it is even one of the biggest growing business as well. Though systematic efforts of poverty reduction took shape with the establishment of World Bank in 1944 at the birth of the

Bretton woods system it still remains as the biggest challenge to humanity. The World Bank groups goals are to end extreme poverty and promote shared prosperity. Ending poverty in all its forms everywhere is the first of the worlds sustainable development goals set by the United Nations. The World Bank defines two critical limits of poverty- the extreme poor who earns less than 1.25$ a day and the 'poor' who earn less than 2$ a day based on the consumption per data. Though these income per day based on US dollar has been used to universally define poverty norms, different units have been assigned to define poverty. (Banerjee and Dufflo,2007).

Hulme and Paul,(1997) classified the poor into two groups a) the more poor who have not crossed a 'minimum economic threshold' as characteristics like secure income, freedom of debt, illness, contingencies and adequate resources to cope with unforeseen problems. Weiss *et al*,(2003) on the other hand defined poverty as an income level below a social accepted minimum. What is most important is drawing a line of separation within the broad term of poor the long term or "chronic poor" and the "transitory poor" or those who fall into poverty as a result of adverse shocks.

A more humanist approach to define poverty came at in the Copenhagen Declaration 1995 at the UN Summit on social development wherein poverty was described as a condition characterised by severe deprivation of basic human needs food, safe drinking water, sanitation facilities, health, shelter, education and information. Ledgerwood,(1999) pointed out that the principal goal of microfinance is to provide services to address financial needs of unserved or under deserved markets as a means to meet development objectives such as create employment, help existing business growth, diversification of activities, empower women or other disadvantaged groups and development of new business. Thus, the main objective of microfinance is to reduce poverty through increased income. A meaningful definition of poverty proposed by Banerjee and Jackson,(2017) is that it is a process whereby people are subject to sustained social, economic, political, psychological and/ or spiritual deprivation that gives rise to any combination or physical weakness, perceived isolation, and feelngs of ill-being, vulnerability and powerlessness (Chambers,1995; Ravallion,2002;Banerjee and Dufflo,2007; Chakravarti,2006 and Mecha,2017).

The focus of structural and financial reforms on poverty reduction have been to integrate the poor into the mainstream economy and microfinance was recognised as one of the innovative financial arrangements programmed to attract both the chronic poor and the transitory poor either as 'borrowers or savers. There is no other reform or intervention which has received so much attention or has been hailed by individuals, society, states, nations or comity of nations as a means to overcome poverty or rural indebtedness.

It is in this context that the study was undertaken with the objectives of 1) bringing in all aspects related origin or genesis of microfinance, 2) based on the growth and spread of of the microfinance institutions world over make an attempt to analyse the growth stages of microfinance and categorise them to different phases, 3) to critically analyse and propose the paradigm shifts with its growth and 4) finally to propose an approach or model for shaping the future of microfinance so that it does not deviate from the basic theme of social ethos on which it is founded.

2.Methodology

The study is based on extant literature on the subject. The approach undertaken was to cover the databases such as EBSCO, ProQuest, Springer, Science Direct, Scopus, Web of Science IEEE Xplore and Indan journals. The key words selected were genesis, evolution, vision, mission, paradigm shifts and regulation. At the start of the search one of the key word used was phylogeny but it did not yield any result and hence evolution, the meaning of the word was instead used. Every paper was evaluated against the purpose of this critical review as it had to be analysed with reference to the subject. From this list the original papers were accessed and those pertinent to the study were selected. Another secondary evaluation was made after conceptualising the broad headings and points developed in the study. The literature search also revealed duplication which was avoided at the first level itself. The literature thus obtained were critically read and analysed, classified and categorised under the broad heads.

A comprehensive survey was also made on all forms of literature available on this topic and related aspects covering all original research articles and reviews in periodicals, news papers, journals, chapters in books and this was again subjected to analysis for the context of the topic of investigation. To give an in-depth picture of the evolutionary trends, theoretical description has been made based on a critical analysis of the past, immediate past and the present. Against this, a model or approach for the future is suggested combining the basic ethics of microfinance with aspects governing its very existence or survival and sustainability.

3. Scope of the study

The initial part of the review is on the evolution of the microfinance sector. Though most of the religious texts have not been quoted in scientific literature, some of the present day forms of established microfinance has its roots entrenched in religious practices like the Islamic microfinance and merits attention due to their unique nature. Whatever little is known is as bits and pieces, loosely connected and disorganised. The authors extend the scope of the study beyond this aspect to critically examine the changes from its humble beginning.

As an evaluation part of the growth of this sector, this paper sets to identify the growth phases based on its evolution to the present, an aspect that has not received much attention. This aspect deserves serious attention as the reasons for the progress on the one hand and the deficiencies need to be weighed as principles and practices have to be spelled out as regulations.

The paradigm shifts is again based on a critical analysis from the beginning of this sector often referred to as of banking of the unbankable- the chronic poor who have no formal access to banking. The human centric approach on which it was founded to its present stage is the central theme and hence finds immense relevance. It goes further to cover broader themes of globalisation and commercialisation within the broad realm of the paradigm shifts in it long journey to the present. This is an area which can serve as a future line of research.

An important aspect is that the study charts out a route map for the future termed as responsible microfinance which is expected to serve as food for thought for planners, policy makers, global and national funders and for effective governance by bringing in appropriate regulations.

4. The Genesis and evolution of Microfinance The evolution of microfinance from an historical perspective point.

Tracing the word microfinance to different regions of the globe will only reveal its commercial economic practice. A more pragmatic approach to probe its roots will be to dwell on the literature available on various religious books and its practice coming under the broad term" lending". In Bible the 23rd chapter Of Deutronomy versus 19-20 explicitly deals with the practice of lending and the term used is "Usury". The Koran makes charging of interest practice against its basic tenets which is also the basis of modern Islamic banking. In Hinduism according to "Arthasasthra" one of the four ends to a productive and moral life is 'Artha' meaning money and its importance is exemplified by a special place assigned to Lakshmi, the Goddess of wealth (Sharma,2005).

A further look will reveal that microfinance flourished in different parts of the world including Latin America primarily Christian, North Africa predominantly Islamic and South East Asia, a mix of Hinduism, Buddhism and Islam (Ashta and Hannam,2014) The three great monoeisthetic religions (Judaism, Islam and Christianity) all had at one point in their history denounced interest rates (Mews and Abraham, 2007).In stark contrast Hinduism allows interest rates, even the high rates considered excessive today. Analysing the trends Roodman, (2012) is of the view that business ideas from which modern microfinance drew inspirations emerged from Christian societies in Ireland and Germany.

The present-day microcredit origin is listed to the 'Monte de Pieta' a pawn broker firm that was run on charity in the 5th century at Italy. It was meant to caterer to the poor (Visconti, 2015). At almost the same another similar venture giving charitable loan funds has been traced in England (Roodman, 2012) History reveals that another form existed in the 18th century in Dublin but with a difference that for approval of a microloan two co-signatories were essential who would be held responsible in case of default payment.

The establishment of the world bank in 1944 was another historic point in the development and came with formation of IMF in 1945, WTO and the GATT in1947 and later the present-day form of WTO with 164 members dealing with rules for trade between nations in 1995 which succeeded the original WTO

The institutionalised form of lending saw its birth in Germany as the German Cooperative Bank in the mid-19th century (Seibel, 2003; Balkenhol,2007 and Roodeman2012). Improvisations in the sector occurred without voluntary interventions and the crude form of the present-day microcredit is acknowledged to Lewis Tapper in 1841 in New York city

In the Indian subcontinent its humble beginnings can be traced to two pioneering works a) Ella Bhatt who initiated the women's own SEWA Cooperative Bank at Ahmedabad and Nobel Laurette Muhammed Yunus starts microlending in Jobra, in 1977 and went on to initiate the Grameen Bank in Bangladesh to whom should be credited the big movement of microfinance. This was also another landmark which resulted in the macro institutionalisation of microcredit in actual practical terms.

The problem of the poverty was recognised as the world's major problems and addressing poverty became world banks top most priority. The United Nations Millennium Declarations (MDG) signed in 2000 has set eight goals that 189 UN members states had agreed to achieve by 2015.

Later it moved from MDG to SDG (Sustainable Development Goals) which identified 17 major goals to be achieved by 2030. Priority number one or foremost among the agenda was eradication of poverty and hunger from the face of the earth. The term' poverty' got expanded both in its meaning and vision.

Yet another major recognition came in 2005 which was declared as the International Year of Microcredit.

In 2006 the Nobel Peace Prize was awarded to Muhammed Yunus and Grameen Bank Bangladesh. Thus, microfinance not only gained attention from all over the world but gained international recognition. The Norwegian Nobel Committee, Oslo, 2006 in its declaration said that lasting peace cannot be achieved unless large population groups find their way breaking out of poverty and microcredit is one such solution.

The Grameen Bank approach soon began to attract a dedicated group of followers particularly in the US. The publicity that it gained was more so because of the 'thumps up' received for following a 'bottom up' both economic and social development. However, a strong resentment began to grow considering the huge amount of subsidies used and both the USAID and World Bank gradually retraced their steps to ease out the subsidy model. Thus, evolved the concept of market driven business model (Otero and Rhyme, 1994 and Robinson,2001). This new norm began to be known as the 'financial system' approach-Robinson 2001 model. Even the Grameen Bank had to switch over to the new template of activity called as the Grameen-II model in 2002.

Simultaneously there was also an evolution of the lending models with the original individual lending model to the Grameen Bank lending model where the loan is not given to an individual but to group of five members. The loan is not given to each member at the same time but is given in turns and all stands for each other's obligation to pay back the loan. Further to this came the joint liability Group (JLG) and the Self-Help Group (SHG) initiated by the NABARD in the 1990s which continues to grow even at present (NABARD,2020). Analysing the lending models Mecha (2017) has reported that fourteen different lending models exist in the microfinance sector.

Since the UN Declaration of 2005 as the International Year of microcredit new areas was observed from the core area of activity in Bolivia, Bosnia, Mongolia, Cambodia, Nicaragua, Peru, Colombia and also in India and Sri Lanka (Bateman 2011).

The first practical step in an NGO becoming a commercial bank and can be traced to the Bolivian Banco Sol in 1992. Not only did it come as the first regulated microfinance bank but it surpassed other Bolivian banks in profitability and also became the first MFI to access international capital markets (Mecha,2017).

Another major development came in 2007. When Mexico's MFI Compartamos brought out its first Initial Public offering (IPO). This was the beginning of new form of larger private participation, but the interest rates surged to nearly 195% and the victims of this fancy was mostly female clients.

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Then came the big problems in microfinance often referred to the *microfinance meltdown* reported in countries like Morocco, Nicaragua, Pakistan, Bosnia, Mexico and Lebanon and later in the state of Andhra Pradesh in India. The Ministry of Government of India went one step further to question the worth of microfinance (Bateman and Chang, 2012). This was based on series of suicides in Andhra Pradesh (Associated Press 2012), Marikana massacre in South Africa (Bond, 2012) and the organ trafficking in Bangladesh (BBC,2013).

The Task Force on Supportive Policy and Regulatory Framework for Micro Finance in India in its recommendation categorised MFIs under three distinct groups

i. Not-for-Profit MFIs
¨ Societies registered under Societies Registration Act, 1860 or similar State Acts
¨ Public Trusts registered under the Indian Trust Act, 1882
¨ Non-profit Companies registered under Section 25 of the Companies Act, 1956
ii. Mutual Benefit MFIs
¨ State credit co-operatives
¨ National credit co-operatives
¨ Mutually Aided Co-operative Societies (MACS)
iii. For-Profit MFIs
¨ Non-Banking Financial Companies (NBFCs) registered under the Companies Act,
1956 Banks which provide mF along with their other usual banking services could be termed as microfinance service providers

Analysis of the period from 2012 onwards can be broadly viewed in terms of large volume of clientele base (beneficiaries), cash transaction and a major shift from MFIs to modern day MFI or Non-Banking financing Companies (NBFC) to Small Finance Banks (SFB) as an era of commercialisation. Yet another development was the formation Sa-Dhan a representative body of MFI and the Microfinance Institution Network (MFIN). Such bodies have taken shape in other countries as well but with different nomenclature. In India the transition to NBFC and SFB was another major aspect of transition and as on March,2019 they together accounted for about 62% of the microlending portfolio.

Various types of institutions are now the major players in the microfinance sector and include Credit unions, NGOs, Cooperatives, Commercial banks and sectors of Government owned Banks. In today's context the terms transformation or commercialisation of an MFI refers to change in the legal status from an unregulated non-profit or NGO into a regulated for-profit organisation. Thus, the regulated differ from the non-profit organisation as they have to perform, maintain capital adequacy standards and are supervised by financial authority. Transformed MFIs as already reported above in case of Bolivia's Banco sol and Mexico's Compartamos attract investors. Among the transformed MFI varying classes of regulated institutions exist, the strictest being Banks, then the rural banks and thrift banks followed by the NBFCs. However, the terminology of the above institutions varies in different countries.

The microfinance barometer which has been active since 2010 has analysed the figures of financial inclusion for a decade. Its conclusions are that in ten years it has but hundreds of billions of dollars with an average growth rate of 11.5%. Their study also reveals that increase in borrowers was at a slower pace than in the preceding decade from 2000-2010. The average growth rate was at a 7% since 2012 compared to a rate of 20% in the previous decade. The number of beneficiaries of MFI worldwide in 2018 was 139.9 million compared to 98 million in 2009 (Microfinance Barometer, 2019)

Analysing the entire stages of growth from its humble beginning to its present, the growth and development of the microfinance sector can be put under the following major phases

a) *The unstructured phase*- From early days to mid nineteenth century

b) *The institutionalisation phase*- From mid nineteenth century to mid nineteen seventies with spread and development of MFIs.
c) *The acceptance or recognition phase*- From mid nineteen seventies to early eighties
d) *The lag phase*- The nineteen eighties to mid nineteen nineties and the development of Joint Liability Models (JLM)and Self-Help Group (SHG)model
e) *The log phase*- The mid-nineties to first decade of twenty first century-the exponential increase in volume of business and clientele base and also initiation of commercialisation.
f) *The transformation or commercialisation phase*- The second decade of the twenty first century
g) *The hybrid phase*- the present restructuring combining the social ethos and an efficiency drive that includes modernisation with ICT and financial initiatives

5. Major paradigm shifts

A critical analysis in the development of microfinance will reveal major changes in the nature and functioning of the sector. The major paradigm shifts observed are classified under the following broad themes

a). Trust versus Distrust- The original concept of microfinance is rooted on a unique methodology "Social solidarity or social collateral" (Yunus,2001) which has at its heart "Trust" that is based on an intangible ethos much against from the banking finance that is rooted on "Distrust" -based on tangible collaterals.

Social capital is fundamentally based on trust, reciprocity and cooperation between individuals in a group (Banerjee and Jackson, 2017). The mechanism through which trust among clients in a SHG/JLG is not fully understood, however, trust has been identified as a major factor in influencing the performance of MFI's (Bastelaer and Leathers,2006; Ojong and Simba,2018 and Ojong,2019).Trust is of paramount importance in JLGs as one member of the group cannot opportunistically leave the group after taking a loan and passing over the liability to other members. Again the vulnerability of various clients in microlending group activities is regulated by trust (Das and Teng, 1998). Thus trust accelerates performance whereas distrust increases vulnerability of the clients. This gradual paradigm shift from trust to distrust operating on a social platform can be called as "social drift". The basis of distrust is the line of commercial approach taken by MFIs.

b). Welfare approach versus Institutional Approach-The concept of microfinance is mooted on the holy cause of social capital ethos based on its relation to its users to improve livelihood ((Copestake,2007 and Karim *et al*,2008). The key assets were not its loan portfolio but instead it relationship with the millions of poor people (Counts,2008). Over the years it has undergone a drift from a welfare approach to an institution centric approach where the thrust is on to an institutional building approach or growth-based model more so for survival. This paradigm shift can be termed as "Vision drift".

The major argument of the welfarist is that the MFIs can achieve sustainability without achieving financial self sufficiency, (Morduch,2000 and Woller *et al*,1999) and that they are dependent on social investors who do not expect any much return or reward. The switch over to an institutional paradigm was more warranted as sustainability or financial self- sufficiency became an existence issue. Morduch,(2000) reported that only one percent of MFIs are financially sustainable. The Ohio Universities Rural Finance programme put the primary cause of failure of rural finance as lack of institutional viability (Gonzales-Vega,1994). This dichotomy between welfare and institutionalist is also referred to as microfinance schism (Morduch,2000).

c). Not for Profit versus Profit approach- The basic philosophical underpinning of microfinance is embedded in its not-for-profit approach (Otero and Rhyne,1994, Robinson,2001 and Yunus,2003). However, in the evolution to its present, history is replete with many stories where many of the traditional MFI have taken a profit centred approach throwing away the basic ethos on which its creed is built upon. The concept has changed in many cases to return on investment and become profit centric (Poyo and Young,1999 and Christen, 2001). Yet the silver lining is that there are still many which thrive on the old ethics concept whereas the present day NBFC (regulated MFIs) and Small Finance Banks has taken the profit driven path. This paradigm shift can be termed as a “Mission drift”.

The basis of this drift is the outcome of efforts taken on poverty alleviation leading to financial constrains and forcing MFIs to take a path of profit orientation (Armendrz and Szafraz,2011; Roberts,2013; Vanroose and DEspallier,2013: Casselman and Linda,2013 and Balammal *et al*, 2016).

d). Individual versus Group Lending model- The microfinance in its start was based on an individual lending model which gradually evolved over the years adopting a joint liability to a social lending model in the form of Self-Help Groups. This paradigm shift in the lending model can be termed as the “Operational drift”.

The individual lending model was inherent with deficiencies of prompt repayment and lesser resilience to risk. At times even participation as a MFI client was made unable to extreme poverty level. The evolution to the group and joint liability group is an innovation n itself as each group member is made responsible for the loans of the other group members or in short a social collateral model based on the principle of joint liability (Goldmark,2001).

e). Conservatism versus Commercialisation- The rationale of microfinance is grounded on the firm philosophy of poverty alleviation in which microloans to the poor for entrepreneurial activity is conceived to boost income and pull them out of misery. Even developed countries like USA and UK have introduced Interest free banks and microfinance institutions (IFMFIs) On the other hand commercialisation of microfinance amounts to “accumulation by dispossession “by exploiting the poor and holding back their escape from poverty (Harvey,2006). This shift can be termed as the “commercialisation drift”.

The MFIs basic aim is on reduction in income poverty through improving access to finance and finmancial services particularly to the low income formal unbankable group (Ganka,2010). The conservative policy took a back seat in the evolution as existence targeted on operational sustainability itself became a question. Compelling factors of high cost, delinquency of loans and liquidity problems forced the transition of many of the MFIs to commercial institutions.

f). Human manual approach to Technology driven approach- An invisible but fast adoption is a transformation from the conventional heavy reliance on manual management aspects to ICT driven approaches that have already become established in the banking sector. Tech driven application have been reported as promising in microfinance (Chandrasekar and Prakash,2010) and one of the key aspects that will determine the sustainability of microfinance (Garcia-Perez,2020). One of the major transformations in the microfinance sector is projected to be on the technology readiness, integration and adoption owing to large clientele and volume of business catered to. This shift in the microfinance sector can be termed as “Modernisation drift”.

Digitalisation in financial services has brought about transformative changes but the face-to-face interaction between loan officer and clients remain the core of the business in microfinance. It is the connect established by the supervisors with clients that has really built the MFIs (Behr, *et al*,2020). In fact the relational ties that act as the collateral and are embedded in social ties of trust, empathy and reciprocity that facilitate a relational contract outside organisations business (Canales,2014; Siwale and Ritchie,2012 and Siwale and Godfroid,2022). Studies have also revealed that MFIs providing microenterprise lending adopting full digitalisation led to less relationship between clients and supervisors finally resulting in unintended consequences of financial inclusion (Mader, 2017; Vsconti, 2019 and Ozili,2020). On the other hand, even in mobile banking which has been hailed as a great success like M-Pesa in Kenya (Kinigiri and Fu,2020),no one can deny that MFI face a trade-off between digitalisation that eschews relational ties and human touch (Siwale and Godfroid,2022).

g). Open system versus Regulatory transformations- The present-day MFIs can broadly be categorised as MFIs for Non- profit and MFIs for profit (Chasmer,2009), The latter has come under the regulatory controls in different countries and have taken different. This shift can be termed as “Regulatory control drifts”.

In its original form, the foundation of MFI is based on social ethos of providing financial access to the undeserved and almost all the MFIs in different countries at its start fostered this principle but with growth and the drift to profit has put the clients to stress. The regulations vary with the intent and the regulatory bodies in different countries, For example in India it is the Reserve Bank Of India with the main focus on avoiding over indebtedness (RBI,2021) whereas in the neighbouring Nepal it is the Nepal Rashtra Bank which was established as Central Bank of Nepal to monitor, and administer the banking system to control money (Jha *et al*,2016). Shanker and Asher,2010) classified the regulations under two categories a) Prudential –dealing with capital limits, capital adequacy measurements and loan-loss provision and b) Non Prudential- including transparent disclosure of interest rates, financial products, selling practices and methods for collecting loans. The CGAP guidelines on regulation clearly delineates the regulation required for deposit accepting MFIs and Non depositary MFIs. The common objective of all regulators remains the same and is to identify new threats to financial stability and consumer rights (Elderson,2020; OECD,2020; Gonberg,2020 and Mykhailiuk,*et al*, 2021).

h). Outreach Versus Acceptance The outreach of microfinance has far outlived its expectations. It has spread its wings in all continents in all the member countries of the United Nations. The microfinance barometer (2019) dwells at length about its growth in terms of number of beneficiaries catered and the growth in volumes but its growth rate is slowing down in the last few years. The pundits of microfinance now have realised that it is not a medicine for poverty or a cure all for poverty alleviation. Its acceptance is beyond measures as evident from its unparalleled trajectory growth. This shift or slump in growth can be termed as "Realisation drift".

The rapid pace of technological revolution has opened out lots of opportunities like permitting more clients, investors, entities more consciously and responsibly (Forbes,2020). Outreach has two principal components; a) the breadth of outreach which gives the number of the clients served by the MFI(Hishigueran,2004;Balkenhol,2007;Mersland and Strom,2009; Harmes, *et al*,2008 and Ganka, 2010) and b) depth of outreach which is actually based on the number of poor clients. Ledgerwood as early as 1999 remarked that in MFI the number of clients measured n outreach is actual numbers and not relative to level of poverty and that all smaller loans indicate poorer customers(Mersland and Strom,2009; Cull *et al*,2007 and Sharma and Pati,2015). This point is virtually forgotten when acceptance is also considered. The acceptance of MFIs have mostly been weighed in from sustainability which is based on capital structure (Kyreboah,2007; Ganka,2010 and Kinde,2012). This reveals that the moral ground of true acceptance has been lost.

i). Survival versus Sustainability. With growing inherent problems like requirement of more staff and space thereby increasing the cost and affecting credit availability. Assessments of microfinance impacts reveal mixed reactions-on both poverty reduction and sustainability (Banerjee and Jackson, 2017). Compulsions of survival have forced many to take the road of moving on commercial lines. Garcia -Perez (2020) argues on a new holistic approach for fostering sustainability of MFIs. This shift can be termed as the "survival drift ".

The survival of any institution that is not founded on profit with commercial roots is difficult to survive and MFIs are no different. The large clientele base, the low loan size make it imperative that digitalisation is a must and the technological opportunities is the answer (Forbes, 2020) but it certainly comes in with additional cost. The financial sustainability with respect to microfinance has been defined as the capacity to move on with its objective without continued donor support (Dunford,2003). This can be measured in terms of a) operational sustainability- ability of the MFI to cover its operational cost, regardless of its subsidised nature whereas b) financial self- sufficiency refers to a situation when it can cover the generated income (operating and financing cost and other form of subsidy). The option between the two makes it one grounded on its moral responsibility and the other profit centred. While the latter is certainly sustainable, the former can just be survival alone or survival and sustainable with good governance. Compulsions to march with tech driven governance normally put pressure to switch on to the latter.

The summarised focal points of MFIs, the shift in its orientation and the aftermath is presented in Table-1. below

Sl. No	Focus	Paradigm shifts		Aftermath
		Starting point	End Point	
1.	Faith in MFI	Trust	Distrust	Loss in Relationships
2.	Social Responsibility	Welfare of clients	Institution centred growth	MFI growth at cost of clients
3.	Revenue centred	Non-profit	Profit	Profit centric activities
4.	Social ethics	Conservative	Commercialisation	Drift from its founding ethics

5	Model	Individual	SHG/JLG	MFIs more protected
6.	Tech orientation	Human Manual	Digitalisation	Administration empowerment
7.	Governance	Open	Regulated	Governance under control
8.	Social base	Outreach	Acceptance	Wider acceptability
9.	Revival of MFIs	Survival	Sustainability	Sustenance of MFI and clients

Table -1. Focus of MFIs, shifts and aftermath

Many problems of microfinance have risen due to indebtedness as the small loans or microloans could not pull the beneficiaries out of the misery of poverty. The emphasis has to be that the poor are also not only credit worthy but also it should be to a level that the amount given makes their activity economically viable. Poverty opens out another unavoidable social evil- Vulnerability- which can again be economic, social or environmental. Whatever is their categorisation, the aftermath or fallout are the same-inequality, deprivation, weakness, powerlessness, disempowerment and Exclusion.

Finally, we come to a very important question on the future of microfinance? As an optimist the answer is Yes, a bright future, but with a balance upholding its moral ethos and an effective forward and backward linkage that addresses all issues-Then the next question is How? and the answer is “Responsible Microfinance” and that’s the way forward.

6. Responsible Microfinance – *the way forward*

With neo-liberalism, globalisation and commercialisation microfinance has undergone several changes. Even many of the studies which hailed the microfinance has been criticised as that having an inherent wrong methodology. There is another group which openly says that long term studies indicate that income is limited and even at times negative (Hulme and Mosley, 1996; Morduch, 1999; Roodman, 2011; Dufflo *et al*,2013). Nobel prize winner Joseph Stiglitz (2003) calls the “roaring nineties” saw the main stream finance sector loose almost any sense of moral responsibility. The approach that is required should combine social ethos (even think of alternative working collateral with a group approach like fund or adequate insurance support or government support particularly for the chronic poor) with modern management principles like integrating technology towards cost effectiveness and efficiency. It has to embrace at least some financial products and services like mobile banking considering the requirement of large number of clients. Using mobile phones and smart phones and smart phones banking and other financial services can be accessed easily (Elderson, 2020). It is also estimated that 1.1 billion people or about two third of the people who do not have a bank account have a mobile phone opening up yet another area of the scope of expansion of outreach and digitalisation(Mykhailiuk *et al*,2021). Whatever, it cannot forsake the moral principles on which it is grounded.

IFC (2013) defined responsible finance as “coordinated public and private sector interventions that encourage and assist financial services providers and their clients in improving their understanding and approaches, practices and behaviours to create more transparent, inclusive, equitable financial markets, balanced in favour of all income groups”. Responsible finance should have at its heart responsible business dealings.

Essentially responsible microfinance shall basically envisage the following basic principles

a) shall be client-centric- A reorientation of the policies like carefully listening to the clients and building a long-lasting relationship, understanding each situation, building and

maintaining mutual trust thus laying the basis for exploring repayment options and agreeing on solutions (Visconti,2015).
b) shall be all inclusive- Basically financial inclusion is the proportion of individuals and firms that use financial service's *ie.* creating time and environment for more people to make use of this sector. In 2010, nine principles were developed as innovative financial inclusion by the G20 group of nations, namely leadership, diversity, innovation, protection, empowerment, cooperation, knowledge, proportionality and framework. The eighth principle of this innovative financial inclusion regulation deals at length with balanced regulation (GPLA,2011).
c) should have an extra arm of delivery of products and services.

d) must have a backed-up insurance cover that will give protection on any vagaries of climate, outbreaks and natural calamities.

e) have a provision that will give a buffering action in case of any untimely repayment.

f) should bring in a sense of awareness on financial literacy and confidence in the clients on perceived risks.

g) incentive linked with a cash back on prompt repayment of instalments.

h) Privacy of client data a protection on the savings generated by MFI beneficiaries.

i) A high level of transparency in all dealings, accounting and financial transactions- - Global initiatives such as Micro Finance Transparency (MFT) has to be activated in all countries across the industry. Today it is limited to in coverage to a few countries and products.

j) Mechanism of complaint resolution-an inbuilt provision for redressal of grievance which can be even on an online platform that provides free access to all clients.

k) A beneficiary linked participatory governance mechanism having clients/beneficiaries in the highest bodies.

l) A strong HR policy both for clients and employees and

m) A client protective regulatory framework-that outlines "the rules of the game". It would be most appropriate to have checks and balances in the system with regulations that is mandatory, that will ensure no exploitation (making exploitation a punishable offence) and overcome rural indebtedness. The ninth principle of the G20s innovative financial inclusion which is considered as a reformative change has made it clear that regulatory authorities must take into consideration a) international standards; conditions of use of intermediaries; flexibility; compatibility and risk based approach in combating anti-money laundering and combating fund for terrorism (AML/CFT). This principle on the one hand prescribes international standards but reinforces flexibility as regulations are country/state specific and an universal 'fit for all' regulation will itself be a bad regulation.

Three major ways to make it happen is to have 1) industry-led initiatives, such as client protection, focussed codes of conduct and standards development 2) consumer protection and supervision and 3) efforts to improve consumer awareness and financial literacy. These three aspects though articulated in terms of three are not mutually exclusive and in fact overlap and reinforce one another.

These major principles outlined above can be put under three major heads 1) Ethics 2) Professionalism and 3) Governance which can be regarded as the three verticals or pillars on which responsible microfinance shall thrive and function. These three pillars will be on which responsible finance has to be embedded and from which will emanate separate sets of value based and value additions. Microfinance has to be both value based and value adding: the former that in that its birth itself is anchored on to create sustainable values and bring in meaningful value to the society and ultimately the goal of shared prosperity and the latter in that it should facilitate and support economic activity (fig-1).

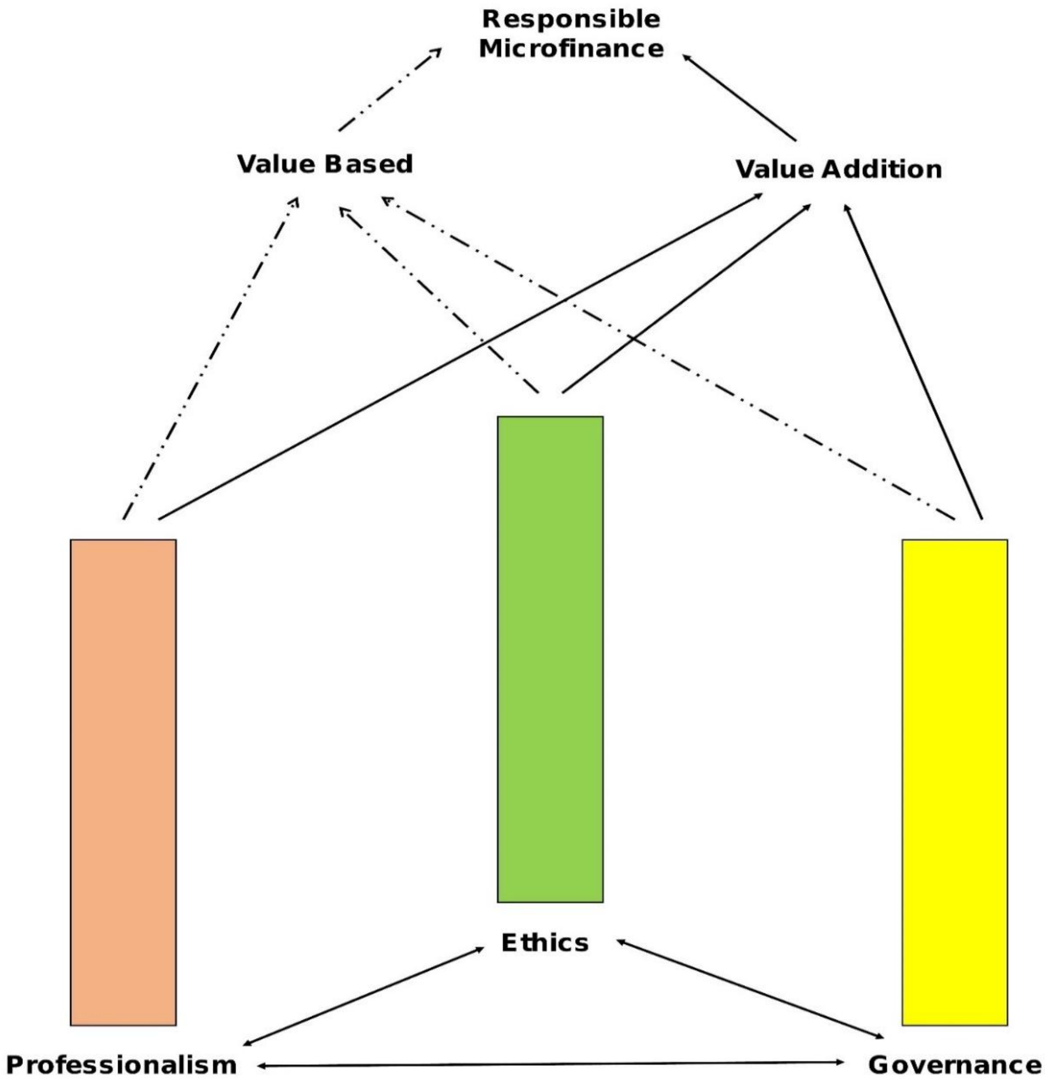

Fig.1 The proposed model of Responsible Microfinance

The reliance is on Professionalism, Ethics and Governance- the three pillars on which responsible microfinance will march forward. This will combine the basic ethos and the improved efficiency so as to ensure not only the survival but the sustainability of this vital sector aimed at improving the livelihood of the poor and the chronically impoverished. When such a system comes into existence the after math will not be microfinance business as usual but grounded on strong principles of social ethos, professionalism and participatory governance- in short responsible microfinance

Finally, the whole microfinance institution has to both structurally and functionally reorient itself to be "of the Clients, by the Clients and for the Clients" culminating in a win-win situation for all the stakeholders involved in this sector.

7. Limitations of the study

Some of the limitations of the study are summarised below

The whole basis of the study is based on secondary literature and an in-depth analysis of the literature.

Another limitation of the study is that it is not based on any statistical or empirical analysis.

The advent of digitalisation is expected to revolutionise this sector and bring in a sea of change. This will also increase the fixed cost and decrease the operational cost.

There are very few works which rely on the basis of microloans been given to classified low incomes who are poor or as described in the paper the depth of outreach. Only a correct study that deals with cent per cent resource poor falling in a distinct income group will give the correct impact, outcome and requirement of policies and regulations

Regulations cannot be both neither a panacea for all evils nor a cure pill for all ills in the microfinance sector as different countries have their own procedures and practices followed and even in states within the same country there are differences. Hence it is that not only polices, framework and regulations vary, it becomes much more difficult to summarise.

8. Conclusion

The whole concept of microfinance is aimed at the marginalised poor and the very poor sections of the society. It is based on a humanist approach trying to pull them out of impoverished conditions by reaching out with small microloans to better their income prospects and thereby their livelihood. The paper examines to traces out the transformational changes this vital sector has undergone. Growth of the sector has been hailed and in its development. There is no doubt that the microfinance has deviated from the original intentions and objectives on which it was founded. its genesis by looking at various religious texts, by linking together fragmented pieces of evidences available and tracing it to the early days of human civilisation. Based on the historical perspective, the growth of the MFIs have been classified under seven distinct phases which could form the basis of the future studies based on the developmental stages. It also analyses the various stages and how the transformation of this sector has happened over the ages. The most important aspect of this review is that it has dwelt on the major paradigm shifts that has occurred during its transformation and has identified nine major shifts. A focussed attempt has been made to analyse these shifts and based on the studies has rationalised the causative factors that led to these changes. The difficulty of having uniform policies, practices and regulatory frameworks in place is also discussed The paper in addition charts out a road map for the future which is termed as ‘responsible microfinance’ spelling out each point that needs to be debated at length. Most importantly, it proposes a model that combines the founding basic concept of microfinance with modern microfinance.

Finally this review has immense practical applications as it is expected to open out thoughts for action plan based on the depth of outreach -the actual poor for which the microfinance institutions ought to work. Every policy maker will agree to the fact, that if not all, atleast a sizeable proportion of the clients whom the microfinance institution caters to have to belong to the poor or chronic poor and unless this is mandated by law, the real objective for which microfinance institution is established is not served, This underlying objective will draw the line separating out an actual microfinance institution and the one drawn out for profit making. In short, if it has to be responsible microfinance it has to be for the poor and resource impoverished.

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