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DEVELOPMENT OF MICROFINANCE SHGs- PROGRAMMES IN INDIA

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KEYWORDS :

INTRODUCTION

"Rural development is a strategy designed to improve the economic and social life of specific group of people, the rural poor's. It involves the extension of benefits of development to the poorest among those who seek a livelihood in rural areas, such as small farmers, tenants and landless.

Immediately after independence, Government of India (GoI) gave considerable importance to rural reconstruction and formulated a number of strategies for rural development. The setting up of the planning commission in March 1950 was a significant step towards this direction. Planning commission prepared a blue print and paid special attention for the welfare of the rural people under abject poverty with the main aim of poverty alleviation, employment generation, and infrastructure development.[1]

"Micro-Finance program has a significant role to play in Indian economy for boosting micro entrepreneurial activities for creating productive assets coupled with employment generation" Dr. Muralidhar A. Lokhande.

"Microfinance in India

"Microfinance can be broadly defined as the provision of small scale financial services such as saving, credit and other basic financial services to poor and low- income people .The term " Microfinance Institution" now refers to a wide range of organizations dedicated to providing these services and includes nongovernmental organizations, credit unions, cooperatives, private commercial banks, non-bank financial institutions and parts of State-Owned banks, '"various the micro finance is a very young anal growing business vertical in the financial sector and also is an important tool for poverty control.[2]

1982 Indian government established National Bank of Agriculture and Rural Development NABARD was founded to make credit available to small farmers and weaker sections at concessional terms, lower rate of interest less Down payment and extended repayment period. The efforts to involve women more intensively in the mechanism started in early 1990s, a women cell in the NABARD in 1992 was constituted to address issues relating to credit and other supportive needs of rural women. Family Credit Plan (for very poor families) was introduced in 1994-95. Most of these schemes met with limited success. The beneficiaries perceived the loans as a grant. They did not feel the responsibility of repaying it. This led 10 poor loan recovery thus ever increasing size of over dues to poor loans recovery thus ever increasing size of over dues which resulted in the schemes becoming non-viable (Rath, 1985.and Rao 1990). From the borrower's side the formal financial institutions collateral requirement bureaucratic loan application, disbursement procedures, the time and resources necessary to visit the banks and discriminatory banking culture virtually exclude poor women as clients. On the other hand, informal sources of lending being relatively easy to access-women rely on them and get exploited. Thus a need for a mix of banks and other intermediaries who can help the poor, especially women to meet their demand for small loans was felt. It reflects the importance of linkages between formal and informal financial institutions.3

Micro financial Institutions in India

Micro financial Institutions is a financial service of small quantity proved by the poor. These financial service may include savings credit insurance, leasing, money transfer equity transaction, etc. that is any type of financial service, provided to customers for meeting their normal financial needs, life cycle, economic opportunity and emergency with the only qualification that transaction value is small and small and customers are poor. Unlike normal credit, micro credit is limited with collateral substitute and credit plus services. Micro credit becomes distinct from other regular credits where not only credits amount is small and clientele is poor, but also credit is provided with collateral substitute instead of traditional collateral and non-financial services for increasing the productivity of credit.[4]

Rural development means over all development of rural areas to improve the quality of rural people. National development could be achieved only by achieving the rural development. Quality of life is determined by number of factors like income –employment, education, good health including nutritious food. In India nearly two third of the total population are working in agricultural sector including farming diary, poultry, floriculture and sericulture. Though this sector contributes much revenue to the nation, it provides low income to the rural women and their standard of living is very poor. So women have to be engaged in other economic actives.[5]

Micro credits its term of Micro financial reforms to the provision of financial services to lower income groups, which also include self-employed people. Grameen Bank in Bangladesh introduced the concept of microfinance and now it is a worldwide movement as it was replicated in different countries. This is the approach, which focuses on reducing poverty by providing services through institutions that are funded by various donors and Government subsidies.[6]

The Indian government provides institutional credit to the poor sections of the society through microfinance which is considered to be one of the most sustainable and effective tool for poverty alleviation. Where micro credit refers to availability of loans in small quantities, micro finance has a broader meaning and it includes other financial services like, savings, insurance etc, realizing the importance of credit in the development process, the Government and Reserve Bank of India have taken various steps in this regard and have encouraged banks to make timely and adequate finance available to poor for agriculture as well as allied activities making institutional credit to the poor.[7]

Many organizations like Myrada and NABARD have made microfinance an undividable part of Indian rural development. Also many other funding agencies and NGOs are involved in this work of helping the poor by providing them micro credit, "pierce are also many other; similar institutions that are working extensively in the field of microfinance. However in several states of India, MFIs are performing very poorly, unable to reach the deserving rural poor, but at the rate in which they are expanding, their branches seems to be that they will soon be reaching to each and every rural poor household.

As per the statistical information given by NABARD, we can say that microfinance has proved as a boon for the rural poor.

- The SHGs made and functioning successfully in India,
- Self-Help groups also innumerable of poor families got sustainable financial service through it.
- Besides the big donor agencies like NABARD, SIDBI etc. there are 2800 partner NGOs working extensive in this field.
- Many foreign agencies are working comprehensively in this field like CARE-CASHE.

- Huge participation of corporate icons in microfinance are also witnesses like HLL's project Sakti and ITCs women empowerment project.

Thus Microfinance is the key mantra for a sustained and long-term economic growth in India. The same is in sharper focus today with the government taking keen interest to ensure a comprehensive and visible uplift of rural people through effective implementation of various schemes. Hence, it is clear that the microfinance is most important factor to attain sustainable rural development.[8]

Microfinance And Agriculture:
Agriculture is an innovative but risky, this endeavor to facilitate micro finance to agriculture sector provides an opportunity to reduce poverty and improve the standard of living of poor fanners in rural areas. As regards agriculture is concerned, for many Indian fanners, it is inevitable to incur debt within every stage of the agricultural process. In order to help the agricultural industry in India, the government has enforced a Minimum support price (MSP) for cotton whenever the market price of cotton falls below the MSP, the Cotton Corporation of India (CCI) will buy cotton from fanners at the MSP.[9]

In India, access to micro credit remains another significant challenge for low income households. Typically, the poor access credit through the informal sector, where monopolistic practices frequently occur, and interest rates can easily exceed 100 percent per year. In addition, poorer households live in remote regions, have hardly any assets and are viewed as being "unprofitable" by formal institutions.[10]

The Indian government agriculture sector provided no sufficient budget, be it regular or interim, can ignore agriculture, (the backbone of India's economy. So, it was no surprise that the interim budget 2009-2010 presented to parliament. It has a few of salient features that seek to promote and development the agriculture and thereby rural areas. While doing so, government has also acknowledged the great contribution of the farmers towards the overall economic growth by the country. The realistic or practical interpretation is that as individuals, communities, and societies are all developing, people accumulate assets, invest in themselves and their children and become more productive and are less engaged in society and global economy.[11]

The global economy while increasing income through proper delivery of credit helps the poor, it is often not enough to pull them out of poverty. Therefore, it is pertinent analyze the different policy frame works at work for financial inclusion of-the poor and in particular the rural poor. The 59th round of NSSO survey says that 51.4 percent of the farmer households are financially excluded from both formal and informal sources. This is about 45.9 million fanner households out of 89.3 million farmer households, only 27 percent has access to formal sources of credit; of which one-third also borrow from non-formal sources. Farm household's not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91 percent, 81.26 percent and 77.59 percent in the north, central and southern regions.[12]

National Banks at Presently, commercial, cooperative, development and regional rural banks as well as a number of primary agriculture societies represent India's banking system. The main source of institutional credit for farmers is agricultural cooperative societies, which charged an interest rate of approximately 13 percent However, the loan recovery rate within these societies is low, as only 30 percent of the loans arc recovered. This has led to a decrease in the number loans provided and strict collateral requirements for approval, like steady stream of cash flow for borrowers and a minimum level of assets. As a result access to formal credit gets more difficult; the farmers choose private lenders due to quick cash transactions and minimal conditional ties.[13]

The popularity of microfinance institutions in India, not many Micro finance Institutions (MFIs) have ventured in to this market. Yet, the lack of access to institutional credit for these farmers makes it a potential credit market for MFIs to explore. Thus, MFIs can make the informal sector more advantageous and welcoming for the average farmer.

Joint liability groups (JLG)
The farmer will provide a loans microfinance institutions to registered group farmers who grow a variety of different crops. The farmers will have the freedom to choose their groups and each group will contain roughly12-15 farmers with an average of two acres per farmer. While the group will have the freedom to decide the manner in which the loan is to be divided amongst its members, the MFI will provide advice and education on efficient ways of financing and allocating funds. Through a mutual agreement with the farmers, the MFI establishes its role as a sole buyer for the product at the MSP the MFI provides a steady stream of cash flow to the fanners. In turn, the MFI will sell the product in the open market for a profit. The fanners benefit as they are waived of the principal borrowed and are only charged a monthly interest that is payable once enough income is earned. Even after waiving the principal, the interest rate charged by the MFI will be lower than the existing informal interest rates.[14]

Micro-finance and Self-help groups
Self-help group (SHGs) is defined as a voluntary group valuing personal interactions and mutual aid as a means of altering or ameliorating the problems members according to the group member's priorities. The rate of interest charged by the SHG from its members is 2-3 percent per month. Consumption of loans are allowed: The SHGs are thus able to provide banking sendees to their members which are cost effective, simple, flexible, accessible to their members and above all without any default in repayment loans. In India to begin with NGOs spread SHG movement and later on it grew impressively with the patronage of NABARD. The SHGs can be divided into two categories.

- Groups that are primarily geared to deliver financial resources provided by the microfinance institutions to the individual borrowers
- Groups that manage and lend these accumulated savings and externally leveraged **NGOs organizations engaged in Micro Finance in India**

Some of the active and successful NGOs, organizations voluntary Agencies (VAS) in different states of India are: Self-Employed Women Association (SEWA) -established on Cooperative principle in Ahmedabad: SIIARAN in Delhi, SPARC in Bombay; ASSHI-A in Madras; SI1AUI-in Hyderabad, The Working Women's Forum, Chennai, MYRADA in Banglore, Mahila Arthik Vikas Mandal (MAVIM) in Maharashtra; AID INDIA, Unity Charitable Trust and PRADAN in Tamilnadu. These organization eater exclusively to the needs of women by engaging themselves in financing income generating activities of women. These organizations have adopted different models in promoting programmes of microfinance. Some have collaborated with apex institutions like NABARD, SIDBI and RMK or with banks. Some have followed the path of direct financial intermediation through cooperative banks (SEWA) or establishing microfinance institutions (SHARE.BASIX), while others like MYRADA, PRADAN and DHAN have played an indirect role through promoting and fostering SHGs of the poor and linked them to the formal credit institutions. The resource-based activities successful and effective, the role of NGOs has significant importance in terms of identification of the location, resources, pre-promotional activities, entrepreneurial training, monitoring and follow up mechanism. NGOs play a catalytic role in training the local resources into-finished goods.[15]

Micro Finance and Rural Credit, the Role of NABARD in the Development of SHGs
The economic growth inclusive, it becomes necessary to increase the flow of credit to small and marginal farmers and other disadvantaged and dispossessed sections of population. The rate of agricultural growth needs to be accentuated to more than 4 percent per annum. For this purpose, the flow of institutional credit to agriculture needs to be stepped up. In the post reform period, there has been a sharp fall in the proportion of bank credit to agriculture, though it is encouraging to know that in recent years the slowdown in the supply of credit have been reversed since 2004. But despite this, there has been sharp increase in the share of large sized advances for financing agri-business oriented enterprises rather than for small and marginal fanners and small enterprises in rural areas. This fact makes all the more necessary to increase the flow of micro finance to small and marginal farmers.[16]

Rural development through SHGs and Microfinance
. Rural development implies both on the economic betterment of people as well as greater social transformation in using SHGs as a strategy for implementing poverty alleviation Programmes, the focus is on economic development of rural poor. According to the World

Bank 'Rural development" is a strategy designed to improve the economic and social life of a specific group of people, the rural poor. Whatever the geographic location, culture, historical stage of development of the society, there are at least three basic elements which are considered to constitute the true meaning of the, self-respect, freedom and SHGs as a strategy of development also generates these basic elements among rural poor.

Rural development is a multifaceted phenomenon on which rests the fate of millions of rural poor in India. Rural development implies increase in per capita income and the achievement of various economic and social attributes of development societies, such as increased use of capital, productive activities based on science and technology, expansion of infrastructural facilities, increase in per capita income, expansion of educational levels, reduction in mortality and fertility rates etc.[17]

The SHG movement has taken off on a huge scale in Indian villages and has become the approach of numerous rural development projects of Indian Government and Banks. With 500 SHGs in IW2 to more than 68 lakh SHGs linked to banking system over the last 18 years, the growth of SHGs is astounding.

However only those groups which initiate entrepreneurial activities resource based and demand based activities seem to be treading towards sustainable development. While SHGs can promote sustainable development of local resources, local resource based activities are primordial for sustainability of SHGs. Rural development makes people stand on their own feet and break away from all structural disabilities which chain them to astatic condition in which they have, to live in Rural-development makes people stand on their own fee and break away from all structural disabilities which chain them to a static condition in which they have to live in. the problem of development in India is anonymous with the problem of Rural Development as two third of its population lives in rural areas. Rural development involves rising the socio-economic status of rural people on a sustainable basis through optimum utilization of local resources. The essence of rural development is not providing but in promoting the rural sector. Thus the stress of the Rural Development should be on self- reliance and in improving the quality of life of rural people. Planning commission formulated the Rural Development in India is essentially an aspect of planned development launched by the Government of India in terms of succession of programmes and strategies formulated in the 5 years plans of nation development.[18]

Thus a point to be stressed in this context is that Rural Development is viewed as an integral aspect of national development significantly, government announced in the Budget that it would continue to provide interest subvention in 2009-2010 to ensure that farmers get short term crop loans up to Rs.3 lakhs at 7 percent per annum. The Agricultural Debt Waiver and Debt Relief Scheme for farmers, announced in the last Budget, were implemented by june30, 2010 as scheduled. The scheme has been able to restore institutional credit to indebted farmers. As per early reports, the total debt waiver and debt relief so far, amounts to Rs.65 thousand, three hundred crore covering 3.6 crore farmers.

Since ages, vast majority of Indian population has been living in rural areas and depending directly or indirectly on agriculture for their daily bread. Bui fast changing seasonal patterns accompanied by vagaries of monsoons, rise in (the density of population, increase in expenditures and declining per capita availability of cultivable land, makes agriculture an unlikely option for livelihood. Alternative methods for earning a steady livelihood for the poor needs investment and conversely banks lend money to the affluent clients with good financial position or proven ability of repayment capacity creating a rich-poor vacuum. Microfinance filled this vacuum and facilitated rural poor to venture into small businesses or livelihoods, by delivering financial services in small proportions.

Indian government in her quest for finding a solution to tackle the existing problems of poverty adopted a number of strategies towards the development of poor. However, after a prolonged negligence in the initial phases, planning and grassroots development through 'people's participation' and 'empowerment' were noticed to be viable development policies, for which local level planning has been given top priorities since last few years. In such a state of shifted development paradigm, microfinance through Self-Help Groups (SHGs) has involved as a need based policy to cater the marginalized groups of Indian society. As per the current estimates (2010) up to 500 million chronically poor in the world and up to 135 million in India alone.[19]

Over the last ten years, successful experiences in providing credit to small entrepreneurs and producers demonstrated that poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. Community banks, NGOs, Grass root savings and Credit Groups around the world have shown that these micro enterprise loan can be profitable for borrowers and for lenders, making microfinance one of the most effective poverty reducing strategies.

Employment of women is one of the central issues in the effective process of development of countries all over the world. In order to give a fillip to employment of women and appropriate institutional mechanisms and interventions have been consciously built into the development design. Some of them are particularly effective in combating poverty, while others contribute immensely to economic growth and other social objectives. A breakthrough in the development of women is the establishment of self-help groups. The Self-Help groups program mainly focuses attention on empowerment of rural v/omen and farmers making them financially, socially and politically capable. "Women are very important segment in development from local to global levels". Economic independence and education of v/omen will go a long v/ay in attaining self-reliance for v/omen. Rural change will come when women are treated on par with men and given equal opportunities.

Since Microfinance has been hailed as a new solution to alleviate poverty and bring economic prosperity to the rural poor particularly women, it should be effectively able to reach the poor entrepreneurs and provide them the required loans to start their own businesses and enable them to have continuous flow of credit to sustain their businesses. National Banks for Agriculture and Rural Development (NABARD) and the Small Scale Industries Development Board of India (SIDBI) to increase the rural outreach and credit volume in priority sector. It was during this period the "micro finance" as it is understood today, first emerged in India through the effort of NABARD that initialed Self Help Group (SHGs) Bank Linkage Program, which links the formal women's group to formal batiks. This concept held great appeal for non-government organizations (NGOs) working with poor, prompting many of them to collaborate with (NAUAU1) in the program. This period also witnessed the entry of another set of stakeholders known as Micro Finance Institutions (MFIs),

The many NGO-MFIs transform into regulated legal formats such as Non- Banking Finance Companies (NBFCs).[20] In contrast to the formal financial sector, micro finance provides small financial services (1000-50,000 rupees) to assist the poor both financially and socially. Micro finance aims to target the rural and urban poor who own micro-enterprises that work in agriculture, dairy, poultry, grocery, tailoring, broom making, and pottery among others. There are various organizations involved in micro finance like NABARD, SIDB1, SB1 Associates, Oriental Bank of Commerce and some other private banks. On the whole micro finance practitioners, aim to target almost 500 million people. Along with this new generation of micro finance practitioners, various social development agencies have adopted micro finance as in effective tool to fight witty and empower women. They are largely known as Micro finance Institutions (MFIs).

CONCLUSION

Poor usually address their need for financial services through a variety of to relationships, mostly informal through moneylenders, but usually at a ve:\ high rate of interest which in long run proves devastating to the borrowers, services are available through a variety of informal relationships like gs clubs, rotating savings and credit associations, and other mutual savings societies. But these tend to be erratic and somewhat insecure. In Indian context, a very special need of rural poor sections is for public celebrations such as marriage of daughter etc. which mark a special status symbol in the society. Money spent on celebrations is after all. Money not spent on food, education, health, and other productive inputs and the poor arranges funds from local money lenders etc. this in long run proves disastrous for them.[28]

At the global level, popularity of micro finance has burgeoned during the last three decades. Multilateral lending agencies, bilateral donor agencies developing and developed country governments, Non-Government Organizations (NGOs), and private sector financial institutions all emphasize and support the development or micro finance. As a result, micro finance services have grown rapidly and resulted in the existence of both a substantial track record of accomplishment and a significant body of empirical studies worldwide together claimed the significance of micro finance as an effective anti-poverty and development strategy.

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