Role of Financial Institution's in Micro Finance

Dr. Archna Makker Prof. Rajbeer Kaur
Assistant Professor
Guru Nanak Khalsa College, Karnal

Abstract *Microfinance market in India is expected to grow rapidly, supported by government of India's initiatives to achieve greater financial inclusion, and growth in the country's unorganized but priority sector. Microfinance has evolved rapidly into a global movement dedicated to providing access to a range of financial services to poor and near poor households. Major Cross-section can have benefit if this sector will grow in its fastest pace. The microfinance industry being very small in terms of value added to the Indian financial sector. It examines the experience, of India, which has one of the largest microfinance sectors in the world. Globally, over a billion poor people are still without access to formal financial services. Some 200 million of these people live in India. The Indian Government should find an avenue for creation of awareness on how microfinance can benefit from loans and monitors closely to ensure disbursement of loans and grants to entrepreneurs. Today it has evolved into a vibrant industry exhibiting a variety of business models. Microfinance Institutions (MFIs) in India exist as NGOs (registered as societies or trusts), Section 25 companies and Non-Banking Financial Companies (NBFCs). Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in providing refinance facility to MFIs. The Banks have also leveraged the Self-Help Group (SHGs) channel to provide direct credit facility to the borrowers. Keeping in mind the above views of financial institution regarding the micro finance the modest attempt made in this paper to analysis the role of FIs in micro finance.*

Key words: *Micro Finance, NABARD, Financial Institutions.*

Introduction:

Government of India has been making efforts to alleviate rural poverty since long. In spite of the eleven five year plans that have been implemented in the country since 1951, the extent of poverty does not seem to have diminished in any significant manner. Experiences of rural development strategy during the past six decades show that the achievements in qualitative terms have been far below expectations and non-commensurable with investments made. Despite the significant changes in the approaches and strategy of rural development, we are yet to achieve the minimum desirable targets in field of education, nutrition, health, drinking water and employment.

In the above context, self- employment programs assume significance as they alone can provide income to the rural poor on a sustainable basis. To rectify the situation the government decided to restructure the various ongoing self employment programs. A new program known as “Swaranjayanti Gram Swarojgar Yojna” (SGSY) was launched in the country from 1st April, 1999. The basic objective of the SGSY is to bring the assisted poor families (Swarozgaris) above the Poverty Line by providing them income-generating assets through a mix of Bank Credit and Government Subsidy. This program aims at establishing a large number of micro enterprises in the rural areas based on the ability of the poor and potential in the area. SGSY is different from earlier programs in terms of the strategy envisaged for its implementation. It has been conceived as a holistic program of self-employment. It covers all aspects of self-employment of the rural poor viz. organization of the poor into Self Help Groups (SHGs) and their capacity building, training, selection of key activities, planning of activity clusters, infrastructure build up, technology and marketing support. Financing under SGSY is based on the concept of Microfinance.

The word microfinance includes being money lending, a variety of chitties. India also witnessed the growth of such kind of institutions for the similar time. Talking about the report of All India Rural Credit Survey in the middle of 1950, the administration took central steps in reviewing supportive formation including the corporation of state in cooperatives. Also the policy initiative of common banking idea led to the nationalization of profit-making banks, acceptance of nonstop lending programmes to rural and expansion of credit institutions such as Regional Rural Banks (RRB) and National Bank for Agricultural and Rural Development (NABARD) The National Agricultural Policy not only envisages faster agricultural growth at 4 per cent a year, but also its equitable spread across regions and classes of farmers. At the same time, some important provisions of the WTO agreements have the potential of increasing India’s share in world trade of agricultural commodities. All these translate into higher credit demand and acceleration in its growth, as well as cost-effective mechanisms for its delivery. The evolution of institutional credit to agriculture could be broadly classified into four distinct phases - 1904-1969 (predominance of co-operatives and setting up of RBI), 1969-1975 [nationalization of commercial banks and setting up of Regional Rural Banks (RRBs)], 1975 1990 (setting up of NABARD) and from 1991 onwards (financial sector reforms). The genesis of institutional involvement in the sphere of agricultural credit could be traced back to the enactment of the Cooperative Societies Act in 1904. The establishment of the RBI in 1935 reinforced the process of institutional development for agricultural credit. The RBI is perhaps the first central bank in the world to have taken interest in the matters related to agriculture and agricultural credit, and it continues to do so. Over the years, rural credit system has been suffering from a number of handicaps. Since the days of Rural Credit Survey Committee (1954), India has come to a long way in its search for an appropriate rural banking set- up. Since then one committee after another has examined this problem.

Review of Literature:

Puhazhendhi and Satyasai (2000) in their study specially made by NABARD enclosed 560 sample family circle from 223 Self Help Groups extend in excess of 11 states crossways India. For the purpose of assessing the impact of the programme, a comparison of pre-and post-Self Help Group condition was ended. With a outlook to calculate the empowerment of Self Help Group members, financial and social empowerment directory was computed for every family circle by suing the scoring method. The findings of the study showed 33 percent increase in usual yearly revenue from pre-to-post-Self Help Group state of affairs and forty percent of these incremental proceeds were generated by non-farm division behavior. The study also completed that the communal empowerment of sample Self Help Group members in conditions of self-assurance, participation in executive, improved message, etc. enhanced in a important method.

Chen and Donald (2001) in their study compared the impact on the clients who rented for self-employment and the customers who only saved with Self-Employed Women Association (SEWA) Bank with no borrowing to the non-clients of Ahmedabad and Gujarat states of India where SEWA was based. The study was conducted in two rounds, i.e., in the years 1997 and 1999. The study observed that frequent borrowing was particularly significant, compared to one time borrowing. Frequent borrowers had better proceeds exhausted on food, household improvements and consumer durables and additional likely 34 to had girls enrolled in primary schools. Revenue of contributor was over 25 percent superior to that of investor and 56 percent higher than the non-participant income. Savers too enjoyed household income 24 percent better than that of non-participants. These findings indicated that microfinance was moderately valuable.

Tom, R. T and Selvam, V. (2010) studied to understand the need and the expectation of the policy holders in connection with microfinance, its products, services and the behavior of public to it and sustainable rural women development through micro insurance in Vellore Division, Tamil Nadu, India. The data was collected from primary as well as from secondary services. Primary data was collected from respondents using questionnaire and interview method. Secondary data was collected from NABARD, LIC, Journals and other published and unpublished records. The study aimed to find out how micro insurance was fostering rural growth. The findings of the study showed that must be proper development of products that respond to the need of the clients and in a way that was commercially viable, they should had proper delivery channels. There was a need for market education which will help to demystify micro insurance so that when agents come, people were willing to engage with them.

Research Methodology:

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In this study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them.

Objective of the Study:

To analysis the role of Financial Institutions in the growth of short term micro Finance in Agricultural sector.

Secondary Data

Secondary data pertaining to micro credit, self help groups and SHG-bank linkage program has been taken from 1999-2000 to the financial year ending on 31.03.2012 mainly because of the easy availability and relevancy of the same. Data has been collected from various sources including records of the District Rural Development Agency which is the nodal agency for the implementation of the Swaranjayanti Gram Swarojgar Yojna (SGSY) in the State. Internet has been used extensively to collect the secondary data by visiting the sites of various government departments, Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), Commercial Banks and Regional Rural Banks. Websites of various ministries and institutes which are dealing with the rural development has also been frequently visited.

Analysis and Interpretation

Table -1

DIRECT INSTITUTION CREDIT FOR AGRICULTURE AND ALLIED ACTIVITIES --- SHORT TERM

(Billion)

Year	LOANS ISSUED					LOANS OUTSTANDING				
	Cooperative	SCBs	RRBs	Total	Growth (percent)	Cooperative	SCBs	RRBs	Total	Growth (percent)
	1	2	3	4	5	6	7	8	9	10
1997-98	100.84	62.33	14.57	186.32	1.29	100.60	95.22	19.14	214.69	1.35
2004-05	318.87	299.78	98.83	717.48	5.0	324.81	427.98	109.80	862.59	5.42
2005-06	356.24	456.44	128.16	940.84	6.56	341.40	599.71	138.77	1079.88	6.79

2006-07	407.96	652.45	170.31	1230.72	8.58	377.64	760.06	187.07	1324.77	8.33
2007-08	473.90	682.43	203.77	1360.10	9.48	436.96	961.52	227.48	1625.96	10.22
2008-09	480.22	1077.66	228.51	1786.39	12.45	456.86	1262.85	266.52	1986.23	12.49
2009-10	569.46	1246.46	305.29	2121.21	14.79	357.17	1676.23	336.63	2370.03	14.90
2010-11	690.38	1460.63	385.60	2536.61	17.64	496.24	1932.62	406.63	2835.70	17.83
2011-12	818.29	2173.97	470.11	3467.37	24.11	445.17	2690.30	465.80	3601.27	22.64
2012-13	1025.92	-	577.57	-	-	766.22	3534.25	552.55	-	-
2013-14	1135.74	-	706.46	-	-	855.36	3335.72	682.67	-	-
2014-15	-	-	846.86	-	-	929.53	-	826.20	-	-
2015-16	-	-	984.12	-	-	-	-	968.57	-	-

Source: www.rbi.org.in

(Loan issued 1997-1998)

This table shows that in the year 1997-1998 (Loan issued 1997-1998) loan was issued by cooperative bank. 100.84 o by scheduled commercial bank loan issued 62.33 and regional rural bank by loan issued 14.57 and the total loan issued amount 186.32 it is a short term loans and the growth percent is 1.29.[Loan outstanding 1997-1998]In the year loans outstanding on cooperative bank. 100.60 scheduled commercial bank 95.22 and regional rural bank 19.14 the total outstanding 214.69 or the growth percents 1.35.

[Loan issued 2004-2005]

[Amount in million]In the year loan had been issued by cooperative bank 318.87 or scheduled commercial bank (SCBs) by 299.78 and regional rural bank loan issued 98.83 the total loan issued by three bakes 717.48 and the growth percent is 5.0.[Loan outstanding 2004-2005]In the year cooperative bank loan outstanding 324.81 or scheduled commercial bank on 427.98 and the regional rural bank on 109.80 totals outstanding were862.59or the growth percentage is 5.42.

[Loan issued 2014-2015]

In the year cooperative bank and the scheduled commercial bank both are did not loan issued regional rural bank. The only bank issued loan amount 846.86 and there is nill growth percent.[Loan outstanding 2014-2015]In the year cooperative bank loan outstanding is 929.53or scheduled commercial bank loan outstanding nill and there is not growth percentage.

[Loan issued 2015-2016]

In the year cooperative bank and scheduled commercial bank did not issued loan on by regional rural bank issued loan984.12 because outstanding is increase and there is not growth percentage.[Loan outstanding 2015-2016]In this year loan outstanding cooperative bank or scheduled commercial bank had not loan outstanding because they had not issued loan. And the only regional rural bank issued loan and the outstanding on regional rural bank 968.57 there is nill growth percentage.

Conclusion:

To ensure inclusive growth which means including the excluded segments, caring the less cared and using the less used manpower, we need to control corruption, population and inflation[17]. There is a strong case for monitoring and evaluation with good governance (SMART administration), manpower planning and inflation targeting for achieving the better results in making microfinance under SHGs a success story in India. Agricultural development banks, cooperative banks and regional banks have to be restructured and revitalized to provide credit to agriculture Microfinance technologies in existing forms cannot cater to agriculture; innovations needed;JLG, RMG and other experiments in India show a path forward. Nature of agricultural production and financial returns are such that interest rates and loan tenures cannot be similar to those of microenterprises. To take care of this feature agriculture requires second-tier refinance facilities to ensure implementation of reform processes, to innovate policies and technologies and provide wholesale refinance; developing countries require financially strong and professionally managed apex development finance institutions like NABARD.

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