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MICROFINANCE:
ITS EVOLUTION AND VARIOUS MODELS FOR ENPOWERMENT OF RURAL POOR IN INDIA

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INTRODUCTION:

The major concern is to spread the benefits attained from the economic growth to all sections of the society (Rangarajan ,2009). As majority of the Indian population in rural India is poor or below the poverty line government of India has undertaken a lot of efforts to uplift the rural poor by offering many scheme at low interest with the support of RBI, NABARD, SIDBI etc with all the efforts, government was unable to reach the poor due to the active participation of local money lenders and landlords who captured the money market in rural areas. Poverty is an obstruction to a dignified life. Self-employment is a significant step to have sustained incomes and remove the shackles of poverty. Micro finance not only employees and empowers the economically challenged people but also engages them in performing meaningful activities all these things are the need of the hour for bringing social change. As social changes does not required big miracles but meager attempts to help poor for initiating small ventures which can bring giant results. The objective of this descriptive paper is to study the evolution of microfinance and its growth and various models.

WHAT IS MICRO FINANCE ?

A life of dignity is the right of every citizen. Poverty is an obstruction to a dignified life. Self-employment is a significant step to have sustained incomes and remove the shackles of poverty. Programme for self-employment of the poor has been an important component of the antipoverty programmes implemented through government initiatives in the rural areas of India.

Generally microfinance has been defined as a specialized financial tool available for poverty stricken and small business that do not have any access to financial service due to lack of security. Many programmes /schemes has been developed which extend small loans to poor people for self employment which allow them to take care of themselves and their families. Loans are provided to the group of individual or village organizations which uses joint liability system to create accountability and responsibility for the repayment of loan. group savings and loans, poor people often increase their economic security and well being. Over the past two decades micro credit programs have emerged as one of the leading strategies in the overall movement to end poverty . Micro credit has come to be recognized and accepted as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor, with focus on empowering women (Puhazhendhi and Badatya, 2002). Micro credit means making provision for smaller working capital loans to the poor to take up micro enterprises like daisy farming, poultry rearing, weaving, handloom, handicrafts and other small household business etc. Micro credit is a system of alternate banking for a large segment of the poor particularly women, landless laborers rural artisans etc.

In the task Force Report the microfinance is defined as "the provision of thrift, credit and other financial services and products of very small amounts to the poor in the rural, semi-urban areas for enabling them to raise their income levels and improve leaving standards"

LITERATURE REVIEW:

Dr.Radha Gupta(2011), says that microfinance is viewed as an innovative attempt to of the banking sector to provide financial products and services , primary credit to the poor and bridge the gap that a commercial bank has not been able to fulfill. She further says the main purpose behind the approach of providing micro credit has been to meet the special goal of bringing innovation in the society by channelizing the potentials, skills and talent of under-privileged women and economically challenged people by empowering and engaging then in commercial and purposeful activities.

Dr. Chitra Devi (2008), says the SHG a unique approach contributes access to low cost financial services with process of self management and development of women members of SHG which is in turn supported by the NGOs and government agencies which led for a holistic empowerment of women Planning commission of India(2008) reports, that the Villages are faced with problems related to poverty illiteracy, lack of skills health care etc. These are problems that cannot be tackled individually but can be better solved through group efforts. Today these groups known as Self help groups have become the vehicle of change for the poor and marginalized. Self-help group is a method of organizing the poor people and the marginalized to come together to solve their individual problem. The SHG method is used by the government, NGOs and others worldwide. The poor collect their savings and save it in banks. In return they receive easy access to loans with a small rate of interest to start their micro unit enterprise

ROLE OF MICROFINANCE IN RURAL POVERTY ALLEVIATION:

Microfinance has played an important role in eradication of poverty in rural India, According to the NABARD Report – 2009-10 there are 318 Co-operative Banks,19 foreign and private banks, 81 regional rural banks,27 commercial bank in public sector and 1 small industrial development bank participating in the various microfinance programmes with the main objective of eradication of poverty and development of rural poor. In the year 2009- 10 total no of programmem conducted was 6840 with the support of NABARD and allied institution and total participants covered was 2.5 lakhs, Total Revolving fund assistane given to MFIs was 22.25 cr, where as capital support released to MFIs was 7.87cr during the yera2009-10. Total Self help group saving in the year 2009 -10 was 69.53 lakhs and total outstanding loans to these SHGs under MFIs was 12.45 lakhs up to march 2010. Micro finance in rural India has give a new lease of life to the poor were they lead a dignified life, in other words it gives a holistic care of the rural poor families.

Players in microfinance:

There are many players in microfinance: Beneficiaries, MFIs, governments and regulatory authorities and backers. (Development agencies and other multilateral foundations). Nowadays, a MFI is on average financed 75% locally, by loans from local banks or credit unions, with the remaining 25% from private investment funds or international backers These sources of financing are expensive for MFIs (reaching an average 10% per year), reducing their ability to allocating additional funds towards training programs or support to beneficiaries. Further MFIs can achieve economic balance and reduce interest rates.

VARIOUS MODELS OF MICROFINANCE:

The various models and scheme of microfinance are as follows

1) **Grameen bank model Bangladesh**: IT was launched as a project in a village of Bangladesh in the year 1976 to assist the poor families by providing credit to help them overcome the poverty. In the year 1983 it was transformed as a formal bank under a special law passes for its creation. It is owned by the poor borrowers of the bank, who are mostly women. It has created banking system based on mutual trust and accountability, participation and creativity. It offers credit for generating self employment, income generating activities and housing facilities rather then consumption, further it provides services at the doorstep based on the principles that people should not go to the bank but bank should go to the people. In order to obtaining the loan a borrower must join the group of borrowers, each group consists of five borrowers. The group need not give any guarantee for obtaining the loan but at the same time the responsibility of the payment lies sole with the individual borrower. The group and the local branch see that no individual faces a repayment problem though there is no joint liability, loans are generally given in a continuous sequence once the old loan is paid individual would become eligible for new loan. All loans are paid in installments i.e weekly or fortnightly, initially GB provide credit with little attention for voluntary deposits but in the year 2000 this policy was changes due to increase emphasis on deposit mobilization. GB currently offers four kind of accounts a) personal saving bank account b) special saving account c) Grameen pension saving account d) credit life insurance saving account.

   After nearly 25 years of services GB switched to individual lending by recognizing that the repeated loan cycle and credit exposure the homogeneity of the group may be weekend as the loan requirement vary with the variation in the level of upliftment attained. Thus a more flexible Grameen II was launched which was appropriate to reach the poor as its products can conveniently be used for daily money management and microenterprises. Further the government of Bangladesh has fixed the interest rate at 11 percent on flat rate which amounts to 22 percent on decline basis.

2) **Swarnajayanti Gram Swarojgar Yojana (SGSY**) is a self-employment scheme.This scheme was introduced from 1 April, 1999. Six different self-employment and training schemes and sub-schemes were merged to form this scheme. The principal aim of this scheme is to bring BPL families to APL status within three years. The main difference with the previous IRDP DWCRA scheme is to encourage group loans and group enterprise and ultimately to stop giving individual loans to members of the groups. Funding for the project is shared by the Centre and The States on a 75:25 ratio Initially

groups are formed with 10 or 15 persons belonging to the BPL families. This group is called a Self Help Group (SHG) and the individual members of the group Swarojgaris. There is provision under the scheme to involve local NGOs to help the DRDC in forming such groups. The funds received by the DRDC are kept in a savings bank accounts The DRDC can open their account with branches of the principal participating banks in the field. The funds deposited in the saving account earn interest at the usual rates till the amount is given as loans to the Swarojgaris. In the first six months the group members are taught to save money i.e. they have to build up a corpus fund by saving a certain amount every week/month. These savings are kept in a local or field bank. After six months, the groups is evaluated by a team where the Project Director, a member of the Block Development Office and a representative of the bank are present. If they pass the evaluation test they are given Grade I status. At this stage they are paid Rs. 10,000. - as a revolving fund. Individual members can borrow from this money either for business purposes or for personal consumption.

3) **SELF HELP- GROUP(SHG) POST OFFICE LINKAGE PROGRAMMEM** :A pilot SHG post office linked programmem was launched by NABARD on December 2003. This programmem envisaged credit linking 200 SHGs in five selected districts of Tamilnadu ie sivaganga pudokotta, tiruvannamalai. Tanjavur, tiruvarur. The salient features of the programmem were

a) To open a post office saving account in the name of SHGs and promoted by an identified NGo
b) Six months old saving account were eligible for the loan given by post office in multiples of their saving based on rating exercise on the line adopted by banks
c) Post office provide term loan to SHGs repayable with in 24 months installment at 9 % per annum at reducing balance
d) Post office do not collect any loan processing charges or any other charges
e) Project implementation and monitoring committee (PIMCs) at district level and state level were constructed by post office
f) PIMC meet quarterly and were responsible for the project completion
g) State level PIMC review overall implementation of projects and suggest new initiatives recommend release of funds from NABARD
h) Department of post office maintains a separate books of accounts for all transactions relating to utilization and operations of revolving funds assistance(RFA) from NABARD

Under this project, NABARD would provide financial assistance for capacity building programmem of post office, loans are give at 9 % and post office is allowed to retain 3% . The actual amount of interest collected from SHGs would be shared between NABARD and post office in the 2:1 Ratio. As the end of march 2008 an aggregate of 1,963 branches of post office and sub post office in the identified districts has been implementing the projects. A total of RS 100 lakhs has been sanctioned as RFA to the post office by NABARD.

4) The SHG- bank linkage programmem : In the year 1992 The SHG – Bank linkage programme was formally launched by the NABARD, with it circulating guidelines to banks for financing Self Help Groups (SHGs) under a Pilot Project that aimed at financing 500 SHGs across the country through the banking system. While, the banks had financed about 600 SHGs by March 1993, they continued to finance more and more SHGs in the coming years. This encouraged the Reserve Bank of India (RBI) to include financing to SHGs as a mainstream activity of banks under their priority sector lending in 1996.

5) Micro finance development and equity fund (MFDEF) : 2005-06 union budget announce the support for the growth of micro finance sector fro increasing the flow of finance to the poor. Specially women. A fund is created under the management of NABARD the income earned from the fund is ploughed back to the fund. The different community based organizations and institutions are eligible for the support from the fund. The fund is used for assisting the promotional support for the training, Capacity building, loans and advances, revolving funds Assistance, equity and quasi equity support to MFIs, administrative subsidies and grants, administrative charges, MIS, studies and publications etc.. **Conclusion**: The development and eradication of poverty would have been a distance dream for the government of India if not a micro finance, it has given a dignified life to the rural poor. The total disbursement of Rs1000 crores for the year 2003-04, for the various development schemes undertaken by NABARD for eradication of poverty and empowerment of women. Now the Private banks like ICICI has take the lead in establishing an innovative partnership with microfinance institutions which potentially opened the doors of capital market. Microfinance is se to enter a new growth phase in its evolutionary course. The most successful programmem of NABARD was SHG- bank linked programmen in which has covered all the aspects of self employment.

But despite planned efforts made over the past few decades, rural poverty in India continues to be worrying. While the anti-poverty programmes have been strengthened in the successive years during the course of the period by launching various programmes like IRDP, RYSEM, DWCRA, SITRA, resulting in the reduction of poverty levels in percentage terms from 54.9 percent of India's population in 1973-74 to 36.0 percent in 1993-94 and to 26.1 percent in 1999-2000, the number of rural poor has not reduced significantly.

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