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A STUDY ABOUT THE MICROFINANCE MODELS AND ROLE OF FINANCIAL INSTITUTION IN EMPOWERING RURAL FINANCE: - AN OVERVIEW.

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Abstract: The purpose of this paper is to examine the role of financial institution and to study the different microfinance models which are empowering rural finance development in India. In this paper an attempt is made to find out how financial institutions are empowering the rural people and study the different microfinance models as well as different clients of the microfinance. India which is the one of the largest microfinance center in the world nowadays. In India more than 25% of its population lives below poverty line. For this poverty alleviation the Govt. of India started various programmers from time and again but failed in achieving this goal. The reasons behind the failure are such as the Govt. of India fail to reach the target population, the loophole in the system, corruption etc. The different countries of the world come with different ideas and schemes and these schemes increased the NPAs .Then the microfinance institution come forward to fulfill these gaps but the outreach is small as compared to the requirement and potential but some progress had been seen in this regard when NABARD and SHGs played an active role in this. After than numbers of different microfinance institution and different NGOs also dived in this business. Govt. must power the microfinance institution for mobilizing savings, with increase demand for the rural finance .How ever keeping in mind the recent experiences, and for the better growth we need to managed these microfinance institution in a better way and provide them adequate finance which full fill the needs of poor and also provide them a social responsibility which is most important for the growth of these microfinance institution and for alleviating poverty from the country. There is no doubt that NGOs played an important role in promoting SHGs so there should be need to start some incentive packages for these NGOs which motivates them to diversify themselves and their business to backward areas also.

Key Words: Microfinance, Financial Institution, poverty, NABARD, SHGs. NGOs, savings, MFIs, NPAs.

I. Introduction

Microfinance means providing very poor families with very small loans to help them engage in productive activities or grow their tiny businesses. The most common microfinance product is a microcredit loan- usually less than $100. These tiny loans are enough for hardworking micro-entrepreneurs to start or expand small businesses such as weaving baskets, leather shoes, or buying wholesale products to sell in a market. Income from these businesses provides better food, housing, healthcare and education for entire families, and most important, additional income provides hope for a better future.

Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realize that the poor and the very poor that lack access to traditional formal financial institutions require a variety of financial products. Microcredit came to prominence in the 1980s, although early experiments date back 30 years in Bangladesh, Brazil and a few other countries.

Microfinance today only reaches around 20 million people through 7000 MFIs. In India about 240 million people are in need for microfinance.

II. MICROFINANCE

Microfinance is the provision of a broad range of financial services such as deposits loans, payment services, money transfers and insurance to poor and low income households and their microenterprises."

"Microfinance is a term for the practice of providing financial services, such as microcredit, micro saving or micro insurance to poor people."

"Micro finance is defined as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural areas, semi-urban and urban areas. Any one availing micro-finance has to engage in some productive activities that will generate some income."

MICRO FINANCE PROGRAMMES EXTEND SMALL LOANS TO VERY POOR PEOPLE FOR SELF-EMPLOYMENT PROJECTS. MICROFINANCE HAS ENABLED THE POOREST OF THE POOR, ESPECIALLY WOMEN, TO GENERATE INCOME FOR THEMSELVES AND THEIR FAMILIES. MANY PEOPLE BELIEVE THAT WITHIN TWO TO THREE YEARS OF THEIR FIRST LOAN, PEOPLE COME ABOVE THE POVERTY LINE. MICRO FINANCE IS THUS REGARDED AS THE DIGNIFIED WAY OF CROSSING THE POVERTY LINE.

III. CLIENTS OF MICROFINANCE

- Women: - women are to be considered as main clients of microfinance and maximum beneficiaries are woman
- Micro entrepreneur: these small entrepreneurs also get benefits from the microfinance
- Small farmers:-small farmers get loan and then utilized these in the agriculture and increased their turn over's
- Landless & small holders:-this group of the people also got benefited by the mf
- Resettled and Indigenous persons: are also the beneficiaries and important clients of mf
- Low income persons in remote & subsistence areas

OBJECTIVES OF MICROFINANCE

- To reduce poverty.
- To create employment.
- To encourage the development of new business.

- To empower women.
- To empower other disadvantage population group.
- To help existing business group.
- To reduce rural families interdependence.

IV. LIMITATIONS OF MICROFINANCE

1. Turning a Profit on a loan

One of the most fundamental problems with microcredit programs is the difficulty involved in actually turning a profit on the loans. In the first place, borrowers must bear not just the cost of the loan and interest payments. They must invest a significant part of their time in group activities mandated by their programs.

2. Inability to reach the poorest of the poor

A second important drawback to microcredit programs is that they don't reach the poorest members of the society. To quote "Assessing the Poverty and Vulnerability Impact of Micro-credit in Bangladesh "the poorest have a number of constraint which prevent them from investing the loan in high-return activity

3. Microcredit dependency

Another possible failure of microcredit programs lies behind seemingly benign statistics. Some researchers have proposed the idea that the high repayment rates, repeated borrowing, and low drop-out rates indicate a dependency on microcredit programs rather than an attraction to successful microcredit programs on the part of poor borrowers.

4. Durability of poverty reduction

A related problem is the durability of poverty reduction. Infusions of cash in almost any amount are bound to have some effect on the poverty stricken borrowers. But this does not necessarily mean that the effect will be permanent. The poverty reductions may be rolled back in two ways. On labor supply and wages was extremely negative.

V. FUTURE OF MICROFINANCE

In future agriculture development will find that women involved in micro finances not only change the way they manage household income, they also change their own roles & the roles of others in their families & communities.

Poor women will have the best credit ratings. Women default on loans less often than men & credit extended to women has a much greater impact on household consumption and quality of life for children.

In future powerful institutions will be able to take on complex new tasks serving the whole of society. The women's groups will extend their activities well beyond financial services.

VI. OBJECTIVE OF THE STUDY

1: To know about microfinance & its clients.

2: To study about the different models of microfinance.

3: To know about the role of different institutions in microfinance growth.

4: To suggest some remedial measures and draw out the conclusion

VII. DATA COLLECTION

SOURCES OF DATA: BOTH PRIMARY AS WELL AS SECONDARY DATA HAS BEEN USED IN THE STUDY

DATA ARE OF TWO TYPES

Primary Data: Primary data are those which are collected afresh and for the first time, and thus happen to be original in character. Interviews method is one of the sources of collection of primary data. I have collected primary data through interview method.

Secondary data: Secondary data means data that are already available i.e. , they refer to the data which have already been collected and analysed by someone else. Collection of secondary data is from annual reports regarding microfinance from different banks.

VIII. LIMITATION OF THE STUDY

1:-Respondents were uncomfortable disclosing their information.

2:-Any authenticity regarding the data depends upon the documents provided by the banks.

3:-Time was one of the major constraints that restricted my study.

4:-Respondents are not much aware about the topic.

IX. MICROFINANCE MODELS

Microfinance institutions are using various Credit Lending Models throughout the world. Some of the models are listed below.

Association's model

This is where the target community forms a connection through which different microfinance and other activities are initiated. Such actions may include savings. Associations or groups can be composed of youth, or women they can form around political/religious/cultural issues; can build support structures for microenterprises and other work-based issues. In some countries, an 'association' can be a legal body that has certain advantages such as collection of fees, insurance, tax breaks and other protective measures.

Bank Guarantees Model

As the name imply, a bank guarantee is used to get a loan from a commercial bank. This guarantee may be agreed superficially through a benefactor/bequest, government agency etc. or internally by using member savings. Loans attained may be given directly to an individual, or they may be given to a self-formed group. As we all know that bank Guarantee is a kind of capital guarantee scheme and the bank guaranteed funds are used for many purposes which including loan revival and insurance claims. A number of national and international and UN organizations have been creating international guarantee funds that banks and NGOs can subscribe to, to on lend or initiate microcredit schemes.

Community Banking Model

The Community Banking models essentially take in to the consideration the whole community as one unit, and ascertain semi-formal or formal institutions through which microfinance is allotted. Such institutions are generally formed by extensive help from NGOs and other organizations, who also guide the community members in various financial activities of the community bank. These institutions may have savings mechanism and other income-generating projects incorporated in their structure. In many cases, community banks are also part of larger community development programmes which use finance as an inducement for action.

Cooperatives Model

A co-operative is an self-governing organization of persons united by their own accord to meet their common economic, social, and cultural requirements and aspirations through a jointly-owned and democratically-controlled enterprise. Some cooperatives include member-financing and savings activities.

Credit Unions Model

A credit union model is a unique member-driven, self-help financial institution. It is managed by and comprised of members of a particular group or organization, who agree to save their money together and to make loans to each other at reasonable rates of interest. The members of a credit union are people of several common bonds: working for the same employer or working in the same community. A credit union's membership is open to all who belong to the group, regardless of race, religion, color or creed. A credit union is a democratic, not-for-profit financial cooperative. Each is owned and governed by its members, with members having a vote in the election of directors and committee representatives.

Grameen Model

The Grameen model appears from the poor-focused grassroots institution, Grameen Bank, started by Prof. Mohammed Yunus in Bangladesh. It basically adopts the following methodology:

A bank unit is set up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarize themselves with the local milieu in which they will be operating and identify prospective clientele, as well as explain the purpose, functions, and mode of operation of the bank to the local population. Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to rules of the bank. Only if the first two borrowers repay the principal plus interest over a period of fifty weeks do other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, collective responsibility of the group serves as collateral on the loan.

Group Model

The Group Model's basic philosophy lies in the fact that shortcomings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group of such individuals.

The collective coming together of individual members is used for a number of purposes: educating and awareness building, collective bargaining power, peer pressure etc.

Individual

This is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups, or generating peer pressures to ensure repayment. The individual model is, in many cases, a part of a larger 'credit plus' program, where other socio-economic services such as skill development, education, and other outreach services are provided.

Non-Governmental Organizations

NGOs have emerged as a key player in the field of microcredit. They have played the role of intermediary in various dimensions. NGOs have been active in starting and participating in microcredit program. This includes creating awareness of the importance of microcredit within the community, as well as various national and international donor agencies. They have developed resources and tools for communities and microcredit organizations to monitor progress and identify good practices. They have also created opportunities to learn about the principles and practice of microcredit. This includes publications, workshops and seminars, and training program.

Small Business

The prevailing vision of the 'informal sector' is one of survival, low productivity and very little value added. But this has been changing, as more and more importance is placed on small and medium enterprises (SMEs) - for generating employment, for increasing income and providing services which are lacking.

Village Banking

Village banks are community-based credit and savings associations. They typically consist of 20 to 25 low-income individuals who are seeking to improve their lives through self-employment activities. Initial loan capital for the village bank may come from an external source, but the members themselves run the bank: they choose their members, elect their own officers, establish their own by-laws, distribute loans to individuals, and collect payments and savings. Their loans are backed, not by goods or property, but by moral collateral: the promise that the group stands behind each individual loan

X. DIFFERENT MICROFINANCIAL INSITUTIONS

NABARD

“Nabard microfinance initiatives emerges as the largest microfinance program in the world”

Nabard & microfinance (the shg bank linkage program)

The guiding spirit behind NABARD’s microfinance initiatives has the following contours:

- Offers cost effective approaches to formal institutions for expanding outreach to poor.
- Develop collateral substitutes.
- Focus on rural poor, especially women.
- Facilitate empowerment of the poor and
- Effectively pursue the macro-economic objectives of growth.

NABARD's Corporate Mission was to reach microfinance services to 2.2 million SHGs by the year 2014. This translates to about 150 million rural poor or 1/3rd of the total poor in the country. With the whole- hearted support and concerted Endeavour of associating partners in this mission, the one million SHG mark has been reached well head of the schedule. To be precise 1,079,091 self help groups have been financed by banking channels in the country covering 19 million families and approximately 97 million rural poor.

The microfinance or the mf initiative of the National Bank for Agriculture and Rural Development (NABARD) has emerged as the largest micro finance programme in the world. What started with a modest 500 self-help groups (SHGs) in but now it will increased and increasing rapidly A bank statement issued said that banks have disbursed an aggregate loan of Rs4604 crore to these SHGs, which has helped over 19 million poor families. Over 90 per cent of the SHGs financed by the banks are women groups. Loan repayments from these groups have been coincidentally 95 per cent

The SHG bank Linkage Programme is being implemented through a large number of partners and through various banks and through bank branches which are participating in the programme. More than 3300 NGOs and a large number of farmers' clubs,and many more groups are also associated as well as participating in the programme.

SMALL INDUSTRIAL DEVELOPMENT BANK OF INDIA

Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment. There are over 24 crore people below the poverty line in the country. The Scheme of Micro-Credit has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. Total requirement of micro-credit in the country has been assessed at Rs.50, 000 crore. Micro-credit programme works through NGOs/SHGs and the merit lies in weekly monitoring and refund of installments. The rate of recovery under SIDBI's Micro credit programme is as high as 98%. Though there are various Departments and Organizations implementing micro-credit schemes in the areas of activity falling under their purview but their total reach is very low i.e. not more than Rs.5,000 crore. Thus the existing programmes cater to only 5 to 10% of total requirements and there is considerable scope for expansion of such programmes.

Khadi and Village Industries Commission (KVIC)

The Khadi and Village Industries Commission (KVIC) is a statutory body formed by the Government of India, under the Act of Parliament, 'Khadi and Village Industries Commission Act of 1956'. It is an apex organization under the ministry of Micro small and Medium Enterprises with regard to khadi and village industries within India, which seeks to - "plan, promote, facilitate, organize and assist in the establishment and development of khadi and village industries in the rural areas in coordination with other agencies engaged in rural development wherever .J&K Khadi and Village Industries Board (KVIB) was established with an aim to provide financial assistance to the poor and down trodden artisans of the state for establishment of small scale Industrial units.

J& K Khadi and Village Industries Board keeping with its mission to uplift the rural poor, provides financial assistance for establishing Village Industries. These Village Industries make use of the locally available raw materials, resources and help to build up a strong rural economy in terms of money and wealth. The financial assistance extended to the people by the Board is as per the approved norms of Khadi and Village Industries Commission (KVIC).

KVIC Funding (Pattern Approach)

Prior to 1995, KVIB was implementing KVIC direct funding scheme, under the KVIC funding, KVIB was providing loans under pattern approach at an interest rate of 4 % p.a. In case of default, the panel interest @ 5% was charged.

Directorate of Industries & Commerce:

Jammu & Kashmir focus has consistently been on developing a strong Industrial sector. The Jammu & Kashmir had started the process of new Industrialization in 1970 with one Directorate of Industries & Commerce for Jammu & Kashmir. The Directorate of Industries & Commerce was bifurcated in year 2007 into two Directorates i.e. one for Jammu Division & other for Kashmir Division. A committed Government & increasingly responsive bureaucracy is continuing efforts to be consisted & persistent in promoting investments with on attractive package of incentives the state is emerging as a land of opportunities for investments, those who are already here are happy & many are proposing to expand. The existing industrial estates in the state managed by Directorate of Industries and commerce is with no. of units .About 10,000 kanals of land is being acquired under 18 Land Acquisition cases to develop new Industrial Estates or to expand the existing Industrial Estates across the state.

- Major Functions Of Directorate Of Industries & Commerce Jammu/Kashmir
- Promotion and Development of Industries.
- Planning & Development of Industrial Estates
- Registration of New Units
- Nodal Agency for implementation of Central & State Package of Incentives
- Implementation of Prime Ministers' Employment Generatation Programame (PMEGP).

DISTRICT EMPLOYMENT EXCHANGE BOARD

The Department of Employment has been performing various assignments. The activities of the Department can broadly be defined as under:

- 1 Registration of unemployed youth.
- 2 Career Counseling & Guidance.
- 3 Collection of Employment Market Information.
- 4 Implementation of Jammu and Kashmir State Self Employment Scheme. (On hold Feb 2015)
- 5 Special Recruitment Drives for recruitment of unemployed educated youth in Indian Navy, Indian Air Force, JAKLI and Assam Rifles etc.
- 6 Implementation of Voluntary Service Allowance (VSA) Scheme.(On hold Feb 2015)
- 7 Registrations of Self Help Groups.

JAMMU AND KASHMIR ENTERPRENUARE DEVELOPMENTSINDUSTRIES

JKEDI has been established by the Government of Jammu and Kashmir in March 1997 to effectively enable entrepreneurship development in the state. The institute started its regular activities from February 2004 and has positioned itself as a learning centre par excellence with state of the art regional centers across Jammu, Kashmir and Ladakh. Besides, JKEDI Community Organizers are in all of the 22 districts enabling entrepreneurship and promoting development at the grassroots.

XI. Findings of the study

1: It has been found from the study that the maximum clients /beneficiaries are woman and the microfinance as well as the micro financial institutions plays a positive role in the upliftment of the poor woman by helping them in forming SHGs.

2: The study also revealed that the microfinance covers all types of individual such as farmers, woman, indigenous groups' businessmen, poor etc.

3: It has been found that microfinance plays an important role in poverty alleviation among the different groups of the society such as farmers, woman, low income persons etc.

4: It also been found that the different models of microfinance tries to uplift the socially as well as economically weaker section of the rural area.

5: The study also revealed that the models of microfinance play an important role in alleviating the poverty among the poors

6: From the study we can say that microfinance models are working as a unit or association an working with a afford able zeal and cooperation.

7: The different microfinance models also shows that the working of different association or union which are farming a particular groups

8: From the study it is found that these models are the main organ of microfinance and micro financial development in the country like India.

9:It is also found that different micro financial institution plays an important role in the growth of microfinance

10: It has been found that this institution plays an important role in spreading the financial assistance among the needy a d poorer section of the society.

11: It has been found that these institutions play an important role providing employments opportunities among the educated youth by providing them financial assistance.

12: The micro financial institutions also help the Govt, to serve in the rural areas and provide an opportunity to the rural community to grow.

Conclusion and suggestions

Following conclusion and suggestions are drawn from the study:

1: the Govt. must start some financial institute to help the needy people.

2: There should be proper follow up of the different schemes which are operation in a particular area.

3: the different financial agencies must start some awareness programmes in the backward and among the socially excluded section of the society.

4: The Govt must start some training programmes for the mf clients which made them liable to use the different schemes more efficiently.

5: The financial institute must cut down their interest rate so that more and more clients are associate with these schemes

6: The process of getting loan must be very easy and affordable so that even the poorer can get the loans easy.

7: The documentation requirement is must be very low.

8: The governments firstly identify the group of peoples who are in need of such financial assistance and then disbursed the loan

9: The mis-utilization of loan must be checked and strict action must be taken against the defaulters.

Conclusion

This study concluded that micro credit and different microfinance schemes are not always the final and ultimate answer or the best solution for unemployment or poverty or any other problem which exist in the society or in the rural areas. Destitute and hungry people with no income or means of repayment need other kinds of support before they can make good use of the loans. The MFIs should be strengthened and encourage these MFIs so that they made some way to solve these other such situations which prevail in the society and provided with the tools of managerial expertise, user-friendly technology and with the principles of good governance and social responsibility.

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