STUDY OF ROLE OF MICRO FINANCE INSTITUTIONS FOR SELF HELP GROUP

Abstract:-

Organizing thrift and savings, and leveraging it to obtain funds without formal collaterals are the two most important activities of the SHGs. Since large commercial banks, due to their comples operational structure and other management constraints, are usually not able to meet the needs of this sector, a large number of private micro-finance institutions have been set up in recent years in various parts of the country to fill this void. Certain important issues relating to the activities of the MFIs in the country have been examined in the succeeding paragraphs.

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Micro Finance Institutions , Self Help Group , savings, and leveraging .

INTRODUCTION

Micro-credit is defined as provision of thrift, credit, and other financial services (such as deposits, loans payment services, money transfer, insurance and related products) of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raize their income levels and improve living standards. Micro-finance Institutions are those which provide such micro –credit facilities. Leaving aside the commercial banks, the needs of this sector are currently being handled by the following four major players:

(i)Rural banks
(ii)Cooperatives
(iii)Institutions which have been registered as Societies, Public Trusts, and Section 25 Companies or as NBFCs to take up the work of micro-finance on operational/ financial sustainability.
(iv)Individual money –lenders.

Micro –credit is an instrument of both social as well as economic policy. It opens up integral development processes such as use of financial and technical resources, basic services and training opportunities to the unprivileged. Access to savings, credit, money transfer, payment , and insurance can help poor people take control of their financial life.

Micro-Finance Institutions in the Formal Sector: Currently, a major share of the micro-financial services such as handling thrift and providing credit to the economically active low-income segments of society, especially women, poor households and their micro enterprises is being collectively handled by public sector institutions like NABARD, Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh, rural branches of commercial banks and Regional Rural Banks (RRBs).

Micro-credit also empowers them to make critical choices about investing in business, sending children to school, improving the health care of the family, covering the cost of key social obligations and unforeseen situations. But the most important of all is an access to finance generates self esteem among them. In the Indian context, the concept of micro-credit ahs an ancient origin, prevalent in the form of credit to the poor by the trades and money-lenders at exorbitant interest rates. this resulted in hardship to the borrowers often leading to illegal practices like bonded labour. However, in modern times, micro credit implies lending to the poor at reasonable but sustainable interest rates.

The Raghuram Rajan Committee which was set up in August, 2007 to outline a comprehensive agenda for the evolution of the financial sector in the country has deeply analyzed the issue 'Broadening of Access to Finance'. In this context, one of its suggestions is to 'alter the emphasis somewhat from the large Bank led, public sector dominated, mandate ridden and branch expansion focused strategy (to mico banks). the poor need efficiency, innovation and value for money which can come from motivated financiers who have a low cost structure and who can see the poor as profitable. They also have the capacity of making decisions quickly and with minimum paper work.

The committee recommended ' (i) allowing more entry to private well-governed deposit –taking small finance banks offsetting their higher risk from being geographically focused by requiring higher capital adequacy norms, a strict prohibition on related party transactions, and lower allowable concentration norms (loans as a share of capital that can be made to one party); and (ii) making significant efforts to create the supervisory capacity to deliver the greater monitoring these banks will need initially, and (iii) putting in place a though prompt corrective action regime that ensure that these banks do not become public charges.'

The Micro Financial Sector (Development and Regulation) Bill, 2007 needs to be amended to include the following suggestions:

· The scope of Micro-Finance Services should be substantially widened to cover credit/savings, insurance, pension services, money transfer, issue/discount of warehouse receipts and future/option contracts for agricultural commodities and forest produce.

' Nidhis' registered under Section 620A of the Companies Act, and Producer Companies should be brought under the new legislation.

The activities of Section 25 Companies to the extent they concern micro-financial services as described under the proposed Bill should also be brought under the purview of this legislation. However, for their management and other functions, they will continue to be governed by the provisions of the Companies Act.

The issue of interest rate charged by the MFIs should be left to the Regulatory Authority which is being created under the proposed Bill.

It should be ensured that if MFIs are allowed to handle thrift/savings and money transfer services, they would do only as business correspondents of commercial banks.

Micro-finance institutions covered under the proposed law should be kept out of the purview of the State laws on money lending.

MICROFINANCE PROGRAMME OF SIDBI

Small Industries Development Bank of India (SIDBI) launched its micro finance programme on a pilot basis in 1994 using the NGO/MFI model of credit delivery wherein such institutions were used as financial intermediaries for delivering credit to the poor and unreached, mainly women. Learning from the experience of the pilot phase, SIDBI reoriented and up scaled its micro finance programme in 1999. A specialized department, viz, 'SIDBI Foundation for Micro Credit' (SFMC) was set up with the mission to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the informal and formal financial sectors. SFMC serves as an apex wholesaler fro micro finance in India providing a complete range of financial and non-financial services to the MFIs so as to facilitate their development into financially sustainable entitles, besides developing a network of service providers and advocating for appropriate policy framework for the sector.

SFMC is implementing the National Micro Finance Support Programme (NMFSP). The overall goal of NMFSP is to bring about substantial poverty elimination and reduced vulnerability in India amongst users of micro –finance services, particularly women. The NMFSP is being implemented in collaboration with the Government of India, the Department for International Development (DFID), UK and the International Fund for Agricultural Development (IFAD), Rome.

CONCLUSIONS:-

Currently, many public sector banks and micro-finance institutions are unwilling to provide financial services to the poor as the cost of servicing remains high. Use of appropriate technology can reduce it. In depth penetration of telecom connectivity in India, together with the latest mobile technology could be used to enhance financial inclusion in the country.

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