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The Indian Microfinance System Using For Rural Areas

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ABSTRACT

Financial Services could allow the poor to use their initiative to speed up the process of building income, assets and economic security. Size of financial services is relative and depends heavily on the economic development of a country; rigid definition of size can lead to exclusion and unintended consequences. Micro-finance covers a wide range of microfinance institutions (MFIs), the indigenous rotating savings and credit associations (Roscas) and self-help groups to financial cooperatives,

Keywords: Micro, Finance, Mobilize, Economic, ROSCAS, MFI.

1. Introduction

The term micro-was introduced in 1990 with the specific connotation of those calling for microcredit and micro-savings and other financial services in response to the Robert Vogel that the savings were the forgotten half of rural finance. While the term is new, the concept is old, if not old, their institutional origin, for example, in the European countries in the 18th and 19th centuries, Nigeria in the 16th century and in India around 1000 BC. This has become a general term resulted in SFD continued: microfinance is that part of the financial sector, which includes the formal and informal financial institutions, small and large, provide financial services for small, but referred in theory to all segments primarily the lower parts of the population rural and urban populations in practice.

This bias is partly due to the self-selection of customers and partly due to the mandate of the institutions according to the will of the owner or donor. All over the world are the formal rural financial institutions Micro and semi-formal (RMFIs) in the hundreds of thousands of people; Informal institutions are in the tens of millions of people. Sustainability is not new; without that it could not survive the large number of informal MFI.

Size of financial services is relative and depends heavily on the economic development of a country; rigid definition of size can lead to exclusion and unintended consequences. Micro-finance covers a wide range of microfinance institutions (MFIs), the indigenous rotating savings and credit associations (Roscas) and self-help groups to financial cooperatives.

Rural banks and local banks and non-bank financial institutions (NBFIs), including credit NGOs, all the way to the development and commercial banks. They may also include money lenders and private deposit collectors. A difference of microcredit was micro intended to refer to a system of financial intermediation between savers and micro microcredit borrowers; they may also include other financial services such as micro insurance and money transfer include.

2. Microfinance system and poverty reduction

Most of the poor are able to mobilize resources to develop their businesses and their homes slowly over time. Financial Services could allow the poor to use their initiative to speed up the process of building income, assets and economic security. But conventional financial institutions lend rare to meet low-income and women head of families down market to the needs of families. They are often denied access to loans for any purpose, so that the discussion of the interest rates and other financial conditions irrelevant. Therefore, the basic problem is not so much to credit of unsustainable credit conditions, such as lack of access itself.

Lack of access to credit for the poor is formed, followed practical difficulties from the discrepancy between the operation of financial institutions and the economic characteristics and financing needs of low-income families. For example, need the commercial lender that the borrower a stable source of income from which the principal and interest can be repaid according to the agreed terms. However, the income of many self-employed households is not stable, regardless of size. A large number of small loans are needed to serve the poor, but lenders with large loans in small amounts prefer handling to minimize administrative costs. They also look for collateral with a clear title - which do not have a lot of low-income families. In addition, bankers tend to consider low income households bad risk extremely high information imposing a monitoring of the operating costs.

To the extent that the micro financially sustainable institutions to work, self-sufficient, and an integral part of the communities in which they operate, have the potential to attract more resources and expand services for customers. Despite the success of microfinance institutions, only 2% of approximately 500 million small businesses estimated in the world access to financial services have (Barry et al. 1996). Although the demand for credit by the poor and women, the interest on the market, the volume of financial transactions of the microfinance institution must reach a certain level before their financial operation is self-sufficient. In other words, although the micro a promising institutional structure provides access to credit for the poor to provide, the scaling problem must be solved, so that it can reach the vast majority of potential customers who require access to credit at rates market , The question then is how micro-enterprise credit can be supported as an integral part of the financial sector short-term capital for small businesses to create the informal sector, aligned and as their financial services can be further expanded with the principles, rules and procedures that they have proved effective.

3. Improvement of Microfinance in Rural India

Poverty reduction is one of the guiding principles of the planning process in India. Government has improved the allocation for the provision of education, health, sanitation and other facilities that promote capacity development and welfare of the poor. The Indian government focuses on providing financial services for the poor and underprivileged since independence. The commercial banks were nationalized in 1969, and were instructed to give 40% of their loans for the priority area at a subsidized rate. The focal sector in agriculture and other rural activities and the weaker part of society in general. The goal was to provide funds to help the poor to start their micro-enterprises, to be self-sufficient.

The Indian government has also launched a number of poverty alleviation programs such as small farmers scheme for development into life (SFD) 1974-1975, Twenty Point Programme (TPP) 1975 National Rural Development Programme (NVT) 1980 Integrated Rural Development Programme (IRDP) in 1980, cottages Sem Terra Programme for employment guarantee (RLEGP) 1983 Jawhar Rozgar Yojna (JRY) 1989 Swarna Jayanti Gram Swarojgar Yojana (SGSY) of 1999 and many other programs. But none of these programs have their desired goal achieved because of poor design and even practices of government officials.

Public funding for poverty reduction associated with stolen or diverted by the manipulation by the powerful or corrupt local. To supplement the efforts of the Indian microcredit government were that launched a great plan. Integrated Programme for Rural Development (IRDP) in 1980. But these programs achieved on the supply side little. He is involved commercial banks in the form of loans of less than Rs 15,000 / give - to the socially weaker section. Over a period of almost 20 years, the total investment amounted to about 250 billion rupees to about 55 million households. But it was too far from his reach desired target. The problem with IRDP was that its design incorporated an essential element of the subsidies and this led to extensive misconduct and misutilisation of funds. This situation has led the bankers to be seen as motivated flyer and the extent to follow up with the borrowers by the IRDP loans, failed. The net result is that the estimates of the reimbursement rates in IRDP 25-33%, the credibility of micro-credit borrowers in terms of bankers and .The two decades IRDP experience in the 1980s and 1990s ranged ultimately influenced, hindered access of the poor the least educated to banking services ,

This act of government has focused on the development of micro-enterprises, among disadvantaged of society serious long-term effects. So a very good program and the potential that once claimed that to be "the largest microfinance program in the world" failed because of poor execution and political interference. The interim evaluation of the ninth floor was pointed out that these programs have introduced a number of more programs, without shortcuts that you want. The programs of critical investments suffered the lack of bank lending in some projects occupied and the lack of market linkages. The programs were mainly driven grant and the social mediation which ignores programs for the success of independence. A provision of a credit period without control measures and the lack of a ongoing relationship between borrowers and lenders have contributed to the failure of the programs. The Planning Commission has set up a committee in 1997 to examine the effectiveness of the self-employment programs and wage labor. The Committee recommended the merger of all self-employment programs. He also recommends a shift in the meaning of a group-based approach favored single approach.

He emphasized the identification of clusters of activity in certain areas and strong bonds of training and marketing. The Indian government has accepted the recommendations of the Committee. On April 1, 1999, a new program called Swarnajayanti Gram Swarojgar Yojana (SGSY) has been produced by bundling programs like IRDP (Integrated Rural Development Program) and a number of allied programs to life, as TRYSEM (Rural Youth Training for self-employment) DWCRA (development of women and children in rural areas), SITRA (provision of improved toolkit for rural artisans), GKY (Ganga Kalyan Yojana) and MWS (million Wells Schemes). It is a holistic program that. All aspects of self-employment, such as the formation of self-help groups (SHG), training, credit, technology, infrastructure and marketing The program aims to a large number of micro-businesses to establish in rural areas. SGSY is a program credit subsidy cum. The focus is on business clusters. This program has had a great response from the recipients. The number of SHG under this program crore over 2.25million with an investment of Rs 14,403, taking advantage over 6,697million people (Wikipedia) .Similarly, the whole network of primary and RRBs cooperatives, set up to meet the need of rural sector in general and the poor in particular, proved to be a colossal failure.

Saddled addressed with load credit and a more restrictive interest rate regime, the position of RRBs quickly deteriorated, while cooperatives have suffered from the malaise of bad management, leadership and privileged corruption born of excessive legal aid. The micro initiative in the private sector in India can be traced back to the initiative of Shri Mahila SEWA (Self Employed Women Association) Sahakari Bank 1974 for the provision of banking services for poor women working in the informal sector in Ahmadabad taken in Gujarat. This library was initiated by 4,000 women founded the self-employed who have contributed a share of Rs10 each with a specific objective to provide credit for these women to allow them, and deliver them from the vicious circle of debt. SEWA Bank currently has 318,594 account holders with total working capital of Rs 1,291,890,000 (9 March),. Myrada (Mysore Rehabilitation and Development Agency) Karnataka was to begin another NGO in 1968 to promote a continuous process of change in favor of the rural poor. While the goal of helping the poor to help themselves is, Myrada achieves this through the formation of self-help affinity groups (SHG) and through partnerships with NGOs and other organizations in 1984-1985. He currently manages 18 projects in 20 backward districts of Karnataka, Tamil Nadu and Andhra Pradesh.

These early initiatives was a very localized and have limited their members. So he could not take the form of a mass movement. In India, there will be many institutions micro NGOs (MFI) were financed by donor support. In the form of working capital and operating grants But it is only after the intervention of the National Bank for Agriculture and Rural Development (NABARD) in 1992 in the field of microfinance, get the micro-movement a boost in India. In India about 70% of the landless and small farmers have no bank account and 87% of the poor have no access to loans .The share of the formal financial sector credit from a formal source (NCAER Rural Financial Access Survey 2003) have rural total 56.6% compared with 39, 6% in the informal finance and the source unspecified 3.8% (RBI report 1992). There is a great potential of micro-credit in rural India. The Reserve Bank of India has argued for financial inclusion of a large part of the population for the economic development of our country.

Access to affordable financial services, especially credit and insurance expands the possibilities for the poor livelihood. In addition to the social and political empowerment, financial inclusion are formal identity and allows access to the payment system and network security as a savings safety. So financial inclusion shall reach critical inclusive growth. The RBI Governor, gave a simple definition of financial inclusion as a "bank account for all families, guaranteeing it will."

He said it would be the first step towards the goal of bank credit as a human right to be, as advocated by Nobel laureate Professor Muhammad Yunus. Now the providers of microfinance services include top institutes like National Bank for Agriculture and Rural Development ment (NABARD), Small Industry Development Bank of India (SIDBI) and Rashtriya MahilaKosh (RMK) to develop. At the lowest level we have the commercial banks to provide regional rural banks and cooperatives microfinance services available. Private institutions that undertake microfinance services as their main activity are commonly known as microfinance institutions (MFIs) in the Indian context. There are also some NGOs credit for self-help group (SHG) provides.

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