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“Role of Shgs In Micro Finance And Its Impact on Rural Development”

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Abstract :

All over the world, there are nearly 100 crore poor people who have no access to formal financial services. Of these, nearly 20 percent live in India. Micro finance can be defined as providing credit, thrift and finance related services and products of very small amount so as to improve the living standards of poor. Today micro finance is being replicated in various countries in different versions. A number of small enterprises could be covered under these social-oriented entrepreneurial activities. This concept is based on the understanding that the poor are bankable and micro-enterprise finance through repayment incentive structure and market-based pricing adopting profit centre approach is sustainable. This approach leads to major changes in rural credit systems as well as small and medium enterprise to the ultimate benefit of rural economics.

Key worlds - Financial Services, Micro Finance, Self-Help-Group

Objective of Study:

The main objectives of the study are to identifying the features of microfinance and to study the role of self-help groups in microfinance. Researcher also wants to find out role of women's participation in SHGs.

Sources of Data:

The study is based on secondary data that has been collected from the NABARD's various issue and its publications. Data also collected from various magazines, journals, related books and Websites.

Financial Services and Micro Finance:

Micro finance provides a wide range of financial services to the poor on a sustainable basis and is slowly but steadily gaining popularity. Micro finance service is provided primarily through the following:

1. Formal Institutions – Regional Rural Bank, Co-operatives
2. Semi – Formal Institutions – Non-Government Organizations.
3. Informal Sources – Money Lenders and Shopkeepers.

Microfinance and SHGs:

Micro finance has become a tool for uplifting the economic conditions of asset less poor people through group approach that ensures active participation of the beneficiaries in effective implementation of the program me. Micro financing is to focus on economically active poor sectors so that there is no downward migration for them.

In the recent past Micro finance is growing very rapidly and getting its due attention from banks, Non-Government organizations and the Government. Its concept is based on the empowerment of the best known programmes among the administrators, NGOs and bankers.

Microfinance has found the SHG profitable, viable and as successful tool of social empowerment and no bank has reported any NPA under the SHG bank linkage.

Role of Self-Help Groups:

The Self-Help-Group (SHG) is registered or unregistered group of micro entrepreneurs having a homogeneous social and economical background, voluntarily coming together to save small amounts regularly, to mutually contribute to a common fund and to meet their emergency needs on mutual help basis. The group members use the collective wisdom and peer pressure to get things done properly. The SHG platform is built up on the premises that the poor has the capacity to save, the poor need credit rather than charity.

Today microfinance is being replicated in various countries in different versions. The Self Help Group programme invariably begins with thrift. Most credit programmes designed for the poor failed due to the absence of the urge to save. Saving first and credit later is the cardinal principle of SHGs. The group culture seems to be the driving force behind SHGs. Although there is no bar on individual participation in SHGs, it has been experienced that group arrangement deliver better results.

Women's Participation in SHGs:

The size of the group may vary but small groups of up to ten members are more cohesive, disciplined and in formal. In most SHGs, the maximum participation is of women. This is perhaps the single most important reason for the success of micro credit programmes all over. It has been experienced that the money received by a women goes to benefit her family. She uses it for augmenting family income, providing education to the children and taking care of the health problems of the family members. The rural women have not only been able to transform their own lives but have also redefined the economic and social contours of the villages. Micro finance practitioners believe that nearly hundred percent recoveries in micro loans are mainly because of women.

SHGs and Employment:

Employment is the most important factor in the life of human being. But due to the most increasing population in the country or state it is becoming most difficult to the Government to provide the employment opportunities to the people living in the village's district or state. Government is trying to motivate the youth, women and attract over the self employment or for the business, Self-Help Groups are the part and process of the said programme to meet the problem of unemployment. Government is trying to provide subsidies and other incentives to the people by the help of different schemes. Self Help Groups are one of them.

Smallest loans offer bigger opportunities. A borrower graduates from a very small loan amount to an increasing does of credit. The maximum credit limit is thus linked with individual's repayment performance and overall conduct of his loan account from the formation of group to deciding on the size of loan all decisions are taken through a democratic process.

SHGs fully appreciates that emergencies are UN invited and social obligations have to be met with. The conventional banking always ignored the fact that consumption and emergent needs overtake the productive need of the poor. Creation of assets leads to productivity and absence of this has almost devastated the remove poverty industry. Contrary to this there is self-supervision in SHGS for creating productive assets. This ensures improvement in employment opportunities, economic conditions and, of course, regular recovery.

Problems / Challenges faced by the Micro – Finance Institutions:

Although the importance of microfinance in the process of poverty eradication is realized, it faces multiple problems. This is because offering credit to the poor is a complicated process and the sector is still in its experimental stage.

All the problems are divided into two sets; challenges faced by MFIs

Conclusions:

With significant growth in SHGs activities, the effective benefit would spread to various aspects such as literacy, empowerment, entrepreneurship, employment, improvement in living standards, development of rural economy and finally poverty reduction, and would help bring down the numbers below the poverty line.

Challenge 1: Perceived High Risk of Micro Entrepreneurship and Small Businesses

Micro entrepreneurs usually have no collateral to offer to microfinance providers against loans, they usually lack an alternate source of income, and have little, if any, formal education or training in the area of their business. As a result, commercial banks attribute a high credit risk to micro entrepreneurs and steer clear of this sector. Microfinance institutes (MFIs) are compelled to compensate for this risk by charging interest rates on loans.

Microfinance Challenge 2: High Costs Involved in Small Transactions / Micro lending

The small size of micro enterprises increases the transaction cost for MFIs because they cannot process loans in bulk (unless good **management information systems** are in place). This denies MFIs the benefit of economies of scale; hence, they are forced to cover their costs through high interest rates on loans.

Microfinance Challenge 3: Lack of Debt and Equity Funds for MFIs to Pass on to the Poor

Capital availability for microfinance is hardly a problem owing to the rapid growth in the microfinance sector, which has been fueled by attention from the media and development agencies. Even though there are plenty of **financing options available for MFIs**, there is an emerging **shortage of money** because of the current financial crisis across the globe. Another reason for this shortfall is the lack of awareness of funding sources by MFI managers.

Microfinance Challenge 4: Difficulty in Measuring the Social Performance of MFIs

Microfinance is delivering the economic returns its proponents promised, but there are only a handful of **tools available that measure the social return of loan programs for the poor**. To add to the problem, the tools use proxies to estimate the amount of poverty and social change surrounding micro entrepreneurs. This makes the gathering of funds a challenge because donors may question the actual impact made by microfinance.

Conclusions:

Although Prof. Yunus claims the poor do not need training to survive (Banker to the Poor), exceptions occur. Market trends change ever so quickly at times, and when there is an over-supply of certain products/services, the poor need to develop viable business plans that ensure sufficient productivity so the loans and interest payments can be honored. In this regard, I think a mentorship program may work, but there are plenty of issues that will need to be ironed out in that too.

Since the microfinance sector's integration with the mainstream financial economy is limited, the impact of the downturn has been cushioned. However, MFIs are not completely insulated.

– It will take longer for the social and financial impact of microfinance to materialize, and – as economic opportunities dwindle, more people are turning to microfinance for solutions.

Suggestions:

Women's Self-help Groups are playing important role for rural development. Though India has made certain growth in the field of SHGs, there are some vital issues that need to be focused:-

- a) Capacity building and holistic approach to handle SHG.
- b) Scaling up the SHGs.
- c) Streamline legal framework to remove the infirmities documentation stamp duty, records and books of accounts, grading of SHGs.
- d) Ensure better co-ordination between the formal and informal financial institutions such as MFIS.
- e) Formulate innovative schemes to finance micro-enterprise through the largest postal networks in India as there is good penetration and hands on approach available.

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