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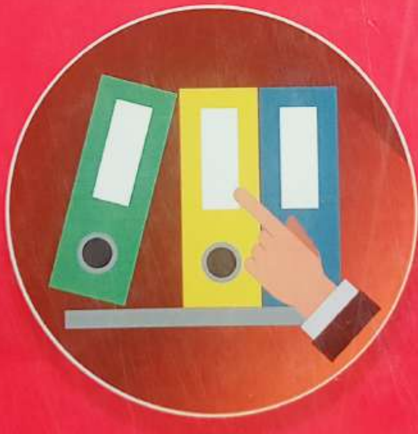

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Challenges to Self-Help Groups and their Microfinance

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Abstract :

A Keystone of Microfinance(MF) in India Women empowerment & social security. MF has evolved over the past quarter century across India into various operating forms and to a varying degree of success. One such form of MF has been the development of the self-help movement used to fund loans.The results from these self-help groups (SHGs) are promising and have become a focus of intense examination as it is proving to be an effective method of poverty reduction.MF is as the process of providing loans, savings, credit, and other necessary financial products and services to individuals who are extremely poor to get access to the regular sources of finance such as banks or other financial institutions. It is very helpful to entrepreneurs as well as small-sized enterprise owners with low capital. MF is also offered to people who are interested in purchasing equipment or vehicles of high value that are required for carrying out their business activities. These can be machines for manufacturing textiles,tractors for agriculture, trucks for transportation of the goods created by the small entrepreneurs, etc.

The present paper deals with the opportunities and various ways available to the poorer to use MF and increase in social and economic family status. The purpose of MF is to assist low-income people who have the enthusiasm to make their lives better. It provides the right amount of capital to low-income people to start a new small business activity or to finance their child's education or to buy a small piece of land for carrying out agricultural operations. MF not only supports an individual in starting something new to earn better, it also helps in sustaining their income to have a decent standard of living throughout their life.

Keywords :Microfinance, Self-helpGroups, Grameen Bank, NABARD, Poverty eradication, Empowerment of women, Agriculture, Entrepreneurs, Social & Economic Rural Development.

Introduction: Microfinance (MF) is a very popular term in today's financial market scenario. MF refers to microcredit or micro-loan, banking or financial service that is offered by banks or other financial institutions to individuals who belong to the low-income or underprivileged sections of the society. MF can be in the form of loans, insurance, and savings deposits.It chiefly originated when the Grameen Bank was started by Professor Mohammed Yuns in the year 1976 in Bangladesh. It was a pilot project of having a unique lending system where micro loans are offered to the disadvantaged sections of the society, especially the rural poor. This programme was launched to introduce the concept of financial services to the rural poor who never had access to any form of credit.This conversion of the project into an autonomous bank. This was done through government legislation and it came to be known as Grameen Bank. The bank has assisted several poor people in both Bangladesh and India to be financially secure and to improve their financial conditions. Thisresulted in the creation of a 'Grameen model' which is used by many financial institutions and banks to offer affordable loans to the poor. There was also Self-Employed Women's Association (SEWA) that was started by Ela Bhatt which was an all-women's bank. It is the first MF bank in the country. It was set up in Ahmedabad, Gujarat in the year 1972. It was set up to help women of low-income groups to earn the rights that they are entitled to. It works towards making women independent by offering them the right funds at the right time to help them be self-employed. The institution also offers first-class training to women to help them specialise in handicrafts and other forms of artistry.

India also saw the establishment of NABARD which is exclusively committed to offering inexpensive modes of credit and bank accounts to the people living in rural areas. These people are mainly engaged in agriculture and other artistry activities in the country.The bank also focused on women by encouraging them to open bank accounts in their names and taking small loans to meet their requirements and also promoted rural people to be involved in alternative activities apart from agriculture in order to earn additional income.

The Regional Rural Banks (RRBs) were launched in 1975-76 which were established to have banking operations in the rural areas and semi-urban areas of the various states of the country. Some of the RRBs are also set up in urban areas where they offer banking services to the poor people of the society.There is also the MFI that was set up in India in the year 1974 which had operations of the institution started to pick up only in the 1990s.All these institutions had a common objective and that was to provide financial assistance to the unbanked people of the society. They worked on setting up many bank branches in the most remote areas of the country. They mainly focussed on empowering the disadvantaged sections of the society.Until the banks in India were nationalised in the year 1969, co-operative banks were the only banks that provided small loans to the economically underprivileged sections of the society. Small borrowers did not have any other source of financial assistance. Loan applicants had to furnish some form of security to the bank those days. They also had to make arrangements for a guarantor in order to apply for a loan. The chief objective of banking was profit, which is still prevalent in today's commercial banks. Institutions offering MF started to emerge and began to change this profit-oriented banking scenario. Nationalisation of banks also changed the old banking setup and started to build branches in different rural parts of the nation.MF institutions also enhanced the condition ofself-help groups (SHG). More and more SHGs were created by impoverished people with the objective of making them financially self-sufficient. With these groups, the members did not have to go begging rich moneylender who mainly lent money solely to make profits. They also did not have to depend on others to get any form of employment. They created their own small venture by coming together by honing their skills.

Statement of the Problem : In India about 350 million people live below poverty line. The annual credit demand by the poor in the country is estimated to be about Rs.60,000 crores. And the cumulative disbursement under all MF programmes is only about Rs.5000 crores. But only about 5% of the rural poor have access to microfinance (NABARD, 2011). The motivation for this research paper came after very closely observing the fact that MF is not only one for reducing poverty but also has the potential to make a positive change in the society in terms of empowerment of women, promote all-round development of the children, the households and socio-economic upliftment of communities residing below the poverty line. **Microfinance is usually procured by loan applicants through 3 modules and they include:**

1.Through banks, Non-banking financial Corporations (NBFC), and MF institutions.

2. By establishing good relations with banks or other financial institutions.

3. By getting a group with a common goal of obtaining finance to create and develop new smallbusiness ventures.

Poverty, a burning and raging economic issue, exists in most of the underdeveloped countries. One of important agenda of most of the underdeveloped nations has been the Eradication of poverty.According to Census 2011, still 50% of the Indian population depends on agriculture and allied activities and approximately 69% of India's population is in rural areas. This population has been largely deprived of formal financial services leading to progress of the agricultural sector (Karthik, 2017). Agriculture sector play an important role in Indian economy. To accelerate this economy agriculture and rural sector need finance.For this reason the concept of MF was introduced.Mostly main aim of introducing Indian MF industry was financial inclusion of poorer and backward section of the society.MF means providing very low-income families with very small loans to help them engage in small businesses.MF allows poor people to protect, diversifyand toincrease their source of income which is essential path out of poverty.The ability to borrow a small amount of money to take advantage of business opportunity, to pay for health can be a first step in breaking the cycle of poverty. MF refers to small scale financial services- primarily credit and savings- provided to people who farm or herd or fish; who operate small or micro enterprises where goods are produced, recycled, repaired or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals or machinery and tools to other individuals and groups at the local levels of underdeveloped countries both rural and urban.

Features of Microfinance :

· MF is offered to anyone who does not have a stable source of income due to unemployment. It is also given to those who are involved in contract labour or who work part-time.

· MF is also offered to people living below poverty line (BPL) since they do not have access to other forms of financing.

·MF promotes simplified and small savings among poor people &encourages them to build their funds.

·MF institutions have easy and quick loan application processes with very low interest rate.

·When a micro loan is offered, the lender for the purpose of lending which can be utilised for any purpose.

·MF helps the borrower in protecting his or her credit extensively with micro insurance facility reasonably priced.

·MF helps in creating jobs whichenables uneducated people to source of employment instead of staying idle.

·MF is simplified, easily accessible, economical and flexible in nature which include services cash transfer facilities, savings schemes with minimal or zero deposit.

Objectives of Microfinance :

1. To provide financial assistance to the unbanked people of the society.
2. To focussed on setting up many bank branches in the most remote areas of the country&Empowering the Disadvantagedsections of the society.
3. To getting people out of poverty and improving poor people's financial conditions.
4. To motivate the peoples through MF primarily works towards making self-determined without having to depend on their relatives or friends for funds.
5. Tobring a financial change among the poor people with the help of a community-based approach.
6. To suggest organise and conduct simple training programmes for to livelihood to assist disabled people who are

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economicallyhelp them find some source of employment or artistry so that they can care themselves.

7. To help women of poor families Institutions that offer MF believe that women are more responsiblewith money & hence, they have exclusive MF loan options specially designed for women borrowers.

8. To bring gender equality by encouraging women to equally take part in household, financial decision making& also earn money independently by engaging in any form of employment enhance operations &activities at the grass root level.

9. To focus on optimum utilisation of local resources available in nearby areas and villages in order to minimise transportation costs for bringing resources, etc.

10.To suggest measures for MF aims at attaining socio-economic development at the most basic level of the society &It serves as a great instrument to eradicate poverty.

Different Microfinance Models in India : India has a number of institutions that offer MF exclusively. Each institution uses a particular model or a blend of different models in order to provide MF to applicants.

The main six categories of microfinance models that are followed in India include:

Models	Benefits of the Models
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]

Benefits of Microfinance in Indian Economic Development :

1. **To Farmers** : There are exclusive MF loans that are provided to marginal farmers who need funds for enhancing their productivity of crops. This can be done when they invest in excellent farming tools, superior quality fertilisers, storage of their output in safe and hygienic warehouses, quality check processes, packaging of their output, marketing of their crops, transportation of their output, and proper sales techniques in order to secure the profits. Many farmers in India do not have sufficient funds or knowledge to invest in these aspects of farming. MF loans aim to guide farmers by providing them with accurate information and funds required to enhance their output.

2. **To Women** : There are many banks, NBFCs, and MF institutions that extend MF exclusively to women in India. These women borrowers treat MF as their saviour and utilise the funds very sensibly.These MF options for women also help in empowering women. Moreover, women will make well-planned decisions for the household. There are many SHGs in Indian rural places that are made by women for women. Only women manage these groups and help each other in starting new low-cost business ventures such as artistry, trinket making activities, handicraft ventures, pickle business ventures, horticultural ventures, paintings, and many other business activities that they are good at doing.Most importantly, MF helps in job creation for women. In most regions of the country, women are forced to be unemployed and are not allowed to step out of their homes. They are restricted to the limits of their house. With the generation of MF, women are given an opportunity to showcase their management abilities and entrepreneurial skills. MF also brings women together and encourages them to work as a team to achieve the ultimate goal of being independent. They also do not have to wait for the approval of the male member in

the house. In this way Indian economy will be develop with the help of these farmers and unemployed women who are using MF.

Challenges of Microfinance: The importance of MF in the process of poverty eradication is realized, it facesmany problems. This is because offering credit to the poor is complicated process over-indebtedness is a common and serious challenge and the sector is still in its experimental stage. Offering financial services to poor individual and in it leads to various challenges. Some of the other challenges are high rates of interest, over-dependence on the banking system, illiteracy and lack of awareness about the products.

Challenges are divided into challenges faced by Micro Finance Industry, Entrepreneurs and Microfinance Providers.

Challenges faced by Indian MicrofinanceIndustry (MFI) :

A.MFI provide financial services to the poorer section of the society in order toimprove their standard of living.Therefore over-indebtedness is major issue & lack of risk management framework, multiple borrowings by most clients led to MF crisis in India it has been seen that there is no apex control over the MFIs.

B.This sector gives loans without collateral which increases the risk of bad debts moreover the fast paced growth ofthe sector has not been met with proper infrastructure planning.

C.This kind of problems has been reported in states like Andhra Pradesh, Karnataka, and Madhya Pradesh (Singh, 2016). Over indebtedness is a cause of concern for MFIs' as it negatively affects their portfolio. It also makes them vulnerable to credit risk and increases the cost of monitoring (Schick's 2013).

D.High rates of interest as compared to mainstream banks MFIs.

E.Over-dependence on banking system for funding.

F.Lack of awareness of financial services.

Challenges Faced by Micro Entrepreneurs:

➢ Inability to offer security for loans&Poor institutional viability of micro enterprises.

➢ Knowledge regarding sources of MF is lack of debt and equity funds for MFIs to pass on to the poor.

➢ Difficulty in measuring the Social Performance of MFIs.

➢ Lack of customized solutions for the poor&Lack of MF training for human resource in MF Institutions.

➢Misallocation or shortage of finance with Inability to exploit growth opportunities.

➢Lack of organizational resources and governance with Low bargaining power

Challenges faced by Microfinance providers:

➢ The challenges faced by MFproviders are high risk of micro entrepreneurship and small business.

➢ Micro entrepreneur usually no security to offer MF providers, no alternate source of income. Micro entrepreneurs are considered high risk ventures and MF providers are forced to compensate for this by changing interest rate with high costs for Micro Lending.

➢ Small micro enterprises increase the transaction cost for MFIs, because they cannot process micro loan in bulk.

➢ Fund shortage there are plenty of financial options available for MFIs there is an emerging shortage of money. This is due to lack of awareness of funding source by MFI managers.

➢ Difficulty in measuring the social performance of MFIs.MF is delivering the economic returns its proponents promised but there are only a handful of tools available that measure the social return of microfinance.

➢ Lack of solution for poor targeting of poor households by MF programs is common problem because Itfail to understand the various needs of micro entrepreneurs& must spend time to develop MF tools for each micro entrepreneur.

- Poor distribution system of MFIs and lack of information about microfinance investment opportunities.

Suggestions to Minimize the Problems Faced by MFIs :

The following suggestions are offered to minimize the above mentioned challenges of MF.

1.Information about locally available materials their uses should be widely spread to MFIs.

2.surveys can be conducted under the auspices of local authorities for proper encouragement and training should be given to them to make innovative products by using these materials in order to have a knowledge base about the availability of materials, in Panchayat levels, In order to solve the various problems relating to marketing of MFIs, the state level organisations should extend the activities throughout the state instead of limiting its operations in a particular area.

3.Various MFIsfunctioning in a particular panchayat area can form a co-operative society. This society may be entrusted with the task of marketing the products of different MFIsunder a common brand name. Further, the society can undertake sales promotion activities &procure rare raw materials for the benefits of MFIs member.

4.Non-Government Organisations (NGOs) can play a significant role in empowering women entrepreneurs by providing basic motivation training, education and financial help and so on.

5.All the members in the MFIs may not have the same expertise and calibre. NGOs can identify the inefficient members of the group and can impart proper training to them in order to make them competent. For this purpose, short term training programmes can be arranged at the panchayat level.

6.Frequent awareness camps can be organised by the Rural Development department authorities to create awareness about the different schemes of assistance available to the participants in the MFIs.

7.Arrangements may be made by the financial institutions for providing adequate financial assistance to the MFIs strictly on the basis of their actual performance without any discrimination of politics, religion andcaste etc.

8.The socio-economic programmes reinforce each other and promote all-round development of the children, the women, the households and the communities.

9. It is a process which ultimately leads to self-fulfilment of each member of the society. It is in this direction that MFIs are moving towards fulfilling their objectives with a meaningful strategic direction.

Conclusion: The MF industry faced various highs and lows. This industry needs to improve the quality of services and its operational structure. MF is not yet at the centre stage of the Indian financial sector.The government is trying to aid this sector by helping the linkage between thebanks and SHG to grow through NABARD, the section of RBI that regulates the MF industry. MF helps to increase in income, savings, savings differential, reduction in migration; increase in social and family status.It also helps their lofty goals of mass scale poverty alleviation and empowerment.

The capital, education,awareness and technology to address these challenges however now exist in India, although they are not yet fully developed. With a more enabling environment and surge in economic growth, the next few years promise to be exciting for the delivery of financial services to poor people in India. The supply side of MF in India is still presently roughly inadequate to fill the gap between demand and supply but it holds the promise to act as a great opportunity for the financial sector by improving the technology model used by MF institutes, their operational costs can be significantly lowered and efficiencies may be gained during automated loan processing. Monitoring of the group activities and providing suitable training facility is critical to materialize the benefits of MF. Government has to involve in the course of the action in order to make this industry grow. Smooth functioning of Indian MF industry can be enabled through setting up of a separate regulatory authority to discourage malpractice and political influence.

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