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Implementation of various Micro Finance Schemes in Karnataka state

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Abstract:

The purpose of this paper is to examine implementation of various micro finance schemes in Karnataka. The main objectives focus on Micro finance offers financial services to under privileged people, Encourage entrepreneurship & self sufficiency and the different schemes in micro finance. Micro finance playing a vital role in the present scenario. It helps a lot for poor and debt people. The data collected from the analysis of the secondary data published in the magazines and various websites.

***Keywords:** Micro finance, Implementation, Schemes, MFI (micro finance institutes), Karnataka.*

I. INTRODUCTION

Microfinance refers to a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Microloans are given for a variety of purposes, frequently for microenterprise development. The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty. Because of these varied needs, and because of the industry's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal financial sector.
Microfinance is usually understood to entail the provision of financial services to micro-entrepreneurs and small businesses, which lack access to banking and related services due to the high transaction costs associated with serving these client categories. The two main mechanisms for the delivery of financial services to such clients are (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group.

About 238 million people in India live below the poverty line with the per capita income of less than one dollar per day. Since independence, policy makers and practitioners have been trying to improve the lives of these poor and fight against poverty. This got reflected in the successive five-year plans, which had the objectives of ‘growth with equity’ and ‘social justice’. The planners, however, realized that rapid growth did not bring about ‘trickle down’ effect, particularly so in rural areas. This realization led to the restructuring of institutions and schematic lending to facilitate better accessibility of credit for the underprivileged. Thus, initiatives in this regard were taken by building an institutional framework through nationalization of banks and creation of regional rural banks.

II. DEFINATION OF MICRO-FINANCE

Microfinance is the provision of a broad range of financial services such as – deposits, loans, payment services, money transfers and insurance products – to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards.

CORE PRINCIPLES FOR MICROFINANCE

➢ The poor needs access to appropriate financial services
➢ The poor has the capability to repay loans, pay the real cost of loans and generate savings
➢ Microfinance is an effective tool for poverty alleviation
➢ Microfinance institutions must aim to provide financial services to an increasing number of Disadvantaged people
➢ Microfinance can and should be undertaken on a sustainable basis
➢ Microfinance NGOs and programs must develop performance standards that will help define and govern the microfinance industry toward greater reach and Sustainability.

CHARACTERISTICS AND FEATURES OF MICROFINANCE

Characteristics	**Distinguishing Features**
Type of client	• Low Income • Employment in informal sector; low wage bracket • Lack of physical collateral

	• Closely interlinked household/business activities
Lending Technology	• Prompt approval and disbursement of micro loans • Lack of extensive loan records • Collateral substitutes; group-based guarantees • Conditional access to further micro-credits • Information-intensive character-based lending linked to cash flow analysis and group-based borrower selection
Loan Portfolio	• Highly volatile • Risk heavily dependent on portfolio management skills
Organizational Ideology	• Remote from/non-dependent on government • Cost recovery objective vs. profit maximizing
Institutional Structure	• Decentralized • Insufficient external control and regulation • Capital base is quasi-equity (grants, soft loans)

III. REVIEW OF LITERATURE

The government sponsored several programmes and projects to bring the excluded poor into the mainstream "development". These programmes could not completely target the vulnerable poor. And many now believe that government assistance to the poor often creates dependency and disincentives that make matters worse, not better. Moreover, despite decades of aid, communities and families appear to be increasingly fractured, offering a fragile foundation on which to build (Morduch, 1999)[1]. Amid the distressed news, enthusiasm is building about a set of unusual financial institutions prospering in distant corners of the country. The hope is that much poverty can be alleviated and the economic and social structures can be transformed fundamentally by providing financial services to low income households. These institutions, united under the banner of "microfinance", share a commitment to serving clients that have been excluded from the formal banking sector (ibid).

According to National Sample Survey Organization's (NSSO), 59th Round (2003), only 48.6 per cent of the total number of cultivator households received credit from both formal and informal sources (financial inclusion in a broader sense) and remaining 51.4 per cent did not receive any credit (total financial exclusion). The same survey revealed further that 22 per cent of the cultivator households received credit from informal sources (financial inclusion in a narrow sense). Only 27.6 per cent of the farmer households had availed credit from the formal institutions like banks, cooperatives and government (Jeromi, 2006)[2]. Again, a Rural Finance Access Survey 2003, conducted by the World Bank and the NCAER, revealed that 79 per cent of the rural households had no access to credit from formal sources (Basu, 2006)[3]. Hence, the tasks of microfinance are the promotion of greater financial inclusion3 and, in the process, improve the social and economic welfare of the poor. In this backdrop, the paper examines the promise of microfinance (microfinance-plus services) in the inclusion (access) of excluded and to analyse the impact of the "microfinance-plus services"4 on the social and economic welfare of the poor households.

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1. Morduch, J. (1999), The Micro Finance Promise, Journal of Economic Literature, 37 (4): 1569-1614.
2. Jeromi, P.D. (2006), Financial Inclusion: Regional Perspective, Paper P resented in the National Conference on Financial Inclusion and Beyond Issues and Opportunities for India, Cochin, India (19-20 September, 2006).
3. Basu, Priya (2006), Improving Access to Finance for India's Rural Poor, The World Bank: Washington, D.C

IV. OBJECTIVES

1. Micro finance offers financial services to under privileged people
2. Encourage entrepreneur and self sufficiency
3. Different scheme in micro finance

Methodology: This study is based on the analysis of the secondary data published in the magazines and various websites.

Micro Finance Institutions(MFIs)

Those institutions which have microfinance as their main operation are known as micro finance institutions. A number of organizations with varied size and legal forms offer microfinance service. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. The reason for existence of separate institutions i.e. MFIs for offering microfinance are as follows:

- High transaction cost – generally micro credits fall below the break-even point of providing loans by banks
- Absence of collaterals – the poor usually are not in a state to offer collaterals to secure the credit
- Loans are generally taken for very short duration periods
- Higher frequency of repayment of installments and higher rate of Default

- Non-Banking Financial Companies (NBFCs), Co-operative societies, Section-25 companies, Societies and Trusts, all such institutions operating in microfinance sector constitute MFIs and together they account for about 42 percent of the microfinance sector in terms of loan portfolio.

Source: *Nabard issues related to microfinance*

SCHEMES OF THE CORPORATION

1. 'Swavalambana' Margin Money Loan Scheme

Loan facilities are provided through various Nationalized Banks/Financial Institutions for business, services, industries and agriculture based activities for the maximum project cost upto Rs.1,00,000/-. 20% of the project cost will

Sl. No.	Type of MFI	Number	Legal Registration
	Not-for Profit MFIs		
1	NGOs	400-500	Society Registration Act, 1860 Indian Trust Act, 1882
2	Non-Profit companies	20	Section-25 of Indian Companies Act, 1956
	Mutual Benefit MFIs		
3	Mutual benefit MFIs – Mutually Aided Cooperative Societies (MACS)	200-250	Mutually Aided Co-operative societies, Act enacted by State Governments
	For Profit MFIs		
4	Non-Banking Financial Companies (NBFCs)	45	Indian companies Act, 1956 Reserve Bank of India Act, 1934

be sanctioned by the Corporation as Margin Money loan @ 7% interest. Balance is provided by the Banks/Financial institutions. A Subsidy upto Rs.5,000/- is also provided by the Corporation. The Corporation is allocating the physical and financial target based on allocation made in the budget, minority population wise. The District Manager of the concerned district invites the application through newspapers. The received application will be scrutinized and forwarded to the concerned bank for sanction of loan. The concerned bank will verify the feasibility and viability of the project sanction the loan and send the proposal for the release of Margin money loan to the District office. The District Manager will place the proposal before the District Level Committee headed by Chief Executive Officer of Zillah Panchayath, who is the Chairman of the Committee. The Committee will approve the list of beneficiaries and same will be forwarded to the Head Office for release of Margin Money loan and Subsidy to the Bank, for further release of Margin Money loan and Subsidy along with Bank portion of loan to the beneficiary.

2. Subsidy Scheme:

Under this Scheme, a subsidy element of 50% of the unit cost or maximum amount of Rs.5, 000/- will be released to the beneficiaries. For who wish to avail loan for Business, Services, and industries, for the unit cost upto Rs.25,000/-, only subsidy of Rs.5,000/- (maximum) will be released and for unit cost above Rs.25,000/- to Rs.1.00 lakh, Subsidy and Margin Money will be released. The Corporation is allocating the physical and financial target based on allocation made in the budget and minority population. The District Manger of the concerned District invites the application through news papers. The received application will be scrutinized and forwarded to the concerned bank for sanction of margin money loan. The concerned bank will verify the feasibility and viability of the project and send the proposal for release of Margin money loan to the District office. The District Manger will place the proposal before the District Level Committee headed by Chief Executive Officer of Zilla Panchayath, who is the Chairman of the Committee. The Committee will approve the list of beneficiaries and forward the proceedings to the head office for release of Margin Money loan and Subsidy to the Bank.

3. Arivu (Education Loan) Scheme:

The Govt. of Karnataka has introduced "Arivu" (Education loan) to help the minority students with financial assistance upto Rs.75, 000/- per year till the completion of the course, for the professional courses like Medical, Engineering, Dental, Master Degree Courses, Diploma Courses, Nursing, B.Ed, D.Ed, and ITI. The loan has to be repaid after completion of the course with 2% interest. The Corporation allocates the physical and financial target based on allocation made in the budget and minority population. The District Manger of the concerned District invites the application through newspapers. The received application will be scrutinized and the same will be placed by the District Manager before the District Committee headed by Chief Executive Officer to Zilla Panchayath, who is the Chairman of the Committee. The Committee will select the beneficiary and forward the proceedings to the head office for release of loan to the beneficiary.

4.GangaKalyanaScheme:

A. Community Irrigation: The beneficiaries should be small and marginal farmers and those who have totally 8 acres of land comprising 3 beneficiaries, will get 2 borewells and 15 acres of land comprising of 5 beneficiaries, will get 3 borewells and each beneficiary should have 2 to 3 acres of lands.Borewells are drilled underground, submersible pumpsets will be installed and energisation for the borewell will be done by the Corporation..

B. Individual Borewell: On the selection by the Competent Authority, under individual borewell scheme, for the beneficiary holding 2 to 5 acres of land, one borewell will be drilled and pumpset will be supplied. The total expenditure is Rs.1, 00,000/- (Grant of Rs.86, 000/- & loan of Rs.14, 000/-), this includes Energisation charges. The Corporation is allocating the physical and financial target based on allocation made in the budget and minority population. The District Mangers of the concerned District invites the application through newspapers. The received application will be scrutinized and District Manage will place the proposal before the Taluq committee headed by concerned MLA is the Chairman of the Committee. The Committee will select the beneficiary and forward the proceedings to the head office.

5. Shramashakthi Scheme:

Under this scheme, the minority artisans will be trained to upgrade their Artistic and Technical skill and also loan upto Rs.25,000/- (maximum) will be provided at lower rate of interest to improve their business. The Corporation is allocating the physical and financial target based on allocation made in the budget and minority population. The District Managers of the concerned District invites the application through news papers. The received application will be scrutinized and District manager will place the proposal before the District Committee headed by Chief Executive Officer of Zilla Panchayath, is the Chairman of the Committee. The Committee will select the beneficiary and forward the proceedings to the head office for release of loan to the beneficiary.

6. Land Purchase Scheme (New Scheme):

Under this scheme, the Corporation will purchase the agricultural land and this will be given to the poor landless minorities farmers in the rural areas. 2 acres of Dry Land or 1 acre of wet land will be distributed to each beneficiary. Each acre of land costs Rs.30,000/-. The cost of land will be treated as 50% loan and 50% subsidy to the beneficiaries. The loan has to be repaid in 4 yearly installments @ 7% interest per annum. The Corporation is allocating the physical and financial target based on allocation made in the budget and minority population. The District Managers of the concerned District invites the application through newspapers. The received application will be scrutinized and District Manager will place the proposal before the District Committee headed by Deputy Commissioner of the concerned District who is the Chairman of the Committee. The Committee will select the beneficiary.

7. National Minorities Development & Finance Corporation's Direct Loan Scheme:

The National Minorities Development & Finance Corporation, New Delhi was established at Central level during 1994. The Main object of this Corporation is to uplift the poor religious minorities financially throughout India. NMDFC is extending loan to the religious minorities throughout its SCAs (State Channelizing Agencies). In Karnataka, Karnataka Minorities Development Corporation is the SCA. The NMDFC releases the loan @3.5% to the SCAs as against the Govt. Guarantee provided by the State Government.

The loan will be released for the schemes approved by NMDFC. The Corporation is releasing 85% of the project cost as NMDFC share, 10% share of the project cost from KMDC and balance 5% of the project cost has to be borne by the beneficiary. 6% interest per annum is being charged by the Corporation for the loan released. The District Managers of the concerned District invites the application through newspapers.

8.Government Sponsored E-Mahile schemeshatters lives in Karnataka[4]

The 'E-Mahile' scheme of the State government, meant to empower women, shattered the lives of jayashree of Ergatti village in savadatti Taluk of Belgaum district. Her husband Somaiah Mallaiah committed suicide unable to bear the humiliation meted out by moneylenders.

In Mysore, another man attempted suicide when bank officials frequented his house for the recovery of the loan, which his wife Meena had taken a year back under the scheme the status of other 106 women chosen under the scheme across the State is no different.

At least six men divorced their wives due to the empowerment scheme while a large number of 'beneficiaries' had to sell their land and valuables to repay their debts.

V. CONCLUTION

- Micro-finance is one of the ways of building the capacities of the poor and graduating them to sustainable self-employment activities by providing them financial services like credit, savings and insurance.
- To provide micro-finance and other support services, MFIs should be able to sustain themselves for a long period.
- by incentivizing existing mainstream financial service providers,
- By encouraging new microfinance institutions with a supportive policy and financial Resources to enlarge and expand their services, and finally
- By building from the grassroots up, a network of community-based development financial institutions (CDFIs).
- Microfinance institutions have a lot to contribute to this by building financial discipline and educating borrowers about repayment requirements.

- Microfinance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programmes.
- All financial regulation falls under the three issues of consumer protection, micro-prudential regulation and systemic risk. Prudential regulation is relatively minor concern: at worst, if micro-prudential regulation fails, the sophisticated financial firms that lend to MFIs will suffer unexpected losses.
- In order to ensure consistency and avoid regulatory arbitrage, regulation needs to be consistent across the activity of credit provision, regardless of the entity that does the activity.
- Providing public infrastructure that reduces transaction cost in remote areas like connectivity, Unique Identification Code, etc.
- Wide publicity and strictly implementing the concept of Financial Literacy and Credit Counseling to educate the public in proper utilization of financial services offered by the service providers.

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