A STUDY OF MICRO FINANCE AND AGRICULTURE

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Abstract – The study examined the role of microfinance Institutions in financing agriculture in India. In this paper focused on To study the Micro finance Institutions in India, To find out Challenges facing by Indian microfinance sector, To understand the progress of SHGs in Micro Finance , To study the relationship between Micro finance and Agricultural In conclusion In order to expand the outreach of agricultural microfinance and establish best practices, more careful research and pilot-testing of innovative microfinance products and services that aim at solving specific constraints of farming households are needed. Any way India is always depending up on rural area development. Suppose the rural area will develop automatically nation will grow faster way, many economist to find out the what types of rural planes Indian villages need , with the help of scientific establishment of microfinance is possible to remove the village poverty.

Introduction : A range of institutions in public sector as well as private sector offers the microfinance services in India. They can be broadly categorized into two categories namely, formal institutions and informal institutions. The former category comprises of Apex Development Financial Institutions, Commercial Banks, Regional Rural Banks, and Cooperative Banks that provide microfinance services in addition to their general banking activities and are referred to as microfinance service providers. On the other hand, the informal institutions that undertake micro finance services as their main activity are generally referred to as Micro Finance Institutions (MFIs). While both private and public ownership are found in the case of formal financial institutions offering microfinance services, the MFIs are mainly in the private sector. The microfinance service providers include apex institutions like National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and Rashtriya Mahila Kosh (RMK). At the retail level, Commercial Banks, Regional Rural Banks, and, Cooperative banks provide microfinance services

The Emergence of Private Microfinance Industry : The microfinance initiative in private sector can be traced to the initiative undertaken by Ms. Ela Bhat for providing banking services to the poor women employed in the unorganised sector in Ahmedabad City of Gujarat State. Shri Mahila SEWA (Self Employed Women's Association) Sahakari Bank was set up in 1974 by registering it as a Urban Cooperative Bank. Since then, the bank is providing banking services to the poor self-employed women working as hawkers, vendors, domestic servant etc. As on March 2010, the bank had a membership of 67,000. The deposit and loan portfolio stood at Rs 1050.49 million ($ 22.83 million) and Rs 466.69 million ($ 10.14 million) respectively. Though the bank is making profit, yet the SEWA bank model has not been replicated elsewhere in the country.

Objectives of The Study:

1. To study the Micro finance Institutions in India
2. To find out Challenges facing by Indian microfinance sector
4. To understand the progress of SHGs in Micro Finance
4. To study the relationship between Micro finance and Agricultural

Research Methedology: Data Collection- The present study aims to examine study the Micro finance Institutions in India, the relationship between Micro finance and Agricultural The analysis is mainly based on secondary sources of the data. The secondary data collected from the books, journals, NABARD publication, library and Internet etc.

Scope: The present study relates to Micro finance and Agriculture This study covers SHGs, Legal form of Micro Finance, Challenges before Micro Finance.

Limitations: The researcher has not gone through the primary as the first hand data was not available in time and it was not suitable also. Some relevant factors could not be attended due to paucity of time. The results of the analysis are based entirely on secondary data

Micro Finance Institutions In India: While financial services in India can be traced to the era of Kautilya in the fourth century BC the age of organized sector finance in India is generally acknowledged to have started with the Cooperative Credit Societies Act of 1904. The true expansion of financial services in India started with the nationalization of all banks in the country during the late 1960s. Micro finance is the provision of financial services to low- income poor and very poor self employed people

Microfinance Institutions Generally have the Following Characteristics**:**

1. Providing small loans for the working capital requirements of the rural poor.
2. Minimal appraisal of borrowers and investments as compared to commercial bank.
3. No collateral demanded; however, these institutions impose compulsory savings and group guarantees.
4. Based on loan repayment history of the members, microfinance institutions extend large loan to the members

The progress of the microfinance programme is given in Table No 1

Table No: 1 The progress of the Microfinance Programme(Rs in crore)

Sr. No.	Particulars	2007		2009		2010	
		No	Amount	No	Amount	No	Amount
1	Loan Disbursed	334	1,151.56	581	3732.33	779	10728.49
2	Loan Outstanding	550	1,584.48	1915	5009.09	1659	13955.74

Source- Source- Annual Report of NABARD, 2006-07, 2010-11, Mumbai.

It is clear from above table No 1, the progress of the microfinance programme there is tremendous increasing trend of micro finance programme in Loan Disbursed as well as Loan Outstanding

Legal form wise MFIs in India: Microfinance is intended to cater to the financial needs of the poor. Its key features include loans in small amounts which are non-collateralized and paid weekly, and provisions for savings and capital build-up. The weekly payment has proven to be feasible specifically in the informal economy of the urban setting more than in the rural areas. In the following table No 2, The MFIs in India can be broadly sub-divided into three categories of organizational forms.

Table No 2 -Legal form wise number of MFIs

Type of MFI	**No**	**Share**	**Legal acts under which registered**
Mutual Benefit MFIs			
Cooperatives	3	0	State Cooperative Societies Act
Mutually Aided Cooperative Societies	445	57	Mutually Aided Cooperative Societies Act enacted by the State Governments.
Sub total	**448**	**57**	
Companies			
Non Banking Financial Companies	24	3	Indian Companies Act, 1956 The Reserve Bank of India Act, 1934
Section 25 Companies	9	1	Section 25 of the Indian Companies Act, 1956
Sub Total	**33**	**4**	
NGO-MFIs			
Societies	199	25	Societies Registration Act, 1860 or similar Provincial Acts.
Trusts	106	13	Indian Trust Act, 1882
Sub total	**305**	**39**	
Totals	**786**	**100**	

Source- www.nabard.org/microfinance/mf_institution.asp

Microfinance and Agriculture : In many developing countries, the majority of poor people reside in rural areas and are dependent on agriculture, especially crop agriculture, for their livelihood. These agriculturalists confront climatic and price risks, seasonality demands and surpluses of labour and capital and often live in areas that are hard to address with financial services.

Microfinance institutions (MFIs) which are more socially driven could be good providers of agricultural finance and services to small producers. This is due in part to the fact that their financial services are often linked with the training and other support services that they provide, either directly or through linkages with other organizations. However, for a majority of MFIs, the reality is that their models are not very different from traditional microfinance, which tends to be very small, short term loans and frequent repayments, whereas agricultural producers mostly need longer term loans, often with grace periods on the basis of the production cycles. In other words, traditional credit products of MFIs are not well adapted to agriculture. For example, one MFI in Honduras indicated that all its loan obligations had to be paid monthly, so they could not offer anything that did not require a monthly type of repayment as a minimum

In order for microfinance organizations to venture into crop agriculture, it is important to understand the context of crop agriculture and their potential role in it. Agricultural microfinance is not business as usual but requires a different approach from that typically applied in many microfinance organizations. As described later, on the client side, there are generally much lower returns to capital, slower velocity of capital, higher uncontrolled risks and less understanding of finance and business.For the institutions, operating costs are higher as clients are less concentrated, production and market risks are systemic, and the physical infrastructure for services and communication is lacking. There is a higher susceptibility to interest rates given the lower velocity of capital, and there is a higher political risk of intervention. On the positive side, rural communities have a more established social structure and stability upon which to build. Secondly, new information and communication technologies, improved market integration systems and new or adapted financial products and approaches are opening the opportunities for microfinance institutions to better serve smallholder crop producers. Agricultural finance, especially for crops, is critical to boost food production and help address food security in the world and also to address the livelihood needs of the poor, a majority of whom depend upon agriculture for their sustenance. Yet conventional approaches to agricultural finance from development banks have been difficult, commercial banks have shied away due to perceived risks and costs and microfinance institutions with their relatively high cost, short term microcredit did not offer a solution. Today, agriculture has become more market-linked, microfinance institutions have evolved, strategic partnerships have increased opportunities, and new technologies and approaches to reduce cost and risk in agricultural microfinance have been developed. Understanding and applying these in the design and implementation of microfinance, financing crop agriculture for low-income households can be successful, sustainable and help address food and livelihood security.

Specificities of Agricultural Finance : The agricultural sector is different from other economic sectors in a number of ways. Activities are generally located in isolated areas with low population density and poor infrastructure4. They are dependent on weather and production cycles; income is seasonal and monetary income is limited. Agricultural prices are notoriously volatile and few farmers can offer guarantees that are legally or financial acceptable.These specificities demand financing mechanisms adapted to the diverse needs and services of rural households (Wampfler and Lapenu, 2002):

Short-term: input financing at the beginning of the crop year (seeds, fertilizers, pesticides), additional labor, feed, storage facilitates, processing, etc.

Medium and long term: equipment for intensification, commercialization (transportation), storage (buildings), perennial crops (investment, renewal, maintenance), (re)constitution of herds, land purchase.

Family needs: personal, durable goods, housing.

Savings Non-financial services: monitoring demand, technical assistance and extension.

Understanding how to best meet these financial needs and finding ways to mitigate the risks associated with them are added challenges that further hinder the expansion of financial services for agriculture. Moreover, as microfinance is increasingly integrating into conventional financial markets, the sector has no choice but to apply cost-covering interest rates. Such rates often contradict the expansion of rural coverage and agricultural finance due to the low profitability of the activities financed. All these factors explain the relative lack of interest in agriculture on the part of urban and semi-urban zones. Consequently, liberalized markets coupled with contractual innovations—elements promoted under the new paradigm—have not fulfilled their promises vis a vis rural and agricultural finance.

The Role of Shgs in Micro Finance: NABARD is instrumental in facilitating various activities under micro-finance sector at the ground level, involving all partners, viz., NGO, bankers, socially spirited individuals, other formal and informal entities and even government functionaries. This is done through training and capacity building of partners, promotional grant assistance to Self Help Promoting Institutions (SHPI), Revolving Fund Assistance (RFA) to Microfinance Institutions (MFI), equity/Capital Support (CS) to MFI to supplement their financial resources and 100 per cent refinance against bank loans for micro-finance activities. The SHG-Bank Linkage Programme launched by NABARD in 1992 continues to be the predominant Micro-Finance (MF) model in the country. It is a proven method of financial inclusion, providing unbanked rural clientele with access to formal financial services from the existing banking infrastructure

Table 2.4: Progress of the Self Help Group (As on 31 March) (`Rs. in crore)

Sr. No	Particulars	2007		2009		2010	
		No	Amount	No	Amount	No	Amount
1	Loan Disbursed	1105749	6570.39	1609586	12253.51	1586822	14453.30
2	Loan Outstanding	2894505	12366.49	4224338	22679.84	4851356	98038.28
3	Saving A/C With Banks	4160584	3512.71	6121147	5545.62	6953250	6198.71

Source- Annual Report of NABARD, 2006-07, 2010-11, Mumbai.

Above table No. Indicates that Progress of the Self Help Group from 2007 to 2010. Loan disbursed by SHGs was Rs. 6570.39 in 2006-07 which increase Rs. 14453.30 in 2010. On the other hand, Loan outstanding also increases by SHGs which was Rs. 612366.49 in 2007 which increase Rs. 98038.28 in 2010.

Challenges Facing The Indian Microfinance Sector

1. **Requirement of deposit services –** There are limited deposit services available for the poor in India. Under the SBLP, group savings accounts are opened in local banks, but these are used primarily for internal group lending, though with access to savings on exit. MFIs find it difficult to offer this service due to regulatory restraints. NBFCs hold a major chunk of the outreach and portfolio but are not permitted to accept member savings as deposits thereby leaving a large proportion of their clients (virtually all low income families around or below the poverty threshold) without access to this service.
2. **Deepening of outreach –** Unless SHPAs and MFIs know the depth of their outreach to clients below the poverty line (and different poverty lines) it will be difficult for them to address any issues related to the poor. In the fast paced growth of the sector it is particularly important to analyse if microfinance services providers are reaching down to those most in need and those not serviced by formal financial institutions. This is the common mandate (by and large) of most microfinance service providers and as tools have become available to measure poverty levels, the challenge is for institutions to define their target outreach more clearly, effectively segment their market and respond with appropriate products.
3. **Social performance management and reporting –** Whilst financial performance management and reporting has developed across the sector, with consensus on key indicators and ratios, the development of social performance management is just beginning. This is seen at the international level to be increasingly important, to ensure that microfinance meets its social goals as a double (or triple) bottom line sector. It will require some reorientation and skill building, to encourage SHPAs and MFIs to go beyond the numbers to ensure quality services with consistent management and reporting.
4. **Sector slow down due to global economic crisis –** The global economic crisis has affected all sectors across countries and continents. Smaller MFIs face problems in obtaining debt funds from banks and find it difficult to maintain liquidity. The liquidity risk has the potential to hamper refinancing of existing clients, leading to the risk of a rise in the current default rate.
5. **Capacity building –** Capacity building and improving understanding of techniques for improving microfinance management is the key to effective microfinance operations and eventually for achieving the objective of financial inclusion with social value. The effective bridging of capacity building gaps requires regular intervention in a number of areas like keeping pace with the fast growth of the sector, geographical spread and diversity and local language constraints. The high attrition rate of MFI staff is also a challenge often inhibiting MFI managements from investing in staff capacity.
6. **Regulation –** Regulatory movement with regard to microfinance has been slow and debates are still underway – as to which institution should be entrusted with regulatory supervision of the sector, and how to regulate the new NBFCs which serve a substantial majority of MFI clients.
7. **The problem of multiple lending –** With an increasing number of MFIs and expansion of operations, the issue of overlapping membership and potential over-indebtedness is beginning to emerge, particularly in certain areas of the country. This is an area that needs more research, and clearer guidelines for the sector on appropriate practice.

Conclusion: The Indian microfinance sector has grown by leaps and bounds during the first decade of the 21st century. A lot of changes have been witnessed during the last ten years on how the microfinance institutions function. Many transformed to for-profit legal forms (NBFCs) and the MFIs continue their efforts to become more efficient and productive. However, in the quest for growth and expansion somewhere the essence of microfinance reaching out to the agriculture has lost its focus. Practitioners and the national government in India are growingly interested in expanding agricultural microfinance. However, due to the unique and uncontrollable risks that farmers face, it is inherently risky for financial institutions to provide financial services to agricultural households.

In order to expand the outreach of agricultural microfinance and establish best practices, more careful research and pilot-testing of innovative microfinance products and services that aim at solving specific constraints of farming households are needed.

Any way India is always depending up on rural area development. Suppose the rural area will develop automatically nation will grow faster way, many economist to find out the what types of rural planes Indian villages need , with the help of scientific establishment of microfinance is possible to remove the village poverty.

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