PERIYAR INSTITUTE OF DISTANCE EDUCATION
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B.B.A.BANKING

THIRD YEAR

PAPER – XIII : INNOVATIVE BANKING

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SYLLABUS

(Core Subject)

Unit - I

Innovation: Meaning – Need for innovations in banking – Constraints in innovations – Role of technology in banking.

Unit – II

Innovations in savings and loan schemes: Innovative schemes of bank deposits, Mutual Funds, Housing Finance, Personal loans and Educational loans.

Unit – III

Innovations in Individual customer Service: ATMs, Consumer Credit Cards, Farm Credit Cards, Investment Counseling, 24x7 banking and other services.

Unit – IV

Innovations in Corporate customer service: Merchant Banking, Leasing, Venture capital, Factoring, Dematerialized Accounts, and Cash Management Services.

Unit – V

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UNIT I

INNOVATION

Meaning of innovation:

The term **innovation** means a new way of doing something. It may refer to incremental, radiacal, and revolutionary changes in thinking, products, processes, or organisations. A distinction is typically made between invention, and idea made manifest, and innovation, ideas applied successfully. (Mekeown 2008) In many fields, something new must be substantially different to be innovative, not and insignificant change, e.g., in the arts, economics, business and government policy. In economics the change must increase value, customer value, or producer value. The goal of innovation is positive change, to make someone or something better. Innovation leading to increased productivity is the fundamental source of increasing wealth in an economy.

Innovation is an important topic the study of economics, business, technology, sociology, and engineering. Colloquially, the word 'innovation' is often used as synonymous with the output of process. However, economists tend to foucs on the process itself, from the origination of an idea to its transformation into something useful, to its implementation; and on the system within which the process of innovation unfolds. Since innovation is also considered a major driver of the economy, the factors that lead to innovation are also considered to be critical to policy makers.

Those who are directly responsible for application of the innovation are often called pioneers in their field, whether they are individual or organisation.

Need for Innovation in banking:

In the 1990s, the banking sector in India saw greater emphasis being paced on technology and innovation. Banks began to use technology to provide better quality of services speed.

Internet banking and mobile banking made it convenient for customers to do their banking from geographically diverse places. Banks also sharpened their focus on rural markets and introduced a variety of services geared to he special of their rural customers.

Banking activities also transcended their traditional scope and new concepts like personal banking, retailing and bank assurance were introduced.

The sectors rapidly towards universal banking and electronic transactions, which were expected to change banking would be perceived in the future.

Issues: Examine the development of the banking system in India and understand the changes occurring in it.

- Understand the need for innovation of the banking system in India and understand the changes occurring in it.
- Appreciate the role of technology in increasing the convenience of customers and improving banking operations.
- Study the banking needs of rural India and the initiatives taken up by banks to cater to these needs.
- Analyze the changes occurring in the Indian baking sector and how these changes are likely to influence the way banking will be done in the future.

Constrains in innovations:

Low profitability: The profitability of the major financial intermediary, namely the bank has been very much affected in recent times. There is a decline in the profitability of traditional banking products. So, they have been compelled to seek out new products which may fetch high returns.

Keen competition: The entry of many financial intermediaries in the financial sector market has led to serve competition among them. This keen competition has paved the way for the entry of varied nature of innovative finance products so as to meet the varied requirements of the investors.

Economic liberalization: Reform of the financial sector constitutes the most important component of India's programme towards economic liberalization. The recent economic liberalization measure has opened the door to foreign competitors to enter into our domestic market.

Improved communication technology: The communication technology has become so advanced that ever the world's issuers can be linked with the investors in the global financial market without any difficulty by means of offering so many options and opportunities. Hence, innovative products are bought into the domestic market in no time.

Customer service: Now – a- days the customers expectation are very great. They want newer products at lower cost or lower credit risk to replace the existing ones. To meet the increased customer sophistication, the financial intermediaries are constantly undertaking research in order to invent a new product which may suit to the requirement of the investing public.

Global impact: Many of the providers and users of capital have changed their roles all over the world. Financial intermediaries have come out of their traditional approach and they are ready to assume more credit risks.

Investor's awareness: With a growing awareness among the investing public, there has been a distinct shift from investing the savings in physical assets like gold, silver, land etc, to financial assets like shares, debentures, mutual funds etc.

Challenges faced by the financial innovation:

Lack of qualified personnel: The financial services sector is fully geared to the task of financial creativity. However, this sector has to fact many challenges. In fact, the dearth of qualified and trained personnel is an important impediment in its growth.

Lack of investors' awareness: The introduction of new financial products and instruments will be of no use unless the investor is aware of the advantages and uses of the new and innovative products and instruments.

Lack of transparency: The whole financial system is undergoing a phenomenon changes in accordance with the requirements of the national and global environments. It is high time that is sector gave up their orthodox attitude of keeping accounts in a highly secret manner.

Lack of specialization: In the Indian scene, each financial intermediary seems to deal in different financial service lines without specialization one or two areas. In other words, each intermediary is acting as a financial super market delivering so many financial products and dealing in different varieties of instruments.

Lack of recent data: Most of the intermediaries do not spend more on research. It is very vital that one should build up a proper data base on the basis of which one could embark upon financial activity.

Lack of efficient risk management system: With the opening of the economy to multinationals and the exposure of Indian companies to international competition, much importance is given to foreign port folio flows. It involves the utilization of multi currency transaction which exposes the client to exchange rate risk interest rate risk and economic and political risk.

Role of Technology in banking:

Banking Technology:

The section provides at one place all information related to Technology in the Banking, Finance & Insurance (BFSI) Industry.

Information provided in this section is used extensively in reports and studies across the globe. Directory of IT-ITES Companies is the most popular page of this section. The Software Packages for Banking Applications in India had their beginnings in the middle of 80s, when the Banks. spurred on by RBI and the **Rangarajan Committee Report**, started computerizing the branches in a limited manner. The early 90s saw the plummeting hardware prices and advent of cheap and inexpensive but high-powered PCs and servers and Banks went in for what was called Total Branch Automation (TBA) Packages. The middle and late 90s witnessed the tornado of financial reforms, deregulation, globalization etc coupled with rapid revolution in communication technologies and evolution of novel concept of 'convergence' of computer and communication technologies, like Internet, mobile / cell phones etc. The evolution of IT services outsourcing in the Indian banks has presently moved on to the level of Facilities Management (FM). Banks now looking at business process management (BPM) to increase returns on investment, improve customer relationship management (CRM) and employee productivity.

The internet banking portal of our bank, enables its retail banking customers to operate their accounts removing the restrictions imposed by geography and time. It’s a platform that enables the customers to carry out their banking activities from their desktop, aided by the power and convenience convenience of the internet.

Availing the Internet banking services, you can do the following normal banking transaction online:

- Easy fund transfer
- Third part fund transfer
- Inter Bank fund transfer
- New account opening
- Demand draft requests
- Standing instructions
- New cheque-book request and much more.

Apart from these, the other salient value-added features available are:

- Air&Railway tickets booking
- Utility bill payments
- LIC and other insurance premium payments
- Mutual funds investments
- Remit subscription to PPF account
- Credit Card dues payments
- Tax payments
- Donations to your religious inspirations
- Donations to Red Cross and other such organisations
- Settings up SMS alerts for transaction information

Truly smart services to cover most of your banking transactions. Above all, you can transfer funds between accounts held at several locations.

Kinds or Types of technologies in Banking:

- INDNET BANKING
- INDCORP NET BANKING
- IND PHONE BANKING
- IND MOBILE BANKING
- ATM

INDNET BANKING:

- Balance / transaction enquiry for all your accounts
- Funds transfer within Bank's own branches & to other banks branches through RTGS/NEFT
- Cheque realisation status enquiry
- Viewing/download of statement of account
- Viewing/download of statement of account
- Viewing demat account

INDCORP NET BANKING:

- Balance / transaction enquiry for all your accounts
- Funds transfer within Bank's own branches & to other banks branches through RTGS/NEFT
- Cheque realisation status enquiry
- Viewing/download of statement of account
- Viewing/download of statement of account
- Viewing demat account
- Ensures multi level user authentication of transactions
- Flexible enough to cater to the needs of small and big corporates

IND PHONE BANKING:

- Balance enquiry
- Statement of account by fax
- Issued / deposited cheque status enquiry
- Change of phone banking PIN

IND MOBILE BANKING:

- Balance / Transaction enquiry view
- Cheque realisation enquiry view

- SMS Alerts for:
    - **Debit/Credit transactions of Rs.5,000 and above**
    - **Bouncing of cheque**
- Statement of account view for the last 4 transactions

ATM:

- Anytime cash
- Balance enquiry
- Mobile top-ups
- Booking of Train Tickets
- Mini Statement of account
- Payment for kingfisher Air Tickets
- ATM cum Debit Card can be used for purchase of merchandise / service at point of sale globally.

Instant Online Trading from your Bank Account:

State Bank of India (SBI) now introduces you to ez-trade@sbi, a state of-the-art online trading platform predominately to cater to every trading need and offers a truly world class experience of online investing any place, any time. This service provides you with a 3-in-1 account which is an integrated platform to give you a convenient and paper-free trading experience under one roof.ez-trade@sbi will let you trade form the comfort of your home or office through the internet. Buying and selling of shares is now just a click away!

Our value proposition is based on distinguished expertise, Sate-of-the Art technology and operational ease that will redeline the way India trades. With us, you have the power of research expertise to aid you in making the right decisions, operational ease which allows you to seamlessly execute your transactions, timely research inputs that helps you pick the right opportunities and a customized trading experience to suit your needs and demands. And what's more, the account opening is absolutely free as an introductory offer!! So go ashead and enjoy your fast, easy and hassle-free trading experience with India's Largest Bank.

Enrollment Procedure:

You will have to register yourself for the online trading platform by filling up the required client registration forms and submitting them to a State Bank of India Core Banking Branch, where you have your banking relationship. The ez-trade@sbi account comprises of:

- Internet Banking Enabled Bank Account with a Crore Banking Branch of SBI

- Internet. Enabled Demat Account – on Centralised DP of SBI
- Online Trading Account with SBI Cap Securities Ltd. / Motilal Oswal Securities Ltd.

Please Note: If you already have a bank account with the core banking branch of SBI and / or Demat account with our centralized DP then you do not have to open these accounts. Only Trading Account needs to be opened.

List of Documents Required:

A) Proof of Identity – Copy of PAN Card (3 copies self attested)

B) Proof Address – Copy of the following (self attested)

- Passport
- Ration card
- Voter's ID
- Driving Licence
- Electricity bill (not more than 2 months old)
- Landline Telephone Bill (not more than 2 months)
- Bank Pass Book

C) **Bank proof –** Copy Bank Pass Book or Personalised Cheque leaf (for applicants already having a Bank Account with us)

D) **Demat Account Proof –** Demat Account Statement or Account Opening Letter (for applicants already having a Demat Account with us)

E) Photograph -3 recent passport size photographs

Account Opening Intimation:

After the 3-in-1 account form is duly filled and accepted by us, you will receive a welcome pack containing all that it takes for you to kickoff online trading on eztrade@sbi within a maximum period of ten working days. The welcome pack will contain:

- **A welcome letter containing details of your trading account**
- **A product manual on ez-trade@sbi, which is a brief write-up on the product**
- **Your user ID and the password**

Product Features:

Lien Marking Facility:

- A unique facility by which you can Block Funds in your savings account or Block Shares in your Demat account to trade online.

- Instant limit on selling shares and on lien marked funds
- The funds/shares will be actually transferred to the broker's account at the end of the day only if the transactions placed by you are executed. Thus fund released is only a net debit or credit based on your net obligation.
- Automated net payout of funds and securities

Multiple Product Offering:

- Comprehensive range of financial products covering Equity, Derivatives, Mutual Funds &IPOs
- Saves you the hassle of filling tedious applications forms
- Participate in Mutual Funds & IPOs by applying online
- Live quotes of NSE-Cash/derivative, BSE Cash
- Create multiple market watches and track stocks across various sectors
- NSE-Cash, Derivative & BSE scripts on the same market watch
- Access to latest research reports, daily market dairy, pivot with top gainers/losers

Advanced Technology Platform:

- Single screen order/trade entry without any hassles of writing transfer instructions/ cheques
- Instant order/ trade confirmation giving you a similar trading experience as that of exchange based software
- You are assured of the highest level of safety as sbi,s online banking system is powered by verisign, the world's leading internet certification authority which is a 128 bit encryption based secured transaction platform.

Internet viewing of Demat Account Details:

You can now view your Demat account details, statement of holding, Statement of transaction and statement of billing online through www.onlinesbi.com. If you are an SBI Bank customer (holding a Bank Account and Demat Account) and want the Demat account viewing facility. The filled-in form, duly signed by all the account holders needs to be submitted to your Demat account branch.

NOTES

UNIT II

Innovation in savings and loan schemes:

Unique and different - Describe what makes your idea unique and different:

CoSeSaCaLoS, shall be the first micro-finance scheme to be solely financed and managed by empowered/trained members, who are the owners of the scheme, as against Mohamed Yunus's micro-finance scheme, managed by employed trained professionals, who have no stake in the scheme and so transformed it to a commercial bank, with profit first as against underprivileged/social-entrepreneurs empowerment envisaged by Mohamed Yunus.

The scheme shall have professional/experienced external advisers/counsellors who shall be consulted when need arises, but shall have nothing to do with administration and management. There shall be no debenture share holders, to dictate the pace of its activities; the general assembly shall decide who should become a member after an application for membership.

Interested youthful members shall be trained to prepare succession and serve as volunteers for six months, before being employed when opportunities arises. It's an existing scheme amongst people/groups and not organised by an individual.

Innovative schemes of bank deposits:

MUTUAL FUND

Meaning:

A mutual fund is a corporation, which receive funds from investors and deploy the same in equities, long term bonds and money market etc. Thus the fund of mutual fund thus collected is deployed in diversified portfolio. They have in their pool professional investment analysts who try to maximize the return on behalf of investors keeping in mind the likely risk involved in the whole exercise.

Definition:

The SEBI (mutual funds) regulations, 1993, defines a mutual fund as," a fund established in the form of a trust by a sponsor, to raise monies by the trustees through the sale of units to the public, under one or more schemes, for investing in securities in accordance with these regulations".

According to Kamm. J. O, defines an open and investment company as ," an organization formed for the investment of funds obtained from individuals and institutional investors who in exchange for the funds receive shares which can be redeemed at any time at their underlying asset values".

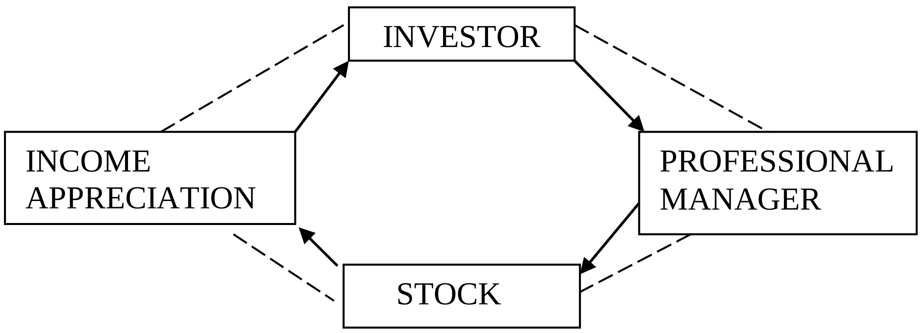
Mechanism of mutual fund operation:

The professional manager of a fund invests the collected money in different types of securities for and on behalf of the investors. The investment is based on the objectives for which the money is collected. They could range from shares to debentures to money market instruments.

The income earned through these investments and the capital appreciation realized by the scheme are shared by its unit holders in proportion to the number of units owned by them (pro rata).

The received income again is invested on funds by investors. Thus a mutual fund is the most suitable investment for the common person as it offers an opportunity to invest in a diversified professionally managed portfolio at a relatively low cost. Any body with an investible surplus of as a few thousand rupees can invest in mutual funds. Each mutual fund scheme has a defined investment objective and strategy.

MUTUAL FUND FLOW CHART



Functions or services of mutual funds:

- To mobilize funds by selling their own shares known as units.
- To act as an investment intermediary to acquire individual investments and pass on the returns to small fund investors.
- To provide an ideal avenue for investment for persons of small means and enables them to earn a reasonable return with the advantages of relatively better liquidity.
- Investors are relieved of the emotional stress involved in buying or selling securities since mutual funds take care of this function.
- To provide high degree of liquidity for the fund holders.
- To provide the advantages of an active secondary market.

- To provide investors with flexible investment opportunities whereby it is possible to switch from one scheme to another.
- To provide tax shelter to the investors.
- To enhance the quantum of distributable income available for investors.
- To make contributions to the development of a country economy.
- To provide automatic reinvestment of dividend and capital gains.
- To provide investors stress free investment opportunities.
- To render expertise investment service at low cost.
- To support the development of capita markets.
- Minimizing the risk on investment by diversifying the investment.

Types or kinds of Mutual funds:

In the investment market, one can find a variety of investors with different needs, objectives and risk taking capacities. For instance, a young business man would like get more capital appreciation for his funds and he would be prepared to take greater risks than a person who is just on the verge of his retiring age.

On the basis of execution and operation | On the basis of yield and investment pattern

Close ended | Open ended

Income fund | growth fund | balance fund | specialized fund | money market | taxation fund

Close ended funds:

The corpus of the fund and its duration are prefixed. In other words, the corpus of the fund and the number of units are determined in advance once the subscription reaches the pre determined level, the entry of investors is closed. After the expiry of the fixed period, the entire corpus is disinvested and the proceeds are distributed to the various unit holders in proportion to their holding.

Features:

The period and or the target amount of the fund is definite and fixed beforehand.

- They cannot purchase any more units.
- Once the period is over and or the target is reached, the door is closed for the investors.
- The main objective of this fund is capital appreciation.
- At the time of redemption, the entire investment pertaining to a closed end scheme is liquidated and the proceeds are distributed among the unit holders.

Open ended funds:

It is just the opposite of close ended funds. Under this scheme, the size of the fund and / or the period of the fund is not predetermined. The investors are free to buy and sell any number of units at any point of time. For instance, the Unit Scheme (1964) of the unit trust of India is an open ended one, both in terms of period and target amount. Any body can buy this unit at any time and sell it also at any time at his discretion.

Features of this fund:

- There is free entry and exit of investors.
- These units are publicly traded.
- The units can be sold on any working day
- The main objective of this fund is income generation.
- Since they are not listed on the stock market, this prices are linked to the NAV of the units.

On the basis of income:

Income funds:

As the very name suggests, this fund aims of generating and distributing regular income to the members on a periodical basis. It concentrates more on the distribution of regular income and it also sees the average return is higher than that of income from bank deposits.

Features:

- The investor is assured of regular income of periodic intervals, say half yearly or yearly and so on.
- This type of fund is to declare regular dividends and not capital appreciation.
- The portion of investment is oriented towards high and fixed income yielding securities like debentures, bonds etc.
- This is best suited to the old and retired people who may not have any regular income.

- It concerns itself with short run gains only.

Growth mutual fund in India:

Pure growth funds (Growth Oriented Funds):

Unlike the income funds, growth funds concentrate mainly on long run gains i.e., capital appreciation. They do not offer regular income and they aim at capital appreciation in the log run. Hence, they have been described as "nest eggs" investments.

Features:

- The growth oriented fund aims at meeting the investor's need for capital appreciation.
- The investment strategy therefore conforms by taking much risks and investing the funds predominantly on equities with high growth potential.
- The funds try to get capital appreciation by taking mush risks and bearing equities and high growth equity shares.
- The fund may declare dividends, but its principal objective is only capital appreciation.
- It is high risk bearing capacity and ability to defer liquidity.

Balanced funds:

This is otherwise called income cum growth fund. It is nothing but a combination of both income and growth funds. It aims at distributing regular income as well as capital appreciation. This is achieved by balancing the investment between the high growth equity shares an also the fixed income earning securities.

Specified funds:

Besides the above, a large number of specialized funds are in existence abroad. They offer special schemes so as to meet the specific needs of specific categories of people like pensioners, widows etc. There are also funds for investments in securities or specified areas. In fact, these funds open the door for foreign investors to invest on the domestic securities of these countries.

Money market mutual funds (MMMFs):

These funds are basically open ended mutual funds and such they have all the features of the open ended fund. But they invest is highly liquid and safe securities like commercial paper, banker's acceptances, certificates of deposits, treasury bills etc. Those instruments are called money market instruments. Investors generally use it as a parking place" or 'stop gap arrangement ‘ for their cash resources till they finally decide about he paper avenue for their investment i.e., long term financial assets like bonds an stocks.

Taxation funds:

A taxation fund is basically a growth oriented fund. But it offers tax rebates to the investors either in the domestic or foreign capital market. It is suitable to salaried people who want to enjoy tax rebates particularly during the month of February and March. An investor is entitled to get 20% rebate in income tax for investments made under this fund subject to a maximum investment of Rs. 1000 p.a.,

Other classification:

Leveraged funds:

These funds are also called borrowed funds since they are used primarily to increase the size of the value of portfolio of a mutual funds. When the value increases, the earning capacity of the fund also increases. The gains are distributed to the unit holders. This is resorted to only when the gains from the borrowed funds are more then the cost of borrowed funds.

Dual funds:

This is a special kind of closed end fund. It provides a single investment opportunity for two different types of investors. For this purpose, it sells two types of investment stocks viz., income shares and capital shares. The holders of capital shares receive all the gains earned on those shares and they are not entitled to receive any dividend of any type. In this respect, the dual fund is different from a balanced fund.

Index fund:

Index funds refer to those funds where the portfolio is designed in such a way that they reflect the composition of some broad based market index. This is done by holding securities in the same proportion as the index itself. It is so because only lower purchases and sales of securities would take place.

Bond funds:

These funds have portfolios consisting mainly of fixed income securities like bonds. The main thrust of those funds is mostly on income rather then capital gains. They differ from income funds in the sense income funds offer an average returns higher than that from bank deposits and also capital gains lesser that in equity shares.

Aggressive growth funds:

These funds are just the opposite of bond funds. Those funds are capital gains oriented and thus the thrust area of these funds is ‘capital gains’. Hence, these funds are generally invested in speculative stocks. They may also use specialized investment techniques like short term trading, option writing etc. Naturally, these funds tend to be volatile in nature.

Off shore mutual funds:

Off shore mutual funds are those funds which are meant for non residential investors. In other words, the sources of investments for these funds are from abroad. So, they are regulated by the provisions of the foreign countries, where those funds are registered. Those funds facilitate flow of funds across different countries, with free and efficient movement of capital for investment and repatriation.

The risks that is associated with mutual funds/Problems of mutual funds:

Risks:

Mutual funds are not free from risks. It is so because basically the mutual funds also invest their funds in the stock market on shares which are volatile in nature and are not risk free. Hence, the following risks re inherent in their dealings.

Market risks:

In general, there are certain risks associated with every kind of investment on shares. They are called market risks. These market risks can be reduced but cannot be completely eliminated even by a good investment management. The process of share is subject to wide price investment management. The prices of share are subject to wide price fluctuations depending upon market conditions over which no body has a control.

Scheme risks:

There are certain risks inherent in the scheme itself. It all depends upon the nature of the scheme. For instance, in a pure growth scheme, risks are greater. It is obvious because if one expects more returns as in the scheme, one has to take more risks.

Investment risk:

Whether the mutual fund makes money in shares or losses depends upon the investment expertise of the AMC of the investment advice goes wrong the fund has to suffer a lot.

Business risk:

A company issuing a security may not be financially sound due to factor like poor management, low product demand or huge operating expenses. It is known as business risk.

Credit risk:

An issue will default on a fixed income security by failing to pay interest or principal when due. It is the credit risk.

Political risk:

Politics events may unfavorably influence the value of security. It is known as political risks. Other political risks could include was changes in government etc.

Liquidity risk:

A mutual fund underlying securities, i.e., low profile securities cannot be sold to a fair price when the need arises. It affects the liquidity at a security. It is known as liquidity risk.

Timing risk:

Buying and selling a security at the wrong time is leading to the risk. For example, there is the chance that a few after an investor sells a fund, it will go up value or these is decline in value of a fund after he buys it.

Inflation risk:

The return on investments will not increase with rising consumer prices. It is called inflation risks.

Interest rate risk:

The value of a fixed income security will drop as interest rate rise. It is called interest rate risk and this risk cannot be avoided.

Advantages or importance of mutual funds:

The mutual fund industry has grown at a phenomenal rate in the recent past . One can witness a revolution in the mutual fund industry in view of its importance to the investors in general and the countries economy at large.

- **Channelising savings for investment:**

Mutual funds act as vehicle in the savings of the people by offering various schemes suitable to the various classes of customers for the development of the economy as a whole. The whole economy benefits due to the cost efficient and optimum use and allocate of scarce financial and real resources in the economy for its speedy development.

- **Offering wide portfolio investment:**

Small and medium investors used to burn their fingers in stock exchange operations with a relatively modest outlay. If they invest in a select few shares, some may even sink without a trace never to rise again. The risk diversification which a pool of savings through mutual funds can achieve cannot be attained by a single investor’s savings.

- **Providing better yields:**

The pooling of funds from a large number of customers enables the fund to have large funds as its disposal. Due to those large funds, mutual funds are able to buy cheaper and sell dearer than the small and medium investors. The transaction costs of large investment are definitely lower than that of small investments.

- **Rendering expertise investment service at low cost:**

The management of the fund is generally assigned to professionals who are well trained and have adequate experience in the field of investment. The investment decisions of those professionals are always backed by informed judgment and experience.

- **Providing research service:**

A mutual fund is able to command vast resources and hence it is possible for it to have an in depth study and carry out research team which constantly analyses the companies and the industries and recommends the fund to buy or sell a particular share.

- **Offering tax benefits:**

Certain funds offer tax benefits to its customers. Thus, apart from dividends, interest and capital appreciation, investors also stand to get the benefit of tax concession. The mutual funds themselves are totally exempt from tax on all income on their investments. But all other companies have to pay taxes and they can declare dividends only from the profits after tax. This is really a boon to investors.

- **Introducing flexible investment schedule:**

Some mutual funds have permitted the investors to exchange their units from one scheme to another and this flexibility is a great boon to investors one cannot derive such a flexibility in any other investments.

- **Providing greater affordability and liquidity:**

Even a very small investor can afford to invest in mutual funds. They provide an attractive and cost effective alternative to direct purchases of shares. In the absence of mutual funds, small investors cannot think of participating in a number of investments with such a merge sum. Again there is greater liquidity. Units can be sold to the fund at any time at the NAV and thus quick access to liquid cash is assured.

- **Simplified record keeping:**

An investor with just an investment in 500 shares or as in 3 or 4 companies has to keep proper record of dividend payments, bonus issues, price movements, purchase or sale instruction, brokerage and other related items.

The investor has to keep record of only one deal with the mutual funds even it is has does not keep a record the mutual funds sends statement very often to the investor. Thus, by investing mutual funds the record keeping work is also passed on the fund.

- **Supporting capita market:**

Mutual funds play a vital role in supporting the development of capita markets. The mutual funds make the capital market active by means of providing a suitable domestic source demand for capital instruments. In other words, the savings of the people are directed towards investment in capital markets through these mutual funds. Thus it is rendering an excellent support to the capita market and helping in the process of institutionalization of the market.

- **Promoting industrial development:**

The economic development of any nation depend upon its industrial advancement and agricultural development. All industrial units have to raise their funds by resorting to the capita market by the issue of shares and debentures. In fact the entry of mutual funds has enhanced the demand for India's stocks and bonds. Thus, mutual funds provide financial resources to the industries at market rates.

- **Acting as substitute for initial public offering:**

In most cases investors are not able to get allotment in IPOs of companies because they are often over subscribed many times. Moreover, they have to apply for a minimum of 500 shares which is very difficult particularly for small investors.

- **Reducing the marketing cost of new issues:**

Moreover the mutual funds help to reduce the marketing cost of the new issues. The promoters used to allot a major shares of the initial public offering to the mutual funs and thus they are saved from the marketing cost of such issues.

- **Keeping the money market active:**

An individual investor can not have any access to many market instruments since the minimum amount of investment is out of his reach. Thus mutual funds provide stability to share prices, safely to investors and resources to prospective entrepreneurs.

Mutual fund organization:

A mutual fund can be constituted either as a corporate entity or as trust. Indian banks when permitted to operate. Mutual funds were asked to create trusts to run those funds. The basic different between a corporation and a trust is that in the case of the company, the liability is limited where as in case of the trust it is unlimited. The department of company affairs, ministry of law, justice and company affairs has issued guidelines in respect of registration of asset management companies (AMCs) in consultation with SEBI as follows;

- Mutual funds are to be established in the forms of trusts under Indian trust act and are to be operated by separate AMCs or it can be initiated as a company under Indian companies act, 1956.
- AMCs shall have a minimum net worth of Rs. 5 crore.
- AMCs and trustees of mutual funds are to be two separate legal entities.
- Mutual funds dealing exclusively with money market instruments are to be regulated by RBI.
- Mutual funds dealing primarily in the capital market instruments and partly in money market instruments are to be regulated by the SEBI.
- All schemes headed by mutual funds are to be registered with SEBI.

Major players helping in running a Mutual funds:

Registrars and transfer agents:

- He receives and processes the application form of investors.
- He issues unit certificates.
- He maintains detailed records of unit holders.
- He purchases, sells, transfers and redeems the unit certificate.
- He issues income warrants, broker cheques etc.
- He creates security interest on units for allowing loans against them.

Advertiser:

- He helps funds to prepare a media plan marketing the fund.
- He issues or buys the space in newspaper and other e- media for advertising.
- He arranges for hoarding at public places.

Adviser / manager:

- He extends professional advice on the fund's investments.
- It advises on asset management services.

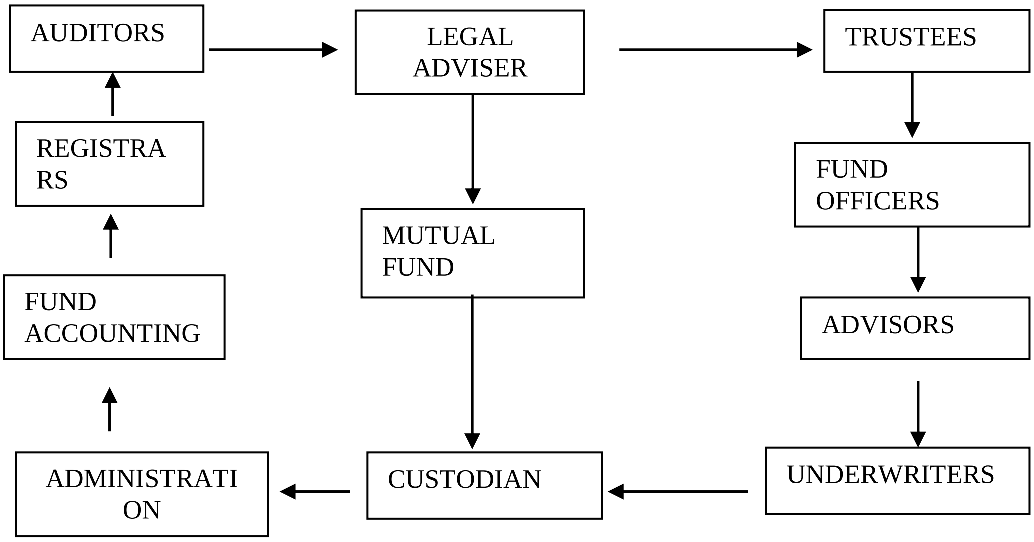
Custodian:

- It holds securities. It receives and delivers securities.
- It collects income on the securities.
- It holds and processes cash.

- Collection of dividend, interest, bonus, right and other benefits.

Growth of Mutual fund in India:

MUTUAL FUND ORGANISATIONS



Other players:

- Fund administrator
- Fund accounting advisor
- Legal advisor
- Underwriters/ distributors.

Asset management company (AMC):

The AMC actually manages the funds of the various schemes. The AMC employs a large number of professionals to make investments, carry out research and to do agent and investor servicing. In fact, the success of any mutual fund depends upon the efficiency of this AMC. The AMC submits a quarterly report on the functioning of the mutual fund to the trustees who will guide and control the AMC.

SEBIs requirements of AMC:

The SEBI requires the AMC to possess the following attributes in order to ensure in efficient management.

- Track record
- Reputation
- Expertise
- Operational autonomy
- Contribution.

Trustees:

They are people with long experience and good integrity in their respective fields. They should safeguard the interest of investors for this they monitor the operations of the different schemes. They have wide ranging powers and they can even dismiss asset management companies with the approval of the SEBI.

Fund accountants:

- Computing the NAV per unit of the scheme on a weekly basis.
- Maintaining its books and records
- Monitoring compliance with the schemes, investment limitations as well as the regulations of SEBI.
- Preparing and distributing reports on the scheme for the unit and SEBI.

Load managers:

- Selecting and coordinating the activities of intermediaries.
- Carrying out extensive campaigns about the scheme
- Acting as marketing associates to attract investors.

Auditors:

An auditor is required to be appointed by the AMC and must undertake independent inspection and verification of its accounting activities.

Mutual funds in India:

In India, the mutual fund industry has been monopolized by the unit trust of India ever since 1963. Now, the commercial banks like the state Bank of India, Canara Bank, etc. To add to the list are the LIC of India and the private sector banks and other financial institutions. The UTI has introduced huge portfolio of schemes like unit 64 etc.

There are also mutual funds with investments sourced abroad called "off shore funds". They have been established for attracting NRI investment to the capita market in India. The India fund unit scheme 1986 trade in the London Stock Exchange and the India fund unit scheme 1988 traded in the New York stock exchange were floated by the UTI and the India magnum fund was floated y the SBI.

In India , mutual funds has been preferred as an avenue for investment by the household savers only from 1990s. The sale of units of UTI which were Rs. 890 crores in 1985-86 rose to RS. 4100 crores in 1990-91 and RS. 9500 crores in 1993-94. On the whole, the mutual fund industry was able to mobilize approximately RS. 12000 crores in 93-94 which accounts to 8% of the gross domestic house holding savings in the country. It is a good going indeed. However, the rate of growth is comparatively low and not very satisfactory.

Problems of Mutual funds:

Disparity between NAV and listed price:

Small investors are really bewildered at the lack of proper pricing for their units. Through the NAV seems to be good the listed prices are awfully poor. Of course, the NAV is used as a parameter to rate the awfully poor of course, the NAV is used as a parameter to rate the performance of the mutual funds. however, in practice, almost all the mutual fund schemes are deeply discounted to their NAV by as much as 30 to 40%.

No uniformity in the calculation of NAV:

It is interesting to note that there is no standard formula for the calculation of the NAV. With the result, different companies apply different formula, and hence, any fruitful comparison of one fund with another is not all possible. Hence small investors cannot form a concrete opinion on the performance of different funds.

Lack of transparency:

Mutual funds in India are not providing adequate information and materials to the investors. It was expected that they would provide a detailed investment pattern of their various schemes. For the success of mutual funds it is very essential that they should create a good report with the investors by declaring their entire holding to them.

Poor investor servicing:

Mutual funds have failed to build up the investor confidence by rendering poor services. Due to the recurring transfer problems and non receipt of dividend in time, people are hesitant to touch the mutual fund script. Instances are there where people have to wait for more than six month to get their unit certificates. In the case of a company, there is a statutory obligate to convene the meeting of the shareholders and place before them important matters for discussion. There is no such meeting in the cases of Mutual Fund Company.

Too much dependence on outside agencies:

In India, most of the funds depend upon outside agencies to collect data and to do research. There is no doubt that research driven funds can ensure good returns to its members. But one should not rely on borrowed research. Administrative expenses will go beyond 3% level fixed by the SEBI.

Investor's psychology:

Investors often compare with that of shares and expect a high listing price. They don't realize that unit is a low risk long term instrument. Indeed mutual funds are only for those who have the patience to wait for a long period say 3 to 5 years. But in practices, people do not have the patience. Hence units are not popular among the public.

Absence of qualified sales force:

Efficient management of a fund requires expertised knowledge in portfolio management and skill in execution, without professional agents and intermediaries, it cannot be managed efficiently. Unfortunately such professional people are rare one can find a network of qualified brokers to deal in shares and stocks.

Other reasons:

Few funds which have not performed will have actually depend demoralized the investing public. Moreover, the listing of close ended funds on the stock exchanges has compelled the medium and small investors to go back to the stock market and face the hassles and headaches of its dealing.

Future of mutual funds industry:

- The securities and exchange board of India is lending its full support for the promotion of mutual funds industry directly as well as indirectly.
- The small investors find them out of their reach and hence, they have to seek the blessings of the mutual fund industry.
- In recent times, interest rates on basic deposits have been declining. The returns on the mutual fund schemes compare farourably with the returns on bank deposits.
- The trend of rising price earning ratio, the entry of large domestic institutional investors, the opening of the market to the foreign investors etc.
- The investors have a good choice to meet their different expectations like security, growth and liquidity.
- The government has also given the necessary imputes by providing tax concessions and tax exemptions.
- The department of company affairs has agreed to amend the companies act to grant voting rights in companies for mutual funds.
- Again mutual funds have been permitted to underwrite shares also.
- The union budget 1999-2000 contains many measures to encourage the mutual fund industry .

- A three year dividend tax exemption from UTI and equity dominated open ended mutual funds.

SEBI guidelines for mutual funds

General guidelines:

For proper functioning of mutual funds and for ensuring investor protection, the following important guidelines have been framed by the government of India.

General:

- Money market mutual funds would be regulated by the RBI while other mutual funds would be regulated by the SEBI.
- Mutual funds shall be established in the form of trust under the India trust act and be authorized for business by the SEBI.
- Mutual funds shall be operated only by separately established asset management companies (AMCs).
- At least 50% of the board of AMC must be independent directors who have no connections with the sponsoring organization. The directors must have professional experience of at least 10 years in the relevant fields such as portfolio management, financial administration etc.
- The AMC should have a minimum net worth of Rs. 15 crores at all times.
- The SEBI is given the power to withdraw the authorization given to any AMC if it is found to be not serving the best interest of investors as well as the capita market. It is not applicable to bank sponsored AMCs.

Business activities:

- Both AMCs and trustees should be treated as two separate legal entities.
- AMCs should not be permitted to undertake any other business activity except mutual funds.
- One AMC cannot act as the AMC for another mutual fund.

Scheme:

- Each scheme of a mutual fund must be compulsorily registered with the SEBI before it is floated in the market.
- The minimum size of the fund should be Rs. 20 crores in the case of each closed and scheme and it is Rs. 50 crores for each open end scheme.
- Closed end schemes should not be kept opened for subscription for more than 45 days . For open end schemes, the first 45 days should be considered for determining the target figures or the minimum size.

- If the minimum amount or 60% of the targeted amount whichever is higher, is not raised, the entire subscription has to be refunded to the investors.
- To provide continuous liquidity, closed end schemes should be listed on stock exchange. In the case of open end schemes, mutual funds shall and repurchase units at pre determined prices based on NAV and such price should be published at least once in a week.
- For each scheme, there should be separate and responsible fund manager.

Investment norms:

- Mutual funds should invest only in transferable securities either in the capita market or money market or securitized debt. It cannot exceed 10% in the case of growth funds and 40% in the case of income funds.
- The mutual funds should not invest ore than 5% of its corpus of any scheme in any one company's shares.
- No scheme should invest in any other under the same AMC.
- No mutual fund under all its schemes take together can invest more than 15% of the funds in the shares and debentures of any specific industry except in the same case of those schemes which are specially floated for investment in one or more specified industries.

Expenses:

- The AMC may charge the mutual funds with investment management and advisory fees. Such fees should have been disclosed in the prospects.
- The initial issue expenses should not exceed 6% of the funds raised under each scheme.
- Excepting the initial issue expenses, all other expenses to be charged to the fund should not exceed 3% of the weekly average net assets outstanding during the current year. It must be disclosed through advertisements, accounts etc.

Income distribution:

All mutual funds must distribute a minimum of 90% of their profits in any given year.

Disclosure and reporting:

- The SEBI is given wide powers to call for any information regarding the operation of mutual funds and any of its schemes from the mutual funds or any person. Associated with like the AMC, trustee, sponsor etc.

- Every mutual fund is required to send its copies of duly audited annual statements of accounts. Six monthly unaudited accounts, quarterly statements of movements in net assets for each of its scheme to the SEBI.
- The SEBI can lay down the accounting policies, the format and contents of financial statements and other reports.
- The SEBI shall also lay down a common advertising code for all mutual funds to comply with.

Accounting norms:

- All mutual funds should segregate their earnings as current income, short term capital gains and long term capital gains.
- Accounting for all the schemes must be done for the same year ending.

Winding up:

- Each closed end scheme should be wound up or extended with the permission of the SEBI as soon as the predetermined period is over.
- An open end scheme shall wound up is the total number of units outstanding after repurchases at a point of time falls below 50% of the issued number of units.

Violation of guidelines:

- The SEBI can after the due investigation impose penalties on mutual funds for violating the guidelines as may be necessary.

Factors to be considered in selection of a mutual fund:

Mutual funds are not magic institutions which can bring treasure to the million of their investors within a short span of times. All funds are equal to start with. The investor has to be very careful in selecting a fund. He must take into account the following factors for evaluating the performance of any fund and then finally decide the one he has to choose.

Objective of the fund:

First of all he must see the objective of the fund whether income oriented or growth oriented. Income oriented are backed mainly by fixed interest yielding securities like debentures and bonds where as growth oriented are backed by equities.

Consistency of performance:

A mutual fund is always intended to give steady long term returns and hence, the investor should measure the performance of a fund over a period of at least three years. Investors are satisfied with a fund that shows a steady and consistent performance than a fund which performs superbly in one year and then fails in the recent year.

Historical background:

The success of any fund depends upon the competence of the management, its integrity, periodicity and experience. The fund integrity should be above suspicion. A good historical record could be a letter horse to be on than new funds. It is in accordance with the maxim ***"A known devil is better than an unknown angel".***

Cost of operation:

Mutual funds seek to do a better job of the investible funds at a lower cost than the individual could do for the themselves. The prospective investor should scrutinize the expenses ratio of the fund and compare it with others.

Capacity for innovation:

The efficiency of a fund manage can be tested by means of the innovative schemes he has introduced in the market so as to meet the diverse needs of investors.

Investor servicing:

The most important factor to be considered is prompt and efficient servicing. Service like quick response i.e., investor queries, prompt, dispatch of unit certificates, quick transfer of units, immediate encashment of units etc.

Market trends:

Traditionally it has been found that the stock market index and the inflation rate tend to move in the same direction where as the interest rates and the stock market index tend to move in the opposite direction.

Transparency of the fund management:

Again the success of a mutual fund depends to a large extent on the transparency of the fund management. In those days of investor a, it is very vital that the fund should disclose the complete details regarding the operation of the fund.

Facilities available to investors and their rights:

Investor's rights:

The SEBI (mutual fund) regulation, 1993, contains specific provisions with regard to investor servicing. Certain rights have been guaranteed to the investors as per the rights as follows.

Unit certificate:

An investor has a right to receive his unit certificates on allotment with in a period of 10 weeks from the date of closure of subscription lists in the case of close ended scheme and 6 weeks from the date of closure of the initial offer in the case of an open ended scheme.

Transfer of units:

An investor is entitled to set the unit certificates transformed within a period of 30 days from the date of judgment of the certificates along with the relevant transfer forms.

Re founded of application money:

If mutual fund is not able to collect the statutory minimum amount (close ended funds – Rs. 20 crores, open ended funds Rs. 5 crores or 60% of the targeted amounts which ever is higher, it has to return the application money to as refund with a period 6 weeks from the date of closure of subscription list.

Audited annual report:

Every mutual fund is under an obligation to its investors to publish the audited annual report and unaudited half yearly report through prominent newspapers in respect of each of its scheme within 6 months and 3 months respectively of the date of closure of accounts.

Net asset value:

The purchase price is always linked to the NAV. The NAV is nothing but the market price of each unit of a particular scheme in relation to all the assets of the scheme. It can otherwise be called 'the intrinsic value' of each unit. This value is a true indicator of the performance of the fund. If the NAV is more than the face value of the unit, it clearly indicates that the money invested on that unit has appreciated and the fund has performed well.

Concept of commercial banks and mutual fund:

Need for commercial Bank:

With a view to providing wider choice to small investors the government of India has permitted the banks to launch mutual funds as subsidiaries. There has been an urgent need for the banks to enter into the field of mutual funds due to the following reasons.

- Banks are not able to provide better yields to the investing public with their savings and fixed deposit interest rates. Hence there is a necessity to enter into the field of mutual fund.
- Mutual fund backed by a bank will be in a better position to tap the savings effectively and vigorously for the capital market.
- Indian investors' particularly small and medium ones may hesitate to invest in an indirect way through private financial intermediaries. Thus, banks have the advantages of public confidence which very essential for the success of mutual funds.

- Earlier banks were not permitted to tap the capital market for funds or to invest their funds in the market. Now a green signal has been given to them to enter into this market and reap the maximum benefits.
- Banks can provide a wider range of products in mutual funds by introducing innovative schemes and extend the professionalism in the mutual funds industry.
- The entry of banks would provide much needed competition the mutual funds industry and this competition with improve customer service and wide in customer choice also.
- Investor servicing can be effectively done by banks through their network of branches spread throughout the country. Hence the commercial banks have entered into the mutual fund market without any hesitancy.

Difference between Unit and Share:

Following are the difference between the share and the unit.

- Investment on equity share represents investment in a particular company investment on a unit of a represents investment in the parts of shares of a large number of companies.
- Invest on equity shares can be used as a tool by speculators. Mutual funds are not the right investment vehicle for speculators.
- Mutual funds are suitable only for genuine investors. Equity shares are suitable for genuine and the speculators.
- If a particular company fails, the share holders of that company are affected very much whereas the unit holders of that company are able to withstand that risk by means of their profitable holding in other companies' shares.

HOUSING FINANCE

INTRODUCTION:

Decisions about housing are among the most important financial decisions most of the people ever have to make. Buying a home is a major commitment, and home payments take a big chunk of the family budget. In the 1970s, home payments took about one-quarter of a family's take –home pay. People bring about 1/3rd of their salary to their home now.

Homeownership has a number of advantages over renting. Mortgage payments are like "force savings", making one's house an investment, not just a place to live. He may have a better quality of life if he buys instead of renting. He can do whatever he wants to the house and feels free to improve or change it to suit his needs. He may enjoy more privacy if he owns his own home. He will have no landlord to let in and perhaps no neighbors nearby to make noise and disrupt his life. Closing cost and mortgage interest are tax-deductible.

OBJECTIVES:

After completing the unit, the student should be able to

- Understand the status of housing finance in India
- Explain the basic tenets of housing policy in India
- Trace the institutional framework of housing finance
- Appreciate the role being played by national housing bank in India
- Evaluate the financial services rendered by the housing financial institutions

STRUCTURE:

- Housing finance in India
- Housing policy
- Institutional framework
- National housing bank
- Ministry of urban development
- Housing financial services
- Types of home loans
- Review questions

Housing Finance in India:

Indian consumers had a credit aversion over housing loan traditionally. This attitude has been changed only in the 1990's. banks have considered it as an opportunity. They come forward to lend housing loan to diversify their risk. Apart from this opportunity, the Retail Asset Portfolio would be distributed over a large number of borrowers as compared to wholesale lending. Retail assets also provide the bank an opportunity to cross sell liability products to the asset customer and build long-term profitable relationship.

Dr. Y.V Reddy, Reserve Bank of India (RBI), said on april, 7 that the year 2003-04 saw an incremental credit offtake of Rs.1,19,964 crores. He said that the credit expansion has been led primarily by the housing and retail sectors. Bank credit to housing has increased by 33% over the past year. This is a clear sign that the housing sector and especially the home loan sector has been major growth driver for banks. This has been a boon for banks at the time when the credit offtake from the manufacturing sector was stagnating.

The retail lending business is growing at an outstanding rate of over 30% every year. Banks in India have gone a long way since 1990s where the retail portfolio was less than 5% to the current level of around 18%. The portion of the retail in the lending portfolio is slated to close in at around 40% by 2005-06.

Risk in Lending:

The risks always accompany growth in lending for home loans. The banks are reporting higher delinquency rates. CRISIL has recently reported a dramatic increase in non-performing loans in the housing loan sector. RBI has warned the banks against growing NPA too fast. There is also talk in some that the home loan bubble may one day burst.

Housing Loan – A Lucrative Business:

Banks have shifted their focus from traditional base of lending to companies to retail. It serves two purposes. It helps banks to get rid of the excess liquidity.

Secondly it has become a lucrative business for banks. Foreign and private banks initiated the retail lending and the public sector banks followed the suit. The reasons for lending housing loan are given below:

- Poor credit offtake of companies, commercial and other traditionally industrial sector,
- Growing risk of lending to industry on account of recession,
- Growing financial disintermediation process enabling many triple a rated companies to access the market directly,
- Relatively less riskiness of retail borrowers,
- Rising disposable income and changing life style aspiration of a sizable section of the population,
- Continous softening of lending rates which has improved the borrowers ability to repay,
- Increased governmental incentives by way of tax relief or concessions on certain types of loans,
- Availability of better spread to banks
- Widespread of risk among large number of borrowers and
- Developments in technology which have reduced transaction costs on a large number of borrower accounts.

Housing Policy:

It has been seen that the Government of India, regarding the housing policies has always laid focus on the lowest-income households. Earlier, particularly the middle class, for financing a house took loans from informal sources like their relatives and friends, or try to accumulate money for their dream home, which was realized only after a long wait.

The ***jhuggi*** or shack dwellers of India spend a considerable amount on building and rebuilding their pregnable dwellings. These dwellings are illegal constructions and with unlawful electric connections. The amount they spend on the construction of these shacks and the unlawful temporary legalization of these electric connections could be easily be spent on repaying a loan on a small terraced pucca and legalized house, if they built it themselves. While finance for housing is usually available for high and middle-income households, there is a general need to widen and deepen the flow of long – term finance at affordable levels to low-income households.

New Housing Finance Companies:

In June 2000, the Union governments, through National Housing Bank, in order endorse endowment for escalating housing delivery all over the country, approved 29 new housing finance companies to hasten the national housing program. The list of 29 housing finance companies was given the go ahead nod by the National Housing Bank.

It is interesting to note Tata Home Finance Ltd. and Birla Home Finance Ltd. too have joined the housing finance providers race. Reliance industries and GE Capital are also likely to storm housing finance industry can bush up the Indian economy scenario on a large scale. Housing has a tremendous tendency to create income and insist for resources, tools and services. Finances owed to housing arrive in the profile of profits.

Institutional Framework:

To give a boost to the housing scenario in India and to narrow down the margin between the housing demand and the availability of houses, **the National Housing Bank** was set up in the year 1988. this was done by keeping in mind that home seeker though does have a desire for a house but lacks the resources for construction or buying it. To give an enhancement to private housing finance institutions the national Housing Bank came into the picture. It is a principal agency to promote **housing Finance institutions** both at local and regional levels and to provide financial and other support to such institutions. While it is important to keep in mind that the National Housing Bank itself does not give loans or finance individuals or a party as such. It is only a corporate body to promote, establish, support or aid the housing finance institutions. The housing institutions can be segregated into three categories:

- Public Sector Finance

- Banks
- Private Sector Finance

Personal loans:

Personal loans are tricky - you never can quite make out whether it is absolutely necessary or if it is just a luxury you will be paying back for the next few years. That new computer, or that credit card outstanding, or the house refurnishing...the need for personal loans is never ending. We give you the best tips and knowledge on personal loans here; we also believe that you are better off knowing that there are other options out there- loan against property. How to apply for one, repayment options, charges applicable, documentation required- all these aspects are covered in this section.

Personal Loan: Eligibility Criteria:

Compare personal loan interest rates across banks in India:If you are looking for a good personal loan deal, get to compare banks offering personal loans right here.

Personal loan eligibility: You have to meet certain eligibility criteria before you can avail this hassle-free loan. Lenders often advertise flat rates, which do not reflect the actual interest you will be paying. You may be paying much more than you thought.

1. **For the purpose of Medical practitioners**
2. **For the Purpose of Car Loans**
3. **For the purpose of Home Loans**
4. **For the purpose of with Security and without security loans**

For the purpose of Medical practitioners:

Target Group:

Medical practitioners of any discipline, promoters, promoters of hospitals and nursing, pathological clinics, polyclinics, X-Rays labs, etc.

Eligibility:

- Individuals/partnerships/corporates/Trusts(with powers to borrow)
- Promoters should be registered practitioners and should posssess minimum qualification to practice in a discipline such as MBBS/BDS/BAMS/GAMS/BHMS

Purpose:

- The finance qualified medical practitioners and

- For buying equipments (for dentists, the loan also covers dental implants besides equipments; for orthopedists, the loan also covers various replacements/implants for hip/knee/shoulder/spine etc.
- Setting up clinic, nursing home pathology labs, drug store, ambulance, computers, vehicles etc.
- Expansion/renovation/ modernization of existing premises

Type of facility:

- Medium Term loan
- Cash credit

Loan amount:

- Maximum of Rs.5 crores of which a sub ceiling for WC limits at
- 10% of total loan amount for upto Rs.1 crore
- 5% of total loan amount for above Rs.1 crore – Minimum Rs.10 lacs

Rate of interest:

- **At Attractive rates**

Security:

Primary:

a) **Tangible collateral security:** For loan amounts upto Rs.15 lakhs for Allopathic professionals and upto Rs.10 lakhs for other professionals (Homeopathic, Ayurvedic, Unani etc) – Nil
b) **Guarantee:** Personal Guarantee / Third party guarantee with total net worth of guarantors at least twice the loan amount.
c) **Above Rs.10/15 lakhs:** Tangible collateral security, 25% of the loan amount and personal guarantee of promoters.

Margin:

- Upto Rs.5 lacs: 10%
- Above Rs.5 lacs: 15%

Disbursement:

- Multiple disbursement over a period of 24 months from the date of sanction.

For the Purpose of Car Loans:

Salient Features:

- Loan repayment maximum upto 7 years
- Finance on road cost
- Interest on daily reducing balance

- No advance EMI
- No third party guarantee
- Free personal accident insurance cover
- No hidden cost
- No prepayment fee:
    - If repaid after completion of half of the agreed repayment period
    - If partial repayment is made after one year
- Processing fee – 0.5% (min.Rs.500/. max Rs.10,000)

Documents Required:

- Proforma Invoice
- Statement of Bank Account for last 6 months
- 2 passport size photographs
- A copy of passport / voter ID / PAN card & Office ID
- Proof of residence – Telephone bill / Credit Card Statement / Ration Card
- Latest Salary slip for 3 months showing all deductions and latest two years Form 16-for salaried
- Three years IT Returns with enclosures duly acknowledged by ITO for self employed and professionals and business

For the purpose of Home Loans:

Housing Loan:

Banks have shifted their focus from traditional base of lending to companies to retail. It serves two purposes. It helps banks to get rid of the excess liquidity.

Secondly it has become a lucrative business for banks. Foreign and private banks initiated the retail lending and the public sector banks followed the suit. The reasons for lending housing loan are given below:

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- Rising disposable income and changing life style aspiration of a sizable section of the population,

- Continous softening of lending rates which has improved the borrowers ability to repay,
- Increased governmental incentives by way of tax relief or concessions on certain types of loans,
- Availability of better spread to banks
- Widespread of risk among large number of borrowers and
- Developments in technology which have reduced transaction costs on a large number of borrower accounts.

Educational loans:

Student Loans - Understanding the Types of Student Loans:

Are you looking for a way to finance your college education? You may want to consider

Student loans: There are many types of student loans out there. The key to finding the online loans for you is knowing about these payday loans. It is sad that many of the students are much familiar with auto insurance qoutes than educational loans. For example, most of them don't know that the graduate student loans are different from those of undergraduates! For example, did you know that the types of graduate student loans are different than those for undergraduates? If not, then keep reading! The first time buyers place to start when looking for education loans is to understand the types of student loan consolidation. They fall into three main categories, federal loans, private loans, and debt consolidation loans. Federal loans are usually the first type of loans that students think of Loans Details

Low education interest:

It is a well-known fact that many, if not most, student struggle to make ends meet and things often do not get better after graduating. Students end up paying off a student loan after their college years and are forced to take on any low paying job to deal with loan payments and their daily expenses. The democrats have been making promises to do something about the situation and it seems that this promise is working out.

The democrats are now planning quick action to ensure the lowering of student loan interest rates. The plan is scheduled to be discussed and voted on this week and the idea is that the interest rates on selected student loans will be halved. The plan will be aimed towards need-based loans and is not designed for students who have chosen to opt for an unsubsidized student loan. The loan rates for student loans taken on by parents will also be reduced and the plan will cut rates for subsidized loans from 6.8 to 3.4 percent in a period of five years. This means that in a few years more families can afford to send their kids to college without suffering too much financially. Right now many students are dealing with a vicious circle of having to work to make ends meet, missing important parts of their tuition because of this, and ending up paying more college fees because they have to extend their college term. Students and their parents have been waiting for these plans to come into fruition for a long time and it seems that things are finally looking up for these kids.

NOTES

Unit – III

Innovations in Individual customer Service:

ATM-Introduction:

More people are now moving towards using the automated teller machines (ATM) for their banking needs. According to a 2006 survey by Banknet India, 95% people now prefer this modern channel to traditional mode of banking. Almost 60% people use an ATM at least once a week.

Increased ATM usage is also helped by the fact that customers have now the flexibility of using ATMs of other banks, as most of the banks are part of major interbank networks like National Financial Switch (NFS), Mitr, BANCS, Cashtree and Cashnet. The interbank networks have brought together ATMs of several banks so that consumers would gain access to any of the participating banks' ATMs. Banks find it cheaper to pay membership fees to these networks as against setting up additional units in expensive-to-deploy areas.

ATMs are now seen to be more than mere cash dispensing machines. Customers use ATMs to recharge their mobile phone pre-paid connections, pay their utility bills, even mutual fund transactions – making them at par with flexibility given in internet banking – only more secure. Of the value-added services provided at ATMs, bill-payment is the most used service, followed by prepaid mobile talk-time recharges. However, still about one third of the respondents do not use any value added services at ATMs.

Migration of routine bank transactions like cash withdrawals and balance enquiries from teller counters to ATMs significantly raises the potential for savings in employee costs. The cost per transaction at an ATM reduces to Rs. 18 from Rs. 40+ at a branch. ATMs have also grown to offer other value-added services like utility bill payments, mobile talk-time top-ups to even donations to temples. ATMs also have the potential for selling paper-based products like cinema and railway season tickets.

The machines work much faster than human tellers, with lower error-margins. Banks are then able to focus their employees on innovative services such as selling other financial products and advisory services to customers.

The ATM market in India is not yet saturated. Though the concentration of ATMs is greater in metros, the demand is increasing for other cities and even rural areas. Many ATM vendors have devised specialised machines, embedded with biometric devices for authentication. Catering to the rural population, these machines have enabled them to interact with the machine in their local language and on a graphical user interface. The rural customer has seemed to accept this new medium. This has the potential to further widen the scope of ATM usage in the interior parts of the country.

There is also interest towards white-label ATMs. Many companies are interested in this model, where the ownership of the ATM will not be with the banks but with third parties who deploy them and make money on fees charged on every transaction. The concept is prevalent in the American continent.

The number of ATMs installed in India grew by almost 28%, from 21,000 in March 2006, to more than 27,000 by March 2007. Wide acceptance of ATMs by consumers, introduction of biometric ATMs, and increasing scope of value-added ATM services will maintain growth in the industry.

History:

The first Automated Teller Machine (ATM) was introduced in the year 1967 by Barclays Bank in Enfield Town in North London. At that time a few would have anticipated excess in ATMs. Then for many years after, the aim was to shift people off the teller lines thus lowering a bank‘s distribution costs and increase efficiency. But in the 1980s, it was noticed that people continued to visit branches, though not as frequently, so that with the added costs of ATMs, overall distribution costs were actually rising.

Then, in the mid-1990s, came surcharges, which fuelled the proliferation of off-premises ATMs, which led in turn to the current overcapacity. There was a slowdown in ATM transactions, partially because of the consumer’s reaction to the imposition of surcharges. Also by the advent of surcharging there was a massive growth in the number of ATMs as it offered ATM owner’s revenues making it economical to install ATMs where they might not have been placed otherwise.

An ATM (Automatic Teller Machine) card is useful to a card holder as it helps him to withdraw cash from banks even when they are closed. This can be done by inserting the card in the ATM installed at various bank location.

Credit cards have proliferated during the last couple of years in all countries and have become an acceptable alternative to paper currency. The developed countries like USA have moved a step further. Debit card, an electronic product has become more and more popular in these countries.

The number of cardholders as at the end of March 1997 stood at 66.7 million, accounting for 1.2 million transactions aggregating $62.9 billions.

Just like credit card, the debit card holder can present the card to the merchant, sign sales slip and forget about it.

The purchase amount is automatically deducted or debited to the account of card holder electronically and would appear in the monthly statement of account.

- The ATMs card programme requires the customer to open an account with the bank which is not generally required in case of a credit card.
- This system requires a terminal known as the point of sale terminal at every point of purchase.
- The customer, on making the purchase, inserts the card which has a magnetic strip at the back, into the slot of the machine, while the merchant enters the value of the transaction.
- The customer meanwhile, keys in the personal identification number which is known only to the card holder and the bank.
- The machine places an automatic call, checks the balance in the account and reduces the balance to the extent of the transaction value.
- The merchant's account, in turn, is credited for all his transactions on the next day.

CREDIT CARD

Introduction:

Credit card are innovation ones in the line of financial services offered by commercial b The idea of credit card was first developed by a Bavarian farmer, Franz Nesbitum Mc Namara , an American businessman who found himself without cash at a weekend resort founded Diner's card in 1950. Right from that time, the commercial banks and non-banking companies in USA adopted the idea of credit card to develop their business. Barclays bank was the first bank to introduce credit card in 1966 in Britain. The credit card business got momentum in sixties and a number of banks entered the field in a big way.

Credit card culture is a old hat in western countries. In India, it is relatively a new concept that is fast catching on. The present trend indicates that the coming years will witness a burgeoning growth of credit cards which will lead to a cashless society.

Consumer Credit Cards:

Credit card deals have become a great part of our everyday life. Many of us enjoy buying something we can't really afford at the moment, but really need to purchase. There are credit cards created for these occasions especially to meet your needs! They are called consumer credit cards. Consumer Credit Cards could well be called "all-purpose credit card" to suit your need and lifestyle. Personalization is the central idea of a consumer credit card. Thus while choosing one you want think about your personal characteristics and take into account the way you spend. Are you a responsible spender? Do you earn enough money to pay off your credit debt? On what items would you like to save money? What kind of purchases do you make more often? What expenses would you like to cut?

WHAT IS A CREDIT CARD?

A credit card is a card or mechanism which enables cardholders to purchase goods, travel and dine in a hotel without making immediate payments. The holders can use the cards to get credit from banks upto 45 days. The credit card relieves the consumers from the botheration of carrying cash and ensures safety. It is a convenience of extended credit without formality. Thus credit card is a passport to, "safety, convenience, prestige and credit".

WHO CAN BE A CREDIT CARD HOLDER?

The general criteria applied is a person's spending capacity and not merely his income or wealth. The other criteria is the worthiness of the client and his average monthly balance. Most of the banks have clear out norms for giving credit card.

1. A person who earns a salary of Rs .60,000 /- per annum is eligible for a card.
2. A reference from a banker and the employers of the applicant is insisted upon.

TYPES OF CREDIT CARD:

According to the purpose for which the credit cards are used, they can be classified into three main categories:

1 Credit Card

It is a normal card whereby a holder is able to purchase without having to pay cash immediately. This credit card is built around revolving credit principle. Generally, a limit is set to the amount of money a cardholder can spend a month using the card. At the end of every month, the holder has to pay a percentage of outstanding. Interest is charged for the outstanding amount which varies from 30 to 36 per cent per annum. An average consumer prefers this type of card for his personal purchase as he is able to defer payment over several months.

2. Change Card

A charge card is intended to serve as a convenient means of payment for goods purchased at member establishments rather than a credit facility. Instead of paying cash or cheque every time the credit card holder makes a purchase, this facility gives a consolidated bill for a specified period, usually one month. Bills are payable in full on presentation. There are no interest charges and no preset spending limits either. The charge card is useful during business trips and for entertainment expenses which are usually borne by the company. Andhra bank card, BOB cards, Can card, Diner's Club card etc. belong to this category.

3. In-Store card

The in- store cards are issued by retailers or companies. These cards have currency only at the issuer's outlets for purchasing products of the issuer company. Payment can be on monthly or extended credit basis. For extended credit facility interest is charged. In India, such cards are normally issued by five star hotels, resorts and big hotels.

NEW TYPES OF CREDIT CARDS

1.Corporate Credit Cards

Corporate cards are issued to private and public limited companies and public sector units. Depending upon the requirements of each company, operative Add-on cards will be issued to persons authorized by the company, i.e., directors secretary of the company. The name of the company will be embossed on Add-on cards along with the name of the Add-on cardholder. The main card is only a dummy card number in the name of the company for the purpose of billing all the charges of the Add-on cards. The transactions made by Add-on cardholders are billed to the main card and debits are made to the Company's Account.

2. Business Cards

A business card is similar to a corporate card. It is meant for the use of proprietary concerns, firms, firms of Chartered Accountants etc. This cards helps to avail of certain facilities for reimbursement and makes their business trips convenient. An overall ceiling fixed for this card is also based on the status of the firm.

3. Smart Cards

It is a new generation card. Embedded in the smart card a microchip will store a monetary value. When a transaction is made using the card, the value is debited and the balance comes down automatically. Once the monetary value comes down to nil, the balance is to be restored all over again for the card to become operational. The primary feature of smart card is security. It prevents card related frauds and crimes. It provides communication security as it verifies whether the signature is genuine or not. The card also recognizes different voices and compares with the recorded original voice. It is used for making purchases without necessarily requiring the authorization of personal identification number as in a debit card. Smart card is an electronic purse which attempts to prove to be a panacea for all problems associated with traditional currency. In India, the Dena Bank launched the Smart Card in Mumbai.

4. Debit Cards

Credit card have proliferated during the last couple of years in all countries and have became an acceptable alternative to paper currency. The developed countries like USA has moved a step further. Debit card, an electronic product has become more and more popular in these countries.

The number of cardholders as at the end of March 1997 stood at 66.7 million, accounting for 1.2 million transactions aggregating $62.9 billions.

Just like credit card, the debit card holder can present the card to the merchant, sign sales slip and forget about it. The purchase amount is automatically deducted or debited to the account of card holder electronically and would appear in the monthly statement of account.

The debit card programme requires the customer to open an account with the bank which is not generally required in case of a credit card. This system requires a terminal known as the point of sale terminal at every point of purchase. The customer, on making the purchase, inserts the card which has a magnetic strip at the back, into the slot of the machine, while the merchant enters the value of the transaction. The customer meanwhile, keys in the personal identification number which is known only to the card holder and the bank. The machine places an automatic call, checks the balance in the account and reduces the balance to the extent of the transaction value. The merchant's account, in turn, is credited for all his transactions on the next day.

Differences between Credit Card and Debit Card

1. The credit card is a 'pay later product' whereas a debit card is a 'pay now product'.
2. In the case of credit card, the holder can avail of credit for 30 to 45 days whereas in a debit card the customer's account is debited immediately.
3. No sophisticated telecommunication system is required in credit card business. The debit card programme requires installation of sophisticated communication network.
4. Opening a bank account and maintaining a required amount are not essential in a credit card. A bank account and keeping a required amount to the extent of transaction are essential in a debit card system.
5. possibility of risk of fraud is high in a credit card. The risk is minimized through personal identification number in debit card programme

5.ATM Card

An ATM (Automatic Teller Machine) card is useful to a card holder as it helps him to withdraw cash from banks even when they are closed. This can be done by inserting the card in the ATM installed at various bank location.

6. Virtual Card

There is always a fear in the minds of credit card holders that their credit card numbers might get into the hands of some unscrupulous persons who could siphon away whatever they can. For those who don't want to part with their credit card number to the merchant web site, the solution is to go for a Virtual Card.

Parties to a credit card:

There are three parties to a credit card – the holder – the issuer and the member establishments.

1. Issuer: The banks or other card issuing organisations.
2. Cardholders: Individuals, corporate bodies and non-individual and non-corporate bodies such as firms.
3. Member Establishments: Shops and service organisations enlisted by credit card issuer who accept credit cards. The member establishments may be a business enterprises dealing in goods and service such as retail, department stores, restaurants, hotels, hospitals, travel, petrol bunks, etc.

Procedure at the time of purchase at member establishments:

When a card holder intends to make purchases he presents his credit card for payment. The member establishments scrutinizes the card with reference to the following:

1. The validity period of the card has not expired.
2. the card not been hot listed as per the latest 'hot list'/warning bulletin.
3. The signature of the card holder tallies with the specimen signature on the credit card.
4. the card has not been tampered within any manner.

Procedure for reimbursement:

The following procedure is followed for reimbursement to member establishments.

1. The merchant can claim reimbursement from the designated branches of bank.
2. all transactions emanating during the day are consolidated in the Summation Sheet cum BAR in triplicate.

3. The summation sheet cum BAR in duplicate along with the Bank's copy of the chargeslip should be submitted to the designated branch for reimbursement.
4. Reimbursement should be obtained within 30 days from the date of chargeslips.
5. The banks after deducting commission credit the amount of claim to the member Establishment's Account or pay by D/D as earlier agreed.

Facilities offered to card holders:

1. making purchases/availing of services at any of the member establishments.
2. Cash withdrawals at any of the branches of the issuer/member affiliate of the issuer to meet emergent requirements.
3. Add-on facility of family members. The spouse or children are entitled to use the card for making purchases.
4. Free credit period ranging form 15 to 45 days.
5. ATM facility at selected centers.

Benefit of credit cards:

1. Card Holders:

- Credit cards are simple to operate and easy to carry. The holders are relieved from the risk of carrying cash or cheque book with them.
- A card is a convenient method of payment for goods and services.
- Owing to resolving nature of credit, the customer can take advantage of it as and when he pleases within the overall limit.
- Cash can be obtained at any branch of the issuer. The ATM facility is extended to cardholders who need not stand in queues and spend time unnecessarily at banks.
- Overdraft facility is given to card holders who are entitled to spend more than their actual limit.

2. Issuers:

- Credit cards offer high profit for the banks. They get commission or discount, usually 2.5% , on sale through credit cards. An interest charge of 1.5 % is made on all outstanding.
- Where the card is issued to non-account holders, it may help to get new customers.
- A credit card system helps bank cost as it reduces the number of cheques issued by the customers.

3. Member Establishment:

- The merchant has guarantee of payment and his account is credited immediately on submitting the chargeslip into his bank. No bad debt arises in credit card transactions.
- A good cash flow is established because of the speedy settlement of bills by banks.
- The acceptance of card in lieu cash reduces security risk.
- Member establishments are able to offer credit facility to their customers without setting up their own credit arrangements.

Demerits of Credit cards:

- The card holders are burdened with service charge, annual fee, membership fee, etc.
- A high rate of interest is charged for delayed payment.
- According to a recent survey, 65% of card holders are ignorant about the high interest charged on outstanding balance.
- Credit cards tempt the holders for more purchases beyond their income and repaying capacity.
- The commission to be paid to the issuing banks / credit card organisation is heavy.
- Some banks make delay in payment due to lack of adequate system and trained personnel which affect the cash flow of the member establishments.

Credit card Business in India:

Credit cards fare relatively new to India. Andhra Bank and Central Bank of India introduced credit cards in 1981. as of now there are about a dozen major banks, Indian and Foreign, which have entered this line of business, besides some non-banking institution. Since plastic money has today become as good as legal tender more people are using them in their day- to - day activities.

RBI Norms on Credit Cards:

- Issue of unsolicited cards
- Offering unsolicited loans and other credit facilities.
- Charging exorbitant rates in different forms without the consent of customers.
- Issuing wrong bills to customers.
- Delay in dispatching bills to customers.

- Not permitting customers to surrender their cards etc.

Future prospects:

There are 1 billion card holders world over. These cards have a turnover of $1500 million.

There are million credit card holders in India. Over 68,000 establishment in the country accept credit card. The credit card market is worth about Rs.1,500 crores. The credit card industry is growing at an average rate of 35% per year. Despite the impressive pattern of growth, India as a market is in a fairly nascent stage with credit card penetration amounting to just 15% of the customers. Compared to other countries in the region, India’s card holders-base is relatively small.

With the economic growth gradually out-pacing population growth and with a large of affluent middle class, the potential market that India holds is immense. It is estimated that in the next ten years India will have a credit card population second to USA. According to few top banking professionals, the credit card business will grow by over 100% every year for the next ten years.

To realize the potential in the credit card market the following suggestions are made:

- Reduce the membership and annual subscription fees.
- Encourage member establishments to accept credit cards for routine items also.
- Make the features of cards convenient to middle class people.
- Enhance the cash withdrawal limits.
- 80% of the card holders are in metropolitan areas. So, workout strategies to popularize the credit card among people in semi urban and rural areas.

Farm Credit Cards:

A status paper on farm credit prepared by the Union agriculture ministry has noted with dismay that despite efforts made to increase institutional credit share, informal sources like money lender, arhtias, communication agents still have an important place in agricultural credit because of their accessibility and availability.

It called for several measures to strengthen the institutional credit delivery system to farmers which are to be implemented by banks and state governments. It called for rationalization of interest rates, further relaxation in collateral, security and margin money, provision for risk mitigation, attention to credit starved sectors, regions and sections of population and rationalization of lending policies and procedures.

The working group on the planning commission as projected a requirement of Rs.7,36,570 crore farm credit in the Tenth Plan period. It is also envisaged that kisan credit card scheme should cover eligible farmer by March 31, 2004. Hence, with a view to achieve these targets the level of credit flow from institutions should increase from the current level of 64% to 90% in the next 10 years.

The document paper stated that the shortfall in achievement of agricultural lending target by commercial banks and adopting of investment route for viability by the regional rural banks (RRBs) is a major area of concern. It said that strong policy measures is needed to persuade the commercial banks for achieving the stipulated target of lending to agriculture and also for dissuading the RRBs form adopting investment route.

It also made a dig at the cooperative credit structure delayering of the existing three-tier cooperative credit structure. It called for professionalisation of cooperative banks, ending of bureaucratic controls over these credit institutions. It suggested total application of Banking Regulation Act, 1949 over cooperative banks so as to override the provisions of state Acts and bylaws which run counter to it. But the document paper has a word of praise for the cooperatives. It stated that the cooperatives share in total agricultural credit flow and total deposits is around 43% and 31% respectively and the small farmers constitute 44% of their total membership.

The rehabilitation package for cooperative banks have been approved at an estimated investment of Rs.8,500 crore. The states and Center has to share the burden in the ratio of 60:40. the states should be in liberating the cooperatives.

Farm Financing: Convenience Services:

We understand how busy your life is. That's why we created some easy to use services that allow you to manage your time and money:

- Autodraft
- FastCash
- AgriLine
- Visa™ Purchase Card
- Cash Management Services
- Account Access

AutoDraft - The easy way to make your Farm Credit loan payment:

How about one less "to do" on your to do list?

AutoDraft is a way to pay your Farm Credit installments a little faster, a little easier -- and at no cost to you. AutoDraft electronically deducts your loan installment from your bank account each month, each quarter, or whenever it's due. Your payment is made for you automatically. There's no check to write. No stamp to lick. And there's one less "to do" on your "to do" list.

What can AutoDraft do for you?

- Save you time. You'll have one less check to write each month. One less trip to the mailbox.
- Save you money. You'll have one less stamp to buy. Because your farm loan payment is always on time, you'll avoid late charges.
- Give you peace of mind. You'll know your payment has been made on time, every time. No more worrying, "Did I mail my check?" or "Did it arrive on time?" With AutoDraft, you know it's there.
- Help you maintain your good credit rating. Your credit history will reflect your prompt farm land loan payments or lease payment check.

How do you sign up for AutoDraft?

It's easy. Simply e-mail us and let us know you are interested in AutoDraft and we'll send you the information you need to get started.

- We'll set up your AutoDraft service to begin on the month and day you indicate.
- We'll notify your bank of all the necessary information.
- Before your AutoDraft service begins, we'll send you a confirmation of your start date, along with a copy of the authorization for your records.

To find out more about AutoDraft, contact us or contact your local branch.

Fast Cash

Think of the convenience of having money transferred electronically from your Line of Credit to your checking account!

FastCash is an electronic transfer service that connects a customer-owner's Line of Credit Loan to your commercial bank's checking or saving account. Funds can be transferred in any amount up to a customer-owner's available balance. Availability of funds depends on your commercial bank's schedule.

Are you the type of customer-owner who could benefit from FastCash?

FastCash is designed for customer-owners with lines of credit either revolving or non-revolving. FastCash can be used with commercial commitment loans, Home Equity Line of Credit or Consumer Line of Credit. In addition, FastCash can be used with variable (Prime or LIBOR) rate loans.

AgriLine®

AgriLine® provides you with a revolving credit line and checks to access that line.

AgriLine® is a service that links a customer's revolving credit line to a checkbook. It is conveniently added to the revolving credit line at closing. When customers want a revolving credit line advance, they can simply write a check and present it to the suppliers for payment for an invoice or purchase. The check will be presented to AgChoice Farm Credit for payment and a loan disbursement will be logged to their revolving credit line.

Are you the type of customer-owner who could benefit from an AgriLine®?

AgriLine® is suited to a customer-owner who wants control of his or her own revolving credit line and the freedom to write his or her own loan advances.

Customer-owners of any size qualify, but generally those who borrow more than $75,000 and have several transactions monthly against their revolving credit lines, are ideally suited for this service. In some cases, customer-owners use this checkbook as their main disbursement checkbook, replacing a normal business checking account with the revolving credit line. Generally, customer-owners use credit heavily to support their weekly cash flow needs and have a highly cyclical nature to their revenue stream.

VISA™ Purchase Card

If you want more power with your AgriLine® Revolving Credit Line, add an AgChoice Farm Credit Purchase Card to your wallet.

AgChoice Farm Credit is partnering with the VISA™ network to offer it's customer-owners a commercial Purchase Card. The Purchase Card is for customer-owners who already have or can acquire an AgriLine® Revolving Credit Line. Just use your AgChoice Farm Credit purchase card for farm or personal purchases and the balance will be transferred to your AgriLine® Revolving Credit Line account at the end of the billing cycle. The VISA™ Purchase Card is a convenient way to carry purchasing power around in your pocket.

Do I qualify for a Purchase Card?

The AgChoice Farm Credit Purchase Card is ideally suited for people who are constantly purchasing supplies off the farm or need to provide a valid method of payment to suppliers to obtain delivery in a timely fashion. Simply contact us or contact your local branch to see how to obtain a Purchase Card of your own.

Cash Management Services:

Say goodbye to the proverbial crystal ball. An **AutoBorrow** or **AgSweep** account spares you the daily task of estimating your cash position. Through an electronic link between your AgChoice Farm Credit loan and your business checking account at Bank of America or Wachovia, AutoBorrow or AgSweep automatically transfers funds between these accounts as appropriate, ensuring that your money achieves its maximum return on any given day. AutoBorrow is the Bank of America affiliated program. AgSweep is the Wachovia affiliated program. AgChoice Farm Credit linked with these two banks because of their strong reputations of being the leaders in cash management systems and both systems can be managed on your farm over a secured internet banking link.

What can AutoBorrow or AgSweep do for you?

- Save you time and money.
- Accurately assess your cash position each day.
- Initiate automatic transactions on a same-day basis for maximum precision.
- Reduce your interest expense.
- Eliminate expensive wire transfers.
- Make your money work for you by investing idle funds.

The ideal candidate for a cash management program at AgChoice Farm Credit will have daily checking transactions, will have gross farm revenues of at least $3 million each year, and is interested in the security that an advanced cash management system can provide to them.

Account Access

Are you interested in managing your AgChoice Farm Credit loans online?

Account Access allows a customer-owner to access their loan account information via the Internet as well as make FastCash transfers, check balances, acquire tax reporting statements, and make loan payments. Customers can:

- Sign up for the service by going to the Account Access sign up link on this web page. Sign up now!.
- Contact your local branch and have an Account Access administrator sign you up.
- View or print loan information 24 hours a day, 7 days a week.

- Check your principal balance, accrued interest, interest paid year-to-date, interest rate, next payment date and amount and even view 12 months of loan activity on your account.
- In addition, AgriLine® activity for the past two months is also available. Stock and Equity amounts are viewable and printable via a link for each customer-owner. Your account information is updated every business day.

LoanLine

As customer-owners you can access your loan account information via the telephone. All you need to do is contact us or contact your local branch in order to have an administrator enroll you for LoanLine. You can then access your information 24 hours a day, 7 days a week on a toll-free line. LoanLine puts you in touch with up-to-date information on your loan balances, interest rates, payment information and more. New LoanLine users are sent temporary passwords that are active for 120 days.

Loans and Financing:

- Agricultural Loans
- Part-Time Farming
- Nursery/Horticulture
- Contract Producer
- Livestock
- Poultry
- Equine
- Rural Home Mortgages
- Equipment Loans
- Leasing
- Dairy Farms
- Services:
- Appraisal Services
- Business Consulting
- Farm Insurance
- Convenience Services

Investment Counseling:

An investment counselor has the knowledge and expertise to help guide one in choosing form the various investment options available. They know the advantages and disadvantages of each and can provide helpful in deciding which one is most beneficial for you and your goals. Proper investment counseling will help you reach your financial goals.

An investment counselor will also take into consideration the following factors:

- Your risk tolerance,
- Your financial plan,
- Your available resources,
- Finding ways for you to reap the benefits of your money working for you.

The purpose of the investment counselor is to help you achieve your financial goals. Many people take their financial plan to the investment counselor, using it as a foundation. Others don't some individuals know that they want to invest and have their goals in mind. In either case, the investment counseling process provides expert personalized to help you realize your financial dreams and hopes.

Since risk tolerance is an important ingredient of investing. Let's use a hypothetical example. Say you avoid risk at all costs. A risk to you would be changing toothpastes, for instance. An investment counselor would probably choose either bonds or certificate of deposit as your best bet. If, on the other hand, you chase after risk then stocks or commodity trading may be suggested to you. Every investment has a risk factor and investment take this into consideration.

As can be seen, planning for one's financial future can be a very complex task. It can appear overwhelming. It also can provide uncertainty unless you receive the proper professional investment counseling guidance.

24X7 banking and other services:

Internet Banking ; 24 7 BANKING:

Want to reach your bank in a split-second? Use the mouse! Using the Internet, you can look-up the status of your account, submit queries and undertake a wide range of transactions. **Online Balance inquiry for Savings Bank Account, Current Account, Term Deposits, Loan Account.**

Online Transaction Query:

- Quick View: Synopsis of last 6 transactions in your account.
- Query: To view transaction of accounts, based on customers chosen parameters
- Details: To view personal account information
- Request : To request cheque books.

Depository Account:

- Statement of Holding
- Transactions Statement
- Status of Instruction Display

For any queries that you may have, you could send a mail to the relationship manager Secure internet access to your credit union accounts 24 hours a day from your home or office.

Access:

- Account Balances
- Account Histories
- Loan Balances
- View Images of your cleared checks
- Bill Payer Services
- Account Transfers
- Withdrawals by check
- Change your PIN

Free Bill Payer:

Accessed through Sharefax-Online or the S.T.A.R. System. To set up your bills log on to your Sharefax-Online account.

Free e-statements:

Stop getting your statement in the mail, and start receiving it online! You can sign up within Sharefax-Online by logging in, and clicking on "Mail Preference".

Free e-alerts:

We'll notify you via email regarding payroll/ACH deposits, hi/low balances & more! You can sign up within Sharefax-Online by logging in, and clicking on "Email Maintenance".

S.T.A.R System – Telephone Banking:

Access your account 24/7 over the phone free of charge with the S.T.A.R. System.

- Check balances
- Transfer money
- Access Bill Payer
- Make a loan payment
- Re-order checks

- Have a check sent

The Convenience CheckCard:

- Combination ATM/Debit Card
- As an ATM Card use the convenience checkCard at any PNC bank ATM FEE FREE or at a JEANIE, MoneyStation or Plus logo ATM.
- Deposits are free
- There may be a nominal fee will be charged fro withdrawals, transfers and inquiries
- As a Debit Card can use the Convenience CheckCard buying goods or services from any establishment that accepts MasterCard.
- No annual fee
- No service charge for purchases
- Find an ATM near you!

Payroll Deductions & Direct Deposit:

- Available for payroll, social security check and tax returns
- Contact Sharefax, your payroll department or proper government agency for the necessary forms to get started
- **Payroll Deduction** allows your employer to send a portion (as a dollar amount, not a percentage) of your payroll directly to Sharefax to be deposited as you specify.
- **Direct Deposit** involves the automatic deposit of your net paycheck, pension or social security check directly to your credit Union account.

NOTES

UNIT – IV

INNOVATIONS IN CORPORATE CUSTOMER SERVICE

MERCHANT BANKING

Meaning:

There is no universal definition or meaning for merchant banking. It assumes diverse functions in different countries. So merchant banking may be defined as, " an institution which covers a wide range of activities such as management of customer services, port folio management, credit syndication, acceptance credit, counseling, insurance etc.

Definition:

The notification of the ministry of finance defines a merchant banker as, " any person who is engaged in the business of issue management either by making arrangement regarding selling, buying or subscribing to the securities as manger, consultant, adviser or rendering corporate advisory service in relation to such issue management".

Origin of merchant banking:

The first merchant bank was set up in 1960 by Grindlays Bank. Initially, they were the issue managers looking after the issue of shares and raising capital for the company. But subsequently, they expanded their activities.

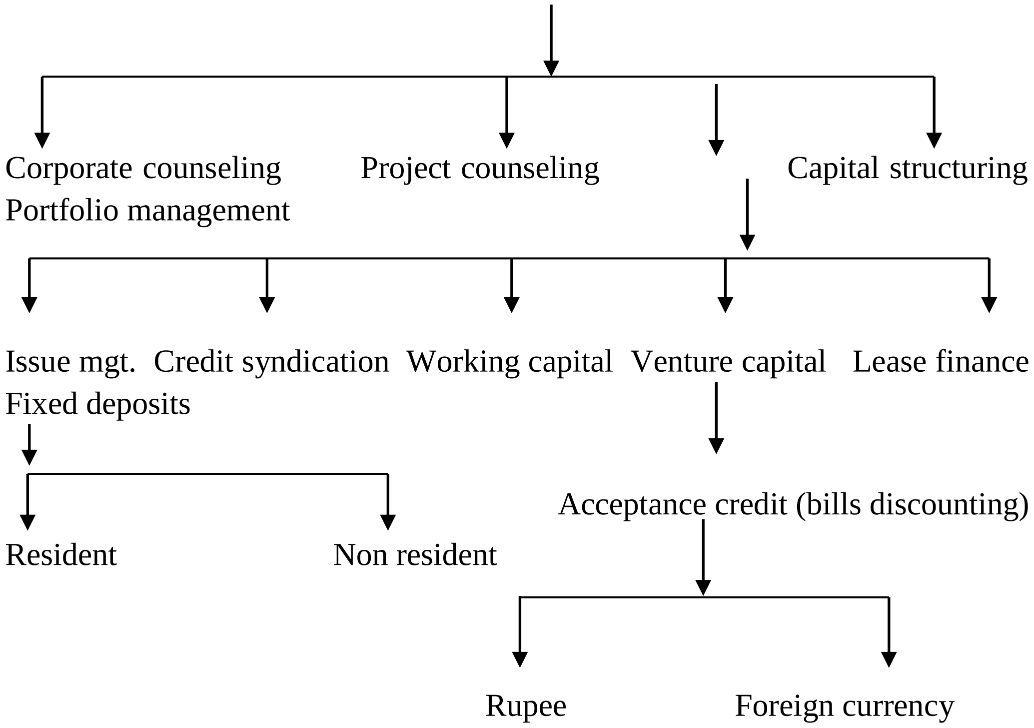
Such as working capital management, syndication of project finance, global loans, mergers, capital restructuring etc. Initially, the merchant banker's role in India was in the form of management of public issue and providing financial consultancy for foreign banks.

In 1973, SBI started the merchant banking and it was followed by ICICI. SBI capital market was set up in August 1986 as a full fledged merchant banker. Between 1974 and 1985, the merchant bankers promoted a lot of companies. However, they were bought under the control of SEBI in 1992 and had to fulfill certain conditions laid down by SEBI, especially with regard to capital.

Various functions of merchant banking:

A merchant banker undertakes a variety of functions, which are explained below.

FUNCTIONS OF MERCHANT BANKERS



Corporate counseling:

Merchant bankers provide counseling services to companies with regard to their timing of issue of shares, capital structure and other promotional aspects with regard to the company.

The scope of corporate counseling is limited to giving suggestions and opinions to the client and help taking action to solve their problems.

Project counselling:

Here, the new entrepreneur is helped in the conception of idea, identification of various projects, preparation of projects, feasibility report, location of factory, obtaining funds, sanction and approval from state and central government departments.

Capital structure:

Here, the amount of capital required, rising of the capital, debt equity ratio, issue of shares and debentures, working capital, fixed capital requirements etc., are worked out.

Port folio management:

In port folio management, the merchant banker helps the investor in matters pertaining to investment decisions. Taxation and inflation are takes into account while advisory on investment in different securities. The merchant bakers also undertakes the function of buying and selling of securities on behalf of their client companies, shifting of investments is done in such a way that it ensures maximizing returns and minimizing risks. The foreign investors are offered with more services as they have less knowledge about the domestic market and the merchant banker should give them maximum returns for investments.

Issue management:

Obtaining clearance, drafting of prospectus, underwriting, liaising with brokers and bankers and keeping constant communication with investors.

Credit syndication:

When more funds are required, different financial institutions are approached for contributing working capital and fixed capital requirements. The financial institutions, joining together for providing finance to a needy company is known as credit syndication. The credit worthiness of the borrower is more represented by the merchant banker to the various members of all credit syndication. This is also called "consortium finance".

Working capital:

Companies are given working capital finance, depending upon their earning capacities in relation to the interest rate prevailing in the market.

Venture capital:

Venture capital is a kind of finance wherein a new venture proposed by an entrepreneur is financed. Venture capital carries more risks and hence every few financial institutions come forward to fiancé. As the risk involved is more, the technical competency of the entrepreneur is an important condition for the venture capital finance.

Lease finance:

The leasing companies are providing finance for procurement of different assets that are required by companies. It is a form of finance employed to acquire the use of assets.

Fixed deposits:

Merchant bankers enable companies to raise finance by way of fixed deposits from the public. However, such companies should fulfill credit rating requirements. The merchant banker helps the borrowing company to accept deposit from the public.

Other functions:

In addition to the above functions, the merchant banker undertakes the following functions also.

Treasury management:

Management of cash and short term funds required by client companies.

Stock broking:

Access to the stock market, providing odd lot counters and helping up country investors through a network of service units.

Servicing of issues:

Merchant bankers maintain registers of shareholders and debenture holders of their client companies and debenture interest. They also have safe custody of securities belonging to their clients.

Small scale industry counselling:

Small scale industries entrepreneurs are given necessary counselling on marketing and finance by merchant bankers.

Equity research and investment counselling:

Generally, a common investor is not in a position to take appropriate investment decision. In order to help such investors, many finance companies are providing equity research and investment counselling. The merchant bankers play an important role in this regard.

Foreign collaboration:

Foreign collaboration agreements opportunities in the country are brought to the notice of NRI investors by the merchant banker.

Objectives of merchant bankers:

- The prime objective of merchant banking is to provide non financial services such as arranging for funds rather than providing them with the help of financial institutions, banks, stock exchanges and money market.
- To coordinate the activities of various intermediaries to the issue, such as the registrar, bankers, advertising agency, printers, underwriters, brokers etc.
- To promote industrial enterprises in India.
- To promote customized solutions to their client's financial problems.
- To help their clients in various stages of the project undertaken by the clients.
- To help companies in obtaining venture capital financing for financing their new and innovate strategies and also arranges for the tie up loans for their clients.
- To provide leasing finance facilities to their clients.

- To provide investment advisory services to attract NRI investments.
- To provide portfolio management services to their clients.
- To ensure the compliance with rules and regulations governing the securities market.

Regulation of merchant banking by SEBI:

SEBI has made the following reforms for the merchant bankers.

- Multiple categories of merchant banker will be abolished and there will be only one equity merchant banker.
- The merchant banker is allowed to perform underwriting activity. For performing portfolio manager, the merchant banker has to seek separate registration from SEBI.
- A merchant banker cannot undertake the function of a non banking financial company, such as accepting deposits, financing others busies etc.
- A merchant banker has to continue himself only to capita market activities.

CLASSIFICATION OF MERCHANT BANKERS BY SEBI

Issue management **Underwriters** **Consultants to issue**

Mobilizationof foreign

funds **for companies**

Prospectus Advisory

Financial structure Consultancy

Tie up of finance Co - manager

Allotment of securities Port folio manager

Refund of subscription

SEBI will grant certificate of registration to merchant bankers under following conditions.

- Merchant bankers should be a body corporate and should not be a NBFC.
- They must have necessary infrastructure for maintaining an office.

- They must have employed a minimum of two persons with experience in merchant banking business.
- They should not be connected with any company directly or indirectly.
- They should not have involved in any litigation connected with stock exchanges.
- They must have a professional qualification in finance, law or business management.
- Their registration must be in public interest.

Capital structure decisions:

According to SEBI, they must have a minimum net worth (paid up capital + free reserves) of Rs. 5 crores. But this will vary according to the category i.e., Rs. 5 crores for first category, Rs. 0.5crore for the second category, Rs. 0.2 crores for the third category and none for the fourth category.

Registration fee to be paid to SEBI:

- For category I, RS. 2.5 crores per annum for the first 2 years and RS. 1 lakh for the third year have to be paid to SEBI towards registration fee.
- For category II Rs. 1.5 lakhs for the first 2 years and Rs. 50000 for the third year.
- For category III RS. 1 lakh per annum for the first 2 years and Rs. 25000 for the third year.
- From 1999 on wards Rs. 2.5 lakh for every year failing which the registration will be suspended for all categories.

Role of public issue:

Furnishing information:

- Number of issues for which the merchant banker is engaged as banker to issue.
- Number of applications received and details of application money received.
- Details of amount as refund to investors.

Books to be maintained:

- Books of accounts for a minimum period of 3 years.
- Records regarding the company
- Document s such as company applications, names of investors etc.

Agreement with issuing company:

- Number of collection centres.

- Application money received.
- Daily statement by each branch which is collecting centre.

Action by RBI:

Any action by RBI on merchant banker should be informed to SEBI by the merchant banker concerned.

Code of conduct:

- Having high integration in dealing with clients.
- Disclosure of all details to the authorities concerned. Avoiding making exaggerated statements.
- Disclosing all the facts to its customer.

Role of rights issue:

- The merchant banker will ensure that when rights issues are taken up by a company, the merchant banker who is responsible for the rights issue, shall see that an advertisement regarding the same is published in an English national daily, in an Hindi national daily and in a regional daily.
- It is the duty of the merchant banker to ensure that the application forms for rights issue should be made available to the shareholders.
- If the shareholders are not able to obtain neither the original nor the duplicate application for right shares, they can apply on a plain paper through the merchant banker.
- The details that should be furnished in the plain paper, while applying for right shares should be prescribed by the merchant banker.
- The merchant banker should mention in the advertisement, the company official to whom the shareholders should apply for rights shares.
- The merchant banker should also inform that no individual can apply twice, in standard from as well as in plain paper.

Role of prospects:

- The application from issued will be accompanied by abridged prospectus by the issuer company.
- In the abridged prospectus application form may be linked as a preformed part.
- Unconnected matters should not be furnished in the prospects.

Renewal fee:

Type of category	Annual payments in first two years (RS.)	From 3rd year (RS.)
I	1 lakhs	20000
II	75000	10000
III	50000	5000
IV	5000	2000

Lead managers:

Size of the public issue	Number of lead managers / maximum m
Upto Rs 50 crores	2
Rs. 50 to 1000 crores	3
Rs. 100 to 200 crores	4
Rs. 200 to 400 crores	5
Above 400 crores	5 or 4 s may be agreed by SEBI

Enquiry:

An enquiry officer is appointed by SEBI to inquire in to the defaulters of merchant banker, the issue notice to the merchant banker and later may furnish a reply with evidences sought by the board within 30 days and the merchant banker will be given reasonable opportunity to the banker to explain.

Procedure for authorization of a merchant banker:

If any person or body is interested in the business of merchant banking either to start it as a new business or to add its existing business, would need authorization from SEBI and it must be done in prescribed format. SEBI's authorization criteria would take into consideration mainly the following.

Professional competence:

Whether a person or a body requiring authorization has the necessary professional know how and the competence to run the business successfully.

Capital:

They must have adequate capital and ready financial resources.

Track record:

The person or firm must possess a clear record and their performance in past is considered. Their experience, reputation and failure in all their transactions also scrutinized.

Infrastructure:

Quality of their personnel and the basic foundation and infrastructure like adequate office space, equipment are also considered by SEBI.

Net worth:

SEBI lays down that all merchant bankers must be worth at least Rs. 1 crore. However net worth level varies according to the category that an applicant opts for.

Terms of authorization:

The following terms are laid down in SEBI guidelines regarding authorizat5ion.

- There are four categories of merchant bankers first there levels are determined according to the net worth expressed in rupee value and there is no prescribed limit for 4th category.
- Authorization is valid for an initial period of 3 years.
- SEBI collects the initial authorization fee, on annual fee and renewal fee.
- At least one authorized merchant banker as sole manager or lead manager should manage all issues.
- The responsibilities of each lead manager must be submitted to SEBI prior to the issue.
- Merchant bankers should verify contents of the prospectus.
- Merchant bankers should submit to SEBI whatever the information, returns and reports in time.
- Merchant bankers should adhere to a code of conduct prescribed by SEBI nor and then.
- SEBI suspends or cancels authorization in cash of violation of the guidelines.

Latest developments in merchant banking:

Stock option scheme:

A sort of sequel to employees participation this scheme invites the employees to invest in new issues, so that all employees will put in their best.

Employees stock option scheme: The issue of such shares should not exceed 5% of the paid up capital of the company.

- It should submit a certificate to the concerned stock exchange as to whether the securities have been issued as per the scheme to permanent regular employees.

- Promoters and part time debtors will not be entitled to receive these benefits unless the debtor is only an employee and not as a promoter of a company.
- It can induce its terms of payment by the employees to suit the company's convenience.

Stock holding corporation:

The stock holding corporation of India has been set up for handling shares of public sector companies and issuing them equally.

Transparency in takeover bids:

SEBI has laid down take over should be done openly and no surprise take over would be allowed so that a company tries to take over the shares of another company, it has to come into stock exchange market and has to announce publicly.

Foreign investments:

Foreign financial institutions are now allowed to enter the Indian stock exchange market and buy and sell shares of certain companies.

Credit rating agencies:

Developing credit rating agencies like CRISIL to go into a company's financial structure when such companies issue debentures to the public. Such organization makes sure that such companies will be able to pay both the investors and creditors when dissolving company.

Trading in future:

Under this a person is allowed to enter in to a contract to buy or sell shares at a future date.

Recognition by SEBI on merchant bankers:

- Professional competence of merchant banker.
- Their capital adequacy.
- Track record, experience and general reputation of merchant bankers.
- Adequacy and quality of personnel employed by them and also the available infrastructure.

Conditions by SEBI for merchant bankers:

- SEBI will give authorization for a merchant banker to operate for 3 years only, without SEBI's authorization merchant bankers cannot operate.
- The minimum net worth of merchant bankers should be Rs. 1 crore.

- Merchant banker has to pay authorization fee, amount fee and renewal fee.
- All issue of shares must be managed by one authorized merchant banker. It should be the lead manager.
- The responsibility of the lead manager will be clearly indicated by SEBI.
- Lead managers are responsible for allotment of securities, refunds, etc.
- Merchant banker will submit to SEBI all returns and send reports regarding the issue of shares.
- A code of conduct for merchant bankers will be given by SEBI which has to be followed by them.
- Any violation by the merchant banker will lead to the revocation of authorization by SEBI.

Conditions by SEBI pertaining to pre issue obligations:

- Registration
- Capital structure decisions
- Public issue
- Rights issue
- Prospectus etc.

Registration: All merchant must compulsorily register themselves with SEBI.

Problems of merchant bankers:

- Small but professional and specialized merchant banker who does not have a net worth of Rs. 1 crore may have to close down their business.
- Non cooperation of the issuing companies in timely allotment of securities sand refund of application money is another problem. They have to seek the cooperation of the issuing company to shoulder the responsibility.
- Some of the merchant banker lack entrepreneurial ability.
- There is lack of professionalized people.
- Indulging speculation in the selling or in the new issue of shares.
- Unhealthy practices in the inter-corporate lending market.
- Misleading information about financial institutions had led to the loss of goodwill and confidence of the public.
- SEBI guidelines have authorized merchant bankers to undertake issue related activities only with an exception of port folio management.

These guidelines have made the merchant banker either to restrict their activities or think of separating these activities from the present one and float subsidiary and enlarge the scope f tits activities.

Concept of merchant banking in India:

Merchant banking in India is of recent origin. It had its beginning in India in 1967, when Grindlays Bank established a division followed by Citi bank in 1970.

The banking commission in its report in 1972 recommended the setting up of merchant banking institutions by commercial banks and financial institutions. This marked the beginning of specialized merchant banking in India.

To begin with merchant banking services were offered along with other traditional banking service. In the mid – eighties, the banking regulation act was amended permitting commercial banks to offer a wide range of financial services through the subsidiary rule.

The State Bank of India was the first Indian Bank to set up merchant banking division in 1972. Later ICICI set up its merchant banking division followed by Bank of India, Bank of Baroda, Canara bank, Punjab national Bank and UCO bank.

The merchant banking gained prominence during 1983 – 84 due to new issue boom. Thus by the end of 1980's there were 33 bankers belonging to 3 major segments viz., commercial banks, all India financial institutions and private firms.

The number of merchant banks increased to 115 by the end of 1992 – 94 and 501 by the end of August 1994.

Scope of merchant banking:

In the present day capital market scenario, the merchant banks play the role of an encouraging and supporting face to the entrepreneur's corporate sectors and the investors.

Growth of new issues market:

The growth of new issue market is unprecedented since 1990-91. The amount of annual average or capital issues by non government public companies was only about 90 crores in the 70's the same rose to over Rs. 1000 crores in the 80's and further to RS. 12,700 crores in the first years of 1990's. the number of capital issues has also increased from 363 in 1990-91 to 900 in 1993-94. The trend is expected to continue in future.

Entry of foreign investors:

An outstanding development in the history of Indian capital market was its opening up in 1972 by allowing foreign institutional investors to invest in primary and secondary market and also permitting Indian companies to directly tap foreign capital through euro issues. The increasing number of joint ventures abroad by Indian companies also require expert services of merchant bankers.

Changing policy of financial institutions:

With the changing emphasis in the lending policies of financial from security orientation to project orientation, corporate enterprises would require the expert services of merchant bankers for project appraisal, financial management etc. ,

Development of debt market:

The concept of debt market has set to work through NSE and OTCEI. Experts feel that of the estimated through debt instruments. The development of debt market will offer tremendous opportunity to merchant bankers.

Innovations in financial instruments:

The Indian capital market has witnessed innovates in the introduction of financial instruments such as non convertible debentures with detachable warrants etc. This has further extended the role of merchant bankers as market makers for those instruments.

Corporate restructuring:

As a result of liberalization and globalization the competition in the corporate sector is becoming intense. To survive in the competition, companies are reviewing their strategies, structure and functioning. This offers good opportunity to merchant bankers to extend the area of their operations.

Disinvestment:

The government raised Rs. 200 crores through disinvestment of equity shares of selected public sector undertakings in 1993-94. The government proposes to shift the present method of periodic sale of public sector shares to round the year 1995-96. This is likely to provide good business to merchant bankers in future.

Qualities required for the merchant bankers:

Merchant bankers play a significant role as a catalyst to transform the project ideas, into industrial ventures. They help promotion of the enterprise by undertaking, various activities such as market surveys, choice of suitable location and its size, preparation of documents and obtaining consent from various authorities. They perform these services effectively the merchant bankers are expected to possess certain qualities which are described below.

- Ability to analyze various aspects such as technical, financial and economic aspects concerning the formation of an industrial project.
- Knowledge about the various aspects of capital markets, trends in stock exchange, psychology of investing public, change in the economic and technological environment in the country.
- Ability to build up the bank client relationship and live up to the client's expectations with total involvement in the project assigned to them.
- Innovative approach in developing capital market instruments to satisfy the ever changing needs of investing public.
- Integrity and maintenance of high professional standards are the essential requisites for the sellers or merchant banker's present scenario.

Commercial banks:

There are differences in approach, attitude and areas of operations between commercial banks and merchant banks. The differences between merchant banks and commercial banks are summarized below.

- Commercial banks basically deal in debt and debt related finance and their activities are appropriately arrayed around credit proposals, credit appraisal and loan activities. On the other hand, the area of activity of merchant banks is equity and equity related finance. The deal with mainly funds raised through money market and capital market.
- Commercial banks are asset oriented and their lending decisions are based on detailed credit analysis of loan proposals and the value of security offered against loans. They generally avoid risks. The merchant bankers are management oriented. They are willing to accept risks of business.
- Commercial bankers are merely financers. The activities of merchant bankers include project counseling, corporate counseling in areas of capital restructuring, amalgamations, mergers, takeovers, etc., discounting and rediscounting or short term paper in money markets, managing, underwriting and supporting public issues in new issue market and acting as brokers and advisers on portfolio management in stock exchange, merchant banking activities have impact on growth, stability and liquidity of money markets.

LEASING

Meaning:

Leasing, as a financing concept is an agreement between two parties, the leasing company or lessor and the user or lessee, whereby the former arranges to buy capital equipment for the use of the latter for an agreed period of time return for the in return for the payment of rent. The rentals are predetermined and payable at fixed intervals of time, according to the mutual convenience of both that parties. However, the lessor remains the owner of the equipment over the primary period.

Definition:

Dictionary of business and management," lease is a form of contract transferring the use or occupancy of land, space, structure or equipment in consideration of a payment usually in the form of a rent".

James C. Van Horne," lease is a contract whereby the owner of an asset (lessor) grants to another party (lessee) the exclusive right to use the asset usually for an agreed of time in return for the payment of rent".

Various terms used in lease agreement:

Lessor:

The party who is the owner of the equipment and who gives it for lease to the other party for payment of a periodical amount.

Lessee:

The party who obtains the equipment for use for which he pays periodical rentals.

Lease property:

The subject of the lease, the asset article or equipment that is on lease.

Term of lease:

This refers to the lease period for which the agreement will be in operation.

Lease rentals:

This refers to the consideration for lease. This may be connected with;

- Interest on lessor
- Maintenance of the equipment
- Depreciation of the asset
- Service charge.

Types of leasing:

Finance lease:

It is a contract involving payment over a longer period. It is a long term lease and the lessee will be paying much than the cost of the property or equipment to the of the property or equipment to the lessor in the form of lease charges. It is irrevocable. In this type of leasing has to bear all costs and the lessor does not render any service.

Operating lease:

The lessee the asset for a specific period. The lessor bears the risk of obsolescence and incidental risks. There is an option to either party terminate the lease after giving notice.

Leverages and non leveraged leases:

The value of the asset leased may of a huge amount which may not be possible for the lessor to finance. So, the lessor involves one more financier who will have charge over the leased asset.

Conveyance type lease: Here, the lease will be for a long period with a clear intention of conveying the ownership of title on the lessee.

Sale and lease pack: Here, a company owning the asset swells it to the lessor. The lessor pays immediately for the asset but leases the asset to the seller. This agreement is done so that the selling company obtain finance for running the business along with the asset.

Full and non payout lease: A full pay out lease is one in which the lessors recovers the full value of the leased asset by way of leasing. In case of a non payout lease, the lessor leases out the same asset over and over again.

Specialized service lease:

The lessor or the owner of the asset is a specialist of the asset which he is leasing out. He is not only leases out but also gives specialized personal services to the lessee.

Net and non net lease:

In not let lease, the lessor is in charge of maintenance insurance and other incidental expenses. In net lease, the lessor is not concerned with the above maintenance expenditure. The lessor confines only to financial service.

Sales and lease:

In case, the lessor enters into any tie up arrangement with manufacturer for the marketing, is called sales and lease.

Cross border lease;

Lease across national frontiers are called cross border lease. Shipping air service etc. will come under this category.

Tax oriented lease:

Where the lease is not a loan on security but qualities as a lease, it will come under this category.

Import leasing:

Here, the company providing equipment for lease may be located in a foreign country but the lessor and the lessee may belong to the same country. The equipment is more or less imported.

International lease:

Here, the parties to the lease transactions may belong to different countries which is almost similar to cross border lease.

Differentiate between financial and operating lease.

S. No	Financial lease	Operating lease
1	The asset is procured purely for the benefit of the lessee and the lessor has lesser benefit compared to the lessee.	The asset is meant for a number of lessees.
2	The risk and benefit of the asset is passed on to the lessee and only ownership is with the lessor.	The lessee is in possession of the asset only for a particular time and hence risk is more borne by lessor.
3	If the asset becomes obsolete, it is the risk of lessee.	Since the lease time is short, the risk of obsolescence is with the lessor.
4	The lessor is more concerned with the rent or lease amount as there is repayment of the principal a mount along with the interest.	The lessor is not only concerned with the rentals but also the asset as it has to be given to number of lessees.
5	The lease is non revocable or irrevocable by either party.	The lease is revocable especially by the lessee.
6		
7	Lease period goes along side with life of the asset and there is primary and secondary	The lease period is small and the lessor, lesses the asset number of times with difference users.

8	period. The lessor is only a financier and does not bear the cost of operation. It is mostly a single lease by which the lessee repays the cost of the asset with interest.	The lessor bears cost of repair, maintenance, etc. The lease is non payout and lessor can recover the value of asset only by repeated leasing to different lessor.

Steps or process of leasing:

The steps involved in a leasing transaction are summarized s follows.

- First, the lessee has to decide the asset required and also determines the supplies or manufacturer. He has to take into account the price, guarantee, lease charges, terms of delivery, design specifications etc.
- The lessee will enter into agreement with the supplier or lessor. The agreement will cover the following aspects.
- During the lease period the lease is irrevocable.
- The time, amount and the period of rental payment during the basic lease period.
- Cost of maintenance, repairs tax, insurance end other expenses.
- Type of lease and option to be adopted.
- On the entering the contract, the lessor the asset to the lessee.

Merits / Advantages of leasing:

- Most of the leasing agreements are modified according to the requirements of the lessee.
- The lessee is able to derive the benefits out of the asset without owning it.
- The lessee is able to save considerable amount of capita which otherwise will be locked up in the asset.
- Leasing is the cheapest and fastest mode of acquiring an asset.
- Capital projects can be financed by leasing method and hence most of the financial institutions have started entering leasing business.
- Because of leasing, the lessee is able to have better debt equity ratio. He can also go for additional borrowings in case of business requirements.
- It is only by leasing method, 100% finance is available for buying equipment.

- Equipment which is likely to be obsolete very soon can be acquired under operating leasing.
- Small scale industries will be benefited by leasing as they can go for modernization of production.
- Technocrats will get more benefits by leasing as the promoters will find it difficult to contribute margin money.
- The lease charge forms a part of profit and loss account and does not appear in the balance sheet. Hence the return in investment for the investment capital.
- Tax benefits are available to both lessor and lessee in leasing.
- Leasing is the best method available to monopoly companies to escape MRTP Act.

Demerits / Disadvantages of leasing:

- The lessee has to pay the rent immediately on acquiring the asset. This will be burden as the lessee would not have experienced benefit of the asset leased.
- The lessor may sue the lessee in case of damages to the leased goods. Any default by the lessor or owner of the asset will also affect the lessee.
- Compared to term loans by banks, lease finance is costlier. If there is no investment allowance, the lease, transactions bring tax loss. At the terminate of the lease agreement, the asset is taken by the lessor and the lessee will lost the residual value.
- In case of damage due to natural calamities, the lessor may be indemnified by the insurance company but not lessee who suffers the loss due to the loss of production.
- Certain tax benefits/ incentives such as a subsidy may not be available on leased equipment .
- The cost of financing is generally higher than that of debt financing.
- If the lessee is not able to pay rentals regularly, the lessor would suffer a loss particularly when the asset I s sophisticated one and less liquid.

Contents of the lease agreement:

The lease agreement specified the legal rights and obligations of the lessor and the lessee. It typically contains terms relating to the following.

- Description of the lessor, the lessee, and the agreement.
- Amount, time and place of leasee rental payments.

- Time and place of equipment delivery.
- Lessee's responsibility for maintenance, repairs, registration etc and the lessor's right in case of default by the lessee.
- Lessee's right to enjoy the benefits of the warranties provided by the equipment manufacturers and suppliers .
- Insurance to be taken by the lessee on behalf of the lessor.
- Variation in lease rentals.
- Option of the lease renewal for the lessee.
- Return of equipment on expiry of the lease period.
- Arbitration procedure in the event of dispute.

'Leasing as source of finance'

Leasing is an important source of finance for the lessee. Leasing companies finance for;

- Modernization of business
- Balancing equipment
- Cars, scooters and other vehicles and durables.
- Items entitled to 100% or 50% depreciation.
- Asset which are not being financed by banks / institutions.

Concept of leasing in India:

The first leasing company of India promoted by the Chidambaram group in 1973, this was followed by the 20th century leasing company in 1980 at Mumbai.

There was a change in the scenario in the early 80's the credit squeeze announced by the RBI and the implementation of Tandon and Chore committee norms on maximum permissible bank financé (MBPF) for working capital made the manufacturing companies set apart a portion of long term funds for working capital and they felt for alternate funds. Equipment leasing was seen as a viable alternative because of easy documentation. Fewer restrictive terms and conditions and availability of 100% financing.

Equipment leasing, was first introduced by the ICICI which now provides leasing for computerization, exports, expansion etc. SBI was the first commercial banks to have its subsidiary. The first foreign bank to participate in the enquiry of a leasing company was the standard chartered bank, Canara bank, Punjab National Bank, Central bank of India also stated leasing business with the help of their subsidiaries. Foreign banks began offering the service of lease broking to their corporate customer. The bank locates the lessor who presents a lease package to suit the requirements of the customers. Based on their performance in 1996-97 and 1997-98 the following NBFCs are rated the strongest in the leasing market.

- Sundaram Finance Limited.
- Cholamandalam investors and finance company limited.
- Ashok Leyland Finance Limited.
- Kotak Mahindra Finance Limited.
- Tata Finance limited.

Leasing companies may be;

- Independent companies E.g., 20th century leasing.
- Subsidiaries of manufacturing companies E.g, Tata industries limited.
- Department of central or state financial Institution E.g, ICICI, IFCI etc.

Features of the lease structured in the India context:

- The leases structured in the Indian context are only financial lease.
- Operating lease is very limited as the resale market for the used equipment is nil.
- Lease agreements do not provide for transfer of ownership to the lessee as it will turn out to be a hire purchase transaction from a tax angle.
- The lease rentals are structured to recover the entire investment cost during the primary period. Lease rentals for the secondary period are very nominal.
- Lease rentals are payable in equated monthly installments at the beginning of every month.
- Equipment leased transactions are mostly direct lease.
- Equipment lease are generally for capital investments not exceeding 100 lakhs.
- Project leasing is done with limited scale.

Problems of leasing in India:

With the growth of the financial service sector, there has been a spurt in number of market intermediaries. Leasing has great potential in India. However leasing in India faces serious handicaps which may mar its growth in future. Some of the problems are;

Unhealthy competition: The market for leasing has not grown with the same pace as the number of lessor. As a result there is over supply of lessors leading to competition.

Lack of qualified personal: Leasing is a specialized business and persons constituting its top management should have expertise knowledge in all areas. In India the concept of leasing business is of recent one and it is difficult to get right man to deal with leasing business.

Tax considerations: Taxes like sales tax, wealth tax, additional tax, surcharge etc. add to the cost of leasing thus it becomes more expensive from of financing than other mode of financing.

Stamp duty: A heavy stamp duty is levied on lease documents. This adds to the burden of leasing industry.

Delayed payment and bad debts: The problem of delayed payment of rents and bad debts add to the cost of lese. The lessor does not take into consideration this aspect while fixing the rentals at the time of lease agreement.

Leasing prospects in India: It is to the threshold of a major break through in industrial development due liberalized economic policy measures initiated by the government. Leasing as a convenient and flexible financing option can pay a vital role in the process of industrial development. The government has indicated that it is open to suggest for reviewing the existing policies. Such conduciveness and the willing ness to prevent bottlenecks in the area of taxation and other areas will go a long way in speeding up the growth of the industry.

Meaning of hire purchase and lease:

Leasing is a contractual agreement under which the owner of an asset called lessor agrees to allow the use of the asset by another party called lessee for a periodic payment as lease rent.

Hire purchase is a method of selling goods. In a hire purchase transaction the good are let out on hire by finance company to the hire purchase customer. The buyer is required to pay an agreed amount in periodical installments during a given period. The ownership of the property remains with the creditor and passes on to hirer on the payment of last installment.

Similarities:

Hire purchase and leasing similarities:

- Economic substance of both of them is same.
- Both are instances of bailment with hire purchase having an additional element of sale.
- Financial remains owner in both cases.
- Repossession rights are similar bin both cases
- In case of motor vehicles in both cases user is recognized as owner.

- Documentation largely same in both cases.
- Requirements of bailment are applicable to both with equal force.

Dissimilarities:

S. NO	**LEASING**	**HIRE PURCHASE**
1	Ownership is with financer forever.	Ownership passed at the option of the hirer at end.
2	No option to buy.	It contains option to buy.
3	Legal ownership is with the lessor.	Legal ownership is with the financier.
4	Income tax recognizes lessor as owner.	Income tax recognizes hire as owner.
5	Depreciation allowed to lessor.	Depreciation allowed to hirer.
6	Lease rental taxed as lessor's income and allowed as lessee's expenses.	Only the interest point of installment taxed as financer income and allowed as hirer's expenses.
7	Accounted as a lessors asset	Accounted as hirer's assets.
8	Sales tax laws treat as special sale.	Sales tax laws treat as nominal sales.
9	Leasing finance business assets	Hire purchase financing both business assets and consumer articles.
10	Lessee does not enjoy the salvage value of the asset.	Hirer being owner of the asset enjoy the salvage value of the asset.
11	No deposit in leasing.	20% deposit is required in hire purchase.
12	Lease financing is invariable 100% financing.	In this margin equal to 20-25% of the cost of the asset paid by the hirer.
13	Cost of maintenance of the leased asset is borne by lessee.	Cost of the hired asset is to be borne by the hirer.
14	The leased assts are shown by way of foot note only.	The asset on hire purchase is shown in the balance sheet of the hirer.

FACTORING:

Meaning of Factoring: The word factor has been derived from the Latin word "facere" which means " to make or to do". In other words, it means 'to get things done". According to the Webster dictionary factor is an agent, as a banking or insurance company engaged in financing the operations of certain companies or in financing wholesale or retail trade sales through purchase of account receivables.

Thus, factoring is a method of financing where by a company sells its trade debt at a discount to financial institutions. In other words, factoring is a continuous arrangement between a financial institution (namely the factor) and a company (namely the client) which sells goods and services to trade customer on credit.

Definition: According to V.A.Avadhani," factoring is a service of financial nature involving the conversion of credit bills into cash".

"An arrangement which includes at least two of the services, namely of fiancé, maintenance of accounts, collection of debts and protection against credit risk".

Functions or services:

Objectives of factoring or Nature of factoring, Provision of collection facilities:

The following undertake to collect the receivable on behalf of the client reliving him of the onerous collection problems. It enables him to concentrate on other important functional areas of the business. This also enables the client to reduce the cost of collection by way of saving in manpower time and efforts.

The use of trained, specialized manpower with sophisticated follow up and make timely demand on the debtors to make the payment.

Administration of sales ledger:

The factor undertakes to maintain sales ledger of the client for a service charge. The client forwards a copy for a service charge. The client towards a copy of an invoices sent by him to his customers. The client need not maintain individual sales ledgers for his customers as the factor undertakes to do it. The factors due to large scale operations computerize the same which contribute to expeditious book keeping. The factor reports to the client about the current statue of receivables from customers and other reports of importance at regular intervals as a greed upon.

Credit investigation and undertaking of credit risk:

The factor has to monitor the financial position of the customer carefully. Since, he assumes the risk of default in payment by customers due to their financial inability to pay. Hence before accepting the risk, he must be fully aware of the financial viability of the customer, his past financial performance record, his future ability, his honesty and integrity in the business would etc. For this purpose, the factor also undertakes credit investigation work.

Financing the trade debts:

The unique feature of factoring is that a factor purchases the book debts of the seller at a price. Then the debts are assigned in favour of the factor. The factor is willing to grant advance usually to the extent of 80% of the assigned debts.

It could be with recourse in which case the factor renders collection services and the supplier is obliged to refund the amount in the event of failure to pay by the customer, or it may be without recourse where the factor is obviously obliged to pay the client on the due date of invoice.

Rendering consultancy service:

A part from the above, the factor also provides management services to the client. He informs the client about the additional business opportunities available, the changing business and financial profits of the customers, the likelihood of coming recession etc.

Q. Explain the key element of factoring.

There are 3 key elements in factoring.

- Selection of accounts
- Collection of accounts
- Granting advances against receivables.

Selection of accounts:

The factor selects accounts of a supplier to be bought on a continuous basis based n customer's age, time of credit, quantum of amount, etc. Normally the factor and the seller or supplier agrees;

- on the credit limit for their customer ,
- the collection period and
- Rebate to be charged.

Collection of accounts:

The supplier or seller informs each customer that the factor has purchased the dent and the customer should pay only the to the factor. If the customer fails to pay on the due date, the factor may or may not recover the amount from the supplier which depends upon the terms of agreement in factoring.

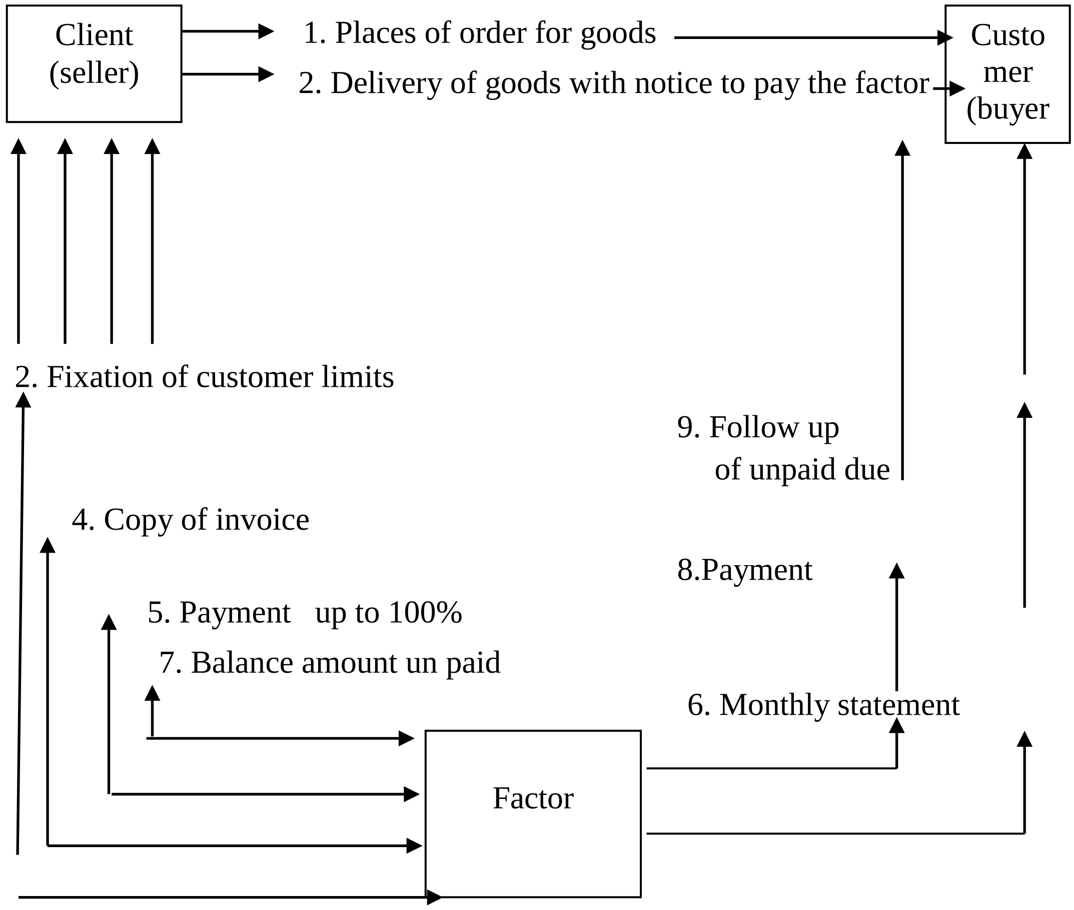
Granting advances against receivables:

The factor generally advances a portion of the value of assigned debts. The balance amount is paid on maturity. By providing funds to the supplier, the factor enables him to resume production.

Steps or sages involve din the process of factoring or explain the factoring mechanism.

A factor provides finance to this client up to a certain percentages of the unpaid invoices which represent the sale of goods or services to approved customers. The modus operandi / mechanism of the factoring scheme are as follows.

MECHANICS OF FACTORING:



- It may also take the form of convertible debt or long term loan.
- Investment is made not only in high risk but also in growth potential projects.

Venture capital is available only for commercialization of new ideas or new

Step 1: The customer places an order with the seller (the client).

Step 2: The factor and the seller enter into a factoring agreement about the various terms of factoring.

Step 3: Sale contract is entered into which the buyer and the goods are delivered.

Step 4: The copy of invoice covering the above sale is sent to the factor, who maintains the sales ledger.

Step 5: The factor prepays 80% of the invoice value.

Step 6 and 7: Monthly statements are sent by the factor to the buyer, if there are any unpaid invoices follow up action is initiated.

Step 8: The buyer settles the invoices on expiry of credit period allowed.

Step 9: The balance 20% less the cost of factoring is paid by the factor to the client.

Types of factoring:

Full service factoring:

Here all the functions of factoring are done by the factor and the factor undertakes the credit risk.

With recourse factoring:

Credit risk is taken by the seller or the client and when the customer fails to pay on the due date, the factor will take action on the seller.

Without recourse factoring:

Here the factor takes the risk and the client need not bear the credit risk in case of non payment of funds by the customer.

Maturity factoring:

The factor makes payment only on the maturity of the bill or at the end of the collection period to the supplier.

Advance factoring:

The factor provides advance against uncollected debts at an interest to the seller. Normally this may be 60% to 75% of the dent amount.

Bank finance factoring:

Here the bank finances that portion which the factor has held in reserve i.e., 15% to 20% of the amount of debts.

Confidential factoring:

Here the arrangement is not disclosed to outsider. On the supplier receiving money from the customer, he will repay the advance to the factor.

Suppliers guarantee factoring:

Factor guarantees the supplier against invoice raised by supplier upon the suppliers to wholesales and retailers.

International factoring:

In export factor, factor takes the bills belonging to he buyer and arranges to make payment to the exporter. Under import factor, the factor in the importing country undertakes to central and collect funds due from the importers.

Bulk factoring:

Under this type, the factor provides finance after disclosing the fact of assignment of debts to the debtors concerned. This type is resorted to when the factor is not fully satisfied with the financial condition of the client.

Agency factoring:

Under this type, the factor and the client share the work between themselves as follows.

- The client has to look after the sales ledger administration.
- The factor has to provide finance and assume the credit risk.

Limited factoring:

Factor discounts only selected invoice on merit basis and converts credit bills in to cash in respect of those bills only.

Buyer based factoring:

The buyer approaches a factor to discount his bills. Thus the initiative for factoring comes from the buyer's end.

Seller based factoring:

The seller instead of discounting his bills sells all his accounts receivables to the factor after invoicing the customers. The seller's job is over as soon as he prepares the invoices. There after all the documents are handed over to the factor.

Advantages of factoring:

Financial service: Many of the manufacturers and traders find their working capital being locked up in the form of trade debts. This has been a great handicap to small and medium scale manufacturers because they have to wait for 3 months to 9 months to realize their debts. The major benefit of the factoring service is that the clients will be able to convert their debts into cash up to 80% immediately as soon as the credit sales are over. They need not wait for months together to get cash for recycling.

Collection service:

Collection of debts is another problematic area for many concerns. It is found that over 60% of the total sales of the SSI sector and over 50% of total sales of the medium and large scale sector are made on “ on account terms of payment” i.e., credit sales. This is an important service rendered by a factor to his client. The cost of collection is also cut down as a result of the professional expertise of a factor.

Credit risk service:

In the absence of a factor, the entire credit risk has to be borne by client himself. Bad debts eat away the profits of a concern and in some cases; it may lead to the closure of a business. But once the factoring relationship is established, the client need not bother about the loss due to bad debts.

Provision of expertised “sales ledge management”:

Administration of sales ledger is purely on accounting function which can be performed effectively only by a few. In fact, the success of any organization depends upon the efficiency with which the sales ledge is managed. But the client can receive service like maintenance of accounting records, monthly sales analysis, over due invoice analysis and customer payment statement from the factor.

Consultancy service:

Factors are professional in offering management service worthiness of the customers of their clients, ascertain their track records quality of portfolio turnover, average size of inventory etc., and pass on the same to their clients. It helps the clients avoid poor quality and risky customer. Not the factor takes up this work on behalf of his client.

Economy in servicing:

Factors are able to render very economic service to their clients because their overhead cost is spread over a number of clients. Moreover, their service charges are also reasonable. Factoring is a cheap source of finance to the client because the interest rate is charged only on the amount actually provided to the client, say, for instance 80% of his total invoice and not only the total amount of the invoices. Thus, clients are able to get factoring services at economic rates.

Off balance sheet financing:

Factoring is an off balance sheet means of financing. When the factors purchase the book debts as the client these debts no longer exist on the current asset side of the balance sheet. It leads to reduction in debts and less collection problems. The client can utilize the money so received to reduce his current liabilities. It means an improved current ratio.

Trade benefits:

Availability of ready cash against bills enables the supplier to negotiate better prices for the inputs and also offer finer terms to customer. It ensures a steady flow of inputs on the one hand and better market prospects on the other. Again factoring enables the supplier to concentrate on production and material management without bothering about the financial management.

Other benefits for financial factoring:

- It provides liquidity to the supplier as the tied receivable is released.
- Capital locked up in outstanding is available for use in the business. As a result of this, all sales become cash sales either directly or indirectly.
- The funds released by the factoring agencies facilitate more investment in fixed assets and thereby increase of operational leverage and maximum return.
- Factoring agreement minimizes bad debts as the factor chooses the correct party or whose bills are taken for providing advantages to the supplier.

Benefits of non financial factoring:

- In non recourse factoring, the supplier is provided credit security.
- The money supplier is relieved of the botheration of administering sales ledger and control of debts.
- As the factor adopts a professional approach for collection of debts, the consumer is disciplined and it helps the supplier to improve his sales.

Disadvantage of factoring:

- There is no insurance available for credit.
- The funds available to the supplier or sellers are limited.
- The limitations in the assignment of debts create complications in collecting them.
- Factors have to maintain their own collection agencies but the same cannot be viable for all factors.
- There is lack of proper credit information in the country and it is affecting the functioning of factoring.
- As the buyers or customers belong to different areas, it is very difficult for the factor to collect money due from them.
- Difficulties arising from the financial evaluation of clients.

Need or importance of factoring or significance of factoring:

Factoring can play an important role in any developing economy. In India factoring can play an important role in development of small scale industries and thus help in employment generation, as SSI are labour intensive industries. The importance of factoring can be summarized under below given headings.

In small scale industries:

The small scale industries suffer from variety of problems, which undermine their efficiency. One of the important problems faced by these units is inadequate working capital often caused by delayed collection of accounts receivable and bad debts. Most of these units face cash flow problems because of their inability to recover the receivables in time and therefore need factoring services.

Export traders:

Export traders may go for factoring services on account of the availability of additional services like sales ledger maintenance and collection of accounts receivable. The services provided by factoring agency may be extremely useful to small scale exporters and new entrants.

Prevention of industries sickness:

The incidence of industrial sickness in India has been on the rise during the last decade. Many of these medium and small units may not have been in red if they had been able to recover their dues in time. Most of these units face cash flow problems because of mounting over due accounts and there fore need factoring services.

concept of factoring in India or Mr. Kalyana Sundaram Committee report:

Factoring in India:

The concept factoring has been recently evolved in India. Kalyana Sundaram study group appointed by RBI has submitted a report on factoring in 1989. Based on committee's report, the RBI has issued guidelines for factoring services in 1990.

Recommendations of kalyana Sundaram Committee:

- There is more scope for introducing factoring in India, especially through banks.
- Exporters can enjoy more benefits by factoring services.
- The growth of factoring will be so fast that within 2 or 3 years, it will be a viable business.

- Export factors can provide various other services also.
- All the industries as well as services can avail factoring services.
- Factors can arrive at a price by taking into account various cost of funds and provide a low cost fund to the seller.
- The discount and finance house of India ltd (DFHI) can be approached by factors for discounting time bills of different periods.
- Banks can take up factoring business due to their excellent network of branches.
- Initially, the factoring can be introduced at the zonal level.
- SIDBI can also take up factoring along with other commercial banks for the benefit of small scale industries The commercial banks should educate the business community on the benefits of factoring.
- Factors should use computers for efficient and economical operations.
- Competition among factors will ensure efficient service to clients.
- Government can enact suitable legislations to make factoring more attractive.

Role of Indian banks in factoring:

SBI factors and commercial services ltd.:

SBI factors and commercial services Lld. was floated by SBI. SIDBI and union bank of India in March 1991. This factoring company has become an associate member of the factors chain international, based in Amsterdam.

Can bank factors:

Can bank factors limited was jointly promoted by Canara bank, Andhra bank and SIDBI, in August 1992 to operate in south India. It's paid up capital of Rs. 10 crores is contributed in the ration of 60:20:20 its three promoters. It can have its operations throughout India due to the listing up of restriction by RBI.

RBI guidelines:

By way of implementing the above recommendations, RBI amended the banking companies Act 1949, enabling the banks to undertake factoring business. However, business cannot directly undertake factoring. So a separate company is promoted by commercial banks for undertaking factoring. The subsidiary companies promoted for factoring by commercial banks should not undertake any other business and the investment of banks in the subsidiary banking companies should not be more than 10% as its paid up capital and reserve fund.

- Factoring activities should be treated on par with loans and advances and should accordingly be given risk weight of 100% for calculation of capital to risk asset ratio.
- A banks exposure shall not exceed 25% of the bank capital funds to an individual borrower and 50 % to a group of borrowers.
- Factoring services should be provided only in respect of those invoices which represent genuine trade transactions.

FORFEITING

Meaning of forfeiting:

Forfaiting is another source of fiancé against receivables like factoring. This technique is mostly employed to help an exporter for financing goods on a medium form deferred basis.

The term "a forfait" is a French word denoting to give something or give up one's rights or relinquish rights to something".

Definition of Forfaiting:

Forfaiting has been defined as "the non recourse purchase by a bank or any other financial institutions of receivables arising from an export of goods and services".

Difference between factoring and forfeiting:

S. NO	FACTORING	FORFAITING
1	Tool for short term financing	It is a medium term financing at a fixed rate of interest.
2	Generally employed to finance both the domestic and export business.	It is invariably employed in export business only.
3	Central theme is the purchase of the invoice of the client.	Central theme is the purchase of the export bills.
4	It is much broader. That is it includes sales ledger administration assumption of credit risk, recovery of debts giving consultancy service.	It is mainly concentrates on financing aspects only.
5	The client is able to get only 80% of the total invoice as credit facility.	The client is able to get 100% of the value of the export bills as credit facility.

6	It may or may not be recourse to the client.	It is done without recourse to the client.
7	No such facility is available	The bills may be held by the forfeiter till the due date or they can be sold in the secondary market or to by investor for cash.
8	It is based on whole turn over.	It is based on a single export bill arising out of an individual transaction only.

Difference between factoring and leasing:

S. NO	FACTORING	LEASING
1	It undertakes the task of realizing accounts receivable.	It is a right to use the asset for a period on an rental payment for an agreed period of time.
2	It is short term nature	It is medium and long term nature.
3	It is agreement between the factor and the client.	It is an agreement between the lessee and lessor.
4	It is off balance sheet financing.	Leased asset is capitalized in the books of lessor / leasing company/ owner.
5	80% financing is provided here.	100% financing is provided here.
6	Factoring is a service agreement as well as financing agreement.	It is purely a financial agreement.
7	Right to collect the money is given to the factor by the client.	Here lessor receives the lease rentals.
8	No such charges are allowed.	The lessor receives the depreciation charges.

VENTURE CAPITAL:

Meaning of Venture capital: The Term venture capital is understood in many ways. In a narrow sense, it refers to investment in new and tried enterprises that are lacking a stable record of growth.

In a broader sense, venture capital refers to the commitment of capital as shareholding , for the formulation and setting up of small firms specializing in new ideas or technologies. It is not merely an injection of funds into a new firm, it is a simultaneous input of skill needed to set up the firm, design its marketing strategy and organize and manage it. It is an association with successive stages of firm's development with distinctive types of financing appropriate to each stage of development.

Definition: A venture capital company is defined as " a financing institution which joints an entrepreneur as a co promoter in a project and shares the risks and rewards of the enterprises".

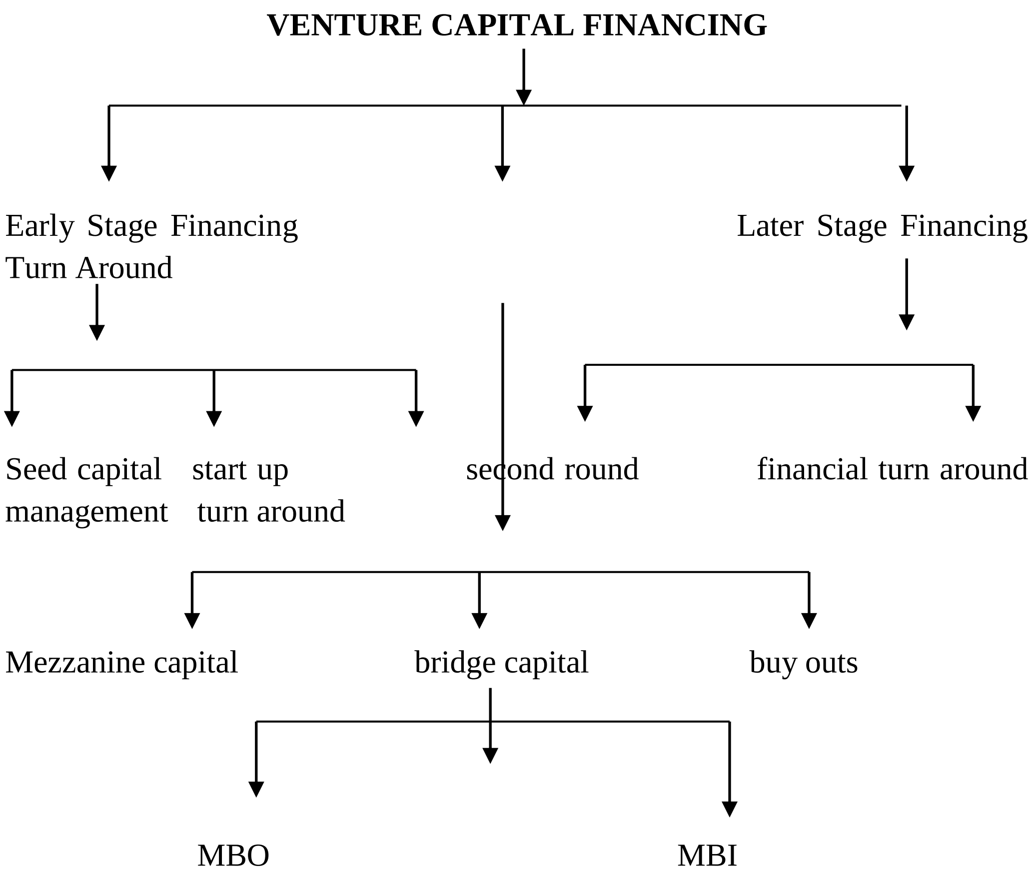
According to the organization for economic cooperation and development (OECD) – 1956 "capital provided by firms who invest along side management in young companies that are not quoted on the stock market. The objective is higher return from the investment value is created by the young company in partnership with the venture capitalist's money and professional expertise".

Features of venture capital:

- Venture capital is usually in the form of an equity participation technologies etc.
- Venture capitalist joins the entrepreneur as a co-promoter in projects and share the risks and rewards of the enterprise.
- There is continuous involvement in business after making an investment by the investor.
- Once the venture has reached the full potential the venture capitalist disinvests his holdings either to the promoters or in the market.
- Venture capital is not just injection of money but also an input needed to setup the firm, design its marketing strategy and organize and manage it.
- Investment is usually made in small and medium scale enterprises.

Scope or Stage or Methods:

Before going in for venture capital finance, the venture capital institution will have to assess the potentiality of the borrowing concern by a proper appraisal. This appraisal will be similar to the project appraisal undertaken by commercial banks. There are three stages involved in the venture capital finance.



Early stage financing: The venture capital institution provides seed capital at the early stage of the borrowing concern.

Seed capital:

In seed capital, the funds are provided for testing the product and examining the commercial viability of the product. It enables the venture capital institution to find out the technical skill of the borrowing concern and its market potentiality. So, we can say seed capital is more of a product development and all the finance required at this stage is provided by venture capital institutions.

Start up:

Once the product is tested in the market and after being satisfied with its acceptability by the market, financing will be provided for further development of the products and marketing of the products.

The start up may be classified into four categories.

- A new high technology introduced by the entrepreneur.

- A new business started by an entrepreneur who has a through working knowledge and experience – normally started by person who was working in an established firm and having gained sufficient experience.
- New projects started by existing companies.
- A new company promoted by existing company. Here, the venture capital institution is keen to have a first rated management which may have a second rated product. But not vice versa i.e., venture capital will not be provided for a concern having a second rated management but a first quality product.

Second round finance:

The borrowing concern has successfully launched the product in the market which is evident from its acceptability. However, the business has not become commercially successful for want of some more finance. It is at this stage, the venture capital institutions provide more funds than at the initial stage.

Later stage financing:

The business concern which has borrowed venture capital has now become a well established business. But still it is not able to go in for public issue of shares. At this stage, the venture capital institution will provide finance.

Mezzanine capital:

This is a sage where the borrowing company is not only well established but has overcome the risk and has started earning profits. But they have to go for some more years before reaching the stage of self sustenance company for purchase of plant and machinery, repayment of past debts and entering new areas.

Bridge capital:

This is a medium term finance ranging from one to three years and used for growth of the business.

Management buy outs (MBO):

Here, we deal about the nature of management that is likely to exist in the borrowing concern. In the case of management buy outs, venture capital is used for removing the external on the management by acquiring all the shares and the voting rights.

Management buys in (MBI):

In the case of buy in funds are provided for an outside group to buy an on going company. But this is not popular as it requires a ready management an investor and a company to take over the existing one.

Turn around:

A sick company may be taken over by providing two important inputs of capital and management.

Financial turn around:

When the company is able to improve its conditions financially, it is called financial turn around, which is due to the financial assistance by venture capital institutions.

Management turns around:

Similarly when the management of the company makes a turn around by becoming self dependent and is able to face the challenges of business, it is called management turn around.

Importance or advantages of venture capital:

Promoting entrepreneurs:

Just as a scientist brings out his laboratory finds to reality and makes it commercially successful, similarly an entrepreneur converts his technical know how to a commercially viable project with the assistance of venture capital institutions.

Promoting products:

New products with modern technology become commercially feasible mainly due to the financial assistance of venture capital institutions.

Encouraging customers:

The financial institutions provide venture capital to their customers not as a mere financial assistance but move as a package deal which includes assistance in managements, marketing, technical and others.

Bringing out latent talent:

While handling entrepreneurs, the venture capital institutions give more thrust to potential talent of the borrower which helps in the growth of the borrowing concern.

Promotion of exports:

The venture capital institution encourages export oriented units because of which there is more foreign exchange earnings of the country.

Catalyst:

A venture capital institution acts more as a catalyst in improving the financial and managerial talents of the borrowing concern. The borrowing concerns will be more keen to become self dependent and will take necessary measures to repay the loan.

More employment opportunities:

By promoting entrepreneurship, venture capital institutions are encouraging self employment and this will motivate more educated unemployed to take up new venture which have not been attempted so far.

Financial viability:

Through their assistance, the venture capital institutions not only improve the borrowing concerns but create a situation whereby they can raise their own capital through the capita market. In the process, they strengthen the capital market also.

Technological growth:

Modern technology will be put to use in the country when financial institutions encourage business ventures with new technology.

Sick companies:

Many sick companies are able to turn around after getting proper nursing from the venture capital institution.

Development of backward areas:

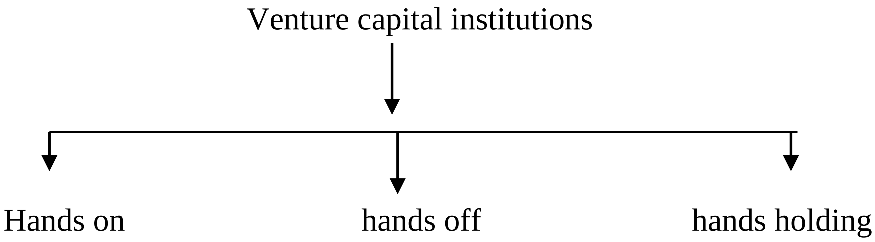
By promoting industries in backward areas, venture capital institutions are responsible for the development of backward regions and human resources.

Growth of economy:

By promoting new entrepreneurs and by reviving sick units, a fillip is given to the economic growth. There will be increase in the production of consumer goods which improves the standard of living of the people.

Venture capital institutions:

Since the venture capital institutions are acting more as friend, philosopher and guide, they protect the borrowing concerns from various angles. We have three types of help rendered by VCIs. They are;



Hands on:

Here, the borrowing concern is helped throughout by taking part in the management i.e., by representing in the board of directors. Useful guidance is given in planning, technological development, finance and marketing, etc. More assistance is given in the early stages, especially in seed capital and start up stages. Such assistance may be given either by the financing institutions or through specialized agencies.

Hands off:

Here, the VCIs will not actively participate in the management because the finance is provided in association with other lending institutions. Such a method is called syndicated or joint or consortium fiancé.

Hands holding:

This is neither hand on now hands off. Here, VCI will act according to the business condition of the borrowing concern. There will be active participation whenever the borrowing concerns want assistance in decision making. This may be in the form of in-house assistance or through outside experts.

Various institutions involved in the process of venture capital finance:

Different types of venture capital in India:

The venture capital institutions (VCIs) in India can be broadly classified into 5 types.

- Venture capital companies promoted by development banks.
- Stage level venture capital companies.
- Commercial banks promoted venture capital companies.
- Private sector venture capital companies.
- Foreign venture capital funds.

Venture capital companies promoted by development banks:

IDBI –VEC (venture Fund Company):

IDBI promoted venture Fund Company in the year 1986. It is promoted by the technology development wing of IDBI.

TDICI (technology development and Information Company of India ltd.):

This was started in January 1988 with the support of ICICI and UTI. This is the country's first venture fund (venture capital unit scheme). It was started with an initial fund of Rs. 20 crores and it has financed nearly 37 small and medium scale enterprises. At present, it has a total fund of Rs. 120 crores. The initial fund has yielded a return of Rs. 16 crores.

RCTC (risk capital and technology finance corporation ltd.:

It is a subsidiary of IFCI, started in January 1988. Its resource base has Rs. 30 crores which has contribution from UTI, IFCI and World Bank.

State level venture capital companies:

There are two state level venture fund companies in India. They are;

- Gujarat venture finance ltd.
- Andhra Pradesh venture capital limited (AVCL)

Gujarat venture finance ltd:

Gujarat industries investment corporation ltd. Along with Gujarat lease finance corporation ltd, Gujarat Alkalies and Chemicals ltd, and Gujarat state fertilizer ltd, promoted Gujarat state venture finance ltd. It has a venture fund of Rs. 24 crores and was stated in 1990.

Andhra Pradesh venture capital limited (AVCL):

This was promoted by APIDC (Andhra Pradesh industrial development corporation), IDBI, Andhra bank and Indian over seas bank.

Venture capital companies promoted by commercial bank:

Under this category, even though we have a number of venture fund companies, notable, among them are

- Canara bank venture capital fund (CVCF)
- Grindlays bank has promoted India investment fund and second India investment fund. They are off shore funds with contributions from U.S.A.
- SBI capital venture capital fund.

Private sector venture capita companies:

In private sector, we have Lavazd credit capital venture fund; and Indus venture management ltd.(IVML).

Foreign venture capital funds:

The Hong Kong Bank has promoted venture fund. Alliance capital of U.S.A. has also promoted Venture capital fund.

Various venture capital schemes offered by the venture capital institutions:

A venture capital institution may go in for different schemes for investment. It can be on the basis of;

- Equity and
- Debt instruments.

Investment in equity:

Investment on the basis of equity is of three types –

- unquoted venture investment,
- unquoted development instruments and
- Quoted investments.

Various venture capital schemes offered by the venture capital institutions:

VENTURE CAPITAL SCHEMES

- Investment in Equity
  - Unquoted venture investments
  - unquoted development investments
  - quoted investments
- Investment in Dent Instruments
  - Convertible debt investments
  - non convertible debt investments
  - leveraged debt investments

Unquoted venture investments:

Here the companies in which investments are undertaken are companies which are not quoted. But the value of these investments is made through a reliable source and is also based on operating performance of the company. For this purpose, the P/E ratio (price divided by earnings) is taken which will give affair idea about the performance of the borrowing companies.

Unquoted development instruments:

Here, the venture capital is invested in companies which are earning profits and where the venture capital could be withdrawn within a reasonable period. Still these securities do not enjoy a market value.. Here also the P/E ratio could be applied. But due allowance should be given for the liquidity of the investment.

Quoted investments:

Here, the borrowing companies in which venture capital are invested would have reached a stage of maturity and hence the venture capital could be withdrawn. In such cases, the value of the shares can be easily assessed from the market. Discount can be given on the value, according to the market conditions.

Investment in debt instruments:

Convertible debt instruments:

These debts instruments are convertible into equity share at a particular time and price. The value of these instruments will also be made either under market value method or under fair value method.

Non convertible debt instruments:

Here, the debt instruments cannot be converted into equities but they will have fixed interest or zero interest bonds.

Leveraged debt instruments:

Here, adequate flexibility is given to venture capital companies so that they can convert a part of their debt instruments into equity and a part of it as debentures. It will depend upon market conditions, earnings of the company and tax structure.

Exit of venture capital:

Here, the venture capital company plans to come out of the borrowing concern, which is otherwise called disinvestment. This can be done either by converting capital into equity or by selling it as shares to other companies or selling to a new investor. Some times the venture capital company may also seek legal measures for getting out of the borrowing concern.

When a venture capital company gets out on its own, it is a voluntary exit. But when it resorts to legal measures, it is an involuntary exit.

Venture capital investments:

Venture capita is available in the following forms in India.

Equity participation:

Venture capital firms participate in equity through direct purchase of shares , but their stake does not exceed 49%. These, shares are sold either to the promoter at negotiated price under buy back agreement or to the public in the secondary market at a profit.

Conventional loan:

Under this form of assistance, a lower fixed rate of interest is charged till the assisted units become commercially operational offer which the loan carries normal or higher rate of interest.

Conditional loan: Under this form of finance, an interest free loan is provided during the implementation period, but it has to pay royalty on sales. The loan has to be repaid according to a pre determined schedule as soon as the company is able to generate sales and income.

Income notes: It is a combination of conventional and conditional loans. Both interest and royalty are payable at much lower rates than in case of conditional loans.

Debt instruments: This may be in the form of debentures, conventional loans, convertible or non convertible, partly convertible dentures and secured promissory notes.

Zero interest bonds and deep discount bonds do not find much encouragement, as there is no interest for zero interest bonds. But they may be convertible or non convertible bonds. In the deep discount bonds, a large discount is given on the money value at the time of maturity.

Concept or SEBI guidelines:

The venture capital companies have been given certain guidelines for providing venture capital. Accordingly, the venture capital companies must obtain a detailed report from the borrowing company. The report should contain the following details.

- History of the borrowing company
- facilities available for the borrowing company
- description of the products manufactured by the company.
- Market trend of the products
- Cash flow position of the concern
- Operating profit
- Biographical sketches of its key personnel.

It takes about 6 months for a venture capital company to process the application during which period, aspects such as the organizational, structure, competition for the company's products, etc, are studied.

The investment plan will consists of 3 stages –

- Basic stage
- Operating stage and
- Exit stage.

The basic stage involves the study and evaluation of the project.

Operating stage deals with monitoring the functioning of the management of the borrowing concern and rendering advice for providing new round of finance.

Exit stage – here the borrowing company may be sold to a third party or the company may be left to lend on its own.

While studying the managerial skill, the following aspect swill be taken-

- Products quality
- Market size
- Rate of return
- Venture location
- Growth potential and
- State of entrepreneur.

SEBI regulations on venture capital institutions:

The main reason for the lack of development of venture capital industry of our country pertains to restrictive legal and financial framework. The recommendation made by SEBI (Chandrasekaran Committee) in the year 2000 are as follows.

Regularization:

At present we have various conditions imposed on venture capital investments. Instead of such measures, we can make venture capital as a single window clearance.

Limited partnership:

Firms and limited liability companies can also be created by amending the existing partnership Act and companies Act.

Resource rising:

Mutual funds, bank and insurance companies should be allowed to invest in venture capital funds.

Investments:

There should not be any restrictions with regard to investment by venture capital companies.

Exits: Under the companies act, buy back of securities needs amendment to the Act. There is a prohibition of fresh issue of capita for a period of 2 years which can be reduced to 6 months for unregistered companies.

SEBI regulations:

The present SEBI guidelines on initial public offer (IPO) applicable to companies earning profits for 3 years should be reduced.

Company law:

Suitable amendments should be made for buy back facility.

Other related issues consist of employees stock option plans, investment in foreign companies and tax issues.

Reasons for slow growth of venture capital companies in India:

Lack of understanding of venture capital:

The VCC should also provide managerial assistance. But they are quite content with providing financial assistance. They are totally forgetting to provide the other forms of assistance, such as managerial, technical etc., to the borrowing concerns.

The companies act is not in favour of VCF:

Section 370 and 372 of the Indian companies act deal with inter company investments and inter company borrowings. These restrictions prevent VCC from investing in new companies.

Exit policy:

There is no proper exit policy in Indian VCC while freeing from the borrowing company, the value of equity in which investment is made must be properly assessed.

Training of employees:

Employees must be given proper training to assess the net worth of the borrowing company and also find out the quantum of financial assistance required by the company.

Unfavourable tax:

The present income taxes are not in favour of VCC. There is double taxation and capital gains tax for the VCC.

Foreign venture capital: The foreign VCC are not given absolute freedom in investing with Indian companies because they have to get clearance from foreign investment promotion board and from RBI.

Lack of clarity in the valuation of equity: Both at the initial stage and at the middle stage, the equity value of borrowing companies has to be assessed and there is confusion in the valuation of equity.

Revival of sick companies: Sick companies can be revived with proper financial, technical and managerial support. The existing VCC lack competence in reviving such sick companies.

Dematerialized Accounts:

In India, a Demat account, the abbreviation for Dematerialized account, is a type of banking account which dematerialized paper-based physical stock shares. The dematerialized account used to avoid holding physical shares: the shares are bought and sold through a stock broker.

This account is popular in India. The Securities and Exchange Board of India (SEBI) mandates a demat account for share trading above 500 shares. As of april 2006, it became mandatory that any person holding a demat account should posses a permanent Account Number (PAN), and the deadline for submission of PAN details to the depository lapsed on January 2007.

Procedure:

1. Fill demat request form (DRF) (obtained from a depository participant or DP with whom your depository account is opned).
2. Deface the share certificate(s) to DP.DP would forward them to the issuer / their R&T Agent.
3. After dematerialization your depository account with your DP, would be credited with the dematerialized securities.

The Benefits:

- A safe and convenient way to hold securities;
- Immediate transfer of securities;
- No stamp duty on transfer of securities
- Elimination of risks associated with physical certificate such as bad delivery, fake securities, delays, thefts etc.;
- Reduction in paper work involved in transfer of securities;
- Reduction in transaction cost;

- No odd lot problem, even one share can be sold;
- Nomination facility;
- Change in address recorded with DP gets registered with all companies in which investor holds securities electronically eliminating the need to correspond with each of them separately;
- Automatic credit into demat account of shares, arising out of bonus/split/consolidation/merger etc.
- Holding investments in equity and debt instruments in a single account.

Required Documents:

The extent of documentation required to open a demat account may vary according to your relationship with the institution. If you plan to open a demat account with a bank, a savings, current and, or other account for which the holder have been issued a check book, such holder has an edge over the non-account holder. In fact, banks usually offer additional incentives to customers who open a demat account with them. Along with the application from, your photographs (with co-applicants) and proof of identity/residence/date of birth have to be submitted. The DPs also ask for a DP-client agreement to be executed on non-judicial stamp paper. Here is a broad list:

- A cancelled check, preferably MICR
- Proof of Identification
- Proof of Address
- Proof of PAN card (mandatory)
- Recent photographs, one and/ or more

For proof of identification and, or address self-attested facsimile copies of PAN card, Voter's ID, Passport, Ration Card, Dirver's License, Photo credit card, Employees ID card, Bank attestation, latest IT returns and, or latest Electricity/Landline phone bill are sufficient. While they only ask for photocopies of the documents, they will need the originals for verification.

Cash Management Services:

The speedier you are, its easier for you to address the challenges of globaisation. Corporate Cash Management Services (CCMS), an innovative service offered by Canara Bank for speedy collection of cheques and other instruments, places Corporates on a faster-track. In more ways than one-such as definite funds flow, better cash management and deployment of funds, better monitoring of funds flow, optimum allocation of funds and effective planning of investment functions.

What is CCMS?

- An innovative service specifically tailored to meet the requirements of Corporates/Business houses/Partnership firms.
- Speedy collection of outstation cheques and other instruments
- Pooling of funds at designated centres
- More importantly, providing funds to the Corporates as per their needs
- Customised MIS reports

What We Offer?

Under we offer the state of the art technology products

- **SUPERFAST SERVICE** –Local cheque collection services
- **FASTRACK SERVICE-** Upcountry cheque collection services
- **BULK COLLECTION SERVICE** – Bulk cheques collection services

Under **'SUPERFAST SERVICE'**, agents or offices of Corporates can deposit the cheques to be cleared in the local clearing and funds will be pooled at any pooling branch designated by the Corporates.

Under **'FASTRACK SERVICE',** agents or offices of Coporates can deposits the cheques drawn on outstation centres and Coporates.

Under **'BULK COLLECTION SERVICE',** agents or offices of Corporates can deposit their bulk (large number) instruments of small value to be cleared in the local clearing nad funds will be pooled at any pooling designated by the Coporate.

Benefits to the Corporates:

- Funds available as per need on day zero, day one, day two, day three etc.
- Corporates can plan their cash flows
- Bank interest saved as instruments are collected faster
- Affordable and competitive rates
- MIS reports customized to meet individual Coporate's requirement
- Single point enquiry for all queries
- Pooling of funds at desired locations
- Operational in 148 cities/centres

NOTES

Unit – V

Innovation:

American Maid helps women on welfare open their own cleaning services by offering mentorship and referring clients for continuing their enterprise. What makes this truly sustainable is that these women are encouraged and supported to work themselves out of depending upon being employed by American Maid's to start a business independently. The organization walks the sub contractors through business licensing process, teaches how to book clients and juggle their weekly schedule. Each new subcontractor is helped to apply for a business license. The women then fix their own hours and number of houses they can clean per week. All of American Maid's workers are subcontractors. They are free to find their own clients as long as they do not cannibalize the organization's clients. To ensure that both the cleaner and the client are happy, the organization hand-picks a cleaner for the client by matching personal cleaning style. Echoing the spirit of community development, American Maid reaches out to the less affluent clients in the area and also offers discounted rates to senior citizens who are incapable of cleaning their own house. Moreover, the foundation created by the organization called Elaine's Maid For Life offers free services for women with cancer, men whose wives have died of cancer, and for mothers whose children are stricken by this disease. The funds for this initiative are raised through the cleaning services. Additionally, the cleaners voluntarily offer extra hours to help people out of their misery.

Impact

The success of the organization speaks for itself in terms of creating a strong business by caring for people. Having already created twenty two years of prospering service, the organization has also won many awards like the Better Business Bureau's American Spirit Award in 2004. The company cleans about 127 houses a week with more than 80 sub contractors. The impact is huge on the women who have become financially stable by their association with the company. The women can earn as much as five hundred dollars per week. The improvement is reflected not only in their standard of living but also in their self-esteem by rising above sustenance on welfare to supporting their children through school.

Inspiration

Having gone through the misery of being on welfare herself, the founder of American Maid was driven to help women be financially independent, be empowered as business owners, and yet have time to spend with their children. Having helped more than 100 women already to prosper and grow in their self-esteem and finances is what makes this business an innovative example of sustainable positive change.

The philosophy of the business is beautifully summed up by its founder when she says that building a successful business takes more than patience, skill, endurance, and persistence; it requires a heart that is caring and not self-seeking.

Policy based innovations:

- Few women in technology and innovation sectors, less related to personal characteristics and abilities and more related to structural and experiential factors
- The advantages of education and experience do not totally compensate for disadvantages of gender
- The single entrepreneur style favoured by women is the antithesis of the teams required by university and commercial science
- New UK research suggests women are *not* less attracted to spin-off ventures, neither do women have fewer entrepreneurial characteristics than men
- But, women lack opportunities to lead spin-outs, they lack sufficient networks (which need to be wide and weak-ties) and lack business credibility

Settings up of Rural Developments cells:

Prior labour market experiences:

- The impact of prior occupation and sector on acquisition of economic, social, human and cultural capital
- Women starting in business often lack hard resources (*capital, savings*) and soft resources (*management experience, training*).

Start-up and growth finance:

- Women use 1/3 the capital used by men, irrespective of sector
- Dependence on personal savings and informal finance sources
- Very little use of VC and business angel investment
- Initial under-capitalisation has a long term negative effect on business survival and growth prospects

Developing and using business networks:

- Networks traditionally developed by and for men.
- Women's networks tend to consist of other women.

Rural Service centers:

- Academic discourse on entrepreneurship is narrow, gendered and focused on 'high potential' technology-influenced influenced
- Derived from Schumpeterian 'heroic' perspectives, reinforced by personality and trait research
- Dualism in the SME sector between the very few high growth 'gazelles' and the majority of 'lifestyle' trundlers
- Selectivity of support 'picking winners' hampered by inability to identify high growth businesses in advance
- 'High potential' entrepreneurs are identified by their stated growth aspirations, clustered around key demographic characteristics white, well-educated, males, aged 25-45
- No evidence that these entrepreneurs have higher growth rates than others
- No evidence that non-high potential entrepreneurs do not grow

INFORMATION TECHNOLOGY:

IMPACT OF IT ON WOMEN'S WORK:

- Automation in manufacturing/services
- Relocation of production
- New skill requirements
- Women concentrated at lower skilled employment levels
- Conducive policies in India and Malaysia have led to women occupying high-skilled and managerial positions
- **Creation of new cells in:**
    - INFORMATION PROCESSING
    - BANKING
    - INSURANCE
    - PRINTING
    - PUBLISHING

OPPORTUNITIES FOR WOMEN IN ASIA IN IT:

- In INDIA over 350,000 women are expected to be working in remote data processing by 2008
- One million jobs in call centres are expected to be created in INDIA by 2007

- Women working in data entry in BANGLADESH would earn 88% more than in local jobs
- Women working in data entry in BANGLADESH would earn 88% more than in local jobs

CLOTHING AND TEXTILE MANUFACTURING:

SECTOR PROFILE IN ASIA:

- Asia's share of total employment in the industry was 72% in 1998
- In 1995 Asia concentrated 80% of global women workers in the textile sector
- China is the major employer accounting for 20% of the global workforce
- Women take up 71% of the jobs in clothing in the region, with China the major employer (20%) followed by Indonesia and Thailand

OPPORTUNITIES FOR WOMEN IN ASIA:

- Computer technology offers opportunities for small and medium women-owned clothing manufacturing units
- In Italy women subcontractors use IT applications for the instant fashion market
- Decentralization allowed by fragmentation of production particularly in garment manufacturing
- Promotion of small-scale sector instrumental for the development of the sector

SOFTWARE PROGRAMMING:

SECTOR PROFILE IN ASIA:

- The number of women programmers, designers, inventors and fixers of computers is limited in the developing world
- Software sector in INDIA has grown by 50% in the 1990s creating exports, domestic jobs and technical talents
- However in MALAYSIA women are 30% of IT professionals and in INDIA comprise 20% of professional jobs in the software industry
- Customized software services are potentially attractive to small and medium sized women enterprises

OPPORTUNITIES FOR WOMEN IN ASIA:

  - ✓ The greatest potential for job opportunities is in the core IT sector

- ✓ Network administration and maintenance are services strongly needed by private sector and government institutions
- ✓ In INDIA and CHINA opportunities are available for women in the software industry
- ✓ IT education and training is an area particularly suitable for women

CONDUCTIVE POLICIES FOR WOMEN ENTERPRENEURSHIP:

- Promotion of small-scale sector
- Entrepreneurship development training
- Dissemination of technology information
- Government to initiate, coordinate and share the cost of R&D and training schemes
- Introduction of IT at early stages of formal education
- Less expensive courses on IT
- State-private sector cooperation for HRD development
- Increasing the number of girls and women studying IT-related subjects in formal schooling

POLICIES FOR WOMEN'S DIGITAL EMPOWERMENT:

INFRASTRUCTUE:

- Rural areas
- Cost of hardware, software, service
- Alternative sources of software
- Cyber kiosks and telecenters

EDUCATION AND TRAINING:

- HRD at al levels
- Scholarships and reservations
- Business development programmes for self-employment

REGULATORY ENVIRONMENT:

- Impact assessment of legislation on working women
- Taxes and subsidies for investment promotion in strategic sectors

SOCIAL ORGANIZATION INVOLVING IN WOMEN'S ENTERPERNEURSHIP DEVELOPMENT:

The ILO actively supports its partners in developing their knowledge base on women entrepreneurs, by analyzing the practical and strategic needs of women entrepreneurs, including those with disabilities and/or living with

HIV/AIDS. The research carried out in various countries has led to a more focused approach in efforts to promote women's participation in small enterprise development. The WEDGE programme facilitates the sharing of successful practices in women's entrepreneurship development between countries and agencies. This enables governments and other partners to develop a supportive environment for women entrepreneurs in terms of policies, regulations and access to business development services.

The WEDGE (Women's Entrepreneurship Development and Gender Equality) team is part of the ILO's Small Enterprise Development (SEED) Programme.

It works on enhancing economic opportunities for women:

- By carrying out affirmative actions in support of women starting, formalizing and growing their enterprises
- By mainstreaming gender equality issues into the ILO's other SEED work

The WEDGE approach is threefold:

- Developing the knowledge base on women entrepreneurs
- Promoting representation, advocacy and voice
- Developing innovative support services for women entrepreneurs

The objective of the WEDGE team is to ensure that women and men have equal access to economic resources and business support to enable them to start, formalize and grow their businesses. WEDGE also works to contribute to the Global Employment Agenda's (GEA) overarching goal of ending discrimination in the labour market by focusing on policy issues that affect women entrepreneurs. WEDGE takes account of longer-term sustainability issues; in terms of where market-led approaches to BDS may be appropriate, as well as where subsidies may be required to assist target groups living in poverty.

Self Groups:

Introduction:

It has been recognized world over that employment guarantee or generation is the prime job of any welfare state. Poverty and unemployment are synonyms in economy. Developing economies spend considerable budgeted resources in addressing these maladies. The last couple of decades of the 20th century saw saturation of the developed economies. World was shrunk by technology which resulted in an increase in social unrest and mistrust within and across the nations. It is now settled that development cannot be restrictive but has to cover all sections of the mankind.

But in our country we have not spent considerable amount on employment generation right from Independence. Apart from investment in core industries, there have been direct attacks on poverty and unemployment through programme like IRDP. By following a planned economy, we have formed a welfare state. But the fact remains that most of these programmes have not met with the required success. Poverty continues to plague us despite the vast resources on the supply side, and the teeming millions on the demand side. Dr.Amaratya Sen views poverty as an opportunity for development. The shackles that bond the structure from growth have to be liberated to attain the overall welfare of the state.

It is in this context that economic liberalization of the nineties undertook structural adjustment of the economy. License raj was dismantled in favour of near about Laissez Faire economy where state will interfere only in critical areas. The days when it was expected that State would create job in Government offices and dole out to meet domestic expenses are over. Any pay whether in Government jobs or private concerns should be linked to productivity to ensure that the resources do not go down the drain but contribute back to the economy.

The role of Non Government Organizations and Self Help Groups step in here. NGOs step into the shoes of Government guiding, nurturing the needy to reach a level where they can stand on their own. The concept of Self Help Groups was tried, tested and made a movement by National Bank for Agriculture and Rural Development in the Nineties. NABARD was started with a modest target of 500 SHGs in 1992. The aim of this model was to organize informal small homogenous groups that would learn and understand thrift, credit and rudimentary book keeping. After a learning process of six months they would be linked to the formal credit delivery system. This model today has linked 22,38,525 groups with the banks most of them women groups. 4323 NGOs have partnered in this silent revolution. What we have proved is with necessary inputs like credit and training, the poor can feel proud and fend for themselves without always looking up to the Government machinery. Today women from these Self Help Groups are tailors, run eateries; own small road transport vehicles, sell vegetables, flowers, and make toys involving the whole family in the economic activity.

ROLE OF WOMEN SELF HELP GROUPS IN EMPOWERMENT OF WOMEN

All round development and harmonious growth of a nation would be possible only when women are considered as equal partners with men. Empowerment of women is essential to harness the women labour in that main stream of economic development. It is multidimensional in its approach and covers social, political and economic aspects. Of all these facets of women development, economic empowerment is of utmost significance in order to achieve a lasting and sustainable development of society.

The success of this women empowerment depends upon the level of education, hard work, social custom, family planning, small family, health, medical services, cleanliness, environment, tree growing, kitchen, gardening and the like.

EMPOWERMENT OF WOMEN AND INDIAN NATIONAL POLICY

The constitution not only grants equality to women, but also empowers the state to adopt measures of positive discrimination in favour of women. From the fifth five year plan (1974-1978), there has been a marked shift in approach to women's issues from welfare to development. In recent years, the empowerment of women has been recognized as the central issue in determining the status of women. The 73'rd and 74'th Amendments (1993) to the Constitution of India have been provided for reservation of seats in the local bodies of panchayat and municipalities for women, laying a strong foundation for their participation in decision making at the local levels. India has also ratified various international conventions and human rights instruments committing to secure equal rights for women such as the Convention on Elimination of all forms of Discrimination Against Women (CEDAW), The Mexico plan of action (1975), The Nairobi Forward Looking Strategies (1985), The Beijing Declaration as well as Platform of Action (1995) and the outcome.

The national policy also takes note of the commitments of the ninth five year plan and the other sectoral policies relating to empowerment of women. The wide-spread network of non-government organizations which have strong grass root presence and deep insight into women's concerns have contributed in inspiring initiatives for the empowerment of women. However, there still exists a wide gap between the goals enunciated in the constitution, legislation, policies, plans, and programmes on the one hand and the situational reality of the status of women in India on the other.

Empowerment is a process, having personal, economic, social and political dimensions with personal empowerment being the core of the development process. The scheme of micro-financing through SHGs creates empowerment promoting conditions for women to move from positions of marginalization to one of greater centrality. It also strengthens women's self esteem and self worth, instills greater sense of awareness of social and political issues. Most importantly micro-finance programmes enable women to contribute to the household economy, increasing their intra-household bargaining power. Micro financing through self-help groups has transferred the real economic power in the hands of women and has considerably decreased their dependence on men.

ROLE OF SHGs IN EMPOWERMENT OF WOMEN – A BIRD's EYE VIEW:

The SHGs voluntarily formed by women save whatever amount they can save every month and mutually agree to contribute to a common fund to be lent to the members for meeting their productive and emergent credit needs. These groups are linked to the banks once their activities are stabilized. Besides focussing on entrepreneurial development of the beneficiaries, the SHGs undertake the responsibility of delivering non-credit services such as literacy, health and environmental issues.

WHAT IS SHG?

SHG is a democratic organization, of the members, for the members and by the members. SHGs are self managed groups of poor men and women which primarily came into existence to mobilize financial resources through their own savings and lend the same amongst themselves to meet the credit needs of their members.

Self help groups are voluntary organizations which disburse micro credit with macro vision to the members and facilitate them to enter into entrepreneurial activities. In India the self help groups are promoted by NGOs, banks and co-operatives. The NABARD gives 100% refinance to the banks on their lending through the SHGs.

Each self-help group consists of 10-20 members. The members meet once or twice a month. There is a President, a Secretary and a Treasurer in each SHG. The term of office bearers is on rotation basis, normally one year. All groups maintain the records such as membership register, minutes book, cash book, savings, and loan ledger. They prepare action plans after detailed discussions of the proposed activities. Every member of the group gets an opportunity to put forth her views. Opinion of the majority is considered while arriving at important decisions. The SHGs have achieved success in bringing women to the main stream of decision making.

The SHGs have made a lasting impact on the lives of the women particularly in the rural areas and has improved their standard of living a lot.

- It develops their skills and abilities in various productive activities and marketing products.
- It increases their income, savings and consumption expenditure.
- It increases their self-reliance and self confidence.

- It enables women to speak boldly in front of a huge crowd.
- They can carry out any type of official work without any fear. The social horizons of the members have also widened.
- The illiterate and semi-literate women have got a sense of satisfaction and wish fulfillment.
- They got high self esteem which enhances their capacity to work.
- It contributes to a decline in gender based problems such as domestic violence, dowry, and polygamy.
- The SHGs have also created better understanding between the members of the different religious groups as the members of SHGs belong to different religions. This helps them to have an understanding and tolerance towards the members of other religions.
- SHGs have proved that they are capable, honest, sincere and committed in the sustainable development and governance and in deciding their destiny.

ECONOMIC EMPOWERMENT THROUGH SHGs

A SHG is a voluntary organization formed to attain some common goals, most of its members have similar social identity, heritage, caste or traditional occupations and come together for a common cause and manage resources for the benefit of the group members. These groups are called as "Solidarity groups" or "affinity groups" as they provide monetary and moral support to individual members in times of difficulties. The concept of SHG is based on the following principles:

1. Thrift **2. Self help** **3. Mutual aid**

The advantages of these basic principles supplemented with mutual help can increase the socio-economic development of women.

I. Creation of small funds by contributing small savings on regular basis.
II. Flexible democratic system of working.
III. Loan is given mainly on trust with a bare documentation and without any security.
IV. Loan amount is small, frequent and short duration.
V. Defaults are rare mainly due to group pressure.
VI. Periodic meetings.
VII. Non-traditional savings

MICRO FINANCE

Micro finance programmes are currently being promoted as a key strategy for simultaneously addressing both poverty alleviation and women's empowerment. There were certain misconceptions about the poor people that they need loan at subsidized rates of interest on soft terms, and that they lack skills. Nevertheless, the experiences of several SHGs reveal that rural poor are actually efficient managers of credit and finance.

The number of SHGs linked to banks has increased to 7, 17,360 as on March 31, 2003. This translates into an estimated 11.6 million very poor families brought within the fold of formal banking services. About 90 percent of groups linked with banks are exclusive women groups. Cumulative disbursement of bank loans to these SHGs stood at Rs.2048.7 crore with an average loan of Rs.28, 560 per SHG.

MAHALIR THITTAM

Women need improvement in their professional skills and solving their day-to-day problems in the working and functioning of SHGs. They should be explained the advantage of group based strategies, importance of savings and opening bank account, marketing of products and timely repayment. There are instances where cash subsidies were taken forcefully by male members in the family for liquor consumption and gambling. To over come all these difficulties, the "Tamil Nadu Women Development Project" [TNWDP] is taken up for implementation under the name of "Mahalir Thittam". It covered about 10 lakh women of the State in the year 1997-98. This scheme is intended to promote economic development and social empowerment of the poorest women through network of Self Help Groups [SHGs] formed with active support of NGOs.

PRODUCTS PRODUCED BY SHGs

The following are the various products produced by the SHGs in Salem district under the brand name 'Kuringi'.

- **Jute Bags.** **Rexin Bags.**
- **Mosquito Nets** **Natural Fertilizers.**
- **Decorative items in Jute.** **Nursery Plants.**
- **Steel Furniture.** **Honey**
- **Greeting Cards.** **Cultivating Coffee**
- **Silk Sarees.** **Making Coffee Power**
- **Mats.** **Electrical Spare parts**
- **Earthen pots.** **Plates and cups.**

- **Anklets.** **Foot Mats.**
- **Washing Powder** **Washing Soap**
- **Sanitary Napkins** **Decorative Articles.**
- **Woollen Products** **Wooden carvings**
- **Bronze utensils** **Cotton pillow covers & dresses**
- **Beverages.** **Foot wear**
- **Earthworm manure** **Handicrafts**
- **Cocoon garlands, rubber bands & bouquets**
- **Coir products** **Bamboo products**

SHG DEVELOPMENT IN INDIA: AN OVERVIEW

The term ‘self-help group’ can be used to describe a wide range of financial and non financial associations. In India it has come to refer to a form of Accumulating Saving and Credit Association (ASCA) promoted by government agencies, NGOs or banks. These groups manage and lend their accumulated savings and externally leveraged funds to their members.

SHGs have varied origins, mostly as part of integrated development programmes run by NGOs with donor support. The major programme involving *financial intermediation* by SHGs is the SHG-bank Linkage Programme. This Programme was launched in 1992 by National Bank for Agriculture and Rural Development (NABARD), the apex bank for rural development in India. By March 2002, the programme covered 7.8 million families with 90 per cent women members. On-time repayment of loans was over 95% for banks participating in the programme. It also involved 2,155 non-government organizations (NGOs) and other self-help promoting institutions. NABARD’s corporate mission is to make available microfinance services to 20 million poor households, or one-third of the poor in the country, by 2008. However, there is at present a high degree of concentration in the southern states, with just two states, Andhra Pradesh and Tamil Nadu accounting for more than 66% of the SHGs linked to banks. The outreach of SHG-bank linkage may seem impressive, but in the context of the magnitude of Poverty in India and the flow of funds for poverty alleviation, it represents a very small intervention.

Apart from NABARD, about half a dozen other apex bodies provide loans to financial intermediaries for on-lending to SHGs. These include the Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh (RMK), Housing and Urban Development Corporation (HUDCO), Housing

Development Finance Corporation (HDFC) and Friends of Women's World Banking (FWWB).Donors and banks provide grants and loans to Microfinance Institutions (MFIs) for on-lending to SHGs and federations of SHGs.

The leading SHG-promoting NGOs constitute a mixed group that includes both pure SHG promoters as well as NGOs operating as MFIs. They have developed a variety of institutional arrangements, including cooperatives, to provide access to financial services to the poor, particularly women.

FEATURES OF SHGs

A variety of group-based approaches that rely on social, collateral and its many enabling and cost-reducing effects are a future of modern micro finance (MF). It is possible to distinguish between: (a) groups that are primarily geared to deliver financial services provided by micro finance institutions (MFIs) to individual borrowers and (b) groups that manage and lend their accumulated savings and externally leveraged funds to their members.

SELF HELP GROUP- FUNCTIONS

- 1% Regular Meeting
- 1% compulsory saving
- 1% Credit management
- 1% Book-keeping
- 1% Build up common fund
- 1% Community action programme
- 1% Awareness and training
- 1% Participation in decision making process
- 1% participating in local self government
- 1% participating in micro level training

CHARACTERISTICS

- 1% Homogeneous
- 1% Voluntary in nature
- 1% Mutual self help
- 1% Non- political
- 1%Rotation of leadership
- 1% Participatory

COMPOSITION

- 1% all the poor

- 1% 15-29 members
- 1% at least 1 to 2 literate
- 1% own bylaw
- 1% opening group account
- Two basic principles of SHG formation are categorized as:
- 1% Self-Help Groups for strength in unity
- 1% Self- Help Groups for financial power

It is proverbially true that there is strength in unity. Once groups of people unite, they become strength to reckon with. They gain strength from each other.

Sharing a platform and gathering under a roof regularly engenders a sprit of solidarity in them, which is so valuable to the women who are otherwise so vulnerable and weak in isolation of their homes. Their basic concerns for survival can find articulation in SHGs to say for financial power of women who are marginalized.

WORKING OF SHGs IN INDIA

Firstly, SHG group members are required to save regularly before they can actually get credit. This saving in a way acts as a collateral for the bank. Secondly, though the bank gives loan to the group, which in turn is lent to members, the joint liability clause generates peer pressure, thereby ensuring timely payments. These are the two main reasons for the banks to go the whole hog in chasing SHG credit. Here it may be pertinent to note that almost 90 percent of the SHGs have a minimum 10 members and a maximum 20 members each. The SHG members are encouraged to make voluntary savings at regular intervals so that resources so pooled could be used to make small interest bearing loans to their members on rotational or needs basis.

SHGs are provided with a revolving fund of Rs.25,000 to Rs.1,00,000 from the district rural development agency and Rs. 15, 000 from bank—after six months of their formation, and upon qualifying the first grading to kick-start the loaning activity. After receiving the revolving fund, the activities of the group are monitored with regard to usage of funds, financial discipline, and account keeping. They are once again graded. The successful groups become eligible for bank financing of economic activities. Bank loan is payable as per the project cost. There is no minimum and maximum limit prescribe

GROWTH OF SHGs IN THE COUNTRY

The analysis of the data reveals the scheme wise SHGs promoted, credit linked and the number of persons given credit:

TABLE: 5.1

SCHEME WISE ESTIMATION OF TOTAL SHGs IN INDIA.

S.NO	NAME OF THE SCHEME	SHGS FORMED	SHGS CREDIT LIMIT	MEMBERS CREDIT LINKED
1	Swayamsiddha	1,15,596	63,578	10,80,832
2	Swa- shakti	17,647	12,144	1,70,016
3	AHVY	19,547	10,751	1,54,438
4	SGSY	20,60,871	7,77,580	1,01,08,537
5	RMK	979	979	14,692
6	NABARD	27,73,169	15,25,243	2,28,78,645
7	MFIs	6,05,642	3,33,103	49,96,548
Grand Total		55,93,452	27,23,378	3,94,03,708

Source: NABARD annual resources

The country probably had about 60 lakh SHGs formed of which 27 lakh had been given credit, benefiting 3.94 crore members in the nation. However, there was a possibility of ‘overlapping’ of figures being reported. The most important being the figures reported by NABARD and SGSY. There was a strong probability that ‘double’ reporting of the SHG data could have taken place in these schemes. Furthermore, it is evident that in the southern states, there being no demarcation of APL/BPL group, the complete data of the state is being reported both by SGSY and also under non-subsidized groups. Hence, to adjust for this double reporting or over inflation of data, it is presumed that (a) 30 percent SHGs reported under SGSY may be reduced and (b) in southern states of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu, the figure as reported under non subsidized groups may be presumed to be reflective of the true picture i.e. the same stock of SHGs reported.

TABLE: 5.2

REGION WISE ESTIMATION OF SHGs IN INDIA

S.NO	REGION	SHG FORMED	SHG CREDIT LINK	MEMBERS CREDIT LINKED
1.	**CENTRAL**	8,10,308	3,45,228	49,39,464

2.	**EAST**	8,46,955	4,42,716	63,51,382
3.	**NORTH**	1,64,819	89,075	13,26,246
4.	**SOUTH**	17,34,915	9,54,077	1,43,11,815
5.	**WEST**	5,03,634	2,45,084	35,90,291
ALL INDIA		40,60,631	20,76,179	3,05,19,199

YEARWISE PERFORMANCE OF SHGs

As on March 31st 2006, the number of SHGs linked with banks increased substantially to 15, 97,804, by 48.1 per cent, and bank credit disbursed also shot up to Rs.68, 665.9 million reflecting percentage increase by 75.8. The cumulative number of self help groups refinanced by national banks was as high as 8, 24,888 and the cumulative refinance provided to banks was of the order of Rs.30,924.2 million reflecting percentage increase by 35 and 45.6 as on March 31, 2006.

TABLE: 5.3

YEAR WISE NUMBER OF SELF HELP GROUP AND CREDIT DISBURSED

YEARS	NUMBER OF SELF HELP GROUPS	BANK LOANS (IN CRORE)
1992-1998	32,995	571
1999-2000	81,780 (147.8%)	1,359
2000-2001	1,4 9,050 (82.2%)	2,879
2001-2002	1,97,653 (32.6%)	5,454
2002-2003	2,55,882 (29.5%)	10,224
2003-2004	3, 61,731 (41.4%)	18,555
2005-2006	5, 18,713 (43.4%)	51,295

Source: UNDP reports.

Data presented in the table indicated that the pace of formation of SHGs and linking them with banks providing credit was indeed substantially accelerated from the year 1999-00 as was evident from the fact that the number of SHGs sharply rose to 81, 780 (147.8 percent) during the year 1999-00 over the total number of 32,995 SHGs formed during the past seven year period from 1992-98. The trend continued year after year reflecting an increase in the number by 43.4 percent during the year 2004-05 over the previous year. The cumulative total number of SHGs during the 13 years from 1992-93 to 2003-05 was high as 15,97,804 as on March 31,2006 covering around 23.96 million poor persons. It may be appreciated that while national bank had set target of one million SHGs to be financed by banks by the year end 2006-07, this was achieved two years ahead of the target date.

STATEWISE PERFORMANCE OF SHGs

In order to balance the uneven growth of micro-finance program, 13 states were identified as priority states where the SHG-bank linkage program has been progressing slowly and there were many pockets where incidence of poverty is high. Special efforts put in and programs launched have proved to increase the number of SHGs from 1,41,804 as on March 31,2004 to 3,97,464 as on March 31, 2006. Significant increase in the number of SHGs linked with banks was observed particularly in backward states of Assam, Bihar and Orissa from 0.22 percent to 0.99 percent; 0.86 percent to 1.51 percent and 4.45 percent to 7.19 percent of the total SHGs in the country as on March 31, 2002 to as on March 31, 2006 respectively.

TABLE: 3.4

CUMULATIVE PROGRESS OF SHGs LINKED WITH BANKS

STATE	MARCH 31,2002	MARCH 31,2004	MARCH 31,2006
Assam	1,024 [0.22]	3,477 [0.48]	10,706 [0.99]
Bihar	3,957 0.86]	8,161 [1.14]	16,246 [1.51]
Chhattisgarh	3,763 [0.81]	6,763 [0.94]	9,796 [0.91]
Gujarat	9,496 [2.06]	13,875 [1.93]	15,974 [1.48]
Himachal Pradesh	5,067 [1.10]	8,875 [1.24]	13,228 [1.22]
Jharkand	4,198 [0.91]	7,765 [1.08]	12,647 [1.17]
Maharashtra	19,619 [4.25]	28,065 [3.91]	38,535 [3.57]
Madhya Pradesh	7,981 [1.73]	15,271[2.13]	27,095 [2.51]
Orissa	20,553 [4.45]	42,272 [3.17]	77,588 [7.19]
Rajasthan	12,564 [2.72]	22,742 [3.17]	33,846 [3.14]
Uttar Pradesh	33,114 [7.17]	53,696 [7.48]	79,210 [7.34]
Uttaranchal	3,323 [0.72]	5,853 [0.81]	10,908 [1.01]

West Bengal	17,143 [3.71]	32,647 [4.55]	51,685 [4.79]
Sub-total	1,41,804 [30.73]	2,49,462 [34.77]	397,464 [36.8]
All – India total	4,61,478 [100]	7,17,360 [100]	1,079,091[100]

Source: NABARD annual reports

Note : Figures in brackets indicate percentage share to all India total.

FEATURES OF SHGs

A variety of group-based approaches that rely on social collateral and its many enabling and cost-reducing effects are a feature of modern microfinance (MF). A distinction can be made between different types of SHGs according to their origin and sources of funds. Several SHGs have been carved out of larger groups, formed under pre-existing NGO programmes for thrift and credit. Some have been promoted by NGOs within the parameters of the bank linkage scheme. Others have been promoted by banks and the District Rural Development Agencies (DRDAs). Still others have been formed as a component of various physical and social infrastructure projects.

Some of the characteristic features of SHGs currently engaged in MF are given below:

A SHG is generally an economically homogeneous group formed through a process of self-selection based upon the affinity of its members. Most SHGs are women's groups with membership ranging between 10 and 20.SHGs have well-defined rules and by-laws, hold regular meetings and maintain records and savings and credit discipline. SHGs are self-managed institutions characterized by participatory and collective decision making.

LINKING BANKS AND (FINANCIAL) SELF HELP GROUPS IN INDIA AND ROLE OF *NABARD*:

Congruity with human nature enhances the relevance and utility of human development initiatives. The core of SHG bank linkage in India has been built around an important aspect of human nature - the feeling of self worth. Over the last ten years, it has come to symbolize an enduring relationship between the financially deprived and the formal financial system, forged through a socially relevant tool known as Self Help Groups (SHGs). An amazingly large number of formal and non-formal bodies have joined hands with NABARD in this unique process of socio-economic engineering. What had started off in 1992 as a modest pilot testing of linking around 500 SHGs with branches of half a dozen banks across the country with the help of a few NGOs, today involves about 20,000 rural outlets of more than 440 banks, with an advance portfolio of more than Rs.1, 200 crore in micro finance lending to

SHGs. Financial services have reached the doorsteps of over 8 million very poor people, through 5, 00,000 SHGs, hand-held by over 2,000 development partners.

DEFINITION OF SHG-BANKING

SHG-Banking is a programme that helps to promote financial transactions between the formal rural banking system in India comprising of public and private sector commercial banks, regional rural banks and cooperative banks with the informal Self Help Groups (SHGs) as clients.

INITIATORS OF THE LINKAGE PROGRAMME

When the Asian and Pacific Regional Agricultural Credit Association (APRACA) presented a platform for policy dialogues to target new banking concepts in the early eighties, the basic concern was that traditional banking cannot any longer ignore the creative human potential of the poor in Asia. The following thesis became the entry point of SHG-Banking:

- Providing them access to saving and credit services may stimulate their self help capacity.
- Entry road to overcome poverty and address some of their crucial social concerns.

THE BACKGROUND

The high level of dependence of the informal sector on non-institutional sources continued despite a rapid growth of banking network in India in the last five decades. The rural financial system at present functions through an impressively large network of more than 1, 50,000 retail outlets. Despite such phenomenal expansion of the outreach of the formal banking structure, the All India Debt and Investment Survey (GoI), 1981, gave indications that the share of non-institutional agencies in the outstanding cash dues of the rural households was quite high at 38%. It was also seen that households in the lower asset groups were more dependent on the non-institutional credit agencies.

The main hurdle faced by banks in financing the very poor seemed to be the comparatively high transaction cost in reaching out to a large number of people who required very small doses of credit at frequent intervals. The same held true of the costs involved in providing savings facilities to the small, scattered savers in the rural areas. Feelings were mutual among the very small savers and borrowers in the rural areas as well, as they tended to view banking as an institutional set up for the elite; even if they tried to reach the bank branch the long distances and loss of earnings on being away from work while visiting bank branch were hurdles and they were never sure whether they would get any service or not if they did approach the branch. The levels of mutual inconvenience and discomfort made the poor look at banking as an almost inaccessible service, and the banks felt that banking with the very poor was not a ‘bankable’ proposition.

ROLE OF NABARD

It is in this background that NABARD conducted studies in the mid-eighties that brought out the simple fact that the most important and immediate banking needs of the poor households, in the order of their priority,

- Opportunities to keep safe their occasional small surpluses in the form of thrift.
- Access to consumption loans to meet emergent needs and
- Hassle-free access to financial services and products, including loans for micro-enterprises. Viewed against this demand, there were serious limitations on the supply side, as the existing products and services of the banking system were largely meant for a different type of customer segment.

In cases where credit was made available to the poor through special programmes, absence of an integrated savings component and something to fall back upon in case of any adversity was leading to poor repayment performance. The problem was further confounded, as the users were unable to distinguish between the State support (grants/relief) and bank credit as the rural and agricultural banking system was getting identified with the State.

Based on the above studies, NABARD developed the Self Help Group - bank linkage approach as the core strategy that could be used by the banking system in India for increasing their outreach to the poor. The strategy involved forming SHGs of the poor, encouraging them to pool their thrift regularly and using the pooled thrift to make small interest bearing loans to members.

NABARD saw the SHG as a group of about 20 people from a homogeneous class, who come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritization of needs, setting terms and conditions and accounts keeping. The money involved in the lending operations is their own hard earned money saved over time with great difficulty. This is ‘**warm money**.’ They also learn to handle resources of a size that is much beyond their individual capacities. The SHG members begin to appreciate that resources are limited and have a cost. The groups show this promotion and bank linking of SHGs not merely as a credit programme but as part of an overall arrangement for providing financial services to the poor.

NABARD AS IMPLEMENTING AGENCY IN INDIA AND THE STRATEGY ADOPTED

PREPARATORY STEPS

In India, a Task Force was set up with the Additional Secretary, Ministry of Agriculture, Government of India as Chairman and comprising members of Indian institutions to

- Identify the existence of self help groups
- Undertake a survey of a sample of such groups
- Draw up a plan of action for channeling the flow of savings and credit between the rural poor and banks through SHGs, and
- Identify concrete projects for action research in this field.

FINE-TUNING FUTURE STRATEGY

The corporate mission for micro finance set by NABARD envisages reaching banking services to one-third of the very poor of the country, i.e., a population of about 100 million rural poor through one million SHGs by the year 2007-08. The banking system has already reached micro finance services to 40 million poor through SHGs, reinforcing this commitment. NABARD and its partners are all set to traverse the path beyond the mid-mark. This is the right time to fine-tune the strategies for the future, based on the experiences of the past. The overall strategy adopted by NABARD relies on two main planks:

(i) Expanding the range of formal and informal agencies that can work as SHG promoting institutions, and

(ii) Building up capacities of the increasing number of stakeholders. The key to all such initiatives has been training and capacity building of various stakeholders including the SHG members themselves, the range of which is growing at a fast pace.The bank loans are given without any collateral and at market interest rates. Banks find it easier to lend money to the groups as the members have developed a credit history.

TREMENDOUS GROWTH OF SHGs – BANK LINKAGE IN INDIA

The SHGs bank linkage has evolved as sustainable social movement over a decade by now. A SHG has an average size of about 15 people from homogenous class. They come together for addressing their common problems. They are encouraged to make voluntary thrift on regular basis. They use this pooled resource to make interest –bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritization of needs, setting terms and conditions and accounts keeping. This gradually builds financial discipline in all of them. They also learn to handle resources of a size that is much beyond individual capacities of any of them.

The SHG members begin to appreciate that resources are limited and have a cost. Once the groups show this mature financial behaviour, banks are encouraged to make loans to SHG in certain multiples of the accumulated savings of SHG. The bank loans are given without any collateral and at market interest rates.

SHG – BANK LINKAGE 2004-2005

The performance of banks in linking self-help groups (SHGs) to the banking system scaled enviable heights during the year 2004 – 2005. The cumulative number of SHGs credit linked with banks increased to 16, 18,476 as on 31 March 2005 covering more than 16.7 million poor households and advancing Rs.68.98 billion by way of loans. During 2004-2005, 5,39,385 new SHGs were credit linked with 242.5 lakh poor house holds in the country with bank advancing Rs.29.94 billion by way of loans. **NABARD** had set a mission of credit linking 1 million SHGs by 2007 and this mission was achieved 3 years ahead of the schedule.

NUMBER OF NEW SHGs FINANCED BY BANKS DURING 1999-2000 TO 2004-05

During 2004-05, total bank loans disbursed to SHGs aggregated Rs.29, 942 million as compared to Rs.18, 555 million disbursed during the previous year, registering a growth of 61% over the previous year. Though cent percent refinance from NABARD was available to all banks for SHG leading, some banks did not utilize the facility to the full extent.

TABLE: 3.5

PROGRESS OF SHG-IN INDIA

YEAR	SHGs FINANCED	GROWTH RATE	BANK LOAN(MILLION)	GROWTH RATE
1992-1999	32,995	----	571	----
1999-2000	1,14,775	248	1,930	238
2000-2001	2,63,825	130	4,809	149
2001-2002	4,61,478	75	10,263	113
2002-2003	7,17,360	55	20,487	100

2003-2004	1,079,091	50	39,042	90
2004-2005	1,618,474	50	68,984	77

Source-progress of SHG-in India, NABARD PUBLICATION (2004-05)

As may be seen from the table, the bank loans aggregating Rs.68, 984 million were disbursed to 1,618,474 SHGs with refinance support of Rs.30,859 million from NABARD, up to 31'st March 2005. Around 90 percent of the SHGs linked were exclusively women SHGs. Various impact evaluation studies revealed that the on-time repayment of SHG loans was around 95%.

SPREAD OF SHG-BANK LINKAGE

The year 2004-05 has witnessed an all round growth in the SHG – bank linkage programme in various states. The number of SHG credit linked increased by 1, 07,351 in Andhra Pradesh, and 70,437 in Tamil Nadu, 59,332 in West Bengal, 40,438 in Uttar Pradesh 32,611 in Maharastra, 27,081 in Kerala, and 26,160 in Rajasthan and 20,528 in Assam over the previous year 2003-04.

Promotional efforts were launched by NABARD through its regional offices in these states, participating agencies and other states including the government and non governmental agencies. NABARD took specific steps to identify district-level bottlenecks in expansion of SHG-bank linkage in the states of Bihar, Uttar Pradesh, Rajasthan, Assam, Madhya Pradesh, West Bengal, and Orissa conducting Goal Oriented Project Planning (GOPP) programmes for the District Officers of NABARD in these states. The partners included RRBs farmers' clubs, government organizations and development departments which have effectively taken up the role of promoting and nurturing SHGs. Almost all commercial banks (48), RRBs (196) and cooperatives (9,316) participated in the SHG-bank linkage pursuit.

GRANT SUPPORT TO PARTNER AGENCIES FOR PROMOTION AND NURTURING OF SHGs

NABARD has been instrumental in the formation and nurturing of quality SHGs by means of promotional grant support to NGOs, RRBs, DCCBs, Farmers club and individual volunteers in developing capacity building of various partners, which have brought about excellent results in the promotion and credit linkage of SHGs. Further, increasing number of partner institutions functioning as Self-Help Promoting Institutions (SHPIs) over the year resulted in the expansion programme throughout the country. The table shows the financial support provided by NABARD to its partner institutions and their progress in SHG promotion / linkage.

TABLE: 3.6

GRANT ASSISTANCE EXTENDED TO VARIOUS PARTNERS IN SHG-BANK LINKAGE PROGRAMME

Agency	Sanctions during 2004-05			Cumulative sanctions			Cumulative progress		
	NO	Amount	No. of SHGs	No	Amount	No. of SHGs	Amount released	SHGs formed	SHGs linked
Co-operative Bank	26	10.63	12,560	55	23.03	28,110	3.44	15,775	5,212
Regional Rural Banks	12	2.97	3,880	102	30.55	38,935	9.57	37,711	20,716
Non–Govt Organization	331	42.65	24,234	1,179	193.87	1,39,513	96.43	1,05,866	62,710
Farmers Club	--	--	--	--	--	--	4.13	10,645	5,249
Individual Rural Volunteers	10	3.47	2,675	1351	5.96	4,525	0.48	7.88	395
Total	**365**	**59.74**	**43,539**	**2,687**	**253.43**	**2,11,083**	**114.06**	**1,70,785**	**94,282**

ANNUAL REPORT OF NABARD [2004-2005]

SUPPORT TO REGIONAL RURAL BANKS (RRBs)

The local character and regional spread of RRBs give an advantage in providing and nurturing support to SHGs. NABARD has been encouraging RRBs for this purpose from 1999 onwards. During the year 2004-2005, 12 Regional Rural Banks [RRBs] sanctioned grant assistance of Rs.2.97 million for promotion and linkage of 38,935 SHGs.

SUPPORT TO COOPERATIVE BANKS

NABARD has been supporting capacity building, exposure and awareness initiatives of the cooperatives to mainstream SHG-bank linkage in the co-operative banking sector. A specific initiative has been taken from last year to encourage central cooperative banks to function as Self-Help Promoting Institution (SHPI). During 2004-2005, 28 District Central Cooperative Banks (DCCBs) in states have been sanctioned grant assistance of Rs.23.03 million for 29 DCCBS for promotion and linkage of 12,560 SHGs.

SUPPORT OF NON GOVERNMENTAL ORGANISATIONS (NGOs)

Recognizing the core competence of the non-governmental agencies in formation and nurturing of good quality SHGs, NABARD continued to involve an increasing number of NGO partners to take up the function of self help promoting institutions (SHPIs). The NGOs, which act as SHPIs as an add-on function, were provided with supplementary assistance in the form of promotional grant and infrastructure support.

SUPPORT TO FARMER'S CLUBS

The farmer's clubs promoted by banks under the farmers' club programme of NABARD enjoy local acceptability and goodwill by their being informal ambassadors of the village to the banking system. Cumulatively, 3,649 farmer's clubs were so far provided with grant assistance of Rs.4.13 million as on March 2005 and they promoted 10,645 SHGs. Of these, 5,249 were given bank loans as on 31 March 2005.

SUPPORT TO INDEPENDENT VOLUNTEERS

Based on the feedback received in respect of a pilot scheme for encouraging socially committed Individual Rural Volunteers (IRVs) in organizing the rural poor into SHGs, it was decided to extend the scheme to 13 states, which account for bulk of the rural poor. A financial assistance of Rs.3.47 million was sanctioned for the promotion of 2,675 SHGs. As on March 2005, the progress under the pilot scheme has been modest with 788 SHGs promoted and 395 credits linked.

CADRE OF ENTHUSIASTS – OUTSOURCING EDUCATION

NABARD has partnered with few NGOs from Maharastra and Yashwantro Chwan University (YCMOU), Nashik, and Indira Gandhi National Open University (IGNOU) in shaping and offering a six month certificate course for self-help group facilitators on the nuances of promotion and nurturing of SHGs. This comprehensive course on the subject offers coverage of topics like empowerment of women, poverty alleviation, issues on social communication at pre-formative stage and aspects like stabilization of group functions, conflict resolutions etc. The programme is open to all enthusiasts as the subject offers coverage of topics like empowerment of women, poverty alleviation, issues on social communication at pre-formative stage and aspects like stabilization of group functions, conflict resolutions etc.

AWARENESS PROGRAMME

During 2004-2005, NABARD brought out the publications '**saving grace**' and '**Aksay Patra'** that assisted a large number of stakeholders in experiencing, sharing, awareness creation, capacity building and dissemination of information on best practices among practitioners of micro finance.

TABLE: 3.7

GROWTH RATE OF SHGs

State	2002	2003	2004	2005	Growth rate in 2005 over previous year
Assam	1,024	3,477	10,706	31,234	192
Bihar	3,957	8,161	16,246	28,015	72
Chhattisgarh	3,763	6,763	9,796	18,569	89
Gujarat	9,496	13,875	15,974	24,712	55
Himachal Pradesh	5,069	8,875	13,228	17,798	34
Jharkand	4,198	7,765	12,647	21,531	70
Maharastra	19,619	28,065	38,535	71,146	85
Madhya Pradesh	7,981	15,271	27,095	45,105	66
Orissa	20,553	42,272	77,588	1,23,256	59
Rajasthan	12,564	22,742	33,846	60,006	77
Uttar Pradesh	33,114	53,696	79,210	1,19,648	51
Uttaranchal	3,323	5,853	10,908	14,043	29
West Bengal	17,143	32,647	51,685	92,698	79
Total	**141,804**	**249,462**	**397,464**	**667,761**	**68**

All India Debt and Investment Survey – GOI.

FUTURE STRATEGY

In order to balance the uneven growth of micro finance programme, 13 states have been identified as priority states, where the SHG bank linkage has been progressing slowly and the incidence of poverty is high. Special efforts, launched over a period, have resulted in positive trends in 13 backward states, such as increasing the number of SHGs financed 1,41,804 as on March 2002 to 6,67,761 as on 31 March 2005. Significant increase in the number of SHGs was also observed in backward states like Assam, Bihar and Orissa. NABARD will continue its focus to reduce regional imbalances in these states.

The strategy will include thrust on promoting quality SHGs, building synergy of objectives with stakeholders , evolving region specific strategies, encouraging proper rating of SHGs by banks.

These initiatives have attracted the attention of wide range of stakeholders. A large number of formal and informal agencies have joined with NABARD in this unique process of socio-economic engineering. The relevance of the micro finance programme was greatly enhanced for all the partners through the core strategy of SHG-bank linkage.

TRAINING AND SAVINGS FIRST

SHG TRAINING

The processes of group formation and training are critical stages for stability of the group. Training includes teaching rules and regulations, governing bank procedures and administrative requirements, maintenance of book of accounts, rules for internal lending and repayment of loans, keeping the group fund intact, knowing in detail the responsibilities of the Chairman and the Secretary of the group, the potential of own savings or learning to write one's signature. Group organizers do this job during 4 to 5 visits to a newly formed group. In few cases we found that individual members of groups have been sent to Training Institutes for training in financial management of groups. They were all very serious about the tasks given to them. Book keeping remains a particular problem area to be addressed by training. This role is usually given to a knowledgeable and trustworthy person in the village. (mostly retired government employee or NGO staff)

SAVINGS

The newly established groups do not start with a loan from the bank. They start as savers' groups with regular fortnightly or monthly small savings targets. Each member saves identical amount (approximately Rs. 20 to Rs. 50). This contractual saving system has been introduced by every group visited in the field with the aim to start developing a basic financial discipline and to build-up an own capital stock as an internal resource base and to become eligible for a bank loan. SHGs usually discouraged members who voluntarily contributed or saved higher amounts with SHG - this was partly because of the added issues of book keeping get more complex as also the fear that they may gain more influence in decision making in the group. They usually were asked to go to the Bank and to put their additional savings into an individual saving account.

Some of the members wanted to maintain a purpose oriented saving account for meeting marriage, funeral expenses or for religious functions, holidays. Among the poor households, the capacity for saving is remarkable and testifies their skill in efficient utilization of resources and also their ability of setting aside thrift even at extreme low income levels.

The savings account of the group was opened at the Bank forging a future relationship with the banker. Each member of the group continues to save a small but fixed amount after receiving the first bank loan. The savings are collected during the regular meetings and entered into individual passbooks and the group passbook.

The two requisites for effective savings mobilization in SHG-Banking are mentioned very often: savings shall not yield negative real returns (relative to the rate of inflation) and savings as a potential source to finance new SHG loans are not undermined by cheap subsidized finance facilities or donor money. Some of the selected group representatives and group members were receiving special training to manage the SHG financial system. Once the groups have been formed no additional subsidies are required.

PROMOTING LOANS AT MARKET RATES

BANK LOANS TO SHGs

After 6 months of normal functioning, "bank ability" recognition is given to the SHG (despite being a non legal entity) by the Bank. Then, a loan or an overdraft facility is sanctioned by the banking system to SHGs in relation to the savings amount accumulated and based on the SHG request. Market rates of interest are applied and the participating banks are free to modify according to local conditions. The RBI created the necessary conditions by deregulating the interest rate, enabling application of market rates in this case. NABARD original guidelines on SHG-linkage banking programme recommended that banks start lending with a loan to saving ratio of 1:1 or 1:2 and may gradually increase it to 4:1, keeping in view the resource handling capacities of the poor. (Based on the experience of the Indonesian Central Bank which operated a similar SHG-Banking programme).Conventional collateral is substituted by group liability and volume of group savings. Meanwhile, increased repeat loans are given to good performing SHGs but the amount of repeat loans is still very small (Rs. 20,000 to 50,000 or US $ 400 to 800).

Field evidence indicates that banks have started to put in place proper systems for rating of SHGs or NGOs before financing or they developed their own criteria to assess the bank ability of a group for a repeat loan (savings accumulated, SHG performance etc). The interest rate charged is usually 12% but the SHG members have to come to the Bank branch for services. The banks have to keep their operational costs at a low level and have to control their operating costs of the SHG portfolio very carefully in order to assure its earning capacity within the margin left to them. There is some (but more unscheduled) supervision of SHGs at their doorsteps by the bank branch managers but a continued doorstep service would lead to a 22% high cost structure, which cannot be covered at the present interest rate structure. The loans from Banks to SHGs are short term or medium term (3years). For many banks it remains to be seen, if the credit linkage with the SHG is to be self-sustained or the credit links being continued with individual members of a group at a later stage.

SHG - LOANS TO MEMBERS

SHGs use the pooled resources together with the external bank loan to provide interest bearing loans to their members. The decision on who gets the loan is being taken by the group and not by the Bank staff. Sometimes a loan appraisal of individual loan requirements is made within the group. Members request loans during the group meetings and are issued the loans during the group meeting or at ad hoc meetings in case of an individual emergency requirement from the collections during the day or they issue cheques on their group account with the partner bank. The system is designed to make sure that the loan fund is reaching them directly in a transparent matter.

The interest charged for internal lending to members ranges from 24% to 36% as a flat rate partly to simplify calculation by SHG members. The members keep track of the end use as well. Inappropriate loan utilization and other issues like non-payment of monthly installments are taken care of within the context of the group. Members take great pride in being honorable and making their payments in fixed equal installments on time. Flexibility of repayment is also granted if necessary.

There is a spirit of solidarity in case an individual member cannot repay in time. A loan loss reserve fund could not be found in any of the SHGs visited. The solidarity principle in SHGs means that groups are in fact a small collective organization which guards against individual economic and societal risks and for promoting economic ventures individually or jointly.(Remark: Using the total volume of SHG money to start a joint enterprise like food processing, food catering, running a village shop jointly, auctioning the right to organize the village market, manufacturing of milestones etc, with all group members involved, is an indicator for the entrepreneurial enthusiasm created at the beginning; but joint micro-enterprises may not last for long).There is no monitoring of loan utilization by the bank staff (Branch Managers, Programme Officers). In case of default no legal charges are taken.

The loans are used by them to finance working capital and to meet capital requirements for a micro entrepreneurial activity, for crop loans etc. The entire transactions are recorded in the loan books. The loan ceiling for the SHG can be upgraded and can also be fixed on the basis of the total amount of savings of the SHG. Accordingly, the supplementary loan funds are made in a gradual manner (with saving credit ratio actually applied from 1:1 up to 1:4). It may also be worked out on the basis of performance (regularity in repayment, attendance in regular meetings etc). A borrower in the group can enhance her loan size - also subject to a ceiling - by making sure that she and her group continue by increasing the regular savings and repay the group loan to the Bank in time. All payments-loan disbursement, savings, insurance premium contributions, loan repayments - are made at group meetings. The loan repayments by members include those on loans issued out of group's own funds as well as from the bank loan without differentiating according to the source of the fund. Peer supervision exists in some SHGs.

There is a spirit of solidarity in case an individual member cannot repay in time because of genuine difficulties, in which case the group on behalf of the member makes the repayment. It exhibits the existence of peer sympathy, ushering in human face of banking and also flexibility of the system. It is important to note that peer sympathy co-exists with peer pressure. Both are integral part of group dynamics in SHGs.

Some SHGs pay interest on the savings or dividends from the interests earned or retain their earnings as equity capital. Cash flow management can become a problem. There were a few reports during my field survey regarding lack of proper book keeping practices and accounting/auditing support to newly established SHGs. Sometimes regular attendance at group meetings and absence from village because of outside employment (mostly males) was reported as a problem.

Monitoring and evaluation of SHGs still leave room for improvements. Internal checks and control of the SHG-loan portfolio and a dual control by an outside agency (NGO, Government or SHG-Apex body) may become necessary. There is only a limited consultancy standby for those SHGs (which do not get direct NGO support) that had to face some internal trouble. But we do not have enough concluding evidence to say that SHG-Banking involving NGOs engaged in financial intermediation as facilitator cum financial intermediary performed better compared to direct Bank-SHG linkages. Higher efficacy as compared to the formal Banking System has been reported from a few highly specialized microfinance institutions but cost of lending at this institutional level as well as the interest charged to the SHGs may be higher (12 % levied by banks to SHGs as compared to 20 % up to 45 % in direct lending by microfinance institution system).

SUCCESSFUL FACTORS BETWEEN SHG AND BANKING

The factors that contributed to successful SHG-Banking under NABARD can be summarized as follows: The SHG is an organizational framework ensuring members direct access to and control of additional resources borrowed from the bank. They participate willingly because the SHG-system is designed in ways conducive to their active participation, shared interest, responsibility and economic potential. These additional money resources are committed by the banking system without prescription for what purpose the loan is to be used by the SHG members. And SHG members retail the money according to own economic inspiration and preference without any tight supervision by the bank representatives.

The concept of saving first had a much more decisive impact than anything else. But unfortunately the uniform contractual saving product with the same amount saved by everybody does not fully mobilise the existing saving potential of the SHG members with some willing to contribute much more. The propensity to save has increased with Bank access. Self Help instead of government spoon feeding, autonomy instead of constant bureaucratic intervention, flexibility and spontaneity may be determining factors for success. Therefore the SHG system should and cannot be utilized as instruments of government agencies to implement development schemes of the Government. SHGs as clients facilitate wider outreach at lower transaction costs and much lower risk costs.

The participating Banks experienced so far low additional operational cost and marginal loan losses. Therefore the amount made available to SHGs for loans and the average size of loans was growing quickly. The SHG-system is working like an informal insurance system that allows managing risks and income gaps very effectively and this was most needed according to member's priority assessment. The SHG-system covers another urgent need of the poor; it is evolving as an effective people's banking nucleus which allocates money to the poor. The sovereign role of NABARD in policy advocacy and designing SHG-Banking strategy, involving a variety of institutions including RBI and Government, influencing policy, funding and technical support, motivating, training and coordinating with partners, stimulating innovations in financial technology and moulding attitudes is definitely the key to success. No substantial conceptual support from external donors was required as NABARD had the professional capacity to handle the new programme and to select the most appropriate experience from other Asian linkage projects on its own. Most outstanding is also the role of NABARD in building commitments through capacity building by

Designing separate training modules,

Developing separate course materials,

Content and delivery enrichment by training tools,

Training methodologies, Identifying and developing new training partners,

Organizing Workshops, Training programmes and Seminars for NGO employees including field staff,

Providing selective capacity building support to NGOs, SHGs, and related institutions.

ACHIEVEMENTS IN SHGs THROUGH SHG-BANKING

With the introduction of "SHG-Banking", a highly flexible financial service structure has been made available to poor households, which allowed them to stabilize their irregular income flow and to increase their income in most cases. The SHG -System allows members to maintain a more regular financial flow in support of the family and of the micro enterprise operated by the family. It enables the conduct of frequent transactions both for allocating small contractual saving amounts and for borrowing for a variety of self chosen purposes at irregular intervals from the SHG.

It tunes the allocation of funds with the needs of group members at local level. It provides a very flexible credit line from the banking system at an acceptable interest rate (mostly 12 % p.a.) at bank branch level to the SHGs and also allows small bridging loans internally by members from their SHG-fund. It offers deposit facilities that enables conduct of frequent saving transactions both individually and on group saving accounts (almost 24 hours a day); starts to offer purpose oriented savings accounts in the form of insurance with the Life Insurance Corporation of India. Banking is an ideal combination of the formal banking sector's "banking with the poor" and "banking by the people" through informal SHGs. This also shapes

- The introduction of a basic element of an informal insurance sector with gradual access to the formal insurance sector.
- The economic impact of SHG - Banking on poor households has been captured in several studies; some evidences indicate that it enables increased propensity to save.
- Permits enhanced net incremental incomes, Smoothens income inequalities, Assists reduction of indebtedness with moneylenders and freedom from bondages, Enables additional employment (person days) generation facilitates and empowerment of women.

The good performance of the SHG - Banking Programme is due to its strategy to mobilize underused capacities of the target group.

What are these particular skills and assets of low-income people - particularly women? They hold non-wage earning activities,

- They can work on own account, as self-employed person,
- They are self-reliant,
- They are more independent,
- They are more autonomous in managing their family affairs and
- They know how to manage household budget,
- They do business or go into new business on one’s own initiative,
- They think of oneself but it is also the collective wisdom of all group members which pervades the system.
- They are more reliable and are able to communicate much better within their self-selected groups as compared to males;
- They hold a poignant intelligence and are more teamwork oriented than males;
- They also can lead a group as cooperative or authoritarian than males.

They know how to utilize an available resource, money included, in a remarkable variety of ways and combinations to maximize its potential (animal husbandry and cattle rearing, utilization of land for all kind of crops cultivation, use of water, collecting products from the forests, pulse husking, and mustard oil manufacturing, betel nut and spice processing, making lime and other building materials like milestones for roads, tailoring, running tiny snack shops, petty trade, preparation of sweets and snacks with chutneys, pitching tents and organizing festive entertainments and banqueting, food-catering to schools and distribution of products through trade etc). Male groups are involved in the following,

- Rickshaw or cart pulling,
- Buffalo carting and other transport services, Some are involved in crafts hide and skin preparation,
- Shoe making, pottery making,
- Carpentry,
- Broom making,
- Weaving.

SHG Bank Linkage Programme gets through to the poor section of village and the SHGs have become gradually very efficient moneylenders, earning good interest-income for distribution to their members at every year end. Poor people are reliable and honourable; they gain pride and dignity. The only way to combat their problem of poverty and dependence is by acting together as a group. Their ideas centre around the most rational use of money and on the collective production of goods and services. The most preferred input is credit. Credit is a catalyst. It comes and goes but leaves behind some changes.

SHG IN TAMIL NADU

AN EXPERIMENT THAT TURNED INTO A PILOT PROJECT IN ERODE

The scheme enables the panchayat not only to save money, but also to keep its residential areas spick and span. It was in 2003 the Thindal Panchayat in Erode district started, on a trail basis, garbage collection and its segregation by engaging 10 men and 20 women, all self group members. It did come off, keeping the village clean providing employment for a few people and also bringing in the center's Nirmal Gram Puraskar (Clean Village Award) to the panchayat in 2005. The people now engaged in the scheme are leading a contented life. "The scheme helped the panchayat save money apart from keeping the village clean" claimed T.S. Kumarasamy, former President of the panchayat and the man behind the scheme. It was he who received the Nirmal Gram Puraskar and a cash prize of Rs.5 lakh on behalf of the panchayat.

The panchayat has provided tricycles for the workers who call on the houses every day and collect garbage for which they get Rs.20 per house. Thanks to the Co-operation of the residents of 11 posh localities to the scheme, Canara Bank provided 2,000 red and green plastic tubs (red for dumping non biodegradable waste and green biodegradable waste), costing Rs.1.5 lakh, for the houses. "This has made segregation of waste easier," remarked Manimehalai panchayat President.

After bringing the garbage to the compost yard, located behind the panchayat office, the women workers will pick up plastics, metal pieces and other things which will be sold later. "By selling the plastic and metal pieces we earn around Rs.10, 000 every month", said M Vijaya, Tamizshelvi and Arayi. Manimehalai said, "The panchayat is thankful to the DRDA [District Rural Development Agency] project officer Rajashree for helping it to construct a Rs.2.15 lakh compost yard and making us experiment the pilot project ". She further added, "we sell degradable waste to farmers for Rs.200 a tractor. We have a plan to produce vermin compost and improve our revenue. It will also give jobs to more SHG members. Already, Exnora has trained us in making vermin compost".

'NABARD LOANS' TO SHGs THROUGH POST OFFICES.

TRAINS 200 POSTMEN IN PUDUKOTTAI, CHENGALPATTU DISTRICTS.

A pilot project, aiming at making rural post offices into one - stop shop for dispensing loans to self-help groups (SHGs), is being implemented by National Bank of Agriculture and Rural Development (NABARD) in Sivaganga and Pudukotai Districts.

This is the first time post offices have become enablers and facilitators of rural finance." We wanted to capitalize on the networking potential of rural postman who is a friend of the community. We have trained 200 postmen in Pudukotai and Chengalpattu districts to become points men for appraising and training. SHGs can now open account in post offices and get loans too," Prakash Bakshi, Chief General Manager NABARD told the Hindu A memorandum of understanding was signed between Radhika Doraisamy, Chief Postmaster General of TamilNadu, and K.V Raghavalu, Chief General Manager Tamil Nadu regional office of NABARD, in Chennai. Depending on the project's success in Tamil Nadu, NABARD will replicate the model elsewhere in the country. It was inaugurated at Karaikudi.

THE PACT

As per the agreement, NABARD will bear the risk in case of default in payment. It will first give corpus funds to post offices, which will pass them on to local SHGs after appraising their credit worthiness. Initially Rs.34 lakh will be given to 116 post offices each in Sivaganga and Pudukotai.

NABARD officials believe the default risk is very low. Out of Rs.270-crore worth of loans issued to SHGs during 2005 - 2006, the repayment rate has been as high as 98 percent. As many as 3.15 lakh SHGs are covered by NABARD in Tamil Nadu.

It facilitated credit links between 10,000 SHGs in 12 districts. The new project aims at covering 5,000 more groups. "If the programme yields expected results, then we can look into opening other lines of credit through post offices, especially loans for farmers", Mr. Bakshi, Chief General Manager NABARD said.

ENRICHMENT OF SHG MEMBERS THROUGH CREATION OF SMALL ENTERPRISES

"THIS WILL HELP TO ENHANCE THEIR QUALITY OF LIFE"

Salem Mayor J.Rekha priyadarshini called upon the members of self-help groups (SHG) in the city to start small enterprises to enhance their quality of life. Participating in the awareness programme on micro credit organized by the Dhanalakshmi Bank, the Mayor said that the SHG members should strive hard to improve their socio-economic conditions by utilizing bank loans.

SCHEMES

She said that the state government was implementing a number of schemes for the development of women. Presiding over the function, chairman of the bank A.D Navaneethan said that the bank was extending more loans for the SHGs in the state. In Tamil Nadu, the bank had provided about Rs.12 crore to the SHGs as micro credit. In Salem district alone, Rs.3 crore was disbursed as micro credit to the SHGs.

PROBLEMS OF SHG:

AVAILABILITY OF ADEQUATE SAVING PRODUCTS TO SHGs AND TO THEIR INDIVIDUAL MEMBERS

The return on investments are still small for much wealth to accumulate, the family still facing a number of unpredictable events from illness to floods; there is not much except the accumulated SHG-savings to offer them security in the likelihood of emergencies. SHG-Banking as a financial market intervention targeting poorer people should also focus on providing secure and convenient deposit facilities to groups and individual members of groups. My findings from the field made clear that there is substantial scope for introducing new saving products and insurance products for groups as well as for individuals. It would be desirable that each borrower has access to a personal savings account with the bank.

In addition a pension or life insurance saving account should be introduced. Some members asked for a special saving account to cover the risks of hospitalization, loss of houses or assets or for meeting dowry expenses. The annual premium of the most popular insurance package (covering death, hospitalisation, and loss of house to a certain amount) equals

Rs. 85 and the maximum insurance sum that would be paid out in case of destruction of a house and assets would be Rs. 5,000. More own financial assets and insurance cover would gradually contribute to a reduction of loan demand of the poor for emergencies and special risks.

In addition to savings for purchasing a life insurance cover, a cover against theft and loss or damage to livestock or crops should be included as far as possible. More own financial assets and insurance cover would gradually contribute to a reduction of loan demand of the poor for emergencies and special risks. Some SHGs considered the establishing of a loan loss reserve fund as a useful instrument to meet loan losses from members by deducting a small percentage from every loan amount disbursed to members or by requiring from the borrower putting in a small amount of money in a loan insurance saving account at the end of the year.

In SHG-Banking there is also a lack of special saving schemes for specific functions: covering the risk of default of individual members, and acceptance of individual savings deposits in addition to the collective saving scheme (individual deposit banking).

Acceptance of special savings from individuals could be accommodated in the SHG Banking Approach. The earning capacity of banks increases with the increase in SHG savings and individual member savings which will decide the loan amount to be given to the SHG members.

DESIGN FEATURES OF THE PRODUCT

Small and fixed savings at frequent intervals**:** Small and fixed savings made at regular intervals coupled with conditions like compulsory attendance, penal provisions to ensure timely attendance, saving, repayment etc forms a deterrent for the rich to join the SHG system- thereby enables exclusion of the rich.

SELF-SELECTION

The members select their own members to form groups. The members residing in the same neighborhood ensure better character screening and tend to exclude deviant behaved ones.

FOCUS ON WOMEN

As regular meetings and savings are compulsory ingredients in the product design, it becomes more suitable for the women clients as group formation and participatory meetings is a natural ally for the women to follow.

SAVINGS FIRST AND CREDIT LATER:

The ‘saving first’ concept enables the poor to gradually understand the importance of saving, appreciate the nuances of credit concept using their own money before seeking external support (credit) for fulfilling future needs. The poor tend to understand and respect the terms of credit better.

INTRA GROUP APPRAISAL SYSTEMS AND PRIORITY

Essentials of good credit management like

- (peer) appraisal for credit needs
- (checking the antecedents and needs before sanction),
- (peer) monitoring – end use of credit,

- (peer sympathy) reschedulement in case of crisis and (peer pressure) collateral incase of willful non-payment etc. all seems to coexist in the system -making it one of the best approaches for providing financial services to the poor.

CREDIT RATIONING

The approach of prioritization i.e. meeting critical needs first serves as a useful tool for intra-group lending. This ensures the potential credit takers/users to meticulously follow up credit already dispensed, as future credit disbursals rely on repayments by the existing credit users.

TERMS OF REPAYMENT

Smaller and shorter repayment schedule ensures faster recycling of funds, greater fiscal prudence in the poor and drives away the slackness and complacency that tends to set-in, in long duration credit cycles.

PROGRESSIVE LENDING

The practice of repeat loans and often-higher doses - is followed by SHGs in their intragroup loaning, thereby enticing prompt repayments.

A MULTIPLE-EYED OPERATION

The operations of the SHG are transacted in group meetings thus enabling high trust levels and openness in the SHG system. The banking transactions are also generally conducted by SHG members facilitating openness and freedom from unfair practices. The product design features combine the collective wisdom of the poor, the organizational capabilities of the social intermediary and the financial strength of the Banks.

COSTS OF SHG PROMOTION

The cost of promotion of SHGs has become a live issue for discussion in some circles in India. Rough estimates of promotion cost per SHG for different projects, NGOs and banks engaged in SHG promotion varies considerably. The wide range of such estimates is not unsurprising.

- First, there remains a lack of uniformity about what costs to include, how staff time is imputed for development workers partially engaged in SHG promotion along with other functions, and whether and how overhead costs are allocated.
- Second, the period of support and the nature and purpose of SHGs promoted is also varied. Some SHGs are brought together in federations, which require in turn the building of further capacity and incurring of costs in respect of these institutions.

- Third, distance and time taken to reach interior villages and to motivate communities bypassed by development is greater than for mainstream villages. Finally, the prices of inputs differ across the country such that the same set of physical inputs may cost more in some regions than in others.

The cost of SHG promotion is a particular concern of the donor community that is keen to ensure the productive and effective use of grants provided for this purpose. This consisted of estimates varying from rough calculations to more detailed item-wise estimates prepared in model form or worked out on the basis of historical cost of the projects.

PROCESS OF SHG PROMOTION

Promotion of SHGs is a process by which members (usually women) of targeted families are identified, motivated and mobilised to come together for their mutual benefit. SHG promotion includes conduct of surveys, participatory wealth ranking with the larger community, formation of groups and initiating thrift activity. It also includes training in a range of subject areas, organising exposure visits, dissemination of materials and progressively monitoring and assessing the group's capacity to take on larger responsibilities.

This process, from available evidence, is generally planned for and takes 3 to 5 years until the objective of SHG formation – bank linkage, federation, or NGO withdrawal following the achievement of SHG sustainability is reached. It is intuitively clear that as the duration and intensity of social facilitation by promoting agencies increases, the promotion cost increases as well. Microfinance plus and empowerment models normally are expected to contribute more to the development of capabilities among SHG members and add to the range or sustainability of their activities.

They also include a variety of related initiatives such as micro enterprise training and social inputs. Similarly, the longer period of NGO facilitation towards forming federations of SHGs (especially financial federations involving the creation of an additional microfinance organization) necessitates higher costs of promotion. It is argued that this helps to develop the value of autonomy and independence in the SHG.

COST COMPONENTS

At the NGO level, the following broad components of direct costs can be readily identified

- NGO staff time,
- Staff conveyance expenses,

- Training and expenses on capacity building of SHG members including materials,
- Exposure visits and
- Stationery, cash box and group meeting incidentals,

Overhead costs at NGO/unit level include:

- Office rent,
- Depreciation on vehicles, furniture, etc and
- Cost of administration and support staff.

A similar set of costs is required to be imputed for expenses incurred centrally or by government or donor agencies or intermediaries towards the development programme. When added to direct costs, these would aggregate to total costs of SHG promotion.

REVIEW OF COSTS UNDER DIFFERENT SHG PROMOTION MODELS

Estimates of costs of promotion per SHG that exists in the literature on SHGs do not offer more than an aggregate figure. NGOs that provide these data do not give the breakdown of promotion costs and its rationale. Though these are not scientific estimates and the costs reported are sometimes ambiguous or inconsistent, it represents possibly the first time that such an exercise has been undertaken towards an understanding of the factors governing the level of costs incurred by different development agents. The estimates vary from Rs. 4,500 to Rs. 25,000 for different types of SHG initiatives and differing items of cost covered. From the standpoint of costs, we distinguish four main SHG promotion “models”:

- Minimalist, which essentially focus on bank-linkage or SHG clients of MFIs. Large project initiatives related to savings and credit and women’s empowerment. SHG promotion by leading NGOs engaged in livelihoods development.
- SHGs formed through local initiatives, including the District Development Agency.
- The several large project initiatives, usually state-supported, concerned with women’s empowerment which provide in addition a range of inputs to build women’s capacity but which do not include wider economic interventions.
- A mixed category of SHGs formed by local volunteers, existing community institutions and the District Rural Development Agency.

IMPACT OF SHG-BASED MICROFINANCE PROGRAMMES: ISSUES AND EVIDENCE

The key to the success of a development programme is its effectiveness in bringing about the desired change in the lives and livelihoods of the participants or the target groups it is intended to benefit. A fairly large body of literature has built up over the past few years on the methodology of impact assessment for microfinance programmes. This is reflective of an increasing donor concern with the outcome of the interventions sponsored by them. Impact assessment studies are thus becoming an integral part of NGO activities designed both to satisfy donor requirements as well influence policy-makers to ensure the flow of funding for development activities. Current thinking on impact assessment attempts to balance out old-style evaluation of projects with an understanding of the process of the intervention and the perspective of the participants and other stakeholders.

IMPACT OF MICROFINANCE ASSESSMENT

The objectives of microfinance impact assessment are ranged between the two poles of **"proving impact"** and **"improving practice"**. The former represents objectivity, accuracy and analytical rigour and is the major concern of donors, academics and policy makers and the latter is more subjective and process-related and directed at internal learning of practitioners and donor field staff.

Impact can be studied at the individual, enterprise, household, community and institutional levels. A number of MFIs are using a combination of tools to assess the impact in different arenas. These include:

- Impact survey
- Client exit survey
- Loan use strategies
- Client satisfaction and
- Client empowerment.

EVIDENCE OF IMPACT OF SHG-BASED MF PROGRAMMES

SHGs, usually nested in the larger village development groups, have been engaging in thrift and credit activities and even accessing donor-financed revolving loan funds for at least 20-25 years.

Periodic reviews and assessments of these programmes have been carried out using some of the methods mentioned above but they have been more concerned with monitoring outputs rather than observing impact in a scientific or systematic manner.

Negative impacts are generally not reported. These reviews generally suffer from grave methodological limitations and as such their findings cannot be considered to be conclusive or even convincing.

Given below are the findings of a few major studies undertaken thus far to assess the impact of SHG programmes. In the view of a senior manager of NABARD, since these are still at the early stages of SHG-bank linkage, the question of effectiveness of SHGs should be taken up only after another five years.

Many SHG members have usually simultaneously benefited from subsidized government programmes for the poor, such as housing, irrigation, health and sanitation, etc. A detailed critique has, however, not been attempted.

TABLE NO. 5.8

REGION WISE SELF HELP GROUP CREDIT LINK

S.NO	REGION	SHG FORMED	SHG CREDIT LINK	MEMBERS CREDIT LINKED
1.	**CENTRAL**	8,10,308	3,45,228	49,39,464
2.	**EAST**	8,46,955	4,42,716	63,51,382
3.	**NORTH**	1,64,819	89,075	13,26,246
4.	**SOUTH**	17,34,915	9,54,077	1,43,11,815
5.	**WEST**	5,03,634	2,45,084	35,90,291
	ALL INDIA	40,60,631	20,76,179	3,05,19,199

Women Entrepreneurs cells:

Introduction:

In earlier days women were confined to the four walls of houses and led a protected life. In the present modem society they have come successfully with men. This has become possible because of the increase in women's education, social and occupational mobility, legal safeguards, industrialization, social and urbanization. It has been proved globally that women have been performing exceedingly well in various fields such as education, administration, politics, sports, medicine, aeronautics, trade and industries and social work. They very fact the world's largest democracy (India) was headed by a women smt.Inidra Gandhi is a big complement to the capacity, caliber and character of women.

Concept of Women Entrepreneurs:

A women or a group of women who initiate, organize and run a business enterprises is defined as women entrepreneurs. The Government of India has defined women entrepreneur as “an enterprise owned and controlled by a woman having minimum financial interest of 51% of the capital and giving atleast 51% of the employment generated in the enterprise to women”.

Women entrepreneurs are those women who conceive the idea of a business enterprise, initiate it, organize and combine the factors of production, operate the enterprise, undertake risks and manage the economic uncertainly involved in running a business enterprise.

Functions of Women Entrepreneurs:

Similar to men entrepreneurs women entrepreneurs have to perform all the functions involved in setting up an enterprise such as idea generation and scanning, determination of objectives, project preparation, product analysis, determination of forms of business organisation, combination of factors of production etc.

Fredrick Harbinson has listed out the following five functions of a women entrepreneur.

- Exploration of the prospects of starting a new business enterprise.
- Undertaking of risks and the handling of economic uncertainties involved in business.
- Introduction of innovation or imitation of innovations.
- Coordination, administration and control.
- Supervision and Leadership.

Risk Bearing:

Risk-bearing means provisions for capital in order to enable the entrepreneur to establish and the un the enterprise. An important function of an entrepreneur is to reduce uncertainly in his plan of investment and expansion of the of the enterprise. A Business enterprise may earn profits or incur losses due to various factors like increasing competition, changes in customer preferences, shortage of raw material and the like. An entrepreneur needs to be a risk taker not risks avoider.

“Fall seven times, Stand up eight”. The Japanese proverb is applicable to an entrepreneur. The risk bearing ability of an entrepreneur enables him even if he fails in one time or in one venture to persist on and on which ultimately helps him succeed.

Organisation:

Entrepreneur is one who combines land, labor and capital and thus produces a produces a product or renders service. By selling the product or service in the market, he pays interest on capital, rent on land and wages to laborers and what remains is his profit. Thus an entrepreneur coordinates, organizes and supervises land, labour and capital of a business enterprise.

Innovations:

Innovation means “doing new things or doing things that are already being done in a new way”. Innovations may occur in the following forms.

- Introduction of a new product in the market.
- Establishment of a new production technology which is not yet tested.
- Opening of a new market into which the specific product has not previously entered.
- Discovery of a new source of supply of raw material (or) a new raw material.
- Creation of monopoly position or the breaking up of a monopoly position.
- Procurement of capital from new source or in new form.
- Procurement of labour new source or new type of labour.

Profile of Women Entrepreneurs:

A woman entrepreneur may be described as a woman of commitment, who is independently employed and has a close relationship with her father. After obtaining a graduate degree, she gets married. She enters into the field of entrepreneurial venture at the age of late 30’s or early 40’s when her children are somewhat self-sufficient.

She is usually forming a middle class family and her biggest problem is lack of sufficient business training especially in the financial area. However in the recent years, with increase in literacy level the women have gained confidence to do all the work which was hitherto considered as the prerogative of men. They have shown excellent results and proved that no field is unapproachable to trained and determined modern women.

- First born child of middle class parents.
- Father and/ or mother in independent business
- College educated
- Married
- Entry into the significant entrepreneurial venture in late 30’s

- Previous experience in new venture.
- Desires independence
- Motivated by desire for independent and job satisfaction.
- Self confident
- Moderate risk taker
- High tolerance for ambiguity
- High energy level
- Small scale business

Initial problems in the venture

- Lack of business training
- Difficulty in obtaining seed capital and bank credit.
- Non- accessibility to information
- Difficulties in marketing
- Personnel management

Biggest problems in current operations

- Lack of experience in financial planning
- Weak collateral position
- Cash flow management
- Taxation

Qualities of a woman entrepreneur:

Some of the outstanding qualities of a woman entrepreneur are given below.

○ Accepts challenges	○ Patient
○ Adventurous	○ Experienced
○ Ambitious	○ industries
○ Conscientious	○ Intelligent
○ Full of Drive	○ Motivated
○ Educated	○ Perseverance
○ Enthusiastic	○ Skilful
○ Determined to excel	○ Studious
○ Hardworking	○ Optimistic
○ Keen to learn and imbibe new ideas	

Psycho-Social Barriers:

Though some women entrepreneurs are performing exceedingly well in various fields of activities, the fear of success haunt women in general. Growth of women entrepreneurship is impeded by various Psycho-Social factors. Some of them are given below.

○ Poor self image of women ○ Inadequate motivation ○ Discriminating treatment ○ Faulty Socialization ○ Role confident ○ Cultural values ○ Lack of courage and self-confidence ○ Inadequate encouragement	○ Lack of social acceptance ○ unjust social, economic and ○ cultural system. ○ Lack of freedom of expression ○ Afraid of failures and criticism ○ Susceptible to negative attitudes ○ Non-persistent attitude ○ Low dignity of labour ○ lacking in leadership

Growth and Development of Women Entrepreneurship:

The US Bureau of Census reported in 1977 that there were only, 7,02,000 business that were owned by women. This was only 7.1% of the total business firms in US. However, the number is increasing at a rapid rate. In 1984, according to the internal revenue service, the number of female sole proprietorship was 3.1 million or 22% of all sole proprietorships. The highest number of women are found in laundries, dry cleaning, hair dressing, private nurseries, hotels etc. In US, the Small Business Administration (SBA), a Government Controlled agency provides financial assistance and offers courses in counseling to improve managerial competence among women entrepreneurs.

In India, women are regarded as the “better half of the society”. In reality our society is still male dominating one. Due to our traditional socio-cultural conventions and taboos, the development of women entrepreneurship is very our country. In earlier days women were engaged in the unorganized sectors like agriculture, handicrafts, had looms and cottage based industries. The entry of Indian Woman into entrepreneurship is a recent phenomenon.

In the beginning woman entrepreneurship was identified as an extension of kitchen activities and denoted by **3Ps** namely **pickles, powder and pappad.** The increase in literacy level and awareness about trade and industries motivated the woman to shift from **3Ps to 3Es** namely **Engineering, Electronics and Energy.**

Indian woman gets into the business due to two reasons namely **"Pull factors and Push factors".** Pull factors encourage women to have an independent occupation. These factors influence the women entrepreneurs to choose a profession as a challenge and as an adventure with an urge to do something new. Push factors are those which compel women to take up business enterprises to get over financial difficulties and responsibility is thrust on them due to unfortunate family circumstance.

In the seventh Five Year Plan, a special chapter on "integration of Women in development" was included. This paper suggested the following:

- To treat women as specific target groups in all development programmes.
- To devise and diversify vocational training facilities of women to suit their varied needs and skills.
- To promote assistance for marketing of products of women entrepreneurs.
- To involve women in decision making process.

In India several institutional arrangements have been made to develop women entrepreneurship. The commercial banks and State Financial Corporations provide loans to women entrepreneurs on preferential basis and concessional terms. SIDCO and DICs provide loans, subsidies and grants to small scale women entrepreneurs. The State level agencies also assist entrepreneurs in preparing project reports, purchasing, training the staff etc.

To develop women entrepreneurship the United Nations declared the decade 1975-85 as decade for women. The UNIDO preparatory meeting on the **Role of Woman in Industrialization in Development Countries held at Vienna in February, 1978,** identified several constraints such as social attitudes, institutional barriers, inadequate employment opportunities, inappropriate and inadequate taining, insufficient information and so on which held women back form participating in industrial activities. **The World Conference of the United Nations Decade for Woman held at Denmark in 1980** adopted a programme fro promoting women entrepreneurship.

The First National Conference of Women Entrepreneurs held at a New Delhi in 1981, recommended the need for developing women entrepreneurs for overall development of the country. It also called for priority to women in allotment oaf land, sheds, sanction of power, licensing, financial assistance etc. **National Alliance to Young Entrepreneurs (NAYE)** had set up a women's wing 1975. Three International Conference and Eight National Conventions of women entrepreneurs have been organized by NAYE in different cities of India.

In 1989, the Industrial Development Bank of India (IDBI) set up the Mahila Udayam Nidhi(MUN) and Mahila Vikas Nidhi(MVM) Schemes to help women entrepreneurs. The MUN had provided 15% equity assistance for new unities with project cost not exceeding Rs.10 lakhs. The MVN scheme extends aid to voluntary agencies in decentralized industries for training-cum-production centers and management and skill up gradation.

The industrial Policy of 1991 emphasized the need fro conducting special entrepreneurship development programmes for women. This policy also recommended product and process oriented courses enabling women to start small-scale industries

In Tamil Nadu:

Recently, in Tamilnadu, the Government has initiated to set up a women's industrial park called. **'Tirumullaivoyal Women's Industrial Park' at Ambathur near Chennai**. The park is proposed to setup in an area of 218 acres of land. The developed plots and industrial sheds will be allotted to women entrepreneurs through SIDCO.

In Tamilnadu, entrepreneurship training was given to one lakh women in 2001-02 and it has been proposed to give training to 1.25 lakh women during the year 2002-03.

Women Entrepreneurship in India:

In India, marriage is the only career for most women. Even professionally, they have confined their activities to teaching, office work nursing and medicine. It is rarely that enter profession like engineering and business.

In 1990, the Indian female population was 437.10 million representing 46.5% of the total population. There are 126.48 million women workforce, out of which only 1,85,900 women were self employed. Majority of them are engaged in the unorganized sectors like agriculture, agro based industries, handicrafts, handlooms and cottage based industries. There were 2,95,680 women entrepreneurs of the total 2.64 million entrepreneurs in India during 1995-96. Of this, a majority were concentrated in low paid, low skilled low technology and low productivity jobs in the rural and unorganized sector.

The new industrial policy has stressed the importance entrepreneurship among women. This would help improve their economic and social conditions. This policy has redefined 'Women Units of units in which they have the majority share holdings and management control. In 1996, the department of small scale industries under the Ministry of industry had taken the initiate to train one lakh women entrepreneurs to take-up trade related activities.

Socio-Economic Origins of Entrepreneurship:

The entrepreneurial activity is always governed by varying combination f socio-economic, psychological, cultural and other factors. In the earlier days, entrepreneurs predominantly came from mercantile and allied backgrounds.

The main springs of entrepreneurship have been the traditionally trading castes of Hindu and Jain Banias from Gujarat, Rajasthan and Chettiars of TamilNadu. Besides the new springs of entrepreneurship developed among other communities like Brahmins all over the country and especially Naidus of the South, Patels of the Gujarat, Kayasthas of West Bengal, Sikhs, Khatris and Aroras of Punjab, making entrepreneurship a widespread phenomenon. Now more and people with high academic engineering, law, medicine, cost and chartered accounting started joining the ranks of industrialists.

These professionals have by and large referred to make their investments in modern sector. The empirical studies have identified that the following socio- economic factors influence the entrepreneurial activities.

- **Caste / religion**
- **Family Background**
- **Levels of education**
- **Level of perception**
- **Occupational background**
- **Migratory character**
- **Entry into entrepreneurship**
- **Nature of enterprise**
- **Investment capacity**
- **Ambition / Motivation**

Problems of Women Entrepreneurs:

The basic problem of woman entrepreneur is being a woman. In many developing countries marriage is treated as the only career for women. Despite the constitutional and legal equality, women suffer from male reservations.

This attitude of reservations creates problems at all levels like family support, training, licensing, banking and marketing. Some of the specific problems encountered by women entrepreneurs are listed below.

1. Problem of finance:

Finance is the “life-blood” for any enterprise. The access of women to external sources of funds is limited for the reason that they do not generally own properties on their name. Financial institutions consider women less credit worthy and discourage women borrowers on the belief that they may leave their business at any time.

2. Scarcity of raw material:

Most of the women enterprises are suffering from the scarcity of raw materials and inputs their high cost. In the purchase of raw material, the middle men either deny discount or give the minimum discount to the entrepreneurs.

3. Stiff Competition:

Women entrepreneurs do not have organisational set up and they are able to spend musch money for canvassing and advertisement. They have to face a stiff competition form both organized sector and male entrepreneurs for marketing their products.

4. Limited Mobility:

The mobility of women in India is highly limited due to humiliating of men towards them.

5. Family Ties:

The main duly of Indian women is to look after the members of their family. This leave little time and energy to devote to business. Support and approval of husband is vital for the entry of women into business.

6. Lack of Education:

In India more than 50% of the women are still illiterate. Lack of qualitative education leads to unawareness of business technology and market knowledge and causes low achievement motivation. It also creates problems for women in setting up and running of business.

7. Male Dominated Society:

Though the constitution of India speaks of equally between sexes, in practice women are treated next to men. This male domination serves as an impediment to the entry of women into business.

8. Low Risk-Bearing ability:

Risk-bearing is an essential requisite of successful entrepreneur. Most of the Indian women are less educated and economically not independent. This reduces their ability to bear risk involved in running a business.

Women Entrepreneurs in Several Industries:

Today we see women entrepreneurs in several industries namely electronics, engineering, readymade garments, eatables, handicrafts, doll making, poultry, plastics, soap, ceramics, printing, nurseries, crèches, drugs, textile designing, dairy, canning, knitting, beauty parlours, jewellery design, solar cooker etc. some other potential areas are Bio-technology, information Technology, Tourism and other service sectors.

"Women entrepreneurs – An exploratory study of Hyderabad" reveals that the motivational factors of self-interest and inspiration form others are critical factors that lead one towards successful woman entrepreneur. The challenge and adventure to do something new, liking for business and independent occupation are some of the attractive leverage for women.

Successful Women Entrepreneurs:

A selected representative of successful women entrepreneurs are mentioned here.

- **Smt. Sumathi Moraji** – Shipping Corporation
- **Smt. Sharayu Daftary** – Automobile Radiators
- **Smt. Yamutai Kirloskar** – Mahila Udyog Limited
- **Smt. Vimal Pitre** – Surgical Instruments
- **Smt. Weheeda Rehuman** – Fast Foods
- **Smt. Shahanaz Hussain** – Beauty Clinical Cosmetics
- **Smt. Jayalakshmi Devaraj** – Sri Vigneswara group of industries
- **Smt. Malliga Seenivasan** – Tractor and Farm Equipments (TAFE)
- **Smt. Chandra Gandhi** - Chandra textiles, Coimbatore.
- **Smt. Radha Thiyagarajan** – Thiyagarajar Mills, Madurai
- **Miss. Sobana Ramachandran -** Sri Chakara Tyres
- **Smt. Raja Shree pathy** – Raja Shree Group of Companies, Coimbatore**.**

Obstacles or Barriers to Entrepreneurship:

Entrepreneurship development is greatly hindered in the under developed countries due to the presence of several obstacles. Obstacles and barriers are present in almost all the countries. However they are easily overcome in developed countries by the presence of aggressive entrepreneurs and most ideal environment for entrepreneurship. Unfortunately in most under developed nations the role of entrepreneurship in the progress of the country has not been fully realized. Hence a number of obstacles inhibit the development of entrepreneurship. These barriers are discussed below;

Entry Barriers:

Entry barriers are defined as those forces limiting access to identified business opportunities and capitalization on those opportunities.

- A cultural bias in identifying and managing the entrepreneurial process
- Lack of adequate infra structural facilities.
- Existence of visible and invisible obstacles to entry of a specific group into business.
- Unorganized capital market and traditional feasibility assessment process.
- Unsympathetic and cumbersome government attitude.
- Hostile environment

Survival Barriers:

Survival barriers are defined as constrains on the conditions essential for the continuity of the business entity. Survival barriers include

- Constraining practices within the capital market
- The threat of changing technology.
- A behaviour pattern that could basic managerial practices
- Failure of guidance agencies to guide
- Scarce information and limited dissemination of that information.

Exit barriers:

Exit barriers are defined as those constraints limiting the termination of those small industrial ventures that have outlived their business viability or the growth of such ventures to a different size category. Exit barriers include;

- The emotional commitment of the entrepreneur to his venture
- Fear of failure
- Specialized assets, sunk funds
- Lack of adequate managerial competencies.

Characteristics of an entrepreneur:

A successful entrepreneur must be a person with technical competence, initiative, good judgment, intelligence, leadership qualities, self confidence, energy, attitude, creativeness, fairness, honesty, tactfulness and emotional stability.

- **Mental ability**
- **Clear objectives**
- **Business secrecy**
- **Human relations ability**
- **Communication ability**
- **Technical knowledge**
- **Motivator**
- **Self-Confidence**
- **Long-term involvement**
- **High energy level**
- **Persistent problem solver**
- **Initiative**
- **Goal setter**
- **Moderate risk taker**

Women Entrepreneurial Skills:

Entrepreneurial skills are mainly concerned with various aspects of establishing and enterprise and its management. The entrepreneurial skills include visualization, planning, setting-up, and risk-taking, ability to deal with new situations, organisations and social and economic forces as they emerge from time to time.

The entrepreneur must have the skill to tap positive response from administrators, bankers, infrastructure situations, clients and employees. Often he has to act as the general manager, production manager, purchase manager, personnel manager, controller and research organizer for the business concern during its early stage. He should have the knowledge of marketing, finance, commercial law government regulations, quality control and human relations.

Suggestions for the Development of women entrepreneurs:

Today there is a greater awareness among woman. Educating women is absolutely essential in straightening their personality. The need of the hour is to provide an opportunity in a conducive atmosphere, free from gender differences. Today no field is unapproachable to trained and determined modern women. To make the movement of women entrepreneurship a success, both the government and non-government agencies have to play a vital role on the following lines.

- Priorities in allotment of industrial estates to women entrepreneurs.

- Adequate training programmes to women including mobile training centres.
- Financial assistance at subsidized interest rate.
- Assistance in marketing of their products by giving preference to their products in government's purchasing policy.
- The government may provide some reservations for admission in engineering, medical and agricultural educations.
- A majority of women entrepreneurs are form middle class families with low technical education, but desire to become entrepreneurs. Their potential should be identified and trained.
- One single nodal agency may be established to provide adequate infrastructural facilities such as flow of adequate working capital, technology, electricity, land and marketing facilities.

Conclusions:

The growth of women's education increases their participation in the non-agricultural professions. Women are gradually coming forward to face challenges and assume responsibility in various fields-economic-social and political. Case studies of several successful women entrepreneurs have revealed that women possess a futuristic outlook and the capacity to nurture new enterprises.

These case studies highlight the problems faced by women entrepreneurs and steps taken by women entrepreneurs to overcome the various obstacles to succeed in their ventures. The active participation of women entrepreneurs is essential in the development of small scale industries.

The entrepreneur must be aware of the imperative need of updated technologies, modern tools and equipments, process and systems and skills. It is observed that in many least developed countries, sophisticated equipment and machinery imported at heavy cost are lying unutilized for want of trained hands. It is obvious that the accelerated development of human resources and appropriate training of man power must be concurrent with the transfer of technologies which are relevant to the needs of developing countries. This will call for an intensification of effort to develop entrepreneurial skills in all areas of business activity. In order to develop skills for new class entrepreneurs like women tribal and young from non-traditional families, special training facilities have to be provided.

And Model Village Project – Priority Sector lending Society oriented innovations:

CHAPTER: I

Introduction, Significance of the study, Objectives, Period of Study, Methodology and Limitations of the study.

CHAPTER: II

Profile of the Salem District and the study area.

CHAPTER: III

Study of SHGs in India, in Tamil Nadu, in Salem District, Role of NABARD and Micro Finance.

CHAPTER: IV

Analysis and Interpretation of data.

CHAPTER: V

Summary of the major Findings, Suggestions and Conclusion of the study.

AGE GROUP OF MEMBERS OF WOMEN SHGs

The successful functioning of any organization depends upon the age of the members to a limited extent. The young and energetic and youthful members can naturally contribute more to the development of the organization. The age group of the members of the women SHGs selected for the study is given in the following table.4.1

TABLE – 5.1.1

AGE WISE DISTRIBUTION OF MEMBERS

S. No.	Age	No. of Respondents	% of Respondents
1.	0 – 25	5	12.5
2.	25 – 45	26	65.0
3.	45 – 60	9	22.5
	Total	**40**	**100**

From the above table it is found that out of 40 respondents interviewed 12.5% of them are in the age group between 0-25, 65% of them are between 25-45years and 22.5% of the members fall under 45-60 years of age. These facts are depicted in the diagram also.

LITERACY LEVEL OF THE MEMBERS OF WOMEN SHGs

Level of literacy prevailing among the members of the Self Help Group played a significant role in the efficient performance of the group. The different levels of education acquired by the women SHG members in the study region is given in the table 4.2

TABLE – 5.1.2

LITERACY LEVEL OF MEMBERS

S. No.	Education	No. of Respondents	% of Respondents
1.	Illiterate	6	15
2.	Elementary	14	35
3.	Sec. Education	3	7.5
4.	High School	16	40
5.	Higher Sec.	1	2.5
	Total	**40**	**100**

The above table shows that out of 40 members, 16 members (40%) have studied only up to high school. The percentage of Elementary, Secondary and Higher Secondary level education is 35%, 7.5% and 2.5% respectively. It is also noticed that maximum number of members possesses only minimum qualification and15% of them are illiterates.

MARITAL STATUS OF WOMEN SHG MEMBERS: The following table 4.3 shows the marital status of Women Self Help Group in the study area.

TABLE – 5.1.3

MARITAL STATUS OF WSHG MEMBERS

S. No.	Marital Status	No. of Respondents	% of Respondents
1.	Married	35	87.5
2.	Unmarried	3	7.5
3.	Widow	2	5.0
	Total	**40**	**100**

The above table indicates that most of the members of the Women Self Help Groups contacted are married-(87.5%) Only 7.5% are unmarried and 5% of them come under the category of ‘widow’. The women in the last category are generally neglected by their fellow women in the society, but they are able to find due recognition after joining as a member in the Women SHG.

HOUSING CONDITIONS

The conditions of the dwelling indirectly reveals the necessity to join in the SHGs. Majority of the SHG members are living in Pucca houses (57.5%), 37.5% are living in Tiled houses and only 5% of the members are living in Kutcha houses.

TABLE – 5.1.4

HOUSING CONDITION

S. No.	Housing Condition	No. of Respondents	% of Respondents
1.	Kutcha	2	5.0
2.	Tiled	15	37.5
3.	Pucca	23	57.5
	Total	**40**	**100**

From the particulars given in the table 4.4, the researcher comes to understand the economic status of the SHG members. The economic status of SHG members is clearly pictured in the form of a Pie Diagram as given below.

MONTHLY INCOME OF THE MEMBERS

The following table shows the monthly income of the members of SHGs in the area under study. It reflects the standard of living of the members. Only 5% of the members are earning between Rs.3000 and Rs.4000. 10% of the members are earning between Rs.2000 and Rs.3000. 20% of them are earning between Rs.1000 and Rs.2000 and the remaining members are earning below Rs.1000.

TABLE – 5.1.6

MONTHLY INCOME

S. No.	Monthly Income	No. of Respondents	% of Respondents
1.	0 – 500	19	47.5
2.	500 – 1000	7	17.5
3.	1000 – 2000	8	20.0
4.	2000 – 3000	4	10.0

5.	3000 – 4000	2	5.0
	Total	**40**	**100**

The following bar diagram clearly explains the monthly income of the members.

SAVING HABITS

The table 5.1.6 shows the nature of saving habit among women before and after joining a member in self help groups. Only 17.5% women members were in the habit of saving money before they joined the SHGs. The remaining 82.5% women members replied that they did not have the habit of savings and only after getting employment opportunities in WSHGs, they realized the benefits of saving and employment for women.

TABLE – 5.1.6

MONTHLY SAVINGS

Sl. No.	Saving habit	No. of Respondents	%
1.	Pre. SHG	07	17.5
2.	Post. SHG	33	82.5
Total		40	100

AVERAGE LOAN TO THE MEMBERS

The members of SHGs borrow money from the women SHGs for various purposes like family expenditure, education of their children, agriculture, livestock and repayment of past loan. The economic activity of the members of the SHGs is activated by the multi dimension function of the SHGs. The members of the SHGs can easily avail loan facilities extended by women SHGs through financial agencies. Table 4.8 shows that 52.5% of the members have availed loan facility up to Rs. 5,000. 12.5% of the members have borrowed loan between Rs.10,000 and Rs.20,000 & 20% of them between Rs. 20,000 and Rs.50,000. 15% of the members have not availed loans from the banks.

TABLE – 5.1.9

AVERAGE LOAN

S. No.	Average Loan (in thousands)	No. of Respondents	% of Respondents
1.	0 – 10	21	52.5
2.	10 – 20	5	12.5
3.	20 – 30	4	10.0
4.	45 – 50	4	10.0
5.	No Loan	6	15.0
	Total	**40**	**100**

PURPOSE OF BORROWING

The economic activity of the members of the SHGs is activated by the loans given by the banks. The following table clearly depicts that 40% of the members availed loan for family expenses, 17.5% of them availed for running their business, 12.5% for their livestock, 22.5% for their children's education and the remaining 7.5% for other purposes. The fact pertaining to the purpose of loan borrowed by the members indicates that majority of them availed loan in order to meet out the family expenditure which is productive in nature.

TABLE – 5.1.9

PURPOSE OF LOAN

S. No.	Purpose of Loan	No. of Respondents	% of Respondents
1.	Family Expenses	16	40.0
2.	Business	7	17.5
3.	Live Stock	5	12.5
4.	Education	9	22.5
5.	Others	3	7.5
	Total	**40**	**100**

The purpose of loan borrowed by the members of women SHGs are clearly explained by the following figure.

GENERATION OF SELF- EMPLOYMENT

One of the most important objectives of the establishment of women SHGs is to provide self employment opportunities to the neglected women folk. The members of the women SHGs in the study region replied that they have been given ample scope for starting various kinds of self-employment projects which will give rejuvenation to the unemployed women.

TABLE – 5.1.10

GENERATION OF SELF- EMPLOYMENT

S. No.	Self-Employment from SHG	No. of Respondents	% of Respondents
1.	Yes	16	40.0
2.	No	24	60.0
	Total	**40**	**100**

The facts pertaining to the self employment opportunities provided by the WSHGs are given in the above table 4.10. Only 16 members of the Self Help Group in the study area are engaged in self employment and the remaining 24 are unemployed. Yet they availed loan to meet out various expenses.

LOAN RECEIVED FROM BANKING INSTITUTIONS

The successful functioning of an organization depends upon the financial availability to perform its functions. The saving and borrowing of the SHG members is encouraged by both the banking and non -banking institutions. The State government particularly, the Government of Tamil Nadu leads in the provision of adequate and timely financial assistance through various nationalized banks. All the respondents in the group replied positively to the question of utilizing the banking institutions. The study shows that 100% of the respondents give positive results about loans given by nationalized banks.

POSITION OF WOMEN IN SHG

In a total of 40 respondents, 12.5% occupy positions as the Presidents and the Treasurers, 7.5% work as Secretaries and the remaining 67.5% hold the position of a member.

TABLE – 5.1.11

POSITION OF WOMEN IN SHG

S. No.	Position	No. of Respondents	% of Respondents
1.	Member	27	67.5
2.	President	5	12.5
3.	Secretary	3	7.5
4.	Treasurer	5	12.5
	Total	**40**	**100**

COMPARISON BETWEEN EDUCATIONAL QUALIFICATION & SAVINGS

H_0 – Educational qualification and savings are independent.

Education	0-5	5-10	10-15	15-30	No savings	Total
Illiterate	**4**	**-**	**-**	**-**	**-**	**04**
Primary	**11**	**1**	**1**	**-**	**2**	**15**
Secondary	**3**	**-**	**-**	**-**	**-**	**03**
High school	**9**	**4**	**1**	**-**	**3**	**17**
Hr.Sec	**1**	**-**	**-**	**-**	**-**	**01**
Total	**28**	**05**	**02**	**-**	**05**	**40**

$$\chi^2 = \frac{\sum (O_i - E_i)^2}{E_i} \sim \chi^2_{(r-1)(s-1)d.f}$$

Calculated χ^2 value = 16.919

Since calculated χ^2 value is less than Tabulated χ^2 value for 9 d.f at 5% L.o.s is 16.919. **H_0 IS ACCEPTED.**

Inference: Educational qualification and savings of the people are independent.

COMPARISON BETWEEN EDUCATIONAL QUALIFICATION & PURPOSE OF LOAN

Education	FAMILY EXPENSES	BUSINESS	LIVE STOCK	EDUCATION	NIL	Total
Illiterate	3	-	-	-	-	**03**
Primary	8	1	1	3	1	**14**
Secondary	1	1	-	1	1	**04**
High school	5	3	-	4	5	**17**
Hr.Sec	-	1	-	-	-	**01**
Total	**17**	**06**	**01**	**08**	**08**	**40**

$$\chi^2 = \frac{\sum (O_i - E_i)^2}{E_i} \sim \chi^2_{(r-1)(s-1)d.f}$$

Calculated χ^2 value = 4.72

Tabulated χ^2 value for 5 d.f at 5% l.o.s. is = 11.07

Calculated χ^2 < Tabulated χ^2 11.07

H_0 IS ACCEPTED.

Inference: Educational qualification and purpose of borrowing are independent.

COMPARISON OF SAVINGS AND AMOUNT OF LOAN

[Savings in ‘000]

LOAN	0-5	5-10	10-15	15-30	NO SAVINGS	TOTAL
0-10	9	3	1	11	-	**24**
10-20	4	-	1	1	-	**06**
20-30	-	-	2	1	-	**03**
30-50	5	-	-	-	-	**05**
NO	9	-	-	-	2	**11**

LOAN						
TOTAL	**27**	**03**	**04**	**13**	**02**	**40**

$$\chi^2 = \frac{\sum (O_i - E_i)^2}{E_i} \sim \chi^2_{(r-1)(s-1)d.f}$$

Calculated χ^2 value = 11.565

Tabulated χ^2 value for 9 d.f at 5% l.o.s. is 16.919

Since Calculated χ^2 < Tabulated χ^2. **H_0 IS ACCEPTED.**

Inference: Savings and amount of loan are independent.

The calculation shows that each and every attributes are independent and not dependent on others.

INCREASE IN SELF CONFIDENCE LEVEL

The following oath is taken by the Women Self Help Group members at the time of their joining.

"We are unified to find out solution for the deprived women folk in the society. I promise that I will make them as a member of SHG and help them to improve their economic development by imparting proper training, providing encouragement to involve in small scale industries and advise them to involve in social welfare activities".

The above oath implies that SHGs enable the women to gain self confidence and encourage them to involve in social welfare activities such as anti dowry project, abolition of child labour, equal rights for women in life etc.

AVERAGE ANNUAL SAVINGS OF THE MEMBERS

To find out the number of women and the quantum of money saved by the members, data are gathered by the researcher. The responses of the members are furnished in the following Table No 4.7

TABLE – 4.7

AVERAGE ANNUAL SAVINGS

S. No.	Average Annual Savings (in thousands)	No. of Respondents	% of Respondents
1.	0 – 5	30	75.0
2.	5 – 10	5	12.5
3.	10 – 15	1	2.5
4.	Above 15	NIL	-

5.	No saving	4	10.0
	Total	**40**	**100**

75% of the members of the SHGs in the study region save annually below Rs.5,000. 2.5% of the respondents save annually on an average between Rs.5,000 and 10,000. In the other categories the average savings is between Rs. 10,000 and 15,000. 10% of the members are unable to save anything from their income. Their income is sufficient enough only to meet out their monthly expenditure. The following bar diagram shows clearly the average annual savings of the women SHG members clearly.

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

The present study comes to the following findings:

- SHGs are largely found in states like TN, Karnataka, Maharashtra and Andra Pradesh.
- The SHGs are well formed and well developed, thanks to the efforts taken by the Government of India, NABARD, NGOs and certain banks.
- The organizational set up of SHGs indicates that each SHG has one animator and two representatives selected from the members to look after the day to day affairs of the SHGs.
- It is mandatory to change the animator and the representative every year. But it is not so in practice, as there are no competent, willing, literates to take up the job.
- Generally there is no gender bias in the formation of SHGs. It means that SHGs may be formed by male members as well as female members. But comparatively women SHGs are more in numbers than the men SHGs.
- Majority of women members fall between the age group of 25 and 45.
- Majority of WSHG members are married in the study area.
- The study revealed that the percentage of members of WSHGs belonging to the SC and ST community was very meager.
- The study identified that among the sample group, 15% to 85% of the members of women SHGs in the study area possesses the minimum level of literacy up to Higher Secondary Level. Only 15% of the members in the study group are illiterates.
- The discussion pertaining to occupational status of the SHG members indicates that most of the members have availed loans to meet out their family needs. Only a small percentage of people is engaged in business.

- The economic conditions of the members of the group are not satisfactory.
- 42.5% of the SHG members in the sample group are living in Kutcha and Tiled houses and the remaining 57.5% of the members are living in Pucca houses.
- The average annual savings of 85% of the members in the study region is below Rs.5,000. 4% of the members is not in the habit of saving.
- The monthly income of 47.5% of the members is below Rs.500. The remaining 42.5% of the members are earning between Rs.500 and Rs.4,000.
- The percentage of people who is willing to borrow loans from banks has registered a considerable increase. This shows the development of women in SHGs.
- The SHGs are popular not only in India but also in countries like Malaysia, Bangladesh, Korea and Philippines.

The present study concludes that the women living in study area have gained self confidence, acquired exposure in various areas.

They learn things in a better way, and are engaged in various social welfare activities such as,

- Awareness against female infanticide,
- Against dowry system,
- Constructing toilets,
- Keeping the surroundings clean,
- AIDS and HIV Awareness programmes,
- Administering polio drops to children,
- Distribution of books, pencils, rubber to the rural poor.

CHALLENGES BEFORE THE SHGs:

Today’s world is caught in a great economic crisis. Liberalization has brought several multinational companies in the developing countries. Due to this the local enterprises are unable to compete with the products that are better in quality as well as lower in prices. In this economic environment, the women self-help groups (SHGs) are building themselves up as a power to reckon with the macro vision for micro credit.

The possibility of SHGs in creating a market for their own products, as well as ensuring a healthy competition in the existing market is bright. When done as a joint effort of thousands of SHGs, this will be a real possibility.

When the SHGs create this possibility several spread-effects can be seen. A few of these could be the end of male domination, reducing the importance of cash by enabling group effort, when the group will automatically take care of the personal needs of the members and their families such as health care, education, employment and marriage.

SUGGESTIONS

INSTITUTIONALIZATION

The SHG, the infant micro finance industry has achieved a degree of success. Now it is time to institutionalize their success. The success of any group should be based on the following criteria; **economic participation, economic opportunity, political empowerment, educational attainment, health and well being.**

REGISTRATION OF SHGs

Some SHGs have not got themselves registered with a recognized NGO albeit they function with 15-20 members. They should think of getting registered under an **appropriate act** as registration will make them a corporate body, with permanent existence and perpetual succession with a common seal, with power to hold property, to enter in to a contract, to sue and be sued upon and to do all things necessary.

MODEL ACT

Government of India has come out **with model Act for Co-operatives.** This Act has been accepted in more than 9 states. In those states several SHGs have got registered as co-operatives. **SHGs are the real co-operatives.** There is no difference between SHG & Co-operative conceptually. (Thrift, self-help, mutual aid). It is suggested that the SHGs should be facilitated to function as new generation co-operatives registered under the liberal co-operative act based on the model act.

EDUCATION EMPOWERS WOMEN

It has been observed in several research studies that women do experience a double day, as they study combined with the domestic roles. The policy planners must think of integrating the economic benefits with education.

The SHGs should in fact also be converted in to self help study groups that will give them not only enhanced income but also enhanced esteem with self confidence to do something meaningful for the society as a whole. Success depends on well informed, committed members. They should realize that they are not the isolated unproductive but important wheel for the smooth running of the society.

The economic incentives and effective NGOs participation will definitely make the women empowerment a reality from a distant dream at present.

The government in developing countries must take effective steps to enroll the members of SHGs in the schemes of open schooling or any other distance mode to impart education.

Distance Education is suitable for the Women because there is no need for attendance mode of learning especially suitable for women. At the same time, there is a high degree of flexibility in learning schedules and time management. Learning material is sent to the women to their home. They can earn and the NGO/SHG may provide them the required tuition wherever they desire.

Rural women can learn at their own place, pace on the basis of availability of time. Technology helps them round the clock access on student support services.

Education is such type of subsidy that cannot be robbed by male members in the family. Secondly educated mother will further educate her children and thus will help in mitigating the curse illiteracy and poverty from the society.

MANAGEMENT AUTONOMY WILL LEAD TO SUCCESS

The village banks of Indonesia, Bank of Agriculture and Agricultural co-operative in Thailand and GRAMEEN Bank in Bangladesh have all succeeded because of the management autonomy in formulating operational policies that provide for accountability. Such sort of management autonomy with accountability is essential for the successful functioning of SHGs. To bring about development, social transformations and cultural revitalization in society is essential and pertinent.

CONCLUSION

SELF HELP GROUP NOT EMPOWERING WOMEN FULLY - HUGE GAP BETWEEN CLAIMS AND STUDY

A study on the impact of self help groups has revealed a huge gap between the claims of women’s empowerment and poverty alleviation, and the ground level realities.

The study shows that if poor women have access to financial resources, it does not automatically mean that they will be able to negotiate their position in the world. Educational inputs that enable women to critically engage with the world are necessary for their empowerment.

The SHG phenomenon has added new dimensions to the idea of a "good woman" who saves, repays regularly and pressures other women to repay for her own benefit but for the welfare of the family.

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NOTES