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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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   ACKNOWLEDGMENTS

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   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

REGULATORY FRAMEWORK FOR MANAGING THE MICRO FINANCE IN INDIA PARTICULARLY IN MEGHALAYA

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ABSTRACT

The Government regulations play an important role in managing the microfinance. Government continuously issues notifications which direct financial institutions including banks to finance the cottage sector accordingly and this process involves a proper system which takes the role of many apex institutions like RBI, SIDBI & NABARD, the Ministry of; finance, small scale industries, social welfare, empowered group of ministers, planning commission, finance commission and various committees & commissions set up for the special purposes. Besides the small business units and microfinance institutions are also made responsible to maintain fairness in accounts which is being evaluated by the credit rating system. In order to carry out the research we collected the data from various institutions which are actively regulating & supervising the flow of microfinance in MEGHALAYA and the information is represented in a more organised & simplified manner. From the information that we have it is realised that the Government Regulations, RBI, SIDBI & NABARD, Planning Commission, various state / central government sponsored schemes & policies together manage the microfinance, they opened the number of ways for different categories of people to have the financial access through various organisations and schemes suitable to their income status and working requirements. The various regulations were formulated time after time to facilitate the flow of microfinance and maintaining fairness of accounts and the process of microfinance through the solutions like; credit guarantee, credit rating, capital adequacy requirements by NBCs-MFIs, minimum loan qualifying eligibility, maximum indebt-ness at a time etc. etc.

KEYWORDS
credit rating, finance commission, Government regulations, managing the microfinance, microfinance institutions, NABARD, planning commission, RBI and SIDBI.

INTRODUCTION

The microfinance is managed through Government regulations under various programs & schemes, proper supervision and in a specific way where all the formalities such as; the type of applicants, amount of finance, type of finance, percentage of interest rate, subsidy rate, time period, agencies/parties involved, counselling & training, capital adequacy of MFIs, credit risk sharing, crediting rating, formalities for the cluster projects, terms for the loan securing and sale of loan portfolios by MFIs to banks, etc. are stated in the clear words. In the business it is managed by using the various financial techniques involving managerial skills such as; financial analysis, working capital management, capital structure decisions and project appraisals. The Government continuously assess the working information of different programs by setting up the special committees, commissions and through other field surveys and the recommendations drawn there become the new regulations and under its purview various programs get flipped along with establishment of new schemes. Then financial targets for these programs are fixed by planning commission which are later determined by finance commission to make the availability of finance with different categories of people through the Microfinance services being carried out by various organisations under different programs and through the schemes concerned therein.

REVIEW OF LITERATURE

Managing the microfinance in appropriate way was addressed by researches and some important studies related to this topic are reviewed below.

A substantial number of employed and underemployed belongs the village and small industries group, setting up of small scale and village industries will provide employment to them in occupations in which they have been traditionally trained and for which they posses equipments. The committee realizes the necessity of introducing better techniques in the village industry, so that they can keep pace with the progressively expanding economy and do not become unsuitable tomorrow (The Village and Small scale Industries Committee Report (1955), popularly known as KARVE Committee Report). Despite numerous policy measures during the past 4 decades, Indian small scale units have remained mostly tiny, technologically backward and tacking in competitive strength. Not with standing their lack of competitive strength, SSI units in India could survive due to product and geographical market segmentation and policy protection (TENDULKAR et. al. 1997). The Bank must assess the risk of the applicant, there must be at least Seven classes; the first class represents the non-defaulted applications and the last one represents only the defaulted applicants, the classes in between have monotonically increasing risk profiles. Banks and financial institutions can apply the cut off values used by the rating agencies such as Fitch, S&P and moody's (Based Accord-II) ("OZGE SEZG' IN" 2001). Formation of SHGs under various models according to the financial needs of the consumer and financing availability & working approaches of Banks & NGOs in the region (SUMARBIN UMDOR 2006). NBFCs need to obtain investment grade rating from a credit rating institution to accept the savings deposits (GHATE, 2007). Directions for the Business units that their accounting or Financial reports should meet the accounting Rules, Income tax rules, Companies Act, Insurance act, Articles of association, Memorandum of association, Banking rules, rules related the debentures, deposits and equity (Dr. JAGWANT SINGH – 2009). Launch of draft micro financial sector (Regulation and Development) Bill, 2007 to promote & regulate MFOS (Micro Finance Organizations) in Societies, trusts and cooperatives (SAVITA SHANKAR 2009) The various financial institutions such as industrial finance corporation of India (IFCI), industrial credit and investment corporation of India (ICICI), industrial development bank of India (IDBI), small industries development bank of India (SIDBI), specialized financial institutions, NSIC, and SFCs have established investment information and credit rating agency IICRA) (Dr. SAWALIA BIHARI VERMA 2010) to assess the probability of risk in the customers business.

STATEMENT OF THE PROBLEM

The various policy measures related the finance are usually discussed separately with mere a few or almost no relations with management concepts. The management of finance is incomplete if all regulations, credit criteria of various financial institutions, new policy & committee recommendations, accounting techniques & responsibilities etc. are not taken collectively. To search about all these issues related with its role in managing microfinance is an important opportunity to bring them together in the organized manner to represent a complete structure of financial management.

RESEARCH METHODOLOGY

SOURCE OF DATA

The data was collected from both primary and secondary sources. For the primary collection of data important departments such as SIDBI, NABARD, DICs, State Financial Corporation (SFC), Finance department, banks, National Board for Micro, Small and Medium Enterprises, Small Industries Development organizations (SIDO), accounts department, income tax department etc. were personally visited and for secondary data the information was collected from official websites of these departments and from other sources like reports from Government notifications, NGOs, research papers, books, TV news, websites and internet search for various questions.

PILOT STUDY

Appropriate questionnaire was prepared to proceed on the research work in a systematic and organized manner with maximum reliability & accuracy. The following studies were useful to set up the questionnaire based on the some critical issues which were important to get addressed through the new research:

1. Small Industry cluster development Program (SICDP) 2003, for Small Industrial clusters. (JAWAHAR SIRCAR)
2. CGAP (2002): micro finance Consensus guidelines.
3. Basel II Accord and probability of default estimation: "OZGE SEZG'IN"
4. Micro credit ratings international ltd. (2005) a study of the regulatory environment and its implications for legal form by microfinance institutions in India.

SAMPLING DESIGN

The selection of sample is based on non random convenient method where the important departments and institutions were selected for receiving the information which represented the whole system of regulations and innovative techniques required to manage the microfinance in a more appropriate way.

METHOD OF DATA COLLECTION

A structured interview schedule was prepared by the researcher and used for collecting data from the officials of SIDBI, NABARD, DICs, State Financial Corporation (SFC), Finance department, banks, National Board for Micro, Small and Medium Enterprises, Small Industries Development organizations (SIDO), accounts department, income tax department etc.

ROLE OF RBI

The reserve Bank of India (RBI) plays a vital role in managing the flow of micro credit from Banks & MFIs to needy persons & entrepreneurs. It continuously evaluates the performance of banks & MFIs, issues situation & time requiring guidelines for micro financing the small business units in all states of India. The important Initiatives which RBI has taken in this regard are:

1. The lending to the SSI sector to be 40 percent and 32 percent of net bank credit in the case of domestic and foreign banks respectively.
2. It urged banks to strengthen their Know Your Customer (KYC) procedures.
3. It permitted banks to appoint Business correspondents (BCs) which will take a number of activities, such as, disbursal of small value credits, collection of small value deposits, sale of microfinance, pension etc.
4. It permitted NBFCS & BCs to issue mobile phone based payment Instruments.
5. It recommended that the exemption limit for abstention of collateral security/third party guarantee be raised from Rs. 25,000 to Rs. 1 Lakh, it was further raised from Rs. 1 lakh to Rs. 5 Lakh for the tiny sector.
6. A qualifying asset (applicant) must fulfill the criteria like; to rural household with annual income of not more than INR 60, 000 (US$1,350)/ In case of urban or semi-urban borrower, household income must be INR 120,000 (US$2,700) or less, Households total indebtedness at any given time should not exceed INR 50,000, Aggregate amount of loan for income generating purposes must be at least 75 percent of total advances etc. etc. to maintain the Capital Adequacy Requirements of NBFC-MFIs.

OTHER REGULATIONS

There are various other regulations which have came into being time after time to regulate the financial services. The important regulations are; RASHTRIYA MAHILA KOSH (RMK); to provide both financial and non financial support to MFIs, Microfinance development and equity fund**;** to obtain foreign equity investment, MFI Bank Partnership model; to allow the MFI loans to be remained on the bank's balance sheet and share the credit risk up to specified level with the banks, to maintain the Capital Adequacy Requirements of NBFC-MFIs, RANGARAJAN committee on Financial Inclusion (2008); the MF-NBFCs to be permitted to offer thrift credit, micro -insurance and remittance products up to specified amounts, Credit Guarantee Scheme**;** to ensure better flow of credit to micro and small enterprises by minimizing the risk perception of banks/financial institutions in lending without collateral security, assisting the MSE with obtaining performance cum credit rating which would help them in improving performance and also accessing bank credit on better terms, Cluster Development Program**;** to form the clusters of small and microenterprises for getting the additional big financial support of projects being undertaken by them, help the MFIs to get their accounting work done by banks through the sale of loan portfolios, Securitization; Securing the MFI loans by banks through issuance of pass through certificates (PTCs) on rating basis, enable the scheduled commercial banks to compensate through Rural Infrastructure Development Fund (RIDF) scheme their failure of achieving the priority sector lending targets etc. etc.

MECHANISM FOR MICROFINANCE

Micro-credit programs are run primarily by NABARD in the field of agriculture and SIDBI in the field of Industry, Service and Business (ISB). The Microfinance scheme of both these Institutions is operating through the network of MFIs/NGOs. The microfinance Scheme of SIDBI & NABARD in the state is managed by a Committee under the chairmanship of Additional Secretary & Development Commissioner (MSME). The other members of the Committee are Additional Development Commissioner & EA, Director (IFW), Chairman-cum- Managing Director (SIDBI) and Director (EA).The Committee is reviewing the progress made under the scheme, approve the adjustment of security provided by the Government of India and interest accrued thereon in case of non-recovery of loan by SIDBI, approve further rotation of funds provided by the Government of India and other related matters.

Government has launched a revised scheme under the Micro Finance Program of SIDBI in 2003-04, government of India provides funds for Micro-finance program to SIDBI under a 'Portfolio Risk Funds' (PRF), which is used for security deposit requirement of the loan amount from the MFIs / NGOs. At present, SIDBI takes fixed deposit equal to 10 percent of the loan amount. Under the PRF, the share of MFIs, /NGOs, is 2.5 percent of the loan amount (i.e. 25 percent of security deposit and balance 7.5 percent (i.e. 75 percent of security deposit) is adjusted from the funds provided by the order to harmonies divergence in the concept as well as contend of cluster development programs, an Empowered Group of Ministers (EGoM) has been constituted very recently under the Chairmanship of the External Affairs Minister. Minister of SSI has been nominated for servicing of the EGoM.

DRAFT MICRO FINANCIAL SECTOR (REGULATION AND DEVELOPMENT) BILL, 2007

The draft bill was introduced in the Indian parliament to promote and regulate MFOS (Micro Finance Organizations). The definition of MFOS specifically included societies, trusts and cooperatives. The Bill designates NABARD as the regulator for the sector. Microfinance services are defined to include credit, life insurance, general insurance and pension services while Micro credit has been defined as loans.

Though NBFCs, which cover the major part of the outstanding loan portfolio by the microfinance channel, are regulated by Reserve Bank of India, other MFIs like societies, trusts, Section-25 companies and cooperative societies fall outside the purview of RBI's regulation. The Micro Finance Institutions (Development and regulation) Bill, 2011 is a major step in the microfinance sector. The proposed bill clarifies all doubts pertaining to regulation of the MFIs by appointing RBI as the sole regulator for all MFIs.

MAINTENANCE OF ACCOUNT

Account is an important part of business. Proper account maintenance is necessary to keep systematic records of all transactions, to ascertain the net effects of the organization, to know the financial position of the business and to provide information to interested parties. It is very unfortunate that the small scale and cottage industries in the state do not maintain any proper account. Survey finds that more than 70 percent of the SSI units do not keep any systematic record of their daily transaction. They simply write down their transactions in register. Around 30 percent of the SSI units maintain their account but that’s also not scientific. Only 12 SSI units (10 percent) have computer and accountant to maintain their account scientifically.

The Induction of credit rating system has encouraged the small business units to perform responsibly and maintain good accounting records for the better management of micro credit access from banks. Under the cluster development program for the financial assistance to the cluster projects, both the financial Institutions and the Government seek the performance report of the project costs and its operation. For this purpose they make the use of various appraising techniques and financial analysis of the cluster project.

Now, it is clear that the regulations are playing an important role in managing the microfinance they direct the role to be played by every organisation and opened the number of ways for different categories of people to have the financial access through various organisations and schemes suitable to their income status and working requirements. The various regulations were formulated time after time to facilitate the flow of microfinance and maintaining fairness of accounts and the process of microfinance through the solutions like; credit guarantee, credit rating, capital adequacy requirements by NBCs-MFIs, minimum loan qualifying eligibility, maximum indebt-ness at a time, financial inclusion support, cluster developments, securitization to MFI loans, dispensing loans on no dues certificate, formulating banking codes for MSE customers, export credit subvention, issuance of no frills account and general credit cards, utilizing the service of NGOs & MFIs by commercial banks, know your customer (KYC) regime, launching of credit information system, incubational support for new ventures, UID ADHAAR, portfolio risk fund mechanism for SIDBI & NABARD, Draft Micro Financial Sector (Regulation and Development) Bill etc. etc.

The small scale and cottage industries in the state do not maintain any proper account but the induction of credit rating system and the cluster development program for the financial assistance has encouraged the small business units to perform responsibly.

ROLE OF PLANNING COMMISSION IN MANAGING THE FINANCE FOR VILLAGE AND SMALL INDUSTRIES OF MEGHALAYA

The planning Commission draws the five year economic plans based on the situation needing reforms for the development of various economic elements such as employment, GDP, Industrialization etc. of the state. Besides agriculture, the village and small Industries have a great contribution towards the economic development of the state, the employment of the MEGHALIAN people to a good extent is dependent on this sector as the state is having a few number of large & medium enterprises. During the eleventh plan period (2007-12), the Department has been able to create employment to 10,863 unemployed youths from 2,752 registered micro and small enterprises in various parts of state.

The projected eleventh plan outlay for the village & small industries is Rs. 4900.00 lakhs. The actual expenditure up to 2012-11 is Rs. 2085.18 lakhs. The approved outlay for 2011-12 is Rs. 800.00 lakhs which is expected to be utilized in full. The tentative outlay for 2012-13 is Rs. 1520.00 lakhs.

PLANNED OUTLAYS ARE EXPENDED THROUGH SCHEMES

All these outlays are expended in planed manner through various state / central Government sponsored schemes & policies, Such as, package scheme of Incentives for small scale business (in Meghalaya) 1997, entrepreneurship Development programs (By EDI), employment generation program (Prime minister's employment generation program), Meghalaya self employment scheme, gram SWARAZGAR YAJANA, GRAM ODYOG ROZGAR YOJANA (By KHADI village Industry), grants in aid to trainees and the other financial schemes related to specific art such as craft development finance scheme, Handloom, Handicraft and sericulture development finance schemes.

Financing of the Eleventh plan (2007-2012) of Meghalaya would depend on different sources of funding, viz. state's own resources, central assistance, external assistance through the government of India, contribution of public sector Enterprises, contribution of local bodies etc.

ACHIEVEMENTS DURING THE ELEVENTH PLAN PERIOD 2007-12

1. The planning commission has been able to provide financial assistance of Rs. 13,77,43,194 to 2,296 micro and small enterprises under '' the package scheme of incentives 1997''.
2. It trained about 1,056 persons in the trades like cane & Bamboo wood crafts and other artistic work under '' master craftsman Training scheme.''
3. It organized 136 awareness and EDP programs in the state with 2,925 local youth attended the programs.
4. It established 286 small Business units creating an employment for 1,606 people, under '' prime minister's employment Generation program”.
5. It distributed machineries, tools and equipments to 657 passed out trainees in different activities like; Tailoring, embroidery, Knitting, carpentry, steel fabrication etc. Under “Grants-in- aid to passed out trainees program''
6. It formed 7 (seven) Handloom clusters in different parts of the state under '' Integrated Handloom Development scheme (IHDS) '' of the Ministry of textiles. The amount of Rs. 240.00 lakhs is proposed for 2012-13.

FINDINGS OF THE STUDY

1. It was observed that Government Regulations, RBI, SIDBI & NABARD, Planning Commission and various state/central government sponsored schemes & policies together manage the microfinance.
2. It was observed that the Government and the RBI regulations like; credit guarantee, credit rating, capital adequacy requirements by NBCs-MFIs, minimum loan qualifying eligibility, maximum indebting at a time, financial inclusion support, cluster developments, securitization to MFI loans, dispensing loans on no dues certificate, formulating banking codes for MSE customers, export credit subvention, issuance of no frills account and general credit cards, utilizing the service of NGOs & MFIs by commercial banks, know your customer (KYC) regime, launching of credit information system, incubational support for new ventures, UID ADHAAR, Draft Micro Financial Sector (Regulation and Development) Bill, 2007 etc. etc. has directed the role to be played more fairly by every organisation and opened the number of ways for different categories of people to have the financial access through various organisations and schemes suitable to their income status and working capital requirements.
3. It was observed that the micro & small business cluster development program in the Meghalaya is an essential way to finance the small entrepreneurs altogether because of the topographical barriers which hinder MFIs & Banks in delivering their services to all parts/ areas.
4. It was observed that around 30 percent of the SSI units maintain their account but that’s also not scientific. Only 12 SSI units (10 percent) have computer and accountant to maintain their account scientifically.
5. It was observed that the Induction of credit rating system has encouraged the small business units to perform responsibly and maintain good accounting records for the better management of micro credit access from banks.
6. It was found that for the hard intervention assistance to the cluster project, both the financial Institutions and the Government seek the performance report of the project costs and its operation. For this purpose they make the use of various appraising techniques and financial analysis of the cluster project.
7. It was found that the planning commission has projected eleventh plan outlay of Rs. 490.00 million for the village & small industries of Meghalaya which is being utilized through the various schemes like; package scheme of Incentives for small scale business (in Meghalaya) 1997, entrepreneurship Development programs (By EDI), employment generation program (Prime minister's employment generation program), Meghalaya self employment scheme, GRAM SWARAZGAR YAJANA, GRAM ODYOG ROZGAR YOJANA (By KHADI village Industry), grants in aid to trainees and the other financial schemes related to specific art such as craft development finance scheme, Handloom, Handicraft and sericulture development finance schemes.

CONCLUSION

Government Regulations, RBI, SIDBI & NABARD, Planning Commission, various state / central government sponsored schemes & policies together manage the microfinance. The planning commission has projected eleventh plan outlay of Rs. 4900.00 lakhs for the village & small industries of Meghalaya which is being utilized through the various schemes like; package scheme of Incentives for small scale business (in Meghalaya) 1997, entrepreneurship Development programs (By EDI), employment generation program (Prime minister's employment generation program), Meghalaya self employment scheme, gram SWARAZGAR YAJANA, GRAM ODYOG ROZGAR YOJANA (By KHADI village Industry), grants in aid to trainees and the other financial schemes related to specific art such as craft development finance scheme, Handloom, Handicraft and sericulture development finance schemes. The Government and the RBI regulations like; credit guarantee, credit rating, capital adequacy requirements by NBCs-MFIs, minimum loan qualifying eligibility, maximum indebt-ness at a time, financial inclusion support, cluster developments, securitization to MFI loans, dispensing loans on no dues certificate, formulating banking codes for MSE customers, export credit subvention, issuance of no frills account and general credit cards, utilizing the service of NGOs & MFIs by commercial banks, know your customer (KYC) regime, launching of credit information system, incubational support for new ventures, UID ADHAAR, Draft Micro Financial Sector (Regulation and Development) Bill, 2007 etc. etc. has directed the role to be played more fairly by every organisation and opened the number of ways for different categories of people to have the financial access through various organisations and schemes suitable to their income status and working capital requirements.

SUGGESTION FOR THE POLICY MAKERS

There is need of innovations in managing the today microfinance as per the national average standard of living and per capita income of the people. To let the poor to catch up these targets there is need of adequate flow of finance quiet enough to fulfil their all business and daily life requirements which is possible by creating the over plus in previous credit limits prescribed under different schemes. They do not need only finance but also help in properly managing it and for this purpose the account centres should be opened in every village to continuously assess the working capital information from all business units and issue the valuable suggestions for controlling the use of finance in the business.

FUTHER RESREACH DIRECTION

1. Role of microfinance management in executing the sector specific cottage level projects with maximum possible but sustainable exploitation of resources for improving the production and employment.
2. The role of microfinance in rehabilitation of the people under emergency projects of district councils and disaster management department for disaster and non disaster emergency welfare issues.
3. The impact of loan defaulting on hammering the economic progress of microfinance by various organizations and the action of law thereon to control the situation.
4. The impact of various financial tools & formulas, the accounting standards & policies and the legal obligations of companies act, income tax rules etc. on the utilization of microfinance in a more appropriate way in various MFIs, NGOs & SHGs.
5. The impact of financial reports from small business of the state on the public finance planning related the taxes and subsidies for the cottage sector.

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