MICROFINANCING THROUGH SELF HELP GROUPS- A CASE STUDY OF BANK LINKAGE PROGRAMME OF NABARD

Dr. B.B. Mansuri
Department of Commerce,Women's College,
A.M.U., ALIGARH-202002.

Abstract

Poverty is omnipresent but the third world countries are the main sufferers. Even after more than 50 years of planning and employing various poverty alleviation programmes, official estimates shows that 26.1 per cent of total population lives below poverty line in India. Since, independence government has taken several initiatives to tackle the scarce of poverty through area development approach, sectoral approach. But all the initiatives failed to achieve the target due to faulty planning and improper implementation and lack of will. Formal banking sector also ignored the poor due to risk involved in lending to poor as they do not have collaterals and apprehension of non-bankability. Against this backdrop SHG bank linkage from NABARD is considered as best alternative to reach the poor. The provision of small and regular repayment schedule made possible very high recovery rate. After 1990s microfinance has taken it momentum and now it is the largest microfinance movement in the world.

Introduction

Poverty has global presence and varied genesis and dimensions. It does not mean only human or income poverty but it also covers deprivation of human dignity caused by vulnerability to social and cultural shocks. Development Economics, till 1970s was considering that the 'trickle down effect' of growth oriented GNP will help to eradicate poverty gradually. But, despite the spectacular growth achieved by the countries from East and South-East Asia, poverty continues to afflict a large section of the population (Barbora and Mahanta, 2001). Even after more than 50 years of planning and employing various poverty alleviation programmes, official estimates shows that 26.1 percent of total population lives below poverty line in India. It indicates the tardy pace of these programmes for the poor as they were by and large by-passed by the development impulses.

Governmental Initiatives to Tackle the Problem of Unending Poverty

Since independence government has taken several initiatives to tackle the scarce of poverty through area development approach, sectoral approach. The Integrated Rural Development Programme (IRDP) targeted the poorest of the poor and helped them to acquire productive assets through bank loan and subsidy from the government. But several drawbacks in the implementation stage faltered the programme. In 1982-83, Development of Women and Children in Rural Areas (DWCRA) was launched in 50 districts as a sub-scheme of IRDP. This focused

enabling the women in group to overcome the inhabitations for they have never done before, like going to the bank, buying an asset, keeping account etc. (Madheswaran and Dharmadhikary, 2001). But this too failed as it was observed that women wanted small loans for their specific requirements. Similarly the success attained from other poverty alleviation programmes such as, Training of Rural Youth for Self-Employment (TRYSEM), Supply of improved Toolkits to Rural Artisans (SITRA) was not upto the mark due to various shortcomings in design and delivery of the projects and the credit and poverty problem in the rural area continues. The current annual credit demand by the poors in the country is estimated to be between Rs. 15,000 to Rs. 45,000 crores (World Bank, 1997).

Conceptual Evaluation of Micro-finance (MF)

Since independence, the formal banking institutions had ignored the poor due to perceived high risks, high transaction costs involved in small-scale rural lending to a large number of poor households and absence of collateral securities. Against this backdrop of failures of earlier poverty alleviation schemes and the financial institutions to reach the real needy, microfinance schemes using self-help groups (SHGs) were designed and NABARD considered this 'SHG-Bank Linkage' model as a core strategy for rural development. In the earlier schemes like IRDP, DWCRA, the beneficiaries perceived the loan as grant. The poor did not feel the responsibility of repaying the loan and the bankers only concentrated on disbursement of loan which led to poor recovery and the schemes became non-viable. But microfinance through SHGs has proved the notion wrong and showed that even the poor are bankable. The SHG members thrift, mobilize the savings and invest in microenterprises. The recovery rate was reported around 95 percent. Hence, microfinance though SHGs has evolved as an accepted institutional framework to provide financial services to the poors. Further, it is regarded as better mechanism to reduce poverty gradually as against giving one time loan for productive assets which may or may not lead to sustained increase in income (Madheswaran and Dharmadhikary, 2001).

Microfinance in India:

Prof. Mohammad Yunus the Nobel laureate for peace is considered as the pioneer of micro credit who started a women's' group with a loan of equivalent of $27. The demonstrative success of micro credit has introduced the concept with modification in many developing countries including India. The microfinance movement in India was unleashed around the 1970s. Microfinance has gained a lot of significance and momentum in the last decade. India now occupies a significant place and a niche in global microfinance through promotion of the self-help group (SHGs) under SHG-Bank Linkage (SBL) programme and the microfinance Institution (MFI) model. The Indian model offers greater promise and potential to address poverty as it is focused on building social capital through providing access to financial services through linking with the mainstream. In the most simplistic way it can be termed as "banking for the poor".

In India microfinance has been defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards.

In this field Self-Employed Women's Association (SEWA) is the pioneer which was started as a trade union for women in the unorganized sector in 1972. It started first Women's Bank in India. By 2000, it membership has reached to 2099250. The Sewa Bank has 87263 depositors, and 41750 borrowers whose loan outstanding was Rs. 887 lakhs on March 1998.

NABARD'S Initiative for Linking

Micro financing by 'non-formal' financial organizations had already started. SEWA (Self Employed Women's Association) owned by women of petty trade groups was established on cooperative principle in 1974 in Ahmedabad. Working Women's Forum (WWF) started promoting working women's cooperative societies in Tamil Nadu since 1980. Shreyas in Kerala actively got involved in microfinance operations since 1988 with the objective of promoting people's cooperatives (Dasgupta R. 2001).

Some research studies conducted by NABARD in early eighties which revealed that the country has a vide network of rural bank branches, consisting of 33000 rural branches of Commercial Banks, 14500 RRB branches and 92000 Primary Agricultural Cooperative Credit Societies, these branches were implementing poverty alleviation programmes for creation of self-employment opportunities through bank credit for almost two decades, a large number of rural poor were not benefited from the formal banking system. These studies further pointed out that the present banking system, procedures and policies, and deposit and loan products were perhaps not most suited to meet the immediate needs of the very poor. 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 compounded as the beneficiaries refused to distinguish between state subsidy support and bank credit. The political expediency for removing poverty at a stroke was putting resources for running micro-enterprises in the hands of the poor without nurturing them to handle such resources. The high cost of appraisal and monitoring meant compromise on appraisal and supervision, leading to poor repayments of loans. In the absence of institutional support, the poor continued to approach intermediaries in the informal credit markets like moneylenders, traders, and wholesellers for meeting their consumption and production needs (Nanda Y.C., 2003).

Thus in spite of the huge expansion by the banking sector in terms of rural branches, there were still a very large number of people they bypassed. In 1992, therefore, Nabard began an experiment. It was looking at innovative ways of reaching the banking system to these people. The organization thus started a project on a pilot basis involving the creation of informal structures of self-help groups (SHGs) of people and trying to link them to the banking system. NABARD started with a pilot project of 500 such Self Help Groups (SHGs) (Majumdar 2003). This experiment of NABARD achieved great success to cater to the microcredit need of the rural poor through SHGs. Under the SHGs NABARD ensured that very poor people come together, start saving, start lending to each other, and once they are able to reach a stage that they can

Enforce the will of the group on the individual, the banks can start coming into the picture and lending them funds. Today the SHG concept is a resounding success in India and is one of the most successful programmes run by NABARD (Majumdar 2003).

Self Help Groups and its Impact

Self Help Groups (SHGs) are necessary to overcome exploitation, create confidence for the economic self-reliance of rural poor, particularly among women who are mostly invisible in the social structure. These groups enable them to come together for a common objective and gain strength from each other to deal with exploitation, which they are facing, in several forms. A group becomes the basis for action and change. It also helps building of relationship for mutual trust between the promoting organization and the rural poor to constant contact and genuine efforts. (Singh O. R. 2003). SHG is a small voluntary association of poor people, preferably from the same socio-economic background. The maximum number of members in a SHG should not exceed 20.

Group members usually create a common fund by contributing their small savings on a regular basis. Groups evolve flexible systems of working sometimes with the help of (NGOs) and manage pooled resources in a democratic way. Loan requests are considered by groups in periodic meetings and competing claims on limited resources are settled by consensus. The loan amounts are small, frequent for short duration and are mainly for conventional purposes. The rates of interest vary from group to group and the purpose of loan. It is higher than that of banks but lower than that of moneylenders. At periodic meetings, besides collecting money, social and economic issues are also discussed. Defaults are rare due to group pressure and intimate knowledge of the end use of credit (Singh O. R. 2003).

The economic impact of SHGs was relatively more pronounced on the social aspects than the economic aspects (Puhazendhi & Satyasai 2001). The SHG is really a boon in the rural areas which gives financial autonomy to the rural women and make them economically independent (Laxman 2001). The SHGs have become a platform for exchange of experiences and ideas (Tilekar et al 2001). The women have tremendous energies to start their own enterprises given the right opportunities. They have developed abundant self-confidence and self esteem through SHG movement. Not only economic poverty but also social and gender issues can be tackled effectively through this process. (Chiranjeevulu 2003). Although the loan amount is small, it helps in meeting the requirement of the poor. Small amounts of loans coupled with financial discipline ensure that loans are given more frequently and hence credit needs for a variety of purposes and at shorter time intervals can be met. This is a better mechanism to reduce poverty gradually as against one time loan for productive asset, which may or may not lead to sustained increases in income (Madheswaran and Dharmadhikary 2001). The micro financing to women through SHGs has helped the groups to achieve a measure of economic and social empowerment. It has developed a sense of leadership, organizational skill, management of various activities of a business, right from acquiring finance, identifying raw material, market and suitable diversification and modernization (Manimekali and Rajeswari 2001). Hence micro financing through SHGs is contributing to the development of rural people in a meaningful manner. It is seen that significant changes in the living standards of SHG members have taken

place in terms of increase in income levels, assets, savings, borrowing capacity and income generating activities. (Sharma 2001). It has been observed that the overall impact of micro-finance through SHGs is very effective in combating poverty, unemployment and empowerment of women.

NABARD and Self Help Groups

NABARD has started SHG-Bank Linkage Programme as an Action Research Project in 1989. In February 1992, NABARD launched a Pilot Project linking 500 SHGs with banking systems across the country. NABARD refinance the banks, which lend of SHGs. The movement has gained a significant momentum with 2.24 million SHGs linked with 44362 bank branches of 545 banks in 583 districts across 31 states of the Indian Union and disbursed Rs. 113.98 billion cumulatively, as on 31st March, 2006 (NABARD, 2006). Total 0.54 million new SHGs have been provided with bank loans in 2004-05 and Rs. 2.99 billion of bank loans disbursed during this period (NABARD). In India, 58 percent of total SHGs are in Southern India mainly in Andhra Pradesh, Tamil Nadu and Karnataka as on March 2005. Only 5 percent of total SHGs are in Northern India. It also provides training support, Grant cum Aid support for micro-credit under its different schemes. Apart from the SHG linkage programme, NABARD also operates a Bulk Lending Scheme for supporting NGO initiatives involving alternative credit delivery mechanism.

Micro finance Progress

To provide the rural poor accessibility to credit from the banking system and for alleviating poverty, NABARD in 1992 had started a programme of linking SHGs of the rural poor with banks. Over the years, the SHG-Bank linkage programme has emerged as the major micro-finance programme in the country. In all 498 banks (50 commercial banks, 96 RRBs and 352 co-operative banks) are now actively involved in the operation of this programme. The 29,24,973 new SHGs credit-linked during 2006-07 represent an increase of 49 per cent over the previous year. As on 31 March, 2007, the total of 16.18 lakh SHGs credit-linked by banks covered an estimated 40.95 million poor families, with an average loan disbursement per family of Rs. 3,167. Refinance support extended by NABARD amounted to Rs. 54.59 million. A highlight of the programme was that about 90 per cent of the groups linked with banks were exclusively women groups (Table-1).

Table-1: SHG BANK LINKAGE PROGRAMME IN INDIA HIGHLIGHTS AS ON 31 MARCH 2007

Sl. No.	Particulars	Cumulative as on 31 March 2007
1.	No.of SHGs linked	2,924,973
2.	% of women groups	90 %
3.	No. of participating banks :	498
	i. Commercial Banks	50
	ii. Regional Rural Banks	96
	iii. Co-operative Banks	352
4	No. of States/UTs	31
5	No. of districts covered	587
6	Bank Loan Rs in billion	180.41
7.	Refinance Rs. in billion	54.59
8	No.of poor households assisted (in million)	40.95
9.	Average Loan/SHG – New Rs. - Repeat Rs.	44,342 78693
10	Average Loan/Family - New Rs. - Repeat Rs.	3,167 5,621
11	Model Wise Linkage (Cumulative)	
	i. SHGs formed and financed by Banks	17 %
	ii. SHGs formed by other agencies but directly financed by banks	75 %
	iii. SHGs financed by banks using financial intermediaries	08%

Source: www.nabard.org

As on 31 March 2006, Andhra Pradesh (26%), Tamil Nadu (14%), Karnataka (10%) and Uttar Pradesh (7%), together accounted for 65 per cent of the total SHGs credit lined and 79 per cent of the total amount of bank loan disbursed. According to the regional spread, the southern region accounted for 54 per cent of the SHGs credit linked followed by eastern (18%), central (12%), western (7%) , northern (6%) and north-eastern (3%) regions (Economic Survey-2007).

Special Scaling-up Efforts

NABARD continued to emphasise scaling-up of the programme in 13 priority states that account for 70 per cent of the country's rural poor. This has resulted in more than seven-fold increase in the number of credit linked SHGs during the period 2002-06. significant increase was observed in Assam, Bihar and Orissa. The number of SHGs credit linked in priority State increased to

1005272 as on 31 March 2006. Significance increase in thw number of SHGs credit linked during the year was observed in Maharashtra (60324), Orissa (57640), West Bengal (43553), Uttar Pradesh (42263), Rajasthan (38165), Assam (25251) and Chhastisgarh (12722). Proactive measure such emphasis on priority states, enlisting partnership and capacity building of partner agencies have served to expand the programme in non-southern States. The share of the 13 states in total number of SHGs credit linked has also increased to 45 percent as on 31 March 2006 from 31 per cent as on 31 March 2002 (table-2).

Table-2: Cumulative Growth in SHG-Bank Linkage in Priority States (As on March)

State	2002	2003	2004	2005	2006
Assam	1024	3477	10706	31234	56449
Bihar	3957	8161	16246	28015	46221
Chhastisgarh	3763	67634	9796	18669	31291
Gujarat	9496	13875	15974	24712	34160
Himachal Pradesh	5069	8875	13228	17798	22920
Jharkhand	4198	7765	12647	1531	31819
Maharashtra	19619	28065	38535	71146	131470
Madhya Pradesh	7981	15271	27095	45105	57125
Oriussa	20553	42272	77588	123256	180896
Rajasthan	12564	22742	33846	60006	98171
Uttar Pradesh	33114	53669	79210	119648	161911
Uttaranchal	3323	5853	10908	14043	17588
West Bengal	17143	32647	51685	92698	131251
Total Priority States -13	**141804 (31)**	**249462 (35)**	**397464 (37)**	**667761 (41)**	**1005272 (45)**

Figure in parentheses indicate percentage share of priority States in total number of SHGs credit linked.

Source: www.nabard.org

Support to Partner Agencies

During the year a grant assistance of 812.45 lakh was sanctioned to various agencies to promote 38317 groups, taking the cumulative assistance sanctioned Rs.3346.01 lakh for the promotion of 2.49 lakh groups.(table -3). As on 31 March 2006 an amount of Rs. 1531.01 lakh was released. In an effort to broad base its capacity building initiatives, NABARD has taken steps to externalize such initiatives and other training interventions through component and experienced partners (table -3)

The above initiatives enable SHG members gain access to key financial services like savings and credit. They also helped poor family to access social services like health and education, business development services liker skill upgradation and market linkages etc. these group are also involved in a wide range of micro enterprises like preparation of vermin-compost, live stock rearing, handicrafts, vending of various commodities in rural areas, running public distribution

retail outlets, road construction, sanitation and hygene efforts in villages, distributing relief materials etc. owing to increased participation of government agencies in community approach, SHGs have the means to channelise benefits of such initiatives to the poor.

Table-3: Grant Assistance Extended to Various Partners in SHG-Bank Linked Programme
(Rs.lakh)

Agency	**Sanctions During the year**			**Cumululative Ssanctins**			**Cumululative Progress Amt.**			
	No.	**Amount**	**No. of SHGS**	**No.**	**Amount**	**No. of SHGs**	**Released**	**SHGs Formerd HGs Linked**		
Co-operative	15	86.05	6700	69	316.82	34810	76.33	27547	11258	
RRBs	8	28.41	2255	109	333.95	41190	137.69	48281	29783	
NGOs	337	627.02	25087	1515	2564.99	164550	1249.45	128104	80511	
Farmers Clubs	-	-	-	-	-	-	54.87	12659	6509	
IRVs	9	70.97	4275	24	130.65	8800	12.76	2020	701	
Total	**369**	**812.45**	**38317**	**1717**	**3346.01**	**249350**	**1531.01**	**218611**	**128762**	

Source: www.nabard.org

Conclusion

From above discussion, it is clear that micro financing programme of NABARD through SHG is working very effectively, but a major challenge for this programme is the viability of non-farm economic activities. It is also difficult to find an economic activity that will yield a rate of profit necessary to cover the interest rate on the loan. Since market for non-farm activities is in the urban areas, hence, when these activities are taken up by rural women the produced goods cannot meet the standards of the urban market. Moreover, the distance also imposes a cost of marketing, which these women cannot bear. It is also seen that at macro level, there is the problem of sustaining the business that could engage much larger number of people. Unless there is a proper marketing system, merely producing the goods would not help. If the goods produced by the rural poor are sold at a right time with profitable price, then the poor will be able to improve their savings potential, credit handling capacity and access to financial institutions, inculcate entrepreneurial skill, develop an urge for investment and also risk taking attitude through SHGs. Thus micro-financing can do wonders to the rural poor living even in remote villages in improving their economic condition and protecting them from the clutches of the village moneylenders.

The overall performance of SHG-Bank Linkage Programme of NABARD is remarkable as it is the largest micro-financing programme in the World and it is moving towards the right direction for empowering women. So, NABARD must continue micro financing through SHGs for poverty alleviation in rural.

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