A Study of Micro- Finance through Empowerment of Self-Help Groups

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Abstract

Micro-finance basically refers to the provision of a wide variety of financial services, to the unbanked poor, whose scale of operations are so minuscule that they are generally excluded from the purview of the current service providers. It has played an important role in bringing about financial and economic stability in the rural areas. In the last three decades, micro-credit (which is an important component of micro-finance) has reached over 10 crore households in India. The potency of micro-finance will be realised better by the deprived sections of the society when their capabilities are also improved along with the access to financial services.

It was discovered that the poor had a tendency to come together in a number of informal ways with a view to pool their resources and disburse small, unsecured loans at flexible costs to the group members on the basis of their need. This led to the SHG revolution. This particular initiative has more than 5000 partners in our country alone and has matured into one of the most economical and fastest growing micro-finance initiative in the entire world, facilitating 100 million poverty-stricken households to gain access to the sustainable financial services. The present study aims to understand the concepts of Self Help Group movement, to ascertain the status and reach of SHG movement during the last 25 years and to know the current challenges and opportunities available. This study will depend on the collection of secondary data from published sources as well as interaction with a few field practitioners through personal interviews.

Keywords: *Self-Help Groups, Micro- Finance, Banks*

1.1 Introduction - Micro Finance

Micro-finance basically refers to the provision of a wide variety of financial services, to the unbanked poor, whose scale of operations are so minuscule that they are generally excluded from the purview of the current service providers. It is a product which encompasses micro-credit, micro-pension and micro-insurance among others. Micro-finance has played an important role in bringing in the financial and economic stability in the rural areas. In the last three decades, micro-credit (which is an important component of micro-finance) has reached over 10 crore households in India, thereby providing the much needed livelihood support to the poor and marginalised sections of the society. The potency of micro-finance will be realised better by the deprived sections of the society when their capabilities are also improved along with the access to financial services.

Various studies conducted to find out the effectiveness of credit delivery mechanism with relation to the unbanked poor revealed that:

- The transaction costs of banks in banking with the poor were quite high and the procedures were quite complicated.
- The poor weren't welcome in the banks due to their meagre savings and lack of collateral for small loans.
- The poor didn't mind paying higher rates of interest, provided the credit is hassle-free.

National Bank for Agriculture and Rural Development (NABARD)[1] discovered that if the conventional approach to impart financial services to the underprivileged through Self Help Groups could be combined with the financial prowess of the existing Financial Institutions, it could revolutionise the financial sector in the country and pave the way for the expansion of an array of financial services to the poor and needy through a structure which is owned and managed by the poor themselves. This gave a boost for the launch of the **Self Help Group - Bank Linkage Programme**, commonly known as the SHG-BLP programme, in the year 1992 on a pilot basis..

In fact the pilot project was so successful that the stupendous results galvanised the entire banking and financial sectors. Quick studies conducted by NABARD in a few states to assess the impact of this project revealed the following:

- There was almost 100 % recovery of the loans.
- There was a significant reduction in the transaction costs for the banks and
- There was a shift towards income generating and production activities.

The movement is celebrating its silver jubilee year and during the journey of 25 years, we came to terms with the following findings:

- **Rural poor are bankable and trustworthy**
- **They could save and wanted timely and accurate credit**
- **They were making prompt repayments of credit in group**

1.2 Study Objectives

Micro Finance in India has turned a new chapter in the lives of over 10 million people through a credit delivery mechanism called SHG-Bank Linkage Program. The study aims -

a. To understand the banking system in India and their reach

[1] *NABARD is a Development Financial Institution catering to Agriculture and Rural Development*

b. To understand the need for Self Help Group Movement in India

c. To understand the concepts of Self Help Group movement like thrift, savings, credit, Peer Pressure, Panch Sutras etc.,

d. To explore the role of various Stakeholders

e. To ascertain the status and reach of SHG movement during the last 25 years

f. To know the current challenges and opportunities available and finally

g. The way forward for the movement

1.3 Methodology

The study depended on the collection of secondary data from published sources as well as interaction with a few field practitioners through personal interviews. Secondary data was sourced from research journals, periodicals and newspapers. There are well known practitioners in institutions like NABARD and other banks and interactions were carried out with a select few.

The data so collected was analysed and the conclusions were drawn.

2.2 Self Help Groups (SHGs)

During the 1980's, it was observed that the formal banking sector was unable to meet the micro credit requirements of rural poor, more so the people belonging to the marginalised sections of the society. Nationalisation of banks during 1969 and 1980 as well as bringing in a whole new class of banks titled Regional Rural Banks had not changed the reach factor and systemic weakness like over dues, lack of rural orientation of the field personnel and poor recycling of funds also compounded the problems. The Agriculture Credit Review Committee (1989) highlighted the limited reach of the formal banking institutions (36% of the rural population) and pinpointed their deficiencies. At the same time, it was observed that the rural poor were dependent on the money lenders and traders for meeting their credit needs, even though the interest rates were high.

Around the same time, a few NGOs, most notably, MYRADA (Mysore Resettlement and Development Agency) had started Self Help Affinity Groups with some success. The informal groups were able to save as well as link with the banks for meeting their credit needs without much collateral. NABARD assisted MYRADA with a grant for an Action Research Project on saving and thrift groups and the positive features of the study **gave birth to an Alternate Credit Delivery Mechanism, through informal groups called Self Help Groups.**

SHG, is an informal group of people, not more than 20, coming together voluntarily to attain a common and collective goal. The perceived strength of these SHGs is homogeneity with respect to socio and economic background of its members. Members meet and save on a regular basis, lend to members on a need to need basis and maintain group records. The SHGs function as a democratic body and decisions are taken in group meetings.

NABARD had defined SHG as "A small, economically homogeneous and affinity group of rural poor, voluntarily formed to save and mutually agree to contribute to a common fund to be lent to its members as peer group decision for their socio-economic development"(Malik et al, 2004) SHGs can be of women, men or mixed groups.

The basic principles on which the SHGs function are:

- The SHG is a network of members who fulfil locational criteria. They are resident in the area and are homogeneous (homogeneity can be in terms of caste/occupation/farm size/sex/ or income level).
- They have rules/norms regarding their functioning.
- Savings first, credit thereafter. Personalised services suiting the requirements of the members are ensured.
- SHGs hold regular meetings to ensure participation of members in the activities of the group.
- SHGs maintain books of accounts
- Group leaders are elected by members and rotated periodically.
- Transparency in operations of the group and participatory decision making ensure that the benefits to members are evenly distributed.
- Market rates of interest on savings and credit are charged.
- Group liability and peer pressure act as substitutes for the traditional collateral for loans.

2.3 SHG Formation

The formation of the groups normally takes place through external help, popularly called as SHG Promoting Institutions (SHPI). An enlightened individual or an NGO working in the area or a bank branch can be a SHPI leading to formation of groups in the needy areas.

Stages in SHG Formation

There are basically two stages in the formation of SHGs viz. pre-group formation stage and the promotion stage.

- **Pre group formation stage:** The SHPI visits the identified area / village in the pre-group formation stage, has discussions with focused group / villagers and explains the concept of SHGs. This may take 1-2 months depending upon the interest of the identified villagers, the capacity of the SHPI to motivate the villagers to form into groups and the general appreciation level of the identified stakeholders.

- **Promotion Stage:** The next stage is promotion stage and it involves four stages as detailed below –

  i. Forming: In forming stage, people come together voluntarily and discuss about theimutual problems and come up with solutions. The stage is marked by coming together, chaos and uncertainty. Each member tries to find his or her space in the ecosystem.

  ii. Storming: This stage is marked by expression of thoughts by members, which may lead to conflicts and confusion in the group. Slowly the leadership evolves and decision making abilities within the group emerge.

  iii. Norming: This stage comprises of setting up of rules and regulations by the leader and the group becomes cohesive as the individual aspirations are replaced by collectivism.

  iv. Performing: This is the stage of readiness. Leaders have established, rules have been framed and group is cohesive for collective action.

Save small amounts regularly	A small economically homogeneous group of rural poor who have voluntarily come together	Have simple and responsive rules
To mutually agree to contribute to a common fraud fund		Collateral free loans with terms decided by the group.
To meet their emergency needs.	Conflict solving through collective leadership and mutual discussion.	Collective decision making.

2.4 Salient Features

After the groups have been formed, the functioning is based on certain pre agreed rules and regulations as detailed below:

i. **Bylaws:** A set of rules and regulations for the groups are formed which are essential for its functioning. The bylaws include norms for membership, savings, credit, fines etc.

ii. **Meetings:** The periodicity and the place of group meetings will be decided by the group. The meeting will be weekly, fortnightly or monthly and attendance will be compulsory. A common place for the meeting will be chosen which may be a community hall or a house of the member.

iii. **Savings:** The group will decide the amount and periodicity of savings by the members and they have to follow the set rules. Any delay in payments will attract fines.

iv. **Credit / Internal Lending:** The group will decide the rules for extending credit support, the interest rate to be charged and the repayment schedule. Further, the norms to be followed in case of default will also be decided.

v. **Leadership:** The SHGs being an informal group functioning of democratic principles, follows election and rotation in leadership. Active members are elected as President, Secretary and Treasurer for a fixed tenure and the leadership is rotated.

vi. **Book Keeping:** The group will maintain various books like Cash Book, Saving Register, Credit Register, Meeting Register, and General Ledger etc. Each member will be provided with individual passbooks so as to maintain transparency. A savings bank account will be opened within a few days of the start of the SHG and all transactions are routed through bank account, as far as possible.

3.1 Important Issues and Challenges

- **Regional Imbalances :** The first challenge is the skewed distribution of SHGs across States. About 60% of the total SHG credit linkages in the country are concentrated in the Southern States. However, in States which have a larger share of the poor, the coverage is comparatively low. The uneven spread of the SHG - Bank Linkage Programme in different regions is on account of factors like pro-active role of State Governments, presence of well performing NGOs, socio-cultural factors, better performance of SHGs, etc. SHG Bank linkage which was heavily concentrated in southern region during the early years of SHG Bank linkage programme is gradually coming down due to progressive growth of SHG movement in the remaining States. The share of Southern Region has come down progressively over the years and it was about 45% as on 31 March 2016. Many States such as Uttar Pradesh and Bihar with high incidence of poverty have shown poor performance under the programme.

- **From credit to enterprise :** The second challenge is that having formed SHGs and having linked them to banks, how can they be induced to graduate into matured levels of enterprise, how they be induced to factor in livelihood diversification, how can they increase their access to the supply chain, linkages to the capital market and to appropriate/ production and processing technologies.

- **Quality of SHGs :** The third challenge is how to ensure the quality of SHGs in an environment of exponential growth. Due to the fast growth of the SHG Bank Linkage Program, the quality of SHGs has come under stress. This is reflected particularly in indicators such as the poor maintenance of books and accounts etc. The deterioration in the quality of SHGs is explained by a variety of factors including

  - The intrusive involvement of government departments in promoting groups,
  - Inadequate long-term incentives to NGOs for nurturing them on a sustainable basis and
  - Diminishing skill sets on the part of the SHG members in managing their groups.

  In the assessment, significant financial investment and technical support is required for meeting this challenge.

- **MFIs: Critical Issues :** MFIs can play a vital role in bridging the gap between demand & supply of financial services if the critical challenges confronting them are addressed. Some of the important challenges faced by them are discussed below.

Sustainability: The first challenge relates to sustainability. MFI model is comparatively costlier in terms of delivery of financial services. An analysis of 36 leading MFIs shows that 89% MFIs sample were subsidy dependent and only 9 were able to cover more than 80% of their costs. This is partly explained by the fact that while the cost of supervision of credit is high, the loan volumes and loan size is low. It has also been commented that MFIs pass on the higher cost of credit to their clients who are ‘interest insensitive’ for small loans but may not be so as loan sizes increase. It is, therefore, necessary for MFIs to develop strategies for increasing the range and volume of their financial services.

Lack of Capital – The second area of concern for MFIs, which are on the growth path, is that they face a paucity of owned funds. This is a critical constraint in their being able to scale up. Many of the MFIs are socially oriented institutions and do not have adequate access to financial capital. As a result, they have high debt equity ratios. Presently, there is no reliable mechanism in the country for meeting the equity requirements of MFIs.

Borrowings – In comparison with earlier years, MFIs are now finding it relatively easier to raise loan funds from banks. This change came after the year 2000, when RBI allowed banks to lend to MFIs and treat such lending as part of their priority sector-funding obligations. Private sector banks have since designed innovative products such as the Bank Partnership Model to fund MFIs and have started viewing the sector as a good business proposition.

- **Cost Recovery and Sustainability:** It is important for banks to carefully work out their actual costs for SHG lending. While the SHG portfolio is often only a small part of the total bank lending, and since the portfolio quality is good, it may be possible to reduce interest rates while ensuring recovery of costs. In the initial phase of the SHG movement, the groups were formed by NGOs and hence start-up costs were low for banks. However, over the years, banks have also evolved as SHPIs. In the process, the start-up costs of group formation, etc. have devolved on the banks, impacting their pricing policies.

3.2 SHG – BLP during 2016-17 –Fresh Challenges

The initiatives taken and the efforts made by all concerned for rejuvenating the SHG-BLP during the last two years have started yielding results. The establishment of Strategic Advisory Board, greater coordination between NABARD and NRLM, focus on Digitisation,Village Level Programmes, livelihoods programmes for SHGs, collaboration with new partners like IRCTC have infused new energy in SHG-BLP. However massive efforts are needed at State level to further invigorate the SHG-BLP particularly in the priority states. There are issues like skewed growth, huge backlog in credit linkage/ low repeat linkages, lack of capacity building of bankers, quality issues in SHGs, delay in credit dispensation, low per SHG loan disbursement, low priority given by bankers to the SHG portfolio, non-identification of good NGO partners for promotion of new SHGs which are pulling back the SHG movement. The pull and push factors are to be addressed.

(i) Progress as on 31st March 2017

Against a target of 5.18 lakh, 6.54 lakh SHGs have been savings linked during 2016-17 as per the provisional figure available with us. Similarly against a target of 14.04 lakh, 13.19 lakh SHGs constituting 94% have been credit linked during the year. There is a fall in no. of SHGs credit linked during the year as 13.19 lakh no. of SHGs were credit linked as against 18.32 lakh SHGs credit linked during 2015-16. The position of savings and credit linkage in the priority states is indicated in the table below:

Sr. No	Priority State	Savings linkage			Credit linkage		
		Target	Achvt.	% achvt.	Target	Achvt.	% achvt.
1	Assam	16000	19673	123	60000	15474	26
2	Bihar	120000	94063	78	35000	112178	321
3	Chattisgarh	35000	1952	6	30000	5334	18
4	Gujarat	20000	18019	90	60000	13211	22
5	Himachal Pradesh	3000	3267	109	10000	3388	34
6	Jharkhand	20000	6154	31	20000	10633	53
7	Madhya	70000	71295	102	70000	69934	100

	Pradesh						
8	Maharashtra	40000	44144	110	125000	144161	115
9	Odisha	20000	18139	91	110000	73109	66
10	Rajasthan	30000	9514	32	60000	5456	9
11	Uttar Pradesh	60000	46387	77	110000	17518	16
12	Uttarakhand	5000	4407	88	6000	2707	45
13	W. Bengal	60000	172787	288	130000	163890	126
		499000	**509801**	**102**	**826000**	**636993**	**77**

Fig 1. Progress as on 31st March, 2017. (Source: NABARD)

It may be observed from the above table that states like West Bengal, Maharashtra, MP and Bihar have been able to achieve the credit linkage targets, rather exceeded them. However, priority states like Assam, Chattisgarh, Gujarat, Rajasthan, HP, UP and Uttarakhand have achieved less than 50% of the credit linkage targets. Assam, Himachal, MP, Maharashtra and West Bengal have exceeded their Savings link targets.

(ii) Low level of credit per SHG

The average loan disbursement per group during 2016-17 was Rs.1.54 lakh. However, the same was quite low in some of the states as banks provide credit to SHGs in small doses in the first place and then do not go in for repeat linkages. States and Banks may therefore ensure deepening of credit.
Some of the following measures may be considered:

- Controller of banks needs to be impressed upon the need to ensure adequate flow to the SHGs.
- Bankers need to be sensitized to provide repeat credit to SHGs wherever loans have been repaid by SHGs.
- From subsistence finance in the first cycle of loan, livelihood financing may be taken up for SHGs in conjunction with skill development and holistic solutions necessary for the activity value chain.
- Interface between bankers and SHGs need to be improved to understand each other’s requirements and challenges.
- Capacity building of branch managers needs to be undertaken for appraisal of the loan applications of the SHGs.

(iii) Wide gap between SB linked and credit linked SHGs

The gap between numbers of SHGs saving linked and the number of SHGs who have received credit remains to be quite high. The gap is very high in Northern, NE and western regions. Concerned States / banks / SLBCs / SRLMs need to identify the reasons for high gap and come out with state specific strategies. Some of the steps which may be considered by States and banks can be as under:

- Bank wise/ district wise position may be reviewed for pointed action
- Bank wise/ district wise position may be discussed in Sub-committee of SLBC
- Where large number of inoperative SB accounts of dormant/ inactive SHGs is identified, banks need to go in for segregation of such accounts.
- The instrument of Village Level Interface Programmes may be effectively used as a platform for grading, credit linkage, issue of cheque books etc.

(iv) Tackling of NPAs

One of the critical challenges confronting the SHG-BLP is the rising NPAs which is required to be addressed on priority, although there was a decline in gross NPAs as on 31 March 2016 to 6.4% from 7.4% as on 31 March 2015. The causes of NPA may be attributed to quality related issues, governance issues, financial mismanagement, lack of follow up by banks, group formation without following due process, lack of nurturing and handholding etc. absence of training and capacity building in terms of financial literacy, book keeping, internal lending etc.

While the NPAs in southern states (except Tamil Nadu and Pondicherry) were low (4%), in other states the NPAs were quite high particularly in states like Odisha it was as high as 41.74% as on 31 March 2016. The performance of loans under NRLM SHGs was more or less on the same footing as in case of non NRLM SHGs.

(v) Village Level Interface Programmes

Village Level Programmes have become one of the effective tools in bringing the SHGs, bankers and other stakeholders face to face. During the year 25872 VLPs have been conducted in various states. The objective of VLPs is understanding the mutual requirements between banks, SHGs and SHPIs at ground level and sort out issues like savings linkage, credit linkage and repayments.

(vi) Capacity Building efforts

Training and capacity building of stake holders is a critical input for ensuring orientation to the SHG Bank Linkage Programme. It has come up in various studies and high level meetings that there is urgent need for sensitizing the bankers and capacity building of stake holders.

(vii) Issues of Southern States

Southern states viz. Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Kerala are quite well placed as far as savings linkage and credit linkage of SHGs are concerned. Moreover state agencies are also quite active in development of SHGs in these states. However, the movement has shown signs of slackening which are evident from the high quantum of NPAs, lending by the SHGs to non-members, presence of dormant SHGs and poor progress in livelihood activities.

3.3 Current Status

Fig 2. SHGs Availing Bank Loans. (Source: Status of Microfinance in India 2016-17)

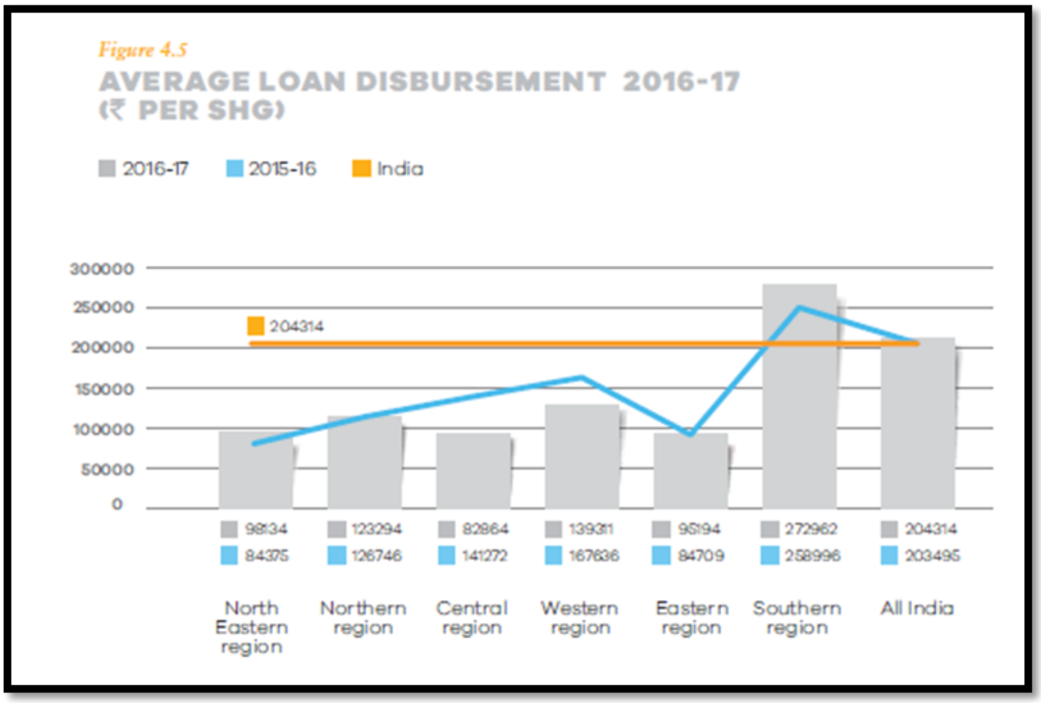

Fig. 3. Average Loan Disbursement. (Source: Status of Microfinance 2016-17)

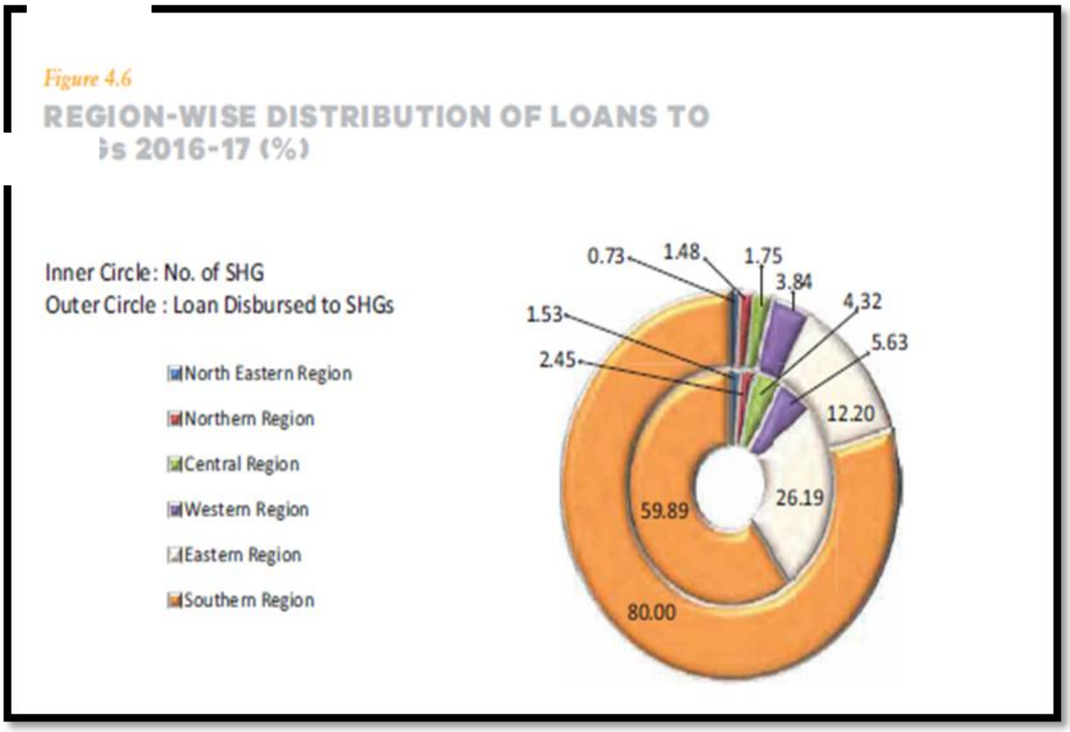

Fig. 4. Region wise Distribution of Loans. (Source: Status of Microfinance in India 2016-17)

4.4 Conclusion

Quarter century is not a long time in the history of a nation but long enough to leave an indelible mark on its socio-economic journey. Considering that 25 years of SHG Movement have silently revolutionized the lives of the poorest of the poor women of the country who were at the absolute nadir of the social and economic structure, it has been no small achievement - perhaps unparalleled in the world and one which is worthy of emulation.

Today as we celebrate the silver jubilee of the movement, we look back with gratitude to the support and convergence of efforts of all stakeholders, the hard work of more than 5000 channel partners and thousands of bank branches who walked an extra mile to make it possible… and not to forget the 100 million SHG members who are the backbone of this silent revolution.

However we remain seized of the fact that we have miles to go before we reach the destination, but for now we should swell with pride for mainstreaming an entire eco system of financial inclusion and creating millions of small and tiny entrepreneurs.

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