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Micro-finance through Self-help Group

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ABSTRACT

In the development paradigm, micro-finance has evolved as a need-based programme for empowerment and alleviation of poverty which was so far considered as neglected target groups and micro finance has become one of the most effective interventions for economic empowerment of the poor. The experience across India and other countries has shown a robust potential of Micro finance to integrate with the development issues that significantly impact the lives of poor and downtrodden. Micro finance is a financial service of small quantity provided by financial institutions to the poor. These financial services may include savings, credit insurance, leasing, money transfer, equity transactions etc. that is any type of financial service provided to customers to meet their normal financial needs, economic opportunity and emergency. Micro finance programs are aimed to cater that segment of society which is poor and does not have access to financial services. In India micro finance has been promoted by linking self help groups of the poor with the banks either directly or through non-governmental organizations (NGO's) in a big way. The scheme of Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. The Self-help groups (SHG) - bank linkage programme has emerged as the largest micro programme in the world. The SHG- Bank linkage programme in which SHGs are linked to banks in a gradual way- initially through savings and later through loan products is considered to be an effective strategy to ensure financing inclusion.

Keywords: Microfinance, self-help groups, empowerment, bank-linkage programme etc.

Microfinance for providing credit and other related financial services to the poor has come to be recognized as one of the instrument for poverty alleviation. The poor segment of the population are still not able to be the part of formal segment of the financial segment of the financial segment and still not been able to avail credit from the formal financial institutions. This segment of the population still has to rely upon informal sources to cater their financial requirement. Microfinance institutions have an important role to play in bridging the gap between availability of funds and requirement of funds. As per the latest report by 'Intellecap' , an independent industry research firm, micro finance borrowers in India would have crossed 11 crore borrowers and ₹ 135,000 crore ($30 billion) in loan portfolio by 2014 and thus requiring a huge capital inflow both in debt and equity. A latest report by Intellecap, puts the total estimated demand for micro-credit in India at $ 51.4 billion (₹ 2,40,000 crore). So, Microfinance industry has an important role to play in India.

In India, microfinance has been promoted by linking self help groups of the poor with the banks either directly or through non-government organization (NGO's). Started as a pilot project under the aegis of the National Bank in 1991-92, the linkage program to empower the poor, especially women has assumed national importance. Initially, the pilot project was started by linking a pilot of 500 SHGs of rural poor two decades ago has now crossed 8 million groups a year ago. Under this Self-help group- bank linkage program, the total savings corpus has now reached to whopping 27,000 crore. Moreover the credit outstanding is also

impressive and estimated to have crossed the mark of 40,000 crore. At the start of this program, the spread was limited to certain southern states like Andhra Pradesh and Karnataka but now this phenomenon has extended to length and breadth of the whole of India. Over 95 million poor rural households are now part of this world's largest micro Credit initiative.

Self-help Groups (SHGs) are small informal group of 10-20 individuals promoting savings habit among members. However, in hilly regions and predominately tribal dominated areas where communities are dispersed, smaller groups of less than 10 are also formed into SHGs. The internal savings mobilized by the group are then lent by it to its members for emergent needs or such purposes as decided by the group. The SHGs would be eligible to open savings bank accounts with banks. These SHGs need not necessarily have availed of credit facilities from banks before opening savings bank accounts.

Credit requirements in Northern India specially Punjab

The State of Punjab perceived to be rich state and hence it is presumed that microfinance is least required in this particular region. Accordingly, the state of Punjab has remained mostly neglected on this front and the big microfinance players are not making their presence felt in this region and which is presently being met by the suppliers from unorganized sector who are also making most of the situation by charging high rate of interest. According to the latest report of NABARD, around 26.2% of the population in Punjab is poor. Another reason for the same is that all the major MFIs have their base at South & East India. Here it worth mentioning here that the North Indian states like Delhi, Haryana, Rajasthan and even Punjab are now being pursued very aggressively by major players of the sector like SKS, Ujjivan and Equitas etc.

The progress of Self Help Groups in expanding its wings to spread the reach of microfinance in the State of Punjab can be judged from the figures shown in the Table 1.

As the Table 1 shows, the maximum no. of SHG's i.e. 24,235 are attached with commercial banks and are having deposits of their savings with commercial banks to the tune of ₹ 2817 lakhs. The Regional rural banks and Co-operative banks are also playing their part and having deposits of ₹ 353 lakhs and ₹ 464 Lakhs respectively of SHGs with them. Although less numbers of SHGs but still an important numbers of SHGs are attached with the Regional rural Banks and Co-operative banks are attached.

Table 1: Savings of SHGs with Banks (Agency wise Position on 31st March 2013)

Sl. No.	Agency	No. of SHG	Saving Amount (In ₹ Lakh)
1	Commercial Banks	24235	2817.91
2	Regional Rural Banks	5085	353.45
3	Co-operative Banks	5740	464.12
	Total	**35060**	**3635.48**

Source: NABARD report, 'Status of microfinance in India, 2012-13.'

The role of SHGs can also be judged from the amount of loan disbursed during the 2012-13 through SHGs as shown in Table 2.

Table 2: Bank loans disbursed during the Year 2012-13 (Agency wise Position)

Sl. No.	Agency	No. of SHG	Amount of Bank Loan Disbursed during 2012-13 (In ₹ Lakh)
1	Commercial Banks	928	1401.73
2	Regional Rural Banks	559	570.57
3	Co-operative Banks	534	306.62
	Total	**2021**	**2278.92**

Source: NABARD report, 'Status of microfinance in India, 2012-13'.

As the Table 2 shows, the maximum amount of loan disbursed to SHGs is through commercial banks is ₹ 1401 lakhs followed by ₹ 570 lakhs through Regional Rural Banks. Relatively small amount of ₹ 306 lakhs have been disbursed through Co-operative Banks. Further it is worth mentioning that proportionate

less amount per SHGs has been disbursed in case of Regional rural banks and Co-operative banks. Only 306 lakhs have been disbursed through 534 SHGs in case of Co-operative Banks. In case of regional rural banks, 559 regional rural banks have disbursed the loans to the tune of ₹ 570 lakhs through SHGs.

The increase in role of SHGs can also be judged from the amount of bank loan outstanding and the number of SHGs against whom amount has been outstanding as shown in Table 3. As the table depicts, the maximum amount of loan outstanding against SHGs is from Commercial bank i.e. ₹ 6230 lakhs, followed by Regional. Further the number of SHGs against whom loan is outstanding are also related to Commercial Banks i.e. 8219 SHGs.

Table 3: Bank loan outstanding against SHGs (Agency wise position on 31st March 2013)

Sl. No.	Agency	No. of SHG	Amount of Bank Loan Outstanding (In ₹ Lakh)
1	Commercial Banks	8219	6230.51
2	Regional Rural Banks	3001	1685.02
3	Co-operative Banks	3651	660.98
	Total	**14871**	**8576.51**

Source: NABARD report, 'Status of microfinance in India, 2012-13.'

The numbers of SHGs attached to Regional Rural Banks and to Co-operative Banks are also significant number but the amount of loan outstanding against those SHGs not in proportion to that of Commercial Banks.

Problems of the SHG Bank Linkage Program

SHG-Bank Linkage Program (SHG-BPL) continues to be the mainstay of the Indian Micro Finance scene since the year 1992 with 74 lakh SHGs covering over 10 crore households saving with the formal banking system with savings balance of over ₹ 7,000 crore as on 31 March 2011. About 49 lakh of these SHGs have also accessed bank credit and have over ₹ 31,000 crore as outstanding credit from the banking system. In other words, the SHG-BPL has so far been the most preferred and viable model for financial inclusion of the hitherto unreached poor. However, despite the unique characteristics of SHGs and noteworthy accomplishments, there are certain areas which continue to affect the SHGs Bank linkage program. These can be:

a. **Non Performing Assets:** Out of the loan amount sanctioned by the banks to the SHGs, the amount of non-performing assets is quite disturbing. The following Table 4 depicts the agency wise position of Non-performing assets. It is quite clear from the figures it is mainly the public sector commercial banks which suffer the most. Nearly 11% of the loans advanced by the public sector commercial banks have turned into non-performing assets. It is followed by cooperative bank in which this percentage is 8.98%. The high percentage of Non-performing assets in portfolio of the lending institutions dampens their spirit to take further initiative in expanding microfinance facilities.

b. **Inadequate outreach in many regions:** The approach of microfinance institutions in Punjab is restricted to certain areas or districts only although the need of microfinance is felt in almost all areas. So, there is utmost necessity to spread the microfinance facility to all the districts of Punjab.

c. **Delays in opening of SHG accounts:** There is delay on account of opening of SHG accounts and disbursement of loans by the commercial banks. This may be due to unavailability of clear cut guidelines from NABARD or the lackluster approach of commercial banks.

d. **Non-approval of repeat loans:** there is a tendency among commercial banks of Non-approval of repeat loans even when the first loans were repaid promptly. It proves to be a hindrance in the progress of SHGs members. Moreover Impounding of savings by banks as collateral also marginalize their prospects of development.

e. **Multiple memberships of SHGs members:** There is a tendency of multiple memberships and

Table 4: Progress under Microfinance- Non-Performing Assets against Bank loan to SHGs (Agency wise Position on 31st March 2013)

Sl. No.	Agency	Loan amount outstanding against SHGs	Amount of Gross NPAs against SHGs	NPAs as a %age to loan outstanding
1	Public Sector Commercial Banks	6094.22	652.67	10.71%
2	Private Sector Commercial Banks	136.29	0.00	0.00%
3	Regional Rural Banks	1685.02	27.31	1.62%
4	Co-operative Bank	660.98	59.34	8.98%
	Total	**8576.51**	**739.32**	**8.62%**

Source: NABARD report, 'Status of microfinance in India, 2012- 13.'

borrowings by SHG members within and outside SHGs. This trend decreases their ability to repay the loans taken by them on time.

f. **Limited banker interface and monitoring:** There is a lack of Monitoring of SHGs on the part of lending institutions. Interface of lending institutions and SHGs needs to more so that lending institutions can understand the needs and problems of SHGs members better.

Suggestions

While the basic tenets of the SHGs being savings led credit product remain true even today, many recent developments require crucial changes in the approach and design of SHG-BPL to make it more flexible and client friendly. The following guidelines of SHG are suggested to enable financing banks to respond to the changing requirements of members of SHGs.

a. **Allowing voluntary savings:** Presently, SHGs save fixed amounts as compulsory savings in weekly/ fortnightly/ monthly meetings. Growth in rural economy and opportunities like MNREGS and other schemes has positively influenced the SHGs and their member's capacities to save. While many SHGs and their members have enhanced the amount of compulsory savings over the years; the compulsory savings in the SHGs are often restricted to the lowest savings potential of a member of SHG. It has been observed that the savings capacity and potential varies across members. Efforts are made by the banks to graduate such SHG members from community banking to individual banking. They are encouraged to open individual bank accounts by depositing the surplus in such accounts and availing credit directly as and when required.

b. **Purpose of bank loan:** Loan granted by the bank by the bank to SHG is purpose neutral as it is the Self-help group itself which will decide the purposes for which loan can be extended to its member participants. As indicated by RBI in its circular the banks are expected to meet the entire credit requirements of SHG members for (i) income generation activities, (ii) social needs like housing, education, marriage etc. and (iii) debt sweeping, etc.

c. **Cash credit/overdraft for SHGs:** There are instances of non-sanction of repeat loans to SHGs, as also cases of limiting need based credit. To overcome these problems, long term cash credit/ overdraft can be sanctioned to SHGs and moreover larger loans in tune with increasing pooled savings can be permitted to such self-help groups. This approach will provide considerable flexibility to SHGs in meeting their frequent needs as well as help them in reducing their cost of borrowings. To avoid repeated documentation, the loan limit may be sanctioned for three to five years based on the projected savings of the SHGs up to the end of 3 to 5 years. However, limits for each year will have to decide taking into consideration the actual pooled savings reached.

d. **Enabling Joint Liability Groups (JLGs) within SHGs:** A few members of an SHG may graduate faster to start or expand economic activities requiring much higher levels of loans than required by other SHG members. In such cases, the other members may not like to stand mutual guarantee for a few large sized loans. In such cases, a smaller "Joint Liability Group (JLG)" from members of an SHG may be created. The members of JLG will continue to remain members of the SHGs and continue to participate in the activities of SHGs are earlier. Banks may encourage creation of such enterprise/livelihood based JLGs as a separate entity. Banks may use financial and other support extended by NABARD for this purpose. These JLGs may be created and financed by the bank on the lines of NABARD guidelines on JLGs already in vogue and such financing would be in addition to the loan/ credit limit to the SHG.

e. **Improving Risk Mitigation Systems:** In order to further strengthen the banker's comfort and confidence in financing of SHGs, a few risk mitigation mechanisms, viz; self-rating tools by SHGs, conduct of audits at SHG level, etc are recommended. The self- rating mechanism by SHGs is intended to educate SHG members of their strengths and weakness in an SHG's functioning for initiating corrective action. Audit in SHGs in a third party assessment of SHGs' operations while keeping SHGs' own functioning free and flexible. Audit, inter alia, should cover aspects like regularity in meetings, savings, internal lending process, correctness of interest application, accounting for all receipts and payments, drawing out final accounts of SHGs, etc. the audit may be informal in nature, but be made compulsory for credit expansion beyond the normal limit of four times of the savings of SHGs.

f. **Building second tier institutions:** Experience gathered over the years in promotion and nurturing of SHGs suggests the need for a much longer and sustained hand holding by SHG Promoting Institutions (SHGPIs) to ensure SHG's sustainability. Members of well functioning or active members of SHGs and NGOs or other entities engaged in promotion of SHGs best provide these support services to SHGs. Such entities may be engaged by banks to serve as Business Facilitators for helping the bank monitor the functioning of SHGs and take corrective action.

g. **Addressing Training requirement:** Considering the magnitude of training requirements of bank officers both at first level and controlling office level, banks may initiate suitable steps through their training establishments. NABARD is also extending support in organizing Bank specific programs for branch level staff as also suitable awareness programs for its middle level / senior officials.