
Micro - Finance – A Miracle Cure to Eradicate Rural Poverty

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ABSTRACT

Microfinance has evolved over the past quarter century across India into various operating forms and to a varying degree of success. One such form of microfinance has been the development of the Self Help Groups. Based on the concept of “self-help,” women have formed small groups of ten to twenty and operate the business model of savings-first whereby the members’ savings are used to finance loans. Results from these Self Help Groups (SHGs) are promising and have become a focus of intense examination as it is proving to be an effective method of poverty reduction. SHGs have helped and have been helping the poor especially the rural poor families in maximum number. The paper makes some observations on functioning and growth of Microfinance cum SHGs for the period of 1997 to 2007 towards providing financial supports to the rural poor and women for improving their livelihoods.

INTRODUCTION

One of the recent trends in the field of rural finance is introduction of micro-finance as a novel approach to provide saving & investment facilities to the poor. In India, Micro-finance mainly operates through Self Help Groups (SHGs), Non Governmental Organizations (NGOs) and Credit agencies. The beginning of the micro-finance in India could be traced to Self Help Groups – a program started as pilot projects by NABARD in 1992. The micro-finance has, thereafter, been hailed as the best method of creating additional employment. Also micro-finance has been considered to be an effective instrument to eradicate rural poverty and to elevate the poor households from penury ploughmen to empowered peasants. Socio-economically, this program provides employment to all adult members in the family, mobilize the rural small savings and multiply the credit portfolios in the rural areas. NABARD has been playing a promotional

role in terms of support to NGOs and also in nurturing SHGs. The refinance support from NABARD reached to Rs. 2120 crores recently.

The system of micro-finance was introduced about 28 years back with an organization of Grameen Bank in Bangladesh by a renowned Professor Mohammed Yunus, an economist who later on won Nobel Prize for peace in 2006. The Grameen Bank was launched as a project in one of the villages in Bangladesh in

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1976 to assist poor families by providing credit to them.

Today micro-finance has been widely spread all over the world and has been considered as a miracle cure for the eradication of poverty. It is found that micro-finance has reached about 80 million households and about 20000 micro-finance Institutions have been operating in the developing countries of Asia, Africa, Europe and Latin America with an objective to root out the penury of the people. It is also estimated that these institutes have about 500 million borrowers.

CONCEPT OF SHGs

Micro-finance is a program through which Self Help Groups pool their small savings regularly at a pre-fixed amount on daily or weekly basis and later provide loan to members of respective SHG for the period fixed. SHGs are essentially formal and are voluntary associations of 15 to 20 people formed to attain common objectives. People from homogenous groups and common social background, occupation voluntarily form the group and pool their savings for the benefit of all of members of the groups. Under SHGs – Bank - linkage model usually focus is on the poor especially women. If the SHGs are observed to be successful for at least a period of six months, the bank gives credit usually amounting 4 times more than their savings. Savings and loan accounts are

maintained in the bank. Usually two of the group members are allowed to operate the bank account while one member in the group maintains accounts.

TYPES OF SHGs

There are three models. Under the first model, NGOs promote the linkage between banks and SHGs for savings and credit. In the Second model, the bank staff promotes the link with the group. RRBs are doing commendable work under this model. The third model is known as bulk lending model wherein groups are promoted by NGOs- MFIs that encourage the groups as well as play the role of financial intermediaries. In this model, the NGOs – MFIs receives bulk loans from the Bank. Of total of 3.2 million groups, the first model covers 72% and whereas second and third model covers 20% and 8% respectively of the total SHGs.

LATEST PROGRESS'

It is estimated that about 400 million people are below the poverty line in India in 2004. Out of this 75 million households are potential clients of MFIs. Of this 60 million are from rural areas, 27.5% of total population is below poverty. The real prosperity of the country therefore lies in the socio - economic upliftment of these people. The latest progress of SHGs may be seen in the following table –

Table -1 SHGs – Bank Linkage Cumulative Progress

As on March 31st	Number of SHGs (Cumulative)	Number of SHGs Financed (Cumulative)	Bank loans disbursed (Cumulative) in crores
1999	33000	33000	57
2001	263,830	1,49000	480
2003	7,17360	2,55000	2050
2004	10,79090	3,61730	3900
2006-2007	29,24973	409500	4750

Source: RBI Trend and progress of Banking. 2003-04. P. –107
Annual report NABARD, 2006-07.

The above table -1 reveals that 29, 24973 SHGs were linked with banks, 409500 SHGs disbursed Rs. 4750 crores to the scheme at the end of 2007. 17.2 million poor families were brought within the fold of formal banking services. Refinance supports from NABARD reached to Rs. 2120 crores in 2004.

REFINANCE FACILITIES for SHGs

The following table reveals that the refinancing facilities extended by NABARD to the Banks for loans disbursed to SHGs:

**Table -2 Progress of SHGs Bank linkage :
Refinancing by NABARD**

Year	Refinance During the year	Cumulative
1992-99	57	57
2000	98	150
2001	244	394
2001-02	395	290
2002-03	622	1412
2003-04	705	2118
2004-05	968	3086
2005-06	1068	4153
2006-07	1293	5446
2007-08	1616	7062

Source: Report on Trend and progress in India, 2007-08, RBI, p-211.

The above table -2 reveals cumulative loans refinanced by NABARD was increased from Rs 150 crores in 2000 to Rs. 7062 crores in 2008.

MULTI-AGENCIES AND LINKAGE OF SHGs:

From table 3, in 2007-2008, out of total number of SHGs – credit linked, 42 % were linked to commercial banks, 33% to RRBs and 14% to cooperative banks. Similarly out of the total institutional loans disbursed, 48% i.e. highest percentage of loan was disbursed by commercial banks followed by 38% RRBs and 14% by cooperative banks in 2007 -2008.

Table - 3 Agency wise SHGs –Banks Linkage Position

Agency	SHG credit linkage in 000		Bank Loan Disbursed	
	2006-07	2007-08	2006-07	2007-08
Commercial Banks	572 (52)	312 (42)	3919 (60)	2043 (48)
RR Banks	381 (34)	241 (33)	2053 (31)	1549 (38)
Cooperative Banks	153 (14)	187 (25)	599 (09)	586 (14)
Total	1106	740	6570	4228

Figurers in bracket are percentage share in the respective total.

Source: Ibid -211

RECOVERY POSITION :

Table -4 Recovery Performance of Bank Loans to SHGs – As at the end of March -2007

Agencies	Total number of reporting banks	Recovery performance of bank loans			
		95 % and above	80 to 90 %	50 to 70 %	Less than 50 %
Commercial Banks	36	11 (30.6)	15 (41.7)	10 (27.8)	0
RR Banks	73	20 (27.4)	35 (47.9)	13 (17.8)	5 (6.8)
Cooperative Banks	181	76 (42.0)	55 (30.4)	35 (19.3)	15 (8.3)
Total	290	107 (36.9)	105 (36.2)	58 (20.0)	2.0 (6.9)

Figures in parentheses indicate percentage in agencies wise total Source – Ibid – p. - 213

The above table –4 indicates only 6.9% of all banks had less than 50% recovery while none of the commercial banks reported to have less than 50% recovery. The recovery rate of loan for about 37% of all banks was above 95% while 36.2% of all banks had the recovery rate between 80% -90%, 20% of

banks had 50% to 70% and about 7% of bank was less than 50% of recovery rate. Thus it can be concluded that the recovery rates of advances from multi-agencies to SHGs were excellent.

The region wise spread of SHGs is given below:

Table -5 Growth in Credit linkage of SHGs – Regional spread

Region	Number of SHGs Credit Linked			
	2001	Cumulative	2006 -07	Cumulative
Northern	4221	9012	48921	182018 (7%)
North Eastern	160	477	29237	91754 (3.1 %)
Eastern	11057	22252	131530	525881 (18%)
Central	8631	28851	64814	332729 (11%)
Western	6911	15543	104193	270447 (9%)
Southern	109218	187,690	307713	1522144 (52%)
Total	140198	263825	686408	2924923 (100%)

Source: NABARD report 2007 – 08. p - 42

The above table 5 indicates that highest number of SHGs are in the southern region. Out of the total number of 29,24,973 SHGs credit linked, 15,22,144 SHGs linked were in southern region which is 52%, followed by eastern region i.e. 18% and central region 11%, 9% in western, 7% in Northern and 3% in North Eastern. Thus highest percentage of them are in southern region. SHGs are very successful in Andhra Pradesh.

SHGs EXCLUSIVELY FOR WOMEN

In India, SHGs are started by women for their own socio-economic empowerment based on the success of micro finance for women in Bangladesh. The number SHGs exclusively for women, loan advanced and savings of SHGs exclusively of women can be seen in the below given table –6. In India maximum number of SHGs are organized by ladies.

Table -6 Bank loan disbursed by Commercial banks to Exclusive Women SHGs and their savings with commercial banks at the end of March 2007. (In crores)

Commercial Banks	Total Loans disbursed		Out of total exclusive women SHGs		Total savings with commercial banks		Out of total exclusive women SHGs	
	Number of SHGs	Amount (Rs. in crores)	Number of SHGs	Amount (Rs. in crores)	Number of SHGs	Amount (Rs. in crores)	Total Number of SHGs	Amount (Rs. in crores)
Public sector Banks	537228	34.79	466318	29.74	206335	18.15	17186	15.83
Private sector Banks	34408	4.40	32802	4.31	87436	0.77	76083	0.69
Total	571636	39.19	499120	34.05	2,29771	18.92	93269	16.52

Source: Opcit -475

The above table-6 indicates that of 571636 SHGs linked to public and private sector commercial banks, 4,99120 SHGs were exclusively organized by women in 2007. Rs. 39.9 crores of total amounts of savings was disbursed by commercial banks to SHGs. Loan disbursed to SHGs exclusively organized by women was Rs. 34.05 crores which was over 90% total loans advanced by commercial banks to SHGs. The total savings with commercial banks belonging to SHGs organized exclusively by women was 16.52 crores which was about 87% of total savings. These figures are according to NABARD report, 2007.

ROLE OF NABARD

NABARD has been playing a crucial developmental role for the micro-finance sector in India. Besides financial supports, NABARD also provides training, support for capacity building, exposure and awareness building of SHGs and NGOs. NABARD has also launched The Micro Enterprise Development Programme (MEDP) for skill development in March, 2006.

LATEST DEVELOPMENTS

REGULATION OF MFIs

The rapid growth of micro-finance sector and varied number of micro-finance providers influencing the lives of millions of clients has necessitated the need for regulating this sector. In the absence of any regulator

for the orderly growth and development of the sector, the Government of India has proposed a legislation and formulated a Micro-financial Sector (Development and Regulation Bill), 2007 which is under consideration of the parliament. The bill envisages that NABARD to be the regulator and MFIs have to register with NABARD.

MICRO-INSURANCE

Social security in the form of Micro-Insurance can be a boon for members of the SHGs. The Micro-finance schemes are mostly implemented by the MFIs as compulsory element along with the micro credit provided in India. Micro insurance scheme can be considered as a stepping stone to social protection. Micro insurance schemes cover health care, life accident expenses, maternity protection and disability. Both public and private sector insurance companies have tied up with various MFIs in the country to offer micro insurance schemes but poor people have a lesser understanding of risk pooling and are often reluctant to join the schemes.

MICRO ENTERPRISE DEVELOPMENT PROGRAMME (MEDP)

MEDP has been launched by NABARD in the year of 2006 for the purpose of development of skills in the rural folk for developing rural based mini industrial projects. The objective of this is to enhance the

capacity of matured SHGs to take up micro - enterprises through appropriate skill upgradation. During the year 2007-08, 394 MEDPs were conducted covering 9182 SHGs members for giving training on various rural based industries such as Bee keeping, dairy, poultry etc.

CHALLENGES

The magnitude of demand for micro-finance in India has assumed significant proportions. The SHGs Bank linkage programme in India is the largest single micro-finance programme with an out reach of 50 million households by the end of March 2008 out of 75 million poor households in the country which means still about 33% of poor households are out of the purview of the SHGs. Even though SHGs have achieved a tremendous progress in the country, their achievements are only in 4 states viz. Andhra Pradesh, Tamil Nadu, Karnataka, and Uttar Pradesh which cover about 50% of total number of SHGs linked to banks in 2008 and 80% of bank loans. Other challenges are how to ensure the quality of groups in the years to come. Issues are how to make micro-finance more business like, how to make micro-finance as business proposition, how to develop micro enterprises through the help of micro-finance, how to regulate operations of NGOs as micro-finance institutions and what kinds of measures to be taken when an individual member in a group and SHG itself becomes defaulter, how to even out growth of SHGS throughout the country etc. Further, it is quite essential that all the members of SHGs are to be brought under insurance coverage and some type of regulatory measures are to be introduced to check the malpractices and mismanagements of funds to ensure good governance.

CONCLUSION

SHGs have helped and have been helping the poor especially the rural poor in maximum number. Though the impact of SHGs in reduction of poverty has been substantial, still 33% of poor families are not covered by the scheme. The issues that need to be attended, are related to regulations, development of micro-finance, organizing SHGS throughout the country, making micro-finance a business proposition and implementing Micro Enterprise Development Program. These are to be resolved in a very constructive

manner for the growth and development of SHGs. Only then the scheme would become a great boon and changed agent for the improvement of the socio-economic conditions of rural households.

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