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"MICRO-FINANCE : PERFORMANCE APPRAISAL OF SELF HELP GROUPS"

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INTRODUCTION:

As we have been practicing globalization & liberalization of sorts over for over decade now the average growth rate has been around 8%. Foreign balance at an all time high.Labour productivity has improved. The Country appears more prosperous than before. However,employment has not been increased. We have experienced a classic example of jobless growth. It looks strange that even after substantial shrinkage in labour force in organized sector,labour productivity remains a fraction of what it is in the other competing countries. It has been shortly concluded by the planning commission that globalization offer little or no scope for employment growth in organized sector.

Gandhiji once said, "the poor of the world can not be helped by mass production, it can be achieved only through production of masses. If large number of producers were to exist for wider markets, the entities that produce should necessarily be small. And now it is for this reason only it has been gradually come to be recognized that entrepreneurial competence of a group member affect the performance of all the member working in the group.

Our economic success and boom in banking not withstanding. One of the contemporary critical challenges to India is financial inclusion of it's population, especially that of underpriviledged sections, who remains cut off from not only formal sources of finance but also from basic banking services. Despite persistent policy initiatives &endeavours of the Reserve Bank of India since 2004 & despite financial inclusion being a buzzword for almost four years, financial inclusion appears for away from reality for us. This is strange especially in the major goals of the fact that one of the major goals of the 11th five years plan is attaining financial inclusion of the most & extending the reach of microfinance to meet credit needs of approximately 80% population not directly covered by banks.

The grim ground reality can be gauged from the fact that only 44.9% Indian earners had bank account in 2007. Of this only 38% of paid workers in villages had accounts compared to 62% of those in urban space in 2007. India has been ranked poorly i.e. 50th below even the African countries like Keniya and Morocco , in first ever index of financial inclusion prepared by Indian council for research on international economic relations. The number of branches of a bank per one lakh adults in India is just 9.4 as compared to 14.6 in Malaysia , while domestic deposit as share in GDP is just 54.9% in India compared to 123.9% in Malaysia. This indicates vast scope of expansion of banking services in the country. No doubt present scenario calls for more sustained and sincere efforts on part of our government as well as our bankers, irrespective of the fact that about 120 billion farming families have been brought into the financial system by providing low interest credits ,debts relief packages & host of subsidies. Bank still have to play an active role in agriculture sector. The micro-finance institutions, self help groups and NGOs can play a pivotal role in achieving financial inclusion.

Microfinance helps in empowering the economically disenfranchised by increasing their option and building their self confidence through the greater economic participation. The Grameen Bank in Bangladesh, established in 1976 is considered to be the pioneer model of microfinance in the world. When the bank started it's feray in microfinance that it was realized that it was definitely a good way to benefit the poor. Thus microfinance has the potential to become an important component of successful and sustainable poverty alleviation programme all over the world and India has also been a forefront participant in using microfinance as a tool of poverty alleviation. The task force set up by NABARD had defined micro credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban areas thereby enabling them to raise their income levels and improve living standards.

OBJECTIVES OF THE PAPER

This paper aims to study the trends and progress of SHGs in India & thereby to evaluate the linkage between SHGs & Banks.

REASEARCH METHODOLOGY

This paper is prepared based on secondary data. It has been collected from the records of NABARD, World Bank reports, SIDBI, Government publications. The period of study is from 1999 to 2008 & depending upon the necessary charts tables have been used.

A) Micro Finance : Micro Finance enables the poor people to be thrifty & it also helps them in availing the credit and other financial services standards. A good micro finance programme is one which makes progress in various dimensions of outreach hitherto unleashed and unexplained vulnerable rural poor without having sacrifice other dimensions of outreach. Thus a good microfinance programmes presents the attractive inclusion of

1. Quality of outreach: which refers to worth to how valuable microfinance products are for particular clients in sustaining the income generating activities.
2. Cost of outreach: which reflects how expensive these products are for the clients.
3. Depth of outreach : which shows us how valuable it is to extend the supply of microfinance products to a particular target group.
4. Breadth of outreach: which counts the number of clients of a given depth .
5. Length of outreach : which tells for how long will the target clients is reached.
6. Variety of outreach :mens the no. of products provided under the microfinance programme.

MICRO FINANCE IN INDIA

India is a home to the largest population of poor in the world and out of its total population there are nearly 75 million poor households in India, thus it has become the prime obligation of the regulators to provide some definite solution for poverty alleviation. So India has also been a forefront participant in using micro finance as a tool of poverty alleviation as microfinance is used both by government and Reserve Bank of India as a means for poverty alleviation with credit support from the banking system. RBI & NABARD regulate the microfinance operations of the banking sector as apart of their overall banking operations. The informal group lending in India started in 1986-87 when the NABARD supported & funded an action research project on '

Saving and Credit Management of Self –Help Groups' of the Mysore Resettlement & Development Agency(MARYADA).the large no.s of women's organizations, like SEWA(Self Employed Women's Association), Working Womens Forum(WWF) etc (Raikar,2007), were also involved in microfinance activities like group lending. A range of institutions in public sector as well as private sector offers the micro finance services in India. They can be broadly categorized into two categories namely, *informal institutions and informal institutions as shown in table 1.* The former category, that provide micro finance services in addition to their general banking activities are referred to as micro finance service providers. On the other hand, the informal institutions that undertake micro finance services as their main activity are generally referred to as Micro Finance Institutions.

(MFIs) Small Industries Development Bank Of India(SIDBI) , an apex financial institutions for the promotion, financing and development of small industries in India, has launched a major project christened SIDBI Foundation for Micro Credit (SFMC) as a proactive step to facilitate accelerated & orderly growth of the microfinance sector in India. The microfinance in India is mostly perceived through SHG-Bank linkage model & Microfinance institution model.

Table :-1 Formal & Informal Institutions

Formal Institutions		Informal Institutions	
Apex Institutions	**Institutions at Retail Level**	**NGOs Supporting SHG Federations**	**NGOs directly Retailing credit Borrowers**
NABARD; SIDBI; Rashtriya MahilaKosh (RMK)	Commercial Banks; Regional Rural Banks(RRBs); Cooperative Banks.	MYRADA IN Bangalore, SEWA in Ahmedabad, PRADAN in Tamilnadu and Bihar, ADITHI in Patna, SPARC in Mumbai, And ASSEFA in Madras etc.	SHARE in Hyderabad,ASA In Trichy,RDO Loyalam Bank in Manipur etc.

Source –NABARD

SELF HELP GROUPS

Self-Help Groups (SHGs) from the basic constituent unit of microfinance movement in India. A Self Help Group (SHG) is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily, coming together to save small amounts regularly, to mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis. SHGs Play a very important role in the rural economies especially the upliftment of the woman because access to finance is a major problem for poor women. The SHG generally have a minimum number of 5 members and the number not exceeding 20. Prof. Md. Yunus of Bangladesh first promulgated this concept in 1976 with the help of 42 poors. Later on, in India, some NGOs adopted in 1987-88, NABRAD in 1991-92 and the leading public sector bank SBI in 1996-97 and so on. There are four stages in SHG formation:-FORMING(02months), STORMING (2-3 months), NORMING (4-6months) and FUNCTIONING (6-12 months) (Ramani D. 2007). These self Help Groups are almost always formed with outside assistance. The NABARD basic principles for the SHGs function are:

1) The members of groups should be residents of the same area and must have an affinity.
2) They have to follow the principle of savings first, credit thereafter.
3) SHGs should hold regular meetings.
4) SHGS should maintain a record of financial and other transactions.
5) They should have norms regarding membership, meetings, etc.
6) Group leaders should be elected by members and rotated periodically.
7) There should be transparency in operations of the group and participatory decision making.
8) Rates of interest on loans should be decided by the group.

THE LINKAGES OF SELF HELP GROUPS WITH BANKS

With a view to developing supplementary credit delivery mechanism, SHG Bank Linkage Model was introduced as a core strategy that could be used by banking system in India for increasing their outreach to the poorest of the poor. The SHG Bank Linkage Program was started as an action research project by National Bank for Agriculture and Rural Development (NABARD) in a few states to assess the impact of linkage project brought out encouraging and positive features like increase in loan volume of SHGs, shift in loaning pattern of the members from the non-income generating activities to production activities, nearly 100% recovery performance along with gradual increase in the income level of SHG members. In 1992 the findings led to the setting up of a pilot project was designed as a partnership model between three agencies, viz the SHGs, the Banks and the Non Governmental Organizations (NGOs).
SHGs provide collective decision making by poor and also doorstep banking. **Banks** as wholesalers of credit, were to provide the resources and **NGOs** were to act as agencies to organize the poor, the process of SHGs have been divided into four (4) models, they are:

MODEL I : SHGsformed and financed by banks.
MODEL II :SHGs formed by formal agencies and NGOs but directly financed by banks. This model is the most popular model.
MODEL III : The NGOs work as a financial intermediary between the bank and a number of SHGs. Thus linkage is indirect. NGOs accept contractual responsibility for repayment to the bank.
MODEL IV : This model envisages bank loans directly to individual members of SHGs-but this model is not as such prevalent in India. The SHG Bank Linkage model-wise and region-wise cumulative number of linked SHGs in India as on 31March 2006 is shown in Table 2.

TABLE 2 - MODELWISE & REGIONWISE CUMULATIVE NUMBER OF SHG -31-Mar-06

MODEL	M 1	M2	M-3	TOTAL(%)	PER(%)
REGION					
1.NORTH	11799	121109	189	133097	6%
2.NORTHEAST	47375	10073	5069	62517	3%
3.EASTERN	129521	228769	36061	394351	18%
4.CENTRAL	52763	2210031	5121	267915	12%
5.WESTERN	52705	104298	9251	166254	7%
6.SOUTHERN	155275	971790	87366	1214431	54%
TOTAL	449438	3646070	143057	2238565	100%
per-%	20%	74%	6%	100%	

Source –NABARD

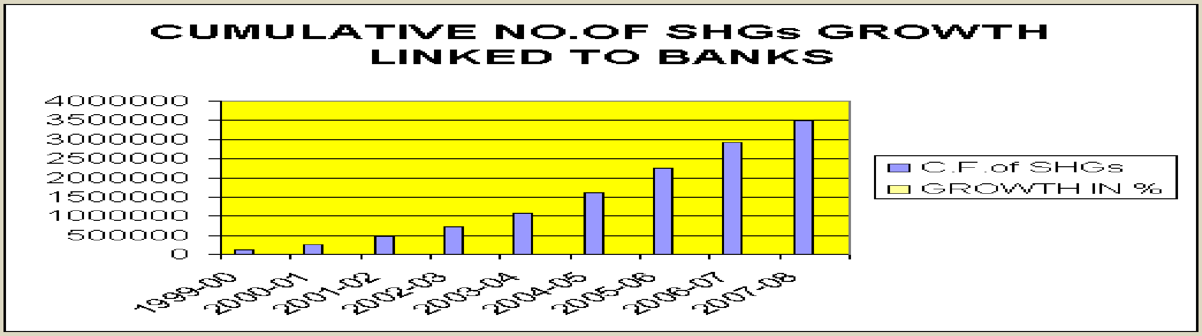
The Figures Shown in Table 2 shows that model 2 is widely accepted model in India as 74% SHGs fall under this model, followed by M1 (20%) & M3 (6%) further, table reflects that majority of SHGs are from Southern Region with 54% share and all other Region counts for about 46% of linked SHGs. It shows regional Imbalancement as SHGs moment has not yet successfully spread all parts of the country.

TABLE 3 Cumulative Number of SHGs Growth Linked to Bank

YEAR	C.F.of SHGs	GROWTH IN %
1999-00	114775	100
2000-01	263825	229.8628
2001-02	461478	402.0719
2002-03	717360	625.0142
2003-04	1079091	940.1795
2004-05	1618456	1410.112
2005-06	2238565	1950.394
2006-07	2924973	2548.441
2007-08	3477965	3030.246

Source –NABARD

Table 3 and Graph of it reflects the number of cumulative growth of SHGs linked to Bank with based Year in 1999-2000 From the Graph we certainly come to know that there is Rows in Cumulative number year after year and it is 30 times high as on 31st March 2008.



Source –NABARD

TABLE 4

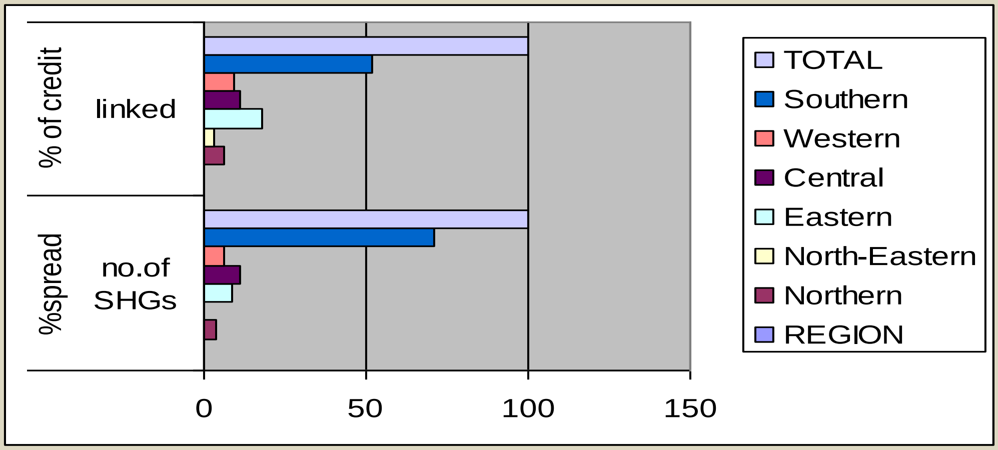
REGIONAL SPREAD OF SHG- Growth in Credit Linkage of SHG

REGION		NO.OF SHGs		CREDIT LINKED		
	2000-01	CUMULATIVE	%	2006-07	CUMULATIVE	%
Northern	4221	9012	3.415901	48921	182018	6.222895
North-Eastern	160	477	0.180802	29237	91754	3.136918
Eastern	11057	22252	8.434379	131530	525881	17.979
Central	8631	28851	10.93566	64814	332729	11.37546
Western	6911	15543	5.891405	104193	270447	9.246137
Southern	109218	187690	71.14186	307713	1522144	52.03959
TOTAL	140198	263825	100	686408	2924973	100
SOURCE:NABARD REPORTS						

Source –NABARD

	%spread	**% of credit**
	no. of SHGs	**linked**
REGION	**2000-01**	**2006-07**
Northern	3.415901	6.222895
North-Eastern	0.180802	3.136918
Eastern	8.434379	17.979
Central	10.93566	11.37546
Western	5.891405	9.246137
Southern	71.14186	52.03959
TOTAL	100	100

Source –NABARD



Source –NABARD

Regional Spread

Table 4 and its graph shows Regional spread of SHGs growth in credit Linkage of SHGs. Its seems that since 2000-01 to 2007 still Southern Regions shows highest 52% shares in credit linking whereas number of SHGs is 71%, followed by central region both in number 10% and it credit linking 11% . The least growth is noted in North East with 0.18% in numbers and

3% credit linkage. The regional spread of SHG-Bank linkage Program in different regions has been uneven on account of various factors like proactive role of State Government, presence of well performing NGOs, SOCIO-CULTURAL factors, better performance of SHGs etc. The Year 2006-07 witnessed the spread of the MF programme in resource poor region of the country indicating a marked shift from its initial concentration in the Southern region. The cumulative share of non-southern regions rose from 29% as on 31st March 2001 to 48% as on 31st March 2007.

TABLE-5.SHG-BANK LINKAGE PROGRAMME AS ON 31ST MARCH 2008.

Sr. No.	Particular	CUMULATIVE AS ON 31.3.07	CUMULATIVE AS ON 31.3.08
1	No. of SHG linked	29,24,973	34,77,965
2	Credit Linked (Rs-Crores) Commercial Bank RRB Co-op. Bank	 5,71,636 (52%) 3,81,199 (34%) 1,52,914 (14%)	 3,12,359 (42%) 2,40,596 (33%) 1,86,920 (25%)
	Total	11,05,749 (100%)	7,39,875 (100%)
3	Bank loan disbursed (Cr) Commercial Bank RRB Co-Op. Bank	 3918.94 (60%) 2052.73 (31)%) 598.72 (09%)	 2042.56 (48%) 1599.51 (38%) 585.51 (14%)
		6570.39(100%)	4227.58 (100%)

Source –NABARD

Above Table indicates that during 2007-08, Bank loan of Rs. 4227.58 Crores was disbursed to 7,39,875 SHGs (including repeat finance of Rs. 1685.60 crores to 186883 existing SHGs) while Rs. 6570.39 crores disbursed to 11,05,749 SHGs during 2006-07. The agencywise distribution reveal that commercial Bank accounted for 42 % and 48% of SHGs credit linked and Bank loan disbursed respectively, followed by RRB and Co-op. Bank. The average loan disbursed per SHG amounted to Rs. 57139 during 2007-08 compare to 59420 during 2006-07. During 2007-08,NABARD extended refinance of 1615.50 crores under the programme. This enables millions of poor households in the country to gain access to the microfinance activities . Besides this, active participation of women (90%) and are timely loan repayment (Over 90%) are the prominent features of the programe. With millions of poor households accessing banking services including micro credit through SHG groups, the SHG-Bank Linkage programme led by NABARD, India claims to be “the Largest and Fastest growing micro finance of the world” (Basu-2006)

FACTORS OF MICRO-FINANCE SUCCESS PROGRAM

Thus microfinance plays a very important role in the poverty alleviation and it had a great impact in the following ways:

1) **Financial Self Sustainability**:- SHGs help in increasing the financial self sustainability among the poor, by developing in them a habit of saving, and thus increasing their income level.
2) **Fostering Credit Culture**:- Microfinance has fostered credit culture among the poor people through SHGs which, in turn improved the credit recovery rates in rural areas.
3) **Promoting Income Generating Activities**:-Microfinance also helped in promoting income generating activities among the members, thus, resulting in the growth of assets and income.
4) **Empowerment of Women** :- Microfinance, activities help in empowering the women. SHGs play a very important role in the rural economies, especially the upliftment of the women, thus, empowering them socially and politically. Giving woman access to microcredit loans therefore, generates the impact of a microfinance institution's activities.
5) **Promoting Entrepreneurial Skills** :- Microfinance has promoted and sharpened the entrepreneurial skills among the rural and urban populace especially woman as different types training is provided by various Government and non-government organizations to acquaint them with various microfinance programmes.
6) **Increased Well Being:-** Microfinance, particularly through SHGs, has increased the well-being of the poor by providing the timely and adequate help and saving them from the clutches of cruel moneylenders as they charge enormous rate of interest.
7) **Lessening of Social Evils:-** Microfinance as a tool of poverty alleviation is also indirectly helpful in lessening of social evils like child marriage, child labour, dowry drinking and other anti-social activities as a result of woman empowerment.
8) **Improved Health Facilities :-** The improvement in income level has contributed to the improved health and sanitation(through better vaccination rate and access to the clean drinking water) and improved family planning, thus, resulting in decline in the population growth.

SUGGESTIONS

Though microfinance is very powerful tool for poverty alleviation, it is observed that it has had an asymmetric growth across the country with diverse rates of interest being charged to the members, which are areas of concern. Thus various roadblocks in the way of success of microfinance and suggestions to overcome them include the following-

1) **Ownership and governance risk**:- Many SHGs and microfinance institutions have neither effective internal control system nor an incentive to put such systems in place. So there is a need to set up enabling legal and regulatory framework.
2) **Credit risk**:- The term credit risk refers to the danger that borrowers are not able or not willing to repay their loans on time. In general the risk of a deterioration of the loan portfolio is high so there is a need to develop the people's mindset to overcome this problem.
3) **Outreach** :- One of the fundamental principles of microfinance is serving a large number of clients. This is necessary for both financial viability and the developmental impact. But there is existence of regional imbalances and most of SHGs are confined towards the south and more specifically nearly about 60% of government formed SHGs come from a single state, Andhra Pradesh. Reasons for the low outreach can be found and the state governments have to pay a very proactive role in this.
4) **Access to Funds:-**Today the only sources of funding for MFIs and SHGs are donor funds, which are inevitably shrinking(as shown in table IV). Furthermore, most donors

funding comes in bits, making it difficult for MFIs and SHGs to plan effectively. The state governments should do the needful in this area also.

5) **Legal and Regulatory Framework :**- The MFI sector has neither a specific legislation nor a set of laws to guide its operation. As such, the industry is left to develop in a rather disorganised manner. However, for improved performance and sustainability, MFIs need an appropriate and enabling legal and regulatory framework in order to have an orderly development of the industry.
6) **Commercialization**:-Commercializing of MFIs would lead to the focus on profitability at the cost of commitment to poverty. Thus focusing on profits Will reduce the impact of microfinance on the poor. Therefore commercialization needs to be properly planned and regulated**.**
7) **High Administrative Cost :-** The increasing administrative cost of SHGs must be reduced properly by various methods including setting up the performance levels in advance, proper business planning, removal of political favoritism and corruption etc.

CONCLUSION

Gandhiji once said, "the poor of the world can not be helped by mass production, it can be achieved only through production of masses. If large number of producers were to exist for wider markets, the entities that produce should necessarily be small. And now it is for this reason only it has been gradually come to be recognized that entrepreneurial competence of a group member affect the performance of all the member working in the group.

Microfinance is seen as a tool to reach the poorest section of the society, it provides resources and services to uplift their economic well-being for needy people in India as well as at global level. Bank-SHG linkages with NABARD is playing a vital role and NGOs, Microfinance Institutions, are playing a catalytic as well as enabling role in providing very efficient services at the grass root level.

The grim ground reality can be gauged from the fact that only 44.9% Indian earners had bank account in 2007. Of this only 38% of paid workers in villages had accounts compared to 62% of those in urban space in 2007. India has been ranked poorly i.e. 50th below even the African countries like Keniya and Morocco , in first ever index of financial inclusion prepared by Indian council for research on international economic relations. The number of branches of a bank per one lakh adults in India is just 9.4 as compared to 14.6 in Malaysia , while domestic deposit as share in GDP is just 54.9% in India compared to 123.9% in Malaysia. This indicates vast scope of expansion of banking services in the country. No doubt present scenario calls for more sustained and sincere efforts on part of our government as well as our bankers, irrespective of the fact that about 120 billion farming families have been brought into the financial system by providing low interest credits ,debts relief packages & host of subsidies. Bank still have to play an active role in agriculture sector. The micro-finance institutions, self help groups and NGOs can play a pivotal role in achieving financial inclusion.

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