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MICRO FINANCE THROUGH SELF HELP GROUP - EXPANDING THE REACH

Karambir Singh, Principal (off.),
Dashmesh institute of higher education,
Zirakpur, Distt. Mohali. (Punjab)
Karambir73@rediffmail.com

Abstract- 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. Microfinance programs are aimed to approach that segment of the society which is poor and lacks in having access to financial services. In India microfinance 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. This paper explores the role of self help groups in Punjab in extending microfinance services to the target group.

1.0. Overview

Microfinance has been defined by Malegam Committee as "*Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers a range of services, which include, in addition to the provision of credit, many other services such as savings, insurance, money transfers, counseling etc*". This Committee was formed to study the issues related to the Microfinance Sector.

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 system and are still not been able to avail credit from these 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 Rs 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 (Rs. 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-governmental organizations (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 a 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.

1.1. Self Help Group: Self Help Groups (SHGs) are small informal group of 10-20 individuals promoting savings habit among members. However, in hilly tracts / regions and predominantly 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.

2.0. Credit requirement in Northern India specially Punjab

The State of Punjab is 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. But the ground reality, as observed in different studies is that there is a dire need of microfinance in the region and which is presently being met by the suppliers from unorganized sector who are also making most of the situation by charging exorbitantly 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 is worth mentioning here that the North Indian states like Delhi, Haryana, Rajasthan & 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 2.1:

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

Sr. No.	Agency	No. of SHG	Saving Amount (In Rs. 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.'

As the above table shows, maximum no. of SHG's i.e. 24,235 are attached with the commercial banks and are having deposits of their savings with the commercial banks to the tune of Rs. 2817 lakhs. The Regional rural banks and Co-operative banks are also playing their part and having saving deposits of Rs. 353 lakhs and Rs. 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 Cooperative banks are attached.

The role of SHGs can also be judged from the amount of loan disbursed during the year 2012-13 through SHGs as shown in the table 2.2:

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

Sr. No.	Agency	No. of SHG	Amount of Bank Loan Disbursed during 2012-13 (In Rs. 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 shows, the maximum amount of loan disbursed to SHGs is through commercial banks is Rs. 1401 lakhs followed by Rs. 570 lakhs through Regional Rural Banks. Relatively small amount of Rs. 306 lakhs have been disbursed through Cooperative 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 Rs. 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 the table 2.3. As the table depicts, the maximum amount of loan outstanding against SHGs is from Commercial Banks i.e. Rs. 6230 lakhs, followed by Regional Rural Banks and Co-operative Banks. Further the number of SHGs against whom loan is outstanding are also related to Commercial Banks i.e. 8219 SHGs.

2.3. Table: Bank loan outstanding against SHGs (Agency wise Position on 31st March 2013)

Sr. No.	Agency	No. of SHG	Amount of Bank Loan Outstanding (In Rs. 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 in number but the amount of loan outstanding against those SHGs is not in proportion to that of Commercial Banks.

3.0. Problems/ Short comings of the SHG Bank Linkage Program:

SHG-Bank Linkage Program (SHG-BLP) 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 Rs. 7, 000 crore as on 31 March 2011. About 49 lakh of these SHGs have also accessed bank credit and have over Rs 31,000 crore as outstanding credit from the banking system. In other words, the SHG-BLP 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:

3.1. 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 3.1.1 depicts the agency wise position of Non-performing assets. It is quite clear from the figures that 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%.

3.1.1. Progress under Microfinance – Non-Performing Assets against Bank loan to SHGs (Agency wise Position on 31st March 2013)

Sr. 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 Banks	660.98	59.34	8.98%
		8576.51	739.32	8.62%

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

The high percentage of Non-performing assets in portfolio of the lending institutions dampens their spirit to take further initiative in expanding microfinance facilities.

3.2. 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.

3.3. 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.

3.4. 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.

3.5. Multiple memberships of SHGs members: There is a tendency of multiple memberships and borrowings by SHG members within and outside SHGs. This trend decreases their ability to repay the loans taken by them on time.

3.6. 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.

4.0. 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-BLP 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:

4.1 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.

4.2. Purpose of bank loan

Loan granted by the bank to the 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 (Ref: RPCD. FID. BC.No.06/ 12.01.001/ 2011-12 dated 1 July, 2011) the banks are expected to meet the entire credit requirements of SHG members for (a) income generation activities, (b) social needs like housing, education, marriage, etc., and (c) debt swapping, etc.

4.3. 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 a period of three to five years based on the projected savings of the SHGs up to the end of 3 to 5 years. However, drawable limits for each year will have to be decided taking into consideration the actual pooled savings reached.

4.4. 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.

4.5. 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 is 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

4.6. 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 (SHPIs) 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.

4.7. Addressing Training requirements: Considering the magnitude of training requirements of bank officers both at field 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.

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