

PERFORMANCE EVALUATION OF MICRO FINANCE AND SELF HELP
GROUPS – A ROLE PLAYED BY INDIAN BANKS

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ABSTRACT

After independence, the credit delivery in rural areas in India was mostly confined to Co- operatives. In order to give boost to the rural finance through commercial banks, in 1969 the government nationalized the commercial banks. However, this nationalization also could not extend the credit in rural areas as desired, mainly due to non-availability of equivalent physical collateral security from the poor. Though this nationalization resulted in increase in the outreach but could not replace the existing informal credit supplied in rural areas through money lenders which was easily accessible to the poor without much risk.

The Paper

Alleviation of poverty remains a major challenge before the government of the country. While there has been a steady decline in rural poverty over the last two decades, there were 244 million rural poor in the country. Government is taking many steps which are employment intensive facilitates the removal of poverty in the long run. The following objectives have been taken for study purpose

- To review the historical back ground of micro finance in India.
- To examine the progress of SHGs through Bank Linkage and agency - wise.
- To analyze the performance of SHGs in various financial aspects like financing, savings, loan disbursements etc.
- To evolve a package of suggestions FOR further improvement of progress of SHGs.

So as to achieve the objectives set – forth, the study has been made on secondary data which were collected from Status of Micro Finance, NABARD Annual Reports, the Journals like SEDME, Banking Finance, Monthly Public Opinion and Websites etc. Some statistical tools have been applied where necessary and used some graphs for better understanding.

Micro finance is a powerful tool for fighting against poverty. It means building a financial system that serves poor. In most developing countries, poor people are majority of the population; to achieve full-fledged economic growth poverty should be reduced. Micro finance is such a concept which helps government to support poor people. Restrictive loan policies of the bank are also one of the problems in developing the Micro Finance. It is suggested that all banks should have come down to the financial level of the poor people and put the conditions while sanctioning the loans. After analysing the data it came to conclude that in all aspects Commercial Banks captured first place. The Micro level loan needed people most probably live at rural areas. Regional Rural Banks and Co-operatives are meant for feeding the rural credit. It is suggest that the role of Regional Rural Banks and Co-operative Banks must have to increase its role in catering the needs of rural people than commercial banks. Here, it is high time to take step for the government through bank to develop micro finance and protect weaker sections in the society by liberalising loan policies.

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Prologue

Micro finance is a financial innovation, introduced very firstly in Bangladesh when ***Professor Mohd. Yunus*** changed the lives of millions of Bangladeshis by creating the concept of micro loans. This idea came to his mind by involving himself in fighting poverty during 1974 famine in Bangladesh. Besides teaching through the traditional methods, he wanted understand real life economics also. He gave \$27 as the first loan from his pocket to a villager living near to his university campus and discovered the villagers are quickly repaying the money by selling their goods in the market and there evolved the concept of microfinance with the establishment of Grameen bank in 1976. Prof. Mohd. Yunus earned noble prize in 2006 for his contribution to the financial system for the poor.

Astonishing growth rates in Bangladesh created a new dimension for microfinance world wide as microfinance institutions grew to include millions of clients. In India, a substantial system based on Self Help Groups (SHGs) progressed during 90's.

Place for Micro Finance in Rural Areas – An Overview

After independence, the credit delivery in rural areas in India was mostly confined to Co- operatives. In order to give boost to the rural finance through commercial banks, in 1969 the government nationalized the commercial banks. However, this nationalization also could not extend the credit in rural areas as desired, mainly due to non-availability of equivalent physical collateral security from the poor. Though this nationalization resulted in increase in the outreach but could not replace the existing informal credit supplied in rural areas through money lenders which was easily accessible to the poor without much risk.

During 1975, the concept of RRBs also mooted which were having combined characteristics of commercial and co-operative banks. It was hoped that such RRBs could have edge over commercial banks due to their regional focus and better acquaintance with the local rural requirements of the credit and the conditions. However, the role of money lenders remained dominant in the rural credit sector. Therefore, in financial reforms which were initiated in 1991 lot of emphasis was given to the evolution of micro finance institutions, with the major objective to provide easy accessibility to the poor, that too without physical collateral securities.

The RBI has set up a special cell in 1990 to take care of the requirements of the micro finance sector. In the meanwhile, NABARD started a pilot project and evolve various models to extend the micro finance through SHGs linkage programmes is recognized as good model for extending the micro finance in the rural sector.

Concept of Micro Finance

The term micro finance refers to the supply of loans, savings and other basic financial services to the poor. As the financial services of micro finance usually involve small amounts of money, small loans, small savings etc, the term micro finance helps to differentiate these services from those which formal banks provide. The concept of micro finance was coined for overcoming the existing constraints and providing adequate credit to the poor by following a single procedure. The system of micro finance has been viewed as a powerful tool for uplifting the economic conditions of the asset-less poor through group approach with special emphasis on empowering women. It envisages mobilizing thrift and supplementing it with loan from the financial institutions.

The salient features of micro credit are:

- Loans under micro finance programmes are very small.
- Micro finance targets refer to rural and urban households mainly women.

- Credit under micro finance follows thrift, i.e., mobilize savings and lend the same.
- Low transaction costs and transparency in costs.
- No collateral security.
- Shorter-repayment periods.
- Liberal procedure for processing the delivery of credit.
- Prompt repayment and also there is no ceiling from RBI in respect of minimum and maximum amounts.

The Paper

Alleviation of poverty remains a major challenge before the government of the country. While there has been a steady decline in rural poverty over the last two decades, there were 244 million rural poor in the country. Government is taking many steps which are employment intensive facilitates the removal of poverty in the long run. One of such steps is micro finance for rural people. As micro finance helps in economic growth, there is a need to study its concepts, schemes and benefits to know its importance and also for further improvements in the situation.

Objectives of the Study

The following objectives have been taken for study purpose

- To review the historical back ground of micro finance in India.
- To examine the progress of SHGs through Bank Linkage and agency - wise.
- To analyze the performance of SHGs in various financial aspects like financing, savings, loan disbursements etc.
- To evolve a package of suggestions FOR further improvement of progress of SHGs.

Data Sources

So as to achieve the objectives set – forth, the study has been made on secondary data which were collected from Status of Micro Finance, NABARD Annual Reports, the Journals like SEDME, Banking Finance, Monthly Public Opinion and Websites etc.

Period of the Study

Five years data has been taken for study purpose to draw meaningful inferences i.e., from 2008–09 to 2012–13.

Tools and Techniques

Some statistical tools have been applied where necessary and used some graphs for better understanding.

Micro Finance through SHGs

Several non-government and co-operative organizations initiated savings and thrift led models for helping the poor and demonstrating that the poor have the urge to save and enjoy the grains of their savings through collective and mutually beneficial credit and micro finance arrangements.

Most of the micro finance models are working through financing directly or indirectly to Self Help Groups (SHGs). The SHGs constitutes 15-20 lik eminded people living below poverty line. Members of SHGs save equal amounts as decided by their groups. They open an account in either a bank or post office in the name of the group and authorize a member to operate the account.

Progress of SHGs – A Role Played by Banks

Amongst various models for delivery of micro finance, the SHG Bank Linkage Programme has emerged as a major micro finance model in the country. SHG Bank Linkage Programme was launched by NABARD for purveying micro credit by linking SHGs with banks in 1991-92 with a view to facilitate smoother and more meaningful banking with the

poor. The SHG Bank Linkage Programme aims at connecting SHGs of poor people with banks and in process, created the largest microfinance network in the world. SHG Bank Linkage model works on the principle of thrift, lending and peer pressure.

Modules of Linkage

There are three models of linkage of SHGs with the bank.

Module I: SHGs formed and financed by banks

In this model, banks themselves take up the work of forming and nurturing the group opening their savings accounts and providing them bank loans

Module II: SHGs formed by formal agencies other than banks, NGOs and others but directly financed by the banks

In this model, NGOs and formal agencies in the field of micro finance act only as facilitators in organizing, forming and nurturing of groups and train them in thrift and credit management. Banks give loans directly to these SHGs.

Module III: SHGs financed by banks using NGOs and other agencies as financial intermediaries

In this model, NGOs take on the additional financial intermediation and are given bulk loans assistance which in turn is used for on-lending to the SHGs.

Performance of Self Help Groups – An Analysis

The performance of self help groups through Bank Linkage Programme has been analysed by taking the parameters of savings, loans disbursement and Loans outstanding

Table – 1**Savings of SHGs with Banks – Agency-wise Position***(Rs in crores)*

Year	Total Savings of SHGs with the Banks as on 31 st March					
	Commercial Banks		Regional Rural Banks		Co-operative Banks	
	Number of SHGs	Amount	Number of SHGs	Amount	Number of SHGs	Amount
2008-2009	3549509	2772.99	1628588	1989.75	943050	782.88
2009-2010	4052915	3673.89	1820870	1299.37	1079465	1225.44
2010-2011	4323473	4230.06	1983397	1435.39	1155076	1350.84
2011-2012	4618086	4152.98	2127368	1300.13	1214895	1098.29
2012-2013	4076986	5532.57	2038008	1527.10	1202557	1157.58

Source: Status of Microfinance in India, NABARD

A cursory look at the Table – 1, it is clear that the savings amount with the banks has been increased during the period. As on March 2013, Commercial Banks lead in the saving accounts with a total of Rs. 5532.57 crores followed by Regional Rural Bank with Rs. 1527.10 crores. There is a change in the number of SHGs in the specified years, their number had been reduced.

Figure – 1 elucidates about the savings of SHGs Bank – Agency wise.

Figure – 1
Savings of SHGs

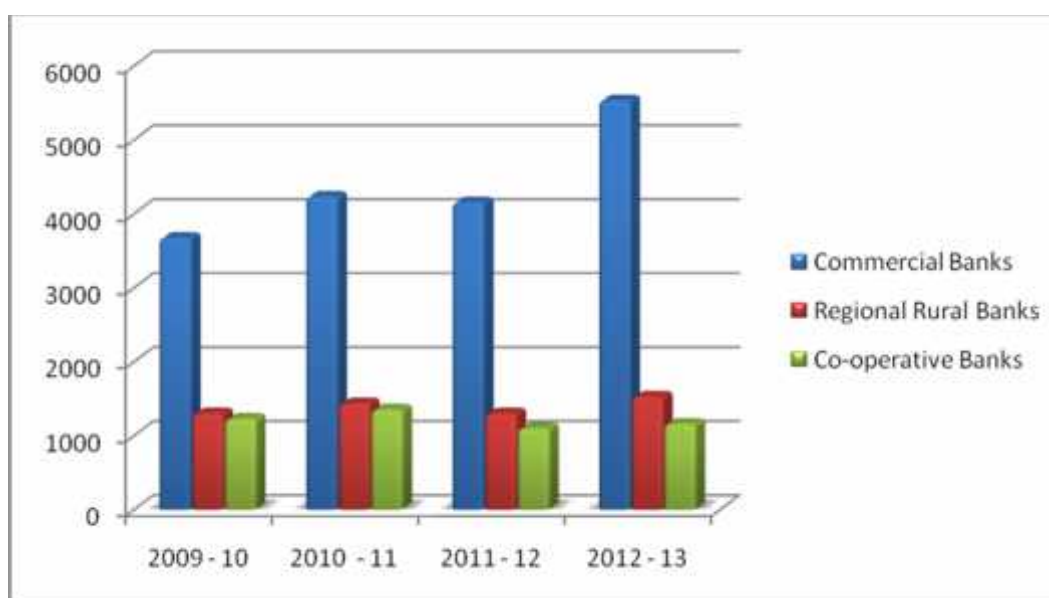


Table – 2

Status of Credit delivered by Indian Banks to SHGs - Agency Wise
(Rs in crores)

Year	Status of Credit Delivery by Banks to SHGs					
	Commercial Banks		Regional Rural Banks		Co-operative Banks	
	Number of SHGs	Amount	Number of SHGs	Amount	Number of SHGs	Amount
2008-2009	1004587	8060.53	405569	3193.49	199430	999.49
2009-2010	977521	9780.18	376797	3333.20	232504	1339.92
2010-2011	669741	9724.55	296773	3197.61	229620	1625.56
2011-2012	600807	9942.04	304809	5026.05	242262	1566.67
2012-2013	735577	13385.00	3121010	5626.52	172234	1573.83

Source: Status of Microfinance in India, NABARD

As evidenced from the Table – 2 that the disbursement of loans by banks, the commercial banks captured first place followed by Regional Rural and Co-operative Banks. During the year 2012–13 the Commercial Banks disbursed total amount of Rs. 13385 crores, Regional Rural Banks Rs. 5626.52 crores and co–operative Banks Rs. 1573.83 crores. Here, observing thing is commercial banks disbursed 8.50 times more than co-operative banks.

Figure – 2 is the evidence to say that the Commercial Banks disbursed more than Regional Rural Banks and Co-operative banks.

Figure – 2
Loans Disbursed by Indian Banks to SHGs

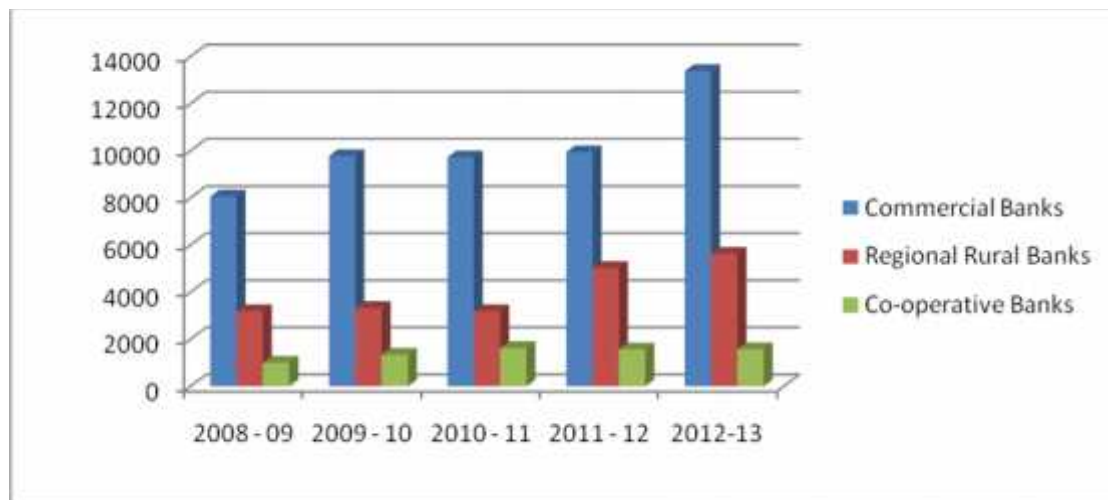


Table – 3

Agency – wise position of Bank Loans Outstanding

(Rs in crores)

Year	Total Bank Loan Outstanding against SHGs					
	Commercial Banks		Regional Rural Banks		Co-operative Banks	
	Number of SHGs	Amount	Number of SHGs	Amount	Number of SHGs	Amount
2008-2009	2831374	16149.43	977834	5224.42	415130	1306.00
2009-2010	3237263	20164.71	1103980	6144.58	510113	1728.99
2010-2011	3053472	21883.25	1281493	7430.05	451798	1907.85
2011-2012	2617199	25810.28	1293809	8613.57	443434	1916.13
2012-2013	2643971	26639.44	1327367	10521.22	480096	2214.26

Source: Status of Microfinance in India, NABARD

It is clear from Table – 3 that increasing of outstanding bank loans also Commercial Banks captured first place and followed by other banks. Here, one understandable is there i.e. recovery problem. If recovery problem is there in the bank it definitely faced the funds problem as well as recycling of funds problem which is most danger on part of banks.

Figure – 3 represents the variations in the outstanding bank loans against SHGs. Commercial Banks are holding high amounts than remaining two banks.

Figure – 3
Bank Loans Outstanding against SHGs

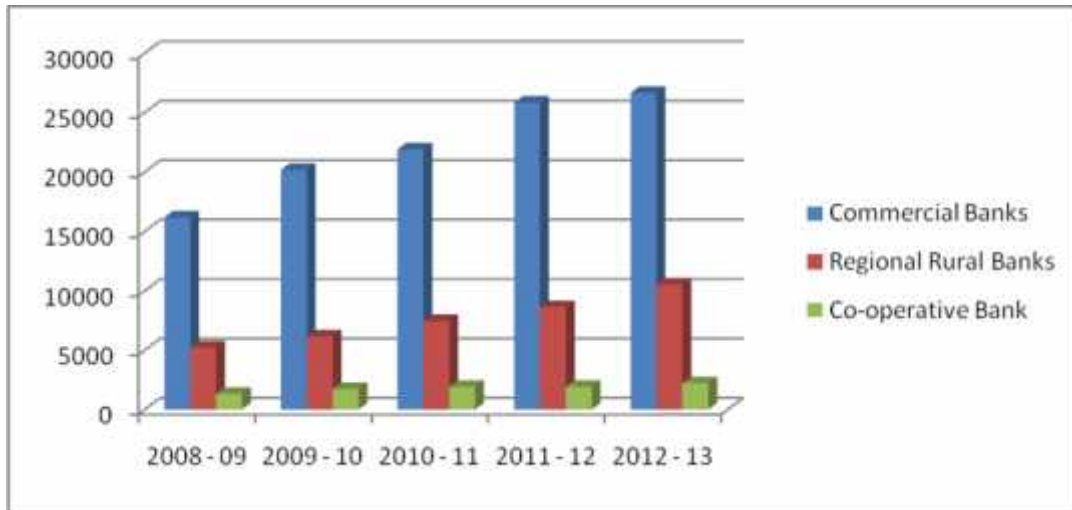


Table – 4**Overall Progress of SHGs in the past Five Years***(Rs in crores)*

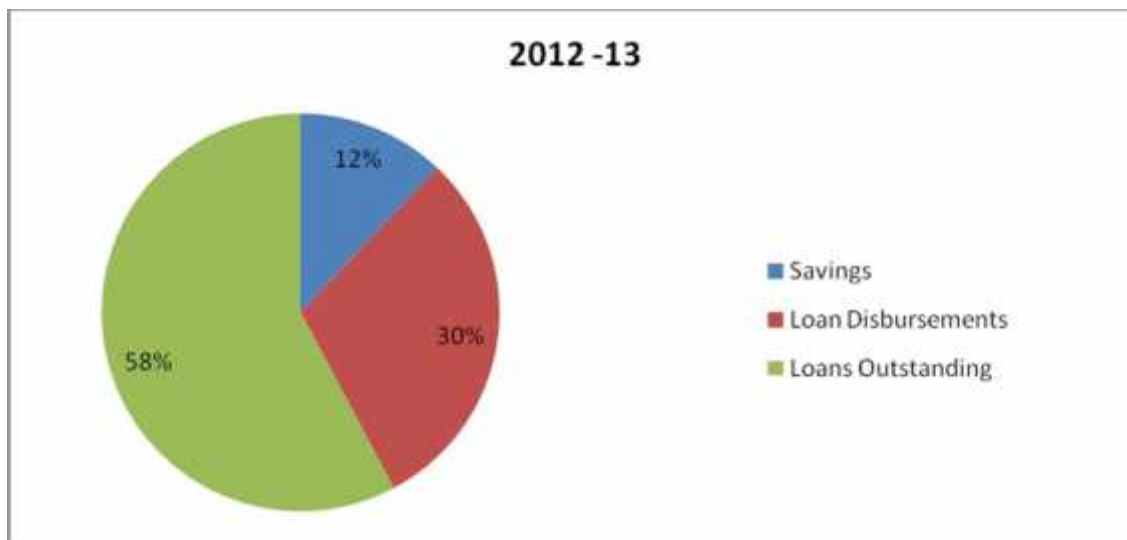
Year	Savings		Loans Disbursed		Loans Outstanding	
	Number of SHGs	Amount	Number of SHGs	Amount	Number of SHGs	Amount
2008-2009	6121147	5545.62	1609586	12253.51	4224338	22679.85
2009-2010	6953250	6198.71	1586822	14453.30	4851356	28038.28
2010-2011	7461946	7016.30	1196134	14547.73	4786763	31221.16
2011-2012	7960349	6551.41	1647878	16534.76	4354442	36340.00
2012-2013	7317551	8217.25	1219821	20585.36	4451434	39375.29

Source: Status of Microfinance in India, NABARD

Table -4 and fig.4 explains about overall progress of SHGs during the study period, the total savings, loans disbursed and loans outstanding from all the agencies (Commercial banks, Regional Rural banks and Co-operative Banks) of each year have been noted. It indicates the overall performance of all the banks in particular aspect in particular year. In each and every year loans disbursements are more than savings. Loans outstanding showing more than the loans disbursement.

Figure – 4 represents the overall progress of Micro finance in India during the year 2012 - 13.

Figure – 4
Overall Progress under SHGS during the year 2012 - 2013



From the above chart, it can be understood that banks have suffering with high amounts due from of loans outstanding and moderate savings and loans disbursements.

Epilogue

Micro finance is a powerful tool for fighting against poverty. It means building a financial system that serves poor. In most developing countries, poor people are majority of the population; to achieve full-fledged economic growth poverty should be reduced. Micro finance is such a concept which helps government to support poor people. Understanding such a concept and analyzing the changes that takes place in micro finance is necessary for the better utilization of it and for better results the awareness among the people belong to weaker sections is still limited. Restrictive loan policies of the bank are also one of the problems in developing the Micro Finance. It is suggested that all banks should have come down to the financial level of the poor people and put the conditions while sanctioning the loans. After analysing the data it came to conclude that in all aspects Commercial Banks captured first place. The Micro level loan needed people most probably live at rural areas. Regional Rural Banks and Co-operatives are meant for feeding the rural credit. It is suggest that the role of Regional Rural Banks and Co-operative Banks must have to increase its role in catering the needs of rural people than commercial banks. Here, it is high time to take step

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