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The Changing dimensions of Micro Finance through SHGs in India; an Analysis

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Abstract

Micro finance is the fastest and cost effective financial service for the poor and needy in the developing world. At present, it is seen as the key instrument to eradicate poverty and empower women. In India, Micro finance scene is dominated by Self Help Group (SHGs)- Bank Linkage Programme as a cost effective mechanism for providing financial services to the unreached poor, which has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self help capacities of the poor, leading to their empowerment. Rapid progress in SHG formation has now turned into an empowerment movement among women across the country.

In 1992-93, the number of SHGs financed by the bank were 255 with 0.29 Crore bank loan and 0.27 Crore of refinance assistance. In 2011-12, 114800 SHGs were financed with 16534.71 Crore of bank loan and Rs.3072.59 crore were refinance assistance. During the year the cumulative SHGs number of SHGs financed by banks stood at 10112626, where Rs.86606 Crore was bank loan and 18479.60 crore was refinance assistance.79.60 lakh SHGs were financed by banks in 2011-12 and their savings was 6551.41 Crore; of them 79 percent (62.99 lakh) were exclusively women SHGs which saved 5104.33 Crore which is 77.90 of total savings of SHGs.

The Key success for the rapid growth of Microfinance through SHG was prompt repayment by the members and NPA on loans outstanding was negligible. But unfortunately the NPAs against loans are increasing which may hamper the growth of Micro finance-SHG growth. Suitable initiatives have to be undertaken by the government to make microfinance more focused and a success story in the eradication of poverty in India.

Key words: Micro finance, SHG, NABARD Poverty eradication, Empowerment of Women, Andhra MFI tsunami effect, NPA, Interest rates, Borrowers,

The Changing dimensions of Micro Finance through SHGs in India; an Analysis

“Microfinance is an idea whose time has come.”

—Kofi Annan
Former United Nations Secretary-General

“Give a man a fish, [and] he’ll eat for a day. Give a woman microcredit, [and] she, her husband, her children, and her extended family will eat for a lifetime.”

—Bono
Lead singer for the band U2 and humanitarian advocate

Introduction

Micro finance is the fastest and cost effective financial service for the poor and needy in the developing world. At present, it is seen as the key instrument to eradicate poverty and empower women. Micro finance through self help groups has become powerful and effective measure in this initiative. It has already become beacon of light for more than 103 million poor households who got the access to credit and other financial services.

The term "microfinance" is defined by NABARD in 1999 as, “provision of thrift, credit and other financial services and products of very small amounts to the poor in the rural, semi-urban areas, for enabling them to raise their income levels and improve living standards". Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance for poor and low-income households and, their micro enterprises. The World Bank, through indirectly is utilizing Microfinance to eradicate poverty and empower masses in developing economies. David Puglielli, aptly writes “The World Bank has already found its place in the world of microfinance; structural adjustment programmes designed to liberalize the over-regulated and suffocating less-developed economies. Any kind of direct involvement with the informal sector would prove ineffectual, or worse, harmful. The context in which the World Bank exists and was created prevents it from interacting interdependently with the informal market. In the Weberian sense, the context of the World Bank prevents it from engaging in any purely market-driven activity. The World Bank does not have to go out and find its niche in microenterprise development, it has already found it”

In India the first initiative towards the micro credit was taken by NABARD during 1986-87. In the same year NABARD, in collaboration with Asia Pacific Rural and Agricultural Credit Association (APRACA) undertook a study of 43 NGOs in 11 states to study the functioning of micro finance- SHGs and their collaboration possibilities. It is important to note that the Microfinance in India is not just limited to provide credit facilities to the poor, but also to provide a wide range of financial services to poor such as credit, savings, insurance, business development services and money transfer etc to the poor or low income clients who lack access to traditional formal financial institutions.

Clients of Microfinance

Microfinance clients are low-income persons who do not have access to formal financial institutions like self-employed, household based entrepreneurs, marginalized classes, SC,ST, OBCs, minorities, marginal and small farmers, women workers in the unorganized sector who are engaged in income-generating activities such as animal husbandry and petty trade. In urban areas, microfinance activities are more diverse and include service providers, traders and producers, artisans etc.

Microfinance Institution (MFI)

A microfinance institution is an organization that offers financial services to low income populations. NGOs, credit unions, co-operatives, private commercial banks and non-bank financial institutions (some have transformed from NGOs into regulated institutions) and parts of state owned banks. Community-based intermediaries, credit unions and co-operative housing societies are also some of the examples of other microfinance institutions.

The microfinance institution could subsidize the loans to make the credit more "affordable" to the poor. But the empirical evidence shows that clients are willing to pay the higher interest rates necessary to assure long term access to credit. The interest rates in the micro finance institutions were always expected to be relatively lower than the money lenders and other informal credit market. Hence it helps the poor to escape from the poverty and also from the clutches of money lenders. MFI not only offers credit on a more accessible basis, at reasonable interest rates, it also saves the poor peoples energy, time, travel, paperwork etc, thus benefitting the poor. In fact, the transaction costs are frequently higher than the interest costs, which take away the advantage of the borrower of the interest rate subsidy. MFIs must strive hard to improve efficiency levels and to increase economies of scale. This will bring down the cost of providing loans, and the benefits transferred to the poor in terms improving loan products, better access to loans, and lower borrowing costs.

Micro credit alone is not sufficient

"Even in countries with a strong microfinance sector, most low-income families, especially those in rural areas, do not have access to financial services that enable them to build their businesses and meet other needs such as health care and education. Grants for individual or family income-generating activities may be appropriate in emergency or post-conflict situations to help families rebuild their asset base, or to provide a safety net to the destitute, but they are not a sustainable mechanism for the economic development of the community. Individual and family-owned businesses that are privately financed tend to be more successful" (World Bank Website).

The World Bank's website in its section on microfinance also points out that the poor also needs access to savings, insurance and payment services and micro credit alone is not sufficient! The key challenges pointed out are 1) Financial institutions like Banks and MFIs horizon rarely reach rural communities beyond a 30 km radius of the secondary town. It is necessary to explore ways to deliver financial services to people in remote locations. 2) Majority of microfinance models provide access to short-term loans with regular repayment. The Ways to mitigate the risks of agricultural lending should also be explored, 3) Microfinance in the short term, for the most vulnerable members of the community.

The issues raised by World Bank are to be pondered upon seriously. In India, many MFI s are linked with SHGs and hence their reach is wide even in the remote villages, but the ways to mitigate the risk in agriculture and methods to finance the vulnerable communities in short run needs further thinking, research and studies in the field. Now let us discuss the issues involved and progress of SHG and Micro Finance Institutions in India.

SHGs and Microfinance Institutions

SHG is the homogenous group of 20 or less people, who are willing to come together for addressing their common problems. The Self help group save within the range of Rs.20 to 300 per month. They rotate the common pooled resources amongst the members with small interest rate. They make regular savings and use the polled saving to give interest –bearing loans to their members (NABARD, 2000). The process helps them imbibe the essentials of financial intermediations including prioritization of needs, setting self determined terms for repayment, and keeping books and reports, it builds financial discipline and credit history that encourage banks to lend to them in certain multiples of their own savings and without demanding any collateral security.

The SHGs maintain the record of transactions on a daily basis in written format. NABARD initiated the SHGs in 1986-87. From 1991-92 NABARD linked the SHGs with banks. The main intention of this linkage was to tap the potential of SHGs and take the banking to the doorsteps of the poor. The SHG had small savings and hence the banks provided the credit for SHG and the SHG in turn to its members. As the SHG monitored the usage and repayment of credit to its members, it helped to improve the standard of living of the members of SHG.

In 1992 there were just 500 SHGs which grew to 0.5 million by 2002 and to 8 million by March 2012. The increase in number of the SHGs and the collection of the savings and credit disbursed is attributed to the linkage with the Microfinance intuitions/banks.

Micro finance and poor

Microfinance is emerging as a powerful instrument for poverty alleviation. In India, Micro finance scene is dominated by Self Help Group (SHGs)- Bank Linkage Programme as a cost effective mechanism for providing financial services to the unreached poor, which has been successful not only in meeting financial needs of the rural poor women, but also to strengthen collective self help capacities of the poor, leading to their empowerment. Rapid progress in SHG formation has now turned into an empowerment movement among women across the country. The Microfinance helps the poor to 1) To increase income 2) Build viable business 3) Reduce the vulnerability of the poor to external shocks(illness of wage earner, bad weather, theft, etc) 4) Self-empowerment of women 5) Fight against poverty.

The eight million SHGs have helped the poor to have the balance of over Rs.6550 Crore in their Banks savings account. It is estimated that they have harnessed savings of Rs.2200 crores of which 70 %(15000 crores) goes to the internal lending, 4. 4 million SHGs are availing the credit facility from the banks to the extent of 36340 crores, as on 31st March 2012.

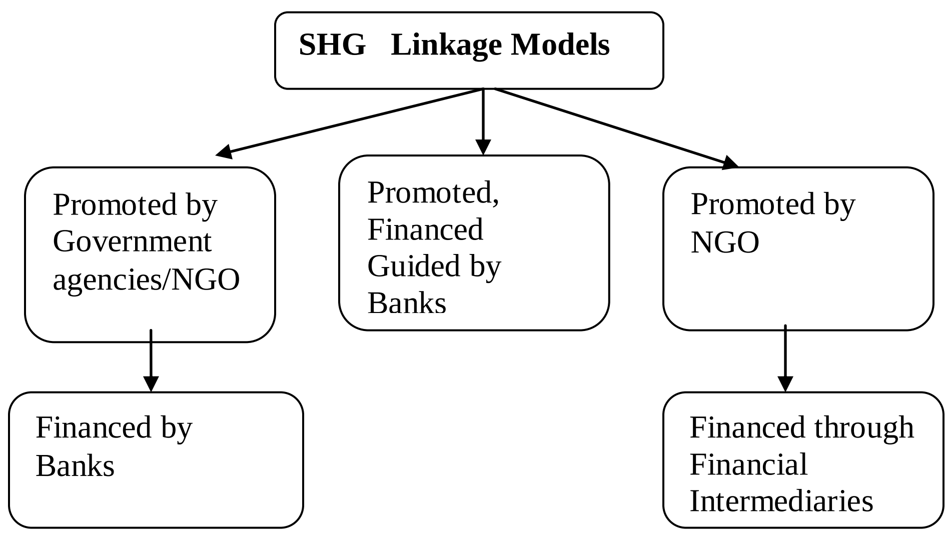
Three models

There are three kinds of model under SHG linkage programme. They are

Model-1: SHGs are financed, guided and promoted by banks.

Model-2: SHGs are promoted by Non Government Organizations/Government agencies but financed by bank.

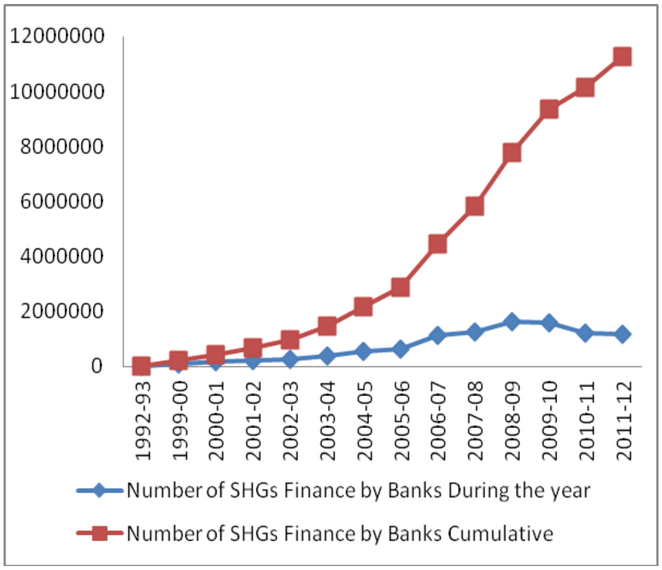
Model-3: SHGs are promoted by NGOs, but financed through financial intermediaries like NGOs or by any formal agencies.

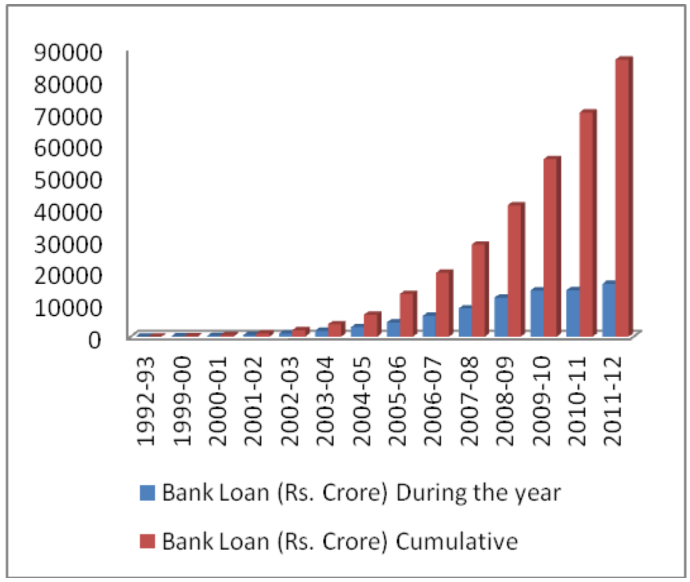


Progress of SHG Bank Linkage Programme

The SHG-Bank linkage programme launched by NABARD way back in 1992 synthesizing the formal financial system and informal sector, has become the successful movement throughout the country. It is the largest Microfinance programme in terms of outreach in the world. At present a large number of self help promoting institutions (SHPIs), all the banking agencies and Microfinance institutions (MFIs) are pursuing this programme for the upliftment of poor. The RBI also recognized this as part of priority sector lending and normal banking business.

Progress in SHG Bank Linkage Programme

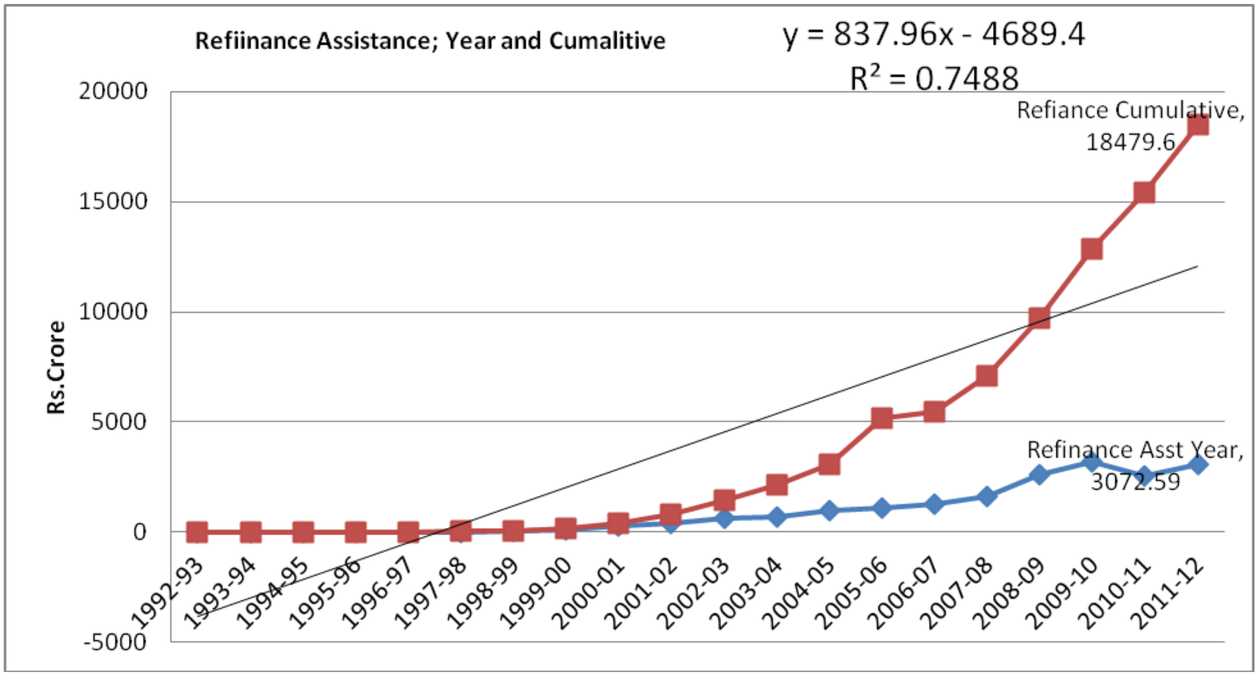




Source: Compiled from the data obtained from diffrent NABARAD Annual Reports

In 1992-93, the number of SHGs financed by the bank were 255 with 0.29 Crore bank loan and 0.27 Crore of refinance assistance. It gained momentum since 1999-00 when there was quantum jump in the progress of SHGs bank linkage programme, where 81780 SHGs were financed with 135.91 crores and the accumulative bank loan stood at Rs 192.98 crores, whereas the refinance assistance was Rs 98.04 crore in 1999-00.

In 2011-12, 114800 SHGs were financed with 16534.71 Crore of Bank loan and Rs 3.72.59 crore of refinance assistance. During the year the cumulative number of SGHs financed by banks stood at 10112626, where Rs 86606 crore was cumulative bank loan and Rs 18479.60 crore was refinance. The following chart gives the depiction of refinance assistance cumulative and year wise for SHGs in Banks



Source: Compiled from the data obtained from diffrent NABARAD Annual Reports

Performance of Women SHGS under SHG-BANK LINKAGE MODEL

79.60 lakh SHGs were financed by banks in 2011-12 and their savings was 6551.41 Crore; of them 79 percent (62.99 lakh) were exclusively women SHGs which saved 5104.33 Crore which is 77.90 of total savings of SHGs.

11.48 lakh SHGs disbursed loan worth 16534.77 Crore in 2011-12. Of them, 9.23 lakh (80.4%) are exclusively from women SHGs which gave 14132.02 Crore (85.50 percent) of loans to women.

45.34 lakh SHGs had the loan outstanding of 36340 crore in 2011-12 of them 36.49 lakh SHGs (86.80%) had the loan outstanding of 30465.28 Crore (83.80%) which were women SHGs.

The following table gives the details of SHG savings with banks, loans Disbursed to SHGs during the year, Loans outstanding against SHGs

		Total SHGs		Exclusive Women SHGs		% of Women SHGS to Total SHGS	
Particulars	Year	No. (in lakh)	Amount (Crore)	No. (in lakh)	Amount (Crore)	No. Of SHGs	Amount
SHG savings with banks as on 31st March	2007-08	50.09	3785.39	39.86	3108.65	79.57	82.12
	2008-09	61.21	5545.62	48.63	4434.03	79.46	79.96
	2009-10	69.53	6198.71	53.10	4498.66	76.4	72.60
	2010-11	74.62	7016.30	60.98	5298.65	81.7	75.50
	2011-12	79.60	6551.41	62.99	5104.33	79.1	77.90
	2012-13	7317551	8217.25	593.85	6514.86		
loans Disbursed to SHGs during the year	2007-08	12.27	8849.26	10.40	7474.26	84.79	84.46
	2008-09	16.09	12253.51	13.74	10527.38	85.39	85.91
	2009-10	15.87	14453.30	12.94	12429.37	81.60	86.00
	2010-11	11.96	14547.73	10.17	12622.33	85.00	86.80
	2011-12	11.48	16534.77	9.23	14132.02	80.40	85.50
	2012-13	1219821	20585.36	1037402	10374.02		
Loans Outstanding against SHGs as on 31st March	2007-08	36.25	16999.91	29.17	13335.61	80.46	78.45
	2008-09	42.24	22679.84	32.78	18583.54	77.58	81.93
	2009-10	48.51	28038.28	38.98	23030.36	80.30	82.10
	2010-11	47.87	31221.17	39.84	26123.75	83.20	83.70
	2011-12	43.54	36340.00	36.49	30465.28	83.80	83.80
	2012-13	4451434	39375.29	3937529.72	32840.04		

Source: compiled from various issues on Status of Micro Finance in India, NABARD, Mumbai

Micro Finance institution (MFIs) and Bank linkage programme

MFI are playing an important role in promoting micro credit through SHGs. According to NABARD Status of Microfinance in India 2011-12 report , "MFIs could be (1) NGO MFIs – registered under the Societies Registration Act, 1860 or the Indian Trusts Act, 1880 (2) Cooperative MFIs – registered under the State Cooperative Societies Act or Mutually Aided Cooperative societies Act or Multi State Cooperative Societies Act (3) NBFC MFIs incorporated Under Section 25 of Companies Act, 1956 (These NBFCs are working "not for profit"), (4) Non banking financial companies(NBFC) MFI's incorporated under the Companies Act, 1956 and registered with RBI.

MFIs were more innovative and aggressive in reaching out to the rural poor. The number of MFI increased from 581 in 2008-09 to 779 MFIs in 2009-10, but decreased due to Andhra tsunami MFIs effect to 465 by 2011-12.

The following table gives the details on loans disbursed by MFI, Loan Outstanding and fresh loans as percentage of loan outstanding of MFI;

Particulars	2009-10		2010-11		2011-12		2012-13	
	No. of MFI	Amount	No. of MFI	Amount	No. of MFI	Amount	No. of MFI	Amount
Loans disbursed by bank to MFI	779 (34%)	10728.50 (187.4%)	471 (-39.5%)	8448.96 (-21.3%)	465 (-1.3%)	5205.29 (-38.39%)	426 (-8.4%)	7839.51 (50.6%)
Loans Outstanding against MFI	1659 (-13.4%)	13955.75 (178.6%)	2315 (39.5%)	13730.62 (-2.0%)	1960 (-15.3%)	11450.35 (-16.6%)	2042 (4.2%)	14425.84 (26.0%)
Fresh loans as % of Loan outstanding		76.9		61.5		45.5		54.3

Source: compiled from various issues on Status of Micro Finance in India, NABARD, Mumbai

The loans outstanding against MFIs increased from 5009.09 crore in 2008-09 to 13955.75 crores in 2009-10, but decreased to 11450.35 crores in 2011-12. The commercial banks and other financial intuitions were also not enthusiastic to give fresh loans to MFIs. In 2008-09, 74.5 % fresh loans were issued to MFIs by the commercial banks and other financial institutions against 45.5 % in 2011-12. The decline in the growth of MFI is attributed to Andhra NFIs tsunami effect.

Increase in Nonperforming Assets (NPA)

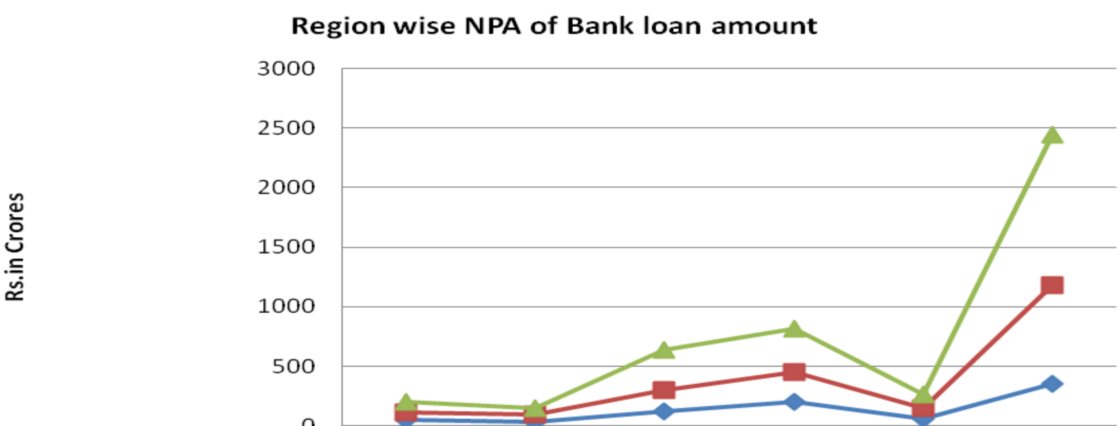
The alarming thing which may hamper the SHGs Micro finance growth is increase in nonperforming assets. The gross NPA against the loans to SHGs increased from Rs 1474 Crore in March 2011 to 42213 Crore by March 2012. The NPA which was just 2.9 % during 2009-10 has increased to 6.09 % in 2011-12.

Agency	Loans Outstanding against SHGs-Position as on	Amount of NPAs as on	Percentage of NPAs to Loan Outstanding as on

	2011	2012	2013	2011	2012	2013	2011	2012	2013
CBs(Public Sector)	21412.75	244067.57	25371.18	1019.90	1581.05	2129.23	4.76	6.48	8.39
CBs(Pvt. Sector)	470.51	1403.72	25371.18	47.09	74.37	46.75	10.10	5.30	3.69
RRBs	7430.05	8613.58	10521.23	272.82	426.34	46.75	3.67	4.95	4.10
Coop. Banks	1907.86	1916.14	2214.63	134.30	130.97	180.06	7.04	6.84	8.13
Total	31221.17	36340.00	2214.63	1474.11	2212.73	180.06	4.72	6.09	7.08

Source: compiled from various issues on Status of Micro Finance in India 2011-12, NABARD, Mumbai

Among the regions southern region with 4.98 % of NPAs was lowest while central region with an alarming 13.2% was highest. Among states UP with 12.5 % NPA is highest followed by Odisha 11.9 % Tamil Nadu 9.6 %, and Kerala 9 %. The following chart gives the depiction of region wise NPAs of bank loan amount against SHG position.



	Northern	North Eastern	Eastern	Central	Western	Southern
Amount of NPAs 2012	81.55	51.33	337.08	367.03	112.14	1263.59
Amount of NPAs 2011	63.66	58.56	181.07	254.04	90.42	826.36
Amount of NPAs 2010	53.91	37.13	118.74	198.65	61.06	356.53

The Key success for the rapid growth of Microfinance through SHG was prompt repayment by the members and as a result NPA on loans outstanding was negligible. But unfortunately the NPAs against loans are increasing which may hamper the growth of Micro finance-SHG growth.

There is no much difference in agency wise NPAs of Bank loan to SHGs except for RRBs. In 2011-12 the Co-operative Bank have 6.84 % of NPAs to loan Outstanding, while public sector banks followed closely with 6.48% NPAs to loan outstanding, where as the private banks had 5.30 % NPAs and RRBs had 4.95 % NPAs.

Major setback; Andhra Effect

Andhra Pradesh with 15 million loan accounts out of the total 26 million loan accounts is the largest micro credit market of the country. In 2009-10 many borrowers who took loan from Micro Finance Institutions resorted to suicides as they were unable even to pay the interests. Many of these beneficiaries, who had borrowed loans from multiple MFIs/Financial institutions found it difficult to repay the interest to the loans, took extreme step of resorting to suicides.

It became political as some political parties touring all over the villages asked the beneficiaries not to repay the loan to Micro Finance Institution as they were looting the public with high interest rates.

There was huge public uproar and in 2010, the Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act barred Micro Finance Institutions from

1) Collecting the principal and interest weekly
2) From lending money to Self Help Groups that are already covered by formal banking system, without seeking prior permission from banks.

These reforms did help, but by then huge damage was done to the fabric of MFI institutions.

Reserve Bank of India also issued guidelines for MFI lending operation based on Malegam Committee recommendation. RBI allowed the banks to consider micro finance loans to rural households with an annual income of Rs. 60,000, and to urban or semi urban households earning of Rs. 1, 20,000, as priority sector loans. (40 percent of bank loans should go to the priority sector, such as agriculture, small scale industries and microfinance as per the banking regulations). The RBI also capped the interest rate of micro credit at 26 percent. Micro Finance Institutions were levying 30 to 35 percent of interest. The RBI measures have infused confidence in the sector. Public sector banks have reinitiated lending to Micro Finance Institutions.

The Goose that lay the Golden Egg must not be killed!

The MFIs one definitely innovative and aggressive in taking micro credit to rural poor and needs door step. The MFIs grew enormously in no time. They also made huge profits. But unfortunately some MFIs resorted to unethical business practices along with the questionable recovery practices. Apart from charging high interest rates, they hired goons to recover the loans. The goons threatened and even manhandled the borrowers. Few of the borrowers unable to with stand pressure from the goons committed suicides

There was mistake from the part of beneficiaries also few members of SHGs took loans from multiple agencies. It became beyond their capacity to repay the loan. Some of the members also were negligent in repaying the loan. All this contributed to aggravation of the problem. Finally the RBI intervened and tried to bring micro finance –SHG through MFIs back on track.

Policy Suggestions

1. MFI –SHG is the need of the hour and it should be infused with new energy through incentives to the timely payment by relaxing the interest by 1%.
2. Competition should be encouraged within the different MFI to give competitive interest rates within the minimum and maximum ceiling
3. SHGs should also be given the cash incentive for 100% repayment by its members within the due date.
4. Awareness campaign for the women about their rights, responsibilities in SHG-MFI
5. Financial Literacy should be provided to all the members of the SHG

Conclusion

Microfinance will empower women as they have designed products and channels, which are friendly and suitable to the need of the women. However, MFIs outreach is limited in comparison with the mainstream financial institutions due to the shortage of financial and human resources. MFIs need grants to build their own capacity as well as that of the borrowers or SHGs.

A vast majority of MFIs are NGOs registered under the societies Act or Trust Act, and they cannot mobilize large amount of lending funds, due to the inappropriate legal and financial institutions. A few MFIs which have registered as Non-Banking Finance companies (NBFCs) are able to mobilize equity from development financial institutions and leverage this with borrowing from commercial banks. However, the regulatory framework is not conducive for these MFIs. Suitable initiatives have to be undertaken by the government to make microfinance more focused and a success story in the eradication of poverty in India and women empowerment.

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