CHAPTER 3

MICRO FINANCE - AN OVERVIEW

3.1. INTRODUCTION

Microfinance has been recognized as one of the major concerted development initiatives for alleviating poverty through social and economic empowerment of the poor especially the marginalized women. Micro Finance intervention refers to ‘provision of access to small loans without physical collateral to the poor, especially the women, while encouraging them to save regularly in order to combine thrift and self-help for their development’. The basic idea of microfinance is that if poor people are provided access to financial assistance, including credit, they may be able to start or expand a micro-enterprise of their liking that will allow them to break out of poverty. Microfinance has become one of the most effective instruments for economic empowerment of the poor.

In the early stages of credit delivery the emphasis was on providing more credit, in later stages the emphasis was shifted to ensure that credit went to all segments of society. Even the prescription of a proportion of total credit for priority sectors was not considered to be adequate. Despite, the expansion of the organized banking system deep into the rural areas, a very large number of the poor continued to remain outside the fold of the formal banking system. The formal banking system with its systems and procedures was found to be inaccessible to the poor. This had led to a search for an alternative delivery mechanism which would meet the requirements of the poor and particularly the women among them (Rangarajan 2006: 20).
The present chapter is divided into two parts. Part one consists of six sections - Micro finance: meaning and scope, history of Micro finance, Approaches to Micro finance, Significance of micro finance, micro finance initiatives and micro finance in India. The second part deals with Self help groups and consists of three sections -Introduction, Self Help groups in Kerala and Conclusion.

PART-1 MICRO FINANCE

3.2. MICROFINANCE: MEANING AND SCOPE

Micro finance has emerged as a response to the failure of market and the State to ensure for the poor, a sustained access to capital. Market failure occurs when formal agencies and programmes operating in the market fail to meet the capital needs of the poor to take up productive investments. As a result of such failure, not only the poor are unable to make own investments for income and employment generation but are also forced to depend upon informal sources of finance, which are either exploitative or not fully reliable.

A major innovation being tried out in the area of rural credit is the promotion of Self Help Groups (SHGs) for the poor, especially women, to help them gain better access to savings and credit facilities. SHGs are considered as a solution for some of the problems of the rural credit markets which come in the way of rural poor having sustained access to formal credit agencies. Micro finance through SHGs has become a fulcrum for development initiatives particularly in the Third world countries. Micro finance programmes provide access to credit for the poor, enabling them to undertake income generation activities.
The credit needs of the rural poor are characterized by the absence of any clear distinction between production and consumption purpose. The needs are small, but often arise at unpredictable times and are usually of an emergency nature. Meeting these credit needs as and when they arise is crucial if their dependence on unorganized credit agents is to be reduced.

Rural women, especially those belonging to the weaker sections of society have limited access to resources or employment opportunities that would make them financially independent. They live in conditions that do not permit them to meet bare minimum consumption needs. Even the money earned by them from hard physical labour is not controlled by them. Institutional credit is difficult to access as women rarely have any property rights to mortgage or collateral to offer, and they have to depend on rural money lenders for their production cum consumption needs. This entraps them into a vicious circle of perpetual poverty and indebtedness (Karmakar, 1999: 168).

For the very poor, micro finance becomes a liquidity tool that helps smooth their consumption patterns and to reduce their level of vulnerability. Micro finance is a logical approach to development because it functions at the grass root level, can be sustainable, is capable of involving large segments of population and builds both human and productive capacity. Micro finance, as an alternative source of credit for the poor has received wide attention in the recent years owing to its contribution to poverty alleviation. The formation of SHGs ensures the best participation of the poor in credit programme.
3.2.1. Definitions

The Task Force constituted by National Bank for Agriculture and Rural Development (NABARD) defines micro finance as “Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban areas for enabling them to raise their income levels and in improving living standards” (NABARD, 1999:15).

According to Asian Development Bank (ADB) “Micro finance is the provision of a broad range of financial services, such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises. Micro finance services are provided by three types of sources: 1) formal institutions, such as rural banks and cooperatives, 2) semiformal institutions, such as nongovernment organizations; and 3) informal sources such as money lenders and shopkeepers” (ADB, 2000: 2).

According to Robinson (2001) “Micro finance refers to small scale financial services for both credits and deposits – that are provided to the people, who farm or fish or herd; operate small or micro enterprise where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas”.

3.2.2. Micro credit

Micro Credit has been defined by Reserve bank of India (RBI) as “the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for
enabling them to raise their income levels and improve their living standards. Micro Credit Institutions are those, which provide these facilities”\(^1\).

Armendariz & Morduch (2005:14) points out the difference between micro-credit and micro finance. According to them the words micro-credit and microfinance are often used interchangeably, they have different resonances and are loosely attached to contrasting beliefs about the state of rural finance and the nature of poverty. The small difference in language signals, for some, a big difference in opinion. Microcredit was coined initially to refer to institutions like the Grameen Bank that were focusing on granting loans to the very poor. The focus was explicitly on poverty reduction and social change, and the key players were NGOs. The push to “micro finance” came with recognition that households can benefit from access to financial services more broadly defined (at first the focus was mainly savings) and not just credit for microenterprises. With the change in language has come a change in orientation, toward “less poor” households and towards the establishment of commercially oriented, fully regulated financial entities.

Micro credit becomes distinct from other regular credit where not only credit amount is small and clientele is poor, but also credit is provided with ‘collateral substitute, instead of traditional collateral and non-financial services for increasing the productivity of credit.

The terms ‘micro finance’ and ‘micro credit’ are used synonymously to connote the provision of small loans to poor people or groups of people at comparatively low interest rates and with little or no collateral. Nonprofit organizations are widely credited with providing micro finance and creating

\(^1\) Source, Master Circular on Micro Credit - RBI RPCD. FID. BC.No. 53/12.01.001/2010-11
and supporting microenterprises, but governmental organizations are also involved. These sponsoring organizations provide the financial capital needed to establish microenterprises and it is for this reason that microenterprise and microfinance are closely associated\(^2\).

Micro finance today has become a major credit disbursement mechanism in many parts of the world. Micro finance refers to the entire range of financial and non-financial services, including skill up-gradation and entrepreneurship development, rendered to the poor for enabling them to overcome poverty. Micro finance by providing small loans and savings facilities to those who have been excluded from commercial financial services has been promoted as a key strategy for reducing poverty in all its forms by agencies, particularly in developing countries.

### 3.3. HISTORY OF MICRO FINANCE

The practice of Micro financing gained popularity in the 1960s and 1970s, but there are examples of much earlier attempts to provide financial assistance to the poor entrepreneurs. The *montes pietatis*, credit organizations for the poor of the 15th century needs special mention. *Montes pietatis* were established in Italy in the 15th century and later endorsed by Pope Leo X as merciful organizations for the poor\(^3\). Another organization, the Irish Loan

\(^2\) It is observed that microfinance may also be provided by credit organizations not directly involved in supporting microenterprises and in addition, microfinance may be provided for purposes other than starting a small business. Microfinance organizations are also increasingly providing savings, insurance and other financial products (Midgley 2008:469).

\(^3\) *Montes Pietatis* are charitable institutions of credit that lend money at low rates of interest, or without interest at all, upon the security of objects left in pawn, with a view to protecting persons in want from usurers. Being charitable establishments, they lend only to people who are in need of funds to pass through some financial crisis, as in cases of general scarcity of food, misfortunes, etc. On the other hand, these institutions do not seek financial profit, but use all profits that may accrue to them for the payment of employees and to extend the scope of their charitable work. Source, http://www.newadvent.org/cathen/10534d.htm, Accessed on 28-07-2012.
Fund system, was initiated in the early 18th century and provided small loans to the Irish rural community. Several other efforts, in the form of more formalized credit unions and people’s banks, spread through Europe and North America. These new institutions developed from banks for the poor owned by the poor, into sustainable traditional financial organizations.

In the 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives. The concept of the credit union was developed by Friedrich Wilhelm Raiffeisen and his supporters. Their altruistic action was motivated by the concern to assist the rural population to break out of their dependence on moneylenders and to improve their welfare. From 1870, the unions expanded rapidly over a large sector of the Rhine Province and other regions of the German States. In Indonesia, the Indonesian People's Credit Banks (BPR) or The Bank Perkreditan Rakyat opened in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units. In the early 1900s, various adaptations of these models began to appear in parts of rural Latin America.

In the early 20th century, Latin America developed variations of the original credit unions created in Europe. Unlike its European counterparts, the Latin American organizations were usually owned by the local government and/or private banks. This approach to ownership was fatal and most of these early micro financing organizations became inefficient.

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4 In most cases, these new banks for the poor were not owned by the poor themselves, as they had been in Europe, but by government agencies or private banks. Over the years, these institutions became inefficient and at times, abusive.
In the 1950s, some development organizations started to introduce the concept of lending programs in developing regions. These programs, however, were in large part subsidized and, usually unsuccessful. Subsidized lending eroded the capital base of most of these projects and resulted in inappropriate lending practices to non-poor borrowers and sub-standard repayment discipline. In the 1960s and 1970s, several experimental micro-lending programs were initiated in Latin America and Asia. These programs focused on very small loans to woman owned micro-businesses, with special emphasis on the very poor. These early micro-lending programs were designed around solidarity circles. The most successful of these early micro-lending enterprises were, and still are, ACCIÓN International, the Grameen Bank, and the Self-Employed Women’s Association. By the 1990s, some of these micro-lending organizations proved to be capable of long term sustainability and large outreach, based on the high repayment level and cost-recovery interest rates. As they became sustainable, many micro-lending organizations expanded their services and transformed into full-service commercial banks or non-bank financial institutions, which has enabled them to offer more products and services. Many of these microfinance organizations now offer services such as savings, insurance, health services, business advice and counseling.

3.3.1. Microfinance in Modern Times

Since the 1980s, micro-financial services have generated considerable interest among academics, donors and development practitioners as an alternative to the failure of government rural credit assistance to reach low

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Each solidarity circle was formed by a group of several borrowers, and each borrower guaranteed the repayment of all the other members in the circle. The creation of these solidarity groups contributed to the high repayment rate of microloans.
income households. The failures are attributed to causes such as urban-biased credit allocation, higher transaction costs, interest rate restrictions, high default rates and corrupt practices. These failures stimulated a set of innovative financial institutions in several corners of the world which began to prosper and attract attention, especially in Bolivia, Bangladesh and Indonesia.

Since 1980s, the field of Micro finance has grown substantially and several experiments have taken place across the world. The Micro finance paradigm received an increased impetus in the mid-1990s, after the 1995 World Summit for Social Development held in Copenhagen. The summit underscored the importance of improving access to credit for small producers, landless farmers and other low income individuals, particularly women and disadvantaged/vulnerable groups. Subsequently, the United Nations declared 1996 as the International Year of Eradication of Poverty and 1997-2006 as the first International Decade for the Eradication of Poverty. The Microcredit Summit in Washington DC in 1997 was attended by around 1500 organizations from 137 countries, including a number of heads of states. The year 2005 was declared as the Year of Micro finance and a number of private sector enterprise and foundations have started dedicating pools of capital for exclusive investments in the area of microfinance.

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6 These microfinance institutions share a commitment to serving clients that have been excluded from the formal banking structure. See, Arun et.al (2009: 7).
7 The preamble of the microcredit summit 1997 states, "Our purpose as an assembly is to launch a global movement to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services, by the year 2005". Source http://www.microreditssummit.org/ declaration.htm#Top, Accessed on 29-08-2012.
8 'Building inclusive financial systems that work for the poor’ was the slogan of the United Nations International Year of Microcredit 2005 (Basu, 2009:20).
Micro credit has become one of the key driving mechanisms towards meeting the Millennium Development Goals (MDGs), specifically the overarching target of halving extreme poverty and hunger by 2015. Indeed, microfinance is interwoven into many of the recommended strategies to achieve the MDGs and an important means of halving poverty by the year 2015. A Practical Plan to achieve the MDGs advocates that ‘access to finance’ rather than ‘poverty eradication’ should drive the strategies adopted by the governments to build financial sectors (Meenai 2010: 28).

Table 3.1: Micro finance figures (Global): An Overview (31.12. 2010)

<table>
<thead>
<tr>
<th>Number of MFIs Reporting</th>
<th>3652</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of Clients</td>
<td>2,053,14502</td>
</tr>
<tr>
<td>Total Number of Women</td>
<td>1,533,06542</td>
</tr>
<tr>
<td>Total Number of Poorest Clients</td>
<td>1,375,47441</td>
</tr>
<tr>
<td>Total Number of Poorest Women</td>
<td>1,131,38652</td>
</tr>
</tbody>
</table>

(Source, Maes & Reed, 2012:3)

As of December 2010, 3652 micro finance institutions are operating throughout the globe with 205,314,502 clients. It is estimated that 137,547,441 of the clients were among the poorest when they took their first loan. Of these poorest clients, 82.3 per cent are women. With an average client family consisting of five members, loans to 137.5 million poorest clients affect a total of 687.7 million people.

3.4. APPROACHES TO MICRO FINANCE

Christen & Drake (2002) identifies two different approaches in the evolution of the microfinance industry—poverty lending approach and financial systems approach. Under poverty lending approach, the focus is on
reducing poverty through credit and other services to the poorest of the poor. Credit is provided by the institutions that are funded by donor and Government subsidies. The Financial systems approach advocates commercial microfinance for the economically active poor.

Many institutions using the poverty lending approach provide micro credit to poor borrowers at low cost. But these institutions are typically not stable, primarily because their interest rates on loans are too low for cost recovery. In addition, they do not meet the demand among the poor for voluntary savings services. In contrast, the financial systems approach focuses on commercial financial intermediation among poor borrowers and savers; its emphasis is on institutional self sufficiency. With worldwide unmet demand for microcredit and characterized by requests from creditworthy borrowers for continuing access to loans of gradually increasing size, government and donor funds cannot possibly finance microcredit on global scale. But within the past several decades, fully sustainable commercial micro finance intermediaries have emerged. These intermediaries provide loans and voluntary savings services to the economically active poor, and they offer easy access at reasonable cost. Their loan portfolios are financed by savings, commercial debt, and for-profit investment in varying combinations (Robinson, 2009:46).

The Microcredit summit held in Washington DC, in 1997 developed a charter stating that ‘credit is more than business. Just like food credit is a

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9 The primary goal of the two approaches to microfinance is similar. The debate is on the means. Large scale sustainable microfinance can be achieved only with a financial system approach.
human right\textsuperscript{10}. The second Microcredit Summit that was held in New York in 1998 highlighted that, if credit were a human right, the poverty lending approach would not enable the right to be widely exercised. The first reason is that the scale is well beyond the reach of donor and government funding. The second is that a onetime microloan carries little development impact. Low income people throughout the developing world need continued access to savings and credit services, with the option of gradually increasing the size of their loans as borrowers become qualified through repayment records and enterprise performance\textsuperscript{11}.

3.5. SIGNIFICANCE OF MICRO FINANCE

Micro finance programmes have unleashed the hitherto hidden and untapped potential of the poorest. Micro finance plays a significant role in mobilizing the poor, especially the women, organizing them into groups, building their capacity for self management at the grassroots and enabling them to deliver and access a wide range of services including credit, savings, insurance and business development. These achievements of Micro finance

\textsuperscript{10} The Microcredit Summit Campaign is a global network linking all actors in the microfinance sector that sets and regularly measures progress toward bold goals for using microfinance to end poverty. It announces progress towards these goals through the publication of the State of the Microcredit Summit Campaign Report. The first Microcredit Summit was held February 2–4, 1997 in Washington, DC. The first summit had approximately 3,000 in attendance from 137 countries. The last summit was held on November 14–17, 2011 at Spain.

\textsuperscript{11} It is also noted that there are two models of micro finance- Latin American model and South Asian model. The Latin American model or ‘commercial model’ has recognized from the outset the significance of allying with the formal financial system rather than donors or targeted government programmes. Focus on social and community development, on the poor and marginalized women is conspicuous by its absence in this system. There is an accent on enterprise creation and growth. The South Asian Model, largely drawing on the strategic and operational features of the grameen model, has its spotlight on women and poverty.
are more significant especially in the face of myriad of failures in
development policy, towards poverty reduction (Lalitha, 2008:9).

Micro finance is widely appreciated for the ‘empowerment’
dimension of finance, of the extent to which it can give ordinary people and
the poor, access to opportunity and the ability to escape ossified social
structures. Micro finance has several strengths. Even during the social
banking phase, it is undeniable that bureaucratic functioning and haughty
attitude of officials made banks highly unapproachable for the rural poor.
Going into bank branch has always been a forbidding experience for village
people, especially women. The requirement of collateral, as also the fact that
credit would only be provided for productive purposes, made it harder for the
poor to access bank loans. Banks do not provide credit even for health and
education that can hardly be described as “consumption”. With the advent of
reforms, access has fallen further. In such a context, microfinance offers a
new ray of hope for the rural poor. It makes finance accessible and available
for consumption needs. Freedom from the need for collateral is the other
great attraction of microfinance\textsuperscript{12}.

Micro finance through Self Help Groups mechanism has grown
rapidly since late 1990s due to the following reasons:

1. Ability to reach out to the poor.
2. Promise to financial sustainability.
3. The potential to build on traditional systems.

\textsuperscript{12} Micro finance becomes distinct from other regular credit where not only the credit amount is
small and the clientele are poor, but also credit is provided with a collateral substitute,
instead of the traditional collateral; and non-financial services are also provided for
increasing the productivity of credit (Dasgupta, 2005).
4. Provision of informal and flexible financial services to the poor for meeting their consumption and livelihood needs.

5. The availability of better financial products as a result of experimentation and innovation, and


The concept of micro finance has gained currency among donors and practitioners for its two significant roles: (1) in freeing the credit market in the developing countries of its myriad dysfunctional ties that arise mainly from political interference, imprudent financial policies and systematic deficiencies: and (2) in replacing state sponsored directed credit programmes for poverty alleviation, which are seen as inherently non-viable because of high doses of subsidy, by private initiatives. Though the term micro finance essentially means provision of small credit, savings and allied services to those operating at the lower end of the income spectrum, it has also come to represent a system of decentralized financial service delivery, where people’s organizations act as facilitators or intermediaries (Nair, 2000:303).

3.5.1 Saving mobilization

The poor people are at a disadvantage in money management because the financial institutions that serve the better-off rarely cater to the poor. At the same time the poor are in greater demand for money. There are three common ways used by the poor to raise the required finance. They are:

- Selling assets they already hold or expect to hold
- Mortgaging those assets.
- Finding a way to turn savings into large lump sums.
The first two methods require that the users have assets, and poor people have very few assets. This fact severely limits the effectiveness of these methods, making them neither reliable nor sustainable, only the third method is free of this limitation. The third method enables poor people to convert their small savings into lump sums. This requires the users to have a flow of savings, however small or irregular. It allows them to exploit their capacity to make savings by offering a variety of mechanisms by which these savings can be transformed into lump sums. Saving up is the most obvious way to convert savings into lump sums. It allows a lump sum to be enjoyed in the future in exchange for a series of savings made by them. Another way is, to get someone to give the lump sum first, as a loan, and then use the savings to repay the loan overtime. Such loans can be thought of as ‘advances against future savings’. This is called saving down. But just as the poor find it hard to find a safe place to save up, many of them also find it very hard to find someone to help them ‘save down’. The role of money lenders come in this situation.

The saving method enables the poor to convert the small savings into lump sums through a variety of mechanisms such as savings deposit, loans and insurance. The savings strategy helps the poor to develop an asset base to protect against risks and shocks in the future. However, the success of this strategy depends on the understanding of the informal arrangements that the poor themselves innovate and use varies from region to region (Arun et.al, 2009: 8)

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13 Another way of savings is ‘Saving through’, in which the saver goes on making a more or less continuous stream of savings that get converted into a lump sum at some intermediate point of time. Insurance policies do this.
The greatest triumph of micro finance is the demonstration that poor households can be reliable bank customers. The received wisdom at the start of the 1970s held that substantial subsidies were required to run financial institutions serving poor households in low-income countries. Government banks often shouldered the task of serving the poor, usually with a focus on farmers. However, most state-run banks were driven by political imperatives, and so they charged interest rates well below market rates and even then collected loan repayments only half-heartedly. The risks inherent in agricultural lending together with the misaligned incentives led to institutions that were costly, inefficient, and not particularly effective in reaching the poor (Morduch, 2008:3).

3.6. MICRO FINANCE INITIATIVES

3.6.1. Grameen Bank (Bangladesh)

Grameen Bank is the largest provider of micro-credit in Bangladesh. It was founded in 1976 at Chittagong district of Bangladesh by giving small amounts to the borrowers to buy raw materials. The borrowers repaid the money after selling the goods. The process was repeated again and again and the institution expanded its operations to other districts of Bangladesh. The Bank was constituted under Grameen Bank Ordinance of the Government of Bangladesh in 1983.

Mohammed Yunus, founder of the bank realized that getting credit from the banking without collateral was an impossible task for the poor. He obtained necessary funds from the banks for on-lending without any collateral to the poor who were organized into small groups. The idea worked well and demand for such credit increased manifold. The Bank lends without any collateral security to five member groups. There is no
membership fee and saving is not compulsory for access to loan in the first instance. Saving starts after first loan, when repayment starts in weekly installments. Members can take loans any number of times after repaying earlier loans, which are generally repayable in 50 weekly installments. Loans were given for various income generation activities as well as for education purposes with the interest rates ranging from 5 to 20 percent per annum. Repayment installments consisted of principal, interest and compulsory deposit of the borrowers (Jayaraman, 2001:34; Sharma, 2008:12; Yunus, 2004: 4078).

Table 3.2: Grameen Bank-Performance Profile (As on July 2012)

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Item</th>
<th>Amount*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cumulative amount disbursed since inception</td>
<td>12480.85</td>
</tr>
<tr>
<td>2</td>
<td>Cumulative amount repaid since inception</td>
<td>11160.17</td>
</tr>
<tr>
<td>3</td>
<td>Rate of recovery</td>
<td>96.83</td>
</tr>
<tr>
<td>4</td>
<td>No. of Microenterprise loans</td>
<td>4260210</td>
</tr>
<tr>
<td>5</td>
<td>Amount disbursed</td>
<td>1841.82</td>
</tr>
<tr>
<td>6</td>
<td>Amount repaid</td>
<td>1556.22</td>
</tr>
<tr>
<td>7</td>
<td>Number of members</td>
<td>8375456</td>
</tr>
<tr>
<td>8</td>
<td>Female members</td>
<td>8049486</td>
</tr>
<tr>
<td>9</td>
<td>Male members</td>
<td>325970</td>
</tr>
</tbody>
</table>

* All amounts are in million US Dollars.


Since inception the Grameen Bank disbursed an amount of 12480.85 million US Dollars. The rate of recovery is 96.83%. The number of Microenterprise loans disbursed is 4260210 and the amount disbursed stands
at 1841.82 million US Dollars. The organization has 8375456 members among which 8049486 members are females (96.11%).

Grameen Bank follows group approach for lending. The most important principle is ‘the bank will go to the client; the client will not come to the bank’. The entire loan procedure is free from any rigid observance of legal procedures. The group structure of the borrowers has not only provided excellent collateral for the loans but also facilitated loan repayment and furnished the institutional framework for organization of joint social and economic activities. Lending, although directed towards amelioration of the poorest of the poor, is devoid of any subsidies. The essence of the Grameen Bank project is social development; credit is used as a catalyst in the process. Without the catalyst, the social development process is thwarted and for attaining this goal, all members have agreed upon certain obligations called the “16 decisions”.

The credit programme of the bank consists of four different kinds of loans. The choice of the activity is left to the borrower. The quantum of loan is also left to be decided by the group and no unit costs are prescribed by the bank. There is no practice of ensuring the economic viability or technical feasibility or the skills of the borrower, to sustain the activity or even the availability of the market for the products. These all are left to the judgment and decision of the borrower and the other group members. The bank believes in the philosophy that the rural poor have acquired ‘survival skills’ and they know which type of activity could assure a living (Karmakar, 1999:266). The Grameen Bank initiative is widely appreciated for two

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14 See Annexure 2 for the 16 principles of Grameen Bank operation.
innovations: lending primarily to women and relying on support groups to substitute for collateral (Engler, 2009:82).

The Grameen Bank lending procedure is simple and devoid of any legal formalities. When a Group is formed, all members of the group are not entitled to loans simultaneously. The most deserving two members are first considered and the other members get assistance in a phased manner with the group chairman receiving the loan last. This practice ensures endurance and appreciation of the priorities in need of the deserving among group members. A second loan is not given to any member till the loans of all group members are settled fully. Group pressures acts as collateral for bank loans. If a member defaults, the responsibility for payment of dues falls on the other members and if the entire group defaults, responsibility for payment falls on the centre (Karmakar 1999:269).

The primary mission of Grameen credit is to help families to overcome poverty; its intention is to create ‘self employment for income generating activities and housing, as opposed to consumption’. Grameen credit aims to promote the skills of the poor which remain ‘unutilized or under-utilized’ in order to bring them out of poverty by unleashing (their) energy and creativity to answer poverty. (Syed, 2009:4).

The Grameen Bank’s microcredit model has become an integral part of development thinking and earned global attention as a new form of banking\textsuperscript{15}. The distinguishing features of Grameen-credit are:

\textsuperscript{15} In 2006 the Nobel Peace prize was awarded to Grameen Bank and its founder Mohammed Yunus as a recognition for the grameen project. Source, http://www.grameeninfo.org/index.php?option=com_content&task=view&id=26&Itemid=0, Accessed on 30-08-2012.
1. It promotes credit as a human right.\textsuperscript{16}

2. The mission is to help poor families to help themselves to overcome poverty.

3. It is not based on any collateral or legally enforceable contracts but on trust.

4. It is offered for creating self employment for income generating activities and housing for the poor.

5. It provides service at the doorstep of the poor, based on the principle that the people should not go to the bank, but that the bank should go to people.

6. It requires that borrowers join a group in order to obtain loans. Loans are received in a continuous sequence, with new loans becoming available as previous loans are repaid.

7. It comes with both obligatory and voluntary savings programmes for the borrowers.

8. It provides three types of loans; income generating loans, housing loans, and higher education loans for the children of Grameen families.

9. It gives high priority to building social capital through the formation of groups and centers and developing leadership through the election of group and centre leaders. (Yunus, 2004: 4078)

\textsuperscript{16} Grameen Bank has taken up a special programme in 2002, called Struggling Members Programme exclusively for the beggars. Over 111,296 beggars have joined the programme. Total amount disbursed stands today at 2.44 million US Dollars. See http://www.grameen info.org/index.php?option=com_content &task=view&id=26&Itemid=0, Accessed on 30-08-2012.
The problems faced by Grameen Bank in the late 1990s led to piloting a number of experiments with new products and new ways of managing service provision. By early 2001 these had been consolidated and Yunus announced the launch of “Grameen II” - the replacement of the Bank’s earlier products by a new range on different terms. The prime loan product of Grameen II is the basic loan. In addition, the housing loan, and the higher education loan run parallel to the basic loan. All borrowers start with the basic loan without any difficulty, and meet all the credit needs with the basic loan. If things do not go smoothly for the member, or if she faces some difficulty in repaying the basic loan, according to the repayment schedule, there is an exit option. The Bank calls this a flexible loan, which is simply a rescheduled basic loan, with its own set of separate rules. The main difference with past practice is that borrowers are no longer seen as defaulters if they are unable to pay their loans. They have a legitimate way to remain within the folders of the organization (Yunus 2004:4079). The results have been impressive. The Bank has not only been able to stabilize itself but has, in effect, re-launched itself and its trajectory (Hulme, 2009:168; Kalpana, 2006 :5111; Sarkar , 2008 :19).

3.6.2. Other Major Micro finance Initiatives

Bangladesh Rural Advancement Committee (BRAC) was established in 1972 for providing relief and rehabilitation to the refugees in Bangladesh. It focused on community development of the rural poor and later it adopted the group target approach consisting of the landless and the poorest, particularly the women. BRAC undertakes both credit and non-credit related activities. Important credit activities consist of Rural Development Programme, and Micro Enterprises. The aim of BRAC is to help the poor, who are willing to embark on activities to better their lives, through its
savings and credit programme. The programme helps in creating a financial base for the members of the group (Jayaraman, 2001:35).

The Association for Social Advancement (ASA) of Bangladesh is another micro finance initiative. It was established in 1978 by Shafiqual Haque Choudhury and a team of people who were then working for other established NGOs, but who themselves were arguing for a better, more radical way to alleviate the exploitation of rural villages caused by the 1971 Bangladesh atrocities. Savings in ASA were at first made in small, weekly and compulsory amounts and could not be withdrawn until the member left the group. ASA preached double self reliance –via income from loans and income from loan supported businesses (Rutherford, 2009:136; ADB, 2000:14). Up to October 2011 ASA’s cumulative loan disbursement has been US$ 6,326 million while loan outstanding (principal) is US$ 591 million among 4.43 million borrowers.

Bank for Agriculture and Agricultural Cooperatives (BAAC) was set up in Thailand in 1966 for providing direct loans to farmers and cooperatives. The BAAC is a conglomerate of the national bank, commercial banks including RRBs, and the apex state cooperative institutions in Thailand. The bank lends directly to individual farmers and farmers’ institutions to promote agricultural occupations. BAAC is currently concentrating on lending through informal groups (SHGs). BAAC lends money to individual farmers through ‘group lending’ and these groups are

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17 ASA has currently over 2.2 million members forming different groups with special emphasis on saving practice and 8,000 employees engaged in disbursing and collecting loans and savings deposits. See, http://www.asa.org.bd/atalgance.html, accessed on 18-08-2012.

commonly known as ‘joint liability groups’. The method of administering credit by group loaning has ensured a high rate of loan repayment. BAAC’s success lies in the small-sized groups of 8 - 15 people. The BAAC has earned the rural people’s goodwill and besides meeting the farmers’ needs, has become a reputed financial institution.

Banco Solidaria of Bolivia (BANCOSOL) was the first private commercial bank in the world dedicated exclusively to microenterprises. It lends exclusively to the poor and has a very high repayment rate (Sharma 2008:18). BANCOSOL's roots date back to 1986, when Accion and Bolivian business leaders established a nonprofit micro-lending entity called PRODEM. By 1988, PRODEM had grown so large that it was outstripping the capacity of the local banking system to supply it with lending capital. In 1992, PRODEM joined with Accion, Calmeadow Foundation, Bolivian banks and other investors to establish BancoSol.

The Bank Rakyat Indonesia (BRI) is notable for its success in delivering conventional banking services to low-income clients. In 1984, BRI established the Unit Desa (UD) or village bank system to reach the rural clientele. The scheme operates as a separate profit centre and has received a high degree of autonomy of operation from BRI. The scheme has developed products that have enabled it to work profitably with low-income households

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19 Earlier the institution was extending loans directly to cooperatives and farmers associations. But the repayment was relatively poor and this led to shift its thrust to financing informal SHGs.

and it is more convenient for bank clients\textsuperscript{21}. Deposit mobilization has been very successful under this scheme which relies on agents who have extensive knowledge about borrowers and local systems. A client may also take out loans with a range of convenient terms and repayment frequencies (Arun et.al, 2009:11; ADB. 2000:30).

3.7. MICRO FINANCE IN INDIA

The origin of the Micro finance movement in India is traced back to the enactment of the Co-operative Credit Societies Act in 1904. The Co-operative credit system was established to combat the problems of usury and indebtedness of the farmers. It aimed to bring together poor people for promoting thrift and mutual help for development. After independence the Government of India appointed several committees to review the arrangements for institutional credit delivery\textsuperscript{22}. The committees were more sector oriented than people centered, they dealt more with the need for streamlining the flow of credit to the rural sectors, mainly agriculture sector, neglecting access to institutional credit for the asset less rural poor. The nationalization of commercial banks in 1969 ensured the flow of credit to priority sectors, but they failed to provide specialized services to the rural poor in remote areas. In 1975 the Regional Rural Banks were established under the provisions of ordinance promulgated on 26-08-1975 and the RRB

\textsuperscript{21} The flexibility in saving services is an important aspect of the UD scheme, which offers convenient banking hours, a friendly atmosphere, unconstrained withdrawals and a range of incentives including bonuses and raffles.

\textsuperscript{22} The important committees formed by the Government were Rural Banking Enquiry Commission 1949, All-India Credit Survey Committee 1951, All India credit Review Committee 1966, Working Group on Rural Banks 1975, Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development 1979 and Agricultural Credit Review Committee 1986.
Act 1976 with the major objective of developing the rural economy (Mosley, 1996: 268).

The establishment of National Bank for Agriculture and Rural Development (NABARD) in 1982 is another important step by the government for providing credit to the weaker sections of the rural economy. NABARD as part of the programme of banking with the poor adopted a twin strategy. Firstly they focused on the development of rural non-farm sector through various promotional schemes by imparting training. Secondly NABARD extended refinance support on liberalized terms to the credit institutions.

In India, the micro finance industry has grown under two different system of patronage. While the SHG Linkage programme anchored by NABARD has the patronage of the State and formal banking institutions, a parallel system promoted by non-state agencies has been depending almost exclusively on subsidized external grants to finance both social mobilization and on lending. Both target the poor and women, predominantly (Nair, 2005:1695).

Since the early nineties, the informal groups or Self Help Groups, promoted by NGOs are recognized by financial institutions and Government of as a potent tool for empowerment of rural women. This has facilitated providing institutional loans to women in rural areas.

Reserve Bank of India (RBI) recognized registered SHG federations as Business Facilitators and Correspondents. The Insurance Regulatory and development Agency of India (IRDA) recognized SHG federations as agents of the Insurance Companies for providing micro-insurance services. These initiatives are clear indications of the SHG federations gaining recognition
and legitimacy in financial interventions in India. The draft 11th Five Year Plan of the Planning Commission of India for the period 2007 to 2012 proposes SHGs and SHG federations as a country wide strategy for poverty reduction.

In order to address the difficulties of MFIs, two measures were proclaimed in the Union Budget 2005-06. Firstly, the existing Micro Finance Development Fund maintained with NABARD would be redesigned as Micro Finance Development and Equity Fund (MFDEF) and its corpus enhanced from the existing Rs.100 crore to Rs. 200 crore (NABARD, 2009:44). It was anticipated that the MFDEF, besides providing capacity building and refinance support to MFIs, would also provide them with equity support. The fund would be managed by a board, which would also suggest appropriate legislation for the sector. (Tripathy, 2010:118)

3.7.1. NABARD

First official interest in informal group lending in India took shape during 1986-87 on the initiative of the NABARD. As a part of this broad mandate, NABARD initiated certain research projects on Self Help Groups as a channel for delivery of micro finance in the late 1980s. During 1988-89 in collaboration with some of the member institutions of the Asia Pacific Rural and Agricultural Credit Association (APRACA), NABARD undertook a survey of 43 NGOs in 11 states in India. The objective of this study was to estimate the functioning of micro finance SHGs and their collaboration.

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23 NABARD has issued guidelines to provide financial support to Self Help Group Promotion Institutions (SHPIs) under its Micro Finance Development and Equity Fund (MFDEF) for promoting SHG federations to undertake social intermediation role.

24 In this context the MYRADA sponsored action research project on “savings and credit management of SHGs” during 1986-87 needs special mention. The project was partially funded by NABARD.
possibilities with the formal banking system. Both these research projects threw up encouraging possibilities and NABARD initiated a pilot project called the SHG Linkage Project. After identifying the key role of NGOs in organizing and promoting SHGs, NABARD launched a pilot project in 1992 for linking 500 SHGs with Commercial Banks. Linking of SHGs with banks has evolved as a cost effective and transparent supplementary credit system for reaching the unreached rural poor with advantage to both the banks and the rural poor. (Jayaraman, 2001:18, Satish, 2005:1732) NABARD has played a vital role in conceptualizing the SHG-Bank linkage programme and spearheading its dissemination throughout the country by capacity building and by providing training to bankers, government officials, NGOs and other partners about the concept. (Pramod, 2006:81, Basu and Srivastava, 2005:1752).

NABARD coordinates the microfinance activities in India at various levels. These include organizing workshops, seminars etc. for experience sharing and dissemination of best practices in SHG/microfinance. The Microfinance Bill 2007 has designated NABARD as a regulator of microfinance sector and seeks to empower NABARD to frame a scheme for appointment of microfinance ombudsman for settlement of disputes between eligible clients and Microfinance Organizations. NABARD has initiated a separate department called Micro Credit Innovations Department in 1998 and has set up a Micro Finance Development Fund (MFDF). A “Women SHGs Development Fund” with a corpus of Rs. 500 crore has been created to empower women by promoting their self help groups in 2012 by the Finance Minister in his budget speech. This fund will also support the objective of “Aajeevika” (the National Rural Livelihood Mission) and it will empower women SHGs to access to bank credit. (NABARD, 2012: 67)
The NABARD has been striving for the development of MFIs through various initiatives like capital/equity support to increase their leverage for accessing funds from commercial banks, revolving fund assistance (RFA) for on-lending of SHGs, as also grant support for availing the services of reputed rating agencies to get themselves rated for enhancing the comfort level of bulk lenders.

There are two approaches towards microfinance in India. One model looks upon it as an enabling tool to escalate the rate of economic growth. Poverty is officially viewed from the income or consumption perspective, meaning thereby that insufficiency of income denies the poor fulfillment of their consumption needs. There is a demand for targets, numbers, larger volumes of credit thereby signifying growth and productive outputs. This is the quantitative school of thought.

The other approach is concerned with opportunities that the poor have access to and improve the quality of their lives. It puts human needs centre stage rather than structures such as markets or governments. The crucial role of opportunities is strongly influenced by social circumstances and public policy, especially those relating to education, health and other basic aspects of the quality of life. Lack of access to business opportunities makes deprivation intense and powerful. Vulnerability to external shocks reinforces the poor people’s sense of deprivation. Social intermediation facilitates creation of social capital, hastening access to social opportunities and coping with external shocks. This school of thought is obviously qualitative instead of quantitative (Karmakar, 2009: 46).

25 The Micro Finance Development and Equity Fund (MFDEF) established by GOI in NABARD, is also being utilized for supporting such initiatives.
3.7.2. Micro Finance Delivery Models

India is the home for largest micro finance system in the world. There are a number of delivery channels of microfinance in India. Various traditional as well as innovative approaches have been adopted by Microfinance Institutions for increasing the credit flow to the unorganized sector. The Self Help Group Model was developed by the NGO sector under the common belief that the poor are capable of self reliance and the NGOs need only primary function as enablers, educators and catalysts of change. The group mobilizes savings among its members and makes need based loans to the members out of the pool of funds created. The internal transactions are strengthened first, and subsequently the groups are linked with banks for supplementary financial assistance. NGO provides training to the group for income-generation activities and also assistance in forward and backward linkages. A group normally stabilizes within three to five years and the NGO may decide to withdraw from supporting the SHG and move on to new groups.

MFIs in India have emerged under the following three categories:

1. Not-for-Profit MFIs (Eg. Grameen Model groups)\(^{26}\)

2. Mutual Benefit MFIs (Eg. SEWA Bank)\(^{27}\)

3. For-Profit MFIs (Eg. BASIX, SHARE)\(^{28}\)

\(^{26}\) This category includes Societies registered under Societies Registration Act, 1860 or similar State Acts, Public Trusts registered under the Indian Trust Act, 1882 and Non-profit Companies registered under Section 25 of the Companies Act, 1956.

\(^{27}\) This model includes State credit co-operatives, National credit co-operatives and Mutually Aided Co-operative Societies (MACS).

\(^{28}\) This category includes Non-Banking Financial Companies (NBFCs) registered under the Companies Act, 1956 and Banks which provide MF along with their other usual banking services.
In the Grameen Bank Model the potential clients are asked by the MFO to organize themselves into groups. The members make regular savings with the MFO, according to a fixed compulsory schedule, and they also take regular loans. They can have individual savings and loan accounts with MFO, and the main function of the groups and centers is to facilitate the financial intermediaries in process, through performing tasks like weekly meetings, collecting savings and loan repayments, guaranteeing loans and appraising loan applications of the fellow members. The most remarkable aspect of the Grameen Bank has been its high loan recovery rate and it is accepted as an important alternative credit delivery system to mainstream finance. The other important models are Federated Self Help Group Approach followed by PRADAN and MYRADA, Cooperative model and Non Banking Finance Company model (Sheela, et al., 2009:79, Satish, 2005:1732, Karlan & Goldberg, 2011:23).

3.7.3. **Linkage between Formal and Informal Sectors**

The Banking institutions in many developing economies fail to meet the loan requirements of the poor mainly because the poor often have no collateral to offer. The banks also have no effective screening mechanism to screen the loan applications. Further there is the issue of enforcement of repayments. Microcredit programmes have been successful in using peer monitoring and social sanction to overcome these problems. (Guha & Gupta, 2005: 1471)

For bridging the gap between demand and supply of funds in the lower rungs of rural economy, the formal sector took the initiative to develop a supplementary credit delivery mechanism by encouraging institutional arrangement outside the financial system. With the launching of NABARD’s
Microfinance - An Overview

Pilot scheme in 1992, Microfinance gained visibility in the Indian development landscape. With the SHG Linkage programme introduced in 1992, the NGO sector has also emerged as a crucial partner in the rural credit delivery mechanism (Kulshrestha, 2000:25).

In 1993 the Reserve Bank of India has instructed all commercial banks to participate and extend finance to SHGs, extending this to Regional Rural Banks and Cooperative Banks. The formal financial institutions extended loans to highly performing SHGs in certain multiples of the accumulated savings of each SHG. The RBI allowed banks to decide on the interest rates to be charged to the SHGs\(^{29}\). These loans were sanctioned to the SHG as a whole and did not contain any instructions on disbursements among the members. The groups prioritized the purpose for which loans were to be given to its members and the purposes varied from emergency and consumption needs to acquisition of income-generating assets. The group was collectively responsible for the repayments. The individual members maintained their own accounts with SHG. Banks and Non Governmental organizations did not have direct contact with the individual members\(^{30}\). (Arun et.al. 2009:12,)

3.7.4. Small Industrial Development Bank of India (SIDBI)

The Small Industrial Development Bank of India (SIDBI) was established in 1990 to serve as the principal financial institution for promotion and development of industry in the small scale sector as well as to

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\(^{29}\) Source, RBI Master Circular on Micro Credit, RBI/2010-11/407.RPCD. FID.BC.No.53/12.01.001/2010-11, Dated 14-02-2011.

\(^{30}\) It is noted that the SHG linkage system is ideal for banks. Any branch can do business with SHGs without making significant changes in its operating procedures. (Satish, 2005:1736)
co-ordinate the functions of other institutions engaged in these aspects in the sector. The Bank launched the Micro-credit Scheme in 1994 for extending financial assistance to the rural poor, particularly women through NGOs for taking up income generating activities at the micro level. The Scheme envisages provision of soft loan assistance at nine percent per annum to accredit NGOs for on-lending to the poor women (SHGs/individuals) to an amount not exceeding Rs. 25000/- per borrower for promoting micro-enterprises. Savings form an integral part of the programme and members of the SHGs are encouraged to plough back their savings to the group corpus for building up borrower’s equity over a period of time\(^\text{31}\). The bank has set up ‘SIDBI Foundation for Micro-Credit’ in November 1998 with an initial corpus of Rupees one billion with a view to up-scaling the activities under Micro Credit Scheme. The objective of the foundation is to raise the standard of living of the poor, with focus on women, by meeting their genuine credit needs. It also extends financial support to well managed Micro Finance Institutions for on-lending to poor and for strengthening the MFIs financial, technical and managerial capabilities as well as improving their credit absorption capacities.

3.7.5. Rashtriya Mahila Khosh (RMK)

The National Credit Fund for Women or Rashtriya Mahila Khosh (RMK) was constituted in 1983 by the Government of India with the objective of promoting support schemes for improving the facilities of credit to women, which could be used as an instrument of socio-economic change and development. It also supports experiments in the formal and informal

\(^{31}\) A salient feature of the scheme is the grant assistance extended by the bank for developing the capacity of the NGOs to run credit programme efficiently and to enhance the credit absorption capacity of the borrowers.
sectors using innovative methodologies to reach poor women with credit and other social services. The RMK was established with an initial corpus of Rs. 310 million, contributed by the Ministry of Human Resource Development. Up to March 31, 2012, RMK has sanctioned Rs. 32737.09 lakh of loan benefitting 705694 poor women in the country\textsuperscript{32}.

3.7.6. **Swarnjayanti Gram Swarozgar Yojana (SGSY)**

The individual based programmes failed to achieve the core issue of attaining sustainable income generation due to the reasons of focus on achieving targets and lack of co-ordination among implementing agencies. On the basis of the evaluation studies and the recommendations of the Hashim Committee, the Government of India restructured all poverty alleviation programmes under one umbrella scheme called Swarnjayanti Gram Swarozgar Yojana (SGSY). Swarnjayanti Gram Swarozgar Yojana was introduced on 1 April 1999\textsuperscript{33}. SGSY is a holistic programme covering all aspects of self-employment, viz., organization of the rural poor into Self Help Groups, and their capacity building, planning of activity clusters, building up facilities of infrastructure technology, credit and marketing. It is a process oriented scheme which involves organization of the rural poor in SHGs, their training and capacity building to enable them to evolve into a self managed organization. It aims at establishing a large number of micro enterprises in the rural areas, building upon the potential of the rural poor. It is constructed on the basis of the belief that the rural poor in India are competent and on giving the right support they can be successful producers.

\textsuperscript{33} Swarnjayanti Gram Swarozgar Yojana programme replaced self-employment programmes like IRDP, TRYSEM, DWCRA, SITRA etc.
of valuable goods and services. In this scheme credit will be the critical component and subsidy is only an enabling element. (Tapan, 2010:18)

The SGSY was ill-equipped to meet the challenges of the agenda of gauging the suitability of differently placed households for various forms of employment programmes depending on their initial asset position or possession of prior entrepreneurial experience and training or skills (Kalpana, 2005: 5406). Another important constraint on replicating the success of the SHG model is the lack of committed and motivated volunteers who opt to work for the rural poor.34

3.7.7. Informal Sector

A number of Non Governmental Organizations (NGOs) and Voluntary Agencies in the country played an important role, either independently or in collaboration with apex institutions, in promoting microfinance as a viable system for helping the poor. These organizations have adopted different models in promoting programmes of microfinance.

SEWA Bank is one of the oldest microfinance institutions in the world, predating even the Grameen Bank of Bangladesh. Registered as a Cooperative Bank in 1974, it has been pioneering individual lending in the urban setting of Ahmadabad35. SEWA, under the leadership of Ela Bhatt, has done a miracle for informal women workers in Gujarat and Maharashtra. It was registered as a trade union and later established as a SEWA bank in

34 It is also observed that the SGSY group, could not sustain itself since there was little in common amongst the group members except the fact that they belonged to the official list of BPL (Motwani, 2005:3351).

35 SEWA Bank is a unique institution in many ways—not only is it one of the only MFIs that offer a comprehensive set of microfinance services but it has remained financially self-sustainable since the beginning of its operations.
1974 - a cooperative bank for poor self employed women at Ahmadabad. Initially, it concentrated on attracting deposits from self-employed women and served as an intermediary to enable its depositors to obtain loans from nationalized banks, which were required to lend the poor at concessional rates of interest. SEWA bank developed a wide range of micro-financial products and has integrated them into a coherent development framework to lift poor people out of poverty; first enabling them to get out of debt and to build their savings until gradually they build their assets both at home and in their businesses. The poor women after borrowing from SEWA bank have successfully broken the vicious circle of subsistence, deprivation and survival. A unique feature of SEWA’s programmes is that they are demand driven and need based, so that the women who create, implement and manage them are also those who benefit from them. (Sharma 2008:71; Fisher & Sriram, 2002:71; Crowell, 2003:18).

Mysore Area Development Authority (MYRADA) based in Bangalore, was established in 1968 to facilitate the resettlement of Tibetan refugees and it has been involved with programmes in the rural areas for the poor. MYRADA believes that assisting the poor in protecting and growing their savings is a clear route to financial independence. When MYRADA started identifying and promoting SHGs by building their institutional capacities, the first activity was to promote was regular savings. Loans were

The first step in Bank’s scheme of financial intermediation is to extend credit to highly indebted women, which will release them from high interest debts with money lenders and provide them better bargaining power with suppliers. The second step is to use the new credit productively and generate more income, which can be used to repay the loan and also plough the surplus into the enterprise. Bank’s mobile workers collect the amount from such women, for deposit in their account, on specific days of the week. The transaction cost for the loans is nominal -one percent to eight percent, which is very low compared to the interest rates of other banks.
promoted only after six months of savings and institutional capacity training. This NGO intervened in the areas rural credit system, development of women and children, resettlement, forestry and watershed management. MYRADA developed an alternative credit system in Bangalore by forming groups and increasing mutual trust among members. The frequent meetings of members helped to create awareness regarding literacy, health issues and importance of saving. Voluntary savings groups were formed and they got finance from NABARD and other government agencies. MYRADA attempts to bridge the social capital by forming management group and regional federation as well as to link the members with commercial banks (Jayaraman, 2001: 27; Fernandez, 2007:1185).

BASIX was set up in 1996 as a group of companies that extends credit for agriculture allied and the non-farm sector activities. Their mission is to promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner. BASIX focuses on subsistence workers, micro enterprises as well as small and agro-enterprises as its clientele and focus on livelihood promotion rather than credit delivery. BASIX has been an innovative pioneer within the Indian Microfinance sector and has deeply influenced that sector. (Fisher & Sriram, 2002: 140)

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37 MYRADA believes in social interventions rather than on financial intermediation and, therefore, envisages its role in microfinance as a Self Help Promotion Institution than as an MFI.

38 The company also strives to yield a competitive rate of return to its investors so as to able to access mainstream capital markets and human resources on a continuous basis. This is perhaps the only MFI in the country with profit as a corporate goal, thereby demonstrating that it is possible to temper commercial considerations simultaneously with a serious concern for the poor.
Share Microfinance Limited (SML) was founded in 1999 by the Society for Helping Awakening Rural Poor through Education (SHARE), an NGO registered as a society in AP. It started units in the Bangladesh model. To access larger funds SHARE decided to register a public limited company for profit, called SML. Loans have been provided without collateral and are available for agriculture and non-agricultural activities as well as for housing and improvement in sanitary conditions. SHARE is financially supported by NABARD, SIDBI, HUDCO, The World Bank, FWWB, Ford Foundation, Tata Trust, and IDS. The functioning of SHARE helped to reduce the dependence of money lenders and in the diversification of the rural economy. (Rajivan, 2005: 120).

Tamil Nadu Women’s Development Project (TWDP) started in 1989-90 with the assistance of International Fund for Agricultural Development (IFAD), Washington. Up-liftment of women and their families as well as their empowerment were the main objectives of the project. NGOs were involved in selecting target groups and formed their self help groups within the villages thereby to inspire, motivate and guide the rural women by giving them microfinance for consumption or production purposes. This project was successful, with 80 percent recovery levels, 8000 SHGs organized by NGOs got refinance from NABARD, 95 percent of the beneficiaries were women SHGs (Karmakar, 1999: 169).

3.7.8. Commercial Micro finance Institutions:

Sustainable microfinance is carried out by commercial institutions that deliver financial services to the economically active poor at interest rates

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39 SML is the first for profit MFI in India, which is also registered with RBI as a Non Bank Finance Company.
that enabled the institutions to cover all costs and risks, thereby generating a profit. Such institutions include banks and, in some countries, savings and credit cooperatives, credit unions, and other non-bank financial organizations. The term Commercial Microfinance Institution refers here both to institutions that provide microfinance to the public and those that serve only their members. It refers to institutions that finance their loan portfolios from locally mobilized savings, those that access commercial debt and for profit investment, and those that use retained earnings to finance their lending (Robinson, 2009:58).

PART-2 : SELF HELP GROUPS (SHGs)

3.8. INTRODUCTION

Microfinance as an alternative source of credit for the poor has received wide attention in the recent years owing to its contribution to poverty alleviation. SHGs ensure the best participation of the poor in credit programme. The fundamental premise of the modern microfinance programmes are based on the concept that borrowers are the best judges of their own situation and know best how to save and how to use credit when it is available. The emergence of SHG as a supplementary credit channel to a business opportunity for the banks is a departure from traditional banking practices. It ensures grass root level involvement of the people in their development work. Over the years of SHGs introduction into the scenario of Micro financing, it has been showing a tremendous achievement in the

40 The term also includes institutions that provide only microfinance as part of a wider set of financial services.

41 The basic philosophy of SHGs lies in the fact that shortcomings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group of such individuals. The collective coming together of individual members is also used for a number of purposes: Education and awareness building, collective bargaining power, and peer pressure. (Meenai, 2010:31)
field of poverty alleviation. It also stresses the role of women in the society by involving them in economic activity. SHG approach, which is essentially women’s dominated approach, believes in up-liftment of this section financially with a purpose of alleviating poverty.

Expansion of the rural credit delivery system since 1947 has not changed the dependence of the poor on money-lenders and commission agents. The poorest of the poor have been excluded from the bank finance. The dependence of the rural poor on non-institutional sources of credit is one of the causes that perpetuate their poverty and restrict surplus generation to maintain their meager economic activities and households. The poverty alleviation and government sponsored schemes in banks have problems in implementation, with more Non Performing Assets (NPAs) than for other schemes and therefore failed to deliver the expected results. Thus, the rural banking institutions are out of step with the changing rural credit. This situation necessitated the formation of self help groups for enabling the poor to participate in the process of development. The SHG model was promoted as an alternative to the available options of financial intermediation. It was at one level rooted in the community and at another level was integrated with the larger banking system. The dealings were on the basis of mutuality, thus providing the power of collective action (Sriram, 2010:10). The SHGs thus became a regular component of the Indian financial system since 1996 and many government departments use the in rural development and in providing credit to the poor women (Karmakar, 2009: 39)

SHG is a small economically homogeneous and affinity group of rural poor women which voluntarily agrees to contribute to a common fund
to be lend to its members as per the decision of the group. The group works for group solidarity, self and group awareness, social and economic empowerment in the way of democratic functioning. The approach towards poverty alleviation should be self-help. The organization holds power and provides strength; it can be an antidote to the helplessness of the poor. SHGs are characterized by small size, usually limited to less than 20 members per group. Homogeneity in terms of socio-economic conditions and levels of living form basis for the group formation.

A small group of individuals become members, and pool their savings on regular basis to form a collective fund. This fund is then rotated as credit amongst the members through self generated norms. Once the initial trust is established, the incentive or motivation for a member is the access provided to financial services through the common pool fund, which is higher than the individual fund saved (Satish, 2005:1732).

Members of SHGs have no risk taking ability, hardly anything to offer as guarantee against availing loans from formal rural financial institutions, and limited earning opportunities. However, thrift, credit and income generating activities emerged as the major activities of SHGs. In

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42 The SHGs in India are informal groups; their legal status has not been defined. What they initially intended was to bring together people particularly economically weaker sections and to undertake activities of mutual interest.

43 The size of 20 has been made mandatory because any group larger than this would need to be registered under the Indian legal system. These groups are expected to foster true democratic culture where all the members participate actively by taking part in the debate and decision-making process which is possible only in small groups. Groups are expected to be homogeneous so that the members do not have conflicting interest and all the members can participate freely without any fear and adverse consequence. (Dasgupta, 2001: 376).

44 Periodical meetings, on a weekly or fortnightly basis, inculcating the habit of thrift, creating common fund through contributing regular savings from members, on-lending to its members, availing credit support from financial institutions are some of the major binding factors in the group functioning. (Puhazhendhi & Jayaraman, 1999:288).
other words, the SHGs evolved a system of collective savings, group consumption credit, as well as integrating social and economic goals among small groups. (Namboodiri & Shiyani, 2001:403).

Jindal (2009:68) identifies four unique characteristics of SHG concept.

1. It is built around both formal and informal systems.
2. It seeks to promote both social capital and financial capital that are prerequisites for any meaningful development.
3. It allows the flexibility around certain core principles.
4. It allows for interaction between professionalism of bankers and wisdom along with local knowledge and experience of the group.

The objectives of Self Help Groups are to make the women empowered in all respects in general but specifically the objectives are:

• To encourage the rural women to form groups for having a common platform for sharing different views on their common concerned.

• To generate awareness about various affairs relating to their socio-economic, health, cultural, political and legal matters.

• To inculcate savings and credit habits among the members of the group for creating a common fund through weekly small savings to meet the future needs.

• To establish linkages between SHGs of women and banks.

• To train them for maintaining various records properly.
• To impart technical and scientific knowledge to the members for capacity building as well as to undertake various income generating activities in a group or individually.

• To encourage rural poor women for promoting their economic status by utilizing the skills and knowledge acquired through training.

• To promote and establish networking among the existing SHGs.

• To encourage their participation in various development so as to enhance the process of social development in a greater way (Sheela, et al., 2009:84)

3.8.1. Group Based Functioning

The group based approach in microfinance creates a community based structure that builds mutual support and trust among members. It allows for greater economic and social integration of marginalized sections of the society, thereby directly addressing the issues of vulnerability. Group meetings convened at regular intervals facilitate open discussions and help members to share their happiness, sorrow and grief. Members are also encouraged to start employment generating activities, thereby providing them with a regular income. Regular earnings improve their ability to contribute to their household income. Economic contribution, made possible through credit access, also improves the security and welfare of the entire household. It helps women change the lives of their family members raising the overall standard of living of the entire household. (Aluru, 2010:9; Tapan, 2010:23; Reji, 2009:562).
3.8. 2. Savings and Credit Plus Approach

The savings and credit movement help to develop a uniform ideology in creating a movement for the people who do not have access to the formal banking system. This process provides loan facilities through an alternative credit system for production as well as consumption purposes. Further it is based on the ‘savings first’ principle, under which groups first learn to rotate their own money amongst themselves before handling external funds in the same manner. In the process the groups also learn the importance of repayment in the credit cycle. This approach, therefore, evokes and generates a greater respect for credit. The near cent percent repayment rate bears ample testimony to this aspect (Tripathy, 2010:111).

3.8. 3. Womenisation of Credit

Low social status of women stems from the economic status ascribed to them in the rural society resulting in their continued economic dependence on the male members of the household. One major contributing factor to this state of affairs was their poor access to financial support from formal financial institutional sources. The Government of India launched many poverty alleviation programmes to address this issue. But these programmes failed to realize the objectives and the poor women in rural areas continued to lead an impoverished life.

45 The savings mobilized by the group will be utilized for lending (warm money) and after the maturity of the group; banks are encouraged to make loans -“cold (outside) money” - to the SHG in certain multiples of the accumulated savings of the SHG. The bank loans are given without any collateral and at market interest rates. Banks find it easier to lend money to the groups as the members have developed a credit history. There is a spirit of solidarity that peer sympathy co-exists with peer pressure. Both are integral part of group dynamics in SHGs (Kropp, 2002:24; Otero, 2003: 25; Schneider, 1997: 24).

46 For example Development of Women and Child in Rural Areas (DWCRA), an exclusive programme for women, was launched in 1982-83 as a sub-component of Integrated Rural Development Programme (IRDP).
There is growing realization that rural women have been underestimated and discriminated against all walks of life, despite their substantial contribution to the household economy and in turn, the national economy. Women have been deprived of their economic status, especially in rural areas. Rural women, especially belonging to the weaker sections of society have limited access to resources and employment opportunities that would make them financially dependent. Institutional credit is difficult to access as women rarely have any property rights to mortgage or collateral to offer, and they have to depend on rural money lenders for their production cum consumption needs. This entraps them into vicious cycle of perpetual poverty and indebtedness. SHGs are considered as one of the most significant tools to adopt participatory approach for the economic empowerment of women. It is an important institution for improving the life of women on various social components. With various supervisory credit programmes for rural women and the number of SHGs exclusively for women, the neglect of earlier years is being slowly erased.

3.9. CHARACTERISTICS OF SHG

SHGs are mostly informal groups where members pool savings and relent in the group on rotational basis. The groups have a common perception of needs and improvise towards collective action. Most of these groups formed around specific production activities, promote savings among members and use the pooled resources to meet various credit needs of members. Where fund generation is low in the initial phases due to low savings capacities, this is supplemented by external sources loaned/donated by NGOs. Thus SHGs have been able to provide banking services to its members that are cost-effective, flexible and without defaults. Based on
local requirements, SHGs have evolved their own characteristics of functioning. The major characteristics are:

- Group members usually create a common fund by contributing their small savings on a regular basis.
- Groups evolve flexible systems of working and manage pooled resources in a democratic way.
- Loan requests are considered by groups in periodic meetings and competing claims on limited resources are settled by consensus.
- Loans are given mainly on trust with minimum documentation and minimum security.
- The loan amounts are small, frequent, for short duration and are mainly for unconventional purposes.
- The rates of interest vary from group to group in accordance to the purpose of loan. It is higher than that of banks but lower than of moneylenders.
- At periodic meetings, social and economic issues are also discussed.
- Defaults are rare due to group pressure and intimate knowledge of the end use of credit (Karmakar, 1999:231).

3.10. FUNCTIONING OF SHG

Only one person from one household should be eligible to become a member of the group. The number of members should be fixed as per the existing local situation. Each member should be willing to accept the objectives of the group. All members will automatically get voting rights to elect an executive body and it will assist the group members in identifying
the various income generating activities as well as the functioning. Regular weekly/fortnightly/monthly meetings should be held in which attendance will be compulsory. The group should immediately open a savings account in the bank as decided by the group.

The weekly/fortnightly/monthly contribution of each member should be fixed by the group, as compulsory savings and each member should save regularly. Voluntary savings should be encouraged and the ceiling should not be fixed. Nobody should be allowed to withdraw his/her membership before the agreed period. All collections should be made in the meetings and receipts should be issued. Savings should be deposited in the bank within three days of the collection. Individual passbooks should be issued to each member and entries should be made while depositing the amount. Group savings serve a wider range of objectives other than immediate investment. It imposes discipline on group members in developing savings habit. Savings enhance the self confidence of the individual and it covers the individual’s risk.

After mobilizing the savings for a period of six months or as fixed by the group, the group can distribute loans for various purposes like farm based activities, non-farm activities, consumption needs, social needs, education and health expenses etc. The loan application of the member will be scrutinized by the credit group’s committee and the amount should not cross the limit decided by the group. The savings to loan ratio could be 1:2 or more as per the ceiling fixed. No guarantee is required because the group in itself should evolve as a cohesive force wherein mutual trust and faith should be the key factors in its operation. The loan amount should be utilized for the designated purpose.
The group can also approach financial institutions for credit. As the whole group is liable for the amount borrowed from the bank, its responsibility increases in monitoring the members loan usage and prompt repayment. In group lending programmes the functions of screening, monitoring and enforcement of repayment, to a large extent, are transferred from the bank’s agent to the borrowers that are the group members (Vatta, 2003:432).

The SHGs offer a unique opportunity for dispensing cheap credit at the doorstep of the poor with almost assured repayment at the terms and requirements of the poor. The SHGs follow collective decision-making on issues like meetings, thrift and credit decisions. The participative nature of the group makes it a responsible borrower (Tapan, 2010:35). Weekly or monthly repayment schedules have been particularly critical in allowing customers to repay loans in manageable bits. Further the group serves as a set of co-guarantors operating through peer pressure and the group member’s incentive to keep each other solvent so that they themselves do not lose the opportunity to receive a loan. The group serves also as a way to get around perfect information, since members of the group know each other. Thus the transaction costs involved in loan appraisal are reduced, if not eliminated (Padhi, 2003: 4835).

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47 Strategic micro-lenders often attempt to break repayment installments into pieces that are small enough that customers can, if needed, repay loans from household funds other than profits from the given investment project (Armendariz & Mordoch, 2005:141).

48 The success of SHGs in terms of high repayment may be related to the exploitation of prevailing social ties and social cohesion found among women members. (Datta & Raman, 2001:398)
The Self Help groups may be formed by the NGOs, banks or by the members themselves. The process of formation of a Self Help Group can be divided into two phases: viz. pre-formation and formation.

**Pre-formation phase** included identification of the village, identification of the target group to be addressed in the village, providing the identified group with the sound logic on the efficacy of SHGs and motivating them to come together. This will take normally one month. The habit of sitting together and conducting meetings was also established during this phase. Suspicion fear and anxiety of members about the group were discussed and dealt with. Gradually, like-minded people came together and decided to form a SHG.

**The formation phase** will take generally two to four months and during this period conflicts between individual interest and group interest surfaced and had to be dealt with. Thus the set of procedures to be followed by the group, rules to be adhered to by the members and roles of leaders emerged after intense discussion among the members. The bye-laws of the group evolved from such rules. This process had to be undertaken internally by the members with only facilitation from an NGO or a bank representative. Savings and credit activities will begin during this stage.

In promoting SHGs, the primary task of the NGOs is to mobilize, form and nurture the groups. They form and train the groups, as well as assist them through the qualifying process of saving and internal lending. The groups are introduced to a bank to open a savings account, and later to take a loan. The NGO may remain involved, assisting the members to manage the affairs, possibly promoting higher-level clusters and federations of SHGs, or it may withdraw the work with other groups. Thus, the NGOs play an
important role in linking the SHGs to banks. (Tapan, 2010:22; Satish, 2001: 414; Puhazhendhi & Jayaraman, 1999: 288).

The formation of SHG generally takes six months. It is necessary to subject each SHG to test whether it has evolved into a group and is ready to get into the next stage of evolution. This is done through a grading exercise to identify the weaknesses if any and help to overcome the same. The first grading has to be done after six months of the formation of SHGs to ensure bank linkage of successful groups and making revolving fund available to them. The groups are ranked on the basis of the parameters such as size of SHG, saving capacity, meetings attendance, tendency of loan seeking and repayment, as well as record maintenance.

3.11. SHG – BANK LINKAGE PROGRAMME

Notwithstanding the progress made over the decades, the majority of the rural population still does not have access to finance from a formal source. The inability of small borrowers to provide collateral, coupled with their irregular/volatile income streams and expenditure patterns, in the face of insufficient credit information, drives up the default risk. Transaction costs of dealing with the poor also tend to be high because of the small loan sizes, the high frequency of transaction, large geographical spread, heterogeneity of borrowers and widespread illiteracy. (Basu, 2009:26) observes that returns on such lending can be high, as demonstrated by the experience of banks that have an appetite for risk and innovation, and also by the experience of microfinance.

SHG-Banking is a programme that helps to promote financial transactions between the formal rural banking system comprising of public and private sector commercial banks, regional rural banks and co-operative
banks with the informal Self Help Groups as clients (Kropp & Suran, 2002:1). The SHG Bank Linkage programme has its origin in GTZ (Gesellschaft für Technische Zusammenarbeit) - sponsored project in Indonesia. It was launched in India in 1992. NABARD developed the Self Help Group – Bank Linkage Programme as the core strategy that could be used by the banking system in India for increasing their outreach to the poor. The strategy involved forming SHGs of the poor, encouraging them to pool their thrift regularly and using the pooled thrift to make small interest bearing loans to members, and in the process learning the nuances of financial discipline. Bank credit to such SHGs followed. The aim is an overall arrangement for providing financial services to the poor in a sustainable manner leading to empowerment of the members of these SHGs.

The linkage has resulted in the reduction of transaction costs of banks through the externalization of costs of servicing individual loans and also ensuring their repayment through peer pressure mechanism\(^\text{49}\). The strategy involves forming small, cohesive and participative groups of the poor, encouraging them to pool their savings regularly and using the pooled savings to small interest bearing loans to members and in the process, learning the nuances of financial discipline. Bank credit follows and does not precede this stage\(^\text{50}\).

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\(^{49}\) The basic philosophy of the “SHG-Bank Linkage model” promoted by NABARD is to establish synergy between the banks, who have the financial strength and the NGOs, who have the ability to mobilize the poor and build-up their capacity to avail loans from the banks. (Puhazhendhi & Satyasai, 2000:11).

\(^{50}\) SHG linkage is based on the principle of savings first. These savings are not only a way of creating group solidarity and testing people’s willingness regularly to keep some cash aside, but they also create a loan fund from which the group can borrow. These savings and the interest on loans, may even make it unnecessary for the group to borrow from outside at all.
The SHG- Bank Linkage Programme of NABARD was designed as a partnership model between three agencies - the SHGs, Banks and Non-Government Organizations. SHGs were to facilitate collective decision-making by the poor and provide doorstep banking. Banks as wholesalers of credit were to provide the resources. NGOs were act to as agencies to organize the poor, build their capacities and facilitate the process of empowering them (Thorat, 2006:31).

The important objectives of SHG – Linkage programme are;

- To evolve supplementary credit strategies for meeting the needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the technical/administrative capabilities as well as financial resources of formal financial institutions.

- To build mutual trust and confidence between bankers and the rural poor.

- To encourage banking activity in both the thrift and credit aspects in a segment of the population that formal financial institutions usually find difficult to reach. (Karmakar, 1999:230).

The SHG-Bank Linkage has passed through various phases – pilot testing (1992-95), mainstreaming (1996-98) and expansion (1998 onwards). The

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51 Karmakar identifies the broad principles followed under the Linkage Scheme as 1, Savings first, no credit without savings; 2, Savings as partial collateral Bank loans to the SHG for on-lending to members. 3, Credit decisions for on-lending to SHG members. 4, Interest rates and other terms and conditions for loans to members to be decided by the group. 5, Joint liability as a substitute for physical collateral. 6, Ratio between savings and credit contingent upon credit worthiness and could increase over a period due to good repayment record, if needed and 7, Small loans to begin with and different credit cycles clearly defined (Kamarker 1999 : 233).
physical and financial outreach of the programme has been impressive. The programme has proved to be a decentralized cost effective and the fastest growing microfinance initiative in the world.

As on 31.3.2011, there were more than 74.62 lakh savings linked SHGs and more than 47.87 lakh credit linked SHGs covering 9.7 crore poor households under the micro finance programme (NABARD, 2012: 62).

**Table 3.3: Cumulative Savings of SHGs with various Banks**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of SHGs</th>
<th>Savings Amount Crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 2007</td>
<td>41,60,584</td>
<td>3512.71</td>
</tr>
<tr>
<td>31 – 3-2008</td>
<td>50,09,794</td>
<td>3785.39</td>
</tr>
<tr>
<td>31 – 3-2009</td>
<td>61,21,147</td>
<td>5545.62</td>
</tr>
<tr>
<td>31 – 3-2010</td>
<td>69,53,250</td>
<td>6198.71</td>
</tr>
<tr>
<td>31 – 3-2011</td>
<td>74,61,946</td>
<td>7016.30</td>
</tr>
</tbody>
</table>

(Source: NABARD Annual reports (Various years))

The above table shows the cumulative savings of SHGs in India with various banks. It reveals that as on 2007 the number of SHGs having savings accounts was 41.60 lakhs and it increased to 74.62 lakh SHGs as on 31.3.2011. It is also observed that the cumulative savings as on 2007 amounts to 3512.71 crores and it shows a two fold increase in 2011 with an amount of Rs. 7016.30 crores. This shows that the NHGs are instrumental in mobilizing rural savings from the poor.

The SHG-Bank Linkage Programme has brought in a lot of encouraging and positive features like increase in loan volume to SHGs, definite shift in the loan utilization pattern of SHG members, gradual
increase in income level of SHG members, sound recovery performance of SHG loans, and in significant reduction in the transaction costs for the banks and the borrowers. But the, skewed growth of SHGs in certain regions of the country had narrowed the growth process of the programme. In this situation, it was decided to revisit the SHG-Bank Linkage Programme for identifying the shortcomings and incorporate suitable changes to give the programme a renewed thrust and direction. The purpose and intent of re-launching the programme named, SHG-2, was to focus on issues like creating space for voluntary savings, positioning cash credit as preferred mode of lending, scope for providing multiple borrowings by SHG members matching with their repaying capacity, creating avenues to meet higher credit requirements for livelihood creation, supporting SHG Federations as non-financial intermediaries, rating and introducing audit of SHGs as part of risk mitigation system and by the strengthening monitoring mechanisms. (NABARD, 2012: 65).

The table No. 3.4 reveals the number of SHGs financed by banks and the cumulative loan amount distributed to them. It is clear from the table that there is an exponential increase in the number of SHGs establishing linkage with the banks. On perusal of the above table, it is clear that the cumulative bank loans provided to SHGs in 1996 which was a meagre amount of 6.06 crore, multiplied to an exorbitant amount of 11,397.50 crores in 2006 i.e. within the time span of a decade. This further increased to a greater proportion to an amount of Rs. 37,133.14 crore in 2010 i.e. within a period of half a decade. The cumulative number of SHGs that availed the respective loans increased from 4757 in 1996 to an astonishing 5811160 in 2010 i.e. after a gap of 15 years. The average bank loan availed per SHG increased from 13738 in 1996 to 91083 in 2010.
### Table 3.4: Progress of SHG Programme in India from 1996 to 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Bank Loans to SHGs Cumulative Rs. (Crore)</th>
<th>Cumulative number of SHGs</th>
<th>Bank Loan per SHG (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>6.06</td>
<td>4757</td>
<td>13738</td>
</tr>
<tr>
<td>1997</td>
<td>11.84</td>
<td>8598</td>
<td>15048</td>
</tr>
<tr>
<td>1998</td>
<td>23.76</td>
<td>14317</td>
<td>20843</td>
</tr>
<tr>
<td>1999</td>
<td>57.07</td>
<td>32995</td>
<td>17834</td>
</tr>
<tr>
<td>2000</td>
<td>192.98</td>
<td>114775</td>
<td>16619</td>
</tr>
<tr>
<td>2001</td>
<td>480.87</td>
<td>263825</td>
<td>19315</td>
</tr>
<tr>
<td>2002</td>
<td>1026.34</td>
<td>461478</td>
<td>27597</td>
</tr>
<tr>
<td>2003</td>
<td>2048.67</td>
<td>717360</td>
<td>39953</td>
</tr>
<tr>
<td>2004</td>
<td>3904.20</td>
<td>1079091</td>
<td>51296</td>
</tr>
<tr>
<td>2005</td>
<td>6898.46</td>
<td>1618456</td>
<td>55515</td>
</tr>
<tr>
<td>2006</td>
<td>11397.50</td>
<td>2238565</td>
<td>72552</td>
</tr>
<tr>
<td>2007</td>
<td>12366.49</td>
<td>2894505</td>
<td>59417</td>
</tr>
<tr>
<td>2008</td>
<td>16999.90</td>
<td>3625941</td>
<td>72076</td>
</tr>
<tr>
<td>2009</td>
<td>22679.84</td>
<td>4224338</td>
<td>76128</td>
</tr>
<tr>
<td>2010</td>
<td>37133.14</td>
<td>5811160</td>
<td>91083</td>
</tr>
</tbody>
</table>

(The figures are three year moving averages, Source: Nair, 2012:34)

### Table 3.5: Bank Loans Outstanding against SHGs in India (Cumulative)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of SHGs</th>
<th>Loan outstanding (Cr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 2007</td>
<td>28,94,505</td>
<td>12366.49</td>
</tr>
<tr>
<td>31-3-2008</td>
<td>36,25,941</td>
<td>16999.91</td>
</tr>
<tr>
<td>31-3-2009</td>
<td>42,24,338</td>
<td>22679.84</td>
</tr>
<tr>
<td>31-3-2010</td>
<td>48,51,356</td>
<td>28038.28</td>
</tr>
<tr>
<td>31-3-2011</td>
<td>47,86,763</td>
<td>31221.16</td>
</tr>
</tbody>
</table>

Source: NABARD Annual Reports (Various years)
Table 3.5 shows the trends in the cumulative loans distributed by various banks in India over the period from 2007 to 2011. It is seen that the total number of SHGs linked with various banks up to 2007 amounts to 28.94 lakhs and the number of SHGs sprouted to 47.87 lakhs as on 31.3.2011. In the case of cumulative loan amount outstanding to the SHGs by the various financial institutions, the amount was Rs. 12,366.49 crore in the year 2007 and it has a manifold increase to Rs. 31,221.16 crore as on 31.3.2011. From this it can be observed that there is a tremendous increase in the linking of SHGs with formal financial institutions.

Table 3.6: Savings of SHGs with Banks - Region Wise Position as on 31.3.2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of SHGs</th>
<th>Savings (In crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Region</td>
<td>372772</td>
<td>328.57 (4.69%)</td>
</tr>
<tr>
<td>North Eastern Region</td>
<td>324739</td>
<td>131.04 (1.87%)</td>
</tr>
<tr>
<td>Eastern Region</td>
<td>1527618</td>
<td>1408.38 (20.07%)</td>
</tr>
<tr>
<td>Central Region</td>
<td>786436</td>
<td>603.38 (8.60%)</td>
</tr>
<tr>
<td>Western Region</td>
<td>960921</td>
<td>829.01 (11.82%)</td>
</tr>
<tr>
<td>Southern Region</td>
<td>3489460</td>
<td>3715.92 (52.95%)</td>
</tr>
<tr>
<td>Total</td>
<td>7461946</td>
<td>7016.30 (100 %)</td>
</tr>
</tbody>
</table>

(Source: NABARD. Status of Micro Finance in India (2012))

The above table shows the data relating to the region wise cumulative savings of the SHGs in six different regions of the country and the respective percentages. The table reveals that the number of SHGs keeping savings with banks in northern, north-eastern, eastern, central, western and southern
regions constitutes 4.99 per cent, 4.35 per cent, 20.47 per cent, 10.54 per cent, 12.88 per cent and 46.77 per cent respectively. The southern region of the country dominates the other regions with 47 per cent of the total NHGs and with 53 per cent of the total savings amount, followed by eastern region with 20 per cent in number of SHGs and 20 percent in the total amount of savings with banks. It is to be specially noted that the north and north-eastern region performs badly in both cumulative savings of the SHGs and the total amount of savings with banks. This data is a testimony to the backwardness of this region in connection with the linking of the poor with the formal financial institutions of the country. It could be noted that the growth of SHGs is not at all balanced or even proportional to the growth maintained by SHGs in other parts of the country.

**Table 3.7:** Bank Loans Outstanding as on 31-3-2011 Region-wise position

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of SHGs</th>
<th>Loan amount outstanding (Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Region</td>
<td>149108</td>
<td>(3.11%) 903.14 (2.90%)</td>
</tr>
<tr>
<td>North Eastern Region</td>
<td>150021</td>
<td>(3.13%) 695.25 (2.23%)</td>
</tr>
<tr>
<td>Eastern Region</td>
<td>1105533</td>
<td>(23.10%) 4,202.55 (13.46%)</td>
</tr>
<tr>
<td>Central Region</td>
<td>358872</td>
<td>(7.50%) 2,365.40 (7.57%)</td>
</tr>
<tr>
<td>Western Region</td>
<td>316821</td>
<td>(6.62%) 1,246.23 (3.99%)</td>
</tr>
<tr>
<td>Southern Region</td>
<td>2706408</td>
<td>(56.54%) 21,808.59 (69.85%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4786763</strong></td>
<td><strong>(100%) 31,221.16 (100%)</strong></td>
</tr>
</tbody>
</table>

(Source: NABARD, Status of Micro Finance in India (2012))
Table No 3.7 shows the region wise number of SHGs credit linked and cumulative loan amount outstanding from SHGs as on 31.3.2011. The table reveals that the number of SHGs linked with banks for loans in northern, north-eastern, eastern, central, western and southern regions constitutes 3.11 per cent, 3.13 per cent, 23.10 per cent, 7.50 per cent, 6.62 per cent and 56.54 per cent respectively. The southern region of the country dominates the other regions with 56.54 per cent of the total NHGs and with the 69.85 per cent of the total loan amount, followed by eastern region with 23 per cent in number of SHGs and 13.46 per cent in the total amount of loans outstanding with the banks.

**Table 3.8:** Total Savings of SHGs with Banks - Agency wise position as on 31.3.2011

<table>
<thead>
<tr>
<th>Name of Agency</th>
<th>Number of SHGs</th>
<th>Total savings (crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>4323473</td>
<td>4230.06 (60.28%)</td>
</tr>
<tr>
<td>Co-operative Banks</td>
<td>1155076</td>
<td>1350.84 (19.26%)</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>1983397</td>
<td>1435.40 (20.46%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7461946</strong></td>
<td><strong>7016.30 (100%)</strong></td>
</tr>
</tbody>
</table>

(Source: Status of Micro Finance in India 2012)

The above table reveals the agency wise position of total savings of SHGs with the different types of banks. It is observed that the commercial banks hold the major chunk of the savings of the SHGs with 60.28 per cent of the total savings amount. The other agencies like co-operative banks and Regional Rural Banks holds 19.26 per cent and 20.46 per cent of the total deposits. This highlights the role played by commercial banks in fostering the savings of the poor in the micro finance realm.
Table 3.9: Total Bank Loans outstanding against SHGs-Agency wise position as on 31.3.2011

<table>
<thead>
<tr>
<th>Name of Agency</th>
<th>Number of SHGs</th>
<th>Total loans outstanding (crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>3053472</td>
<td>21883.25 (70.09%)</td>
</tr>
<tr>
<td>Co-operative Banks</td>
<td>451798</td>
<td>1907.86 (6.11%)</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>1281493</td>
<td>7430.05 (23.80%)</td>
</tr>
<tr>
<td>Total</td>
<td>4786763</td>
<td>31221.16 (100%)</td>
</tr>
</tbody>
</table>

(Source: Status of Micro Finance in India 2012)

The total bank loans outstanding against SHGs show that 31,221.16 crores were issued by the various financial agencies up to 31.3.2011. From the agency wise analysis it could be observed that out of the total, 70.09 per cent of the loans are provided by the commercial banks. The co-operative banks have provided 6.11 per cent and the regional rural banks have distributed 23.80 per cent of the total loans to the SHGs. Commercial banks are playing an important role in the issuing of loans to the SHGs.

3.12. EVOLUTION OF SHGS IN KERALA

The SHG movement was initiated in the State of Kerala on the basis of the success of SEWA of Ahmadabad, MYRADA of Mysore, and several other experiences in different other parts of the country. For the last thirty years, SHGs formed by NGOs, Banks and Government are playing an important role in the development of the rural villages. It has been widely accepted that the programme, if taken up and implemented in the right sense, would be very effective in poverty eradication and women empowerment. SHGs in Kerala have made significant strides in this field. Earlier efforts made by some NGOs were confined mostly to a few areas or remained rather
scattered, making the concept relatively unknown and non-replicable. Historically, many church based development institutions in Kerala have been promoting credit unions. The prominent NGOs engaged in promoting the concept are: Peerumedu Development Society, Malanadu Development Society, World Vision, Nedumkandam cultural society, Shreyas, Bhoodan vikas Mandal etc.

A credit union is a typical system, which organizes the poor into large groups of 150 to 200 members and pools their meager savings for their common benefit. Here also the basic objective has been to help the poor meet emergent needs and come out of the clutches of money lenders. These credit unions lacked the participatory decision making found in SHGs. During the late 1980s, this drawback was realized and under the guidance of NABARD many voluntary agencies reorganized their credit unions into smaller and more effective SHGs.

As per the initiatives NABARD and directions of RBI most of these Mahila Samajams and credit unions have been converted into SHGs and SHGs were linked with financial institutions for better credit facilities. As far as SHG Bank Linkage and credit facilities are concerned, these NHGs are recognized as SHGs by the NABARD. The main difference between SHG and NHG is that SHGs are non-governmental and informal structures promoted by voluntary agencies. NHG members are from families facing high risks but SHG members need not be from the high risk families but from the basically poor who find it too difficult to have access to the formal credit system. During late nineties the Government of Kerala had accepted the NHG model for the eradication of poverty from the state by forming Kudumbashree Mission under the Local self Governments. Now many
agencies are coming forward to form SHGs for the up-liftment of the weaker sections.

3.13.  CONCLUSION

Microfinance comes to be recognized and accepted as one of the new developmental paradigms for alleviating poverty through social and economic empowerment of the poor. It focuses on empowering women and participating them in various anti-poverty and welfare programmes. It succeeded to a great extent with the participation of community based organizations at the grass root level. People’s participation in credit to delivery, recovery and linking of formal credit institutions to borrowers through the inter-mediation of Self Help Groups have been recognized as a supplementary mechanism for providing credit support to the poor. It is suggested that the poverty alleviation programmes should give more focus on financial inclusion measures through the savings mobilization and credit delivery mechanism to the rural poor, especially women. For this purpose microfinance offers best solutions.