Conclusion, suggestions and recommendations
CHAPTER 8
CONCLUSION, SUGGESTIONS AND RECOMMENDATIONS

It is undeniable that microfinance has enormous potential to promote both economic and social development among both the rural and urban poor, proof of which lies in the countless success stories of microfinance in India and in developing and developed countries alike. It is true that microfinance may not target the poorest of the poor, yet it has done wonders for those who are economically active and who have the potential to prosper through self-employment. Not only does microfinance provide financial stability to those in dire need of it, it also promotes the idea of credit as being a fundamental human right, something which all people, regardless of their socio-economic status, should be entitled to. It champions social development by empowering women and promoting gender equality, as well as developing leadership and social capital within communities. However, it is important that institutions wishing to engage themselves in microfinance conduct adequate research beforehand, concerning the local environment in which they wish to operate, the profiles of the potential borrowers and the risk associated with providing micro-financial services. Today, the goal of all microfinance institutions should be to achieve financial sustainability, whilst remaining socially relevant and productive. MFIs should strive to provide savings services to their clients, and to use savings mobilization as a means of self-funding their micro-credit operations. MFIs should seek mutually beneficial partnerships with international organisations or local NGOs, to increase the scope of knowledge and expertise in all areas. Finally, MFIs must ensure that they fully educate their borrowers about the concept of microfinance and the importance of repaying the loans and putting the money towards productive means before the process of loan disbursement commences.

With all of these considerations in mind, institutions which undertake microfinance initiatives have many chances of success. In India, one goal of the microfinance sector must be to expand its operations uniformly throughout the country, providing all states with equal access to micro-financial services. Although there is still great room for expansion and growth within the microfinance sector in
India, it has already proven a powerful tool in eradicating poverty. In the words of Muhammad Yunus, pioneer of microfinance:

> If you go out into the real world, you cannot miss seeing that the poor are poor not because they are untrained or illiterate but because they cannot retain the returns of their labour. They have no control over capital, and it is the ability to control capital that gives people the power to rise out of poverty [117].

And so today, microfinance in India and beyond has the capacity to achieve exactly this, to rise millions of people out of poverty, and to provide them with a second chance that was never considered worthy of them before.

In conclusion, this chapter outlines the major opportunities and issues that need to be addressed for scaling up the microfinance sector in Rajasthan. The research confirms the potential of microfinance to organise two-thirds of rural households that are otherwise difficult to reach. According to the estimates there is a vast market for micro savings, micro credit, micro insurance, and remittance services for poor in Rajasthan. Achieving this will require concerted action from all stakeholders on various issues, some of which are listed below.

**Greater coverage of poor under microfinance**

*Reach out to “all poor families” and “not restrict to only BPL”*

Rajasthan has a peculiar economic status, where the average land holding is comparatively high (3.7 hectare in Rajasthan, 1.5 hectare in India) and the density of population is comparatively low. There are large numbers of families which are not in BPL list but are only marginally better off than BPL. A single year of drought is enough to pull them below BPL families' status [118].

More importantly, the whole approach of SHG is based on affinity among members and on condition that members of a group have mutual trust and can use peer pressure on each other to ensure repayments etc. Experiences all over tell that exclusive BPL groups do not function well.

Therefore, focusing only on BPL families, while forming SHGs (as done under SGSY, DPIP and MPOWER projects), may not address the poverty alleviation
or women empowerment significantly, as large number of families will be left out. The SHG movement in Rajasthan should reach out to all poor (about 60-70% households in rural areas) including BPL, small and marginal farmers, etc.

**Strengthening SHG movement in weaker areas**

As discussed earlier, SHG movement has been found to be weak in districts like Nagaur, Dholpur, Dausa, Karouli, Barmer, Jodhpur, Pali, Jalaur, Alwar and Rajsamand. Also under-banked index of districts in Rajasthan, Nagaur, Dholpur, Dausa, Karauli, Barmer and Jalore have been found to be under-banked too.

The reasons for disparity of SHG movement among the states can be traced to opportunities in local economy, density of population, presence of NGOs and government support etc. It has been observed that backward and disadvantaged districts have less number of SHGs.

This disparity can be tackled with two-prolonged strategies first, to create a cadre of human resource including Community Resource Persons (leaders of SHG groups) in stronger districts in phases and train them to promote Self Help Groups in weaker districts. Community Resource Persons (CRPs) are better placed in creating solidarity among group members and can pace up the movement in weaker districts. Second, to put special focus on weaker areas by allocating special funds for implementation of community based microfinance and livelihoods projects by collaborating with NABARD, Banks and Voluntary Organisations.

**Adopting common approach**

Currently, in Rajasthan, Self Help Groups are promoted by many Government and Non Government agencies with different objectives like women empowerment, poverty alleviation, delivery of credit etc. The promoting agencies, even if they work in same village, have different vision and expectations from SHGs. This creates operational problems and confusion at the community level. By becoming member of a particular group, a woman may get good amount of subsidy, which she may not get if she were a member of another group. This often leads to multiple memberships in SHGs and breaking of some groups.
To tackle this issue, SHG movement in Rajasthan needs a common approach. Government and Banks should look at all SHGs, irrespective of their pedigree, through a single lens. Discussed below are few strategies to use a common approach for all SHGs, irrespective of their originator, SHPI or the scheme they fall under.

**Standardized systems and processes for all SHGs in the state**

All SHGs, irrespective of their pedigree, should have uniform systems, processes, operations, bookkeeping, record-keeping, grading, auditing and quality standards. Such a standardized approach to all SHGs would lead to drawing of everyone's attention and focus on SHG movement rather than a select set of SHGs falling under a certain scheme.

**Common Perspective**

*Saving first, credit later*

The SHG movement started with 'thrift' as its core value and banks came in later with credit, primarily to augment SHGs' corpus. Objective was to meet credit need of SHG members to a larger extent. But now, primarily under government programs, the SHGs are being formed to meet the targets and to avail bank credit only.

If such a trend continues, the sector and its core value of 'Self help' will not grow. If the core value of 'Self help' does not grow, then solidarity among groups will not be strengthened, which in turn will lead to breaking of groups. Self Help Group Bank Linkage Program cannot afford such a trend and therefore, the groups must focus on savings by members first, so that they do not become dependent on bank credit for small needs. Bank credit is only meant to supplement the group savings. SHGs have to provide appropriate savings products to mobilise disposable cash surpluses of members and create a reserve for future.

**Focus on Women empowerment**

The relevance and impact of Self Help Groups on women empowerment and on livelihood strengthening has been proven all over country (Rajasthan as well). Good quality Self Help Groups create mutual trust and a sense of solidarity among members. This raises their confidence to deal with socio-economic problems of their
family and their village, all by themselves. Women empowerment can further be boosted by promoting four ideologies, which can be taken as indicators of success

a) Zero tolerance of domestic violence in families of all SHG members in Rajasthan;
b) 100% girl child enrolment in educational institutions in families of all SHG members;
c) 100% institutional infant delivery;
d) 50% participation of women SHG members at village development committees.

Milestones should be set for every year in order to achieve the stated objectives while progress should be tracked by measuring the indicators.

**Promoting 'area centric' federations of SHGs**

Self Help Groups on their own are tiny institutions (10-20 marginalised women from very poor families). They can best be effective to provide small social capital, small savings and small credit to members. They alone and individually are not in a position to bring larger change and impact on lives of poor women unless they federate into next tier institutions and aggregate their demands and surpluses to market, to take benefit of 'economics of scale'. In Rajasthan there are about 42 Federations of SHGs and the vibrancy of SHGs through the federations is commendable. In southern states like AP, Tamil Nadu, Karnataka etc. there are thousands of federations of SHGs.

In Rajasthan, so far only NGOs have promoted SHG federations and the objective and perspective of different NGOs has been different. The quality and system of SHGs have been heavily influenced by the promoting institutions. It has been observed that SHGs promoted by a particular promoter federate and leave aside SHGs promoted by other promoter within same village. If this trend continues, it may lead to more than two SHG federations working in the same village. Therefore, efforts need to be made to promote area-centric federations rather than 'SHPI centric' or 'target centric' federations.
In next 3-5 years, efforts should be made to federate the SHGs into village, cluster and block level federations. This task is very crucial and would require clear perspective, skills, patience and investments required for 'institution building'. There is good experience available on federating SHGs in state and outside, which should be used in forming new SHG federations.

**Rajasthan Micro Finance Mission**

State Government may consider setting up a body for SHGs in Rajasthan with equitable mix of government functionaries, SHPIs and SHG community leaders in form of 'Rajasthan Micro Finance Mission or Rajasthan SHG mission'. The body would prepare a vision and a 5-year action plan to upscale the SHG movement in state. All SHGs, irrespective of their pedigree, may fall under the purview of this body. Under this body, a cadre of quality auditors can be developed (at district level) which will help communities and bankers with an independent assessment. This cadre may be given the task of regular grading of the SHGs and providing necessary inputs to SHGs on regular basis.

**Deepening financial services and financial inclusion**

*Increasing Bank Credit through Self Help Groups*

Compared to the vast demand and potential of micro credit, annual credit through SHGs from banks in Rajasthan (about Rs. 200 crores) is very low. The number of SHGs credit linked every year is also about 10%. The repayment of SHGs to banks is more than 95% on time. It is also observed that the SHG members start losing interest in group meetings etc. if timely credit does not come to groups from banks.

SHGs have the potential and capacities to bridge the gap between Banks and Poor. Therefore, banks should increase their credit through SHGs. This can be done by orientation and sensitization of branch staff, simplifying the procedure of opening bank accounts and credit sanction to SHGs, not impounding of SHG savings (while giving them loan), timely processing of loan application of SHGs, encouraging repeat credit linkages, adopting a common system of grading, appreciation of the quality of SHGs by providing credit to good groups on priority etc.
In the recent past, there have been some positive experiences in the form of special emphasis by banks on rural credit and SHG bank linkage programme. In Dungarpur district, Bank of Baroda collaborated with local NGO and Centre for Micro Finance (CmF) and adopted a focused approach for livelihood strengthening of SHG members through timely and adequate credit. This approach can work in other districts as well. Therefore, commercial banks should take up districts where they are lead banks and adopt a focused approach where SHG promoting organisation ensure the quality of SHGs and Bank ensure timely and adequate credit.

Government has made micro credit eligible under Priority Sector Lending of Banks. However to give impetus to banks engagement with SHG movement, government should allocate a certain percentage of priority sector lending target to SHG bank linkage. This target can be year marked at 2% of the total credit disbursement in a state of a particular bank. A committee along with SLBC may review the achievement of this target.

**Credit Fund for SHGs**

Annual credit from banks to SHGs in Rajasthan is stagnant in the range of Rs. 160-220 crores. Only about 60% of SHGs have been able to take credit from banks in last 10 years. Whereas the annual credit in state like Andhra Pradesh is to the tune of Rs. 5000 crores.

Banks, State Government and leaders of SHG movement should explore possibility of setting up an 'exclusive SHG credit fund' and 'special purpose vehicle' (SPV) to deliver credit to SHGs in state. Banks, State Government and SHGs can jointly float a company/ fund to provide timely credit. Such a company may be professionally managed. SHG federations can effectively take up the role of 'financial intermediation', provided they are supported and strengthened. The SHG federations can facilitate the SHG bank linkage with credit rating services and ensure repayments. Proposed company can give bulk loan to SHG Federations which the federation can lend on to SHGs.
SHG-MFI collaboration

MFIs currently operate in urban, semi-urban and with relatively economically better off people in rural areas. MFIs can target poorer segments by collaborating with SHGs. SHGs provide a ready platform for MFIs to scale up and impact weaker sections of poor. SHGs need more credit while MFIs look for disciplined clients with good credit record. MFIs can save on cost because SHGs are capable of taking care of back-end operations (e.g. collection, distribution, book-keeping etc) by themselves. However, for this to happen, MFIs may have to give a re-look at their cost structure and see where costs can be reduced so that the effective rate of interest to SHG members is below 20% per annum on reducing balance basis.

Financial inclusion through ICT

Banking activities from origination and transaction to fulfilment and settlement can be completed using a mobile phone or smart cards. This is evident from success of FINO in India, M-Pesa model in Kenya, Tanzania and Afghanistan, where poor are able to access formal financial services through branchless banking. Such a model for technology based financial inclusion can also be implemented in India. The New Pension System offers a model of low-cost electronic accounts that banks can adopt - an agency could maintain accounts on a single electronic platform that different banks can access as per account holders' mandate, lowering costs. These accounts could be tied to the unique identity numbers being generated under UID project. Access to these accounts could be through mobile phones held by airtime sellers, retail outlets, business facilitators, business correspondents, SHGs, post offices etc. The accounts could also be used for payment of MGNREGS, pension and other government schemes to intended beneficiaries.

Building dedicated support structure for SHG movement

District Level SHG Resource Centres

There is a need for concerted efforts on promotion of new groups, quality improvement of existing groups as well as the need for setting up systems to ensure that new groups are made keeping quality and quality standards in focus. This requires not only investments on the groups' trainings and exposures but also require a fleet of trained trainers and a dedicated institutions working as resource centres.
preferably at each district level. These centres will act as technical support centres and knowledge hub offering quality training programmes for those engaged in the sector, extend handholding support to promoters as well as community institutions; undertake studies on relevant issues and disseminate best practices. Some of the voluntary agencies having vast experience and human resource can take up the role of district/ regional resource agencies.

**Comprehensive Database of SHGs and SHG Federations**

At present there is no authentic database available at state level. The data provided by SLBC varies a great deal from the data provided by SHPIs and NABARD. A good number of SHGs get defunct which doesn't get recorded because there is no monitoring or tracking mechanism. The number of reported SHGs seems to be inflated by 50-60%. There is urgent need for a comprehensive database of SHGs in Rajasthan. SHPI-wise or scheme-wise database may be of little use. What is needed is a comprehensive database of all SHGs, irrespective of their pedigree. Such a database platform can be interactive and process oriented to ensure regular updating rather than a standalone system for data compilation e.g. all SHGs registered on the platform only may be eligible for credit linkage. Grading certificate of SHGs can be generated online based on transactions.

**Developing human resource**

Most organisations practicing microfinance have constantly been in need of trained staff. There is also a need for capacity building of existing human resource. For meeting this scale of requirement, new institutional innovations have to be attempted, which may include courses and training programmes for capacity building on microfinance and livelihoods. Various management and training institutes in the state need to collaborate with SHPIs, federations and take up training and educational programmes in the state.

**Need for investment in sector**

*Investment by government and banks*

Considering the good impact that SHGs are having on households, both in terms of women empowerment and economic development, there is need to make necessary investments for institutional building. Currently most of the SHGs are
formed by state government employees, where targets are given to them. The due process of SHG formation is not followed. It has been seen that a good quality SHG needs about 3 years hand holding support and a capital expenditure of Rs. 8000/-. Further, quality improvement of existing SHGs will require Rs. 5000 per SHG. This translates to a total investment of Rs. 250 Crore [119] to improve the quality of existing SHGs and create good quality SHGs. This investment may be viewed as a part of developing financial infrastructure. Government and Banks should come forward and invest in building potential base of its future clients.

Livelihood enhancement of poor

Over last one decade, farmers in Rajasthan have been migrating to wage labour, effectively pushing agriculture and allied activities to second & third priority. This is attributable to slow growth in agriculture in Rajasthan. Slow growth in agriculture can be traced retrospectively to low level of private investment in agriculture and livestock, leading to low credit off take in agriculture. Even though SHG members use small credit for procuring seeds, fodder and for buying animals, large credit or large investment is usually not done unless business development services (e.g. technical services, health services for animals, marketing services to sell their produce and so on) are present. Moreover, rain fed agriculture in Rajasthan and corresponding risk-return trade-off does not encourage farmers to take credit and invest in agriculture.

Therefore, private and public investment for improving productivity and business development services for enabling micro-entrepreneurship should be targeted in a phased manner. All stakeholders have a role to play. Banks should develop collaborations with people institutions and technical service providers. SHPIs should encourage innovations to boost farm productivity.

Proposed structure for Microfinance in Rajasthan

After taking into consideration the uniqueness of the state of Rajasthan and its problems in microfinance sector. The following structure for microfinance is proposed.
Step 1: Setting up of a separate statutory body like IRDA, TRAI for SHGs in Rajasthan with equitable mix of government functionaries, SHPIs and SHG community leaders in the form of 'Rajasthan Micro Finance Mission’ or Rajasthan SHG Mission'.

Step 2: Building dedicated support structure for SHG movement - District Level SHG Resource Centres should be established. There is a need for concerted efforts on promotion of new groups, quality improvement of existing groups as well as the need for setting up systems to ensure that new groups are made keeping quality and quality standards in focus.

Step 3: Strengthening SHG movement in weaker areas - SHG movement has been found to be weak in districts like Nagaur, Dholpur, Dausa, Karauli, Barmer, Jodhpur, Pali, Jhalaur, Alwar and Rajsamand. Also under-banked index of districts in Rajasthan, Nagaur, Dholpur, Dausa, Karauli, Barmer and Jalore have been found to be under-banked too. This has to be seriously addressed.

Step 4: Developing and nurturing new and existing human resource on microfinance and livelihoods through continuous courses and training programmes for capacity building.

Step 5: Investment by government and banks - This investment may be viewed as a part of developing financial infrastructure. Government and Banks should come forward and invest in building potential base of its future clients.

Step 6: Adopting common approach - Currently, in Rajasthan, Self Help Groups are promoted by many Government and Non Government agencies with different objectives. To tackle this issue, SHG movement in Rajasthan needs a common approach. Government and Banks should look at all SHGs, irrespective of their pedigree, through a single lens.

Step 7: Standardized systems and processes for all SHGs in the state - All SHGs, irrespective of their pedigree, should have uniform systems, processes, operations, bookkeeping, record-keeping, grading, auditing and quality standards.
Step 8: **Common Perspective** - Saving first, credit later - Primarily under government programs, the SHGs are being formed to meet the targets and to avail bank credit only. If such a trend continues, the sector and its core value of 'Self help' will not grow. If the core value of 'Self help' does not grow, then solidarity among groups will not be strengthened, which in turn will lead to breaking of groups.

Step 9: **Greater coverage of poor under microfinance** - Reach out to “all poor families” and “not restrict to only BPL”

Step 10: **Promoting 'area centric' federations of SHGs** - Self Help Groups on their own are tiny institutions (10-20 marginalised women from very poor families). They alone and individually are not in a position to bring larger change and impact on lives of poor women unless they federate into next tier institutions and aggregate their demands and surpluses to market, to take benefit of 'economics of scale'.

Step 11: **Deepening financial services and financial inclusion** - Increasing Bank Credit through Self Help Groups - Compared to the vast demand and potential of micro credit, annual credit through SHGs from banks in Rajasthan (about Rs. 200 crores) is very low. SHGs have the potential and capacities to bridge the gap between Banks and Poor. Therefore, banks should increase their credit through SHGs.

Step 12: Banks, State Government and leaders of SHG movement should explore possibility of setting up an 'exclusive SHG credit fund' and 'special purpose vehicle' (SPV) to deliver credit to SHGs in state.

Step 13: **SHG-MFI collaboration** - MFIs currently operate in urban, semi-urban and with relatively economically better off people in rural areas. MFIs can target poorer segments by collaborating with SHGs.

Step 14: **Financial inclusion through ICT** - Banking activities from origination and transaction to fulfillment and settlement can be completed using a mobile phone or smart cards, where poor are able to access formal financial services through branchless banking.

Step 15: **Livelihood enhancement of poor** - Private and public investment for improving productivity and business development services for enabling micro-entrepreneurship should be targeted in a phased manner.
Chapter 8: Conclusion, Suggestions and Recommendations

Rajasthan Microfinance Mission

- District level SHG Resource Centre
- District level SHG Federation
  - Block level SHG Federation

SHG
- Saving first, credit later
- Include all poor families, not only BPL
- Common approach for Govt./NGO promoted SHGs
- Standardized systems and processes

Proposed Structure for Microfinance in Rajasthan

MFI  Bank  Govt.  NGO  ICT