CHAPTER - IV
CHAPTER-IV
INSTITUTIONAL FRAMEWORK OF MICRO FINANCE

4.1 Introduction:

The term Micro Finance Institution (MFI) is mostly used to refer to all types of formal and non-formal institutions that offer micro finance series to the poor in order to enable them to take up income generating assets based on their skill and to up-lift their economic living standard. The formal institutions which provide micro finance are: National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Rastriya Mahila Kosh (RMK), Commercial Banks (CB), Regional Rural Banks (RRB), Co-operative Banks and micro finance through Government scheme like Swarnajayanti Gram Swarojgar Jojana (SGSY) Programme. The non-formal institutions are Non Government Organisations (NGOs) and other non-regulated institutions like Self-Employed Women's Association (SEWA). The micro finance institutions remain the most successful ones in terms of outreach and performance, reduction in the adverse selection of borrowers, development of collateral substitutions, and in offering small loans to the rural poor (NEDFi, 2004).

Against this brief backdrop, in this chapter an attempt has been made to explore the working of the institutions that have been providing micro finance to the Self Help Groups (SHGs) related to our study. This chapter is divided into two sections. Section I deals with the profile of the Government and Non-Government Organisation (NGO) sponsored SHGs, Swarnajayanti Gram...
Swarogjar Jojana (SGSY) scheme and Rashtriya Gramin Vikash Nidhi,s (RGVN) credit and saving programme. Section II deals with the SHG Bank linkage Programme, role of NGOs and NABARD for the development of micro finance in Assam.

SECTION-I

4.2 Profile of the Government Sponsored SHGs :

In this Study, Government sponsored SHGs are supported, nurtured and guided by the Block Development office, Hajo and financed mainly through the Allahabad Bank, Hajo Branch and three other Assam Gramin Bikash Bank of that area. The Government sponsored SHGs are under the SGSY programme of the Central Government implemented through the state Government of Assam. Here, 84 - 86 per cent of the SHG members belong to families Below Poverty Level (BPL) income and are selected for assistance by a three-member team consisting of Block Development officer, Banker and Sarpanch.

4.2 (a) About SGSY Scheme :

The Ministry of Rural Development, Government of India launched a new programme known as “Swarnajayanti Gram Swarozgar Yajana” (SGSY) by restructuring the Self Employment programme of Integrated Rural Development Programme (IRDP), Training of Rural youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS) into a single self employment programme with effect from 1st April,
1999. SGSY is a holistic scheme covering all aspects of self-employment such as organization of the poor into self-help groups, training, credit, technology, infrastructure and marketing. The scheme is funded by the Central and the State Government in the ratio of 75:25 through Commercial Banks, Regional Rural Bank and Co-Operative Bank. District Rural Development Agencies (DRDAs) and Non Government Organization (NGOs) are involved in the process of planning, formation, implementation and monitoring of the scheme.

The scheme aims at establishing a large number of micro enterprises in the rural areas. The list of BPL households identified through BPL census and duly approved by Gram Sabha will form the basis for identification of families for assistance under SGSY. The objective of SGSY is to bring the assisted poor families (Swarozgaris) above the poverty line by organizing the rural poor into SHG through the process of social mobilization, training, capacity building and provision of income generating assets. The rural poor, landless labourers, educated unemployed, rural artisans and disabled are covered under the scheme.

4.2. (b) SHG-Linkage with the Banks:

During the stage of group formation, the SHG should be brought into contact with the local Banks through opening of Savings Bank Account. The Block Development Officer and the Banker may visit the SHG as often as they can and explain to the members the opportunities for self-employment. After the SHG linkage with the Bank is over, qualified SHGs are eligible to get revolving fund assistance.
4.2 (c) Revolving Fund:

Those SHGs that are in existence at least for a period of six months and have demonstrated the potential of a viable group, are entitled to receive revolving fund of Rs. 10,000 (non refundable) from the Bank by the District Rural Development Agency (DRDA). The revolving fund can be used by the group for purchase of raw materials, marketing or infrastructure support for income generating activities. It can alternatively be used for lending to individual members for their own purposes. The members shall inculcate the habit of prompt and full repayment of the loans taken by them from the revolving fund.

4.2 (d) Economic Activities:

The SHGs that have demonstrated their successful existence, have received the assistance for economic activities under different schemes like piggery, goatery, fishery, weaving, agriculture, irrigation, floriculture and so on. The economic activities to be undertaken are decided by the group members. Usually they take up economic activities under different schemes as suited in that area in terms of resource endowments, demand for the product and marketing facilities. However, the members of SHG are free to change their economic activities according to their choices, but after making full repayment of loan amount of the Bank (Annexure-I).

4.2 (e) Loan-cum subsidy:

Loan of the SHG is sanctioned in the name of the group and the group stands as guarantor to the Banks for prompt
repayment of loan. Every group is entitled to get subsidy of Rs. 1,000 per member or Rs.1.25 lakhs (Non-refundable) whichever is less. There is no monetary limit on subsidy for irrigation projects. Under SGSY schemes, Banks, do not charge interest on the subsidy amount. DRDA is monitoring the accounts and repayment nature of the SHGs every three months after disbursement of loan and subsidy amount from the Bank (SGSY, 1999).

4.3 Profile of the NGO Sponsored SHGs:

The NGO sponsored SHGs are supported, nurtured and guided by the RGVN and financed by the NABARD. RGVN started to work with NGO with a view to raising income level and the overall standard of living of the economically handicapped. The organization has its headquarter in Guwahati, Kamrup district (Assam) and are working with many partner NGOs of North-Eastern Region, Bihar, Uttar Pradesh, Madhya Pradesh and Andhra Pradesh.

4.3 (a) About RGVN :

The RGVN, a national NGO support agency was established in 1990 in Guwahati. The organization is registered under the Societies Registration Act XXI of 1860 and Section 6(i) of foreign (contribution) Regulation Act 1976. The focus of RGVN’s work has been to enhance poor people’s livelihoods so that they are integrated into the socio-economic mainstream with dignity. This is done by providing financial assistance to NGOs taking up income generating activities through the NGO support programme.
Any activity which has potential to generate surplus and raise income levels has been encouraged. The main objectives of RGVN are: (a) to promote, support and develop local NGOs engaged in social and economic development of the weaker sections of the population (b) to provide credit support to socially and economically disadvantaged group.

4.3 (b) Credit and Saving Programme (CSP):

Credit and Saving Programme (CSP) is basically a micro credit Programme of RGVN to the poor people, especially women who have been excluded from the formal banking sector, for enhancement of their livelihood generation capabilities. It was launched in 1995 as a pilot project of the organisation. The programme is directly implemented by the organization and acts as the financial intermediary in which the organization promotes, nurtures and trains the SHG members. In RGVN’s micro finance programme, out of the total project participants, 85 - 90 per cent SHG members are women. The main objectives of the CSP are (a) to institutionalize a non-formal banking system in rural area which would provide credit facilities to the poor so as to facilitate them to start income generating economic activities (b) to cultivate saving culture among the poor to meet their future requirements (c) to bring to-gether poor people of similar socio-economic background to fight against poverty through self-help effort and (d) to create a poverty free society.
4.3 (c) Target Population:

The CSP aims at targeting weaker section of the population above the age limit of 18 years. Only one member from a family can derive the benefit. The programme is meant for unemployed, agricultural and non-agricultural labourers, wage earners and disadvantage group of the society. The programme is meant for both male and female, but as time passed by, it is more confined to women beneficiaries, as they are found to be more bankable and safe.

4.3 (d) Duties for SHG:

The field supervisors are given the charge of motivating, forming, training and nurturing of the SHG and monitoring the activities of SHGs in their weekly group meeting. After taking into account the activities (regularity of saving, meeting and seriousness of the SHG members) about their responsibilities, the area office of RGVN sanction loans for different income generating activities at the group meeting (RGVN, 2004).

SECTION-II

4.4 The Self-Help Group (SHG)- Bank Linkage Programme:

The SHG-Bank linkage model is the indigenous model of micro credit evolved in India and has been widely acclaimed as a successful model with present coverage of over 1.9 million groups involving a cumulative credit flow of Rs. 6900 crore as at the end of March 2005 from the banking system. Being first a saving model,
where credit discipline is inculcated in the group with their own funds, Banks have found comfort in lending to such groups as they build up an adequate corpus of their own funds before they approach the Bank for credit. The linking with the Bank refers to credit linkage opening of a Saving Bank Account of SHG with the Bank branch as the beginning of the linking project. The broad criteria for linkage are: (a) the SHG should be in active existence for a period of at least six months, (b) the SHG should have successfully undertaken savings and credit operation by recycling its own resources, (c) every member should feel that he/she has a say in the affairs of the SHG, (d) the SHG should maintain records of account clearly and (e) the membership of the SHG should not exceed 20 (NABARD, 2005).

4.5 Objectives of SHG Bank Linkage Programme:

Through the SHG-Bank Linkage Programme, the RBI and the NABARD have tried to promote relationship and improving the existing relationship between the poor and the banker. Its main objectives are: (i) to evolve supplementary credit strategies for meeting the need of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the technical/administrative capabilities and financial resources of formal financial institutions, (ii) to build mutual trust and confidence between bankers and the rural poor, (iii) 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 (NABARD, 2005).
4.6 Models of SHG-Bank Linkage:

In India three types of SHG-Bank linkage models have emerged. In the first model, the banks play the dual role of promotion of SHGs and also the provider of credit to SHGs. In the second model, the NGOs and the Self-Help Promoting Institutions (SHPIs) have played the role as facilitator. The NGOs/SHPIs play the role of financial intermediation in the third model. This can be put as follows:

SHG-Bank Linkage Model I: Banks as SHPI

SHG-Bank Linkage Model II: NGOs/SHPIs as facilitator

SHG-Bank Linkage: Model III: NGOs/SHPIs as Financial intermediary

The second model, where SHGs are formed and nurtured by the NGOs, is more popular among the bankers. Banks open saving accounts and provide credit directly to the SHGs, while NGOs act as facilitators. This approach has been widely accepted by the practitioners partly because of the large scale participation of state Government through Development Agencies like the DRDA and some of the centrally sponsored social sector missions and also because of special initiatives of NABARD (NABARD, 2007).

4.7 SHG-Bank Linkage in Assam:

The SHG-Bank Linkage Programme in Assam had not kept pace with that of the rest of the country in the past, mainly due to lack of awareness and exposure among various stakeholders. However, the programme has gathered momentum in the State from the year 2001-02 onwards. As on 31 October 2006, a
cumulative total of 28,358 SHGs have been credit linked with Banks in Assam. In Assam, since 1998, the highest member of SHG Bank linkage is found in the period 2005-2006 (Annesure II)

It is found that the SHG-Bank Linkage is being implemented in all the districts, of Assam through Assam Gramin Vikash Bank in the State and 10 other Commercial Banks viz, Bank of Baroda, UCO Bank, SBI, Central Bank, Punjab National Bank, Canara Bank, United Bank, Union Bank of India, Allahabad Bank and Assam Co-Operative Apex Bank in collaboration with the District Rural Development Agency. Among different districts of Assam, upto 2004, the highest loan disbursement is found in Sonitpur district and lowest loan disbursement is found in Tinsukia district. (Annexure III) (NABARD,2005).

Therefore, through the SHG-Bank Linkage Programme, the RBI and the NABARD have tried to promote relationship and improving the existing relationship between the poor and the bank with the social intermediation of NGO. Since its inception, the linkage programme has been increasingly accepted by the various partners of the programme viz Banks, NGOs and other Self-help Promoting Institution (SHPIs) and the people. It has been proved to be a very good tool for providing micro finance to the rural poor in the country. Realising its effective credit delivery potential, the Reserve Banks of India has advised all Bank to treat the SHG lending as a normal business activity under priority sector.
4.8 Role of NGOs:

In the area of micro finance, NGOs are increasingly playing an important role in bridging the credit gap of the unreached micro entrepreneurs who are unable to access the formal banking system. Needless to mention, that the Bangladesh Grameen Bank, where the poorest of the poor rural women could be turned into micro entrepreneurs through the mechanism of group approach and blending innovatively the savings and credit products, is a notable experiment. The Grameen Bank was originally started as a project of an NGO, similar replications are taking place in India. Some of the NGOs have specialized in financial intermediation networking. The NABARD has been encouraging such initiatives of NGOs by providing them funds/assistance.

The linkage project envisages active involvement of NGOs that play a crucial role in formation, nurturing, stabilizing and grading the SHGs into a cohesive and dynamic group including the habit of thrift and credit management and ultimately establishing linkage with the Banks.

Most SHGs have come up due to the catalytic role played by the NGOs in developing such groups. One such NGO is Mysore Rehabilitation and Development Agency (MYRADA) whose mission is building of people's institutions rather than on delivery of goods. The building of appropriate people's institutions to manage and control resources is an essential component for sustainability and for the confidence and self-reliance necessary to cope with external threats. MYRADA has been providing credit and thrift services to the poor especially women. MYRADA has
over 1006 groups of women with the focus on women’s rights and on access to and control of resources, which they require to ensure a sustainable livelihood (MYRADA, 2000).

Both Government and financial institutions are now operating through NGO to develop SHGs. However, even before institutional patronage, NGOs have been promoting these grass root organizations as a platform for social interventions. With the help of NGOs, individuals can be organized under SHGs for the purpose of on-lending from financial institutions. Also links can be established for networking these SHGs with the financial banking sector.

That NGOs have emerged as the prominent player in the linkage programme is evident from the fact that they have been involved in the promotion and financing directly or through banks, of a bulk of the total SHGs linked in the country. NGOs have been able to attain this because of their strengths in social intermediation process, concern for the poor and ability to innovate for realizing their goals. The financial institutions are relying more on NGOs to facilitate the formation and linking of SHGs rather than taking their own initiatives. While in those areas where NGOs are present, the banks can take the help of NGOs in promoting SHGs. NGOs, also have been able to largely target SHGs specially for the very poor women. To a great extent, the future success of the programme also depends on the dynamic and promotional role of NGOs in the field of micro finance (Choudhury, 2005).

Several studies have revealed that NGOs have a great role to play in generating the flow of credit in the NE region. The
Eight Five Year Plan emphasizes on involvement of NGOs in development activities of the country. The reason behind the success of the NGOs may be cited as follows: (i) NGOs have greater touch with grass root bodies and persons contact. They understand the socio-economic condition and need of the local people. (ii) NGOs are dedicated and work within a framework of certain structured rules. (iii) NGOs are helping the poor people and playing the role of intermediary in accessing credit from formal financial agencies. (iv) NGOs impart training and help the disadvantage people in organizational, managerial and financial matters (RBI, 2006).

From the foregoing discussion, we can make the following observations:

(i) NGOs can motivate the asset less poor rural people to organize themselves and to form into SHGs at village level. (ii) NGOs help to inculcate and promote the habit of thrift and savings as well as lending among the SHG members. (iii) NGOs educate and train the SHG members in managing the activities of the group viz. maintenance of books/accounts, management of funds. (iv) NGOs are capacity builders through skill upgradation and training to the group members for proper utilization of credit to improve their socio-economic condition. (v) NGOs act as an effective link between the rural poor and Banks, both for credit delivery and recovery of loans.

4.9 Role of NABARD:

During the early eighties, a series of research studies conducted by NABARD shows that despite having a wide network of
rural Bank branches that implemented specific poverty alleviation programmes and self employment opportunities through Bank credit for almost two decades, a very large number of the poorest of the poor continues to remain outside the fold of the formal banking system. Against this background, a need was felt for alternative policies, systems and procedures, savings and loan products, other complementary services, and new delivery mechanism, which would fulfill the requirements of the poorest, especially of the women. The emphasis therefore was on improving the access of the poor to micro finance rather than just micro credit.

A study conducted by NABARD in the year 2004 on the informal groups promoted by NGOs brought out that Self-Help Saving and Credit Groups have the potential to bring together the formal banking structure and the rural poor for mutual benefit and that their working has been encouraging. The NABARD accordingly, launched a pilot project for the purpose and supported it by way of refinance. It also provided technical support and guidance to the agencies participating in the programme. Quick studies conducted by NABARD in a few states of India to assess the impact of the linkage project have brought out encouraging and positive features like increase in loan volume of the SHGs, definite shift in the loaning pattern or the members from non-income generating activities to production activities, nearly 100 per cent recovery performance, significant reduction in the transaction costs for both the Banks and the borrowers. Besides, lending to poor indicates gradual increase in the income
level of the SHG members. Another significant feature observed in the linkage project is that about 85 per cent of the groups linked with the banks are formed exclusively by women (NABARD, 2005).

We may discuss the role of NABARD under the following heads (nabard.org).

4.9 (a) Task force on Supportive Policy:

In order to examine the issues related to the growth of micro finance in the country, a high level task force was set up by NABARD and the report of this task force was submitted in 1999. The main recommendation of the task force is based on the four broad aspects (i) mainstreaming of micro-finance institutions and micro finance structures, (ii) regulation and supervision of micro finance institutions, (iii) organizational aspects relating to micro finance institutions and (iv) capacity building of MFIs, Banks and SHGs (NABARD, 1999) Further, a separate department called Micro credit Innovation Department was set up in Mumbai at the head office of NABARD in Mumbai in June 1998. Micro credit Innovation cells were set up at all the regional offices of the Bank. The major function of the department and the cells relate to formulation of policies, co-ordination with the Government agencies, Reserve Bank of India, overseeing the state level operations monitoring the progress of SHG-Bank linkage Programme, promoting and facilitating banks to act as Self-Help promoting Institution (SHPIs) and co-ordinating with external agencies. A special fund known as the Micro finance Development Fund has been set up by NABARD. The objective of this fund is to
provide funds for Micro finance institution, support training, systems management and also data building.

4.9 (b) NABARD's Pilot Project:

The real attempts to introduce the present form of micro finance development with the introduction of the SHG Bank Linkage Programme in 1992 by NABARD through pilot project. A large amount of loan has been disbursed since then. Research studies conducted by NABARD showed that the most important and immediate banking needs of the poor were to safe guard their occasional surpluses in the form of thrift. They also needed consumption loans to meet emergent life cycle needs, and the service and products needed to be hassle free. Based on the experiences and findings of these studies, NABARD initiated the SHG Bank Linkage Programme in 1992 on an experimental basis.

A study commissioned by NABARD on the tenth anniversary of launching the micro finance programme made an assessment of the reach of the programme. The findings indicate that the programme has emerged as the largest micro finance network in the world. The SHG Bank Linkage Programme is expected to continue and one third of the rural population is envisaged to be covered by forming more than 1 million SHGs by the year 2009. Considering the rate of growth of SHG's the target is expected to be achieved much earlier.
4.9 (c) **Grant and Assistance**: 

NABARD has been extending promotional grant/assistance to NGOs in order to meet the cost of promotion, capacity building, credit linkage and monitoring of SHGs. The assistance is released to them based on measurable output indicators. So far, 26 NGOs in Assam have been sanctioned grant assistance of Rs.69.49 Lakh for promotion and Linkage of SHGs upto 2006. Besides, as a promotional measure to provide finance to SHGs, NABARD has introduced a scheme of providing Revolving Fund Assistance (RFA) on a selected basis to good working NGOs.

4.9 (d) **RRBs as SHPI Scheme**: 

NABARD has introduced another scheme “RRBs as SHPI Scheme” wherein Regional Rural Banks (Now Assam Gramin Vikash Bank) has been providing grant assistance in their endeavor to promote SHGs. The scheme involves on the job training of RRB Branch staff by experienced NGOs in the field of social mobilization and group process. Though all five RRBs in the state have been identified as SHPIs under the scheme, only three RRBs viz. Pragjyotish Gaonlia Bank, Subansiri Gaonlia Bank and Lakhimi Gaonlia Bank had submitted proposals in this regard to NABARD. During the 2 year Project Period up to March, 2004 NABARD sanctioned 5.40 Lakh grant to Pragjyotish Gaonlia Bank, 3.05 lakh to Subansiri Gaonlia Bank and 2.50 lakh to Lakhimi Gaonlia Bank.
4.9 (e) **Training Programmes:**

With a view to creating awareness on the conceptual as well as operational aspects of SHG-Bank Linkage Programme, NABARD, Assam Regional Office has been conducting a series of awareness/exposure meet, training programmes, workshops, at the state/District levels for bankers, NGOs, SHGs, Government officials and other stake-holders of the programme. A cumulative number of 315 training programme covering 43,966 trainees have been conducted so far by it up to 31.10.2005 (Annexure IV) A National consultation meet on training strategies was organized at Lucknow in January 2004 involving all the stakeholders, to review existing training strategies /modules methodologies adopted, duration of courses and topics to be covered, so as to enable NABARD to refine its existing training modules in tune with the changing scenario. Based on the feedback, training modules so framed are supplied to Banks and other agencies. Best practices and innovations of partner agencies are widely circulated among Government, Banks and NGOs. In India, during the year 2005-06, a fund support of Rs. 48.6 million was provided for training, exposure and awareness building.

4.9 (f) **Capacity building Initiatives:**

NABARD's micro finance mission is to extend financial services to the very poor envisages coverage of one third of the rural poor of the country through one million SHGs by the year 2008.
The capacity building initiatives taken by NABARD are:

(a) thrust on promotion of quality SHGs, on a large scale, with special focus on comparatively backward states and regions (b) designing, funding suitable training and exposure programmes for all stakeholders (c) providing promotional assistance to partners for promotion and nurturing of SHGs (d) encouraging Banks to undertake proper quality assessment of SHGs before financing (e) widening the range of SHG promoting agencies for integrating SHG approach in social sector development programmes of the development agencies and the Panchayat Raj Institution (PRIs) (b) encouraging commercial borrowing by informal financial intermediaries like NGO, Micro finance Institutions, Federation of SHGs by providing start up lendable resources to them (g) large scale dissemination of the concept of SHGs among the rural masses.

The success of SHGs, depend on capacity building which in turn is determined by awareness of health, education, environment, legal rights improving functional literacy, better communication skills and better leadership skills. The members involved in SHGs group have to organize their business and production units. The products have to be sold in the market, and thus the need for better communication skill arises. Slowly and steadily, they try to develop their entrepreneurship skill. Although many women SHG members who were interviewed are illiterate and the level of education is very low, the opinion of the respondents clearly demonstrate that they are capable of handling their business effectively and enhancing their socio-economic status. Regarding the communication skills, majority of respondents are of the view
that micro credit has resulted in better communication skills and leadership skills.

4.9 (g) NABARD's future strategies:

NABARD's future strategy would include launching special campaign to set up a large number of SHGs in states and also to work out strategies for promotion of micro enterprises among SHG members. The strategy would help the disadvantaged people in rural areas to graduate to income generating activities with a view to increasing their income potentials. NABARD contemplates to cover 1/3 rural poor families in 3 priority states including Assam under the SHG Bank Linkage Programme by March 2008. The real challenge is to upgrade the SHG Bank Linkage programme and ensure that credit facilities through SHGs are made available for self employment to poor people in rural areas. NABARD future mission is formation and credit linkage of 685,000 new SHGs by the year 2008 with 60 per cent of them coming from 13 priority underdeveloped states of the country. Another future strategy is to facilitate mature SHGs to graduate from micro finance for consumption or production credit to micro enterprises.

From the above discussion, it is found that NGOs and NABARD have contributed immensely to the development of micro finance especially through SHGs. This would help provide the much needed resources for the NGO to survive and also provide the service to the Bank. This would ensure specialization of skills and delineation responsibilities. The NGOs would specialize in social intermediation which they are recognised to be good at, and the
Banks would specialize in providing finance which they are good at. This would ensure sustainability of this programme. Therefore, NABARD has introduced many innovations in the field of micro finance. NABARD encourages Banks and NGOs for promoting SHGs which create employment. They also conduct programmes for rural entrepreneurship development and support the State Government to take-up projects of rural infrastructure. They have also been playing an active role in the women focused schemes for the Banks. It is suggested that NABARD may initiate research enquiries through Universities and Independent Research Institutions to obtain insights into not only the type and extent of differential female access, but ultimately, it is such research based enquiries that would help in shaping the nature of policy intervention at the macro as well as micro levels.

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