Micro-Finance Mechanism: A Theoretical Framework
CHAPTER – 2
MICRO-FINANCE MECHANISM: A THEORETICAL FRAMEWORK

Finance is one of the most crucial inputs for economic growth and development of any economy. Providing financial services to the poor sections of the society has always been in the focus of various programmes initiated by the government since Independence. Despite having a wide network of rural bank branches in India, a large number of the poor continued to remain outside the field of formal banking system. Hence, a need was felt for alternative policies, systems and procedures with regard to promotion of saving, disbursement of loans and new delivery mechanisms, which would fulfill the financial requirements of the poor, and help in the upliftment of their socio-economic conditions. In this context, the micro-finance was introduced for alleviating the existing problems and providing adequate credit to the poor by following a simple procedure.

Against this background, this chapter presents the concept of micro-finance, need of micro-finance, overview of delivery models of micro-finance, comparative study on working of micro-finance mechanism under commercial banks, regional rural banks and co-operative banks. This chapter is divided into six sections viz., Section 1: Micro-finance: A conceptual framework; Section 2: Key players in micro-finance system; Section 3: Models of linkage of SHGs with bank; Section 4: Role of banks in promoting and financing self help groups: An
analysis; Section 5: Presents a brief note on the challenges ahead before micro-finance mechanism in creating the desired socio-economic and political impact on the poor, various measures required for the success of the self help movement are also enlisted; Section 6: Presents an overview of the profile of the study area.

Section-1

Micro-Finance: A conceptual framework

Micro-finance means small credit facilities or financial services provided to the needy and poor. Financial services include savings, credit, insurance, etc. Broadly, any type of financial services provided to low income households to meet their financial needs constitute micro-finance. However, the only requirement is that the transaction value should be less and customers should belong to the poorer category. The ‘Task Force on Supportive Policy and Regulatory Framework for Micro-Finance’ has defined micro-finance as under: “Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards” (NABARD, 2000).

Similarly, the declaration of the Micro Credit Summit held at Washington 1997 defined micro credit programmes as “Extending small loans to poor people for self-employment projects that generate income, allowing them to care for themselves and their families”.

Micro-finance is small finance. It involves ‘small money for small people’. Micro-finance can be termed as ‘banking for the poor’. It can
reduce or remove poverty and empower them in the process of participating economic development (NABARD, 1999). 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 covers not only consumption and production loans, but also include other credit needs such as housing and shelter improvement, while other financial services like savings and insurance are also included under it.

Today, the micro-finance has become a major credit disbursement mechanism in many parts of the world. Now, it has come to be recognized and accepted as one of the new development paradigm for alleviating poverty through social and economic empowerment of the poor households. It has emerged as a powerful mechanism for uplifting the economic conditions of the asset-less poor through group approach that ensures greater involvement of beneficiaries in programme implementation.

The Genesis

Micro-finance has its roots in Bangladesh, through an experiment by Dr. Mohammad Yunus, founding the Grameen Banks in 1983. Grameen means “Rural” or “Village” in Bangla language. Small loans are given on the basis of mutual trust, accountability, regular participation in group activities and creativity. These Grameen Banks
provide loans to the poor who do not have anything to put up for collateral. Grameen Banks are the largest rural finance institutions in Bangladesh. Their lending guidelines and procedures are mainly for women. The initial loan given to the groups is changed from one group to another group. Interestingly, the recovery rates are 98 per cent.

In India, micro-finance emerged during 1990 with a view to provide small credit to the poor without charging high rates of interest. Because of their weak asset base, generally poor people are unable to fulfill loan guarantees regulated by formal banks and remained in the vicious circle of low income, low investment. In 1974, SEWA (Self-Employed Women's Association) Co-Operative Bank was established to help low income people to escape them from vicious circle and reduce their dependence on moneylenders (Gautam Kanwar et al., 2008).

The Need for Micro-Finance

Patrick Kilby of the National Centre for Development Studies, Australian National University puts micro-finance in the following way: “Micro-Finance aims at assisting people who are economically excluded to achieve greater levels of asset creation and income security at the household and community level” (Patrick Kilby, 2002).

People living in poverty need financial services, including loans, savings, insurance etc. Increase in financial services enables the poor to increase income and smooth flow of consumption. Good financial services act as lubricant oil against sudden emergencies and business
risk. More and better financial services can help poor households to move from daily survival to planning for the future and investing in better food, improved living conditions, children health and education.

Micro-finance has facilitated the offering of financial services in an informal formal route, in a flexible, responsive and sensitive manner. In fact, the formal financial institutions do not wish to provide such services because of high transaction cost, low scale of operation, high turnover of clients, frequency of transaction etc. (Vijay Mahajan and Nagasri, 1999). The relationship between micro-finance and poverty reduction is complex. The causes of poverty are of many kinds, so is its reduction. Increase in financial services allows poor people to achieve the development on their own terms. Financial services enable the poor to increase and diversify incomes and build assets, which in turn, enables them to reduce and alleviate risks, make choices and plan for their future.

The current literature on micro-finance is also dominated by the positive linkages between micro-finance and achievement of Millennium Development Goals (MDGs). Micro-credit Summit Campaigns (2005) Report argues that the campaign offers much needed hope for achieving the Millennium Development Goals (MDGs), especially relating to poverty reduction. Asian Development Bank (ADB) in its theme chapter on micro-finance also said access to financial services as critical for eliminating poverty and reaching MDGs. Food and Agriculture Organization (FAO) and World Food Programme (WFP) declared that it
will be possible to achieve the eighth MDGs by the established deadline of 2015, 'if the developing and industrialized countries take action immediately' by implementing plans and projects in which micro-credit could play a major role (Alok Mishra, 2006).

Section-2

Key Players in Micro-Finance System

Micro-finance programmes are the important institutional devices for providing small credit to the rural poor in order to alleviate poverty. Micro-finance programme through SHGs, NGOs minimize the problem of inadequate access of banking services to the poor. The key players in micro-finance are as follows.

1. NABARD (National Bank for Agricultural and Rural Development)
2. Reserve Bank of India
3. Self-Help Groups (SHGs)
4. Non-Government Agencies (NGOs)
5. Micro-Finance Institutions (MFIs)

1. NABARD (National Bank for Agricultural and Rural Development)

NABARD is an apex institution established in 1982 as a development bank, for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other allied economic activities in rural areas with a view to promoting integrated
rural development and securing prosperity of rural areas. Its vision is "to provide financial facilities for the unreached poor in rural areas through various microfinance schemes in a cost effective and sustainable manner" (Vijay Mahajan and G. Nagasri, 1999). The overall strategy of NABARD is forming and nurturing small homogenous SHGs for economic development of poor households. This process enables the poor households, to collectively identify and analyse the problems they face in social and economic environments. Formation of groups help them to pool their resources and use these resources for solving their own problems. The importance on regular savings and its use to solve immediate problems of consumption and production not only helps to meet members' urgent needs, but also trains them handle large financial resources more skillfully (Vijay Mahajan and G. Nagasri, 1999).

2. Reserve Bank of India

RBI also plays an important role in linkage of SHGs with banks. Considerable work had been done by the RBI in this sector since 1991. In 1991-92, a pilot project for linkage about 500 SHGs with banks was launched by NABARD in consultation with the RBI which advised banks to actively participate in this programme. In 1994, the RBI constituted a working group on NGOs and SHGs. On the recommendations of the group, the RBI advised that the banks financing of SHGs would be part of their lending to weaker sections. Banks are also advised that SHGs, registered or unregistered, which engaged in promoting the saving
habits among their members would be eligible to open savings bank accounts irrespective of their availment of credit facilities from banks.

3. Self-Help Groups (SHGs)

The aim of formation of SHGs can be marked to the existence of one or more common problem areas around which the rural poor is built and the process of group formations initiated. Groups have promoted savings habit among their members and used the resources to meet the emergent needs of the members of the group (NABARD, 2004). SHG collect periodic savings and makes loans to their members. Loans are funded by savings, revenues (interest on loan, membership fees, penalties) and loans from banks and other external sources. Such loans are small and used for consumption or to repay existing debt borrowed at higher interest rates from other sources. These loans range from Rs. 100 to Rs. 2000. After 4 to 5 years, mobilization of weekly savings amount of each member increase and this increased savings enable members to borrow more for both consumption and small business purposes. These loans range from Rs. 1000 to Rs. 10,000 and are repaid on monthly installments.

In addition to financial services, some SHGs provide health care services such as polio vaccinations and family planning. A few SHGs render social empowerment activities such as literacy training and mid-day meal programmes. SHGs members also participate in local government elections such as gram panchayat and zilla panchayats.
4. Non-Government Agencies (NGOs)

Micro-finance NGOs can be registered under the Societies Registration Act, 1860. NGOs have played a crucial role in the rapid growth of SHGs, not only by promoting them, but also building their capacities by training them in group activities. They have remained an important link between the SHGs on the one side and banks on the other. The popular NGOs are Mysore Resettlement and Development Agency (MYRADA). Krishi Vigyan Kendra (KVK), Hulkoti; Sri Dharmasthal Grameena Abivrudhi Kendra (SDGAK), Dharwad; Indian Development Federation (IDF), Dharwad etc. The main funding sources of NGOs are donors, Govt. departments, borrowed loan from banks and savings of the poor.

5. Micro-Finance Institutions (MFIs)

Micro-finance institutions are broadly classified into two categories namely, formal institutions and informal institutions. The formal financial institutions are commercial banks, regional rural banks and co-operative banks that provide micro-finance services in addition to their general banking activities. The informal financial institutions like money lenders and traders who undertake micro-finance services as their main activity are generally called as Micro-Finance Institutions (MFIs). The micro-finance institutions are mainly in the private sector. Experimentation of MFI model needs to be encouraged especially in areas where formal banks are still not meeting adequate credit demand of the rural poor. The major micro-finance institutions in India are as follows:
• National Bank for Agriculture and Rural Development (NABARD)
• Small Industries Development Bank of India (SIDBI)
• Housing Development Finance Corporation (HDFC)
• Commercial Banks
• Regional Rural Banks (RRBs)
• The Credit Co-operative Societies

**Section-3**

**Different models of linkage of SHGs with banks**

There are various models of credit linkage of SHG with banks. They are portrayed in Chart 2.1.

*Chart 2.1: Models of linkage*

1. **SHG Bank linkage model**
   - SHGs formed and financed by banks

2. **The Grameen model**
   - SHGs formed by formal agencies other than banks, but directly financed by banks

3. **The Co-operative model**
   - SHGs financed by banks using NGOs and other agencies as financial intermediaries

4. **The Partnership model**

1. SHG-Bank Linkage Model

With a view to develop supplementary credit strategies for reaching the unreached rural poor in the rural areas like the landless agricultural labourers, rural poor women, etc. in a transparent and cost effective ways, NABARD has introduced in 1992-93 a pilot project for linking SHGs with banks. In this model, an informal credit system was developed with the assistance from formal financial institutions. In this schemes, NABARD, Banks, NGOs and SHG members are involved.

The main objectives of SHG-bank linkage programme was developing credit delivery services for the unreached poor, building trust and confidence between the bankers and the poor. The linkage programme depends on the collective strength of the poor, closeness of NGOs to people and large financial resources of banks.

There are three models of linkage of SHGs with banks. They are:

**Model-I: SHGs formed and financed by banks**

In this model, banks themselves take up the work of forming and nurturing the groups, opening their savings accounts and providing them bank loans. Upto March, 2005, 21 per cent of all SHGs are financed from this category (Gautam Kanvar et al., 2008).

**Model-II: SHGs formed by formal agencies other than banks (NGOs and others), but directly financed by Banks**

In this model, NGOs and other formal agencies in the field of micro-finance act only as facilitators in forming, organizing and nurturing of groups and train them in thrift and credit management.
Banks give loans, directly to these SHGs. This model continues to have the major share with 72 per cent of the total number of SHGs financed upto March, 2005 (Gautam Kanvar et al., 2008).

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

Here, the NGOs take on the additional role of financial intermediaries. In the areas where formal banking system faces problems, the NGOs are encouraged to approach a suitable bank for huge financial assistance. In areas where a large number of SHGs have been financed by bank branches, intermediate agencies like federations of SHGs are coming up as links between banks and member SHGs. Banks finance to these federations and the federations in turn, finance their SHGs members. The share of cumulative number of SHGs linked under this model upto March, 2005 is relatively small at 7 per cent (Gautam Kanvar et al., 2008).

2. The Grameen Model

This model was initially promoted by the well known Grameena Bank, Bangladesh. In this model, financial assistance i.e., loans for productive purposes is provided by the MFI/NGO directly to the members of small groups (affinity groups consisting of about 5-7 members) directly on the strength of group assurance (Piyush Tiwari and S. M. Fahad, 2006). It is often coupled with an obligation to save by the group members.
3. The Co-operative Model

This has been initiated by Co-operative Development Forum (CDF), Hyderabad which has relied upon a “credit union” involving the savings first strategy. It means savings first, credit next. It has built up a network of Women Thrift Groups (WTGs) and Men Thrift Groups (MTGs). They are registered under Mutually Aided Co-operative Society Act (MACs) and mobilize savings resources from the members and access outside/supplementary resources from the institutional systems (Gautam Kanwar et al., 2008).

4. The Partnership Model

ICICI Bank created the partnership model three years ago (2006-07). The banks such as Housing Development Finance Corporation (HDFC) copied this model. In this model, banks lend money directly to an MFI clients and MFIs, in turn, provide loans and charges a service fee to the clients. But, interest rate to the client is higher than the ICICI bank rate. Under this model, loans are contracted directly between the bank and the final borrowers. Loans are not shown on the balance sheet of the MFIs. The MFIs, only monitor and recover the loans until maturity in exchange for service fees.

The Process of Linking of SHGs to Bank

There are four steps in the process of linking of SHGs to bank. They are:
1: Opening of Savings Bank (SB) account for the SHG

2: Conducting an internal lending by the SHG

3: Assessment of SHG

4: Sanction of credit to SHG

1: Opening of SB account for the SHG

The RBI has issued instructions to all commercial banks and regional rural banks, permitting them to open SB A/c not in the name of individual members but in the name of group after obtaining a copy of resolution from the groups. The SHG has to pass a resolution in the group meeting, signed by all members, indicating their decision to open SB A/c with the bank.

2: Conducting an internal lending by the SHG

After savings for a minimum 3 to 4 months, the common savings fund should be used by the SHG for lending to its own members. The purpose, terms and conditions for lending to its members, rate of interest, etc., may be decided by the group through discussions made in the meeting. The interest is usually kept as 2 or 3 rupees per hundred rupees per month. Simple and clear books of accounts of savings and lending should be kept by the SHGs.

3: Assessment of SHG

Before sanctioning of loans to SHGs, assessment of SHGs, is essential. The check list given in Table 2.1 will help to assess each SHG in a simple but effective manner.
### Table 2.1: Assessment of SHGs

<table>
<thead>
<tr>
<th>SL No.</th>
<th>Factors to be checked</th>
<th>Very good</th>
<th>Good</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Group size</td>
<td>15 to 20</td>
<td>10 to 15</td>
<td>Less than 10</td>
</tr>
<tr>
<td>2.</td>
<td>Type of members</td>
<td>Very poor members</td>
<td>2 or 3 not very poor members</td>
<td>Many not poor members</td>
</tr>
<tr>
<td>3.</td>
<td>Number of meetings</td>
<td>Four meetings in a month</td>
<td>Two meetings in a month</td>
<td>Less than two meetings</td>
</tr>
<tr>
<td>4.</td>
<td>Timing of meetings</td>
<td>After 6 pm</td>
<td>Morning between 7-9 am</td>
<td>Other timings</td>
</tr>
<tr>
<td>5.</td>
<td>Attendance of members</td>
<td>More than 90%</td>
<td>70 to 90%</td>
<td>Less than 70%</td>
</tr>
<tr>
<td>6.</td>
<td>Participation of members</td>
<td>Very high level</td>
<td>Medium level</td>
<td>Low level</td>
</tr>
<tr>
<td>7.</td>
<td>Savings collected within the group</td>
<td>Four times a month</td>
<td>Three times a month</td>
<td>Less than three times</td>
</tr>
<tr>
<td>8.</td>
<td>Amount to be saved</td>
<td>Fixed amount</td>
<td>Changing amounts</td>
<td>-</td>
</tr>
<tr>
<td>9.</td>
<td>Interest on internal loan</td>
<td>Depending upon purpose</td>
<td>24 to 26%</td>
<td>More than 36%</td>
</tr>
<tr>
<td>10.</td>
<td>Utilization of savings amount</td>
<td>Fully used for loaning to members</td>
<td>Partly used for loaning</td>
<td>Poor utilization</td>
</tr>
<tr>
<td>11.</td>
<td>Loan recoveries</td>
<td>More than 90%</td>
<td>70 to 90%</td>
<td>Less than 70%</td>
</tr>
<tr>
<td>12.</td>
<td>Maintenance of books</td>
<td>All books are regularly maintained</td>
<td>Most important registers maintain</td>
<td>Irregular in maintaining books</td>
</tr>
<tr>
<td>13.</td>
<td>Knowledge of the rules of the SHG</td>
<td>Known to all</td>
<td>-</td>
<td>Not known to all</td>
</tr>
<tr>
<td>14.</td>
<td>Knowledge of Govt. programmes</td>
<td>All are aware about Govt. programmes</td>
<td>Most of the members know</td>
<td>No one knows</td>
</tr>
<tr>
<td>15.</td>
<td>Education level</td>
<td>More than 20% members read and write</td>
<td>-</td>
<td>Less than 25%</td>
</tr>
</tbody>
</table>

Source: Reference Handbook, NABARD (2004), Bangalore

### 4: Sanction of credit to SHG

Banks issue loans in the name of SHGs, but not in the name of individual members. The maximum amount of loan to the SHG is 4 to 5 times of its savings. Loan may be granted by the SHG for various
purposes to its members. The purpose can be to meet emergency needs like illness in the family, marriage, education, etc. or buying of assets. The groups will discuss and decide about purpose for which the loans are to be given to its members. The group is collectively responsible for the repayment of the loan.

The RBI allowed the banks to decide on the interest rates to be charged to the SHGs. The rate of interest charged by the group to its members should be left to the group itself. Rate of interest is usually 2 or 3 per cent. When the group members are collectively responsible for the repayment of loans to the bank, there is less chance of default to the bank.

Section-4

Role of Banks in Promoting and Financing Self-Help Groups:
An Analysis

Linkage means functional relationship between the group and the bank. An important vehicle to promote finance in India has been the SHG programme and its linkage with banks. SHG linkage with banks helps to promote financial transactions between the formal rural banking system with informal Self-Help Groups as clients. Linkage would give them opportunity to fulfill the twin objectives: commercial viability and service to unreached the poor. The information relating to the number of banks linked by different banks in Karnataka is shown in Table 2.2.
### Table 2.2: Number of self-help groups linked by different banks in Karnataka state

<table>
<thead>
<tr>
<th>Year</th>
<th>Commercial Banks</th>
<th>RRB's</th>
<th>Co-Operative Banks</th>
<th>Total</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of SHGs linked with CBs</td>
<td>No. of SHGs linked with RRBs</td>
<td>No. of SHGs linked with COBs</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Growth rate</td>
<td>Growth rate</td>
<td>Growth rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>316</td>
<td>-</td>
<td>340</td>
<td>-</td>
<td>656</td>
</tr>
<tr>
<td>1996</td>
<td>1034</td>
<td>227.22</td>
<td>658</td>
<td>93.53</td>
<td>0</td>
</tr>
<tr>
<td>1997</td>
<td>1425</td>
<td>37.81</td>
<td>1022</td>
<td>55.32</td>
<td>5</td>
</tr>
<tr>
<td>1998</td>
<td>2008</td>
<td>40.91</td>
<td>1526</td>
<td>49.32</td>
<td>54</td>
</tr>
<tr>
<td>1999</td>
<td>2974</td>
<td>48.11</td>
<td>2417</td>
<td>58.39</td>
<td>201</td>
</tr>
<tr>
<td>2000</td>
<td>4829</td>
<td>62.37</td>
<td>4735</td>
<td>95.90</td>
<td>1046</td>
</tr>
<tr>
<td>2001</td>
<td>6395</td>
<td>32.43</td>
<td>8334</td>
<td>76.01</td>
<td>3890</td>
</tr>
<tr>
<td>2002</td>
<td>14425</td>
<td>125.57</td>
<td>13279</td>
<td>59.34</td>
<td>9328</td>
</tr>
<tr>
<td>2003</td>
<td>20987</td>
<td>45.49</td>
<td>23473</td>
<td>76.77</td>
<td>17718</td>
</tr>
<tr>
<td>2004</td>
<td>35912</td>
<td>71.12</td>
<td>38631</td>
<td>64.58</td>
<td>29323</td>
</tr>
<tr>
<td>2005</td>
<td>54814</td>
<td>52.63</td>
<td>62732</td>
<td>62.39</td>
<td>45652</td>
</tr>
<tr>
<td>2006</td>
<td>78520</td>
<td>43.25</td>
<td>83383</td>
<td>32.92</td>
<td>63025</td>
</tr>
<tr>
<td>2007</td>
<td>139341</td>
<td>77.46</td>
<td>99931</td>
<td>19.85</td>
<td>78364</td>
</tr>
<tr>
<td>2008</td>
<td>198262</td>
<td>42.29</td>
<td>117038</td>
<td>17.12</td>
<td>96616</td>
</tr>
</tbody>
</table>

Source: SHG Bank Linkage in Karnataka 2007-08, NABARD, Bangalore

**Fig. 2.1: Number of self-help groups linked by different banks in Karnataka state**

![Graph showing growth rate of self-help groups linked by different banks in Karnataka state from 1995 to 2008](image_url)
It is evident from Table 2.2 that, initially the number of SHGs linked with commercial banks were few as compared to RRBs and co-operative banks from 2003 to 2006. The number of SHGs linked with RRBs are more as compared to commercial banks. This is because the RRBs have a relatively stronger branch network in rural areas. This has enabled them to establish linkages with more number of SHGs. From 2007 to 2008 again the number of SHGs linked with commercial banks are more as compared to RRBs and co-operative banks. This is because commercial banks have taken the initiative to implement the innovative schemes. When it comes to SHG-Bank linkage, the credit delivery through group made the mainstream business of the banks. The initiation taken by the co-operative banks in linking with SHGs is lagging behind the commercial banks and RRBs. In fact, co-operative banks have a strong rural base, and today each village is covered by co-operative banks. Yet, they have not attained the desired performance. The information relating to loans given by banks to SHGs is presented in Table 2.3.

Table 2.3: Loans given to SHGs by different type of banks (Rs. in lakh)

<table>
<thead>
<tr>
<th>Year</th>
<th>Commercial Banks</th>
<th>RRB's</th>
<th>Co-Operative Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loan given by CBs</td>
<td>Growth rate</td>
<td>Loan given by RRBs</td>
</tr>
<tr>
<td>1995</td>
<td>45</td>
<td>-</td>
<td>46.1</td>
</tr>
<tr>
<td>1996</td>
<td>143</td>
<td>233.72</td>
<td>91.03</td>
</tr>
<tr>
<td>1997</td>
<td>206</td>
<td>44.06</td>
<td>186.65</td>
</tr>
<tr>
<td>1998</td>
<td>297</td>
<td>44.31</td>
<td>314.57</td>
</tr>
<tr>
<td>1999</td>
<td>473</td>
<td>59.32</td>
<td>513.34</td>
</tr>
</tbody>
</table>
Table 2.3 reveals that the loans disbursed by commercial banks has increased from Rs. 42.85 lakh to Rs. 134572.32 lakh during the study period. Initially, the growth rate was very high, because mobilization of weekly savings amount of each member was very less. This meager amount is not sufficient to meet out the emergency
consumption needs and investments made for income generating activities. Alternatively, they borrowed small amount of loans from commercial banks. But, the growth rate gradually declined later, particularly in the year of 2008 (56.61). This is because, mobilization of weekly savings amount of each member increased as compared to initial stage. Therefore, SHGs use internal savings amount for lending to its members.

The loan disbursed by RRBs increased from Rs. 46.10 lakh to Rs. 82387.80 lakh. Initially, the growth rate was very less because of lack of tangible collateral securities, high cost of transaction and fear of repayment of loan. However, in subsequent years upto 2006, growth rate increased. This is because in the absence of any collateral securities, the percentage of loan repayment is very high (98%). Again the growth rate has come down in the year of 2007-08. The reason is SHGs have mobilized their required finance through increase in weekly savings amount of members and accepting grants and donations from various departments, donors etc.

Similarly, the loan disbursed by co-operative banks increased from Rs. 0.50 lakh to Rs. 64560.04 lakh. The growth rate was initially high due to wide dispersal of branches of co-operative banks in rural areas. The growth rate gradually decreased during 2004 to 2008 as co-operative bank branches did not work properly and due to the heavy loss they faced, they were unable to provide financial help to SHGs.
Based on the above analysis, it is clear that the banks have made progress in loan disbursement to SHGs. However, there is a disparity in performance between banks. Commercial banks do not have more branches in rural area as compared to RRBs. Even though, co-operative banks have more branches in rural areas, their performance is not satisfactory in loan disbursement.

Section-5
Challenges ahead

The concept and practice of SHG-based micro-finance is penetrating deeply in many parts of the country. However, it is hard to measure and quantify the effect that micro-finance so far has had on the poverty reduction in India. Micro-credit has effectively graduated from an 'experiment' to a widely accepted paradigm of rural and developmental financing in India. Government involvement in SHG-based micro-finance is a welcome development. It is important to ensure that the government micro-finance initiatives do not go the way their several well intentioned predecessors.

The biggest challenge in development is the simultaneous development of investment potential and improvement of the skills level of the borrowers. A low skilled services is an unwelcome substitute for scarcity of credit. Despite all efforts, the World Bank estimates that the Indian micro-finance activity currently reaches only 4% of the poor. Many lenders still have a strong holding in rural debt. Also, the lack of NGOs and MFIs operating in India remains a constraint. According to
ICICI Bank, there is a need for approximately 200 MFIs to cover the country. However, there are only 15 large players capable of scale. Now more number of players are needed (Annie Duflo, 2005).

Inspite of impressive growth over the past few years, microfinance in India is still presently too small to create a massive impact on poverty alleviation. If pursued with skill and opportunity development of the poor, it holds the promise to alter the socio-economic face of the India’s poor (Rajesh Chakrabarti).

The following goals have been set for the year 2009-10 (NABARD, 2007-08).

- Promotion of 30,000 new SHGs.
- Linkage of 40,000 fresh SHGs.

The following measures for supporting self help movement would continue (NABARD, 2007-08).

- Capacity building of partner agencies.
- Capacity building of SHG members and leaders.
- Supporting self help promoting institutions
- Supporting micro enterprise promoting agencies.
- Increasing per group credit for SHGs.
- Promotion of SHGs in low and moderate density districts.
• Promotion of activity groups.

• Collection of data of inactive and active SHGs accounts.

• Revitalizing inactive groups.

• Supporting SHG federations.

• Capacity building of business facilities.

• Facilitating co-ordination among various agencies.

Section-6
Profile of the study area: An Overview

Location

Dharwad district is situated in the Western sector of the northern half of Karnataka State. The District encompasses an area of 4263 sq. kms lying between the latitudinal parallels of 15°02' and 15°51' North and longitudes of 73°43' and 75°35' East. The district is bounded on the North by the District of Belgaum, on the East by the district of Gadag, on the South Haveri and on the West by Uttara Kannada district. All these districts, which surround Dharwad district, belong to Karnataka State itself.

Geomorphology

Total geographical area of the district is 427329 hectares, out of which Forest Area, Net Sown Area, Total Sown Area and Irrigated Area is 35235, 318494, 528521 and 39485 respectively.
The main kharif crops are Cotton, chilies, sugarcane and groundnuts, and the main rabi crops are jowar, wheat, rice etc. Out of total cultivated land, only 12.10% is irrigated [as per the 4th Economic Survey – 1998].

**Climate and rainfall**

The rainfall in the district occur from southwest monsoon extends from June to September and ranges from 998.2 to 594.30 mm. An average of 59 rainy days registered during 1901 to 1970, with the rainfall contribution of about 64.9 % from SW monsoon and by NE monsoon 35.1%. The yearly normal rainfall of 772.00 mm recorded during 1971-2000 and is about 600 mm in the NE region of the district. The area experiences tropical climate/semiarid climate with a distinct seasons (1) summer (2) rainy season and (3) the winter. The relative humidity is generally high as over 80% in the monsoon season and less in non-monsoon periods. In April month the whirlwinds are common.

**Demographical features**

Out of total population of 16, 04,253, Rural Population is 722336 and urban population is 881917.

**Crops**

The important crops grown in the district are paddy, sorghum, wheat, maize, Bengal gram, red gram and sugarcane. In some parts of the district fruit crops are also grown.
Conclusion

The SHG-Bank Linkage Programme has proved its virtue as a mainstream programme for banking and has emerged as one of the need based policies and programmes to cater to the neglected groups of society such as women, poor and deprived sections of the rural areas. No bank has reported any NPA under the SHG Bank linkage. The main advantages of the programme are timely repayment of loans to banks, reduction in transaction cost to the poor and to the banks, savings and credit facilities to the door-step of the poor.

Only knowing the conceptual framework of micro-finance and linkage of SHGs with banks is not sufficient. Before linkage of SHGs with banks for availing micro-finance assistance, formation of groups is very important. Meaning of group formation, purpose of group formation, steps in group formation, analysis of group formation etc. are studied in the next chapter.
References


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