



THE ROLE OF MICRO FINANCE IN SHG

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Abstract: *The most notable 21st centuries aim is to eradicate poverty into half by 2015 in our country. This can be happened through MICROFINANCE. It can change the lives of the poor. There may not be a quantum jump in the income but it is possible still to ensure a reasonable change alleviating the poverty. In all human life women plays a major role but even though she is discriminated in all her walks in the society. This can be eradicated by giving the entrepreneur strength to her. It can be made possible through self help group. In India, women produce 30 percent of all food commodities consumed but get only 10 percent of the property or wealth of the country. She should work not only on the family economy but also to the countries economy. Their economic status has to be developed because any countries development is inseparable to the development of women in that country. One of the powerful approaches to women empowerment and rural entrepreneurship is the formation of Self Help Groups (SHGs). Because it has made a tremendous change in the development of the society, the family and also for the individual, the live example is Tupperware in US. The credit is needed not only for food but also for the health, house, education and education too. In addition to the Indian government, world bank has also made many establishment for alleviating poverty through micro finance by Management of Micro finance Institute (MAFMI) and also by CGAP philosophy. In addition to this NABARD acts as a apex bank at national level to develop the rural banking. Microcredit emergence in India has to be seen in this backdrop for a better appreciation of current paradigm. Successful microfinance intervention across the world especially in Asia and parts of India by NGOs provided further impetus.*

This script tries to inculcate the major role of micro finance in the development of rural and their rating criteria so that the groups can mainly focus on the significant aspects in improving self help group and also in forming new groups. This enhances the status of living of the people in rural people. It also promotes the self confidence level in them by promoting them as entrepreneur.

Keywords: *Micro insurance, Money lenders, Financial services, RRB, Households, NGO.*

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INTRODUCTION:

The prospect of Microfinance is a WIN-WIN approach. That is both the client and the bankers or agencies are also benefited. It is a three tier process. The source of availability either through banks or agencies or through fiends, money lenders, pawn brokers who is assigning the minimum amount of interest which can be affordable by rural people. The product includes again three types that is Micro finance, Micro savings and Micro insurance. The micro finance and the micro saving can be clubbed and its source of other. Whereas the Micro insurance is still in the process of development. The asymmetry of information in taking loan is an adverse decision and usage of monetary value and the loan repayment is the moral hazard. Mostly the rural people are still illiterate the awareness about any of the new programme or the procedures to deal with is a greatest difficulty which can be eradicated and motivated through self help group which is no need of collateral and also of low value. Through the micro finance the self help group has been developed to a great extent.

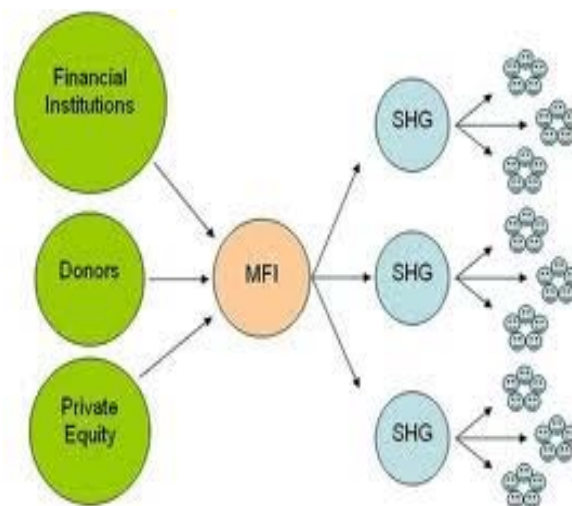
After independence of India the loan are given through the regional rural banks, commercial banks and also through co-operative but it gives a great pressure in subsidy rate of interest for both the borrowers and repayment of pending loans to the banks. The timeline shows that in 1950 & 1969 it emphasis on the promoting of cooperatives, nationalization of the major commercial banks beginning of commercial bank branch expansion in the rural and semi-urban areas. In 1976 Regional Rural Banks (RRB), low cost institutions mandated to reach the poorest in credit-deficient areas. During this period, intervention of the RBI (Reserve Bank of India) was essential: special credit programmes for channeling subsidized credit to the rural sector.



In actual prospects, is that range of financial service either as group or individual for the any kind of profitable activity for the development of rural area is said to be as Micro finance. But the most common perception is that it's a group lending for the purpose of social or charitable activities. The clear views have to reach the rural people in order to make them to come forward for the development entrepreneur empowerment.

MICRO FINANCE IN INDIA – AN OVERVIEW

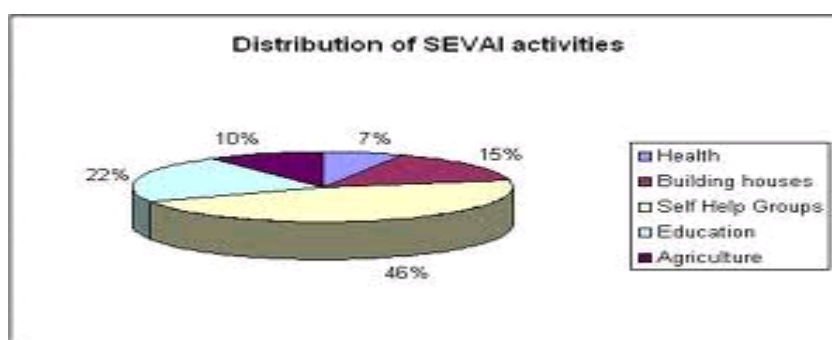
The majority of Indian Self help group is depends upon Micro finance. The groups are formed as unregistered small gatherings of 10-25 members. They themselves provide loans with their savings. The small size of the SHGs and thereby, the limited resources – both financial and human – they have access to, make most SHGs dependent on the promoter agencies for several essential services. SHG federations were primarily a response to this issue; they were promoted to take over most, or all, of the services for which the SHGs were dependent on the promoter agencies



SHG federations were promoted primarily as an exit strategy, i.e. to allow organizations that had promoted SHGs to withdraw their support to SHGs while also ensuring their sustainability. Major NGOs that have promoted SHG federations include SEWA in Gujarat, PREM in Orissa, Chaitanya in Maharashtra, Gram Vikas in Karnataka, and YCO in Andhra Pradesh Professional Assistance for Development Action and Mysore Resettlement and Development Agency (MYRADA), two large NGOs that pioneered the concept of SHGs, were also among the earliest agencies to promote SHG federations.



The MYRADA federations primarily focus on building solidarity, addressing delinquency, and dealing with social issues. Some of the federations offer audit services. Micro insurance has been concentrated by most of the federations like KVK and SMMS and SPMS especially most of the groups in southern region of India. Apart from federations many of the clusters are also providing a wide range of offers from their own fund and also some training programmes and auditing supports for the SHG to promote new scheme and also new self help groups in our country.



The village organization have great resources to the part of cluster developments and supports the health care and cattle hood with the help of volunteer organization and also by the staff of CDA's. These programmes have direct beneficial to the rural individuals who take active participations in the SHG and they can promote several new groups. The individual of SHG can be a member, staff, leader and they can arrange the class room training programme and field training programmes etc

MICROFINANCE SERVICE PROVIDERS- As regulatory body

The microfinance service providers include apex institutions like National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and, Rashtriya Mahila Kosh (RMK). At the retail level, Commercial Banks, Regional Rural Banks, and, Cooperative banks provide microfinance services. Today, there are about 1,61,480 retail credit outlets of the formal banking sector in the rural areas comprising 13,000 branches of District level cooperative banks, over 15,480 branches of the Regional Rural Banks (RRBs) and over 38,400 rural and semi-urban branches of commercial banks besides almost 94,600 cooperatives credit societies at the village level.



On an average, there is at least one retail credit outlet for about 4600 rural people. This physical reaching out to the far-flung areas of the country to provide savings, credit and other banking services to the rural society is an unparalleled achievement of the Indian banking system. An attempt is made here to deal with various aspects relating to emergence of private microfinance industry in the context of prevailing legal and regulatory environment for private sector rural and microfinance operators.

MFIS AND LEGAL FORMS

Firm data regarding number of MFIs operating in the country is not available. An attempt to create an information base on micro finance institutions operating in 13 microfinance intense States was made in 2008 under "NABARD GIZ Rural Financial Institutions Programme" (RFIP). The data revealed that there was high geographic concentration (75%) of MFIs in two States viz., Andhra Pradesh and Tamil Nadu. Most of the MFIs (95%) were found to operate in one State only. Further, 68% of the MFIs operated in only one district.

LEGAL FORM WISE NUMBER OF MFIS

<i>Type of MFI</i>	<i>No</i>	<i>Share</i>	<i>Legal acts under which registered</i>
MUTUAL BENEFIT MFIs			
<i>Cooperatives</i>	3	0	<i>State Cooperative Societies Act</i>
<i>Mutually Aided Cooperative Societies</i>	445	57	<i>Mutually Aided Cooperative Societies Act enacted by the State Governments.</i>
Sub total	448	57	
COMPANIES			
<i>Non Banking Financial Companies</i>	24	3	<i>Indian Companies Act, 1956 The Reserve Bank of India Act, 1934</i>
<i>Section 25 Companies</i>	9	1	<i>Section 25 of the Indian Companies Act, 1956</i>
Sub Total	33	4	
NGO-MFIs			
<i>Societies</i>	199	25	<i>Societies Registration Act,</i>



			1860 or similar Provincial Acts.
Trusts	106	13	Indian Trust Act, 1882
Sub total	305	39	
Totals	786	100	

MICROFINANCE INSTITUTIONS FORMALLY HAVE THE FOLLOWING CHARACTERISTICS:

- Providing small loans for the working capital requirements of the rural poor.
- Minimal appraisal of borrowers and investments as compared to commercial bank.
- No collateral demanded; however, these institutions impose compulsory savings and group guarantees.
- Based on loan repayment history of the members, microfinance institutions extend large loan to the members.

Though microfinance institutions proved the necessary monetary support and try to increase social awareness among their members, their activities do not include providing training for basic skills required for doing business .they do not extend any marketing facilities nor undertake activities to improve the literacy rate and health conditions of members.

THE CHALLENGES OF MICRO FINANCE:

In the recent years, though money lending through MFIs has become a major financial activity in the villages, barbaric and inhuman methods such as harassing borrowers, intimidating, abusing, mentally and physically harassing them have been incorporated into the whole process of money lending. The borrowers are always under the pressure to repay the loan (on a weekly basis) at a heavy compound interest for petty loans they take.

This form of organized exploitation has given many reasons for businessmen to make money at the cost of the poor, who are often seen as "*fortune at the bottom of the pyramid.*" Previously, money lenders lent money at higher rates of interest because it was the individual who was lending money, but now, it is an institution comprising of a group of individuals who are lending money and in turn, pocketing extra money from the poor in the name of interest rate.



The real time example issues in all over our country

“A woman who takes Rs 10,000 loan from a microfinance institution has to pay Rs 225 every week. If she is unable to make this payment or has another emergency in the house, she will take a loan. The existing lender will not give you a fresh loan till the old one is at least 35 weeks old, so she will borrow from another MFI.

That’s another Rs 225 every week. Weighed down, she will take a third loan in a matter of months. Now she has to pay Rs 675 every week! And so, a fourth loan. Such women are forever wondering where their next installment will come from. Some are working as far labour to repay loans. If they are unable to fully repay, they sell cattle, land or jewellery.”

It all boils down to a question which tests the credibility of these suggested solutions. Corruption, lack of proper implementation and misuse of funds have dogged everything in our society till date, so why wouldn’t these suggestions be victims of such cruelty? Transparency is the only way out. If we think that only the traditional money lenders are guilty of such heinous crime, so are the micro finance institutions.

THE BASIC PRINCIPLES ON WHICH THE SHGS FUNCTIONS ARE:

(i) The members of the groups should be residents of the same area and must have an affinity. Homogeneity of relationship could be in terms of caste/occupation/gender or economic status (which is critical). (ii) Savings first, credit thereafter. (iii) SHGs should hold regular meetings. (vi) SHGs should maintain record of financial and other transactions. (v) They should have norms regarding membership, meetings etc.(iv) Group leaders should be elected by members and rotated periodically.(vii) Transparency in operations of the group and participatory decision making.(viii) Rates of interest on loans should be decided by the group. (ix) Group liability and peer pressure to act as substitutes for traditional collateral.



FUNCTIONS OF NABARD IN SHG

NABARD developed the Self Help Group [SHG] - bank linkage approach as the core strategy that could be used by the banking system in India for increasing their outreach to the poor.



A SHG is a group of about 20 people from a homogeneous class, who come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis.

The strategy involved forming SHGs¹ 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. This gradually builds financial discipline & credit history for themselves, as the money involved in the lending operations is their own hard earned money saved over time with great difficulty.

NABARD saw the promotion and bank linking of SHGs not merely as a credit programme but as part of an overall arrangement for providing financial services to the poor in a sustainable manner leading to empowerment of the members of these SHGs. This is 'warm money.' They also learn to handle resources of a size that is much beyond their individual capacities. The SHG members begin to appreciate that resources are limited and have a cost.



ASSESSMENT METHODS OF SHG BY NABARD

(i) FORMS

1. Norms for functioning
2. Meetings (Group Session)
3. Maintenance of Books
4. Leadership
5. Participation and Awareness of Group Members

(ii) PARTICULARS TO CREDIT AVAILABILITY

The following aspects to be looked into while assessing the credit function of the group:

- The decision making process of selecting loanees.
- The system followed in assessing credit requirement of individual members and the amount to be sanctioned.
- The system of monitoring the credit.



- The repayment performance of members and incidence of defaults besides the effectiveness to deal with such defaults; whether the concept of 'peer pressure' is working.

RATING OF SELF HELP GROUPS -IN LINKAGE OF BANK LOANS

SL.NO	CATEGORY	CRITERIA	MARK	KEY
1	COMPOSITION	Membership is homogeneous No homogeneity in membership	10 5	The rating is based on the judgment of assessing official
2	AGE OF THE GROUP	One year and above Six months and above but less than a year	10 5	There is no need to evaluate an SHG if it is less than six month old (ignore marginal shortfalls upto 1 month)
3	WEEKLY GROUP MEETINGS	Four meetings per month 2-3 meetings per month 1 meeting per month	10 8 5	The total number of meetings conducted during the last 3 months may be divided by 3 to arrive at average no. Of group meetings.
4	ATTENDANCE	More than 90% Between 70% and 90% Less than 70%	10 5 3	See explanation 1 at the end.
5	MINUTES BOOK	Written in detail Maintained, but not in detail	10 5	Peruse of minutes book pertaining to meetings held during the last 3 months.
6	PARTICIPATION IN GROUP DISCUSSION	Participation by only a few members Participation by majority of members	5 10	Peruse minutes book (if rating is 10 for item 5) Observe during a couple of group meeting Interact with members
7	SAVINGS & LOAN RECOVERY (MODE OF COLLECTION)	Collected in group meetings House - to house collection	10 5	Ascertain form group leaders and members in this regard also, peruse minutes book.
8	UTILISATION OF SAVING FOR LOANING	Above 80% Above 50% and upto 80%	10 5	Compare savings outstanding on a given date with loans outstanding on the same date to obtain the



				percentage. Nil mark for savings below 50%
9	RECOVERY OF LOANS	Dues not recovered in respect of 10% or less of total no.of loan accounts Dues not recovered between 10% and 30% of total no.of loan accounts.	10 5	Even one instalment unpaid without authorisation by the group is treated as dues not recovered. Count such accounts and compare them with total no. Of loan a/c. Also, peruse minutes book for authorisation for non-payment
10	BYLAWS / GROUP RULES	Known to all members Known to most of the members Not known to many members	10 5 0	Ascertain from the member through interaction

THE EVOLUTION OF SELF HELP GROUPS AT THREE LEVELS

- At one level households use microfinance to meet 'survival' requirements where small savings and loans serve as a buffer in the event of an emergency or to smoothen consumption or even service previous debt to give itself more liquidity during lean times.
- At the second level, 'subsistence' needs are met through microfinance, where a household begins to utilize microfinance to diversify its basket of income-generating activities, or to meet working capital requirements in traditional activities.
- At the third level as households reach a stage where they can assume a higher degree of risk, microfinance would be used to invest in setting up an enterprise or facilitating entry into employment in one way or the other in order that the household becomes 'sustainable'.

CONCLUSION: SELF HELP GROUPS SUCCESS STORIES

Gender power transforming villages

SARADHA SHG was formed with 20 women members under the guidance of an NGO, RUHSA in the year 1998 in Chennankuppam village of Vellore district of Tamil Nadu Province in India. The SHG has led to empowerment of the women members in this remote village. This emancipation process has also helped them to come out of the clutches of moneylenders.



HERE is one example of what the might of collective action can do.....The local practices largely led by the feudal lords ensured that poor hardly be given a Patta - an ownership certificate for the land they owned. There was no system of issuing Patta lands in the village since the last 10 years.

With unified women power and persistent persuasion with local village leaders and community leaders the SHG members ensured issuance of Patta land to 47 poor families in the village. Subsequently about 15 houses have been constructed with support from a Government programme which had earlier bypassed the needy poor. The SHG members have also ensured that potable water connection is made available in the village as also good access road to the village. This SHG is now successfully managing a production unit for manufacturing Batik printed clothes, wall-hangings, etc. which are being sold in the local markets as well as outside.



Together we earn – Together we till

Kowaiphang Bodal is a SHG of 11 tribal women from a backward tribal hamlet of Harijoy Chowdhury Para of Jirania block, West Tripura district, Tripura, India formed in June 2002. Nurtured by a social intermediary the group mopped up reasonable sum of Rs 6,050 (US\$ 135) in a span of 10 months, which they safely kept with the local rural bank branch at Bankimnagar. Subsequently, the SHG commenced internal lending and started earning from interest payments. Intrigued by its promptness, dynamism of the members and its creditworthiness of the SHG the local branch of Tripura Rural Bank sanctioned a credit limit to this SHG. This offer served as a major confidence booster to the otherwise shy tribal women. They then started exploring the possibilities of starting income generating



activities! A plot of about one acre land was hired on a one-time lease rent of Rs. 15,000 (US\$ 333) to start agricultural operations – an activity which was familiar to all. The best raw material that the poor could give was labour which they collectively put by tilling the land. In one cropping season they could harvest enough to repay the borrowing and save for the future with greater hopes!! Confidence begets confidence! Now Kowaiphang Bodal has even found additional avenues for putting their spare time to use. Every month, two members of the group, on a rotational basis, weave a *Pachera* (traditional tribal garment for the lower portion of the body) for sale. A *Pachera* for ceremonial use can fetch them a return as high as Rs. 600 ! When asked about the benefits of forming the SHG, Secretary, Radharani Deb Barma says that taking independent financial decisions, negotiating deals and pursuing income generating activities, activities which they could not even dream of a few months back were now made real by Kowaiphang Bodal. From simple ignorant women who could not even speak up for themselves they have metamorphosed into confident decision makers, investors and mentors to their families!

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