

# An analysis of integrating Micro –Finance Institutions with Self Help Groups in Karnataka – A descriptive study.

Banuprakash. K. A.

Assistant Professor, GFGC, Bukkapattana, Tumkur.

## Abstract:

At the present the Indian credit cooperatives have a century long history. During this period these institutional financing agencies failed, to a large extent, to meet the necessities of the farmers. Some of the factors responsible for their failure are insufficient supply of credit, poor recovery, demand-supply gaps, interference by politicians, lack of monitoring, mis-utilisation of credit, problems in identification of target group, high transaction costs and lags in time, natural calamities and above all presence and competition from informal credit agencies. A number of committees Rural Banking Inquiry Committee(1949), All India Rural Credit Survey Committee (1954), Committee on Cooperative Credit (1960), All India Rural Debt and Investment Survey (1962), All India Rural Credit Review Committee(1969), Working Group on Rural Banks (1975), Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (1981), Agricultural Credit Review Committee (1989), and Narasimham committee (1991 and 1998) constituted by Government of India looked into their functioning and made numerous recommendations to improve its execution. Till date, these institutions are catering to about 60% of the total credit necessities of the farmers in rural areas of the country.

To facilitate refinancing to cooperatives, commercial banks and regional rural banks, NABARD was formed in 1982. These institutions, even though a variety of governmental assistance, abortive to assemble the necessities of farmers. Further, the above structures did not cater to the landless, marginalized and deprived groups. With a view to make available some assistance to these groups of people, a concept called micro financing was promoted. The origins of SHGs could be traced to mutual aid in Indian village community. The Self-help in quintessence is a type of cooperation. Cooperatives are formal bodies, while SHGs are informal (NABARD 1996). Self-help and reliance are strategies of endurance for pitiable as well as their development from below.

Key words: Rural credit, co-operatives, financial institutions, re-financing, NABARD.

## Introduction:

In India the micro-Finance to SHGs are directed at promoting changes at the individual level. Though the scope for empowerment of individual women is typically limited by inequalities and unfairness women face jointly (legal, social, economic, cultural practices, norms and values). Women's empowerment thus requires addressing women's status and women's rights as a group in order to facilitate women to make use of possessions.

The micro finance, in India, currently provides primarily savings and credit facilities under dissimilar models, viz (a) the banks providing "no-frills" deposit facilities, remittances, insurance and small loans; (b) the self-help group (SHG) bank linkage model; (c) the micro finance institutions mode; (d) the post offices, one of the most widespread organizations in the country, with 1,38,000 rural offices have also been providing small savings, allowance facilities and postal life insurance facilities for the community.

The concept of Self-Help Group is a reciprocal self-help embraced with self interest and co-operative spirit. Self-help is supplemented with mutual-help, which can be a powerful vehicle for underprivileged efforts in socio-economic upward faction. Participate in the management of financial services is more competent and approachable. Deprived can save and are bankable. Underprivileged require not only credit support but also savings and other services. The small groups of deprived with preliminary exterior support, can manage effectively and supervise micro credit amongst their facilitates the service to reach the meager communities on a wider scale and at lower costs.

Self – Help Group is defined a miniature economically standardized group of 10 to 20 rural resource – poor persons who have a common goal of socio – economic sustainable development, discussing their problems and resolving it through suitable participatory resolution making and come together to fund voluntarily to finance their emergent credit needs, to have collective decision making, to solve conflicts through collective leadership and mutual conversation and to offer loans based on group decisions at market driven rates.

The Task Force on supportive policy and regulatory framework for microfinance headed by Y.C.Nanada (NABARD, 1999) has defined micro-finance as; “Provision of thrift, credit and other financial services and products of extremely small amounts to the deprived in rural, semi urban or urban areas for enabling them to elevate their income levels and advance living standards.

The Task Force has emphasized that micro finance will cover not only consumption and production loans, but also consist of other credit requirements such as housing and shelter development, while other financial services like savings and insurance are also included under it. It may be left to the micro finance institutions (MFIs) to identify the poor. While exclusively covering the poor, micro finance emphasizes on graduating the borrowers from the pre-micro-enterprise stage to the post-micro enterprise stage with the support of financial and non-financial services. The emphasis of support under microfinance is, thus on building up capacities to handle larger resources rather than on financing micro enterprises which could be otherwise enclosed by the direct lending programmes of banks or through specific poverty alleviation programmes of the government.

### **Review of literature:**

Dr.Besley and Coate (1995) analyzed a deliberate repayment amusement with joint accountability and demonstrate that victorious group members may have an incentive to repay the loans of the less successful ones. They also highlight the effects of social collateral in enforcing punctual repayment system also.

The Studies by Besley and Coate (1995), Khandker, Khalily and Khan (1995), Ray (1999) and Rai and Sjostrom (2004) have emphasized the ‘domino effect’ of the group being expelled from prospect loans (in the case of a member non-payment on loan) as a potential incentive mechanism to implement repayment of the group. The contingent renewal implies that the assortment of borrowers is credit history needy.

Bhatia (1986) opined that the majority of the banks had been allocating large parts of their loans and advances to giant industrial and trading institutions. The policy of social control slightly tilted the situation, but a major shift in commercial banks lending policy took place with the nationalization of the major commercial banks. The task of nationalized banks was stated, to restore vitality to the rural economy, build up the future opulence of the common man and reinforce both agricultural and rural industry. Nationalization of banks was, therefore, essential to reshape the credit policies of the banks and direct the flow credit to thus far deserted sectors.

Karmakar. K. G (2009) in the study of “Emerging Trends in Microfinance” observed that to facilitate the transition of micro finance to a well functioning and mature industry so that financial inclusion has a better social impact, the existing system wants to be strengthened by addressing certain core issues. The self-help group bank linkage programme requirements up scaling and structured financing to micro finance institutions is required if they are to get wide access to funds for a better approach that will facilitate them to deliver on their potential to diminish poverty.

Soundarapandian. M (2013) in the study of “Microfinance for rural entrepreneurs – Issues and Strategies” pragmatic that though there is a optimistic growth rate of SHGs in states but in terms of the growth rate of SHGs there is a wide difference among states. Linkages of banks with SHGs are found impossible for this variation.

### **Research Gap**

The review of the above studies relating to micro finance and socio-economic development of women clearly reveals that they have focused on some issues related to the SHGs, banking role & micro finance programmes. None of the studies have taken an integrated view of the concept NGO micro finance for the socio-economic development of women. So for no research study have conducted by the researchers about the role of micro-finance programmes in the empowerment of women in Karnataka in general and in Tumkur district in particular, in order to fill this gap the present study is undertaken.

### **Statement of the Problem**

The Microfinance is an impending sector. Pegged at just a small number of million dollars in the early 1990s, this sector has grown into a \$20 billion global industry by 2007, reporting close to 100% growth year-to-year over the previous decade. Apart from growing in size, microfinance is today seen by most governments as a useful tool for poverty alleviation. Self help groups have been receiving greater concentration by all the concerned like the government, NABARD, RBI, Commercial Banks and RRBs. This innovative form of credit delivery is catching up in a big way in rural areas. SHG movement is leveraging the strength of the formal banking system and flexibility of informal SHGs in providing sufficient financial services to the rural poor. The programme has turned in to a social movement with high expansion rates in recent years. Fuelled by competence and enthusiasm at all stakeholder levels, it is expanding rapidly throughout India, including tribal areas. It is probably the world’s largest and most successful microfinance programme for the rural poor outstanding in its emphasis on self-reliance and local autonomy of the very deprived.

### **Objectives of the Study**

1. To study the emergence of micro finance in India and in Karnataka.
2. To evaluate the economic impact of SHGs microfinance on production levels, asset creation levels, food security and standard of living.
3. To ascertain whether micro finance leads to employment generation and reduction in poverty in Karnataka in general and in Tumkur district in particular.
4. To understand the role of Self-Help Groups Approach in achieving empowerment of women in Tumkur district.

The Micro finance programme intends to take into custody the the majority burning issues i.e., poverty and unemployment, which are main hurdles in the process of development. Micro finance can be defined as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or

urban areas for enabling them to raise their income levels and get better living standards. The details of the cumulative progress of self help groups bank linkage programme in India are presented in Table.

### Cumulative progress of self help groups bank linkage programme in India (Rs.in Crore)

Year	No. of SHGs	Bank Finance	Refinance by NABARD
1992-93	255	0.29	0.27
1993-94	620	0.65	0.46
1994-95	2122	2.44	2.13
1995-96	4757	6.06	5.66
2003-04	8598	11.84	10.65
2004-05	14317	23.76	21.39
2005-06	32995	57.07	52.06
2006-07	94645	192.98	150.13
2007-08	114775	193.00	150.10
2008-09	263825	480.90	400.70
2009-10	463478	1026.30	796.50
2010-11	717360	2048.70	1418.80
2011-12	1079991	3904.20	2124.20
2012-13	1618476	6898.00	3092.00
2013-14	2238565	11398.00	4160.00
2014-15	2924973	18041.00	5459.00

Source: NABARD documents.

The above table clearly indicates that since 1992-93 to 2014-15 the number of SHGs and bank finance has been increased gradually and refinance by the NABARD also been tremendously increased. The SHGs bank linkage programme in India is the largest micro finance programme in the world. NABARD has been playing supportive role by way of refinancing banks, organizing training programmes for NGOs, bank officers and SHG members for improvement skills for smooth operation of SHGs bank linkage. the launching of pilot project initiating the SHG bank linkage in February, 1992 is needed a landmark development in banking with the poor as it has been covering poorest of the poor who were so far neglected by the formal financial sector. The number of credit linked SHGs, bank loan disbursement and refinance by NABARD has posted a substantial growth by 3271%, 3982.76% and 3844% respectively.

Ever since there are no obvious numbers obtainable on the definite supply of microfinance, here we look at the level of lending and outreach of the target group attained by the major apex level microfinance institutions in the country. Some macro level details about the lending and outreach performance of the major apex level microfinance institutions or schemes in the country based on 2003 and 2004 data. It is possible that there may be some overlaps in the exposure of these agencies as some of the Micro-Finance Institutions and NGOs may be concurrently getting assistance from more than one organization. There may also be some NGOs or government sponsored microfinance programmes like SGSY, which may not be fully covered under these apex level programmes.

**Outreach of Microfinance Institutions in India (2014- 2015)**

Apex Agencies	No. of NGOs/MFIs Involved	No. of SHGs (In Lakhs)	Outreach of Households (in Millions)	Cumulative Loan Disbursement (Rs. In Millions)
NABARD's SHG-Bank Linkage (2015)	560	10.79	16.00	39,042
SFMC (2014)	169	-	0.91	1,181
RMK (2015)	749	0.24	0.48	1,034
FWWB (2014)	247	-	0.17	607
NABARD's RFA (2014)	27	-	-	120
<b>Total</b>	<b>1752</b>	<b>11.03</b>	<b>17.55</b>	<b>41,984</b>

**Source:** Annual reports of the respective organizations. **SIDBI** Foundation for Micro-Credit (SFMC); **RMK**: Rashtriya Mahila Kosh. **FWWB**: Friends of Women's World Banking. **RFA**: Revolving Fund Assistance. Under RFA, NABARD directly provides finance to MFIs/NGOs for their on lending.

The following table presents the details of the progress of SHGs in India. It is observed from the table that the number of SHGs are increased from 225 in the year 1992-93 to 22,38,565 in the year 2008-09 with an annual average of 4,68,372.4. The growth rate of SHGs increased from 143.14 per cent in the year 1993-94 to 242.26 per cent in the year 1994-95 and recorded a decreasing trend upto 1997-98 and recorded a high growth rate at 247.86 per cent in the year 1999-00. Since then again it recorded a low growth rate at 14.97 per cent in the year 2014-15. It indicates that the growth rates of the SHGs are not consistently and constantly increasing due to various constraints in infrastructure development and other promotional measures. The details can be had from the table.



### Details of the Progress of Self – Help Groups in India

Year wise details	Total number of SHGs	Growth Rate	Cumulative No. of SHGs	Cumulative Growth Rate
1992 – 93	255	0	255	0
1993-94	365	43.14	260	143.14
1994-95	1502	311.51	2122	242.26
1995-96	2635	75.43	4757	124.18
1996-97	3841	45.77	8598	80.74
1997-98	5719	48.89	14317	66.52
2007-08	18678	226.60	32995	130.46
2008-09	81780	337.84	114775	247.86
2009-10	149050	82.26	263225	129.86
2010-11	197653	32.61	461478	74.92
2011-12	255882	29.46	717360	55.45
2012-13	361731	41.37	1079091	50.43
2013-14	539365	49.11	1618456	49.98
2014-15	620109	14.97	2238565	38.31
<b>Average</b>	<b>159897.50</b>	<b>103.00</b>	<b>468372.40</b>	<b>110.32</b>

Source: Hand Book of Statistics on the Indian Economy.

It is clearly denotes that during the year 1992-93 the total number of self help groups were 255 after that it has been gradually increased from 2007-08 i.e., 18678 to 620109 in the year 2014-15. This shows that the participation of women and even men in the SHG based micro finance has been increased and they aware of the benefits of the micro finance programmes in India. With concerned to increasing number of SHGs also has been augmented.

### Details of the Correlation between Number of SHGs and Bank Loan

Year wise details	Total number of SHGs	Bank Loan (Rs. Crore)
1992-93	255	0.29
1993-94	365	0.36
1994-95	1502	1.79
1995-96	2635	3.62
1996-97	3841	5.78
1997-98	5719	11.92
2007-08	18678	33.31
2008-09	81780	135.91
2009-10	149050	287.89
2010-11	197653	545.47
2011-12	255882	1022.33
2012-13	361731	1855.53
2013-14	539365	2994.26
2014-15	620109	4499.09
$r = 0.09676$		

Source: Hand Book of Statistics on the Indian Economy, p.124.

The above table presents the relationship between numbers of SHGs to Bank loan. It is clearly shows that there is a high positive relationship between numbers of Self – Help Groups to Bank loan in the country. During 1992-93 there were 255 SHGs and bank loan was Rs.0.29 crore and it has been gradually increased to 6,20,109 SHGs in 2014-15 and Rs.4,499.09 crores of bank loan.

**COOPERATIVE BANKS:**

All the 21 DCCBs in the state have concerned themselves importantly in the SGH-Bank Linkage Programme upto March 2015. The major contributors were Hassan, Bidar, Dakshina Kannada, Tumkur and Mandya DCCBs in that order. The amendments made by the DCCBs in the Cooperative Societies Act have enabled the SHGs to become members of PACS and avail loans. The Progress of SHGs Linkage by Cooperative Banks in Karnataka is stated below.

**SHG's linked by Co-operative Banks in Karnataka**

Year (As on 31 march)	No of SHG's	Bank Loan (Rs. In lakh)	Refinance (Rs. In lakh)
2008	5	0.50	0,50
2009	49	13.00	13.00
2010	147	54.75	53.50
2011	845	144.05	103.50
2012	2844	364.50	364.00
2013	5438	1374.90	1104.08
2014	8390	2021.35	1593.02
2015	11605	3373.58	2112.24
<b>Total</b>	<b>29323</b>	<b>7346.63</b>	<b>5343.84</b>

\*\* Started participating in SHG-Bank linkage from the year

Source: SHG Bank linkage programme Karnataka, NABARD

Realizing the need and potential of Micro Finance Institutions (MFIs) and the importance attached to their role by the Government of India, NABARD has been supporting MFIs to further accelerate the availability of financial services in rural areas.

**Findings:**

1. Members have benefited differently in income generation due to differences in their skills, initial capital and knowledge.
2. The variance in the savings has also increased during the period under study. This shows an increase in inequality in the savings among the members.
3. The increase in savings of the members is attributed to the strong will of the members for their economic betterment and institutional requirement as the bank finances the SHGs on the basis of the funds generated by SHGs.
4. All the 21 DCCBs in the state have concerned themselves importantly in the SGH-Bank Linkage Programme upto March 2015.
5. During 1992-93 there were 255 SHGs and bank loan was Rs.0.29 crore and it has been gradually increased to 6,20,109 SHGs in 2014-15 and Rs.4,499.09 crores of bank loan.
6. During the year 1992-93 the total number of self help groups were 255 after that it has been gradually increased from 2007-08 i.e., 18678 to 620109 in the year 2014-15.
7. Since 1992-93 to 2014-15 the number of SHGs and bank finance has been increased gradually and refinance

by the NABARD also been tremendously increased. The SHGs bank linkage programme in India is the largest micro finance programme in the world.

### **Suggestions:**

Strategies must be devised to reduce meeting out costs, augment staff productivity and rapidly expand the scale of micro enterprise portfolios.

Incentives to staff for humanizing their performance in SHG-bank linkage banking need to be devised in order to encourage linkage banking without compromising on the quality of linkage.

Controlling, testing and rolling out special microfinance products and delivery mechanisms suited to the unique requirements of women, particularly in terms of reducing women's risk and susceptibility.

The SHGs responsibility should be enhanced through its involvement in developmental programmes implemented in the backward areas.

### **References:**

1. Malcolm Harper (2001) Profit for the Poor, Cases in Micro Finance, Oxford & IBH Publication Co. Pvt, LTD, New Delhi.
2. Batra.S and Danga R.C.O (2002) Financial Services: New Innovation, Deep & Deep Publications Pvt.Ltd., New Delhi.
3. Das,D (2001) Micro Credit: A New Agenda for Commercial Banks, SBI Monthly Review, Vol.40(10).pp.520-28.
4. Dasgupta.R (2001) An Informal Journey through Self-Help Groups, Ind.J.Agr. Econ.Vol.56(3).pp.370-385.
5. Dadhich,C.L(2002) Micro Finance Movement for Poverty Alleviation in India – A Review, Financing Agriculture, Vol.34(2) pp.27-32.
6. Phazhendhi V. (2012) Evaluation Study of Self Help Groups in Tamil Nadu NABARD. Mumbai, India.

