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Progress of Microfinance in India: Agency wise Analysis

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ABSTRACT

Microfinance in the past eighteen years has become a well known tool for bankers, developmental agencies and even for corporate houses. Microfinance, in many ways, have gone beyond the means of delivering the financial services as a channel and turned out to be focal point for purveying various services to the poor. This paper studies the consolidated data obtained from the banks along with preliminary analysis of the various trends and progress under microfinance sector under the two models viz., SHG – Bank Linkage model and MFI – Bank Linkage model. The data furnished by the banks have been analyzed on a region-wise, state-wise, agency-wise, bank-wise and also for SHGs exclusively under Swarnajayanti Gram Swarojgar Yojana and exclusive women SHGs data in the booklet. The major support provided by NABARD under Micro Finance Development and Equity Fund relates to promotion and nurturing of SHGs by Self Help Promoting Institutions and training and capacity building of the stakeholders in the Sector.

KEYWORDS: NABARD, SHGs, MFI, NGO, RRBs etc

Microfinance in the past eighteen years has become a well known tool for bankers, developmental agencies and even for corporate houses. Microfinance, in many ways, have gone beyond the means of delivering the financial services as a channel and turned out to be focal point for purveying various services to the poor. The programme, over a period, has become the common vehicle in the development process, converging important development programmes. With the small beginning as Pilot Programme launched by NABARD by linking 255 SHGs with banks in 1992, the programme has reached to linking of 69.5 lakh saving-linked SHGs and 48.5 lakh credit-linked SHGs and thus about 9.7 crore households are covered under the programme, envisaging synthesis of formal financial system and informal sector. In view of the large outreach and pre-dominant position of the micro-Finance programme, it is important to keep a continuous track of the status, progress, trends, qualitative and quantitative performance comprehensively. To achieve this objective, Reserve Bank of India and NABARD issued guidelines in the year 2006-07 to Commercial Banks, Regional Rural Banks and Cooperative Banks to furnish data on progress under micro-Finance. The data so collected covers various parameters like savings of SHGs with banks, bank loan disbursed to SHGs, bank loan outstanding against SHGs, gross non- performing assets of bank loans to SHGs, recovery performance of loans to SHGs. Further, the banks also furnished the data regarding bank loans provided to Micro Finance Institutions (MFIs). NABARD, has been bringing out the consolidated document annually. This paper studies the consolidated data obtained from the banks along with preliminary analysis of the various trends and progress under microfinance sector under the two models viz., SHG – Bank Linkage model and MFI – Bank Linkage model. The data furnished by the banks have been analyzed on a region-wise, state-wise, agency-wise, bank-wise and also for SHGs exclusively under Swarnajayanti Gram Swarojgar Yojana and exclusive women SHGs data in the booklet. The major support provided by NABARD under Micro Finance Development and Equity Fund relates to promotion and nurturing of SHGs by Self Help Promoting Institutions and training and capacity building of the stakeholders in the Sector. NABARD is also experimenting innovative projects for further developing the microfinance through Joint Liability Groups.

Self-Help Group:

"A self-help group is an informal association of 10 to 20 rural women, socio-economically homogeneous, with a background of affinity, who meet regularly to transact the business of Savings and Credit. It mobilizes the savings from individual members and extends credit from the funds so mobilized, to the needy members for consumption and investment purposes. The primary purpose of the SHG is to facilitate the members to save and extend to them credit, as necessary. These funds may be supplemented by funds accessed from external institutions. The group may take up agenda other than savings and credit, for fulfillment of common interests, without diluting its primary focus. The operational guidelines of the group would be generated through participatory processes. For these purposes the group would maintain an accounting and documentation system as suitable". The SHG will state the objectives and evolve its rules for functioning. Such rules will include savings, lending, group meetings, penalties for any deviant behaviour, election and rotation of leaders and duties of leaders and the members. The group will meet regularly, on specified dates / days, at the specified place and time. The meeting will be at a common venue or if need be, held at each member's house, by rotation. Each SHG will elect two leaders / representatives, to represent the group. The SHG is to have regular elections – at least once in a year – when the leaders will have to seek the mandate of the members. Some promoters prefer the terms representatives, and not leaders, so that the "position" is seen as more of a responsibility than authority. The SHG operations are based on democratic principles and participatory processes, which means decision making will be done with the participation of all and by majority opinion. The initial loans will be small in size and therefore, predominantly for consumption purposes. As the fund availability increases (through internal mobilization, revolving fund grants and borrowings), and the group gains confidence, the loan size also increases and will be utilized, more for income generation and investment purposes. The SHG depends peer pressure for collecting repayments, in case of default by any members.

Objectives of SHG-Bank Linkage:

Following are the basic objectives of SHG and Bank linkage:

- Provision of supplementary credit to SHGs.
- Reduction in transaction cost for both the banks as well as SHGs by reducing paper work.
- Building mutual trust and confidence between banks, NGOs and rural poor.
- Mobilizing small savings among poor rural women.
- Creating healthy relations between SHG members and the linking agencies.
- Constant supervision and monitoring by banks through NGOs.

Following are the principles that are to be nurtured before getting the bank credit:

Principles of SHG-Bank Linkage:

- Savings first, no credit without savings
- Savings as partial collateral
- Bank loans to the SHG for on-lending to members
- Credit decisions by SHGs for on-lending to their members
- Interest rates and other terms and conditions for loans to members to be decided by the group
- Joint liability as a substitute for physical collateral

- Ratio between savings and credit contingent upon credit worthiness and could increase over a period due to good repayment record, if needed.
- Small loans to begin with and different credit cycles clearly defined

Credit velocity in SHGs:

SHGs facilitate their member households first to pool their thrift/savings and then use these and borrowed resources from banks to give out small loans to needy members. With repayments collected at shorter intervals at the member level (intra-SHG transaction), loans are again given out to its members. Thus, the approach serves to recycle loans within the group, as the bank loans are often taken for longer duration. A sample test check of such credit turnover, within SHGs suggests that the credit taken from banks are often churned over about 1.5-2 times before it is fully repaid to bank, that too well before the due dates. Thus, the credit issued by the banks to SHGs could serve as a multiplier i.e. in the year 2011-12 the credit disbursed to SHGs by banks is about Rs.16000 crore, while the actual impact of the credit disbursed is likely to the tune of over Rs.24,000 crore.

Benefits of SHG- Bank Linkage Programme:

Benefits to the Banks Linking and financing of SHGs are expected to give the following benefits to the banks.

- An effective rural credit deliver system
- Reduction in transaction cost Improvement in recovery performance
- Ensuring better end – use of the loan
- Profitable proposition as 100% refinance is available from NABARD at cheaper rate.
- Simple loaning procedure and documentation.
- Pool of savings mobilized from rural poor.
- Fostering rural publicity that builds/improves bank linkage
- Above all, the rural poor reposing confidence on banks.

Benefits to NGO

- Facilitates deepening of their developmental efforts.
- Leads to synergy in operating social programmes with economic programmes.
- Increases the outreach to the poor through credit plus approach
- Recognizes NGOs as socio-economic change agents.
- Avenue for performing financial intermediation in unbanked and backward areas.
- Results in NGOs emerging as bridge between banks and the poor
- Propagates innovative credit delivery approaches.

Benefits to SHGs

- A via-media for development of thrift habit among the poor.
- Access to larger quantum of resources.
- Availability of emergent, consumption/production credit at the door step.
- Scaling up of economic operations.
- Access to various promotional assistance.
- Freedom, equality, self-reliance and empowerment
- A window for access to better technology/skill up gradation

NABARD as Facilitator of Microfinance:

Besides, conceiving the SHG-Bank Linkage Programme two decades back, NABARD had assigned to itself the role of a facilitator and a mentor of the initiative. The focus was on bringing in various stakeholders on a common platform, building capacity among the stakeholders to take the movement forward while extending 100% refinance to all banks participating in the programme. A large number of seminars, workshops and training programmes were organized to create awareness about the microfinance programme among all the stakeholders – the bankers, the Government agencies, the NGO partners and more importantly the SHG members. The NGO sector who played the key role of organizing and nurturing the SHGs as the Self Help Promoting Institutions – later joined by many others including the rural financial institutions, Farmers Clubs, etc. – were encouraged by way of promotional grant assistance by NABARD for taking up such work. The phenomenal growth of SHG-Bank linkage programme during the last 20 years owe a great deal to these promotional efforts actively supported by NABARD and participated by the stakeholders. The rapid growth of the SHG linkage programme and its success in taking financial services to the poor, led to its recognition as the most important tool for financial inclusion – the main focus of the XI Five Year Plan. Simultaneously, efforts were also on to experiment innovative initiatives in improving the efficacy and reach of the programme with the involvement of all microfinance practitioners facilitated by NABARD.

Progress under Microfinance during 2011-12:

An update on micro Finance as at the end of March 2012 is being presented in 3 different sections. The progress under the SHG-Bank linkage programme has been covered in the first part, while the activities of MFIs have been covered in the second part. Various innovative initiatives and support services like capacity building of all stakeholders of micro Finance programme etc. is covered in the third part. Maps detailing SHG coverage ratio in ten priority States is covered in the final part. More detailed statistical information on the progress of these activities has been presented at the end of the report.

SHG-Bank Linkage Programme:

Detailed analysis of the SHG-Bank Linkage Programme across the geographical spread of the country and across the financing agencies is being presented in this section. The analysis covers the broader components of the programme, namely inclusive growth, savings, loans and the recovery performance. Table-1 gives the growth of SHGs – saving as well as credit linked– for the last 3 years, separately for all Groups, Groups formed under SGSY and exclusive Women Groups.

Table-1: Overall Progress under SHG-Bank Linkage in India for last 3 years
(Amount Rs. in crore/ Numbers in lakh)

Particulars		2009-10		2010-11		2011-12	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Savings with Banks as on 31st March	Total SHGs	**69.53** (13.6%)	**6198.71** (11.8%)	**74.62** (7.3%)	**7016.30 (13.2%)**	**79.60 (6.7%)**	**6551.41** (-6.7%)
	Of which SGSY Groups	**16.94** (12.5%)	**1292.62** (-17.3%)	**20.23** (19.4%)	**1817.12 (40.6%)**	**21.23 (5.0%)**	**1395.25** (-23.2%)
	% of SGSY Groups to Total	24.4	20.9	27.1	25.9	26.7	21.3
	All women SHGs	**53.10** (9.18%)	**4498.66** (1.46%)	**60.98** (14.8%)	**5298.65 (17.8%)**	**62.99** (3.3%)	**5104.33** (-3.7%)
	% of Women Groups	76.4	72.6	81.7	75.5	79.1	77.9
Loans Disbursed to SHGs during the year	Total SHGs	**15.87** (-1.4%)	**14453.3** (17.9%)	**11.96** (-24.6%)	**14547.73 (0.01%)**	**11.48** (-4%)	**16534.77** (13.7%)
	Of which SGSY Groups	2.67 (1.0%)	**2198** (9.1%)	**2.41** (-9.9%)	**2480.37 (12.8%)**	**2.10 (-12.9%)**	**2643.56** (6.6%)
	% of SGSY Groups to Total	16.9	15.2	20.1	17.0	18.3	16.0
	All women SHGs	**12.94** (5.8%)	12429.37 (18.1%)	**10.17 (-21.4%)**	**12622.33 (1.6%)**	**9.23 (-9.2%)**	14132.02 (12.0%)

	% of Women Groups	81.6	86	85	86.8	80.4	85.5
Loans Outstanding against SHGs as on 31st March	Total SHGs	**48.51** (14.8%)	28038.28 (23.6%)	**47.87 (-1.3%)**	31221.17 (11.4%)	**43.54 (-9.0%)**	36340.00 (16.4%)
	Of which SGSY Groups	**12.45** (27.5%)	6251.08 (6.6%)	**12.86 (3.4%)**	**7829.39** (25.2%)	**12.16 (-5.4%)**	8054.83 (2.9%)
	% of SGSY Groups to Total	25.7	22.3	26.9	25.1	27.9	22.2
	All women SHGs	**38.98** (18.9%)	23030.36 (23.9%)	**39.84 (2.2%)**	26123.75 (13.4%)	**36.49** (-8.4%)	30465.28 (16.6%)
	% of Women Groups	80.3	82.1	83.2	83.7	83.8	83.8

Source: NABARD, Mumbai, 2012.

The number of saving linked SHGs now stands at 7.96 million with a membership of over 103 million poor households. While bulk of these savings is used for internal lending within the Group (over 70%), the balance is maintained in the savings accounts with the financing banks. Over 79% of SHGs linked to banks are exclusive women groups, which is one of the most distinguishing features of microfinance sector in the country.

The balance in the savings accounts of the banks as at the end of March 2012 stood at Rs.6551.41crore. Among the major States, Karnataka SHGs maintain the highest S.B. balance of over Rs.16000 per SHG followed by Punjab of nearly Rs.12500 per SHG. Among the regions, southern region is highest at Rs.10080 per SHG and northeastern region recorded the lowest balance of Rs.4159 per SHG. On an average, the SHGs maintain a balance of Rs.8230. Commercial Banks account for 58% of the savings account maintained by SHGs and RRBs 27% and Cooperative Banks the remaining 15%.

Fig.1 shows a graphical presentation of the savings, fresh loans and the loan outstanding of SHGs with Banks for the last 4 years.

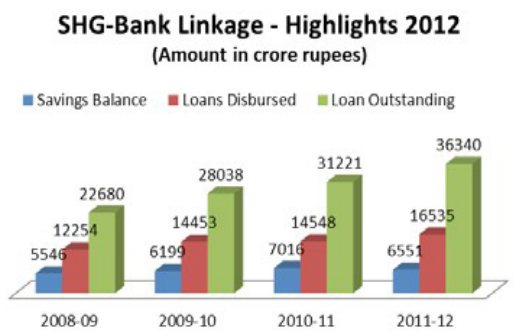

Fig.-1
Source: NABARD, Mumbai, 2012.

Fig.-2 shows the different agency wise savings by the SHGs

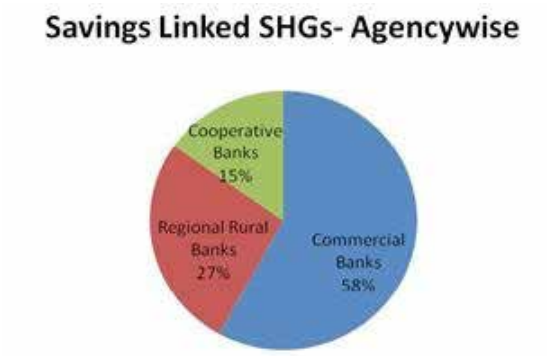

Fig.-2 Source: NABARD, Mumbai, 2012.

Fig.-3 shows the region wise savings balance per SHGs with banks.

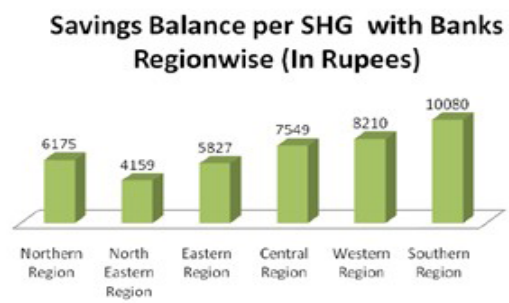

Fig.-3
Source: NABARD, Mumbai, 2012.

In addition to their internal resources, these MFIs seek and obtain bulk loans from Banks/ other Financial Institutions for providing micro credit. Though most of these MFIs entered the microfinance sector only after the SHG-Bank linkage programme was well entrenched, the turnover of these institutions grew at a much larger scale than the former. They were more aggressive and innovative in reaching out to the rural poor than the formal banking system. Of late, however, the functioning of these institutions (mostly "for profit" NBFCs) were being subjected to closer public scrutiny on account of alleged unethical business practices and questionable recovery practices. The Reserve Bank of India has since notified guidelines for the lending operations of MFIs based on the Malegam Committee recommendations. A new class of financial organizations named as NBFC– MFIs has been created and subject to certain conditions regarding the capital to be employed, lendings to SHG members, cap on interest to be charged and margin to be retained, etc. the loans extended to these NBFC-MFIs by banks now qualifies for priority sector loan.

Table-2: Progress under MFI-Bank Linkage Programme
(Rs. crore **)**

Particulars	**2008-09**		**2009-10**		**2010-11**		**2011-12**	
	No. of MFIs	**Amount**	**No. of MFIs**	**Amount**	**No. of MFIs**	**Amount**	**No. of MFIs**	**Amount**
Loans disbursed by banks to MFIs	581 (12.2%)	3732.33 (89.4%)	779 (34%)	10728.50 (187.4%)	471 (-39.5%)	8448.96 (-21.3%)	465 (-1.3%)	5205.29 (-38.39%)
Loans outstanding against MFIs as on 31 March	1915 (72.7%)	5009.09 (82.2%)	1659 (-13.4%)	13955.75 (178.6%)	2315 (39.5%)	13730.62 (-2.0%)	1960 (-15.3%)	11450.35 (-16.6%)
Fresh loans as % of Loan Outstanding		74.5		76.9		61.5		45.5

Source: NABARD, Mumbai, 2012.

The fact that Commercial Banks (and financial institutions like SIDBI) are losing their confidence in lending to MFIs is evident from the fact that the fresh lending to MFIs by banks during the year declined by over 38% as compared to last year. There has also been a marginal decline in the number of MFIs availing fresh loans from Banks in spite of the fact that the loan outstanding against MFIs has come down by almost 17% during the year. If the trend continues, this sector is likely to face serious resource crunch and could affect its outreach plans in the near future. The Regional Rural Banks on the other hand have increased their lendings to MFIs during the year, while, reducing the outstanding loans although they still remain an insignificant player in this arena. The agency wise details of loans extended to MFIs are shown in Table-3 below.

Table-3: Loans to MFIs by Banks/Financial Institutions

Financing Agency	Period	Loans disbursed to MFIs during the year		Loan outstanding against MFIs as on 31 March	
		No. of MFIs	Amount (Rs. crore)	No. of MFIs	Amount (Rs. crore)
All Commercial Banks	2008-09	522	3718.93	1762	4977.89
	2009-10	645	8038.61	1407	10095.32
	2010-11	460	7601.02	2153	10646.84
	2011-12	336	4950.98	1684	9810.98
Regional Rural Banks	2008-09	59	13.40	153	31.20
	2009-10	46	24.14	103	52.22
	2010-11	9	4.16	23	42.01
	2011-12	113	13.28	128	37.51
Cooperative Banks	2008-09	NA	NA	NA	NA
	2009-10	0	0	3	0.01
	2010-11	NA	NA	NA	NA
	2011-12	4	1.61	19	4.75
SIDBI	2008-09	NA	NA	NA	NA
	2009-10	88	2665.75	146	3808.20
	2010-11	2	843.78	139	3041.77
	2011-12	12	239.42	129	1597.11
Total by all agencies	2008-09	581	3732.33	1915	5009.09
	2009-10	779	10728.50	1659	13955.75
	2010-11	471	8448.96	2315	13730.62
	2011-12	465	5205.29	1960	11450.35

Source: NABARD, Mumbai, 2001-11.

During the initial years of the movement NABARD was extending refinance to the extent of 100% to banks for lending to SHGs since the SHG-Bank Linkage Programme was launched. Initially, this was intended to encourage the banks to actively participate in the programme. As the banks gained confidence in lending to SHGs and realised the business potential in extending financial services through SHGs, they have been increasingly deploying their own resources in a mutually beneficial relationship with the SHGs. SHGs had been instrumental in bringing in more business for the financing banks by way of improving credible client base, also promoting rural and inclusive banking. Banks have also extended other financial services like remittance, housing, insurance, etc, though in a limited way, to this segment. As a result, the banks have started "owning up" the movement, as a sound business proposition and became less dependent on promotional support from NABARD. The gap between the total loans issued by banks to SHGs and the refinance extended by NABARD for such loans started widening as a result as would be seen from the graph shown (Fig.). The refinance support from NABARD, however, continues to supplement resource mobilization for the programme. During 2011-12, NABARD extended refinance to the extent of Rs.3072.59 crore as against Rs.2545.36 crore disbursed during the previous year. Cumulative disbursement of refinance by NABARD for SHG lending now stands at Rs.18479.60 crore.

Grant Support to Partner agencies for Promotion and Nurturing of SHGs:

Ever since the SHG-Bank Linkage Programme was launched by NABARD, the Self Help Promoting institutions (SHPI) such as NGOs, Banks (RRBs, DCCBs), Farmers Clubs and Individual Rural Volunteers (IRV) are being extended grant support to organize and nurture SHGs of the poor. In fact, the phenomenal growth of SHG-Bank Linkage Programme in the country is the result of the painstaking efforts put in by these agencies in forming and nurturing SHGs especially in areas where the concept never existed. The financial support extended by NABARD to various SHPIs during the year is indicated in Table-4.

Table-4: Grant Support to Partner Agencies (Rs. lakh)

Agency	Cumulative Sanction		Cumulative Achievement (31.3.2012)	
	Amount	SHG Nos.	Amount	SHG Nos.
NGOs	16200.59	499909	4882.31	283007
RRBs	542.19	53145	197.10	56070
Coop. Banks	857.81	71695	289.19	47515
IRVs	733.58	43223	86.02	13105
Farmers Clubs	83.16	7689	73.81	17356
Total	18417.33	675661	5528.43	417053

Source: NABARD, Mumbai, 2012.

Conclusion:

In this context MFIs assumes greater importance. SHGs have emerged as community institutions through which formal sector building system reaches the rural households which are earlier considered as unworthy of the bank lending SHG-bank linkage offers triple benefits to banks, SHGs/NGOs/other facilitators of three emerging models, Bank facilitator agency- SHGMembers Model is a dominant model in India with regard to regional spread of SHG-bank linkage, south region dominates in SHGs linked and bank loans to SHGs. SHGs should not be just about finance; there is a need to encourage groups to form producer collectives– to organize livelihoods. Financing of SHGs should be an integral part of the cooperative banks reform programme. Goal oriented savings products needs to be introduced for members of SHGs. Banks should facilitate opening of individual accounts by SHG members, to park their savings. Technologies and door step banking should be used to tap savings.

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