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## Micro Credit – Two Sides of the Same Coin

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### ABSTRACT

Since 1970s, developing countries, including India, have increasingly focused on micro credit to facilitate the access of poor households to financial services like credit, savings, insurance etc. As the rural population in India, forming about two-third of her total population is still dependent on agriculture, there is a crying need for timely and adequate availability of funds for agricultural and rural finance is a must for improving the lot and income of the poor. Quite appropriately, agricultural development had been given due importance right from India's First Five Year Plan (1951-56). The key problem of agriculture, carried on in far-flung rural areas mostly by poor, small and marginal farmers and weaker sections of the society, is finance. Thereafter, in each Plan period, there has been a continued emphasis on rapid and progressive institutionalization for supply of timely and adequate credit-support to the poor, small and marginal farmers and weaker sections of the society for enabling them to adopt modern agricultural technology and improved agricultural practices for enhanced growth and production. As part of poverty alleviation measures, the Government of India has implemented self-employment programmes like Swarnajayanti Gram Swarozar Yojana, where the major emphasis has been laid upon Self-Help Group (SHG) formation, social mobilization and economic activation through micro-credit finance. Simultaneously, the Government also supports National Banks for Agriculture and Rural Development (NABARD) and other Government and non-government organizations to take up activities like group formation, micro-credit and economic activation. This article analyses the pros and cons of the SHG's movement in India. It gives a bird's eye view of the SHG's scenario and highlights both the positive and negative growth of SHG's.

### Keywords :

#### INTRODUCTION

Since 1970s, developing countries, including India, have increasingly focused on micro credit to facilitate the access of poor households to financial services like credit, savings, insurance etc. As the rural population in India, forming about two-third of her total population is still dependent on agriculture, there is a crying need for timely and adequate availability of funds for agricultural and rural finance is a must for improving the lot and income of the poor. Quite appropriately, agricultural development had been given due importance right from India's First Five Year Plan (1951-56). The key problem of agriculture, carried on in far-flung rural areas mostly by poor, small and marginal farmers and weaker sections of the society, is finance. Thereafter, in each Plan period, there has been a continued emphasis on rapid and progressive institutionalization for supply of timely and adequate credit-support to the poor, small and marginal farmers and weaker sections of the society for enabling them to adopt modern agricultural technology and improved agricultural practices for enhanced growth and production.

#### MICRO CREDIT PROGRAMME IN INDIA

As part of poverty alleviation measures, the Government of India has implemented self-employment programmes like Swarnajayanti Gram Swarozar Yojana, where the major emphasis has been laid upon Self-Help Group (SHG) formation, social mobilization and economic activation through micro-credit finance. Simultaneously, the Government also supports National Banks for Agriculture and Rural Development (NABARD) and other Government and non-government organizations to take up activities like group formation, micro-credit and economic activation.

#### SHG AND MICRO CREDIT

Micro-credit has worked largely through SHGs in general and women groups in particular. Since the SHG is a small group of 10 to 20 persons drawn from relatively homogenous backgrounds, the members, who join the group, know what benefit they would attain from the group through micro-credit. Micro-credit has to be used in such a way that it benefits the SHGs to improve the quality of life of their members and their productivity to earn sustainable income. The SHGs need to firm up their financial and economic norms meant for selection of appropriate beneficiary and subsequent disbursement of credit to the needy.

The borrowing member chooses economic activities for income-generation purposes and knows clearly the goals or objectives he has to attain for his own sustenance and stability of the group which he / she belongs to. Here, the members through participative decision-making process prioritize their goals in terms of their urgency. All the members are aware of their individual needs so as to converge their needs with the group objective. They can utilize the team effort in addressing their problems and issues while approaching their target. Unity, group effort and team-work help them in achieving their goals.

The following Table 1, it is clear that though all listed States have a positive growth rate of SHGs, there is wide variation among States. States such as Andaman and Nicobar, Gujarat, Karnataka, Kerala, Orissa and Uttar Pradesh have comparatively lower growth whereas other States have higher growth of SHGs. The States with lower growth rates might

have begun their SHG-bank linkage programme at an earlier stage so that it may already have sufficient linkages and further linking is quite difficult. Most of the States with lower growth rates will have a lower number of SHGs linked in the recent years compared to States that have a high growth rate.

**TABLE 1**  
**GROWTH OF SHGs IN INDIA OVER THE YEARS**

Sl. No.	STATES	1998-1999	1999-2000	2000-2001
1.	Andaman and Nicobar	3	9	10
2.	Andhra Pradesh	6,579	29,242	84,839
3.	Assam	10	46	156
4.	Bihar	121	857	1,846
5.	Goa	4	14	27
6.	Gujarat	879	1,345	1,375
7.	Harayana	4	107	334
8.	Himachal Pradesh	133	48	1,166
9.	Jammu and Kashmir	2	53	137
10.	Karnataka	2,002	3,167	5,627
11.	Kerala	1,291	1,709	1,826
12.	Madhya Pradesh	461	1,533	3,174
13.	Maharashtra	1,058	3,029	5,509
14.	Orissa	975	2,021	3,850
15.	Pondicherry	15	144	150
16.	Punjab	1	18	71
17.	Rajasthan	465	526	2,513
18.	Tamil Nadu	2,616	7,671	16,676
19.	Uttar Pradesh	1,464	7,744	5,457
20.	West Bengal	554	2,317	5,351

Source: NABARD, 2001.

The following Table 2, shows that number of SHGs having been financed by FFIs has increased from 0.2 million in 2001 to 1.1 million in 2004 at the rate of 128 per cent per annum. Number of SHGs financed during a year has increased from 0.26 million in 2001-2002 to 0.36 million in 2003-2004 with an annual growth of 19.8 per cent.

**TABLE 2**  
**MICRO FINANCE IN INDIA**

BANK	CUMULATIVE NUMBER OF DISBURSEMENT PER SHGs PROVIDED BANK LOAN SHG			
	Upto March 2001-2002	Upto March 2004	During 2001-2002	During 2003-2004
Public sector banks	1,18,855	5,16,697	0.020	0.057
Private sector banks	5,391	21,725	0.051	0.155
Regional Rural Banks	84,775	4,05,998	0.023	0.013
Co-operatives	12,773	1,34,671	0.019	0.036
<b>TOTAL</b>	<b>2,21,794</b>	<b>10,79,091</b>	<b>0.021</b>	<b>0.051</b>

Source: NABARD, 2004.

**TABLE 3**  
**PROGRESS OF SHGs AND DISTRIBUTION OF MICRO CREDIT AS ON 31st MARCH 2005**

Sl. No.	REGION	Cumulative No. of SHGs bank loan upto 31st March 2005	Cumulative No. Bank loan upto 31st March 2005	Per capita credit per SHG
<b>Northern Region – A</b>				
1.	Himachal Pradesh	17,798	565.03	31,746.8
2.	Rajasthan	60,006	1,414.04	23,564.9
3.	Haryana	3,351	200.63	59,871.6
4.	Punjab	3,091	145.76	47,156.2
5.	Jammu & Kashmir	1,647	56.58	34,353.38
6.	New Delhi	125	13.14	10,512
	<b>TOTAL</b>	<b>86,018</b>	<b>2,395.18</b>	<b>2,07,204.8</b>

## ROLE OF BANKS IN SHGs

A significant feature of the micro finance movement in India is that it has relied heavily on the existing banking infrastructure, in the process obviating the need for a new institutional set-up. India's bank-SHG link programme is now the biggest in the world. According to the RBI Annual Report 2005-2006, the cumulative number of SHGs linked to banks stood at 2.2 million with total bank credit to these SHGs at Rs.11,398 crore. The 2006-2007 Budget envisages the banking industry to credit link another 3,85,000 SHGs in 2006-2007. Some 30 million women have reportedly formed 2.2 million small businesses so far and another four lakh are expected to be in place by March 2007, according to the National Bank of Agriculture and Rural Development (NABARD).

Of late, some of the leading commercial banks, such as ICICI Bank, HDFC Bank, UTI Bank and the State Bank of India, have begun focusing on this sector rather aggressively. Even some of the multinational banks operating in India, such as ABN Amro, Standard Chartered, HSBC and Citi bank, have moved into the sector. There is a growing realization among commercial banks that micro-finance is a bankable proposition.

The award of the Peace Nobel to Prof. Yunus and Grameen Bank is expected to provide a big boost to micro-finance activities in India. ICICI Bank, which has emerged as an active and innovative player in the micro-finance segment, has now joined hands with Grameen Foundation US and ITCOT Consulting to set up Grameen Capital India (GCI). It has already approached the Reserve Bank of India seeking a licence for a non-banking finance company (NBFC).

## MICRO FINANCE - THE BLEAKER SIDE

Despite the progress made by the micro finance movement in India over the past decade, it must be admitted that, at the micro level, the sector has not been able to make much of an impact. The total micro credit disbursed to poor families amounted to just about Rs.7,000 crore by March 2005. The average loan amount per beneficiary works out to just about Rs.2,000 or so; too small to enable the poor families to cross the threshold of poverty. To start even a tiny enterprise that could generate some regular income, the amount of micro credit should be at least Rs.20,000-25,000.

Though no precise figures are available, the total demand for micro credit in India is estimated at Rs.2,00,000 crore. Against this, the actual disbursement of about Rs.7,000 crore can hardly be expected to make any dent in the poverty situation. The coverage of the sector also remains limited, over 60 per cent of the sector is concentrated in Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra. Extension of coverage is constrained by poor rural infrastructure and the lack of marketing support.

The extent of coverage of micro credit region wise is given in the below Table 3 which highlights the regional disparities in the progress of SHGs as well as the distribution of micro credit.

Sl. No.	REGION	Cumulative No. of SHGs bank loan upto 31st March 2005	Cumulative No. Bank loan upto 31st March 2005	Per capita credit per SHG
<b>NORTH-EASTERN REGION – B</b>				
7.	Meghalaya	249	7.78	31,244.9
8.	Tripura	1,515	19.07	12,587.4
9.	Sikkim	42	1.35	32,142.8
10.	Manipur	796	30.10	37,814
11.	Arunachal Pradesh	280	11.97	4,275
12.	Nagaland	94	4.69	49,893.6
13.	Mizoram	28	2.84	1,01,428.5
<b>TOTAL</b>		16,440	453.58	2,627.92
<b>EASTERN REGION – C</b>				
14.	Orissa	1,23,256	2,517.94	20,428.5
15.	Bihar	28,015	681.86	24,339.1
16.	Jharkhand	21,531	714.73	33,195.3
17.	West Bengal	92,698	1262.77	13,622.4
18.	UT of AN Islands	128	5.76	4500
<b>TOTAL</b>		2,65,628	5,183.16	96,085.3
<b>CENTRAL REGION – D</b>				
19.	Madhya Pradesh	45,105	1,11,077	24,626.3
20.	Chattisgarh	18,569	171.95	92,605.7
21.	Uttar Pradesh	1,19,648	3155.79	26,375.6
22.	Uttaranchal	14,043	576.05	41,020.4
<b>TOTAL</b>		1,97,365	5,014.56	1,84,628
<b>WESTERN REGION – E</b>				
23.	Gujarat	24,712	686.44	2,777.5
24.	Maharashtra	71,146	2,234.11	31,401.7
25.	Goa	408	30.22	74,068.6
<b>TOTAL</b>		96,266	2950.77	1,33,247.8
<b>SOUTHERN REGION – F</b>				
26.	Andra Pradesh	4,92,927	27,460.93	55,709.9
27.	Karnataka	1,63,198	5,501.53	33,710.7
28.	Kerala	60,809	2,495.53	41,038.8
29.	Tamil Nadu	2,20,698	16,779.00	76,026.9
30.	Pondicherry (U.T.)	1,309	184.43	1,40,893.8
<b>TOTAL</b>		9,38,941	52,421.42	3,47,3801
<b>GRAND TOTAL</b>		16,00,658	68,421.57	12,36,330.7

Source: www.NABARD.org.

The above Table 3, clearly shows that there are vast credit variations among the States and among the regions. Among the regions, southern region is the best region in financing SHGs. In southern region 52,421.42 million rupees were distributed among the SHGs. Next to that the performance of central region, eastern region and western region is moderate and the credit distributed to the regions are 5,014.56, 5,183.06 and 2,950.77 million rupees respectively. The northern and north-east regions are comparatively poor and they have distributed 2,395.18 and 453.58 million rupees respectively. While considering the number of groups the region southern, central region, eastern regions have enrolled more SHGs.

Other regions enrolled less SHGs. With the help of per capita credit per SHGs one can understand the progress of SHGs among the regions and States. Among the regions southern region distributed more credit and per capita credit per SHGs are very high. While considering the States among the southern region Pondicherry and Tamil Nadu States are performing well and had distributed more credit. In central region Chattisgarh State distributed more credit and per capita credit calculated at 92,605.7 rupees. In western region Goa State per capita credit is high and calculated at 74,068.6 rupees and in northern region Haryana and Punjab States per capita credit is very high and calculated at 59,871.6 and 47,156.2 rupees respectively. Eastern region and north eastern region per capita credit per SHGs are upto the level and Mizoram, the only State in north eastern region, recorded 1,01,428.5 rupees per capita credit distributed to the SHGs.

It could be clear from the above table that the level of credit is increased and one can find a sign of development of SHGs and involved more economic activities. While the business activities uplift the group members economically, they also bring about social upheaval through collective work. The members help each other in difficult time – like carrying a member's seriously sick husband in her absence to the hospital, or ... marriage of the daughter of a member who died accidentally, or carrying tiffin daily to a worker who became invalid during an accident at the work place. It was observed that these economically, socially and psychologically backward women become informed very quickly through Bachat Gat activities. Going over their stories, it can be seen that once they get motivated, they start trading confidently and then all their embarrassment, fear, doubts, etc. fall apart. Their success is also helpful in another uncommon way – the Government departments managing the schemes don't have to make up tall claims of success, as has been the case repeatedly in the past. Now, they have real stories of success to tell, from which many others might be similarly encouraged to grow economically and socially.

#### CHALLENGES

Evidently, the challenges facing the sector are quite formidable. Despite the progress made by the micro finance sector in recent years, the market penetration of service providers is still low. There is a skewed distribution of SHGs across State; in those which have a large share of the poor, the coverage is comparatively low and, in many cases, quite insignificant. Micro credit in its present form is not in a position to address the livelihood problems of the poor.

Hence, there is a need to broaden the paradigm from micro credit to 'livelihood finance' by extending the services to include savings, insurance cover, nutrition, health, education, and vocational training. This will require more funds and, may be, some public subsidies. According to the World Bank, for successful provision of micro finance in India, it would be necessary to focus on improving governance, professionalizing management and improving internal transparency. It would also be necessary to expand beyond credit to meet the diverse needs of borrowers, and improving the financial infrastructure to scale up.

#### CONCLUSION

Micro credit is not a very viable panacea for rural poverty alleviation or women empowerment, the big picture needs to be

seen before we conclude that micro finance and SHGs have bettered the lives of rural poor. It is only one of the means to achieve the goal of poverty alleviation as envisaged in our national policy. In the current global economic climate, liberalization and globalization have aggravated the problems of the rural self employed. They need to face the challenges of the global market place and odds are usually against their favour.

Hence, there is need to provide SHGs with something more than were financial help. It is necessary to give those training managerial skills as well as marketing skills. Only then can they become competitive to meet the global challenges.

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