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Rural Credit Co-Operative and SHG Model of Microfinance

KEYWORDS: Rural Credit Cooperative, SHG Model, Role, Credit, Coverage

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ABSTRACT *For Indian Economy, which is till based on rural economy even in this era of rapid industrialization and globalization, hence the inclusive development initiatives like Cooperative movements, Microfinance movement etc. are all welcome as these initiatives directly targeted to the poor and deprived sections of rural India. Rural credit cooperative is type of credit cooperative especially entrusted in delivery of credit to the poor to bring economic development and to save them from the exploitation of money lenders. Microfinance (mf), with the same strategy and style, become more popular and means of alternative finance mainly under its popular SHG Model, in reaching poor people especially rural poor, women and the deprived of formal financial system. Gaining popularity from Bangladesh, the same is spread all over the world and become the hope for economic development, poverty alleviation and empowerment tools for the poor and vulnerable.*

The study emphasized on the role of Rural Credit Cooperative and SHG Model of micro finance (which has many liking factors) in deliberation of credit and coverage and other problems and prospect and the reasons for the rapid growth and development of the SHG Model of mf in last decades, despite of having huge networks of cooperatives in our country. This empirical study has been made with the help of secondary data and various sources of secondary data have been used, where the 'electronic source' provided major helps.

Introduction:
Mahatma Gandhi, who was the pioneer in brining co-operative system and movement in India and was, stated the movement initially from South-Africa for the vulnerable sections of the people of India. In India, he started the movement from Orissa to develop the sense of co-operation and to protect the weaker sections from various exploitations like excess taxation, rack renting, illegal exaction etc. Cooperation according to Gandhiji was necessary for creation of a socialistic society and complete decentralization of power. He was of the opinion that cooperation was one of the important means to empower people. He recognised that, soul of India lives in Village, so his thrust was to develop small industries, rather big industries to develop the poor section of our society, living in rural areas (Aryashree, 2006). Rural credit cooperative (RCC) system in India is world's largest rural financial systems. During the past over hundred years, these credit cooperatives have witnessed many successes and failures. The RCC in India has a three-tier federal structure. It comprises of Primary Agricultural Credit Societies [PACS] at the grass root village level, the District Central Cooperative Banks [DCCB] at the intermediate level; and at the top, State Cooperative Banks [SCB]. India has a well spread short-term credit cooperative network having more than 94,600 village-level PACS, with atleast one PACS for every six villages and total cooperative membership of over 126 million rural people, covering almost half of India's total population [GoI, 2006]. This makes the rural cooperative credit structure as one of the largest rural financial systems in the world. Despite the phenomenal outreach and volume of operations, over the years, the health of rural credit cooperatives deteriorated significantly, experiencing low resource base, huge accumulated losses, borrower centered policies, high dependence on external sources of funding, government control, poor business diversification and low fund recovery. Almost half of the PACS turned into loss-making units. The share of PACS in agricultural credit at all India level fell down from 62% in 1992-93 to 22% in 2007-08. Although organized on the principles of self-governance and self-reliance, the RCC faced fundamental policy, governance, legal and institutional problems that impaired its solvency, sustainability and efficiency [ADB 2010]. As such expectations from RCC for the development of poor, rural poor and women were not meet and that developed the need for an alternative sustainable development, inclusive growth, micro-credit movement to bridge the gap of haven't and for availability of finance for the poor. Because, steps towards 'financial inclusion' is yet to be a success story for India, though many impressive efforts were made, like the nationalisation of Commercial Banks concept, under the chairmanship of Indra Gandhi (Basu, 2009), and many other initiaves as priority sector lending (40 percent, RBI), (Karmakar, 2009), BCs (i. e. Business correspondents), post-office savings, new financial instruments i.e. NFAs (no-frill accounts), General Credit Cards, Swarojgar Credit Card etc. from time to time to cope with financial inclusion for deprived (i. e. Rural people) of our country. But the reports and surveys reveals that, only 40 percent of adult population has access to savings account, 10 percent to life insurance, 5.2 percent villages have a bank branch, 97.7 million small farmers are covered by farm credit. Despite this the exclusion levels among people is estimated to be 40 percent, (Srinivasion, 2009). Thus, signifying 'financial inclusion' through formal banking system is a cumbersome task. Unavailability of adequate financial services like credit, insurances, and remittances to majority population at an affordable cost are major roadblock for the growth of financial sectors. In this context, Micro-finance approach can be considered as an alternative solution to provide financial services to common section of the society.

As development strategy of poor, the 'cooperative movement' is considerable and indispensible for a country which still relies on rural economy, where mass populations are living in villages under poverty, because, its primary objective is 'how to protect economically weaker sections of society'. H.N.Kunzen, define co-operative as "Co-operative is self-help as well as mutual help. It is a joint enterprise of those who are not financially strong and cannot stand on their legs

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and therefore come together not with a view to get profits but to overcome disability arising out of the want of adequate financial resources", (Sarkar. etl. 2005). As an outcome, only the 'Primary Agricultural Credit Cooperative societies' reported 95,626 outlets by 2010, (Joshi, 2011). The co-operative structure is designed on the co-operative principles of mutual help, democratic decision making and open membership. As remarked by Mr. Ban Ki-moon, the UN Secretary General, Cooperatives are a reminder to the international community that, it is possible to pursue both economic viability and social responsibility. Incidentally, the current year 2012 is declared by the UN as the 'International Year of Cooperatives' (Sinha, 2012). Likewise, the SHG model of microfinance (mF) is on the same track of co-operative and is based on the principle of 'self-help' and 'mutual help', targeting the economically weaker section of the society who cannot stand on their foot for their poor financial condition. In mF practice, SHG model become the dominating model, in terms of client reach, group formation, credit disbursement and outstanding etc.

The SHG model while pooling the small savings regularly helps the communities in accessing not only credit but also benefits from the various Government welfare schemes, having implications for the livelihoods. It helps the groups of entrepreneurs to pool and market their products. The SHG is loosely modelled on, and functions on the principles and values of cooperation. Like the cooperative movement, the SHG revolution in India is also referred as a movement, (Tiwari, 2010).

The most important aspect of the SHG movement is the social capital which is essential for the progress of any Nation. The vital characteristic of binding people together in addressing social and economic needs of large number of people, especially in the rural areas, is a major success of this movement. The informal nature of the groups, simple procedures and systems, democratic functioning are the major success factors of the SHG movement. SHG movement is best suited model, to harness the community action and to benefit from government programmes, for the socio-economic development of communities in the given social and cultural context of India.

SHG Model:

The SGH (Self-help Group) is basically an informal group of persons ranging from 10 to 20 members; their average size is 14 members (Ghate. 2009), who meet regularly, usually once a month, to save small amounts, like Rs 10 to Rs 50 a month. They are also formed with the support of NGOs and other Self Help Promoting Agencies (SHPAs) such as government agencies and the banks, but the group have to select their own members and therefore, the groups is also known as affinity groups. After saving regularly for six months and using the funds to lend small amount to each other for interest, which is ploughed back in to group funds and on satisfactorily maintaining prescribed records and accounts, they become eligible to be 'linked' by the local bank branch under a NABARD sponsored programme called the SHG Bank Linkage Programme (SBLP). Norms are laid down for the maximum size of the initial and successive bank loans as an increasing ratio of the group's own-funds (ibid.). Dealing of mF by such group (SHGs) approach is very popular among the mF clients, especially among women, which will be more than 90 percent of the total and this system named as SHG model.

Broadly, under 'SHG Model' three SHG-credit linkage models are functional in India. They are as follows:

- Model-I: In this model, SHG are formed or promoted, guided and financed by banks directly.
- Model-II (SHG-Bank Linkage Model): In this model, the SHGs are financed by banks after fulfilling certain conditions; the SHG-Bank Linkage Programme is falls under this model.
- Model-III (MFI-Bank Linkage Model): In this model, microfinance institutions (MFIs) avail bulk loans from banks for on-lending to SHGs and others small borrowers. In this model SHGs are finance through the Microfinance Institutions, like:

Bank ↔ NGO/ MFI ↔ SHG ↔ Members. (Nagayya & Rao, 2010).

Out of the three models, SHG-Bank Linkage Programme (Model-II) emerged as most popular and successful over the years. About 73.41 percent of the credit linked SHGs (financed 81.12 percent of total loans) fell under Model-II, followed by Model-I (20 percent) as on 31st March 2007. Only 5.67 percent of total SHGs fall under Model-III in which NGOs/MFIs act as financial intermediaries (RBI, 2007).

SHG and Co-operative:

In rural livelihood development strategies, the co-operative movement and then microfinance (followed by SHG model) movement has rested the seed of confidence among the poor in providing economic security not only in terms of assistance but also as capital, thus involved them in various income generating activities to have long term and permanent sustainability. The ultimate concept behind both the movement is to strengthen the weaker section of the society by means of credit and knowledge support in one hand, and to develop the spirit of group efforts, which supports in mutual understanding and helps in need, on the other hand. As such, SHG and Co-operative are the two branches of same tree, because their aim of service are same in nature and also target to the same section people of the society. An analysis of features of both SHG and Co-operative will help to understand the functioning of SHG and cooperative which are alike and dissimilar in names. To claim SHGs liking to Co-operative or vis-a-versa, the common features of both are being grouped and present below:

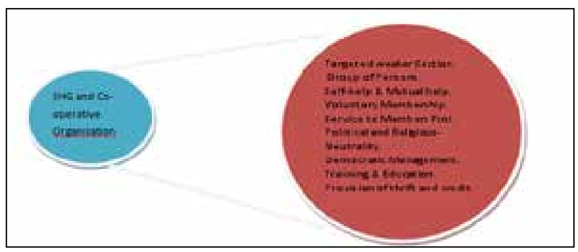

Fig. showing the relative features of SHG and Co-operative organisation.

Leaving certain factors like voting rights, cash trading; state control etc. others features are common in both the system, as a result both the system have able to bring movement in rural development strategy. Again, among their various provision of service, the provision of thrift and credit is considerable one, as it meets the capital needs by means of loan and earning in partial to be saved, which developed the savings habits and capital formation.

Objective:

The study emphasized on the liking role of Rural Credit Cooperative and SHG Model of mf (which has many liking factors) in deliberation of credit and coverage and other problems and prospect and the reasons for rapid growth and development of 'SHG Model' of micro finance in last decades, despite of having huge networks of cooperatives in our country.

Methodology:

The study has been made on the basis of secondary data. Considering all relevant materials, that includes books, journals, e-journals, magazines, various newspapers, bulletins, periodicals, Internet etc.

Performance of SHG:

The SHG model has the potential to become a truly savings

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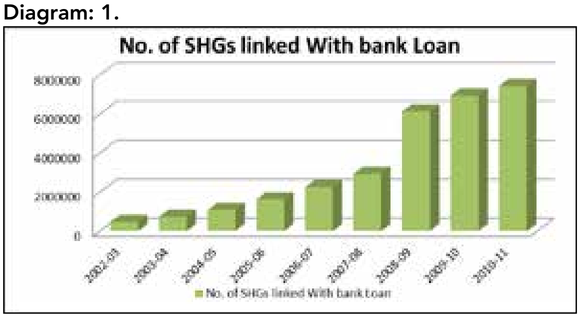
led model, and thereby offer the poor a greater scope of accumulating capital – economic and social. Unlike the credit delivery model, the SHG model focuses on savings and leveraging the savings for the benefit of members. The SHG-Bank linkage program, in India, which commenced in 1992, with a target to link of 500 SHGs, has grown phenomenally (Sundaram, 2009). NABARD provisional data for 2008-09 has indicated that 1.71 million groups had been financed and disbursements made during the year to SHGs reached a new high at Rs 127.06 billion, up from Rs 88.49 billion last year, thus reporting an increase of 43 percent. At the end of March 2009, information (provisional) indicates that the disbursement during the year to SHGs would have been about Rs 171.4 billion and the outstanding at the end of March 2009 has reached a level of Rs 241.9 billion (Srinivasan, 2009).

Again, in NABARD report (2010-11). 7.462 million SHG covering over 97 million rural households. Of the total 7.462 million SHGs, over 4.78 million SHGs have access to direct credit facilities from banks with an outstanding loan amount of Rs. 312.21 billion as at end of March 2011. As dominating model of microfinance, the SHG model has made rapid growth in terms of numbers of SHGs, loan disbursement and outstanding and also in linking of SHGs to banks, what is called SBLP. The growth trend can be observed as follows:

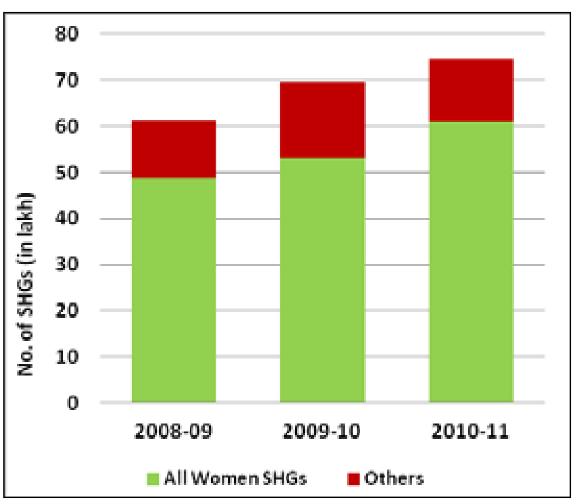
Diagram: 1.



Source: Srinivasan, 2009 & NABARD (status of micro finance in India, 2010-11).

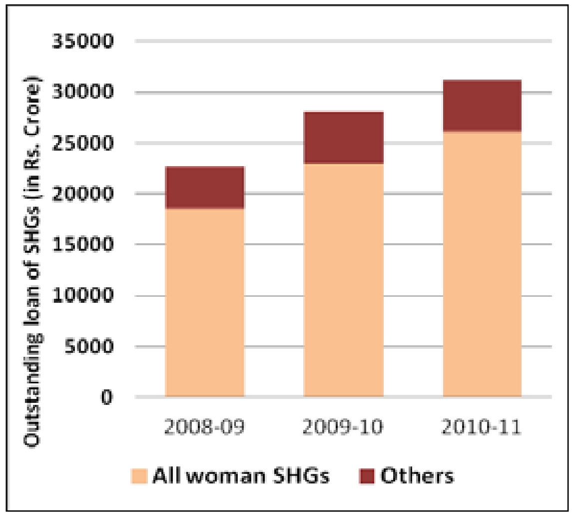
One of the most distinguishing features of the program is that a majority (81.7 per cent) of the SHGs are exclusive woman groups. Women SHGs have accounted for 75.5 per cent of the total savings and 83.7 per cent of the total loan outstanding of SHGs in 2010-11 (Sinha, 2012). Their performance can be well assessed from the following:

Diagram: 2. Growth of women SGHs in Total SHGs,



Source: Status of Microfinance in India, 2010-11, NABARD.

Diagram: 3. Outstanding loans of SHGs.



Savings Performance of SHGs:

The SHGs are found active regarding savings with various banks and as per the NABARD report on 'Status of Microfinance in India', the numbers of SHGs having saving account with the banking system had increased from 4.16 million in 2007 to 5.01 million in 2008 and further to 5.99 million in 2009. SHGs have also proven to be profitable propositions for rural and semi-urban bank branches with over 95% of recovery and aggregated transactions, one SHG means 10 to 20 individual members, (Sinha, 2012). Unlike the majority of agriculture and rural clients, SHGs operate their saving accounts on a regular basis, and they maintain credit balances in their accounts. It is a unique model with many challenges and many more opportunities. Above all, the SHG has given the poor women an identity, access to information, and bargaining power.

Total savings of SHGs in the banks as on 31March 2009.

Name of Agency	No. of SHGs	Amount of Savings (Rs) mn.	Average Amount of Savings per SHGs (Rs)
Commercial Banks	35, 49, 509	27,729.8	7,810
Regional rural banks	15,56,608	19,299.2	12,400
Cooperative Banks	88,2,902	7436.3	8,420

Source: NABARD, Srinivasan, 2009.

Towards financial inclusion:

The term 'financial inclusion' can be defined as the process of ensuring access to financial services and timely availability of adequate credit where needed by vulnerable Groups such as weaker sections and low income groups at an affordable cost (Report of the Committee on Financial Inclusion in India, 2008).

Financial Inclusion is enabling access to/delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups (INAFI).

As banking services are in the nature of public service, provision of banking and payment services to the entire population without discrimination should be the prime objective of the public policy. The spread of banking facilities, though impressive, has been uneven in the country, throwing up challenges for achieving financial inclusion. In fact, despite

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impressive growth of branch network in India, the vast sections of the society remain financially excluded and continue to remain away from the formal system and thereby access to financial services including savings, credit and insurance. The banking industry in India has shown tremendous growth in volume and complexity during the last few decades. We have an extensive banking infrastructure comprising 33,411 rural and semi-urban branches of commercial banks over 14,501 branches of RRBs, around 12,000 branches of DCCBs and nearly 1, 00,000 cooperatives credit societies at the village level. There is at least one retail credit outlet on an average for about 5,000 rural people, which translates into one outlet for every 1,000 households (INAFI). Despite these, only 40 percent of adult population has access to savings account, 10 percent to life insurance, and 5.2 percent villages have a bank branch, 97.7 million small farmers are covered by farm credit. Thus exclusion levels among people are estimated to be 40 percent, (Srinivasion, 2009). The SHG-bank linkage model draws inspiration from the co-operative movement and involves an intensive effort to move away from traditional reliance on concessionary refinance from financial institutions and envisages making the rural poor self-supporting and self-sustaining. This delivery mechanism is indeed a blend of the proximity, responsiveness & flexibility of an informal system and the financial & infrastructural back-up of a formal system. SHGs are playing a very important role in the process of financial inclusion. SHGs are groups of people who get together and pool money from their savings and lend money among themselves. The SHG is given loans against the group members' guarantee and peer pressure within the group helps in improving recoveries (Karmakar, 2009).

Microfinance an Alternative:
Microfinance programmes are intended to reach poor segments of society as they lack access to financial services (Basu, 2009). It, therefore, holds greater promise to further the agenda of financial inclusion as it seeks to reach out to the excluded category of population from the banking system. The predominant micro finance programme namely SHG bank linkage programme has demonstrated across the country, its effectiveness in linking banks with excluded category of poor segments of population. In this process, the role of NGOs is quite pronounced in providing the last mile connectivity as enablers and catalyst between the SHGs / Village level co-operatives and the banks. This is also supplemented by the MFIs, in delivering credit. INAFI, India as a network of development NGOs is committed to the financial inclusion. Its member NGOs are involved in promoting financial inclusion through their large micro finance programme of SHG bank linkage. INAFI, India and its member NGOs strongly believe in the SHG bank linkage as the key to achieve financial inclusion. The importance of financial literacy and financial counseling as essential component of the financial inclusion is also recognized. In pursuit of the financial inclusion, there are many issues and challenges both on the access and affordability – the two pillars of the financial inclusion, besides expanding reach to the triad of basic financial services savings, credit and insurance – payment system and the sustainability of the inclusion process are also essential.

Conclusion:
So, Rural Credit Co-operative and 'SHG model' of micro finance are targeting the same aims of rural development and to have 'financial inclusion' for inclusive growth and succeed well as of now. The common and friendly features of Co-operative and SHG model of micro finance are the reason for such achievement as regards gathering people, especially rural people and women, involving them in economic activities, generating income, developing savings habits and thus forwarding to have saving accounts in Banks, insurance facilities etc. and that taking them towards financial inclusion.

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