

THE PERFORMANCE ANALYSIS OF MICROFINANCE THROUGH SELF HELP GROUPS IN RAJASTHAN

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ABSTRACT

The microfinance sector in India has grown into a sustainable and profitable business model to serve low income groups whether they are rural community or urban poor. Micro financing through Self Help Groups is transforming the state of affairs of rural community not just economically but also through providing the required push for gender equality and other social benefits. In this paper, we will attempt to understand the current status of Microfinance through Self Help Group Model and will also examine the trend in savings and number of Self Help Groups. This paper also give an outlook on the loan amount distributed and accumulated loan outstanding. The secondary data used in the paper from the annual reports released by NABARD, RBI and Centre for microfinance. This paper focuses on the performance of Microfinance and its trend analysis in state of Rajasthan.

Keywords: Self Help Groups, Microfinance, Savings, Disbarment of Loan, Outstanding Loan.

Introduction

The microfinance is a tool for promoting equality, empowering women, generating employment and poverty alleviation. Microfinance is an innovative instrument designed to reduce poverty through financial inclusion, socio-economic empowerment and self-reliance. Thus, microfinance can be stated as the provision of financial services to the poor through deposit and credit. The rate at which India is growing is a positive indicator for sustainable development but immense potential for improvement exists. Limited or no access to finance and financial services are frequently referred as key reasons of poor people continuing to be in same circumstance. Nowadays, Microfinance is not only a channel for financial services but has gone beyond to become significant point to provide various financial services to poor. In recent past, microfinance has gone through lot of innovations and has emerged as profitable sector in sync with financial inclusion of poor. The National Bank for Agriculture and Rural Development(NABARD) came up with the pilot project known as SHG linkage project in 1992. The effective working and participation from government, banks, development agencies and NGOs have made SHG movement as world's largest microfinance programme.

Definitions

The **National Bank for Agriculture and Rural Development** (NABARD, 1999) defines microfinance as, "the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi urban and urban areas for enabling them to raise their income levels and improve their living standard."

According to the **International Labour Organisation** (ILO) microfinance can be defined as, "an economic development approach that involves providing financial services through institutions to low income clients."

C. K. Prahlad in his book "**The fortune at the bottom of pyramid**" defines microfinance as, "a type of business service that is provided to unemployed or low income individuals or groups who would otherwise have no other means of gaining financial services."

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Self Help Groups

The leading model of microfinance in India encircle the “Self Help Group” (SHG). It is an informal setting in which approximately 15 to 20 members come together to form a group or an association which can be homogeneous in some context. The basic purpose is to encourage savings among the members of the group. These groups are generally formed by women and they deposit their savings with banks and get loan against their savings. Loan is given to the member who is chosen by the group. The foremost objective of the SHG is to provide credit access to the poor household on the sustainable basis. The SHG perform three basic principal functions: (i) SHG acts as an intermediary in transaction with the formal financial sector (ii) they provide an instrument for service delivery (iii) SHG provides platform for greater participation through local community interactions.

History of Microfinance

The concept of microfinance started progressing and got major push in late 1970s. Although microfinance structures has been credited with long history as the first use of microfinance had started in the beginning of the 20th century.

The SEWA bank was established in 1974, named as Mahila SEWA cooperative bank with the aspiration of making financial services accessible to women. The term SEWA stands for “The Self Employed Women’s Association.” later National Bank for Agriculture and Rural Development (NABARD) with the Mysore Resettlement and Development Authority (MYRADA) conducted pilot testing on group lending during 1986-87 with their Self-Help Groups bank linkage programme (SBLP). From there, it spread to whole of India in form of different models such as Individual Banking model, Non-government organisation-microfinance institution (NGO-MFI) model, Bank Participation model, and SBLP model. The formal practices in microfinance started in the year 1992 when NABARD inaugurated the BANK-SHG Linkage programme. In 1998, as decentralisation process Kerala started its own state wide programme paraphrased as “Kudumbasree” followed by many caste specific programmes such as SNDP, NSS and SCC.

Review of Literature

A literature review is a discussion and assessment of the literature in a given area of study. As the paper is going to utilise both review of literature as well as data analysis to draw an understanding of the growth and performance of microfinance through SHG, we would, in this section will look at the literature which would provide us with what already has been cemented and found in this direction.

M. Radhakrishna (2012) in paper has stated that the growth of MFIs in south India is very high in comparison to the other parts of the country. Reghuramrajan (IISS, 2008), the data points out that in the 25 percent of low income population (extremely poor) 40% of their credit needs are met by money lenders and 40% by friend and family, and banks are only satisfying 10% of their need and the balance of 5% by co-operative societies. In the next 25% of the population (relatively poor) only 21% of credit needs are fulfilled by banks. Again the major chunk of their credit needs is fulfilled by money lenders i.e. 32% and 34.3% by friends and family. The implication of this shows that poor borrower has to pay higher rate of interest as its major part of borrowing is coming from informal sector. The reason for the above stated problem is non accessibility of formal financial institutions (Reghuramrajan, 2008).

Microfinance is also criticized to on the ground that it has failed to have desired impact as poor are subjected to high interest rate up to 30%. Some of them even argued that disbursing credit to the poor to make financial gains out of the same cannot be the aim of microfinance institutions. The interest charged is rather oppressive for their poor borrowers, and thus fails to achieve the noble objectives of microfinance (Abdul Rahim, 2007). Amin et al (2003) argued that microfinance programs are comparatively successful at reaching poor, but still has not reached to poorest of the poor. Furthermore, a number of other authors like Montgomery (1996) and Ditcher (1996) who maintain the similar opinion that MFIs don’t serve the poorest of the poor that are either not given loans or dropout of the credit schemes. In 2004 Coleman, according to him microfinance programs are not reaching the poor as much as they reach relatively well off people and the microfinance impact is more on richer community members rather than on the poorest members. There are other studies which highlight and propagate the severe effect of microfinance on their poor clients who became more vulnerable after entering into this program.

Objective of the Study

- To understand the growth of number of SHGs.
- To understand the growth in savings of SHGs.
- To know trend in distribution of loan with number of SHGs provided loan on yearly basis.
- To know trend in the amount of loan outstanding with number of SHGs in accumulation.

Research Methodology

This study is based on secondary data collected from NABARD annual reports, Cmfr reports and RBI website and uses tables & charts for analysis. The period of study is from 2010-2016.

Data Analysis

Table 1: Source- NABARD Website

| Financial Year | Number of SHGs with Bank A/C(in Thousands) | Total Savings of SHGs (in crores) | No. of SHGs (in Thousands) | Loan Amt. Disbursed (in crores) | No. Of SHGs (in thousands) | Loan O/S amt. (in crores) |
|----------------|--|-----------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------|
| 2010 | 213.3 | 142.55 | 26.67 | 191.72 | 96.21 | 463.29 |
| 2011 | 233.79 | 140.32 | 28.72 | 198.15 | 90.39 | 445.40 |
| 2012 | 251.65 | 127.87 | 18.86 | 182.73 | 134.96 | 714.90 |
| 2013 | 231.76 | 157.61 | 20.16 | 210.88 | 129.57 | 632.94 |
| 2014 | 257.26 | 179.10 | 17.41 | 194.60 | 129.83 | 642.29 |
| 2015 | 245.9 | 143.79 | 32.59 | 289.21 | 119.61 | 1080.19 |
| 2016 | 264.12 | 186.59 | 25.25 | 321.77 | 98.11 | 651.83 |

Figure 1: Progress under Microfinance – Savings of SHGs with Banks

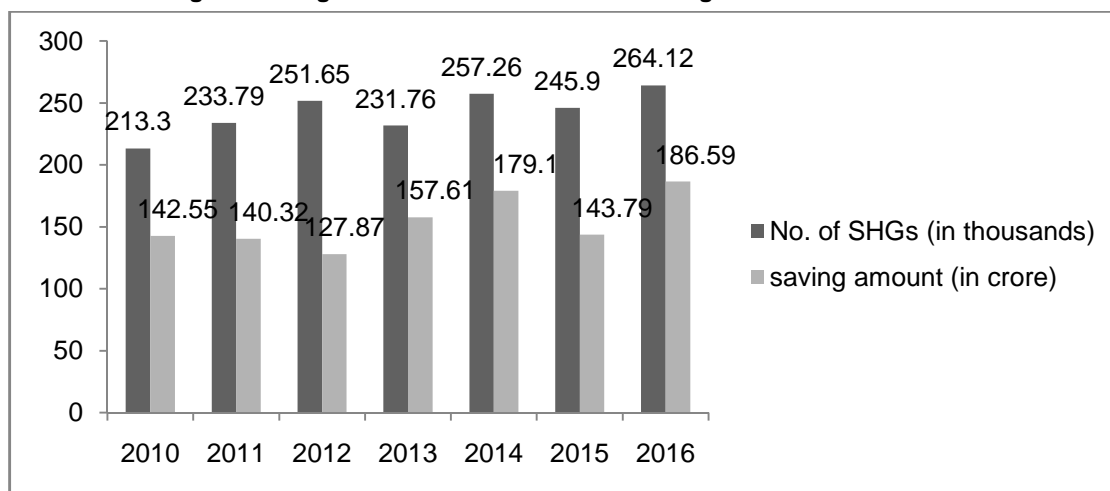


Figure 2: Progress under Microfinance - Bank Loans disbursed

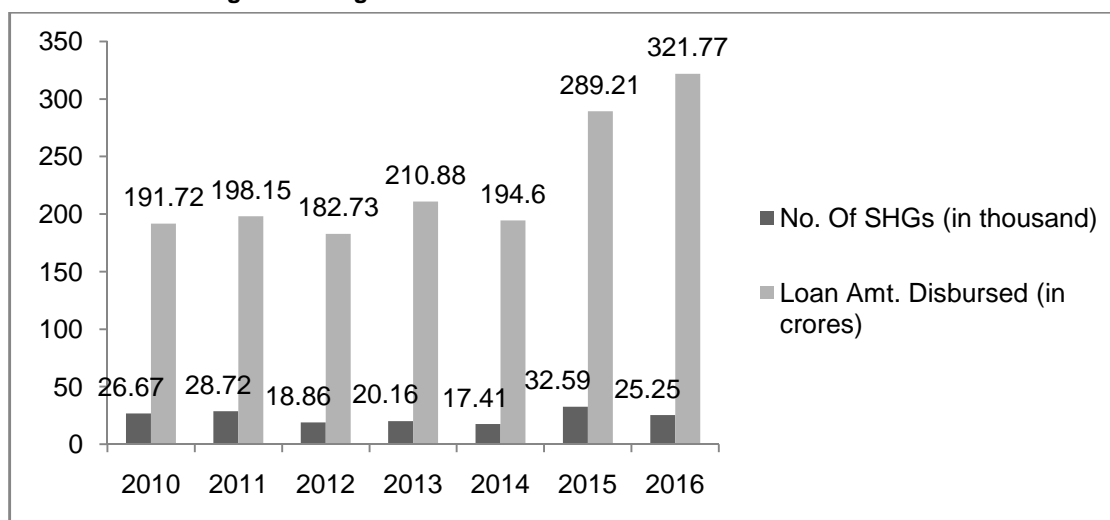
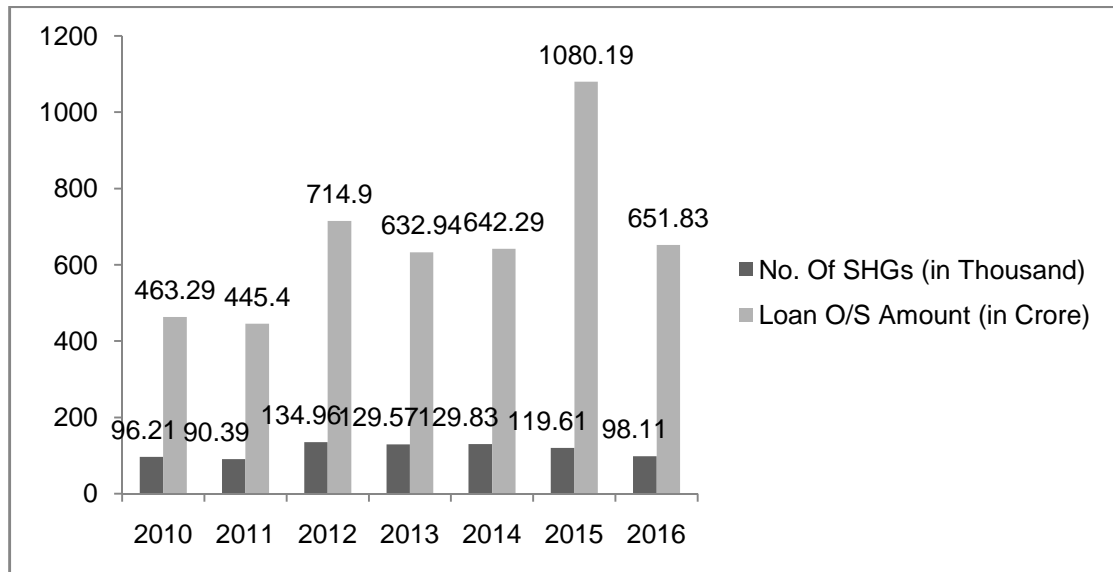


Figure 3: Progress under Microfinance - Bank Loans Outstanding against SHGs**Interpretation of Data**

- It is clearly seen number of SHGs with banks accounts have not been increasing constantly. We can see ups and downs in last seven years as in the year 2013 and 2015 there has been fall in the numbers.
- The trend in savings of SHGs also saw a mixed of ups and down where from the year 2010 to 2012 it kept on falling from Rs.142.55crore to Rs.127.87crore, then we saw a rise in following two years, 2013 and 2014, to become Rs.157.61crore and Rs.179.10crore respectively to see a fall again in 2015 and finally rise in 2016 to be at Rs.186.59 crore.
- The progress seen in disbursement of loan shown on yearly basis shows that till 2015 both the number of SHGs getting loan and amount of loan has moved in same direction though the proportion has not been same but direction of movement is same but in year 2016 though there is fall in number of SHGs getting loan the amount have risen sharply. Similar to the trend seen in savings the distribution of loan also have not been constant as 2012 and 2104 have seen fall in both number of SHGs and amount of loan distributed.
- At last, the last relation is between number of SHGs with outstanding loan in accumulation and total loan outstanding, in this also we see same trend but what pops out is the year 2015 where there is fall in number of SHGs but there is a sharp rise in amount of outstanding loan though in 2016 it was again on normal trend but there was situation of worry.

Suggestions

- There is a need of better implementation of the schemes and the policies so that there would be constant growth in number of SHGs.
- There is need to provide benefits of the scheme to the poorest of the poor in both rural and urban parts of the state but more focus has to be given to rural parts as more than 75% population of state lives in villages.
- Disbursement of loan should get better and corruption is to be checked as it eats into the opportunities offered to poor.
- There is need to increase the number of clients.
- The Loan Portfolio should be maintained steadily and balanced.
- The Savings are to be mobilized frequently.
- Though there are lot of schemes introduced by the Government in Rajasthan, yet there are still avenues to be opened for SHGs.

Conclusion

SHGs has proved to be an institution which can work as a bridge between formal financial sector service provider and poor population of rural and urban sections of society who were earlier considered as unworthy of getting bank lending. SHG-Bank linkage model is ascertained milestone. The functioning of Microfinance in India is playing a significant role since last two decades. The progress of microfinance sector is also taken as one of the important tools for financial inclusion which is the principle motto of the Government of India today. The central government, state government and RBI should take necessary measures to increase the performance of microfinance in Rajasthan through SHGs. In the present paper we tried to look into the performance factor through the secondary data provided by NABARD in their annual publication status of India in microfinance from year 2010 to 2016 through studying the factor like number of SHGs, trend of savings behaviour, disbursement of loan annually, and accumulated outstanding loan. The trend clearly shows that performance on basis of these factors is mixed bag which has show downward trend in every couple of years. The state lacks the steady growth which is crucial in pulling out poor people from vicious circle of poverty and informal financial lenders who charge absurd rate of interests on loan. Foremost, it is the responsibility of state government to make sure that policies whether it is of NABARD or central schemes are implemented, also take required steps and measures to create awareness among people to make use of the services and facilities provided to SHGs by the these formal sectors to strengthen the economical position and make better living.

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