

A study on the performance of Micro Finance with respect to Self Help Groups in Karnataka

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Abstract - Micro-Finance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, Micro-Finance is dominated by Self Help Groups (SHGs) - Banks linkage Programme, aimed at providing a cost-effective mechanism for providing financial services to the 'unreached poor'. In the Indian context terms like "small and marginal farmers", "rural artisans" and "economically weaker sections" have been used to broadly define micro-finance customers. Research has shown that, over time, microfinance customers increase their income and assets, increase the number of years of schooling that their children receive and have shown improved health and nutrition of their families. A more refined model of micro-credit delivery has evolved lately, which emphasizes the combined delivery of financial services along with technical assistance and agricultural business development services. Compared to the wider SHG bank linkage movement in India, private Micro Finance Institutions have limited outreach, because SHG's open bank account with either commercial banks or regional rural banks or co-operative societies. However, it is seen that recently large number of microfinance institutions are transforming into Non-Bank Financial Institutions (NBFCs). This changing face of microfinance in India appears to be positive in terms of the ability of microfinance to attract more funds and therefore increase outreach.

Index Terms - Micro finance, Financial inclusion, Marginal farmers, NBFC's, Self Help Groups.

INTRODUCTION

India is facing many socio and economic problems. One of the major problems is abject poverty. As per Suresh D. Tendulkar Committee Report, about 22 percent of the total people in India are under below poverty line under minimum recall period status. With low per capita income, heavy population pressure, prevalence of massive unemployment and underemployment, low rate of capital formation, misdistribution of wealth and assets, prevalence of low

technology and poor economics and instability of output of agriculture production and related sectors are some of the symptoms of it. The poor stays poor, not because they are lazy, but because they have no access to capital. Microfinance is the supply of loans, savings, and other basic financial services to the poor. As these financial services usually involve small amounts of money - small loans, small savings, etc. - the term "micro finance" helps to differentiate these services from those which formal banks provide. Microfinance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society. It is emerging as a powerful tool for poverty alleviation and women empowerment in India. During 2016-17, the demand for microcredit has been estimated at up to \$30 billion; the supply is less than \$2.2 billion combined by all involved in the sector.

Due to the sheer size of the population living in poverty, India is strategically significant in the global efforts to alleviate poverty and to achieve the Millennium Development Goal of halving the world's poverty by 2015. Over the last five decades, the microfinance industry has achieved significant growth in part due to the participation of commercial banks. Despite this growth, the poverty situation in India continues to be challenging. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for collateral with a clear title - which many low-income households do not have. In addition, bankers tend to consider low income households a bad risk imposing exceedingly high information monitoring costs on operation. This leads to the need and importance of microfinance.

Women as micro and small entrepreneurs have increasingly become the key target group for micro finance programs. Consequently, providing access to micro finance facilities is not only considered a pre-

condition for poverty alleviation, but also considered as a strategy for empowering women. In developing countries like India micro finance is playing an important role, promoting gender equality, and is helping in empowering women so that they can live quality life with dignity. Microfinance has improved the wellbeing of women clients and their families. Microfinance has a positive effect on the empowerment of women by creating an “empowerment indicator”. These indicators can be based on the following factors:

- Mobility and Economic security- enables poor women in making them economic agents of change by increasing their income and productivity.
- Ability to make small and large purchases.
- Involvement in major household decisions.
- Relative freedom from domination within the family. Political and legal awareness.
- Involvement in political campaigning and protests and to access to markets and information. They become more confident and get better control of the resources.

The process can be viewed from three important dimensions. They are:

1. Feminist Empowerment Paradigm: Here the underlying concerns are gender equality and women’s human rights. Women’s empowerment is seen as an integral and inseparable part of a wider process of social transformation. The main target group is poor women and women capable of providing alternative female role models for change. Micro-finance is promoted as an entry point in the context of a wider strategy for women’s economic and socio-political empowerment which focuses on gender awareness and feminist organization.
2. Poverty Reduction Paradigm: The poverty alleviation paradigm underlies many NGO integrated poverty-targeted community development programs. Poverty alleviation here is defined in broader terms than market incomes to encompass increasing capacities and choices and decreasing the vulnerability of poor people. The main focus of programs as a whole is on developing sustainable livelihoods, community development and social service provision like

literacy, healthcare, and infrastructure development.

3. Financial Sustainability Paradigm: This (also referred to as the financial systems approach or sustainability approach) underlies the models of microfinance promoted since the mid-1990s by most donor agencies and the Best Practice guidelines promoted in publications by USAID, World Bank, UNDP and CGAP. The ultimate aim is large programs which are profitable and fully self-supporting in competition with other private sector banking institutions and able to raise funds from international financial markets rather than relying on funds from development agencies.

REVIEW OF LITERATURE

Hulme and Mosley (1996): While acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they might be” (1996, p.134). They state that microfinance is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off by microfinance.

Littlefield, Murdoch and Hashemi (2003): More recently, commentators such as Littlefield, Murdoch and Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of microfinance in achieving the Millennium Development Goals. Littlefield, Murdoch and Hashemi (2003) state “microfinance is a critical contextual factor with strong impact on the achievements of the MDGs...microfinance is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale”. Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health, and empowering women (2003).

Chintamani Prasad Patnaik (March 2012): Has examined that microfinance seems to have generated a view that microfinance development could provide an answer to the problems of rural financial market development. While the development of microfinance is undoubtedly critical in improving access to finance for the unserved and underserved poor and low-

income households and their enterprises, it is inadequate to address issues of rural financial market development. It is envisaged that self-help groups will play a vital role in such strategy.

Johnson and Rogaly (1997, p.122): They argue (1997) that in addressing the question of the impact of microfinance, NGOs must go beyond analyzing quantitative data detailing the numbers of users, and volumes and size of loans disbursed, to understanding how their projects are impacting on clients' livelihoods.

RESEARCH GAP

The previous studies have not concentrated in assessing the role played by SHG, in promoting 'Micro entrepreneurs. Since SHG takes care of the initial investment needed by the group members to take up revenue generating activities, many are involved in manufacturing activities, but operations are carried out in small scale. Necessary availability of finance helps them to upgrade their operations. Earlier studies have failed to identify this strength. The available literature to understand the rural consumer demographics, their tastes and preferences is very less. Gaining an insight on rural consumers psyche is essential to offer them the value proposition tailored to meet their needs and preferences. They prefer to transact in cash not digital payments approach. Therefore, having cash-based transaction system is inevitable.

Total Savings of SHG with Banks

Name of the Agency	Total Savings of SHGs with Banks as on 31 March 2016		Loans disbursed to SHGs by Banks during the year		Total Outstanding Bank Loans against SHGs		NPAs	
	No. of SHGs	Savings Amount	No. of SHGs	Loans disbursed	No. of SHGs	Loan Outstanding	Amount of Gross NPA	NPA (%)
Commercial Banks	41,40,111	9,03,389	11,32,281	25,18,497	26,26,364	37,14,562	2,32,140	6.25
% Share	52.6	66.0	61.8	67.5	56.2	65.0	62.98	
Regional Rural Banks	22,56,811	2,48,428	4,70,399	9,16,493	14,45,476	16,10,935	1,06,429	6.61
% Share	28.56	18.1	25.7	24.6	30.9	28.2	28.87	
Cooperative Banks	15,06,080	2,17,322	2,29,643	2,93,700	6,00,781	3,86,426	30,054	7.78
% Share	19.1	15.9	12.5	7.9	12.9	6.8	8.15	
Total (in Rs. Lakh)	79,03,002	13,69,139	18,32,323	37,28,690	46,72,621	57,11,923	3,68,623	6.45

Source: Status of Micro Finance in India 2015-16, Micro Credit Innovations Department, NABARD, Mumbai.

The following table depicts the Savings of SHG's with different financial institutions in the Karnataka (as on 31st March 2016).

OBJECTIVES OF THE STUDY

1. To understand the concept of micro finance and its importance.
2. To study the Progress of SHGs formation in the state of Karnataka.
3. To study the number of Women SHGs in the state of Karnataka.
4. To know the SHGs Savings with Bank in the state of Karnataka.

RESEARCH METHODOLOGY

It is descriptive research in nature. Data collected through secondary sources mainly through some journals and articles and also through research papers. The data is collected from microfinance related and content related articles and websites. Secondary data is also collected from various published reports of Apex Bank Ltd. and NABARD, research articles, and from official circulars.

Commercial banks accounted for 67.5% of bank loans disbursed to 61.8% SHGs during the year. The share of RRBs in credit disbursement to SHGs stood at 24.6%. However, the number of SHGs declined substantially to 25.7% from 32.1%. The average loan disbursement by RRBs during the year was Rs. 1,94,833. The share of Cooperatives both in number of SHGs provided bank loan during the year as well as the quantum of loan disbursed declined in 2015-16 as compared to previous year. The average loan per SHG provided by Cooperatives was Rs. 1,27,894.

Commercial Bank		Regional Rural Bank (RRB)		Co-operative societies		Total (amount in Lakh rupees)	
No. of SHG	Savings Amount	No. of SHG	Savings Amount	No. of SHG	Savings Amount	No. of SHG	Savings Amount
6,05,154	79,879.15	1,37,921	16,132.89	2,19,371	48,230.09	9,62,446	1,44,242.13

The following table depicts the total loan disbursed to SHG’s from different financial institutions in the Karnataka (as on 31st March 2016).

Commercial Bank		Regional Rural Bank (RRB)		Co-operative societies		Total (amount in Lakh rupees)	
No. of SHG	Loan disbursed	No. of SHG	Loan disbursed	No. of SHG	Loan disbursed	No. of SHG	Loan disbursed
1,95,477	4,83,737.82	43,056	65,159.58	42,856	77,010.73	2,81,389	6,25,908.13

Source: Micro credit division, NABARD

Progress under Microfinance – Bank Loans outstanding against SHGs in the state of Karnataka during 2014-2015 - Regional Rural Banks

Sl. No.	Name of the bank	Total Loans Outstanding against SHGs		Out of Total-Loan outstanding under SGSY/NRLM & other Govt. sponsored program		Out of Total-Loan outstanding exclusive to women SHGs	
		No. of SHGs	Loans Outstanding (in lakhs)	No. of SHGs	Loans Outstanding (in lakhs)	No. of SHGs	Loans Outstanding (in lakhs)
1	Kaveri Grameena Bank	18993	32843.35	17521	32804.10	16043	27628.60
2	Karnataka Vikasa Grameena Bank	17213	13407.53	11983	9537.85	15467	12534.28
3	Pragathi Krishna Grameena Bank	25679	35166.00	1495	1922.00	20151	32495.13
	Total	61885	81416.88	30999	44263.95	51611	72658.01

Source: NABARD Website

Analysis:

The above table depicts Progress under Microfinance – Bank loans outstanding against SHGs with Regional Rural Banks in the state of Karnataka as on 31-03-2015. From the table it can be observed that in terms of Bank loans outstanding against SHGs, Pragathi Krishna Grameena Bank stands highest with an outstanding loan of Rs 35,166 lakhs. It can also be depicted that in terms of Bank loans outstanding against SHGs out of total SHGs – loan outstanding under SGSY/NRLM & other Govt. sponsored programme scheme, Kaveri Grameena Bank stands highest with an outstanding loan of Rs 32,804.10 lakhs. It can also be observed that in terms of Bank loans outstanding against SHGs out of total SHGs in case of exclusively women SHGs, Pragathi Krishna Grameena Bank stands highest with an outstanding loan of Rs 32,495.13 lakhs. The above tables clearly indicate that that resource mobilization by financial institutions and loan disbursement to self-help groups

have increased magnificently in the recent years, indicating positive growth. This is definitely an encouraging indicator, as self-help groups play a vital role in women empowerment. This further reiterates that, the weaker section who are in need of small finance, will have easy accessibility due to more number of non-banking financial intermediaries.

In terms of Bank loans outstanding against SHGs, HDFC Bank stands highest with an outstanding loan of Rs 18,776.81 lakhs. It can also be depicted that in terms of Bank loans outstanding against SHGs out of total SHGs – loan outstanding under SGSY/NRLM & other Govt. sponsored program scheme, Karnataka Bank stands highest with an outstanding loan of Rs 338.20 lakhs. It can also be observed that in terms of Bank loans outstanding against SHGs out of total SHGs in case of exclusively women SHGs, HDFC Bank stands highest with an outstanding loan of Rs 18,776.81 lakhs. The following table depicts this information.

Progress under Microfinance – Bank Loans outstanding against SHGs in the state of Karnataka as on 31-03-2015 - Private Sector Commercial Banks

Sl. No.	Name of the bank	Total Loans Outstanding against SHGs	Out of Total-Loan outstanding under SGSY/NRLM & other Govt. sponsored program	Out of Total-Loan outstanding exclusive to women SHGs
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		No. of SHGs	Loans Outstanding (in lakhs)	No. of SHGs	Loans Outstanding (in lakhs)	No. of SHGs	Loans Outstanding (in lakhs)
3	Federal Bank	6	10.61	0	0.00	0	0.00
4	HDFC Bank	11634	18776.81	0	0.00	11643	18776.81
5	ICICI Bank	5748	61.19	0	0.00	5648	9.53
6	ING Vyasa Bank	154	132.51	0	0.00	154	132.51
7	Karnataka Bank	1700	2076.01	307	338.20	1434	1744.91
	Total	19242	21057.13	307	338.20	188.70	20663.76

Source: NABARD Website

CONCLUSION

Microfinance has a huge potential to grow. Microfinance is moving from just a subsidy dependent activity to a serious business proposition. The challenges ahead are to build and strengthen the limited institutional capability of retailers. From the above study it is found that progress of women SHGs in Karnataka year by year is commendable. From the study it is also found that SHGs have been identified as a way to alleviate poverty and women empowerment.

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