

MICRO FINANCE SELF HELP GROUPS IN INDIA

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Abstract

This topic attempts a critical review of the performance and policy concerning the micro, finance self-help groups India since the early 1990s whence economic reforms were formally introduced. Microfinance is a term for the practice of providing financial services, such as micro credit, micro savings or micro insurance to poor people. By helping them to accumulate usably large sums of money, this expands their choices and reduces the risks they face. Suggested by the name, most transactions involve small amounts of money, frequently less than 100. The origin of microfinance is often dated as late as the 1970s. Only then, it is often argued, did any programs pass two key tests:

Show that poor people can be relied on to repay their loans, and

Show that it's possible to provide financial services to poor people through market-based enterprises without subsidy.

Micro Finance is a non-profit organization that provides financial assistance to low-income people. Microloans, micro-savings, and microinsurance are examples of these services. Micro Finance in India is financial institutions that make small loans to persons who do not have access to traditional banking services

Section 25 companies are non-profit companies formed under the Companies Act. Section 25 companies engaged in microfinance activities are NBFCs for purposes of the RBI Act, but are exempted from several requirements of the RBI Act provided that they have met certain conditions.

Delinquencies in microfinance loans likely stayed elevated in the just concluded March quarter on the back of Karnataka government's ordinance cracking down on unsecured lending and other challenges, said a report on Thursday.

Collection efficiency will likely be affected and sustained improvement in delinquencies is expected from the second half of the financial year (H2 FY26), according to India Ratings. The agency maintained a deteriorating sector outlook for non-banking financial companies (NBFC) and a stable rating outlook for microfinance institutions (MFIs) in FY26.

“In the near term, we will continue to watch out for the impact of forward flows on the Karnataka portfolio resulting from the ordinance, the implementation of the three-lender norm from 1 April 2025,” said Karan Gupta, senior director, financial institutions, India Ratings.

Delinquencies for NBFCs working as MFIs continued to increase in Q3 FY25) across buckets. Defaults in 90 plus days past due (DPD) — the number of days a loan payment is overdue — increased to 3.5 per cent from 2.8 per cent in Q2 FY25 and 1.8 per cent in Q1 FY25. Delinquencies increased in the 60 plus DPD bucket as well: to 5.6 per cent in Q3 FY25 from 3.9 per cent in Q2 and 2.6 per cent in Q1 FY25

CONCEPT OF MICROFINANCE:

The concept of micro credit can be traced back to portions of the Marshall Plan at the end of World War II in the middle of the 20th century or even back to the mid 1800s and the writings of abolitions / legal theorist Lysander Spooner who wrote concerning the benefits of numerous small loans for entrepreneurial activities to the poor as a way to alleviate poverty. It is also tied to New York’s Provident Fund. However, in its most recent incarnation it can be linked to several organizations starting in the 1970s and onward.

DEVELOPMENT OF MICRO FINANCE IN INDIA:

The Government of India is ruling some regulation for the Microfinance / Micro credit industry in India and in his budget speech on 28 February 2006, the Finance Minister P Chidambaram said “I had proposed major initiatives in respect of micro finance in the last Budget; RBI has since issued guidelines to enable banks to appoint banking correspondents and banking agents. A window to access ECB funds has also been opened. A bill to provide

a formal statutory framework for the promotion, development and regulation of the micro finance sector will be introduced in this session”.

TODAY MICRO FINANCE:

The World Bank estimates that there are now more than 7, 0000 microfinance institutions, serving some 16 million poor people in developing countries. CGAP experts estimate that 500 million households benefit from these small loans. Cambodia and Kenya were put forward as examples. Asia and the Pacific region represent 83% of the opened accounts in developing countries, which is equivalent to 17 accounts for 100 persons. In November 1997, more than 2000 delegates from 100 countries gathered at a Micro credit Summit in Washington. DC, with the goal of reaching 100 million of the world's poorest families, with credit for self-employment and other financial and business services by the year 2005. Support for these goals has come from prominent world leaders and major financial institutions.

SELF HELP GROUPS

Since the reconstitution of the Commission in January 2000, the Commission started projects with the aim of making women economically empowered. One of the major initiatives taken by the Delhi Commission for Women in the year 2000-2001 was to set up pilot projects in collaboration with partner NGOs for empowering women economically and thus helping prevent crimes against women. The Commission tied up with various NGOs working in various parts of Delhi for formation of Self-Help Groups.

What is S H Gs

SHG is a group formed by the community women, which has specific number of members like 15 or 20. In such a group the poorest women would come together for emergency, disaster, social reasons, economic support to each other have ease of conversation, social interaction and economic interactions.

Objectives

1. To sensitize women of target area for the need of SHG and its relevance in their empowerment process.
2. To create group feeling among women.

3. To enhance the confidence and capabilities of women.
4. To develop collective decision making among women.
5. To encourage habit of saving among women and facilitate the accumulation of their own capital resource base.
6. To motivate women taking up social responsibilities particularly related to women development.

SHG MOVEMENT – A MISSION:

SBI has taken up SHG movement as a mission. A noble mission to reach those families who were hitherto having no access to the credit by any formal financial institution and, therefore, were depending on informal sources and moneylenders.

MICRO FINANCE – DEEP ROOTS IN SBI:

Micro finance is not new to State Bank of India. Bank's association with non-government organizations (NGOs) or voluntary agencies in extending financial help can be traced as far back as 1976 well before NABARD introduced SHG-Bank Credit Linkage Programmed as a pilot project in 1992.

SBI – LEADER IN SHG-BANK CREDIT LINKAGE

SBI is maintaining its position as a leader among Commercial Banks in credit linking of S H Gs and is a prime driver for the movement. As at the end of March 2006, SBI with a share of approximately 47% of total S H Gs financed by Commercial Banks is far ahead of others.

INNOVATIONS & INITIATIVES

Bank has successfully initiated various measures toward widening its SHG network. To list a few examples:

1. Sensitization of staff: Bank's aim is to sensitize the entire staff from Manager to Messenger working in rural and semi-urban branches towards the programme.
2. Special training programmers in S H Gs are being conducted at 54 training centers of the Bank in the country apart from State Bank Institute of Rural Development, Hyderabad.

3. Close liaison with NGOs: Operating functionaries at branch level and region level are in close contact with NGOs in their area to take the movement ahead. For the purpose, regular meetings are arranged with the NGOs and their support is solicited.
4. SHG cells: Special SHG cells have been opened at major branches.
5. Lending to NGOs / Federations of S H Gs: Lending to credible NGOs / Federations of S H Gs on selective basis for on lending to S H Gs is being encouraged.
6. One of the areas doing well in the district is Kattimankode Panchayat. Here the local Panchayat, NGOs, banks and the government agencies have come together making the SHGs viable production units and credit agencies.
7. There are various activity clusters here, Agarbatti, Palm Fibre Brushes, Tapioca products, Coconut Leaf Thatch, tamarind processing are among the many activities
8. Panchayat has a population of 6585 people and almost half of them from Below Poverty Line families. This Panchayat has a total of 92 S H Gs
9. In one village Sreekrishnapuram there are four activities giving meaningful employment to the local women The S H Gs namely Thulasi, Nagapushpam, Parijatham and Marikulunthu, attached to a local NGO Nala Oli have all received revolving funds of Rs. 25,000 each. They are now poised to take economic assistance for their own independent units, of Rs. 1.5 lakhs.
10. Another village in the same Panchayat, Cheruppankode, processes tamarind, linked to the NGO Malar they are able to get Rs. 25 to 30 per day using their spare time. At Arasarkonam the women make palm fibre brush earning a reasonable income. Here again they are now able to do the work better with the subsidy cum loan component given under SGSY. The local banks, Primary Agricultural Cooperative Bank and the Central Bank of India have advanced to loans, DRDA has been the motivating force. The local Panchayat President taking an active interest.
11. Out of the 92 groups, 34 have received revolving funds and more are in the process, many of them are also to get the economic assistance for their own production units. The women are now empowered to take on their problems Kattimankode is only one of the many Panchayats in Kanyakumari heading for progress, from local resources and skills.

THE CASE STUDIES

SGSY and Self Help groups in Kanyakumari, Mullankinavilai Panchayat, Siluvai Nager, Boats for Tribals.

1. Sahayog Niwas: SBI has launched its Housing Loan product 'SAHAYOG NIWAS' meant for SHG members. Under the scheme formulated keeping the socio economic conditions of villages insight, housing loans are given to the SHG members without any mortgage of house / land. Response to this product is very encouraging.
2. SBI Life - Shakti: SBI Life, our insurance subsidiary, is the first to introduce a life insurance scheme, especially designed for SHG members. Special feature of the scheme is that entire premium amount paid by the member is refunded after maturity, i.e., 10 years.
3. Rural training institutes: To help the rural youth to stand on their feet, two RUDSETI type training institutes have been established at Gulbarga and Gadag in Karnataka State, to impart training in self-employment to youth free of cost.
4. SBI staff as SHPI: The main role of formation and nurturing of SHGs have been played by NGOs who, apart from their fundamental role of social service, also aim to make the poor economically self-sufficient. But in SBI, our committed work force is not lagging behind and a number of committed staff members have worked hard to form and nurture SHGs on their own.
5. Appreciation by Government: A number of our branches / Circles have also received commendation and appreciation from various State Governments for doing excellent job in SHG-Bank Credit Linkage programme. NABARD felicitated 15 SHGs at a function organized in New Delhi on 13th September 2005. The function was presided over by the Hon'ble Union Finance Minister. Out of total 15 SHGs felicitated, 4 were financed by our branches, one each from Orissa, Jharkhand, Madhya Pradesh and Uttaranchal.
6. Samanwita: Bank has sponsored and financially supported NGO 'SAMANWITA' in collaboration with Government of Orissa for supplementing the process of socio economic upliftment of the tribals and the downtrodden in the poorest and most backward Kandhamal district of Orissa State where 52% of the population is that of tribals. Core activities performed by Samanwita is empowerment of people through promotion of SHGs, especially women SHGs and development of human resources.
7. SHPI status: State Bank of India is the first Commercial Bank to which NABARD has recently given SHPI status.

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