MICRO FINANCE AND POVERTY REDUCTION IN INDIA: ISSUES AND CHALLENGES

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Introduction

Poverty and Unemployment are the major problems of underdeveloped countries to which India is no exception. India suffers from substantial poverty. The Planning Commission has estimated that 27.5% of the population was living below the poverty line in the year 2004-2005. The criteria used were monthly per capita consumption expenditure below Rs. 356.35 for rural areas and below 538.60 for urban areas. About 71 percent of the poor are in rural areas and most of them are daily wage earners, self-employed, households and landless labourers. The impact and implication of this position possesses a great challenge for the country to overcome poverty and to have an equality distribution of National Income.

Key Words: Micro Finance, Poverty Reduction, Self Help Groups, Women Empowerment, Joint Liability Groups

In this scenario microfinance has emerged as a cost-effective and efficient way for reducing poverty. Microfinance has proven to be an effective and powerful tool for poverty alleviation. The term 'Microfinance' refers to the provision of financial services to lower income groups, which also include self-employed people. Grameen Bank in Bangladesh introduced the concept of microfinance and now it is a worldwide movement as it was replicated in many countries. This is the approach, which focuses on reducing poverty by providing services and other services through institutions that are funded by various donors and Government subsidies (Anand, 2008). In India, there has been impressive growth in microfinance activities over the three decades or more. Microfinance in India has gathered momentum to become a major force. Microfinance does not directly address some structural problems facing Indian society and the economy, and it is not yet as efficient as it will be when economies of scale are realized.
and a more supportive policy environment is created (Pandey, et al, 2009). Microfinance is one of the few markets - based, scalable anti-poverty solutions that are in place in India today, and the argument to scale it up to meet the overwhelming need is compelling.

Status of Poverty in India

Table 1. Trends in Poverty in India

<table>
<thead>
<tr>
<th>Years</th>
<th>Rural Sector Poverty Ratio (%)</th>
<th>Urban Sector Poverty Ratio (%)</th>
<th>All India Poverty Ratios (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>56.44</td>
<td>49.01</td>
<td>54.88</td>
</tr>
<tr>
<td>1977-78</td>
<td>53.07</td>
<td>45.24</td>
<td>51.32</td>
</tr>
<tr>
<td>1983-84</td>
<td>45.85</td>
<td>40.79</td>
<td>44.48</td>
</tr>
<tr>
<td>1987-88</td>
<td>39.09</td>
<td>38.20</td>
<td>38.86</td>
</tr>
<tr>
<td>1993-94</td>
<td>37.27</td>
<td>32.36</td>
<td>35.97</td>
</tr>
<tr>
<td>1990-00</td>
<td>27.09</td>
<td>23.62</td>
<td>26.10</td>
</tr>
<tr>
<td>2004-05 URP</td>
<td>28.3</td>
<td>25.7</td>
<td>27.5</td>
</tr>
<tr>
<td>2004-05 MRP</td>
<td>21.8</td>
<td>21.7</td>
<td>21.8</td>
</tr>
</tbody>
</table>

Note: Uniform Recall Period (URP), Mixed Recall Period (MRP). Source: Planning Commission estimates based on NSS round.

India remains predominantly a rural nation, with 71 percent of its people living in rural areas as of 2004-2005 and the incidence of poverty is much higher in rural areas affecting the rural economy as well as the overall economy of the nation. India has entered the Eleventh Plan Period with an impressive record of economic growth: As far as poverty concerned the percentage of the population below the poverty line has come down from 36 percent in 1993-94 to 27.5 percent in 2004-05 but the rate of decline in poverty has not accelerated along the growth in GDP, and the incidence of poverty among certain marginalised groups! (Hazra, 2009).

The poverty ratio may be strictly comparable to the earlier ratio of poverty because of some changes in methodology of data collection from time to time. An important feature of poverty ratio in India is that its incidence is far greater in rural areas than in urban areas. Likewise, there has been significant decrease in the all India overall poverty ratio which has come down to about 21.8 compared to 54.9 in the year 1973-74.

Role of Micro Finance in Poverty Reduction

Micro Finance Institutions are those which provide thrift, credit and other financial services and products of very small amounts to the poor, semi-urban or urban areas for enabling them to raise their income levels and improve living standards (Acharya, 2008). The basic idea of micro-finance is simple: if poor people are provided access to financial services, including credit, they may will be able to start or expand a micro-enterprise such as weaving of baskets, poultry farming, fish farming, cattle rearing, trying wholesale products to sell in a market to help them escape from poverty and retain a place in the economic spectrum above the poverty line. The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the modes of operation followed by financing needs of low-income households. Community Bank, NGOs
and grass-root saving and credit groups around world have shown that these micro-enterprises loans can be profitable for borrowers and for the lenders making micro-finance one of the most effective poverty reducing strategies. (Mahalakshmi, M. 2010). Micro finance is a human right and way to end poverty though socio-empowerment has been considered as best alternative for empowerment of rural poor and social change.

Micro Finance movement is broadly defined on group based institution. In group lending programmes, the function of screening, monitoring, and enforcement of repayment are to a large extent transferred from the bank to the borrower- the group member themselves (Sharma and Zeller, 1997). These perceived advantages of collective actions during the time of screening of loan application and monitoring of borrowers. Even in the area of ‘social banking' banks were highly unapproachable for the rural poor. Due to worldwide wave of economic reforms, the access to credit has fallen further. In this regard micro-finance explores new avenue of credit for the rural poor. In India the model of microfinance delivery can be broadly classified as the Self Help Groups (SHGs) model which is actually a Grameen Bank replication model (Mukherjee and Kundu 2009). It has been observed that Microfinance often gets equated merely as credit for micro-enterprises while the poor also need savings, consumption loans, housings loans and insurance services.

It shows that access and efficient provision of micro credit can enable the poor to smooth their consumption, better manage their risks better gradually build their assets, develop their micro enterprises, enhance their income earning capacity and enjoy an improved quality of life. Microfinance services can also contribute to the improvement of resources allocation, promoting of markets, and adoption of better technology. Micro Finance is expected to play a significant role in poverty alleviation and development (Bakhtiari, 2006).

**Growth and Development of Micro Finance in India**

Provision of credit to poor people has been one of the main concerns of policy planners in India. Government of India, since independence has been making concerned efforts in the direction viz, nationalization of existing private commercial banks in 1969 in terms of massive expansion of branch networks in rural areas, mandatory directed credit to priority sectors of the economy, subsidized rates of interest and creation of a new set of rural banks at district level and an apex bank for Agriculture and Rural Development (NABARD) at national level in 1982. As a fillip to rural delivery mechanism, Regional Rural Banks (RRBs) had been setup in India 1975 as a unique institution, in the sense that it is meant to be local institution, familiar to the local conditions and at the same time being commercial in its operations. Despite their massive infrastructure of banks, about 30 percent of the rural indebted households are still dependant on informal sector. The institutional structure was neither profitable in rural lending nor serving the needs of the poorest. In short, it had created a structure "quantitative impressive but qualitatively week". Because of existing banking policies, systems and procedures, and deposit and loan products were not will suited to meet the most immediate needs of the poor (Singh, 2007).

Micro credit institutions are seen as being able to rectify these weaknesses. Microfinance is the new mantra in rural finance. It has been recognized world over as an effective tool for poverty alleviation and improving socio-economic status of rural poor. Microfinance refers to the programme that provides credit or self-employment and other financial and business services, including saving and technical assistance to the poor persons. The micro finance industry in India emerged in the 1970s to provide poor people with access to credit without restoring to the usurious
interest rates fixed by informal money lenders. In 1974, SEWA cooperative Bank was established to help low income women escape their trap and reduce their dependence on money lenders. Much like Grameen bank in Bangladesh SEWA Bank relied on peer pressure groups ensure high loan repayment rates. Through its success, SEWA Bank proved that the poor were bankable and helped pave the way for the emergence of hundreds of micro-finance institutions during the 1980s and 1990s (Rajesh and Venkatamma, 2009). The beginning of the micro-finance movement in India could be traced to the self-help group (SHG) Bank linkage programmes (SBLP) stated as a pilot project in 1992 by National Bank for Agriculture and Rural Development (NABARD) this programme not only proved to be very successful, but has also emerged as the most popular model of micro-finance in India. From the pilot project, the self-help Group-Bank linkage became a full-fledged model.

Recognizing the potential of micro-finance through SHGs to positively influence the development of the poor, the Reserve Bank, NABARD and Small Industries Development Bank of India (SIDBI) have taken further fillip to the micro-finance in India. The basic purpose of the linkage is to strengthen the financial health of SHGs by ensuring adequate flow of bank credit to these institutions (Kumar and S, 2010).

**Self Help Groups**

India has been experiencing micro credit in the form of Self-Help Groups (SHGs) as a part of formal credit delivery system giving lot freedom to Non Government Organizations (NGOs) to set up SHGs on various models. The self-help group is a registered or unregistered group of wall and economically homogeneous and affinity group of poor. Voluntary coming together to save small amounts regularly, to mutually help basis, which are deposited in a common fund to meet members emergency needs and to provide collateral free loans decided by the group. They have been recognized as useful tool to help the poor and as alternative to meet the urgent credit needs of poor through thrift. SHGs enhance the equality of status of women as participants, decision-makers and beneficiaries in the democratic, economic, social and cultural spheres of life (Singh, et. al, 2010).

SHGs go through various stages of evolution:

a) **Group formation:** At this stage, groups are formed, developed and strengthened to evolve into self-managed people's organisations at the grassroots level.

b) **Group stabilization:** through thrift and credit activity among the members and building their group corpus-the group takes up internal loaning to the members from the corpus.

c) **Micro credit :**The group corpus is supplemented with Revolving Fund sanctioned as cash credit limit by the banks to take livelihood.

d) **Micro enterprise development:** Here, the group takes up economic activity, of its choice for income-generation.

NGOs create a strong base for the members in forming SHGs where the members contribute their saving to a common pool and money is lent to the members on rotation basis according to their need and preference NGOs also contribute some initial funds to strengthen the financial resources of the group and encourage the financial institutions to develop confidence and establish lending relationship with the groups (Roheeni, 2006). The groups are eligible for the loans from the banks after six month of saving and credit operations. The banks assess the strengthen of the groups in terms of successful rotation of saving of the groups as loans, regularity in conducting and attending meeting savings
mobilization numbers of loan issued to the groups as replacement of loans. The opportunity provided in safe saving as well as availability of need-bases credit has led to more and poor people keen to join SHGs. The members use the credit for a variety of purposes like small business, agriculture, health, education of children, festivals and so on (Kour, 2008).

Table 2. Progress of Self Help Groups

<table>
<thead>
<tr>
<th>Year</th>
<th>Credit (Rs. Crore)</th>
<th>Self-Help Groups (in Lakh)</th>
<th>No. of Self Employment (in Lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>192.98</td>
<td>1.15</td>
<td>9.31</td>
</tr>
<tr>
<td>2000-01</td>
<td>480.87</td>
<td>2.64</td>
<td>9.78</td>
</tr>
<tr>
<td>2001-02</td>
<td>10,26.34</td>
<td>4.61</td>
<td>NA</td>
</tr>
<tr>
<td>2002-03</td>
<td>20,48.70</td>
<td>7.17</td>
<td>32.48</td>
</tr>
<tr>
<td>2003-04</td>
<td>39,04.21</td>
<td>10.80</td>
<td>45.67</td>
</tr>
<tr>
<td>2004-05</td>
<td>6898.46</td>
<td>16.18</td>
<td>NA</td>
</tr>
<tr>
<td>2005-06</td>
<td>11,397.55</td>
<td>22.38</td>
<td>62.75</td>
</tr>
<tr>
<td>2006-07</td>
<td>12,366.49</td>
<td>28.94</td>
<td>73.25</td>
</tr>
<tr>
<td>2007-08</td>
<td>16,999.90</td>
<td>36.26</td>
<td>93.21</td>
</tr>
<tr>
<td>2008-09</td>
<td>22,679.85</td>
<td>42.24</td>
<td>120.89</td>
</tr>
</tbody>
</table>

Source: Status of Micro Finance in India 2009-10, NABARD, Economic Survey 2009-10

Table shows that cumulative number of SHGs finance by banks has jumped to 42.24 lakh the year 2008-09 from 1.15 lakh in 1992-2000. Banks extended loans of Rs. 22, 679 crore in 2008-09 as against 192.98 crore in 1990-2000. Significant progress was made during the year 2005-06 with 4499.09 new SHGs financed by banks. The number of poor families benefiting through SHGs increased from 9.31 lakh as on 1999-2000 to 120.89 lakh on 2008-09 registering a growth of 1198 percent of the SHGs are women groups.

SHGs have developed rapidly in the country due to following reasons:

- a) This is a flexible system which suitable need of rural people.
- b) The association of persons in the group is based upon mutual heart and confidence.
- c) If encourages common pooling of funds from small savings of poor peoples.
- d) The common fund meets the credit need of members.
- e) This is a cost effective system.
- f) Active population of NGOs increases their strength.
- g) Interest rate on borrowings charge by the SHGs is comparatively low.
- h) Recovery is encouraging because of member's active participation.
- i) SHGs help the village poor to get ride from the clutch of village moneylenders (Samal, 2009)
The SHG-bank linkage programme is the flagship microfinance intervention mechanism of NABARD. NABARD with the policy back up of the RBI designed of linking these groups with banks to overcome the financial constraints. With the NABARD programmes on self-help groups, the emphasis shifted to loans without collateral, 100 percent repayment norms and lending to groups of people who would also invest their saving and regulate their groups and group's loans, thus reducing transaction costs for the borrowers and for the banks. The programme has come a long way since 1992 passing through stages of pilot study (1992-95), main streaming (1995-98) and expansion phase (1998 onwards). RBI and NABARD have tried to promote 'relationship banking' i.e. improving the existing relationship between the poor and bankers with the social after meditation NGOs. The programme initiated by NABARD inactive collaboration with NGOs aimed at enhancing the courage of rural poor under institutional credit there by forcing of poverty alleviation and empowerment (Karunaiathal, 2009).

Under the SHG-Bank Linkage Programme as on March, 2010, 69.53 lakh SHGs held saving bank accounts with total savings of Rs. 6198.71 crore as against 61.21 lakh SHGs with savings of Rs. 5545.62 as on March, 2009. There by showing a growth rate of 13.6 percent and 11.8 percent. Thus more than 97 million poor household were associated with banking agencies under this programme. The share under SGSY was 16.94 lakh SHGs with saving of Rs. 1, 292.62 crore forming 24.4 percent of the total SHGs having saving accounts with the banks and 20.8 percent of their total saving account. During 2009-10, banks have financed 15.87 lakh SHGs, including repeat loan to the existing SHGs with bank loans of Rs. 14, 453.30 crore as against 16.10 lakh SHGs with bank loans of Rs. 12, 253.51 crore during 2008-09, registering a decline of 1.4 percent of SHGs but a growth of 17.9 percent in bank loans disbursed. As on March, 2010, the total numbers of 48.51 lakh SHGs were having outstanding bank loans of Rs. 28,28,038.28 crore as against 42.24 lakh SHGs with bank loans of Rs. 22, 679.85 crore as on March 2009, representing a growth of 14.8 percent in number of SHGs and 23.6 percent in bank loans outstanding against SHGs. The share of SHGs under SGSY was 25.7 percent with outstanding bank loans of 22.3 percent as against 23.1 percent SHGs with outstanding bank loans of 25.8 percent as on March 2009.
Table 4. Bank Loan Outstanding against SHGs: Agency wise Position (as on March 31, 2010)

<table>
<thead>
<tr>
<th>Agency</th>
<th>No. of SHGs</th>
<th>Share in %</th>
<th>Amount (Rs. Core)</th>
<th>Share in %</th>
<th>Per SHG outstanding Loan (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Bank (Public &amp; Private)</td>
<td>3237263</td>
<td>66.7</td>
<td>20164.71</td>
<td>71.9</td>
<td>62,289</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>1103980</td>
<td>22.8</td>
<td>6144.58</td>
<td>21.9</td>
<td>55,658</td>
</tr>
<tr>
<td>Cooperative Banks</td>
<td>510113</td>
<td>10.5</td>
<td>1728.99</td>
<td>6.2</td>
<td>33,894</td>
</tr>
<tr>
<td>Total</td>
<td>4851356</td>
<td>100.0</td>
<td>28038.28</td>
<td>100.0</td>
<td>57,795</td>
</tr>
</tbody>
</table>

Source: Status of Micro Finance, 2009-10, NABARD

It may be observed from table that commercial banks (CBs) had the maximum share of 66.7 percent in outstanding bank loans to SHGs followed by RRBs with a share of 22.8 percent and cooperative banks with a share of 10.5 percent. The average bank loan outstanding per SHG had increased from Rs. 53, 689 as on March 2009 to Rs. 57795 as on March 2010. It varied between Rs. 62, 289 per SHG in case of CBs and Rs. 33, 894 per SHG in care of cooperative banks as on March, 2010. The commercial banks had the maximum share of SHGs with saving amount (59.3%) followed by RRBs (21.0%) and cooperative banks (19.8%).

Table 5. Non Performing Assets of Bank Loans to SHGs

<table>
<thead>
<tr>
<th>Agency</th>
<th>Outstanding Loans against SHGs (in Crores)</th>
<th>Amount of NPAs (in Crores)</th>
<th>% of NPA to Outstanding Bank Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBs (Public Sector)</td>
<td>19724.42</td>
<td>513.53</td>
<td>2.60</td>
</tr>
<tr>
<td>CBs (Private Sector)</td>
<td>440.29</td>
<td>23.93</td>
<td>5.44</td>
</tr>
<tr>
<td>RRBs</td>
<td>6144.58</td>
<td>218.53</td>
<td>3.56</td>
</tr>
<tr>
<td>Cooperative Banks</td>
<td>1728.99</td>
<td>67.04</td>
<td>3.88</td>
</tr>
<tr>
<td>Total</td>
<td>28038.28</td>
<td>823.04</td>
<td>2.94</td>
</tr>
</tbody>
</table>

Source: Status of Micro Finance, 2009-10, NABARD

Models of Linkage

SHGs "linked" with banks functions as micro-banks were able to access funds from the formal banking system. The linkage has resulted in the reduction of transaction costs of banks through the externalization of costs of servicing individually loans and also ensuring their repayment through the peer pressure mechanism. The three broad models of linkage programmes.

First type: Bank takes the initiative to form the groups, open their savings account and provide them credit.
Second type: Groups are formed and developed by government agencies, NGOs or communities are given by the banks

Third type: The NGOs that forms and developed the SHGs also act as financial intermediary and the banks lend to three financial intermediaries for onwards lending to the member- SHGs and their members. In several cases, federation of SHGs acts as financial intermediaries.

The second type has emerged at the most popular model accounting for over 70 percent of the total SHGs financed under their category, followed by model I and model III, confirming the popularity of model II as preferred by the bankers (Kamdar, 2007). SHG-Bank Linkage Programmes has been in the forefront in the Southern Region as compared to all other regions. Andhra Pradesh has had more number of SHGs linked with banks and maximum amount of bank loan disbursed, compared to all other status in the Southern Region as well as in all other regions. Certain states, namely, Andhra Pradesh, Karnataka and Tamil Nadu account for 50 percent of the SHG credit linkage. The other two states viz, Karnataka and Tamil Nadu, South India are supported by large NGOs like MYRADA and SHARE. These NGOs have greater creditability which has enabled them to leverage bank finance easily. Moreover, as the micro finance movement had "originated" in South India, the awareness I and acceptability of the programme has relatively been higher. Rajasthan, Meghalaya, Orissa, Bihar, West Bengal, Madhya Pradesh and Gujarat have been identified by NABARD for having higher potential of increasing SHG outreach. The states which have suffered from inadequate due to inherent lack of institutional framework non-availability of good infrastructure and poor presence of NGOs continued to receive special attention from NABARD (Kumaresan and Chitrakala, 2009).

Women Empowerment

Empowerment is a continuous process for realizing the ideals of equality, human liberation and freedom for all. It is the process of challenging existing power relations and gaining control over the source of power. Empowerment of women involves many things, economic opportunity, property rights, political representation, social equality, personal right and so on. Empowerment as a form of development change is brought about by local problem solving efforts and techniques. The term empowerment is frequently used to describe a process where the powerless members gain greater share of control over resources and decision making, and women are generally accepted as being the most powerless members of the depressed classes (Sharma, 2006). The self help group is a viable organized set up to disburse micro-credit to the rural women for the purpose of making them enterprising and encouraging to enter into entrepreneurial activities. The formation of SHGs is not ultimately a micro-credit project but an empowerment process.

As compared to the socio-economic conditions of members in the pre and post SHG situations and the members have improved the business turnover in the post SHG situations and in turn the net income. The widespread formation of the SHGs means that it has also taken the form of a movement for women's social development in India. Self-help groups, as a strategy for women's development, have arisen out of the perceived problem of women's development has in India (Qazi, 2007).
Table 6. Position of Women SHGs as per March, 2010

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total SHGs</th>
<th>Exclusive Women SHGs</th>
<th>% age of Women SHG to total SHGs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Amount</td>
<td>No</td>
</tr>
<tr>
<td>Saving liked SHGs</td>
<td>6953250</td>
<td>6198.71</td>
<td>5310436</td>
</tr>
<tr>
<td>Loans Disburse</td>
<td>1586822</td>
<td>14453.30</td>
<td>1294476</td>
</tr>
<tr>
<td>Loans Outstanding</td>
<td>4851356</td>
<td>28038.28</td>
<td>3897797</td>
</tr>
</tbody>
</table>

Source: Status of Micro Finance, 2009-10, NABARD

It may seem that of the total number of saving linked and credit linked SHGs, exclusive women SHGs with banks were 76.4 percent and 81.6 percent respectively. Further, the percentage of loans outstanding of exclusive women SHGs to loans outstanding of total SHGs which was 81.9 percent as of March, 1009 has increase to 82.1 percent as on March, 2010.

The Issues and Challenges

The mainstream financial institutions are generally seen as flushed with funds and have access to enormous amounts of low-cost savings deposits. It is found that the poorer the region, the lower the credit-deposit ratio. Most of eastern Uttar Pradesh, Bihar, Orissa and the North-East regions have credit deposit ratios of 20-30 per cent. Since most of the poor and needy are illiterate and prefer loans for consumption rather than productive purposes, majority of the poor find it hard to get loans sanctioned for taking up economic activities, even if they want to. Sometimes, the loaners are asked to furnish some documents and collateral security against the loan sanctioned, contrary to the directives of the Government and the RBI. The rigid systems and procedures for sanctioning loans and disbursing them to the beneficiaries result in a lot of delay in time for the borrowers, which de-motivate them. Although the interest rate offered to the borrowers is regulated, the transaction costs in terms of the number of trips to be made, the documents to be furnished etc. plus the illegal charges demanded by the lending institutions clandestinely, result in increasing the cost of borrowing, thus, making it less attractive to the borrowers.

Micro-finance has been seen as a social obligation rather than a potential business opportunity. Sometimes, a few financial institutions charge the beneficiaries of a group high interest rate which makes the repayment difficult for the very poor. The poorest of the poor are, therefore, unable to access the micro-finance benefits. In most of the cases, it has been found that members of a group take up certain economic activities for their sustenance which are not preceded by relevant training. After the pioneering efforts of the last few years by the government, banks, NGOs, and so on, the micro-finance scene is reaching the take-off point (Tripathy, 2003).

Financial Support and Promotional Efforts by NABARD: NABARD has been playing the role of propagator and facilitator by providing conducive policy environment, training and capacity building besides extending financial support for the health growth SHG linkage programme.

NABARD Refinance Support to Banks: NABARD provides refinance support to banks to extent of 100 percent of the bank loans disbursed to SHGs. The total refinance disbursed to banks against banks loans to SHG during 2009-10 was Rs. 3173.56 crore, registered a growth of 21.1 percent from Rs. 2620.03 crore in 2008-09. The cumulative refinance disbursed under SHG bank linkage programme by NABARD to banks up to 31 March, 2010 stood at Rs. 12861.65 crore (NABARD, 2009-10).
Micro Finance Development and Equity Fund: The Micro-finance Development and Equity Fund is being utilized for promotion of various micro finance activities such as formation and linkage of SHGs through SHPIs, training and capacity building of stake holders, capital and soft loan assistance to MFIs, livelihood propagation, studies, documentation, etc. During 2009-10, an amount of Rs. 80.91 crore was released, of which Rs. 20.49 crore grants was for capital support/Revolving Fund Assistance (RFA) to MFIs, as against Rs. 18.73 crore and 15.93 crore in the previous year, respectively.

Supports for Partner Agencies for Promotion and Nature of SHGs: NABARD continued to extend grant support to NGOs, RRBs, DCCBs, FCs and Individual Rural Volunteers (IRVs) for promoting and nurturing quality SHGs. During 2009-10, grant assistance of Rs. 2, 878.17 lakh was sanctioned to various agencies for promoting 71, 268 groups, taking the cumulative assistance sanctioned to Rs. 10, 766.07 lakh for 4, 92,746 groups. As on 31 March, 2010, Rs. 4, 037.74 lakh was released and 2, 36, 863 SHGs credit linked to banks.

Capability Building and Training of Partner Agencies: To fine-tune the strategies for up-scaling support to the microfinance sector, NABARD Conducted many awareness creation and sensitization programmes and arranged exposure visit for SHG members, NGO, bankers, trainers, Panchayati Raj Institutions (PRIs) representatives, NABARD officials, IAS officers and micro-entrepreneurs throughout the year.

Joint Liability Groups (JLGs): It needs simplified documentation, group dynamics timely repayment culture and prospects of credit enhancement to quality clients. NABARD has issued comprehensive guideline on Joint Groups to banks focusing on small and marginal farmers, tenant farmers engaged in farm sector and other clients under non-farm activities. Banks may use the services of JLG-promoting agencies.

Micro Enterprise Development Programme for Skill Development: The Micro Enterprise Development Programme (MFDP) was launched by NABARD in 2006 with the basic objective to enhance the capability of the numbers of matured SHGs to take up micro enterprises through appropriate skill upgradation / development in the existing or new livelihood activities both in farm and non-farm sectors by way of enriching knowledge of participants on enterprise management business dynamics and rural markets. In 2009-10, a total of 1530 MEDPs, both under farm and non-farm activities were conducted across the country covering 38313 numbers of the matured SHGs. Cumulatively so far covering 93777 participants (NABARD, Report, 2009-10).

Pilot Project on SHGs - Post Office Linkage Programme: The result of SHG-Post Office Linkage Programme in Tamil Nadu has been very encouraging. NABARD sanctioned additional Rs. 200 lakh Revolving Fund Assistance (RFA) to India post for onward landing to SHGs, taking the total RFA sanctioned to Rs. 500 lakh. Cumulatively, 2, 828 SHGs have opened interest saving accounts with relent Post Office in Tamil Nadu and a 1195 SHGs have been credit linked by post offices, with loan amounting to Rs. 321.25 lakh.

Supports to Activity - Based Groups (ABGs): NABARD continued to support the scheme for small-scale activity-based groups wherein capacity building, credit and market-related support will be extended. The focus is on farming and nurturing groups engaged in similar economic activities, i.e. farmers, handloom weavers, craftsmen, fishermen etc to improve production and realizing better price for produce. The scheme has both graft and loan components. NABARD may provide loans directly to registered groups or through agencies promoting the groups, to establish a few initial projects where have exists (NABARD, Annual Report, 2009-10).

Providing Technology Support to NGOs: The scheme of supporting NGOs for computerization of MIS of the SHG-Bank linkage programme has been revised. NGOs promoting a minimum of 250 SHGs would now be eligible for a maximum grant assistance of Rs. 50, 000 for hardware components.
Support to SHGs Federation: Recognizing the emerging role of the SHGs Federation in nurturing of SHGs, enhancing the bargaining powers of groups members and livelihood promotion, NABARD introduced during 2007-08, a flexible scheme support such federations, irrespective of their model. The broad norms prescribed for supporting SHG federation stipulate that the federations should be need-based. Members-owned, democratically managed, become self-managed over three years, etc. NABARD extends grant support to the federation for training, capacity building and exposure visits of SHG members, etc (NABARD, Report 2009-10).

Concluding Remarks:

Microcredit and microfinance have received extensive recognition as a strategy for poverty reduction and for economic empowerment. Microfinance is a way for fighting poverty, particularly in rural areas, where most of the world's poorest people live. Accessing small amounts of credit at reasonable interest rates give poor people an opportunity to set up their own small business. Many studies show that poor people are trustable, with higher repayment rates than conventional borrowers. As a sector, microfinance has shown very fast growth across the country in terms of geographical coverage, increased clientele, portfolio, institutional involvement etc. Increasingly more and more promoting organizations, financial institutions donors and clients are getting associated with the programme, mainly because of its contributions to alleviating poverty and empowering women. Microfinance programmes like the Self-Help Bank Linkage Programme (SHG) in India have been increasingly hailed for their positive economic impact and the empowerment women. The assumption is that increasing women's access to micro-finance will enable women to make a greater contribution to household income, either through their own economic activity or equality becoming a channel for loans to household activity. This contribution and subsequent increase in status in the household will in turn give women the support they need to enable women to bring about wider changes in gender inequality in the community. Self -Help Group Programme is the right approach to create Self-employment opportunities so as to supplement the income and assets of rural poor.

The SHG programmes show a much skewed growth pattern in the country. The programme is largely concentrated in southern region of the country. It is important that the microfinance programme spread more evenly so that the benefits are available especially in regions where the need is more accurate. The challenge for NGOs and MFIs is to achieve their own financial self-sufficiency without transferring all the overhead costs to their poor clients. They need to ensure sufficient investment to provide diversified livelihood options and employment creation by optimizing existing resources through timely credit, technical inputs, skill training and knowledge transfer. It is crucial to arrive at the right tradeoff between the needs of the poor and the sustainability of the MFIs. Challenge is to have financial inclusion with an inclusive growth. The banking sector can play a lead and proactive

References


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