MICRO FINANCE IN INDIA: A STATE WISE ANALYSIS

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Dedicated To

God

and my whole family

CERTIFIACTE

I here by certify that the work which is being presented in this thesis entitled 'Micro Finance In India: A State Wise Analysis' in partial fulfillment of the requirements for award of the Degree of Masters Of Philosophy in Economics, submitted in School of Management and Social Sciences, Thapar University Patiala, is an authentic record of my work carried out under the supervision of Dr.(Ms)Ravi kiran, Associate Professor, School of Management and Social Sciences

The matter presented in this thesis has not been submitted for the award of any other degree of this or any other university

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ABSTRACT

Poverty is one of the common obstacles in achieving higher growth and enhancing the standard of living of the people in most of the low income countries. About 1.4 billion population in developing countries is living less than US $ 1.25 a day according to World Bank report. Over the years, most of the countries have been pursuing various policies and programs to eradiate poverty. Among these measures and policies most effective policy is microfinance which, in last couple of years, has been adopted by below income countries in a bid to obliterate poverty. Microfinance is not a new topic. Its history can be traced to early 1700s. but the actual credit goes to Dr. Mohammad Yunus who gave a new shape to microfinance in Bangladesh in 1972. He was also awarded with Nobel Prize in 2006 for this pioneer work. Like other low income countries, Government of India ha been implementing various schemes and programs to alleviate poverty since independence. In the line of Bangladesh microfinance model developed by Dr. Yunus, government of India has been consistently implementing this scheme to eradicate poverty since 1999. With regard to the impact of microfinance in reducing poverty in rural area, the scholars have come out with different results from their research. For this purpose secondary data is collected. The study covers the micro financing in India for the period 1994 to 2007. Then the period is divided in to two periods: period I, 1994-1999 and Period II, 2000-2007. Findings of study show that various micro financing activities and institutions have grown intensively in Southern India and many poor people mostly woman are participating actively in micro financing activities. Further the impact of microfinance is also analysed on women empowerment and it turns out to be positive. Overall, the finance scheme are spreading all over India over the last few years.

CHAPTER 1

DEVELOPMENT OF MICRO FINANCING IN INDIA

1. Introduction

Poverty is one of the persistent problems prevalent in the developing and underdeveloped countries of the world. According to the World Bank report (2008) about 1.4 billion population in developing countries is living on less than US $1.25 a day in 2005. This clearly highlights that poverty is widespread across developing world. The United Nation Organization announced Millennium Development Goals (MDGs) in 2008, and the first of eight critical goals is to eradicate poverty by the year 2015. Most of the developing and underdeveloped countries have recently been pursuing various policies and programs to eradicate poverty, an important impediments to sustainable economic development. Among these policies one of the most important and effective one is Micro-finance.

Micro Financing has been initiated in all the countries having poverty- stricken people. Micro Financing serves not only the goal of poverty reduction but also other two Millennium development goals such as, women empowerment and increase the literacy rate among women. Recently micro-finance is emerging as one of the powerful instrument for poverty alleviation in the low income countries of the world. The year 2005 was announced as the year of Micro-finance by United Nations, and poverty declined from 50% in 1981 to 25% in 2005, i.e., 500 million of poor people fell during this period. Yet even at this rate, about a billion people will still live on less than $ 1.25 a day in 2015, and many of those who escaped $1.25 a day in 2015, and many of those who escaped 1.25-a-day poverty across 1981-2005 would still be poor by the standards of rich or even middle-income countries.

1.1 Meaning and Definition of Micro-Finance

It is well known fact that in low income countries poor lack credit and they are unable to get sustainable income because they cannot start their own small business which can ensure sustainable income to fulfill their basic needs. They are unable to get loan from formal institution and cannot borrow from informal institution like, traditional money lenders, who charge high rate of interest. So micro-finance is a scheme implemented through self help groups to provide financial assistance while taking their difficulties into account.

Micro-finance is a financial service of small quantity provided by financial institutions such as banks, NGOs etc, to the poor. These financial services may include savings, credit, insurance, leasing, money transfer, equity transfer etc, i.e., any type of financial service provided to customer to meet their normal financial needs. 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. In other words, microfinance is defined as provision of thrift, credit, and other financial services to poor in rural, semi urban areas to establish a tiny business so that they can earn sustainable income and get themselves out of poverty.

According to consultative group to assist poor (CGAP) “ microfinance is supply of loans, savings and other financial services to the poor, including working capital loans, savings and other basic financial services to the poor, including working capital loans, consumer credit, pension, insurance and money transfer services. Moreover it is defined as provision of thrift, credit and other financial services and products of very small amount to poor in rural, semi urban and urban areas for enabling them to raise their income level and living standard. More broadly, micro-finance refers to a movement that envision a world, where low income households have permanent access to a range of high quality financial services to finance income producing activites,build assets, stabilize consumption, and protect against risk. These services are not limited to credit, but include savings, insurance, and money transfer.

1.2 A Brief History of Microfinance

Concept of micro finance is not new. Its history can be traced to early 1700’s when a number of savings and credit groups were operating all over the world such as Susus of Ghana, “ Chit funds” in India, “Tandas” in Mexico, “Arisan” in Indonesia, “Cheetu” in Sri Lanka etc. And along with these, formal institutions were operating to lend to very poor who were deprived of credit by the commercial banks. In early 1700s author and nationalist Jonathan swift initiated Micro-credit organization in Ireland and after that by 1840s about 300 funds were spread all over the Ireland. In 1800, a number of institutions and agencies named as People’s bank, credit Union, savings and credit cooperation, emerged in Europe. Fredrich Wilhelm Raiffeisen and his supporters developed the concept of credit union to provide credit to the poor and to break their dependence on money lenders. In 1870, a number of formal saving and credit institutions expanded over the regions of Germany, Europe and North America.

Between the 1950s and 1980s Governments and donors focused on providing agricultural credit to small and marginal farmers in order to raise productivity and income. This kind of policy was given new shape by Dr. Muhammad Yunus who designed a credit program to serve the poor with his graduate students in Chittagong University in 1972. This piloted program later in 1983 named Grameen Bank in 2006 Nobel Foundation awarded Nobel Prize to Dr.Muhammad Yunus and his Grameen bank. Moreover this credit program has become a model for most of the low income countries those who are actively engaged in the process of eradicating poverty from their soil. In this regard country like India has been seriously pursuing this new model of microfinance over the last couple of years to eradicate poverty with the help of NABARD.

1.3 Micro Finance in India

New micro finance approaches have emerged in India over the past decade, involving the provision of thrift, credit and other financial services and products, with the aim to raise income levels and improve living standards. The most notable among these micro finance approaches is a nationwide attempt, pioneered by Non-Governmental Organizations and now supported by the state, to create links between commercial banks and NGOs and informal local groups. Micro finance through Self Help Groups (SHGs) is propagated as an alternative system of credit delivery for the poorest of the poor groups. Recognizing their importance, both Reserve Bank of India and National Bank for Agriculture and Rural Development (NABARD) have been spreading the promotion and linkage of SHGs to the banking system through refinance support and initiating other proactive policies and systems. This study attempts to give a comprehensive overview of all aspects of micro finance in India, its essence, the different institutions involved in its promotion, the different modes of delivery, its weakness and the challenges that lie ahead, the programme of micro finance that has made rapid strides in India. Micro finance is a participative model that can address the needs of the poor especially women members.

The origin of SHGs is from the brainchild of Grameen Bank of Bangladesh, which was founded by Mohammed Yunus. SHG was started and formed in 1975. Micro finance has become one of the most discussed subjects in the last two decades all over the world. Today micro finance programs and institutions have become increasingly important components of strategies to reduce poverty or promote micro and small enterprise development.

The Task Force on Supportive Policy and Regulatory Framework for Micro Finance has defined it as under: "Provision of thrift, credit and other financial services and products for very small amounts to the poor in rural, semi-urban or urban areas for enables them to raise their income levels and improve living standards". Micro finance is a participative model that can address the needs of the poor especially women members. It envisages the empowerment of the members by promoting their saving habits and extending bank loans to them.

Robinson (2001) defines micro finance as "small-scale financial services primarily credit and savings-provided to people who farm, fish or herd" and adds that it "refer to all types of financial services provided to low-income households and enterprises". Micro finance is recognized and accepted as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor with special emphasis on empowering women. In India, micro finance is generally understood but not clearly defined.

It has been approximately 25 years since the birth of micro finance with the founding of the Grameen Bank in Bangladesh by Professor Mohammed Yunus. The field has since spread with the adaptation and evolution of Prof. Yunus' ideas to various countries and context. The UN Year of Micro Credit in 2005 indicated a turning point for micro finance as the private sector began to take a more serious interest in what has been considered the domain of NGOs. The year has seen the launch of a wide array of programs throughout the UN system to raise public awareness about micro credit and micro finance. Micro credit is a powerful economic tool, expected to transform the social and economic life of the poor. The primary differentiator between micro finance and the conventional credit disbursal mechanism lies in the "join liability" concept. A group of individuals, (in most instances, all women) get together to form an association. The groups in India, are called "Self Help Group" (SHGs), all the members of which undergo a training programme on the basic procedures and system requirements. The members of the SHG save regularly, to minimize the financial burden. There are limits to the amount lent and the repayment is typically over 50 weeks.

1.4 Profile of Micro Finance in India

In terms of Poverty it is estimated that 350 million people live Below Poverty Line. The key components of micro finance are:

a) Micro Financing translates to approximately 75 million households.

b) Annual credit demand by the poor in the country is estimated to be about Rs 60,000 crores.

c) A cumulative disbursement under all micro finance programs is only about Rs. 5000 crores.

d) Total outstanding of all micro finance initiative in India estimated to be Rs.1600 crores.

e) Only about 5% of rural poor have access to micro finance.

f) Though a cumulative of about 20 million families have accepted access.

g) While 10% lending to weaker sections is required for commercial banks, they neither have the network for lending and supervision on a larger scale or the confidence to offer term loan to big micro finance institutions.

h) The non poor comprise of 29% of the outreach.

1.5 Need for Micro Finance

Micro finance aims at assisting economically excluded communities, to achieve greater levels of asset creation and income security at the household and community level. Access to financial services and the subsequent transfer of financial resources to poor women enable them to become economic agents of change. Women become economically self-reliant, contribute directly to the well being of their families, play a more active role in decision making and are able to confront systematic gender inequalities. Access to credit has long been considered a major poverty alleviation strategy in India. Micro credit has given women in India an opportunity to become agents of change. Poor women, who are in the forefront micro credit movement in the country use small loans to jump, start a long chain of economic activity.

Micro finance is accessing financial services in an informally formal route, in a flexible, responsive and sensitive manner which otherwise would not have been possible for the formal system for proving such services because of factors like high transaction cost emanating from the low scale of operation, high turnover of clients, frequency of transaction etc. (Vijay Mahajan and G. Nagasri, 1999). Micro finance and Self Help Group (SHG) must be evolved to see that SHGs don't charge high rates of interest from their clients and improve access to those who cannot sign by making their use through thumb impression. The current literature on micro finance is also dominated by the positive linkages between micro finance and achievement of Millennium Development Goals (MDGs).

Micro Credit Summit Campaign's 2005 report argues that the Campaigns offers much needed hope for achieving the Millennium Development Goals especially relating to poverty reduction. IFAD along with Food and Agriculture Organisation (FAO) and the World Food Programme (WFP) declared that it will be possible to achieve the eight MDGs by the established deadline of 2015 "if the developing and industrialized countries take action immediately" by implementing plans and projects, in which micro credit could play a major role.

1.6 Key Players of Micro Finance System

1.6.1 National Bank for Agricultural and Rural Development (NABARD):

NABARD is an apex institution, accredited with all matters concerning policy, planning and operations in the fields of credit for agriculture and other economic activities in rural areas in India. NABARD was established in 1982 as a Development Bank, in terms of the Preamble of the Act, "for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto". The corporate mission set by NABARD for making available microfinance services to the very poor envisages coverage of one third of the rural poor through one million SHGs by the year 2006-07. In November 1998 a high-powered Task Force on Supportive Policy and Regulatory Framework for Micro finance (henceforth referred to as the Task Force) was set up by NABARD at the instance of RBI. The objective of the Task Force were among others, to come up with suggestions for a regulatory framework that brings the operations of the Micro finance Institutions into the main stream, to access the possible role of self-regulatory organizations and to explore the need for a separate legal framework for micro finance.

In discharging its role as a **facilitator for rural prosperity** NABARD is entrusted with:

i. Providing refinance to lending institutions in rural areas.
ii. Bringing about or promoting institutional development, and
iii. Evaluating, monitoring and inspecting the client banks

Besides this **pivotal role, NABARD** also:

- Acts as a coordinator in the operations of rural credit institutions.
- Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development.
- Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development.
- Help the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development.
- Acts as regulator for cooperative banks and RRBs.

Major Activities

- Preparing of Potential Linked Credit Plans for identification of exploitable potentials under agriculture and other activities available for development through bank credit.
- Refinancing banks for extending loans for investment and production purpose in rural areas.
- Providing loans to State Government/Non Government Organizations (NGOs)/ Panchayati Raj Institutions (PRIs) for developing rural infrastructure.
- Supporting credit innovations of Non Government Organizations (NGOs) and other non-formal agencies.
- Extending formal banking services to the unreached rural poor by evolving a supplementary credit delivery strategy in a cost effective manner by promoting Self Help Groups (SHGs).
- Promoting participatory watershed development for enhancing productivity and profitability of rainfed agriculture in a sustainable manner.

- On-site inspection of cooperative banks and Regional Rural Banks (RRBs) and off-site surveillance over health of cooperatives and RRBs.

1.6.2 Reserve Bank of India

The earliest reference to micro credit in a formal statement of monetary and credit policy of RBI was in former RBI President Dr. Bimal Jalan's Monetary and Credit Policy Statement of April 1999. The policy attached importance to the work of NABARD and public sector banks in the area of micro credit. The banks were urged to make all out efforts for provision of micro credit, especially forging linkages with SHGs, either at their own initiative or by enlisting support of Non- Government Organization (NGOs). The micro credit extended by the banks is reckoned as part of their priority sector lending, and they are free to device
appropriation loan and saving products in this regard (Y.V. Reddy, 2005).

Considerable work had been done by RBI in this sector since 1991. In 1991-92 a pilot project for linking up SHGs with banks was launched by NABARD in consultation with the RBI. In 1994, the RBI constituted a working group on SHGs. On the recommendation of the SHGs would be reckoned as part of their lending to weaker sections and such lending should be reviewed by banks and also at the State Level Bankers' Committee (SLBC) level, at regular interval. Banks were also advised that SHGs, registered or unregistered, which engaged in promoting the saving among their members, would be eligible to open savings bank accounts with banks irrespective of their availment of credit facilities from banks.

Functions:

The functions are classified into three heads, viz.,

i. Traditional functions
ii. Promotional functions and
iii. Supervisory functions.

The detailed account of these heads is given below:

i. Traditional functions

- Monopoly of currency notes issue.
- Banker to the Government (both the central and state)
- Agent and advisor to the Government.
- Banker to the bankers.
- Acts as the clearing house of the country.
- Lender of the last resort.
- Custodian of the foreign exchange reserves.
- Maintaining the external value of domestic currency.
- Controller of forex and credit.
- Ensures the internal value of the currency.
- Publishes the Economic statistical data.
- Fight against economic crisis and ensures stability of Indian economy.

ii. Promotional functions

- Promotion of banking habit and expansion of banking systems.
- Provides refinance for export promotion.
- Expansion of the facilities for the provision of the agricultural credit through NABARD.
- Extension of the facilities for the **small scale industries.**
- Helping the Co-operative sectors.
- Prescribe the minimum statutory requirement.
- Innovation in the new banking business transactions.

iii. Supervisory Functions

- Granting license to Banks.
- Inspects and makes enquiry or determine position in respect of matters under various sections of RBI and Banking regulations.
- Implements Deposit insurance scheme.

- Periodical review of the work of the commercial banks**.**
- Giving directives to commercial banks.
- Control the non-banking finance corporation.
- Ensuring the health of financial system through on-site and off-site verification.

1.6.3 Self Help Groups

The origin of SHGs is from the brainchild of Grameen Bank of Bangladesh, which was founded by Mohammed Yunus. SHG's were started and formed in 1975. The establishment of SHGs can be traced to the existence of one or more problem areas around which the consciousness of rural poor is built and the process of group formation initiated. SHG are considered a new lease of life for the women in villages for their social and economic empowerment. SHG is a suitable means for the empowerment of women. Since SHG's have been able to mobilize savings from persons or groups who were not normally expected to have any 'saving' and also to recycle effectively the pooled resources amongst the members, their activities have attracted attention as a supportive mechanism for meeting the credit needs of the poor (NABARD, 2004).

The main **characteristics of SHGs** are as follows:

- The ideal size of an SHG is 10 to 20 members. (In a bigger group, members cannot actively participate).
- The group need not be registered.
- From one family, only one member. (More families can join SHGs this way).
- The group consists of either only men or of only women. (Mixed groups are generally not preferred).
- Women's groups are generally found to perform better.
- Members have the same social and financial background. (Members interact more freely this way).
- Compulsory attendance (Full attendance for larger participation).

Functions of SHGs

The following are the **main functions of SHGs**:

- The amount may be small, but savings have to be a regular and Continuous habit with all the members. ‘Savings first-Credit later’ should be the motto of every group member.
- The savings to be used as loans to members. The purpose, amount, rate of interest, etc. to be decided by the group itself. Enabling SHG members to attain loans from banks, and repaying the same.
- Every meeting, the group will discuss and try to find solutions to the problem faced by the members of the group.

Milestones in SHG- Bank Linkage Program

- 1993 Introduction of bulk lending scheme to NGOs by NABARD
- Studies on transaction cost conducted by external experts 1994 Extension of policy support by RBI-beyond Pilot Phase.
- Extension of support for capacity building of NGOs by NABARD.
- 1995 Setting up a working group on NGOs and SHGs to assess ground realities and identify operational issues in implementation of the programme.
- Extension of revolving fund Assistance to Federation of SHGs by NABARD.
- 1996 Mainstreaming SHG-Bank linkage by banks RBI and NABARD notifications.

SHG’s tackle operational issues by: i) Documentation, ii) Defaulters, iii) Size of the group, and iv) Service Area.

SHG’s organized **National level training consolation meets in 1997** focusing on:

- Thrust on trainers training.
- Carried out first experiment of RRBs as Self-Help Promoting Institution (SHPI).
- Up scaling training and awareness programs by NABARD and the banking system.
- Documentation of rating/grading practices for SHGs appraisal.

- Set up task force on supportive regularities and policy framework.
- Refinance requirements outgrow CFSF use of NABARD normal resources.
- Extension of RRB-SHPI-experiment to two more RRBs.
- Crystallization of NABARD's vision and mission.
- Building partnerships with governments.
- Deregulation of interest rates in SHG lending
- Emphasis on studying documentation and dissemination.
- Provision of promotional grants to NGO's for SHG.
- In 2000 there was a thrust on widening the range of SHPI. SHG credit linked crossed 1, 00,000.
- RBI advises banks to finance Microcredit organizations.
- Emphasis on flooding market with quality SHGs by NABARD
- Recognition of potential of farmers clubs as SHPI.
- Roping in rural volunteers as potential SHPI.

II. Outcome of National consultation meet on training to redesign training modules, contents and methodologies

- Collaboration with Indira Gandhi National Open University-for commencing a distance education programme on women's empowerment and SHGs.
- Introduction of State level Awards for best performance**.**
- Evaluation studies on impact on SHGs. Setting a separate fund for scaling up the program -micro finance development fund**.**
- Technical Collaboration with GTZ, Germany commenced.
- In 2001 crossed 2, 00,000 mark of credit linked SHGs**.**
- Thrust on backward states and districts.
- Extension of RRB-SHPI module to all RRBs**.**
- Diversifying capacity building approaches -videos, tools, visits.
- Accelerating promotional grant support to NGOs.
- Conceptualizing the use of technology in microfinance.
- Initiating efforts all developing a comprehensive management information system for SHG-Bank linkage program.

- Exposure visits to other micro finance initiatives for clients and banks.
- Launched studies to asses' savings pattern for the poor.

In 2002 SHGs intensified training interventions through exposure visits including:

- Focus on backward states/provinces**.**
- Encouraging and facilitating internalization of rating and self – rating techniques.
- Increasing role of government in internalizing the concept.
- Launching a pilot in IT in micro finance.
- Launching studies to understanding the commercial prospects of SHG linkage

1.6.4 **Micro Finance Institutions (MFIs)**

A range of institutions in public sector as well as private sector offers the micro finance services in India. Based on asset sizes, MFIs can be divided in to three categories:

- 5-6 institutions which have attracted commercial capital and scaled up dramatically within last five years. The MFIs which include SKS, SHARE and Grameen Style program but after 2000, converted into for-profit, regulated entities mostly Non-Banking Finance Companies (NBFCs).
- Around 10-15 institutions with high growth rate, including both News and recently form for-profit MFIs. Some of MFIs are Grameen Koota, Bandhan and ESAF.
- The bulk of India's 1000 MFIs are NGOs struggling to achieve significant growth. Most continues to offer multiple developmental activities in addition to microfinance and have difficulty accessing growth trends.

Private MFIs in India, barring a few exceptions, are still fledging efforts and are therefore unregulated. They secure micro finance clients with varying quality and using different operating models. Regulatory framework should be considered only after the sustainability of MFIs Model as a banking enterprise for the poor is clearly established.

1.6.5 **Non Government Organizations (NGOs**)

A non-governmental organization (NGO) is a legally constituted, non-governmental organization created by natural or legal persons with no participation or representation of any government. In the cases in which NGOs are funded totally or partially by governments, the NGO maintains its non-governmental status by excluding government representatives from membership in the organization. Unlike the term "intergovernmental organization", "non-governmental organization" is a term in general use but is not a legal definition. In many jurisdictions, these types of organization are defined as "civil society organizations" or referred to by other names

Objectives of NGOs are as follows:

- To promote Information collaborations and Constructive communication between NGOs, to develop effective partnership with each other.
- Networking for the access, sharing and dissemination of information
- Collaboration and Partnerships between NGOs themselves and with other organizations.
- Electronic Net-working to strengthen community organizations by boosting its knowledge base and its ability to share information and experiences with strategic allies and other partners in relevant field.
- Capacity building of grass root level NGOs, social workers through free online resources and information on a single platform.
- To serve non-profit organizations, charities, grassroots and community groups, educational and research institutions.
- Sharing of ideas among NGOs and development agents.
- Avail free, easy and instant access to information.

The Non Government Organizations involved in promoting SHGs and linking them with the Formal Financial Agencies (FFAs) perform the following functions:

Functions:

- Organizing the poor people into groups.
- Training and helping them in the organizational, managerial and financial matters.
- Helping them access more credit and linkage with formal financial agencies.
- Channelizing the group effort for various development activities.

- Helping them in availing opportunities, widening the options available for economic development.
- Helping them in sustaining the group effort independently even after withdrawal of the NGO.

1.7 Chapterisation of the Thesis:

The Thesis has been organized into five chapters. In nutshell, the gist of the chapter is as follows.

Chapter I

The history of microfinance in India and all over the world is discussed in first chapter. Besides this, structure of SHGs under NABARD's linkage programme and SGSY scheme, physical and financial growth of SHGs in India under both schemes has also been discussed in this chapter.

Chapter II

The review of literature related to impact and analyses of microfinance in India is discussed in chapter second. The review is followed by a summary of research studies. This helps in identifying the areas of research.

Chapter III

In third chapter, methodology of the study has been discussed. Basically this chapter explains in detail about the relevance of the adopted methodology, in addition the objectives of the study related to micro financing in India have been illustrated in this chapter. Quantitative growth techniques adopted are explained in this chapter.

Chapter IV

The investigation of region wise/state wise/agency wise micro finance dispersion in India has been discussed in chapter four. Region wise/State wise /Agency-wise analysis has also been done to bring out the real picture and scenario which is going on in India. This chapter provides advance knowledge of micro financing across different states by analyzing the state wise performance. The SHG's and its working across different states as well its growth, various yojanas, schemes and financing of various micro financing institutions by banks is discussed in this chapter.

Chapter V

In chapter five, conclusions and major findings of the study are reported. This chapter also covers the testing of hypotheses. This chapter also explains the Limitations of the study and finally focuses on identifying the future areas of research.

CHAPTER -2

REVIEW OF LITERATURE

2. Introduction

In this chapter the existing literature on the issues and impact of microfinance has been reviewed. There are several studies conducted in this area in last couple of years. In this chapter the first section 2.1 covers studies which are conducted to analyze micro finance and its activities in various states of India. Section 2.2 covers the conclusion of the studies conducted by various scholars in relation to micro financing in India. Finally the last section, 2.3 covers the rationale of the study.

2.1 Studies analyzing the Micro Financing in India

Seibel and Parhusib (1990) mentioned in their study that expansion of credit coverage through state interventions approach was based on the premise that rural micro entrepreneur are enable to organize themselves. They need subsidized credit for increasing their income and are too poor to serve.

The study by **Yaron (1994)** found that microfinance is much more than microcredit, stating:" Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards". The Self Help Group promoters emphasize that mobilizing saving is the first building block of financial services. Micro Finance programs have rapidly expended in recent years. Some examples are: Membership of Sa-Dhan (a leading association) has expended from 43 to 96 community development. The CARE CASH program took on the challenge of working with small NGO-MFIs and community owned-managed microfinance organization.

The study also reveals that results in term of microfinance outreach can be identified that represents achievements that are far beyond any ambitious out reach out come that could have been imagined only fifteen years is a very short span of time.

According to Otero (1994) to be successful, financial intermediaries, providing services and generating domestic resources must have the capacity to achieve excellent repayment and generate domestic resources. They must have the capacity to achieve access to clients in order to do so MFI need to find ways to cut down on their administrative cost. This can be done through simplified and decentralized loan applicating approval and collection processes, hence reduce cost.

Barry (1996) is of the view that MFIs to become financially viable, self sustaining and interegal to the communities in which they operate, must have the potential to attract more resources and services to clients. Despite the focus of MFI's, only about 2% of the suffering world and 500 million small entrepreneurs are estimated to have access to financial sector.

Benjamin and Piprek (1997) have traced a traditional approach in rural finance. Under this approach the key problem area visualize the rural finance market included a lack of market in rural areas, absence of moderate technology in rural areas and prevalence of unspurious money lenders. A considerable of body of literature has accumulated and monitoring the development of micro finance sector.

Borbora and mahanta (2000) analyse the impact of micro financing through SHGs taking the case of Rashtriya Grammen Vikas Nidhi in Assam and found that 80% of the SHG members were from poor families, and belonged to the age group of 8 to 50 years. This was the case for both savings and taking loan. The repayment performance was about 91% and the program has been successful in expanding outreach covering last number of groups

Singh (2001) has undertaken a study in Uttarpradesh comparing the pre and post situations of women SHG's. He found that the average value of assets increased by 46% and the annual income per household increased by 20% between pre and post SHG periods. The borrowing for consumption purpose was also done during pre SHG, but it was completely absent in the post - SHG situation. The important benefit of SHG's is compulsory savings, even cutting the necessary expenditures. But the commercial banks are prompt in linking SHG's with loan.

A study conducted by NABARD (2002) covering 560 households from 223 SHG's in 11 states of India elucidated that there has been positive result in the standard of living of SHG's members in case of asset owenership.saving and borrowing capacity , income generating activities and income levels. The average value of asset including livestock and consumer durable has increased considerably. The housing condition of the people has improved, from the mud walls to thatched roofs to brick walls and tiled roofs. Almost all members and the members developed saving habit in post SHG. The trend of consumption loans has come down; in contrast the loan for income generating purpose has increased considerably during the pre SHG period.

The study by Pubazhendi (2002) aims to shed light at the process of micro financialization in particularly at the spatial dimension and dynamics. The results highlight that spatial variation and changes in development of micro financing sector can enhance our understanding of complex process of current regional development in India. Linking of formal credit investment to borrowers through a group approach has been recognized as a supplementary mechanism for provided credit report to the real poor.

The study by Sapovadia (2007) explores that the typical micro finance clients are self employed, household-based entrepreneurs and low income persons that don't have access to formal financial institutions and also lack business skills. Micro entrepreneurs face many huddles in getting started. They sometimes lack the skills necessary to manage the financial aspect of their business line and in large number of cases they indulge in particular business by default. Various micro enterprise development programs have helped micro entrepreneurs in achieving great success and growth. These micro entrepreneur development programs have immensely helped micro entrepreneurs, who look for collateral security, or are in capable to find such collateral needed to secure alone or those who have low credit. They providing them with training support, help in developing business plan, and assistance in building their business. Therefore the study reveals that successful micro entrepreneurs have contributed much to society by creating wealth, economic assets and jobs.

The study of Sinha (2007) reveals that micro finance sector has seen a series of critical developments in India. MFI's have started to leverage the new found management expertise to achieve scale and spread their operations well beyond their traditional operational areas. Rating data from a large sample of lending MFI's shows that these have recorded high growth rate to the order of 80% per annum in terms of number of borrowers and around 40% per annum in terms of portfolio, reaching from 300,000 to one million clients each. The study also reveals that expansion has either to less developed areas of the country viz,-orissa, Jharkhand, Rajasthan, Madhya Pradesh, Tripura, Assam or to areas such as Maharashtra that also have substantial numbers of low income families in some regions even if their overall development indicators are income families in some regions even if their overall development indicators are not as low as those for the other states.

Sinha (2007) reveals that self-help groups (SHG's) are started by non-profit organization (NGO's) that generally have broad anti-poverty agenda. Financing through SHGs linked in 2007 it represents an increase of 31% over the cumulative number of SHG's ever linked and an increase of 11% over the number of new SHG's linked in 2006.

The SBLP bank linkage program expanded by 37% in 13 priority states. These statesaccount for 67% of rural poor. These states were identified by NABARD in 2005 for special efforts and location-specific strategies. Growth was particularly rapid in Maharashtra. As a result, the western region experienced, the fastest growth of all the regions, and its share in total number of poor. The two regions which have the most catching up to do are the central and eastern regions, whose share of groups lag behind their share of the poor by 21 and 11% points respectively.

Microfinance, the supply of banking services to the poor, is high on the public agenda and is attracting increased interest from academics. The development-enhancing aspect of micro finance has been recently recognized with the Nobel prize awarded to Mohammad Yunus and Grameen Bank . Microfinance is also increasingly becoming an investment opportunity. The total stock of foreign capital investment in microfinance more than tripled between 2004 and 2006, to US $4 billion with the establishment of 40 new specialized international investment funds**.(Roy,2008)**

Hans (2008) analyzed that credit is one of the critical inputs for economic development. Its timely availability in the right quantity and at an affordable cost goes a long way in contributing to the well-being of the people especially in the lower rungs of society. The study reveals that the extent of exclusion from credit markets is much more, as number of loan accounts constituted only 13 percent of adult population. Regional differences are significant with the credit coverage at 25 percent for southern region and as low as 7.7 and 9 percent respectively in North Eastern and Central Regions.

Within India, the Micro Finance Revolution in western and southern India has received most attention, both in media as well as academic as well as academic research. Some prominent MFI's in these are namely SHARE, BASIX, SEWA, MYRADA and PRADHAN. Andhra Pradesh in particular has witnessed remarkable growth in micro finance activities and its success stories have been widely reported well. In comparison eastern India has not enjoyed the lime light in the stage of micro finance.

2.2 Summary Results of Studies on Micro Financing in India

Year	**Author**	**Issues covered**
1990	Seibel and Parhusib	-expansion of credit coverage through state intervention. -need of subsidized credit for rural micro entrepreneur.
1994	Yaron	-micro financing is much more than micro credit. -provision of thrift, credit and other financial services and products to poor. -mobilizing saving as first building block of financial services.
1994	Otero	-financial intermediaries providing services and generate domestic resources. -MFI need to cut down administrative cost. -simplified and decentralized loan applicating approval and collection processes.
1996	Berry	-MFIs finally viable, self sustaining and integral to the communities. -potential to attract more clients.
1997	Benjamin and Piprek	-traditional approach in rural finance. -key problem area visualized for rural finance market. -need for monitoring the development of micro finance sector.
2000	Borbora and Mahanta	-analyzed impact of micro finance through SHGs. -found 80% of SHG members were from poor families. -the repayment performance was about 91%.
2001	Singh	-undertaken study in U.P comparison of the pre and post SHG situation of women SHG. -Average value of assets increased by 46%. -annual income per household increased by 28%.
2002	Pubazhendi	-micro financialization at spatial dimension. -findings on spatial variation and changes in development of micro financing sector. -linking of formal credit investment to borrowers through

		group approach.
2007	Supovadia	-typical micro finance clients-self employed, household and low income persons with no access to formal financial institution -various micro enterprise development programs have helped micro entrepreneurs. -successful micro entrepreneur have contributed much to society by creating wealth, economic assets.
2007	Sinha	-series of critical development in micro finance. -MFI's have started to leverage their new found management enterprise. -MFI's have recorded high growth rate of order of 80% per annum -reaching 300,000 one million clients. -expansion either in less developed areas
2008	Hans	-analyzed credit as one of critical input for economic development. -extent of exclusion from credit market is much more. -a number of loan accounts constituted only 14% of adult population. -regional differences are significant with credit coverage at 25% for southern region. -micro finance institutions bringing micro finance revolution are: SHARE, BASIX, SEWA, MYRADA and PRADHAN.

2.3 Rationale of the Study:

From the review it can be seen that most of the studies are either too aggregative or wherever disaggregation has been done, it has been done with reference to one aspect. Most of the studies have been done covering the institutional level micro financing so there is enough scope of research in this area. Keeping this in view the present study has been undertaken to cover the micro financing in India for the period 1994 to 2007. Further the period has been divided in to two sub- periods. Period I, 1994-1999 and Period II, 2000-2007 to find out whether 2000 onwards period has been associated with increase in micro financing activities. The study has organized in such a way, that it helps explain in brief the micro financing activities in India, it also provides an insight of spatial distribution of MFI's in India. This study tries to cover the state-wise, agency-wise and region-wise growth to provide a complete view of Micro Financing activities in India.

CHAPTER-3

RESEARCH DESIGN AND METHODOLOGY

3. Introduction

The methodology adopted to accomplish the objectives of the study has been elaborated in this chapter. The background of microfinance activities in India as well as insight of spatial distribution of MFI's in India has been discussed to provide benchmark for evaluation exercise. The main objectives of the study are to study the trends of micro financing in India across major states of India as well to study the major factors affecting Micro Financing in India. Section 3.1 covers the objectives of the study. Section 3.2 covers the hypotheses proposed in the study. Section 3.3 explains the data sources and section 3.4 explains the research methodology.

3.1 Objectives of the Study

The study has been undertaken with the following objectives:

- To analyze the trends of micro financing in India in the period 1994-2007, as well as for two periods, period I 1994-1999 and period II, 2000-2007.
- To analyze the trends of micro financing across major states of India.
- To study the factors affecting Micro Financing.

3.2 Hypotheses

- Trend rates of growth of micro financing in the post-2000 period may be higher than that of 1994-1999.
- The states with low rate of growth of NSDP may have higher rate of growth of micro finance.

3.3 Data sources

The study is basically based on secondary data. The secondary data has been collected from various sources like journals, books, manuals, and reports of the state concerned. Data collected from secondary sources have been interpreted with the help of statistical devices. The study has covered Micro Financing activities in different states of India during the period from 1994-2007, actually focusing on growth of linked SHGs through microfinance and loans disbursed to different agencies and SHG's by different banks. The main source of data has been NABARD.

3.4 Research Methodology

With a view to accomplish the aforesaid objectives of study, the trend rates of growth rates have been calculated for important variables covered in the study. The growth of various micro finance agents have also been analyzed with the help of annual growth rates

$$Y= ab^t$$

The annual rates of growth have been calculated by using the Semi log Model and applying the method of ordinary least square (OLS) as explained below:

$$\text{Let } Y= ab^t = (1+r)^t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots..(i)$$

Therefore $\log Y= \log (ab^t) = \log a +t (\log b)$

where Y_t= t^{th} observation on the variable Y for which rate of growth is to be calculated.

t= Time variable taking n values 1,2,3,………..,n.

r= rate of growth.

a and b are parameters of original model (i) and A and B are the parameters of transformed model (ii).

From (ii), a and b are calculated as follows:

Log a= A, a= Antilog A

Log b= B, b= Antilog B

Since (1+r) = b,

Since rate of growth is calculated in percent terms

R= (b-1)*100 = (Antilog B-1)*100.

The study has also used Pearson correlation to find out relation between Number of SHG's and Bank Loans taking the data for entire period under consideration.

The two indices penetration of microfinance (MPI) and Intensity of penetration of microfinance among poor (MPPI) have been presented in the 2009 report for the first time. The intensity of penetration of microfinance (MPI) has been computed by dividing the share of the state in microfinance clients by share of population. Intensity of penetration of microfinance among poor (MPPI) has been derived by dividing the share of the state in microfinance clients by share of population.

Three agencies viz. Commercial banks, RRB's and Cooperative banks that focus on enhancing the SHG's in India have been taken up to study the help provided by them in development of micro- financing in India. Agency-wise credit linkages and agency wise loan disbursements have been taken for analysis. Recovery Performance of Bank Loans to SHGs has also been covered.

Growth of SHG's in 13 Priority States have been analysed for the period 2002-2007 to understand the present scenario. These states are: Assam, Bihar, Chhattisgarh, Gujarat, Himachal Pradesh, Jharkhand, Maharashtra, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, Uttaranchal and West Bengal.

The next chapter covers the estimated the growth and trend of various micro- finance agents in various states of India by adopting the above mentioned techniques.

CHAPTER-4

DATA ANALYSIS AND INTERPRETATION

4. Introduction

This chapter covers the concept of SHG in section 4.1 and explains the models of SHG in section 4.2. Section 4.3 covers the Swarnajayanti Gram Swarozgar Yojna. Section 4.4 explains the Micro Penetrartion Index (MPI) and Micro Poverty Penetration Index (MPPI). Kisan Credit Card Scheme and Capacity Building for Partner Institutions are dealt with in Section 4.6 and 4.7. Progress of SHG Bank Credit Linkages In Under Served States and Regions is covered in section 4.8. Finally Section 4.9 covers the present scenario, followed by Growth in Credit linkages of SHG's.

4.1 Self Help Group (SHG)

SHG is an informal group comprising of average group of 15 people from a homogeneous class. They come together for addressing their common problems. They are encouraged to make voluntary thrift on regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial inter mediations including prioritization of needs, setting terms and conditions, and accounts keeping. This gradually builds financial discipline in all of them. Further they also learn to handle resources of a size that is much beyond individual capacities of any of them. The SHG members begin to appreciate the fact that resources are limited and have a cost. Once the group shows this mature financial behavior, banks are encouraged to make loans to SHG inserting multiples of collateral at market interest rates. The groups continue to decide the terms of loans to their own members. Since the groups own accumulated savings are part and parcel of the aggregate loans made by the groups to their members, peer pressure insures timely repayments. Apart from financial help at the time of need, the group provides social security to its social members. Broadly, there are three types of SHG models under NABARD that have been adopted to provide credit to the poor people in rural areas of the country. These models are explained below:

4.2 Models of SHGs Under NABARD

Model-1: SHGs formed and financed by banks

With regard to this model, banks play a key role in encouraging people to form SHGs. Banks themselves take the work of forming and nurturing the groups, opening their accounts and providing them bank loans. Up to March 2006, 20% of the total members of SHGs financed were from this category.

Model-2: SHGs formed by formal agencies other than banks, NGOs and others, but directly financed by banks

This model continues to have the major share, and 74% of the total number of SHGs financed up to 31st march 2006 fall under this category. Here NGOs and formal agencies in the field of micro finance act only as facilitators. They facilitate organizing, forming and nurturing of the groups, and train them in thrift and credit management. Banks give loans directly to these SHGs.

Model -3: SHGs financed by banks using NGOs and other agencies as financial intermediaries

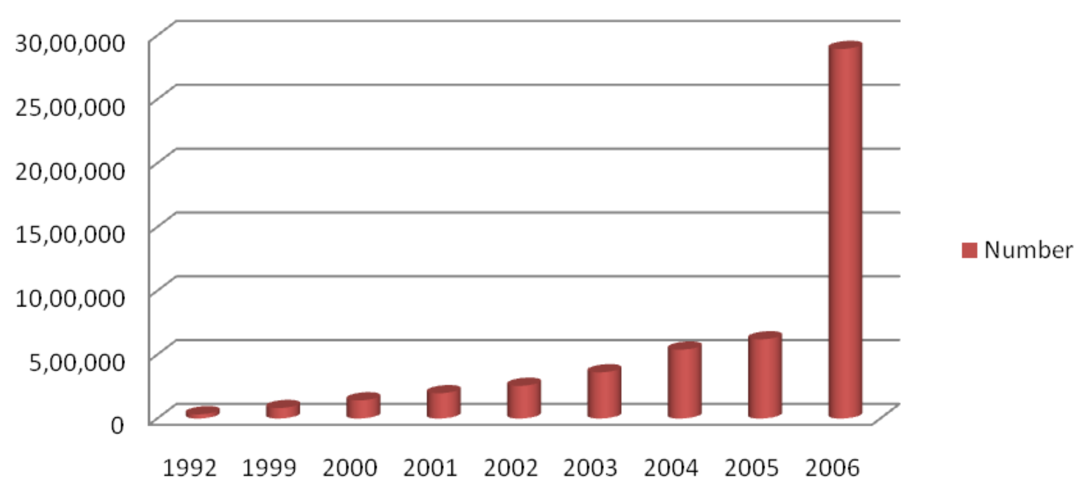
This is the model were the NGOs take on an additional role of financial intermediation in areas were the formal banking system faces constraints. The NGOs are encouraged to approach a suitable bank for bulk loan assistance. In areas where a very large number of SHGs have been financed by bank branches, intermediate agencies like federation of SHG are coming up as a link between bank branch and members of SHGs. These federations are financed by banks which in turn finance their members of SHGs.

NABARD, since 1992 has been providing loans to rural poor under all these models at a very large scale all over India.

TABLE 4.1: <u>Progress of SHG Bank linkage in India</u>

Year	Bank Loan (Rs crores)			
	Number	Growth (%)	Amount	Growth (%)
1992	32,995		57	
1999	81780	147.86	136	138.59
2000	141950	73.58	288	111.76
2001	197653	39.24	545	89.24
2002	255882	29.46	1022.34	87.59
2003	361731	41.37	1855.33	81.48
2004	539365	49.11	2994.25	61.39
2005	620109	14.97	4499.09	50.26
2006	2894505	366.77	12366.00	174.86

Fig. I: SHG's financed by Banks Number



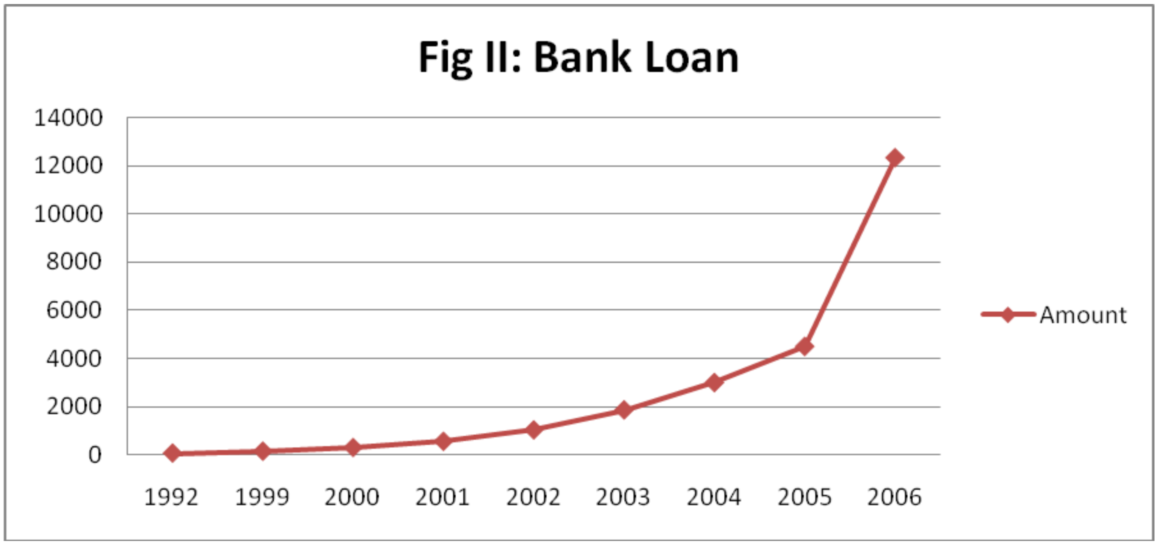


Fig I and Fig II reflects the progress of SHG's that are financed by banks. It is very evident from the data that a maximum of 2894505 SHG's have been linked by banks in 2006. The above data also shows the support extended by various banks investing a total of 20111.32 crore of rupees in financing the SHG's from 1992 ~2006.

Table 4.2: <u>Growth of SHG's in Pre and post Liberalisation Period</u>

Period	No of SHG	Growth%
1994-95	1502	-
95-96	2635	75.43
96-97	3841	45.77
97-98	5719	48.89
98-99	18678	226.60
99-00	81780	337.84
2000-01	141950	73.58
01-02	197653	39.24
02-03	255882	29.46
03-04	361731	41.37
04-05	539365	49.11
05-06	620109	14.97
06-07	2894505	366.77
Growth rate Period I	**2.37**	
Period II	**8.94**	
Total period	**4.65**	

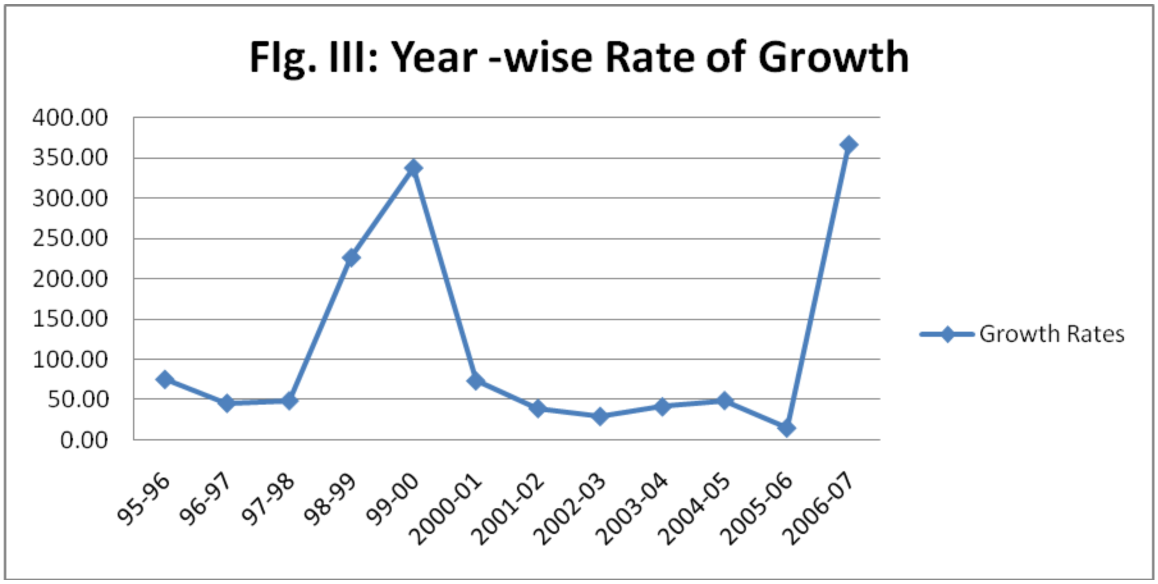


Table 4.2 clearly signifies the growth trend of SHG's. It is evident that from 1994-95 to 06-07, there has been an exponential increase in the number of SHG'S. The year-wise trends reflect the highest growth in 2006-07. The growth rate has been higher in period II, the post -2000 era as compared with period I, post- 1994 period.

TABLE 4.3: <u>Bank Loan Disbursed To SHGs</u>

Period	Bank Loan (In Crores)
1994-95	1.79
95-96	3.62
96-97	5.78
97-98	11.92
98-99	33.31
99-00	135.91
2000-01	287.89
01-02	545.47
02-03	1022.34
03-04	1855.53
04-05	299.25
05-06	4499.09
06-07	12366.00
Growth rate Period I	2.33
Period II	8.88
Entire Period	4.75

Banks have extended an appreciable amount of support in building SHG's to enhance micro - financing in India. A total of 21067.9 crore of rupees have been invested by banks in the period 1994 ~ 2007, with maximum investment done in the year 2006-07 of 12366 crore of rupees. This also reflects that the development in number of SHG's speeded up from 2005 ~07. The reason is well predictable that in the initial years (1994-99) of formation of SHG, the trust developed by banks was less and that trust increased over a period of time which is evident from an increase in rate of investment. The annual rate of growth of bank Loans increased from 2.33% in Period I to 8.88% in Period II, i.e., post-2000 onwards period. The correlation between Number of SHG's and bank loan is .973 suggesting high correlation between the two and it is significant at the 0.01 level (1-tailed).

4.3: SHG Bank linkage programs (SBLP)

The micro finance movement has been gaining momentum in India in recent years and it has developed into an important delivery mechanism for reaching the poor. At present, Swarnajayanti Gram Swarozgar Yojna (SGSY) is the most important program.

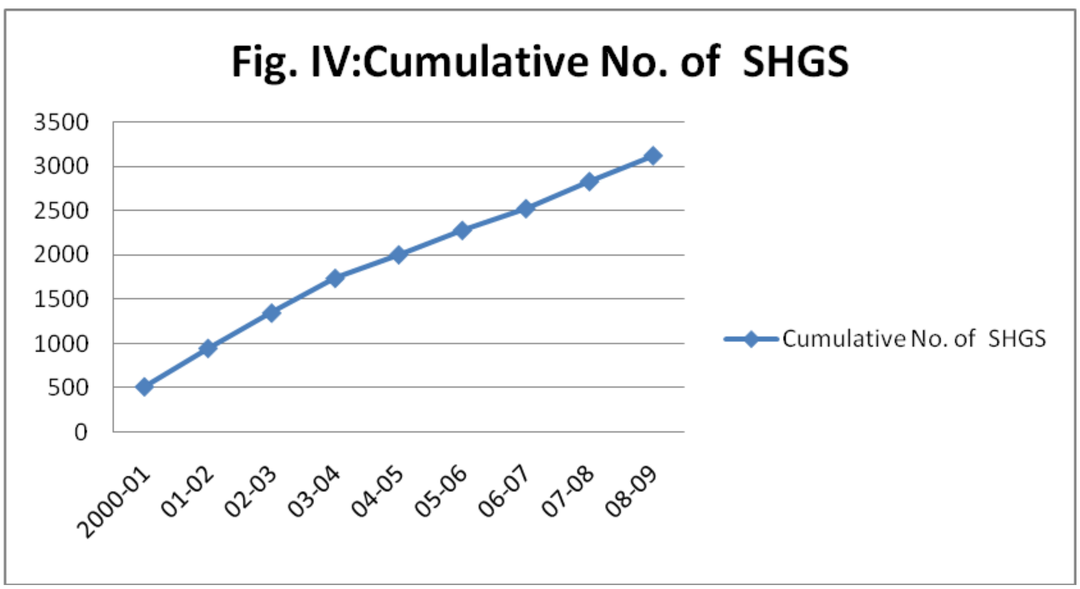
4.3.1: Swarnajayanti Gram Swarozgar Yojna (SGSY)

SGSY program for self-employment of the poor has been an important component of the anti-poverty programs implemented through government initiatives in the rural areas in India. SGSY is the major on-going programme for the self-employment of rural poor at present. The program was started with effect from 01.04.1999. The basic objective of the SGSY is to bring the assisted poor families (Swarozgaris) above the poverty line by providing them income-generating assets through a mix of bank credit and governmental subsidy. The program aims at establishing a large number of micro enterprises in rural areas based on the ability of the poor and potential of each area.

TABLE 4.4 Physical progress under Swarnajayanti Gram Swarojgar Yojana (SGSY)

Period	Self Help Group Formed (SHG)	Cumulative No. of SHGS
1999-00	292	-
00-01	223	515
01-02	434	949
02-03	399	1348
03-04	392	1740
04-05	266	2006
05-06	276	2282
06-07	246	2528
07-08	306	2834
08-09	292	3126
TOTAL	**3134**	**6260**

The SGSY scheme is the major on -going program for the self employment of rural poor at present. The above data shows the SHG's developed under this scheme. A total of 6260 SHG's have been formed in the period ranging from 1999 ~ 2009. Maximum no. of SHG's has been formed in year 01-02. The pictorial representation shows that there has been an increasing trend of formation of SHG's.



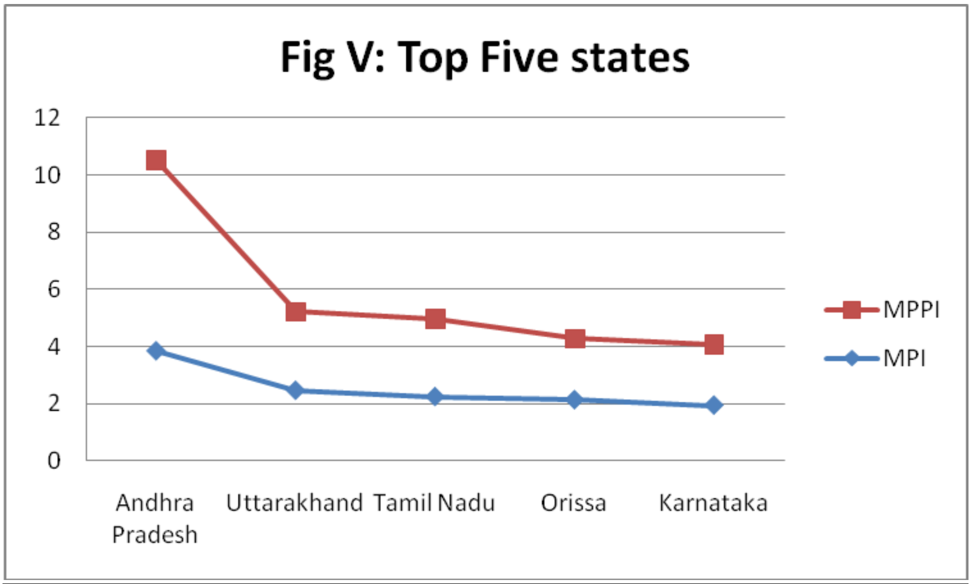
4.4: Micro Penetration Index (MPI) and Micro Poverty Penetration Index (MPPI)

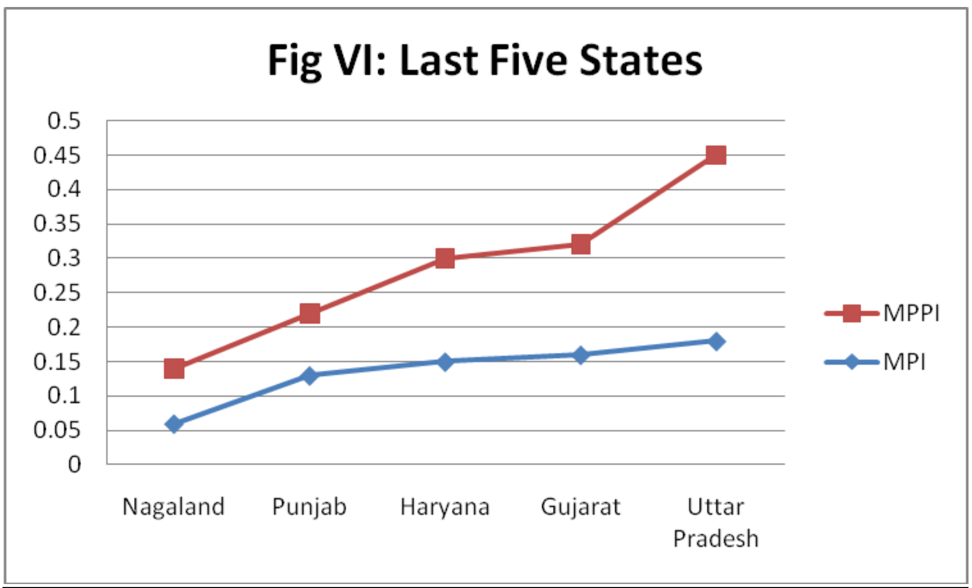
The two indices penetration of microfinance (MPI) and Intensity of penetration of microfinance among poor (MPPI) have been presented in the 2009 report for the first time. The calculation of the index has been carried out as follows:

The number of credit of MFIs and members of SHGs with outstanding loans to banks are computed and each state's share to the country's total micro finance clients has been worked out. The intensity of penetration of microfinance (MPI) has been computed by dividing the share of the state in microfinance clients by share of population. Intensity of penetration of microfinance among poor (MPPI) has been derived by dividing the share of the state in microfinance clients by share of population. Since the microfinance clients are in the numerator, a value of more than 1 indicates that clients acquired are more than proportional to the population. Higher the score, i.e., more than 1, the better is the performance. Lower the score from 1 which is the par value, poorer is the performance on the state.

Table 4.5: Ranking of Selected states based on MPI and MPPI (2009)

Top Five States		
Name of The State	**MPI**	**MPPI**
1. Andhra Pradesh	3.84	6.68
2. Uttarakhand	2.46	2.75
3. Tamil Nadu	2.24	2.73
4. Orissa	2.13	2.14
5. Karnataka	1.94	2.13
Last Five States		
1. Nagaland	0.06	0.08
2. Punjab	0.13	0.09
3. Haryana	0.15	0.15
4. Gujarat	0.16	0.16
5. Uttar Pradesh	0.18	0.27





The above Fig V and VI represent the trends of top -5 (Andhra Pradesh, Uttarakhand, Tamil Nadu, Orissa, Karnataka) and last 5 (Nagaland, Punjab, Haryana, Gujarat and Uttar- Pradesh) on the basis of MPI and MPPI. Andhra Pradesh with MPI of 3.84 and MPPI of 6.68 is the best performing state and Nagaland has been the worst performing state with MPI of 0.06 and MPPI of 0.08.

4.5: Kisan Credit Card Scheme

The instrument of Kisan Credit Card (KCC) is one of the key products developed to improve the farmer's accessibility to bank credit to simplify credit delivery mechanism and provide more flexibility in use of credit. Model scheme of Kisan Credit Card formulated by NABARD in 1998-99 is being implemented in all the States and Union territories. About 1.94 crore Kisan Credit Cards have been issued up to 31 October 2001 by the banks throughout the country. It is envisaged that every eligible agricultural farmer would be provided with a Kisan Credit Card by 31st March, 2004.

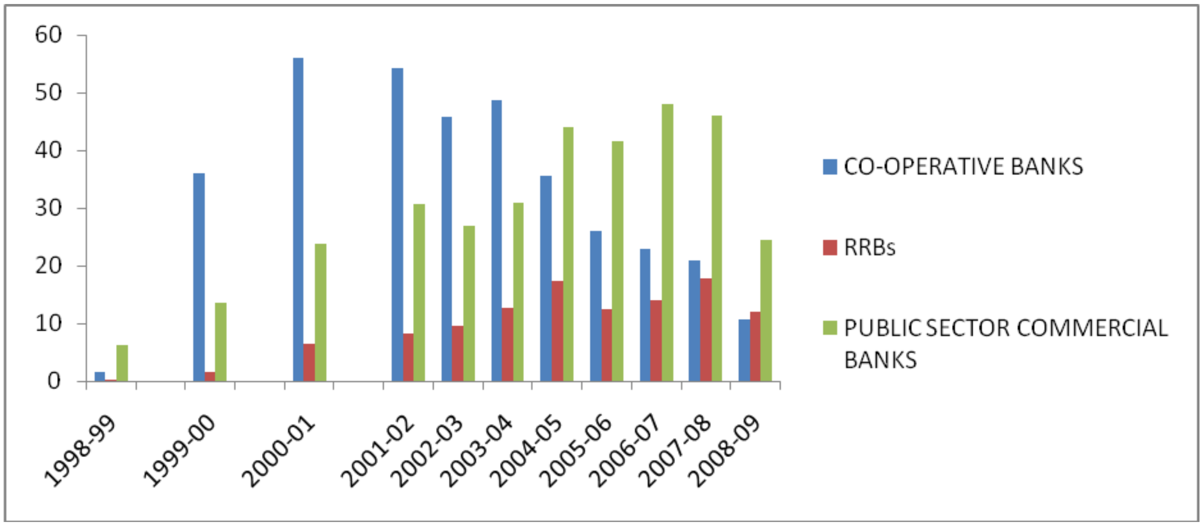
As a pioneering credit delivery innovation, Kisan Credit Card Scheme aims at providing adequate and timely credit support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible, hassle free and cost effective manner.

Table 4.6: Agency-wise Kisan Credit Card Scheme (KCCs) Issued

Period	**Co-Operative Banks**	**Growth %**	**RRBs**	**Growth%**	**Public Sector Comm. Banks**	**Growth%**	**Total (Lacs)**	**Growth%**
1998-99	1.56	-	0.06	-	6.22	-	7.84	-
1999-00	35.95	95.66	1.73	96.53	13.66	54.46	51.34	84.72
2000-01	6.14	35.96	6.48	73.3	23.9	42.84	86.52	40.66
2001-02	54.36	-3.27	8.34	22.3	30.71	22.17	93.41	7.37
2002-03	45.79	-18.71	9.64	13.48	27	-13.74	82.43	-13.32
2003-04	8.78	6.12	12.75	24.39	30.94	12.7	92.47	10.85
2004-05	5.56	-37.17	17.29	26.25	43.95	29.6	96.8	4.47
2005-06	25.98	-36.87	12.49	-38.43	41.65	-5.52	80.12	-20.81
2006-07	22.97	-13.1	14.06	11.16	48.08	13.33	85.11	5.86
2007-08	20.91	-9.85	17.73	20.69	46.06	-4.3	84.7	-0.48
2008-09	0.63	-96.7	12.06	-47.01	24.57	-87.46	47.29	-79.1
TOTAL	358.63	97.03	112.63	89.29	336.74	92.7	808	94.14

Source: NABARD

Fig VII: Agency-wise Kisan Credit Card Scheme (KCCs) Issued



4.6: Capacity Building For Partner Institutions

There are various broad themes under the capacity building needs likewise there is step by step promotion of SHG's and federation and there are visionary and business development plans and systems like book-keeping, financial management as well as orientation and training on: i) Governance ii) systems iii) self regulation iv) accessing government programs.

Over the years, the National Banks continued to provide financial and logistic support by designing, conducting, evaluating and modifying training programs/modules for the benefit of officials of banks, NGOs and government agencies to enhance their effectiveness in the field of microfinance. In all, 2,053 awareness creation and capacity building programs have been organized by the Banks covering about 1, 40,044 SHG members countrywide, to inculcate skills for managing thrift and credit. The following capacity building activities have been supported by the National Banks:

- A grant of Rs. 30 lakh was sanctioned to the Sahakara Rural Development Agency (SAHARDA) for training SHG members.
- Mission Shakti., a programme of the Orissa Government, which envisaged promotion of one lakh SHGs by 2004, was also provided capacity building support by the National Bank.

- As many as 841 special awareness/refresher Programs (benefiting 34,746 participants) for bankers, CEOs/RRB chairmen, branch officials and field level functionaries were organized on SHG-bank linkage program.
- Twelve Trainers. Training Programs, benefiting 292 faculty members of different banks were organized.
- Exposure/field visits (251) to banks pioneering in microfinance activities were organized for 4,399 bank officials/NGOs for first hand interaction with SHG members.
- In all, 198 programs, including one exclusive workshop for 19 senior IAS officers, were organized for 7,397 government officials/elected members of PRIs to sensitise them on microfinance and the SHG bank linkage program.

Table 4.7: Cumulative Growth in SHG Bank Linkage

Region/state	**1999**	**2000**	**2001**	**2002**	**2003**
NER	93	196	477	1490	4069
KBK region	526	1425	4192	9	18,934
Orissa	2018	4068	8888	20553	42,272
Bihar	496	1910	4592	3957	8,161
Jharkhand	_	_	_	4198	7,765
Uttar Pradesh	2812	12953	23152	33114	53,696
Uttaranchal	_	_	_	3323	5853
Rajasthan	710	1941	5616	12564	22,742
Madhya Pradesh	733	2303	5699	9981	15,271
Chhattisgarh	_	_	_	3763	6,763
All India	**32,995**	**1,14,775**	**263825**	**4,61,478**	**7,17,360**
Source : Annual report 2002-2003 NABARD					

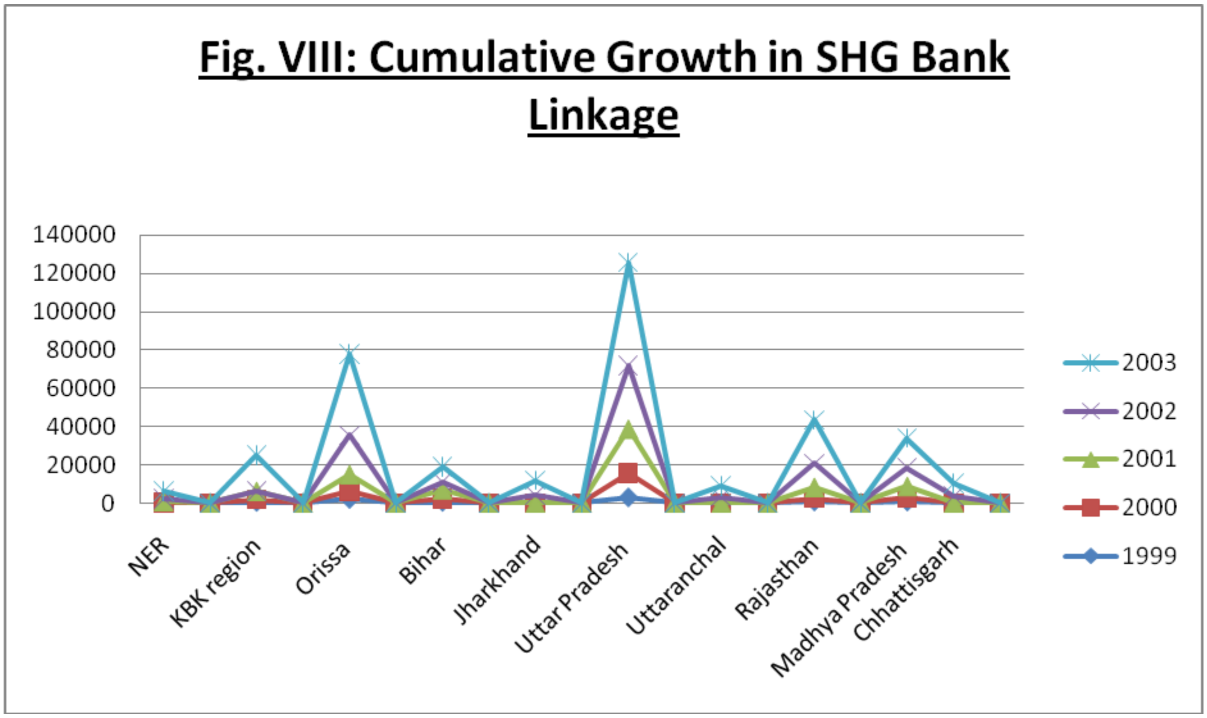


Fig VIII depicts the trends of SHG linkage with banks. The graph depicts that among the states, Uttar Pradesh is the state with maximum number of SHG's linked with the banks. The weakest among all the regions is North Eastern Region (NER) which needs to improve upon development of people and systems in order to enhance the number of SHG's that could cater to Micro financing.

In order to reduce regional imbalances and enhance the coverage of the SHG-bank linkage program, special focus was given to the NER and backward areas like Kalahandi-Bolangir-Koraput (KBK) Region in Orissa by entering into collaboration with a large number of small NGO - partners and microfinance agencies. In the NER, 2,579 SHGs were provided with bank loans during the year, bringing the cumulative number of credit linked SHGs to 4,069 up to March 2003. Similarly, 9,065 SHGs were provided with bank loans during the year in the backward areas of KBK region in Orissa, bringing the cumulative number of SHGs credit linked in this region to 18,934 as of March 2003. All the three RRBs in the KBK region were supported with grant assistance of Rs 11.51 lakh for promotion of 975 SHGs and credit linkage of 750 SHGs over a period of three year. The promotional efforts launched in the last few years have resulted in positive trends in many states/regions where the programme had not grown significantly in earlier years.

4.7: <u>Progress of SHG Bank Credit Linkages in under served states and regions</u>

Though SHG movement is growing at a phenomenal pace and resulting in far reaching benefits to its members and also rural bank branches, it is facing a number of serious challenges. All these challenges could be summarized into two major challenges. These are:

i. Uneven growth of SHGs in different parts and states of the country.
ii. Uneven quality of SHGs across the country and issues related to their sustainability.

Because of early start and proactive support of state governments in the southern states, the SHG movement has been far ahead of other states. In March 2001, 71% of the credit linked SHGs were from southern region consisting of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu. Alarmed by the wide interstate/ regional variations, NABARD started special focus on 13 under served states in the western, north, eastern, central and north-eastern states. Because of the efforts of NABARD and respective state governments, the SHG movement in most of the underserved states, has picked up admirably (Table – 1.1). By March 2007, the share of non-southern states in the cumulative credit linked SHGs, has increased to 48% from 29% in 2000-01. The state governments, in lagged states, have been playing very active role in promotion of SHGs. Some of these governments have chosen SHGs as medium to implement their other programs.

At the same time, it appears that the state governments' support is leading to certain quality concerns in the SHG sector. The observance low average loan size and low proportion of repeat linkages in the lagged states, compared to southern states, suggests that the quality of SHGs in these states is below far.

Table 4.8 Progress of SHG in under served states and regions

State/ region	**2001**	**2007**
NER Region	477	91754
Orissa	8,888	234,451
West Bengal	8,739	181,563
Bihar	4,592	72,339
Jharkhand	-	37,317
Uttar Pradesh	23,152	198,587
Uttaranchal	-	21,527
Rajasthan	5,616	137,837
Himachal Pradesh	2,545	27,799
Madhya Pradesh	5,699	70,912
Chhattisgarh	-	41,703
Maharashtra	10,486	225,856
Gujarat	4,929	43,572

Source: APMAS and NABARD collaboration

Fig IX: Number of SHG in underserved states in 2001

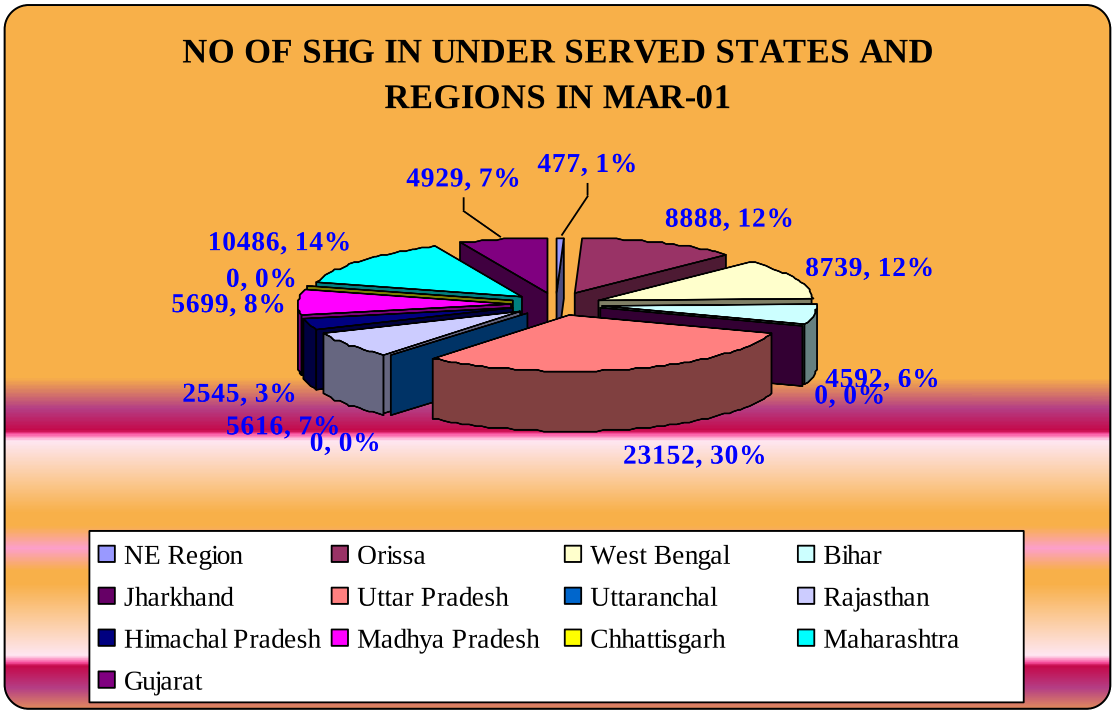
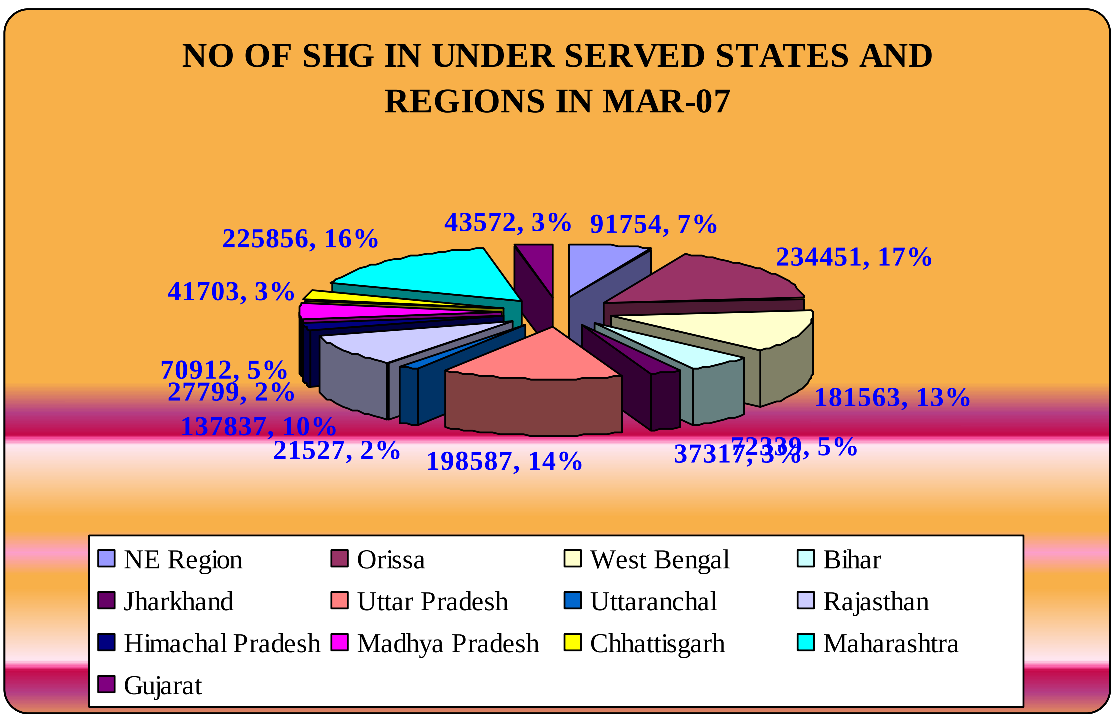


Fig X:_Number of SHG in underserved states in 2007



The pie-charts IX and X reflects the growth pattern in number of SHG's in underserved states. The pie-chart clearly shows that maximum numbers of SHG's are in Uttar Pradesh, both in March-01 as well as march 07 accounting for 30% & 14 % respectively. March -01 has been a gloomy year for Uttaranchal, Jharkhand and Chhattisgarh and there has been little progress shown in development of SHG's quality and sustainability in Assam.

Table 4.9: Target of SHG and Bank

Year	No. of new SHGs to be linked during the year	Cumulative No. Of SHGs to be linked at the end of the year	Bank loan requirement during the year (Rs in million)	Cumulative bank requirement at the of the year (Rs. in million)
2002-2003	1,25,000	5,85,000	7,909	18,172
2003-2004	1,10,000	6,85,000	14,172	32,884
2004-2005	1,05,000	8,00,000	28,184	61,068
2005-2006	1,00,000	9,00,000	41,256	1,02,234
2006-2007	1,00,000	10,00,000	49,588	1,51,912

Fig XI: No. of New SHGs to be linked during the year

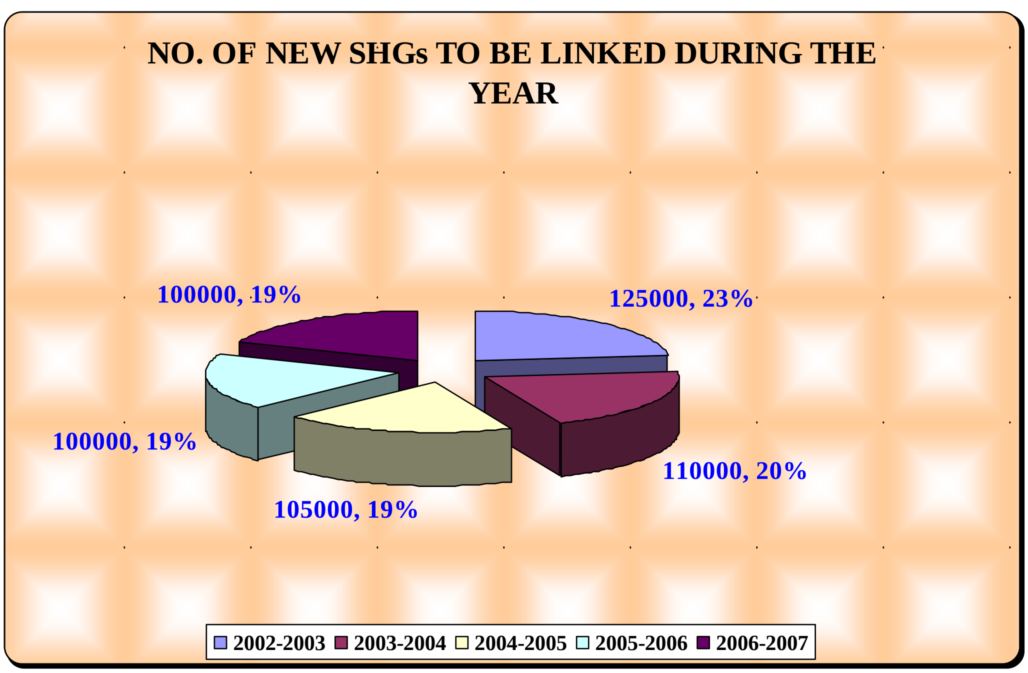
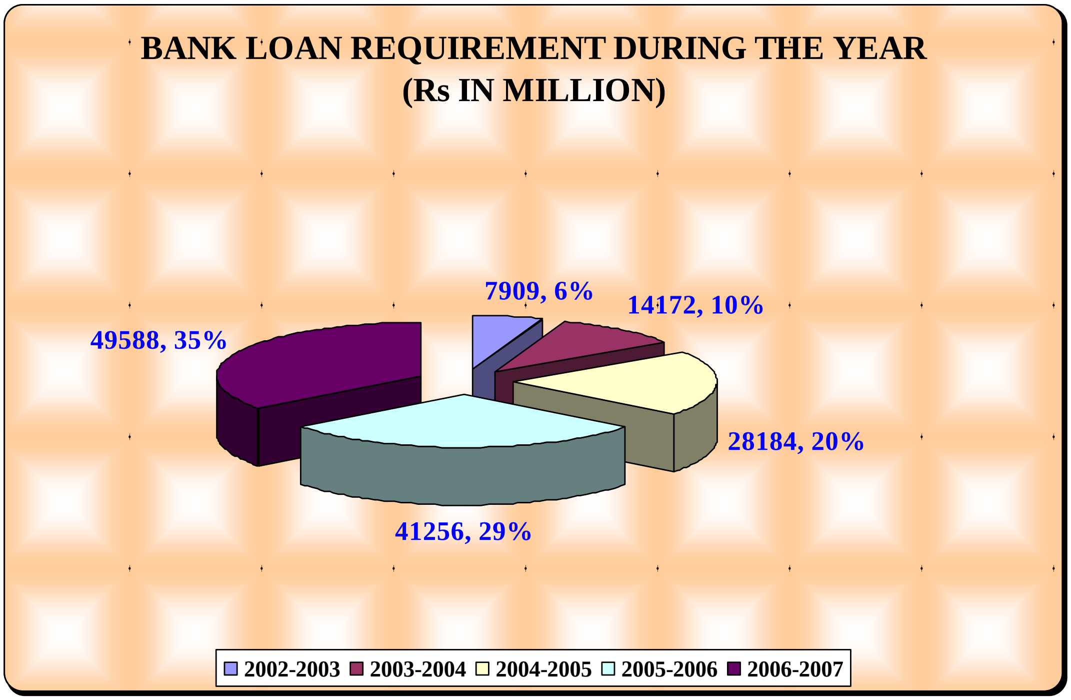


Fig XI1: Bank Loan Requirement during the year



The above mentioned pie-chart reflects the quality and sustainability of SHG in Assam. The chart shows the formation of new SHG's that are needed to be linked during 2002-2007. The other pie chart shows the amount invested by banks in developing those SHG's. The above data shows that at the end of 2007 in developing 10, 00,000 SHG's, a total of 1,51,912 (Rs. in million) was needed to be invested.

Table 4.10 Agency-wise No. of SHG's financed

Agency	**During 2004-2005**			
	SHGs		**Bank loan**	
	NO	%	No	%
Commercial Banks	3,05,051	57	19,042	64
RRBs	1,57,848	29	8,213	27
Co-Operative Banks	76,466	14	2,687	9
Total	5,39,365	100	29,942	100

Source: NABARD

Fig XIII: No of SHGs

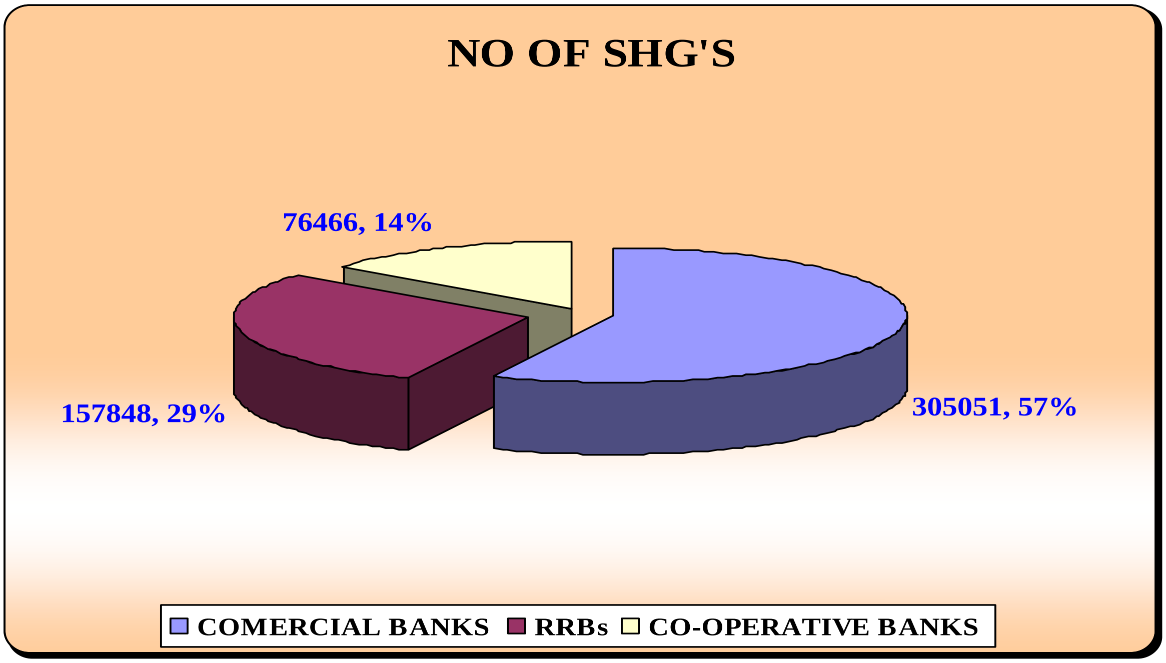
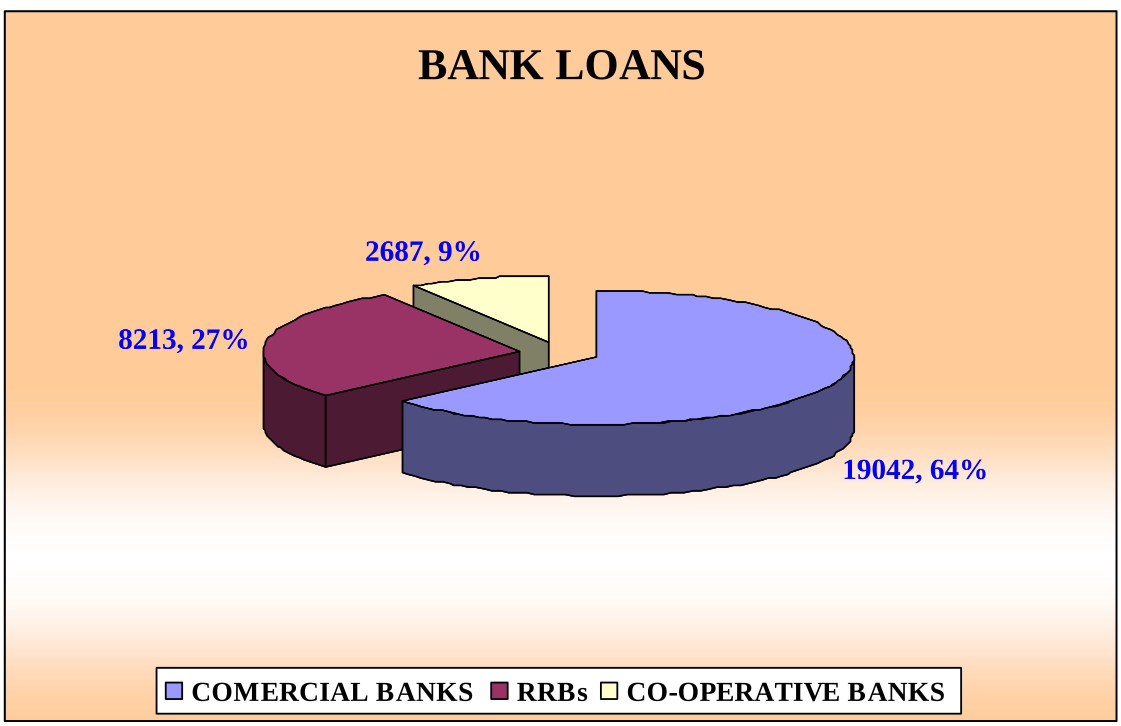


Fig XIV: Bank Loans



The figures XIII and XIV depicts the agencies that helped in development of SHG's. There are in total of three agencies (Commercial banks, RRB's, Cooperative banks) that focus on enhancing the SHG's in India. The above data reflects the number of SHG's formed by these agencies in 2004-05 and other pie chart also shows the amount invested in formation of these SHG's. A total of 5,39,365 SHG's have been formed by these three agencies.

Table 4.11: Agency-wise credit linkages in 2006-07 and 2007-08

Agency	SHGs credit linked	Bank loan disbursed	
		2006-2007	2007-2008
Commercial banks	572	312	2043
RRBs	381	241	1599
Co-operative banks	153	187	586

Fig XV: Agency-wise credit linkages

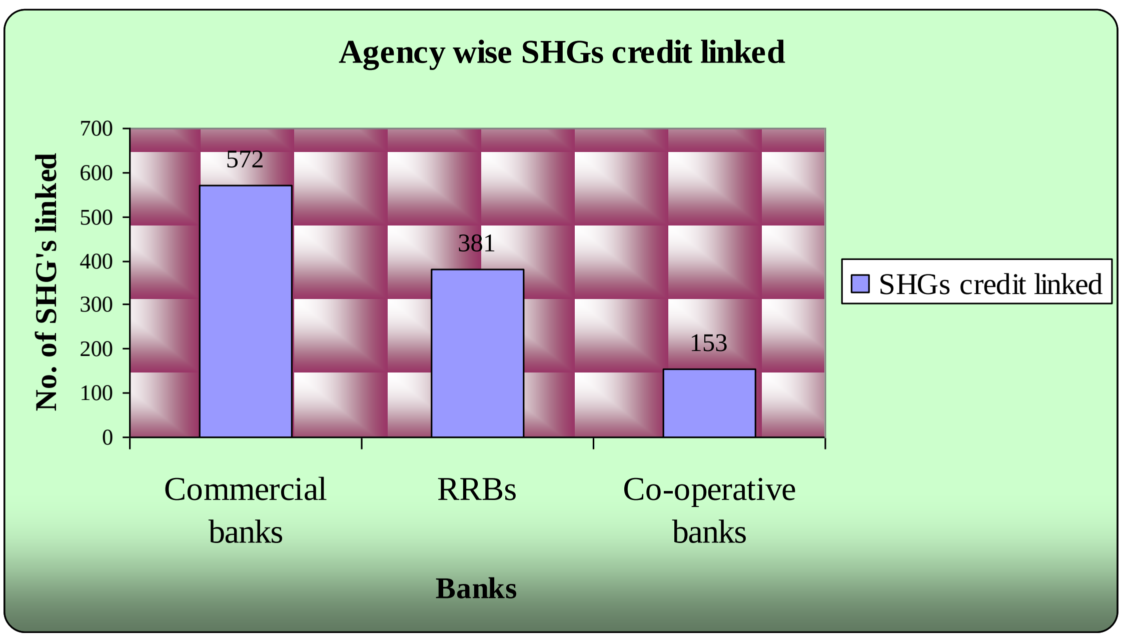


Fig XVI: Agency- wise Bank loans disbursed

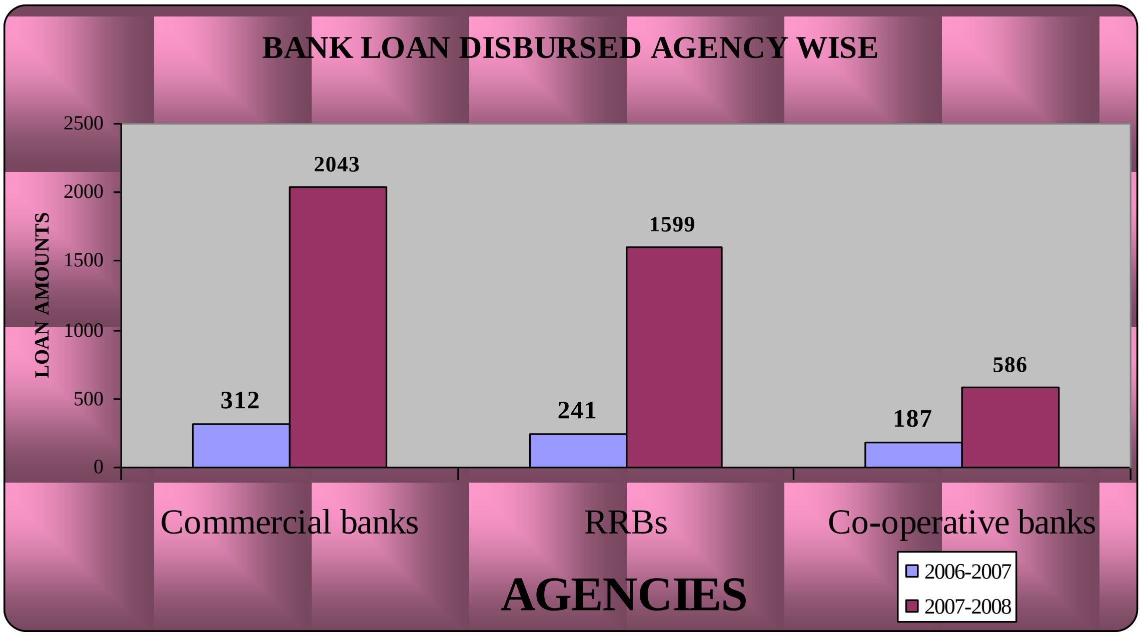


Table 4.12 : Saving of SHGs with banks (as on end of March 2007) Amount in Rs Crore

Agency	Total saving		Exclusive	
	No of SHGs	**Amount of outstanding savings**	**No of SHGs**	**Amount of outstanding savings**
Commercial Banks	2,293,771	1,892	1,794,720	1,651
Regional rural banks	1,183,065	1,158	974,811	1,043
Co-operative banks	683,748	462	501,708	331
Total	**4,169,584**	**3,513**	**3,271,239**	**3,025**

Fig XVII: No of SHG's

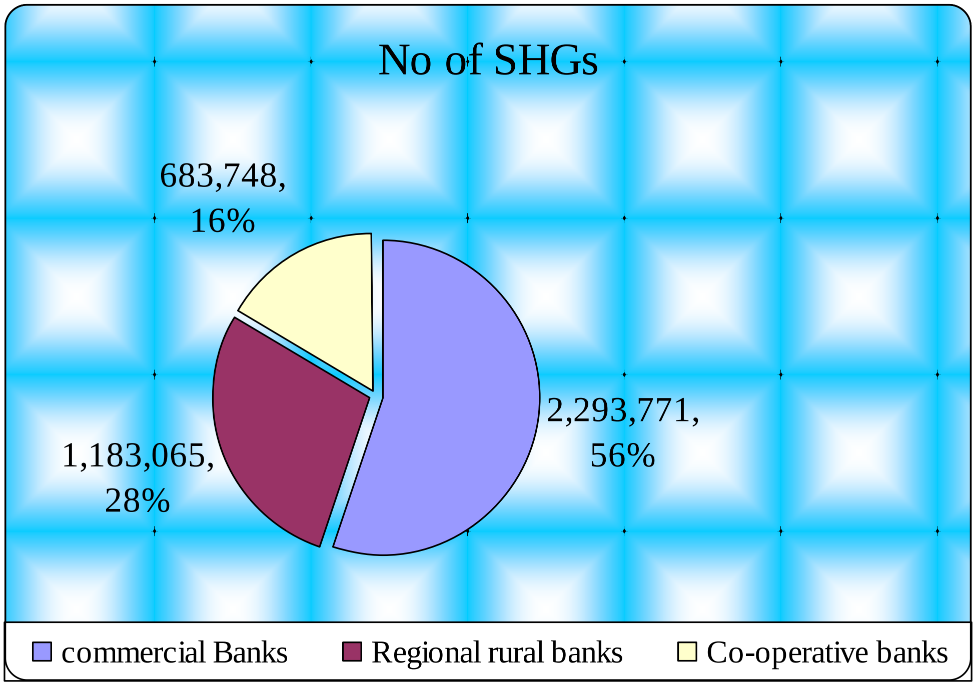


Fig. XVIII: Amount of outstanding savings

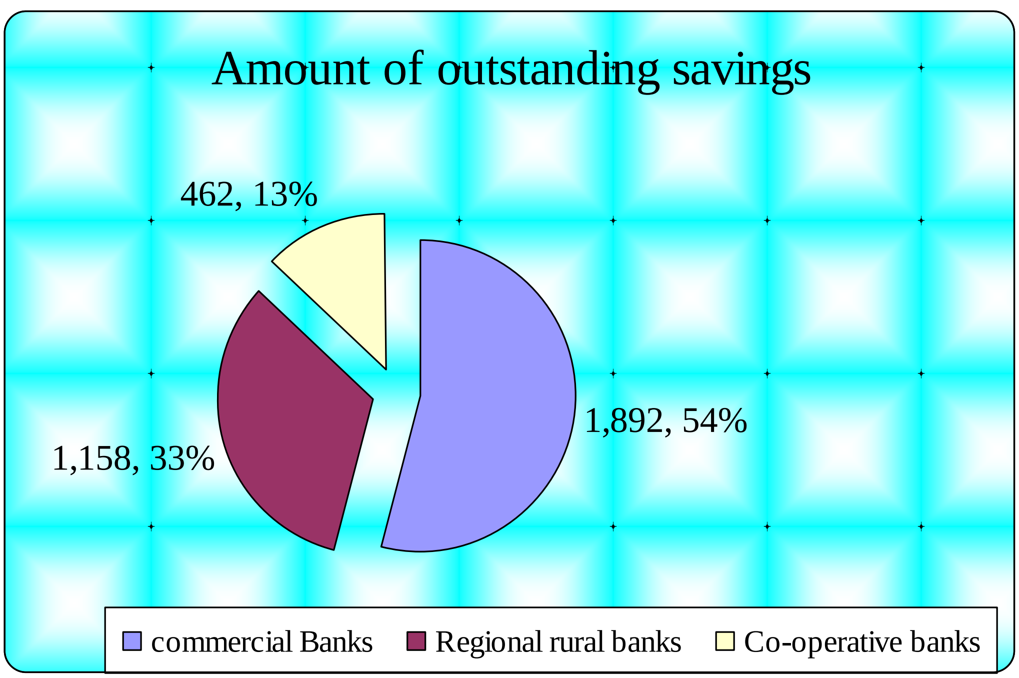


Table 4.13: Recovery Performance of Bank Loans to SHGs (as at end-March 2007) (No of banks)

Agency	Total No. of reporting Banks	Recovery Performance of Bank loans to SHGs			
		95 percent and above	80-94 percent	59-79 percent	Less than 50 percent
Commercial Banks	36	11	15	10	0
Regional Rural Banks	73	20	35	13	5
Co-operative Banks	181	76	55	35	15
Total	290	107	105	58	20

Source: NABARD

Fig: XIX: Recovery Performance of Bank loans to SHG's

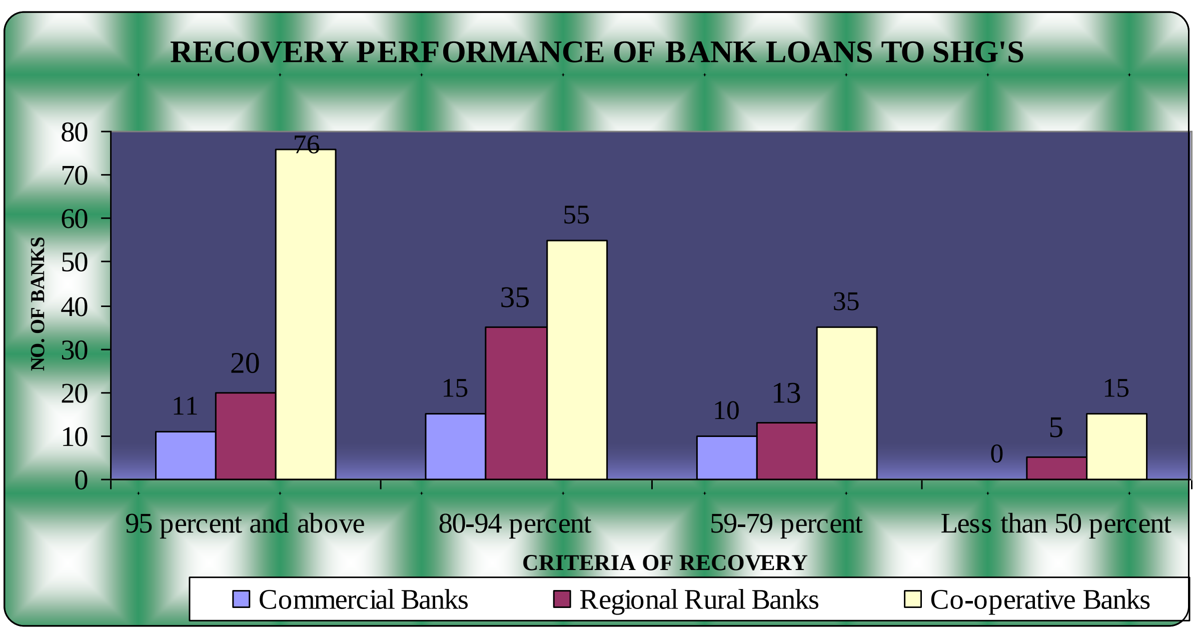
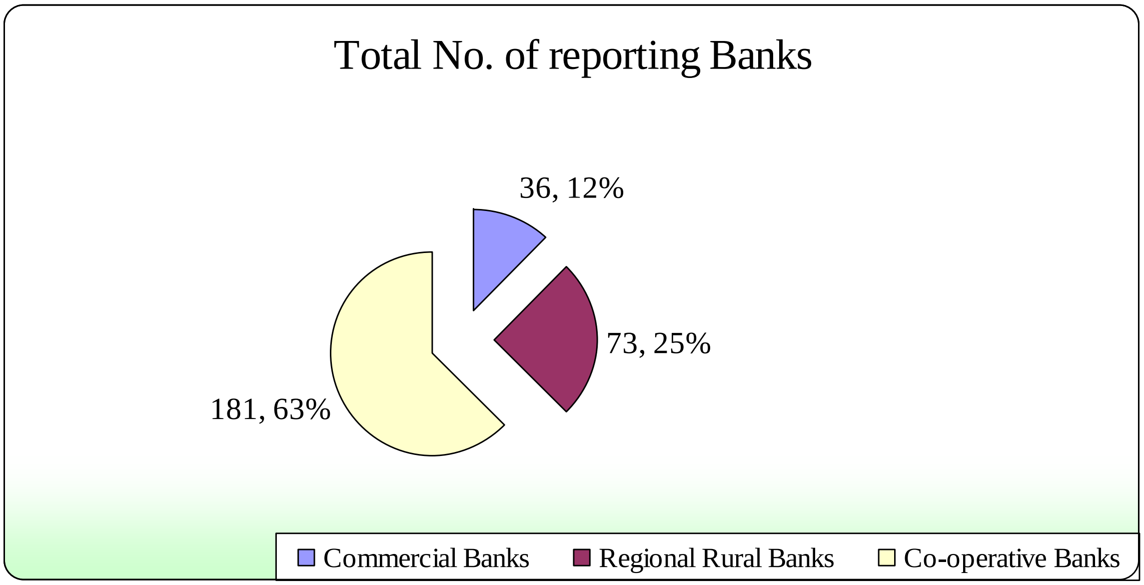


Fig: XX: Total no of reporting banks



The above fig XX shows the total no. of reporting banks. It is found that the maximum percentage of reporting bank is supporting is suppose to be the commercial bank followed by regional rural banks with 73,25% and the bank with minimum percentage is the co-operative bank.

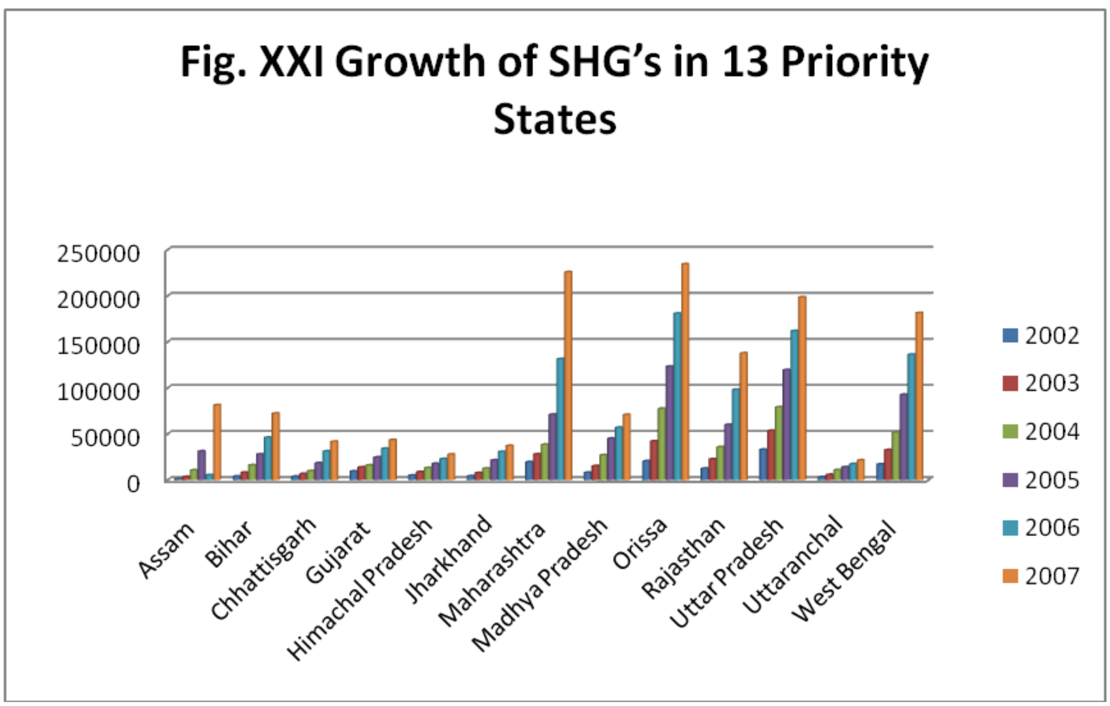
Table 4.14: Growth of SHG's in 13 Priority States

States	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Growth %**
Assam	1024	3477	10706	31234	5449	81454	44
Bihar	3957	8161	16246	28015	46221	72339	57
Chhattisgarh	3763	6763	9796	18569	31291	41703	33
Gujarat	9496	13875	15974	24712	34160	43572	28
Himachal Pradesh	5069	8875	13228	17798	22920	27799	21
Jharkhand	4198	7765	12647	21531	30819	37317	21
Maharashtra	19619	28065	38535	71146	131470	225856	72

States	2002	2003	2004	2005	2006	2007	Growth %
Orissa	20553	42272	77588	123256	180896	234451	30
Rajasthan	12564	22742	35846	60006	98171	137837	40
Uttar Pradesh	33114	53696	79210	119648	161911	198587	23
Uttaranchal	3323	5853	10908	14043	17588	21527	22
West Bengal	17143	32647	51685	92698	136251	181563	33
Total	141804	249462	397464	667761	1005272	1374917	37
Percentage Increase			59	68	51	37	

Source: NABARD Annual Reports

State-wise post-2002 analysis of 13 Priority states depicts that Maharashtra clearly leads with 72 percent increase. Bihar comes next with 54 per cent growth. Himachal Pradesh and Jharkhand are lagging behind other states with 21 percent increase in SHG's since 2002.



4.8: Growth In Credit Linkage of SHG's

The SHG-Bank Linkage Program launched by NABARD in 1992 continues to be the predominant Micro-Finance (MF) model in the country. It is a proven method of financial inclusion, providing unbanked rural clientele with access to formal financial services from the existing banking infrastructure.

Table 4.15:Growth in Credit Linkage of SHGs - Regional Spread

Region	Number of SHGs Credit Linked			
	2000-01	**Cumulative**	**2006-07**	**Cumulative**
Northern	4,221	9,012	48,921	1,82,018
North-Eastern	160	477	29,237	91,754
Eastern	11,057	22,252	1,31,530	5,25,881
Central	8,631	28,851	64,814	3,32,729
Western	6,911	15,543	1,04,193	2,70,447
Southern	1,09,218	1,87,690	3,07,713	15,22,144
Total	1,40,198	2,63,825	6,86,408	29,24,973

Source: Annual Report 2006-07 NABARD

Fig XXII: Growth of Credit Linkage of SHG's in 2001

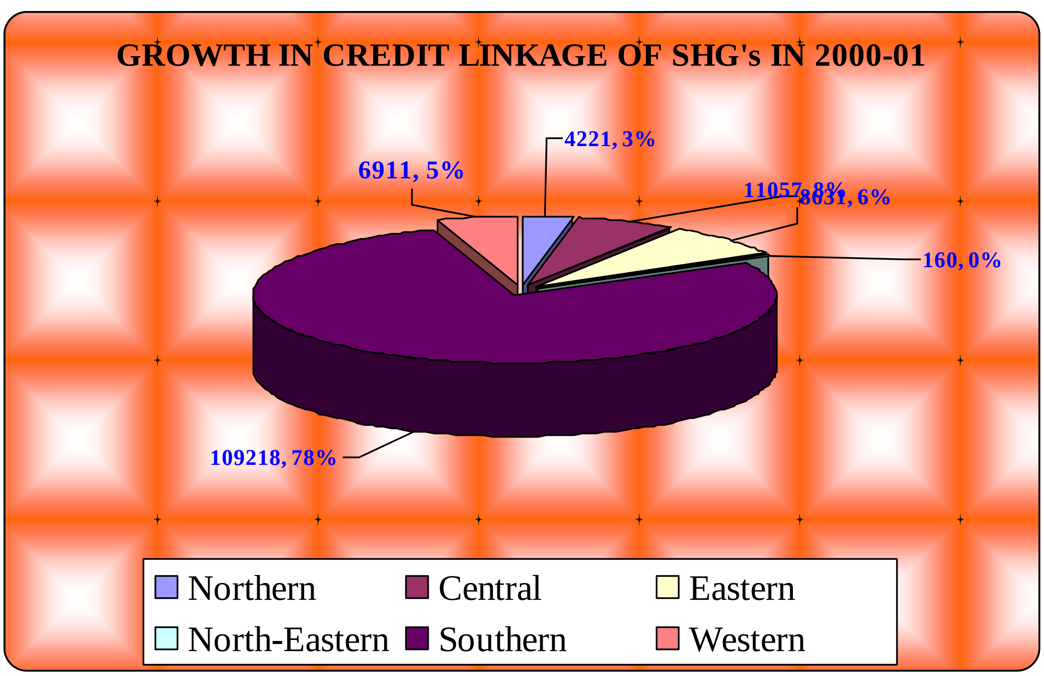
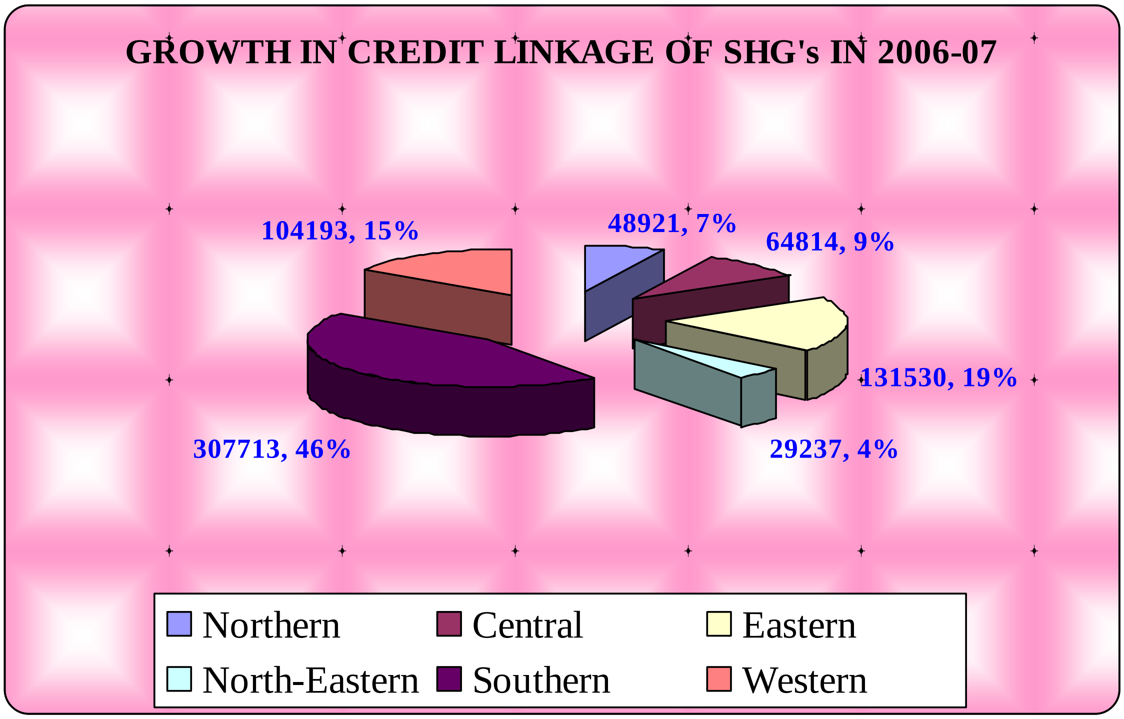


Fig XXIII: <u>Growth of Credit Linkage of SHG's in 2006</u>



The SHG-Bank Linkage Program launched by NABARD in 1992 is a proven method of financial inclusion, providing unbanked rural clientele with access to formal financial services from the existing banking infrastructure. The Pie-Chart above shows the Region Wise Growth in Credit Linkage of SHG'S in 2000-01 and 2006-07. It clearly reflects that in both the years, i.e., in 2000-01 as well as 2006-07, southern region has contributed maximum in credit linkage of SHG'S accounting to the extent of 78 % and 46% respectively.

4.9: <u>The Present Scenario</u>

Microfinance sector has covered a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance, micro remittance, micro- pension and micro-livelihood. This gradual and evolutionary growth process has given a great boost to the rural poor in India to reach reasonable economic, social and cultural empowerment, leading to better life of participating households. Financial institutions in the country have been playing a leading role in the microfinance programs for nearly two decades now. They have joined hands proactively with informal delivery channels to give microfinance sector the necessary momentum.

During the current year too, microfinance has registered an impressive expansion at the grass root level. The year 2008-09 is the third year that the data on progress in microfinance sector have been presented on the basis of returns furnished directly to NABARD by Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperative Banks operating in the country. The data includes the information related to savings of self Help Groups (SHGs) with banks as on 31 March 2009, loans disbursed by banks to SHGs during the year 2008-09 and outstanding loans of SHGs with the banking system and the details of Non-Performing

Assets (NPAs) and recovery percentage in respect of bank loans provided to SHGs as on 31 March 2009. The data received from banks have been compiled on region-wise, State-wise and agency-wise basis, giving details related to SHGs under Swarnjayanti Gram Swarojgar Yojna (SGSY) and exclusive women groups. In addition, the information related to bulk lending under Bank -Micro Finance Institutions (MFIs)- SHGs has also been compiled.

The banks operating, presently, in the formal financial system comprises of Public Sector Commercial Banks (27), Private Sector Commercial Banks (28), Regional Rural Banks (86), State Cooperative Banks (31) and District Central Cooperative Banks (371). It is observed that most of the banks participating in the process of microfinance have reported their progress under the program. NABARD has been instrumental in facilitating various activities under microfinance sector, involving all possible partners in the arena.

It has been encouraging the voluntary agencies, bankers, socially spirited individuals, other formal and informal entities and also government functionaries to promote and nurture SHGs. The focus in this direction has been on training and capacity building of partners, promotional grant assistance to Self Help Promoting Institutions (SHPIs), Revolving Fund Assistance (RFA) to MFIs, equity/ capital support to MFIs to supplement their financial resources and provision of 100% refinance against bank.

Table 4.16- Progress under Microfinance - Savings of SHGs with Banks

	Commercial Banks			**RRB's**			**Cooperative Banks**			**Total**		
States.	No of SHG's	Saving amount	Growth %	No of SHG's	Saving amount	Growth%	No of SHG's	Saving amount	Growth %	No of SHG's	Saving amount	Growth%
Northern. Region												
Haryana	17926	1604.41		12440	776.4		2891	167.12		33257	2547.93	
Himachal Pradesh	28658	2104.89		4616	578.4		8470	305.6		41744	2988.89	
Punjab	32478	2430.13	**2.61**	2552	189.67	**2.91**	4125	262.42	**2.51**	39155	2882.22	**2.66**
J&K	1578	240.52		215	14.22		556	8.51		2349	263.31	
Rajasthan	86665	8124.01		59625	2961.5		46189	2751.98		192479	13837.49	
North eastern region												
Assam	64122	3634.35		101239	2363.9		15635	298.63		180996	6296.92	
Meghalaya	6067	173.61		1945	101.04		1613	53.04		9625	327.69	
Nagaland	4744	111.22	**0.91**	308	11.51	**3.83**	1005	34.92	**0.85**	6057	1577.69	**1.22**
Tripura	5697	262.12		15059	2506.2		2055	90.5		22811	2858.8	
Andhra Pradesh	4268	52.96		688	37.67		192	3		5148	93.63	
Mizoram	2266	35.83		1395	126.32		569	22.48		4230	184.63	
Eastern region												
Bihar	74343	3819.27		55662	2969.14		_	_		130005	6788.41	
Jharkhand	46570	2444.96		3183	106		_	_		49753	2550.96	
Orissa	216196	9008.84	**1.72**	164562	14164	**1.90**	61202	3774.92	**1.01**	441960	26948.7	**1.86**
West Bengal	292329	13947.66		151981	97366.4		165129	13013.54		609439	123327.6	
Central region												
Chhattisgarh.	33568	1193.33		51050	2528.8		2836.4	264.36		112982	4986.5	
Madhya Pradesh	93918	3931.74		62209	2883.4		1759.8	376.39		17372.5	7191.5	
Uttarakhand	19002	1611.89	**1.82**	8189	564.8	**2.20**	7111	363.8	**2.00**	34302	2540.5	**2.63**
Uttar Pradesh	173464	12933.5		212224	10585.4		6218	44160		391906	23960.5	
Western Pradesh												
Gujarat	51443	3413.02		32662	1432.5		20941	1430.4		105046	6276	
Maharashtra	373900	3211.5	**1.41**	83496	6551.2	**1.16**	227928	20262.4	**1.05**	685324	59325.2	**1.08**
Southern region												
Andhra Pradesh	925693	83572.91		334933	34555.6		20274	1064.09		1280900	119192	
Karnataka	159338	25375.6		161113	12614.7		136938	18696.24		457389	56686.54	
Kerala	282666	18883.87	**1.52**	28769	545.2	**0.87**	47428	3812.77	**2.23**	358863	23241.84	**1.25**
Tamil nadu	540006	44839.16		73802	2369.75		116284	10522.18		730092	57731.09	

Source: Status Of Micro Finance In India 2008-2009 NABARD

The growth rates of commercial banks savings for 2009 has been highest for northern region followed by Western Pradesh and lowest for North-eastern region. For RRB's the growth rate has been highest foe North east region, i. e., at the rate of 3.83 per cent per annum. This is followed by Northern region at the rate of 2.91 percent per annum. The lowest rate of 0.87 percent per annum has been reported by southern region. For cooperative banks the highest growth has been reported by Northern region followed by Southern region. In terms of total savings, Northern region tops with 2.55 percent growth. So the developments of Northern regions highlight that this is a growing region in terms of Micro Financing.

Fig XXIV: Region-wise/State-wise/Agency-wise Position of commercial Banks as on 31 March 2009

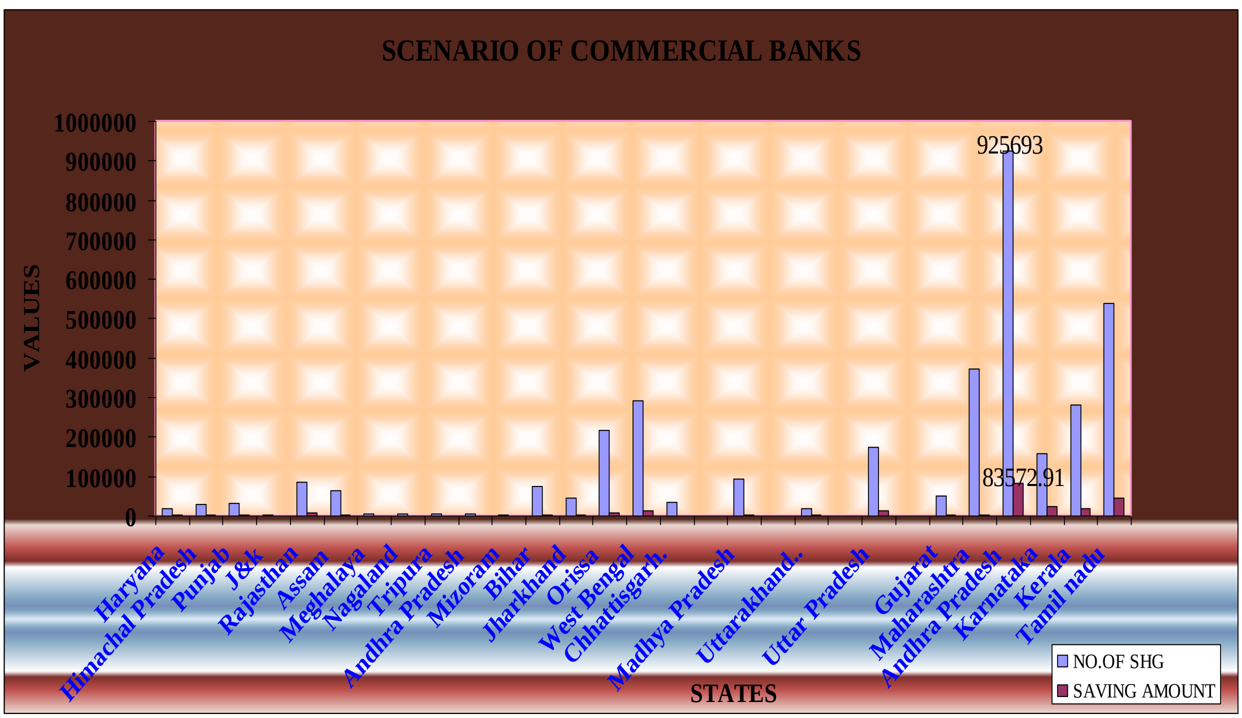


Fig XXV: Region-wise/State-wise/Agency-wise Position of RRB's as on 31 March 2009

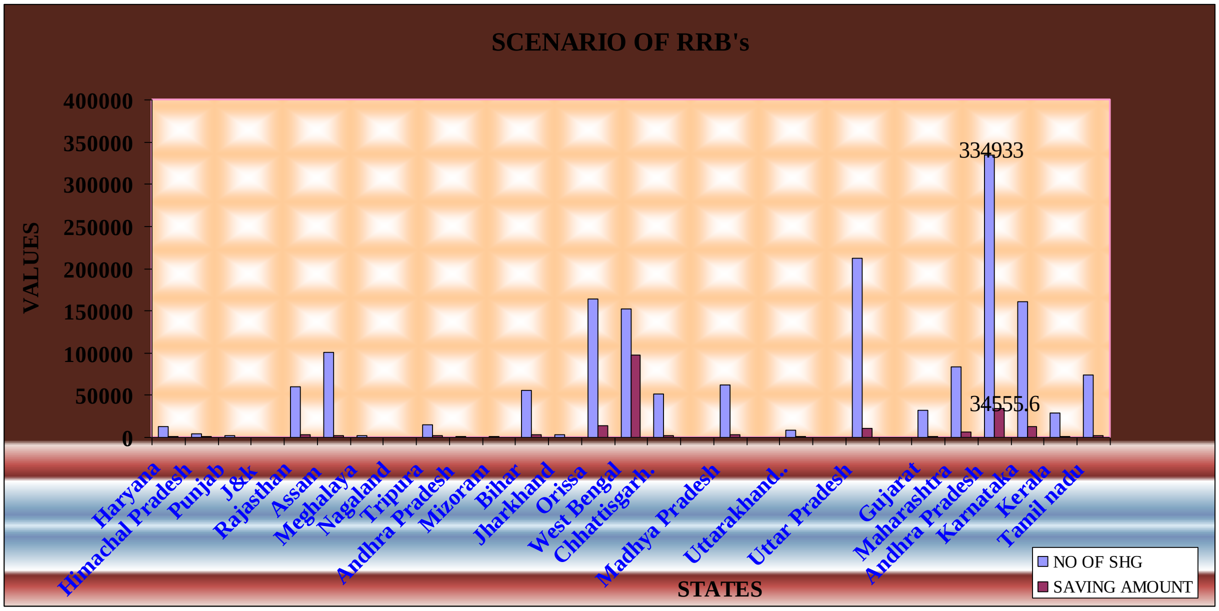


Fig. XXVI: Region-wise/State-wise/Agency-wise Position of Co-operative Banks as on 31 March 2009

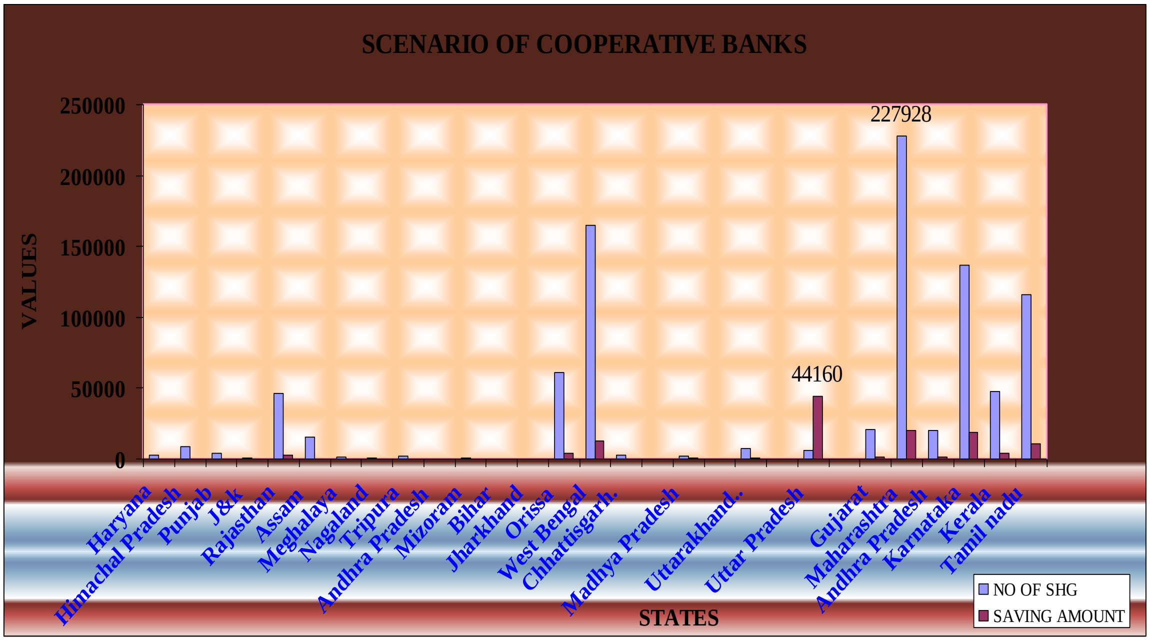
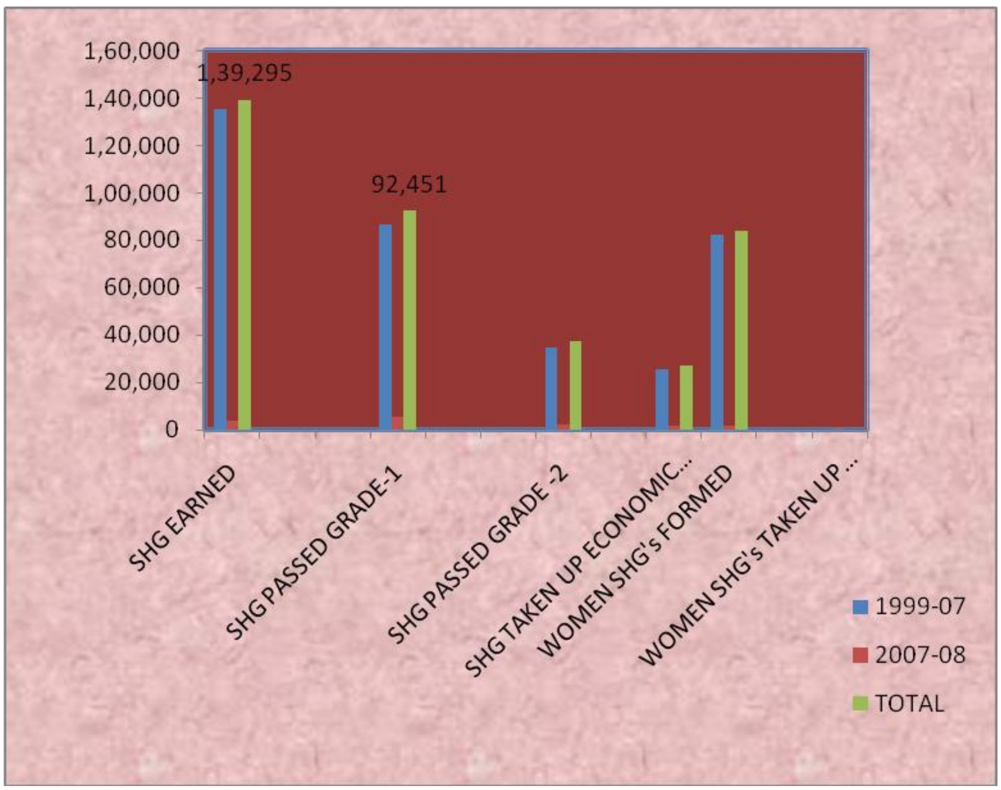


Table 4.17: SHGs Promoted By Rural Development Report (As on Aug 2007)

Category	1999-07	2007-08	Total
SHG earned	135,622	3,673	139,295
SHG passed grade-I	86,877	5,574	92,451
SHG passed grade-II	34,919	2,505	37,424
SHG taken up economic activities	25,797	1,547	27,344
Women SHG's formed	82,123	1,959	84,082
Women SHG's taken up economic activities	–	912	–

Source: NABARD

Fig XXVII: <u>SHG's Promoted by Rural Development Report</u>



The Fig. XXVII shows the SHG's promoted by rural development report. The graph clearly reflects the promotion of SHG's under various categories in the period 1999-07 and 2007-08. Under the category women SHG's taken up economic activities zero promotion is witnessed for 1999-07 and minimal promotion of 912 in 2007-08. This is the weakest among all categories.

Table 4.18: Cumulative progress under grant assistance to SHPIs for promotion and linkage of SHG's

State/ region	NGO's		RRB's		CCB's		IRV's	
	SHG promoted	SHG linked	SHG promoted	SHG linked	SHG promoted	SHG linked	SHG promoted	SHG linked
Haryana	1142	5914	616	428				
Himachal Pradesh	7470	1181	1864	982				
Punjab	729	387						
Rajasthan	6778	4548	3448	2167	259	239	66	2
North zone	**18269**	**12878**	**5928**	**3577**	**259**	**239**	**197**	**2**
Arunanchal Pradesh	98	12						
Assam	9818	4483	4172	1453			1488	489
Manipur	207	82						
Meghalaya	191	53						
Mizoram	146	89						
Tripura	268	95	200	200				
North east zone	**10728**	**4814**	**4949**	**2037**			**1488**	**489**
Bihar	9080	4505	607	300			328	168
Jharkhand	6169	3215	1166	781			1232	739
Orissa	9998	7084	11873	7964			659	317
Sikkim	79						2219	224
West Bengal	9271	6913	4583	3072	9330	5623	659	317
East zone	**34747**	**21787**	**18229**	**12117**	**9330**	**5623**	**2219**	**1224**
Chhattisgarh	3820	2519	1007	563	435	32	771	117
Madhya Pradesh	8297	4749	1640	776	1046	186	35	10
Uttar Pradesh	22330	12940	5016	3251	1536	428	68	9
Uttaranchal	3316	1322	690	439	1713	795		
Central zone	**37763**	**95**	**8353**	**5029**	**4730**	**1441**	**374**	**136**
Gujarat	9828	4210	1683	584	939	172		
Maharashtra	29317	16968	4322	3584	5798	3838	1838	804
West zone	**39245**	**21282**	**6005**	**4148**	**6737**	**4010**		**804**
Andhra Pradesh	15	11	2395	2196				
Karnataka	10395	8156	4094	3748	12014	6775		
Kerala	5899	4513			1300	1300		
Tamil Nadu	17831	16857	1008	943				
South zone	**34140**	**29537**	**7497**	**6887**	**13314**	**8075**		
Source :NABSTATS (Quaterly Bulletin Of Statistical Information) Jan-Mar 2008								

The above table cumulative progress under grant assistance of SHPI's for promotion and linkage of SHG'S. The SHG's have been promoted and linked in various states and regions under

NGO's,RRB's,CCB's and IRV's. It is found that in west zone maximum number of SHG's are promoted by NGO's and south zone with maximum number of SHG's linked by NGO's while under RRB's maximum number of SHG's are promoted and linked in east zone and under CCB's maximum number of SHG's are promoted and linked in south zone ,while under IRV's maximum number of SHG's are promoted and linked in east zone.

Fig XXVIII: <u>Role of NGO's</u>

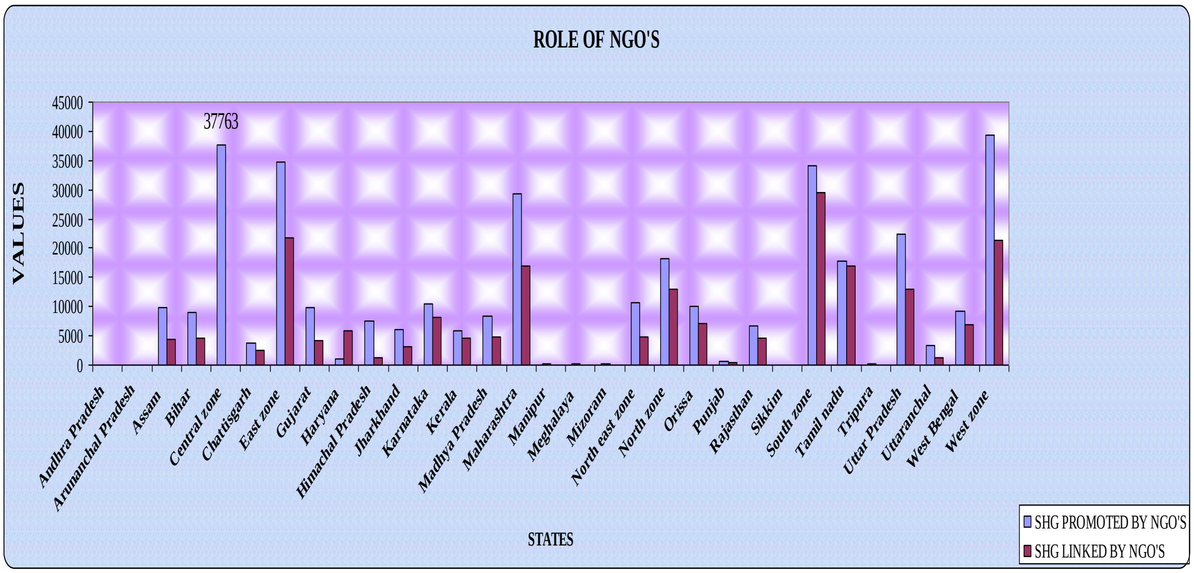


Fig XXIX <u>Role of RRB's</u>

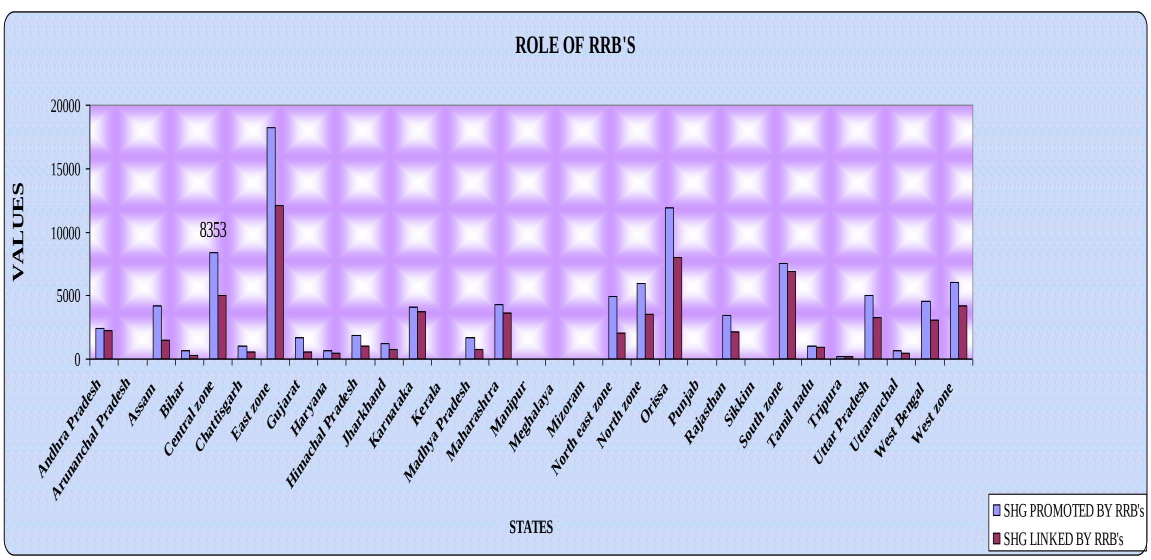


Fig. XXX: Role of CCB's

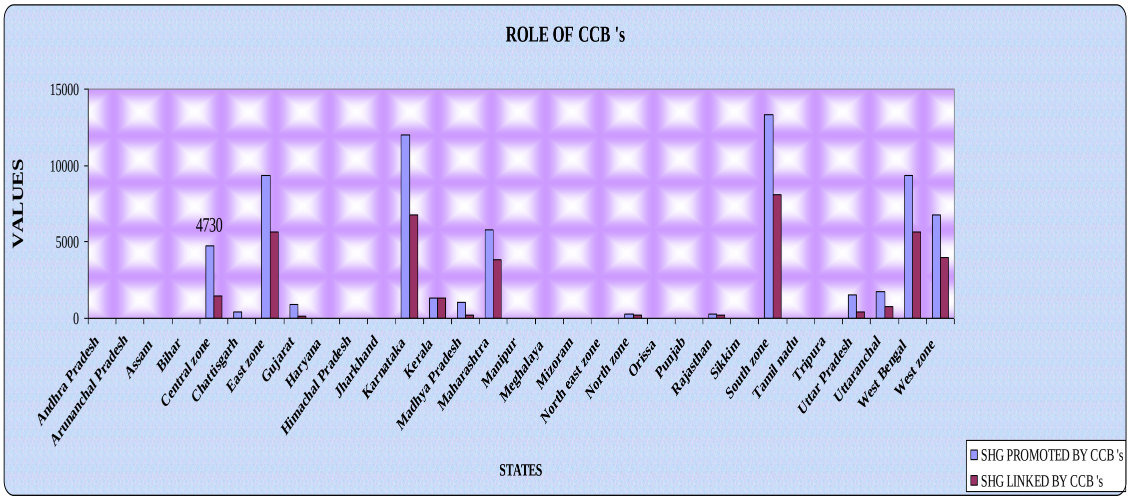
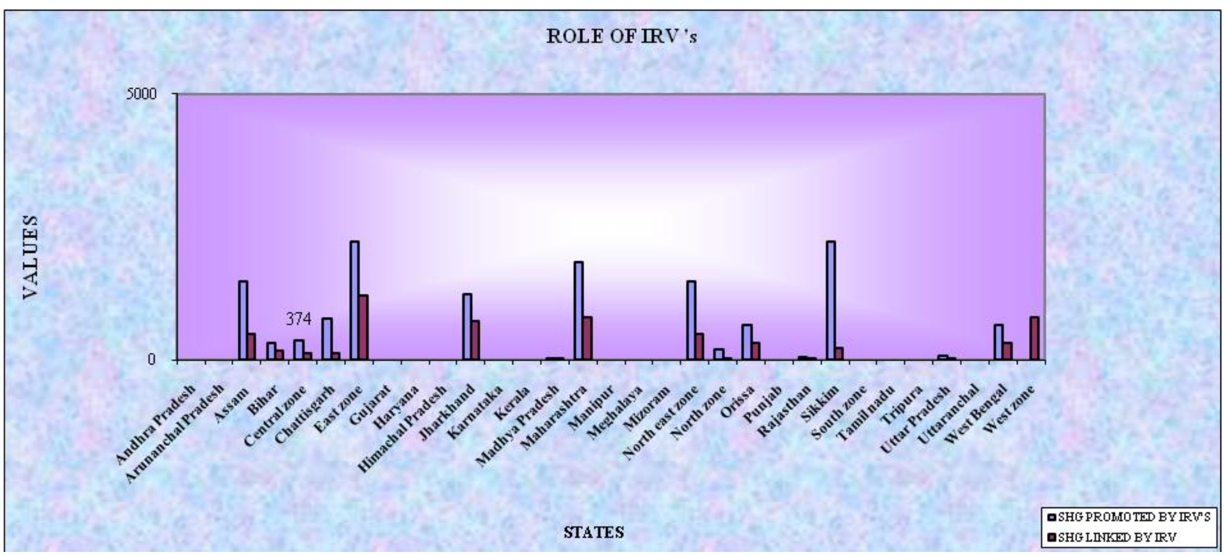


Fig XXXI: Role of IRV's



The above column graph depicts the cumulative progress under grant assistance to SHPIs for promotion and linkage of state-wise SHGs. The role of all the SHPI's have been shown separately for each state, which gives a clear picture of the present scenario. The data above has been taken from NABSTATS (quarterly bulletin of statistical information) Jan-Mar 2008.

Conclusion:

SHG's come together for addressing their common problems and are encouraged to make voluntary thrift on regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial inter mediations including prioritization of needs, setting terms and conditions, and accounts keeping. This chapter highlights development and growth of SHG's in India. The developments under the Swarnajayanti Gram Swarozgar Yojna have also been covered. Micro Penetrartion Index (MPI) and Micro Poverty Penetration Index (MPPI) are covered to highlight the top five and Bottom Five states. Progress of SHG Bank Credit Linkages in under- served states and regions is covered in section 4.8 and finally the last section covers the growth in credit linkage of SHG's. The results clearly reflect a true picture of SHG's in India and their linkage with banks and various other agencies. The credit linkage with banks and enhancement of SHG's and their contribution in developing a concept of microfinance in India is clearly visible. Region wise/State wise /Agency wise analysis has also been done to bring out the real picture and scenario which is going on in India.

CHAPTER V

FINDINGS, CONCLUSION AND LIMITATIONS

5.1 Summary and Findings:

The study has been undertaken with the objective to analyze the trends of micro financing across major states of the country, to study the factors influencing Micro Financing and to study progress of Micro Financing across different states of the country. For this detailed analysis has been done regarding the development under Swarnajayanti Gram Swarozgar and the Kisan Credit Card Scheme and Capacity Building for Partner Institutions. The Micro Penetrartion Index (MPI) and Micro Poverty Penetration Index (MPPI) have also been used for state-wise comparison. Progress of SHG Bank Credit Linkages in under served states and regions has also been covered.

One of the proposed hypotheses (**H_1**) of the study has been that **trend rates of Growth rate of micro financing in the post - 2000 era may be higher than that of post-1994 period**. The present study has covered the period of 1994-2007 which has been divided in to two sub periods, i.e., period I, 1994-2000 and Period II, post-2000 era to analyze whether the post-2000 phase has been associated with higher growth of micro financing. It is evident that from 1994-95 to 06-07, there has been an exponential increase in the number of SHG'S. The year-wise trends reflect the highest growth in 2006-07. The growth rate has been higher in period II, the post - 2000 era as compared with period I, post- 1994 period.

A total of 21067.9 crore of rupees have been invested by banks in the period 1994 ~ 2007, with maximum investment done in the year 2006-07 of 12366 crore of rupees. This also reflects that the development in number of SHG's speeded up from 2005 ~07. The reason is well predictable that in the initial years (1994-99) of formation of SHG, the trust developed by banks was less and that trust increased over a period of time which is evident from an increase in rate of investment. The annual rate of growth of bank Loans increased from 2.33% in Period I to 8.88% in Period II, i.e., post-2000 onwards period. So the first hypothesis that the post 2000 period is associated with higher growth has been accepted as period has been associated with increased growth of SHG's as well as amount invested by banks.

The micro finance movement has been gaining momentum in India in recent years and it has developed into an important delivery mechanism for reaching the poor. At present, Swarnajayanti Gram Swarozgar Yojna (SGSY) is the most important program. The basic objective of the SGSY is to bring the assisted poor families (Swarozgaris) above the poverty line by providing them income-generating assets through a mix of bank credit and governmental subsidy. A total of 6260 SHG's have been formed in the period ranging from 1999 ~ 2009. Maximum no. of SHG's has been formed in year 2101-02.

Another hypothesis **(H_2)** proposed has been that **the state with low rate of growth of NSDP may have higher rate of growth of micro finance.**

State-wise post-2002 analysis of 13 Priority states depicts that Maharashtra clearly leads with 72 percent increase. Bihar comes next with 54 per cent growth. Himachal Pradesh and Jharkhand are lagging behind other states with 21 percent increase in SHG's since 2002.

The growth pattern in number of SHG's in underserved states shows that maximum numbers of SHG's are in Uttar Pradesh, both in march-01 as well as march 07 accounting for 30% and 14 % respectively. March -01 has been a gloomy year for Uttaranchal, Jharkhand and Chhattisgarh and there has been little progress shown in development of SHG's quality and sustainability in Assam.

So the present hypothesis cannot be accepted as there are mixed results. States like Maharashtra report an increase in SHG since 2002. This state has high NSDP. On the other hand states like Bihar with low NSDP also report an increase in SHG activity. The growth pattern in number of SHG's in underserved states shows that maximum numbers of SHG's are in Uttar Pradesh, a state with low NSDP.

Regarding factors affecting Micro Financing the role of financial institutions cannot be undermined. Along with this the various Micro Financing schemes have also been covered.

Financial institutions in the country have been playing a leading role in the microfinance programs for nearly two decades now. Agency-wise performance has been analysed to see which agency is performing better. Three agencies namely, Commercial banks, Regional Rural Banks (RRB's) and Cooperative banks focus on enhancing the SHG's in India. A total of 5,39,365 SHG's have been formed by these three agencies. Agency-wise credit linkage has been highest for Commercial banks, followed by RRB's and Cooperative banks. Same holds true for Loans disbursed by these three agencies, where Commercial banks again are the top the list. Incase of outstanding savings also commercial banks have a share of 54% and Cooperative banks account for only 13%. In terms Recovery performance also Commercial banks outshine with 76% recovery of more than 95% and above and no case reported for less than 50 percent. The recovery performance of Co-Operative banks has been relatively poor. But in terms of Recovery performance the situation has improved for all three agencies.

The banks operating, presently, in the formal financial system comprise of Public Sector Commercial Banks (27), Private Sector Commercial Banks (28), Regional Rural Banks (86), State Cooperative Banks (31) and District Central Cooperative Banks (371). It is observed that most of the banks participating in the process of microfinance have reported their progress under the program. NABARD has been instrumental in facilitating various activities under microfinance sector, involving all possible partners in the arena.

The intensity of penetration of microfinance (MPI) has been computed by dividing the share of the state in microfinance clients by share of population. Intensity of penetration of microfinance among poor (MPPI) has been derived by dividing the share of the state in microfinance clients by share of population. The trends of MPI and MPPI depict that top -5 states are: Andhra Pradesh, Uttarakhand, Tamil Nadu, Orissa, Karnataka and last 5 are : Nagaland, Punjab, Haryana, Gujarat and Uttar- Pradesh. Andhra Pradesh with MPI of 3.84 and MPPI of 6.68 is the best performing state and Nagaland has been the worst performing state with MPI of 0.06 and MPPI of 0.08.

The instrument of Kisan Credit Card (KCC) is one of the key products developed to improve the farmer's accessibility to bank credit to simplify credit delivery mechanism and provide more flexibility in use of credit. Model scheme of Kisan Credit Card formulated by NABARD in

1998-99 is being implemented in all the States and Union territories. About 1.94 crore Kisan Credit Cards have been issued up to 31 October 2001 by the banks throughout the country.

The trends of SHG linkage with banks depicts that among the states, Uttar Pradesh is the state with maximum number of SHG's linked with the banks. The weakest among all the regions is North Eastern Region (NER) which needs to improve upon development of people and systems in order to enhance the number of SHG's that could cater to Micro financing.
Because of early start and proactive support of state governments in the southern states, the SHG movement has been far ahead of other states. In March 2001, 71% of the credit linked SHGs were from southern region consisting of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu.

Region Wise Growth in Credit Linkage of SHG'S in 2000-01 and 2006-07. It clearly reflects that in both the years, i.e., in 2000-01 as well as 2006-07, southern region has contributed maximum in credit linkage of SHG'S accounting to the extent of 78 % and 46% respectively.

Alarmed by the wide interstate/ regional variations, NABARD started special focus on 13 under served states in the western, north, eastern, central and north-eastern states. Because of the efforts of NABARD and respective state governments, the SHG movement in most of the underserved states, has picked up admirably. By March 2007, the share of non-southern states in the cumulative credit linked SHGs, has increased to 48% from 29% in 2000-01. The state governments, in lagged states, have been playing very active role in promotion of SHGs. Some of these governments have chosen SHGs as medium to implement their other programs. But the observance low average loan size and low proportion of repeat linkages in the lagged states, compared to southern states, suggests that the quality of SHGs in these states is below far.
NABARD has been encouraging the voluntary agencies, bankers, socially spirited individuals, other formal and informal entities and also government functionaries to promote and nurture SHGs. The focus in this direction has been on training and capacity building of partners, promotional grant assistance to Self Help Promoting Institutions (SHPIs), Revolving Fund Assistance (RFA) to MFIs, equity/ capital support to MFIs to supplement their financial resources and provision of 100% refinance against bank. Thus in the end it can be summarized

that Micro Financing is emerging as an important source for uplifting the poor and also helping in the development process.

Within India the microfinance revolution in Western and Southern India have borne more fruit. Andhra Pradesh, in particular, has witnessed a remarkable growth in microfinance activities and its success stories have been widely reported as well. In comparison Eastern India has not enjoyed the limelight in the stage of microfinance, partly because of the absence of a single very large microfinance institution in the region.

Self-Help Groups (SHGs), usually at the behest of certain developmental non-government organizations (NGOs), have quietly mushroomed in most districts of Southern India over the last few years. Millions of poor, predominantly women, are now members of thousands of SHGs.

5.2 Limitations of the Study

The limitations of the present study emerge from non availability of certain data. Moreover due to time constraint, a detailed state-wise analysis couldn’t be done. Moreover this study relies only on secondary data. This study can be supplemented by primary data collected from certain underdeveloped regions to get greater insight of the actual problems faced by people of these regions regarding Micro Financing.

5.3 Future Scope

The present study has highlighted the growing states and backward states in terms of performance of Micro Financing. In depth study of SHG’s of these states along with successful schemes implemented in these states can be taken for further analysis.

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