



AN EVALUATION OF SHG'S MODEL OF MICROFINANCE IN UTTAR PRADESH

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ABSTRACT

Microfinance is an economic development tool which aim to aid the under privilege people to work their way out of poverty. It covers a range of services which include, in addition to the provision of credit, many other services such as savings, insurance, money transfers, counseling, microcredit, micro-lending, and other similar terms are often used interchangeably, microfinance is the term that is most comprehensive, including savings, loans, and insurance. A Self Help Group (SHG) is a small, economically homogeneous and affinity group of rural poor which comes together to save small amounts regularly, mutually agree to contribute to a common fund, meet their emergency needs, have collective decision making, Resolve conflicts through collective leadership and mutual discussion, Provide collateral free loans on terms decided by the group at market driven rates. In this paper evaluation among the SHGs and saving with SHGs, Loan Disbursed to SHGs and Loan outstanding of SHGs of Uttar Pradesh is shown. For the study last five year (2008-13) data from NABARD is used.

Keywords: *Microfinance, Self Help Groups, NABARD, RBI, Uttar Pradesh, JEL: D06, G00, G02.*

INTRODUCTION

Microfinance is financial services for poor and low-income clients offered by different types of service providers. In general, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as “microfinance institutions” (MFIs). Microfinance is very small loans to unsalaried borrowers, taking little or no collateral security. More over microfinance refers to a movement that envisions a world in which low-income people have permanent access to a range of high quality and affordable financial services offered by financial service providers. These services include savings, credit, insurance, remittances, and payments, and others. Microfinance is financial aid to economically disadvantaged segments of society and to enabling them to enhance their income levels. “The provision of financial services to low-income poor and very poor self-employed people” Otero (1999, p.8) “The attempt to improve access to small deposits and small loans for poor households neglected by banks” Schreiner and Colombet (2001, p.339). Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services. Micro finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards (RBI). Microfinance is a combined term used for monetary intermediation services to low income group and poor clients. Services offered are credit facility, saving accounts, money transfers, remittances, insurance and even investment. In general, microfinance deals with providing low income family with very small loans (micro-credit) to support them in order to engage them in productive activities. Perhaps the fundamental question for the motivational underpinnings of microfinance is whether it is a viable strategy for poverty alleviation relative to other poverty alleviation policies. Adams and von Pischke(1992). Amartya Sen writes, “While it is important to distinguish conceptually the notion of poverty as capability inadequacy from that of poverty as lowness of income, the two perspectives cannot but be related, since income is such an important means to capabilities.”¹

Microfinance is an economic development tool whose purpose is to aid the under privilege people to work their way out of poverty. It covers a range of services which include, in addition to the provision of credit, many other services such as savings, insurance, money transfers, counseling, microcredit, micro-lending, and other similar terms are often used interchangeably, microfinance is the term that is most comprehensive, including savings,

¹ Sen, Amartya. “Development as Freedom,” pg. 90.

loans, and insurance, and as such is the term that will be used throughout this paper. Microfinance concept which evolved that the borrowers are low-income groups the loans are for small amounts, the loans are without collateral, the loans are generally taken for income generating activities, although loans are also provided for consumption, housing and other purposes, the tenure of the loans is short, the frequency of repayments is greater than for traditional commercial loans.

In 1976, however, as the most popular story of microfinance goes, the man credited as the father of microfinance Muhammad Yunus, he challenged this idea and proved that the poor were really bankable. As he describes his experience, he relates that his work “became a struggle to show that the financial untouchables are actually touchable, even huggable.”² As Richard Rosenberg states, the issue of poverty is not just a matter of low incomes for households, but also a matter of the irregular and uncertain nature of the incomes which can be reduce through microfinance.

LITERATURE REVIEW

Sukhbir Singh (2007) “SHG-Bank Linkage Programme: Progress and Prospects” Microfinance services in India are provided mainly by two different model viz. SHG-bank linkage model and MFI-bank model. The self help group(SHG)-bank linkage model has emerged as the more dominant model due to its adoption by state-owned formal financial institutions, namely, commercial, regional rural cooperative banks. The MFI-bank model too is gaining importance due to massive support it gets from banks, especially new generation banks in the private sector and foreign funding agencies.

H.R Dave (2007) “SHGs and Saving Mobilization” in this paper he has thrown light on the key issues relating to saving mobilization by SHGs are as safety of the saving mobilized, payment of interest on the saving mobilized, need for other saving products for the SHGs and members.

Manish Kumar (2010) “Micro-Finance as an Anti Poverty Vaccine for Rural India” The potential for growing micro finance institutions in India is very high. Major cross-section can have benefit if this sector will grow in its fastest pace Annual growth rate of about 20 % during the next five year. The loan outstanding will consequently grow from the present level of about 1600 crores to about 42000 crores. Annual growth rate of about 20 % can be achieved during the next five years.

SREEKUMAR(2012) ” Status of Microfinance in India - A Review” Government of India introduced Micro Finance Institutions (Development and Regulation) Bill 2012 on May 22, 2012 to establish a regulator under RBI to regulate and supervise the activities of NGOs and MFIs. The Bill requires all MFIs to obtain a certificate of registration from RBI. The RBI has the authority to set maximum annual percentage rate charged by MFIs and sets a maximum limit on the margin MFIs can make. Margin is defined as the difference between the lending rate and the cost of funds.

Dr.A Sundaram (2012) “Impact of Self Help Group in Socio-Economic Development of India” He focused on programme in various blocks all seems to be successful in reaching poor clients importantly there evidence of increased household income. This is very significant indicator of impact. He also focused on SHGs roles in training Swarozgar Programme, infrastructure development, marketing and technology support, communication levels of members change in family violence, change in the saving pattern of SHG’s members per month achieving social justice, involvement in community action, defaults and recoveries, sustainable quality and accountability- financial values.

OBJECTIVES OF STUDY

- ❖ To understand the Microfinance and Self Help Group(SHG’s)
- ❖ To measure, test and evaluate the SHG’s Status in Uttar Pradesh

² Yunus, Muhammad. “Banker to the Poor: Micro-Lending and the Battle Against World Poverty,” pg. 57

RESEARCH METHODOLOGY

The research work is based on descriptive and analytical research. The study is mainly based on secondary data. The relevant information in this regard is collected from various sources like annual reports of research units, other published book and journal related to study, commercial magazine. The reference books have been referred from libraries. Thus, various sources have used to collect the relevant data. The data has been collected from the annual report of NABARD. In this paper last 5 years annual data of SHG's in Uttar Pradesh was used and correlation technique has been applied to analyze the same.

HYPOTHESIS

- H₀ : There is no significance relationship between Self Help Group(SHG's) and Saving
- H₀ : There is no significance relationship between SHG's and Bank loan Disbursed
- H₀ : There is no significance relationship between SHG's and Outstanding Loan

MICROFINANCE MODEL IN INDIA

In India Microfinancing Deals with four basic model and they are as follows

In first Model, it shows who borrows are and how they are facilitated. In these borrowers assisted directly by bank without intervention of any intermediaries like Non-government Organisation.

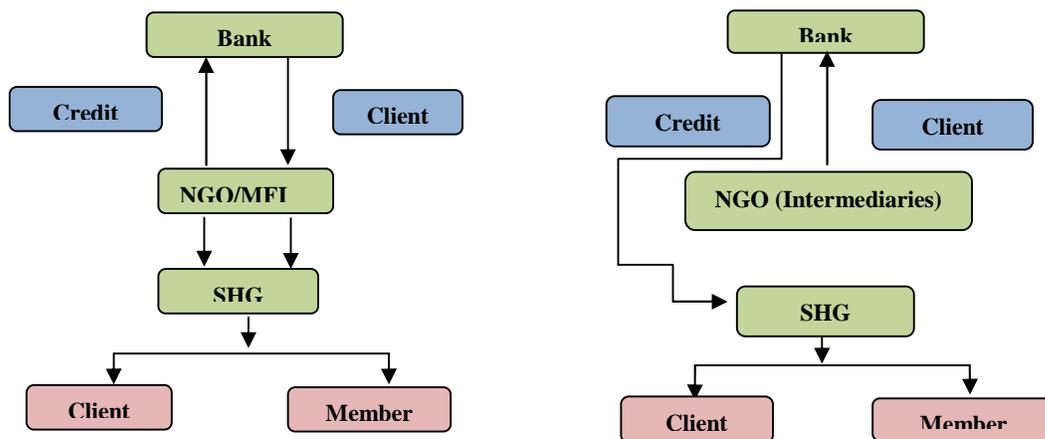
In second Model, Borrowers are financed directly with facilitation extended by formal or informal agencies like Government, Commercial Banks and Micro-Finance Institutions(MFIs) like NGOs, Non-Bank Financial Intermediaries an Co-operative Societies.

In third Model, Financing takes place through NGOs and MFIs as facilitators a financing agency. In fourth Model, is the Grameen Bank Model, similar to the model followed in Bangladesh

Regulatory Framework for Microfinance Institutions in India

Sl. No.	Type of MFI	Legal Registration
1	Non-Government Organisations(NGOs)	Society Registration Act, 1860, Indian Trust Act, 1882
2	Non-Profit companies	Section-25 of Indian Companies Act, 1956
3	Mutual benefit MFIs – Mutually Aided Cooperative Societies (MACS)	Mutually Aided Co-operative societies, Act enacted by State Governments
4	Non-Banking Financial Companies (NBFCs)	Indian companies Act, 1956, Reserve Bank of India Act, 1934

Financing Model: Adapted by Bank in India for Microfinance



Direct Financing Model

SHG-Bank Linkage Model

SELF HELP GROUPS (SHGS)

A Self Help Group (SHG) is a small, economically homogeneous and affinity group of rural poor which comes together to:³

- Save small amounts regularly.
- Mutually agree to contribute to a common fund.
- Meet their emergency needs.
- Have collective decision making.
- Resolve conflicts through collective leadership and mutual discussion.
- Provide collateral free loans on terms decided by the group at market driven rates.

Self-Help Group or in-short SHG is now a well-known concept. It is now almost three decades old. It is reported that the SHGs have a role in hastening country's economic development.

SELF HELP GROUP: INDIAN SCENARIO

In India, banks are the apex agency for delivery of micro-credit. In 1970, Self Employed Women's Association [SEWA] at Ahmadabad had developed a concept of 'women and micro-finance'. The Annapurna Mahila Mandal' in Maharashtra and 'Working Women's Forum' in Tamil Nadu and National Bank for Agriculture and Rural Development (NABARD)-sponsored groups have followed the path laid down by 'SEWA'. 'SEWA' is a trade union of poor, self-employed women workers.

Self Help Groups (SHGs) and Bank Linkage Programme

The SHGs-bank linkage programme is the flagship microfinance intervention mechanism of National Bank for Agriculture and Rural Development [NABARD]. The launching of its pilot phase in Feb, 1992 could be considered as landmark development in the annals of banking with poor. The informal thrift and credit groups of the rural poor came to be recognized as bank clients under the pilot phase. The pilot phase was followed by setting up of a working group on NGOs and SHGs by Reserve Bank of India in 1994, which came out with wide ranging recommendation on internalization of the SHG concept as a potential intervention tool in the strategy of banking with the poor. The Reserve Bank of India accepted most of the major recommendation and advised the banks to consider lending to SHGs as part of their mainstream rural credit operations.

SHG-Post office Linkage Programme

A pilot SHG-post office linkage programme was launched by NABARD in December 2003. This programme envisaged credit linking 200 SHGs in select 5 districts, viz., Sivaganga, Pudukottai, Tiruvannamalai, Tanjavur and Tiruvarur districts of Tamil Nadu.

The objectives of the pilot programme were to

- (I) To examine the feasibility of utilising the vast network of post offices in rural areas for disbursement of credit to rural poor on agency basis.
- (II) To test the efficiency of Department of Posts in providing micro finance services to rural clientele.

The salient features of the scheme are:

- (I) *Post offices open savings accounts in the name of SHGs promoted by identified NGOs.*
- (II) *The SHGs with savings accounts in the post office and which are six months old are provided loan by the post office, in multiples of their savings, based on the rating exercise on the lines of those adopted by banks.*
- (III) *Post offices provide term loans to SHGs repayable within two years in 24 monthly installments.*
- (IV) *Post offices charge an interest of 9 per cent per annum on the loans given to SHGs using a reducing balance method.*
- (V) *Post offices do not collect any loan processing charges or any other charges from SHGs.*

³ *Development monthly (2006), "Role of SHGs", volume 50*

- (VI) Project Implementation and Monitoring Committee (PIMCs) at district and State level are constituted by the post office.
- (VII) The district PIMC is responsible for smooth grounding of the project, sorting out operational issues and identification of appropriate NGOs. The PIMC meets on a quarterly basis.
- (VIII) State level PIMCs review overall implementation of the project, suggest new initiatives and recommend release of funds by NABARD to the Department of Posts.
- (IX) Department of Posts maintains separate books of accounts for all transactions relating to utilisation and operations of Revolving Fund Assistance (RFA) from NABARD.

Under the project, NABARD would provide financial support for capacity building programmes of postal officials. While loans are given at interest rates of 9 per cent per annum to SHGs by post offices, post offices would be allowed to retain an interest margin of 3 percent. The amount of actual interest collected from the SHGs would be shared between NABARD and post offices in the ratio of 2:1.

Microfinance in Uttar Pradesh

1	Potential Rural households to be covered	23.20 lakh		
2	Rural households covered* (SHG: savings linked)	67.97 lakh		
3	Districts with low coverage of SHGs	02 out of 30 districts		
4	Average savings/SHG	8000 National Average : 11230 Highest Priority State : West Bengal : 12388		
5	Average credit disbursed/SHG	99270 National Average : 168757 Highest Priority State : Uttar Pradesh : 136085		
		2010-11	2011-12	2012-13
6.1	Loans issued No. of SHGs(lakh)	0.28	0.34	0.47
6.2	Loans issued (crore)	384.25	445.41	473.28
7	Loans outstanding (crore)	1691.00	2031.77	1796.75
8	Gross NPA (` crore)	187.30	254.25	328.21
8.1	SGSY (` crore)	171.47	206.64	116.23
8.2	SHG (non-SGSY) (` crore)	15.83	47.61	211.98
9	No. of WSHG districts	19		

* No. of SHGs x 13 members / SHG (Source: Status of Micro Finance in India 2011-13 NABARD)
SHG (Self-help groups), SGSY (Swarnajayanti Gram Swarajgar Yojana), WSHG (Women Self-Help Groups)

MICROFINANCE: SELF HELP GROUPS (SHGs) OF UTTAR PRADESH

Table 1: Progress under Microfinance - Savings of SHGs with Banks Region-Uttar Pradesh

Year	Commercial Banks		Regional Rural Banks		Cooperative Banks		Total	
	No. of SHGs	Savings Amount	No. of SHGs	Savings Amount	No. of SHGs	Savings Amount	No. of SHGs	Savings Amount
2008-09	173464	12933.50	212224	10585.47	6218	441.60	391906	23960.57
2009-10	189374	16666.25	237942	9567.55	2444	230.23	429760	26464.03
2010-11	205734	25893.59	255508	10140.05	8915	235.92	470157	36269.56
2011-12	196140	26179.94	265849	10409.82	9195	231.68	471184	36821.44
2012-13	152501	23928.68	242460	14672.92	8971	599.22	403932	39200.82

Total No. of SHG:Saving

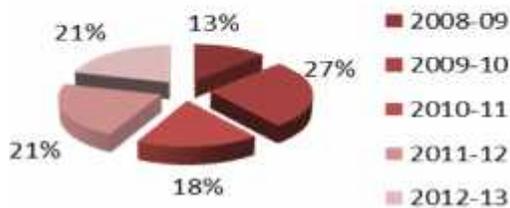


Table 2:Correlations among SHG and Saving

		SHG	Saving Amount
SHG	Pearson Correlation	1	.479
	Sig. (2-tailed)		.414
	N	5	5
Amount	Pearson Correlation	.479	1
	Sig. (2-tailed)	.414	
	N	5	5

Figure 1

Table 1 and Table 2 depict the Saving among the SHG's in Uttar Pradesh with Commercial Banks, Regional Rural Banks and Cooperative Banks from the period 2008-2013. Coefficient of Correlation (r) is used to measure the inter-relationship between variable. The correlations among the variables are determined using SPSS software. The Correlations among SHG and Total Saving with Banks by SHGs respectively, the value of r between SHG's and Saving Amount is 0.479 which shows that positive average relationship between them. When we talk about the significance of relationship, the test statistic rejected ($p > 0.05$) it means the null hypothesis is accepted.

Table 3: Progress under Microfinance- Bank Loans disbursed during the year of Uttar Pradesh

Year	Commercial Banks		Regional Rural Banks		Cooperative Banks		Total	
	No. of SHGs	Loans disbursed Amount	No. of SHGs	Loans disbursed Amount	No. of SHGs	Loans disbursed Amount	No. of SHGs	Loans disbursed Amount
2008-09	3787	2068.95	14955	18134.57	1498	1225.73	20240	21429.25
2009-10	16906	18649.40	23930	22274.73	1800	1492.05	42636	42416.18
2010-11	12949	18408.34	13988	19648.60	1493	368.11	28430	38425.05
2011-12	16975	21385.92	13994	22567.76	3528	587.15	34497	44540.83
2012-13	15539	19312.52	16513	24811.76	1088	974.17	33140	45098.42

Bank Loans disbursed to total SHG's



Figure 2

		SHG	Loan Disbursed Amount
SHG	Pearson Correlation	1	.818
	Sig. (2-tailed)		.090
	N	5	5
Amount	Pearson Correlation	.818	1
	Sig. (2-tailed)	.090	
	N	5	5

Table 3 and Table 4: state the Bank loan disbursed during five year from 2008-2013 to SHG's of Uttar Pradesh by financial institution. The Correlations among SHG's and Loan disbursed amount respectively. Coefficient of Correlation (r) is used to measure the inter-relationship between variable. The correlations among the variables are determined using SPSS software the value of r between SHG's and Loan Disbursed is 0.818 which shows positive relationship between them. When we talk about the significance of relationship, the test statistic rejected ($p > 0.05$) it means the null hypothesis is accepted.

Table 5: Progress under Microfinance - Bank Loans outstanding against SHGs Uttar Pradesh

Year	Commercial Banks		Regional Rural Banks		Cooperative Banks		Total	
	No. of SHGs	Loans outstanding Amount	No. of SHGs	Loans outstanding Amount	No. of SHGs	Loans outstanding Amount	No. of SHGs	Loans outstanding Amount
2008-09	16330	8874.80	93067	55104.86	3223	1054.26	112620	65033.92
2009-10	223422	100504.50	110270	60061.26	4665	3021.74	338357	163587.5
2010-11	108413	102242.24	101433	66028.24	4485	829.67	214331	169100.15
2011-12	105723	135844.71	102544	65746.54	4649	1585.72	212922	203176.97
2012-13	152501	23928.68	242460	14672.92	8971	599.22	403932	39200.82

BANK LOAN OUTSTANDING to SHG's



Figure 3

Table 5 and Table 6: depict the loan outstanding from SHG's of Uttar Pradesh during five year from 2008-2013 to financial institution. The Correlations among SHG's and Loan outstanding amount respectively. Coefficient of Correlation (r) is used to measure the inter-

		SHG	Loan outstanding Amount
SHG	Pearson Correlation	1	-.186
	Sig. (2-tailed)		.764
	N	5	5
Amount	Pearson Correlation	-.186	1
	Sig. (2-tailed)	.764	
	N	5	5

relationship between variable. The correlations among the variables are determined using SPSS software the value of r (-0.186). Which shows the negative relationship between SHG's and Loan outstanding amount. When we talk about the significance of relationship, the test statistic rejected ($p > 0.05$) it means the null hypothesis is accepted.

CONCLUSION

After evaluating, the data we concluded with that there is positive relationship between the SHG's of Uttar Pradesh and saving amount which depict saving habit among SHGs are increasing. We found that there is positive relationship between the SHGs and Loan Disbursed but significance aspect there is no significance which results to reject our hypothesis. And in case of Number of SHG's and Loan Outstanding there is negative relationship but statistical aspect its probability is more the ($P > 0.05$) which shows there is no significant relationship among Number SHGs and Loan Outstanding Amount.

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