

## **Role of financial institutions in promoting microfinance-(A Case study of NABARD)**

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### **Abstract**

*The imagination, with which microfinance was put into practice, has been turning into reality in India. Microfinance initiatives taken by different financial institutions have been accepted at different levels viz. the policy makers, the regulators and the implementers, as an effective way to address the financial needs of the poor. Micro-Finance In India, is dominated by Self Help Groups (SHGs) launched by NABARD as a tool for poverty alleviation has significant growth in assets (30%) and income level by (23%), there is also increase the number of years of schooling their children receive, and improve the health of the beneficiaries. 85% of the beneficiaries are women. However, research show that non-productive loans, procedural delays, high interest rates and lack of training are some of constraint affecting growth.*

Key words: SHGs, income, micro-Finance, beneficiaries, productive, interest

### **Introduction**

Financial institutions in the country have been playing a leading role in the microfinance programme 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 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). But NABARD has been instrumental in facilitating various activities under microfinance sector, involving all possible partners in the arena. 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 loans provided by various banks for microfinance activities. Microfinance has made tremendous strides in India over the years and it has become a household name in view of the multi-pronged benefits reaped/ receivable from microfinance services by the poor in our country. Self Help Groups (SHGs) have become the common vehicle of development process, converging all development programmes. SHG-Bank Linkage Programme launched by

NABARD way back in 1992 envisaging synthesis of formal financial system and informal sector has become a movement throughout the country. It is considered as the largest microfinance programme in terms of outreach in the world and many other countries are keen to replicate this model. At present, a large number of Self-Help Group Promoting Institutions (SHPIs), all the banking agencies and MFIs are pursuing this programme for the Upliftment of the poor. This is also recognized as a part of priority sector lending and normal banking business by Reserve Bank of India. This programme is also the main contributor towards the Financial Inclusion process in the country. As on 31 March 2009, there are more than 61 lakh saving-linked SHGs and more than 42 lakh credit-linked SHGs and thus, about 8.6 crore poor households are covered under the programme.

### **Research methodology**

Research has been conducted by using secondary data collected from annual reports of NABARD and also interaction and discussion made with the beneficiaries of this scheme and about 250 beneficiaries were contacted for the purpose.

### **Results and Discussion**

*Proportion of women SHGs*

*Coverage of Women SHGs*

The details of total number of women SHGs saving linked, credit linked and loans outstanding for the last two years are given in table 1.

Table 1: Position of Women SHGs (Rs in crore)

| Particulars        | Year       | Total SHGs |          | Exclusive Women SHGs |          | % age of women         |       |
|--------------------|------------|------------|----------|----------------------|----------|------------------------|-------|
|                    |            | No.        | Amt.     | No.                  | Amt.     | Amt. SHGs to total No. | SHGs  |
| Saving linked SHGs | 2007-08    | 5009794    | 3785.39  | 3986093              | 3108.65  | 79.57                  | 82.12 |
|                    | 2008-09    | 6121147    | 5545.62  | 4863921              | 4434.03  | 79.46                  | 79.96 |
| Loans disbursed    | 2007-08    | 1227770    | 8849.26  | 1040996              | 7474.26  | 84.79                  | 84.46 |
|                    | 2008-09    | 1609586    | 12253.51 | 1374579              | 10527.38 | 85.39                  | 85.91 |
| Loans Outstanding  | 31.03.2008 | 3625941    | 16999.91 | 2917259              | 13335.61 | 80.46                  | 78.45 |
|                    | 31.03.2009 | 4224338    | 22679.84 | 3277355              | 18583.54 | 77.58                  | 81.93 |

It may be seen that of the total saving linked and credit linked SHGs, exclusive women SHGs saving linked and credit linked with banks were 79.5% and 85.4%, respectively. Further, the percentage of loans outstanding of exclusive women SHGs to total SHGs was 78.45% as on 31 March 2008 and increased to 81.93% as on 31. March 2009.

#### Savings of SHGs with Banks

As on 31 March 2009, total 61,21,147 SHGs were having saving bank accounts with the banking sector with outstanding savings of Rs. 5,545.62 crore as against 50,09,794 SHGs having savings of Rs. 3785.39 crore as on 31 March 2008, thereby having growth rate of 22.2% and 46.5% respectively. Thus, more than 8.6 crore poor households were associated with banking agencies under SHG-Bank Linkage Programme. As on 31 March 2009, the Commercial Banks had the maximum share of SHGs' savings of

35, 49,509 SHGs (58%) with savings amount of Rs. 2772.99 crore (50%) followed by Regional Rural Banks having savings bank accounts of 16, 28,588 SHGs (26.6%) with savings amount of Rs. 1989.75 crore (35.9%) and Cooperative Banks having savings bank accounts of 9, 43,050 SHGs (15.4%) with savings amount of Rs. 782.88 crore (14.1%). The share under SGSY in the total savings was 15, 05,581 SHGs with savings of Rs.1, 563.39 crore forming 24.6 % of the total SHGs having savings accounts with the banks and 28.1% of total savings amount. The position of agency-wise savings of SHGs with banks as on 31 March 2008 & 31 March 2009 is given Table 2.

During the year under review, the average savings per SHG with all banks had increased from Rs 7,556 as on 31 March 2008 to Rs. 9,060 as on 31 March 2009. It varied from as high of Rs.12, 218 per SHG with RRBs to as low of Rs. 7,812 per SHG with

Table 2: Savings of SHGs with Banks - Agency-wise Position (Rs in crore)

| Agency  | Position as on | Total SHGs' Savings with the banks as on 31 March 2008/09 |         |         |         | Per SHG Savings (Rs.) | Out of Total : SHGs' savings with banks under SGSY |          |
|---|----------------|---|---------|---------|---------|-----------------------|--|----------|
|   |                | No. of SHGs   | % Share | Amount  | % Share |                       | No. of SHGs  | Amount   |
| <b>Commercial Banks (Public &amp; Private Sector)</b> |                |   |         |         |         |                       |  |          |
|   | 31.03.08       | 2810750   | 56.1    | 2077.73 | 54.9    | 7392                  | 765775   | 527.02   |
|   | 31.03.09       | 3549509   | 58.0    | 2772.99 | 50.0    | 7812                  | 931422   | 681.60   |
|   | % growth       | 26.3  |         | 33.5    |         | 5.7                   | 21.6   | 29.3     |
| <b>Regional Rural Banks</b>                           |                |   |         |         |         |                       |  |          |
|   | 31.03.08       | 1386838   | 27.7    | 1166.49 | 30.8    | 8411                  | 357004   | 210.83   |
|   | 31.03.09       | 1628588   | 26.6    | 1989.75 | 35.9    | 12218                 | 433912   | 774.55   |
|   | % growth       | 17.4  |         | 70.6    |         | 45.3                  | 21.5   | 267.4    |
| <b>Cooperative Banks</b>                              |                |   |         |         |         |                       |  |          |
|   | 31.03.08       | 812206  | 16.2    | 541.17  | 14.3    | 6663                  | 80291  | 71.66    |
|   | 31.03.09       | 943050  | 15.4    | 782.88  | 14.1    | 8302                  | 140247   | 107.24   |
|   | % growth       | 16.1  |         | 44.7    |         | 24.6                  | 74.7   | 49.7     |
| <b>TOTAL</b>  | 31.03.08       | 5009794   | 100.0   | 3785.39 | 100.0   | 7556                  | 1203070  | 809.5    |
|   | 31.03.09       | 6121147   | 100.0   | 5545.62 | 100.0   | 9060                  | 1505581  | 11563.39 |
|   | % growth       | 22.2  |         | 46.5    |         | 19.9                  | 25.1   | 93.1     |

Commercial Banks. As on 31 March 2009, the share of women SHGs in the total SHGs with saving bank accounts was 48,63,921 SHGs forming 79.46 % as compared to the last year's share of 79.56%.

The State-wise and bank-wise position of savings of SHGs with banks as on 31 March 2009 is indicated at Statement III-A (i) (Public sector Commercial Banks), III-A (ii) (Private sector Commercial Banks), III-B (RRBs) and III-C (Cooperative Banks).

*Bank loans disbursed to SHGs*

During the year 2008-09, the banks financed 16,09,586 SHGs, including repeat loan to the existing SHGs, with bank loan of Rs. 12,253.51 crore as against 12,27,770 SHGs with bank loan of Rs. 8,849.26 crore during 2007-08 registering a growth rate of 31.1% (No. of SHGs) and 38.5% (Bank Loan disbursed). Out of the total loans disbursed during 2008-09, SHGs financed under SGSY were 2, 64,653 (24.6%) with bank loan of Rs. 2015.22 crore (28.2%) as against 2, 46,649 SHGs (20%) with bank loan of Rs. 1857.74 crore (21%) during 2007-08.

*Financial Support and Promotional Efforts by NABARD NABARD Refinance Support to Banks*

NABARD provides refinance support to banks to the extent of 100% of the bank loans disbursed to SHGs. The total refinance disbursed to banks against banks' loans to SHGs during the year 2008-09 was Rs. 2620.03 crore as against Rs. 1615.50 crore during the year 2007-08 registering a growth rate of 62.2 %. Further, the cumulative refinance disbursed under SHGs bank linkage programme by NABARD to Banks up to 31 March 2009 stood at Rs.9688.09 crore.

*Promotional Support - SHG-Bank Linkage*

*Micro Finance Development and Equity Fund (MFDEF)*

Recognizing the need for up scaling the micro-finance interventions in the country, the Hon'ble Union Finance Minister, while presenting the budget for the year 2000-01, announced the creation of a Micro Finance Development Fund (mFDF) with initial contribution of Rs.100 crore, to be funded by Reserve Bank of India and NABARD (Rs.40 crore each) and the balance Rs.20 crore to be contributed by commercial banks. In the Union Budget for 2005-06, the Government of India had decided to re-designate the existing MFDF as Micro Finance Development and Equity Fund (MFDEF) and raised its corpus from Rs.100 crore to Rs.200 crore with the similar ratio of contributions. The MFDEF is managed and administered by NABARD. The objective of MFDEF is to facilitate and support the orderly growth of the microfinance sector through diverse modalities for enlarging the flow of financial services to the poor,

particularly for women and vulnerable sections of society consistent with sustainability. The Fund is utilized to support interventions to eligible institutions and stakeholders. The major components of the assistance include promotional grant assistance to Self-Help Promoting Agencies, training and capacity building for Microfinance clients and stakeholders of SHG - Bank Linkage Programme, funding support to MFIs, Management Information System (MIS) for microfinance, research, studies and publications.

*Micro Enterprise Development Programme (MEDP) for skill Development*

The programme was launched in March 2006 with the basic objective to enhance the Capacities of the members of matured SHGs to take up micro enterprises through appropriate skill up gradation / development in the existing or new livelihood activities both in farm and Non-farm sectors by way of enriching knowledge of participants on enterprise management, Business dynamics and rural markets. It is tailor-made and focused on skill building training Programme. The duration of training programme ranged between 3 to 13 days, depending upon the objective and nature of training. A training budget of Rs.30, 000/- per programme is earmarked for imparting training to 30 participants up to 13 days. During 2008-09, a total 879 Micro Enterprise Development Programmes (MEDPs), both under Farm and Non – farm activities, were conducted across the country covering 41479 members of the matured SHGs. Cumulatively, total 1307 MEDPs have been conducted so far covering 55464 participants. The dominant activities in agriculture and allied sector covered under MEDPs were bee-keeping, mushroom cultivation, vermi-compost/ organic manure, animal Husbandry, horticulture, floriculture, etc. whereas predominant non-farm activities taken up Under MEDPs was Agarbatti-making, embroidery, bamboo-craft, beauty parlours, readymade Garments, etc.

**Conclusion and Suggestions**

\* Micro finance remains a powerful tool for development. As it has brought a sea change in the lives of many, however, for sustainable development of the poor and rural economy, focus must be on development of rural infrastructure and the rural economy, to ensure that there will exist activities that require finance. NABARD manage the Rural Infrastructure Development Fund (RIDF). In case the banks are unable to achieve the priority sector lending targets for agriculture, the banks are expected to deposit the shortfall with NABARD under the RIDF. This fund is used by NABARD to fund rural

infrastructure projects. While the banks falling short of their targets have been depositing the amounts with NABARD, NABARD has not deployed these funds effectively. NABARD has disbursed only around Rs.13, 000 crores out of the total corpus Rs. 23,000 crores available under various phases of RIDF. Therefore the amount that should have rightfully reached the rural economy has not reached them, either directly or indirectly.

- \* The successful reached operations of micro finance indicates that the poor repay their loans and are willing to pay for higher interest rates then commercial banks provided access to credit is provided. Also it assures that the poor save and hence micro finance should provide both savings and loan facilities. In spite of impressive growth over the past few years, microfinance in India is still presently too small to create a massive impact on poverty alleviation As its average loan size is too small to eradicate poverty. but if pursued with skill and opportunity development of the poor, it hold the promise to alter the socioeconomic face of the India's poor.
- \* Self Help Group Bank linkage model of improving financial accessibility of poor is cost effective and sustainable and certainly contributes to poverty alleviation. However, caution should be exercised in forming and nurturing such groups without sacrificing quality for the sake of quantity to achieve the targets fixed. Looking into the old experience of government participation in cooperatives it will be better if the government remains just as a facilitator without direct involvement in programme.
- \* Majority of SHGs use loan amounts for unproductive purposes i.e., consumption needs and social needs. Non-productive use of the borrowed funds resulted into irregularity in repayment of loan amount.<sup>1</sup> It must be discouraged.
- \* Also the poor save and hence microfinance should provide both savings and loan facilities. These two findings imply that banking on the poor can be a profitable business. However, attaining financial viability and sustainability is the major institutional challenge.

- \* Study carried indicate that women are reliable borrower and therefore majority of lending should be done to women or SHGs dominated by women.
- \* Since only 4% of total population have access to microfinance establishment of an institution that could combine the strengths of an Ngo and expertise of a financial institution, with participation from community will be appropriate.

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