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Micro Finance through Self Help Groups in Andhra Pradesh-A Study

Dr. Bhukya Narasimha Nayak:
Lecturer In University Post Graduate Collage, Mahabubabad, Kakatiya University,Warangal

INTRODUCTION:

Finance is one of the most crucial inputs for economic activity,growth and development.It finance through own accumulated resource or equity is neither available,nor sufficient,debt assumes a major significance. Financial institutions (FIS) play an important role in this regard by channellising funds from surplus sector (Savers) to deficit sectors (Investors).However,these institutions do not show much enthusiasm to put their resources in rural and backward areas for the benefit of poorer people as these are commercial organizations and are basically interested in profitability and sustainability.

Micro Finance refers to the entire range of Financial and Non-Financial services including skills upgradation ,and ectrepreneurship development,rendered to the poor for enabling them to overcome poverty.Micro credit has a limited connotation and refers to credit provided to the poor for self employment,and other financial and business services.Self-Help group (SHG) movement has become quite popular in number of states to enable the poor to pursue income generating activities,and derive economic benefit out of mutual help,solidarity,and joint responsibility.The small homogeous groups of poor people,with focus on women,undertake savings and credit acv\tivity as informal voluntary associations to attain a collective goal.

MICRO FINANCE Vs MICRO CREDIT :

Since Formal credit Institutions rarely lend to the poor,special institutional arrangements become necessary to extend credit to those who have no collateral to offer.Micro Finance (MF) by providing small loans and savings facilities to those who have been excluded from Commercial Financial Services,has been promotedas a key strategy for reducing poverty in all its forms by agencies,all over the world, particularly in developing countries.Micro Credit (MC) has been defined as “Programmes that can provide credit for self employment and other Financial and business services to very poor persons”. Micro Finance as a”Provision on thrift, credit and other Financial services and produts of very small amounts to raise the income levels of clients,and improve their living standards”.While micro credit loans are generally advanced for self-employment projects,they are also sometimes advanced for consumption,repayment of earlier debts,and other social needs.It is necessary for micro-credit institutions to get borrowers make the transition from consumption loans to production loans or loans for income bearing projects.MF is an economic development approach that involves providing Financial Services through institutions to low income clients.

Now a days, micro finance represents something more than micro credit.Micro Finance (MF) is a financial services may include savings,credit,insurance,leasing,money transfer,equity transaction,etc.; that is,any type of financial service,provided to customers to meet their normal financial needs:Life cycle, economic opportunity,and emergency,with the only qualification that (1) the transaction value is small,and (2) the customers are 'poor' .Thus,micro finance refers to the entire range of financial and non-financial services,including skill upgradation and entrepreneurship development,rendered to the poor for enabling them to overcome poverty.

Besides size and clientele group,what makes credit (MC) different from normal credit is that the later is 'walk in' and the former is 'walk out' business for the FI.Unlike normal credit,micro credit is linked with collateral substitute and credit plus services.Micro credit,thus,becomes distinct from other regular credit where not only the credit amount is small and the clientele is poor,but also credit is provided with' collateral substitute' instead of traditional collateral; and non-financial services for increasing the productivity of credit.

The basic unit of micro Finance is a group of persons called Self Help Group (SHG).SHGs are small informal associations of 15 to 20 poor persons created for the purpose of enabling members to reap economic benefit out of mutual help, solidarity,and joint responsibility.Thease small and homogeneous groups involved in savings and credit activity are capable of taking care of risks through peer monitoring.The informal voluntary associations ofSHGs are formed to attain a collective goal.

To some extent,micro credit is not a new concept in india.Priority sector credit general,and weaker section credit in particular was actually a kind of micro credit.In the 2007s during the banking sector reforms,the definition of priority sector underwent sea change.So far as micro savings services are concerned , thease are indeed recent with the advent of self help group movement,from 2009 with the initiative of Reserve bank of india (RBI),and National Bank for agriculture and rural development (NABARD) in introducing pilot projects of SHGs with savings and credit objectives,and adoption of best Management Practices. Micro Insurance,however, is still in the experimental stage;till no,'micro savings' has been a proxy for 'micro insurance'.Only savings and credit aspects of micro finance have been addressed so far in the country. NABARD's initiative and expansion of SHG movement has led to SHG-Bank linkage(SBL),with focus on income generating enterprises for the weaker sections.The process of group promotion is an important step in the evolution of sustainable SHG-Bank linkage.Under priority sector lending,micro finance is described as credit not exceeding RS.50,000 per borrower.

IMPORTANCE OF MICRO FINANCE:

Credit is vital to the poor for overcoming the invitable and common disjuncture between income and expenditure.Credit is also crucial to the poor for income generating activities,like investing in their marginal farms or other small-scale self-employment ventures.Their access to formal banking channels, hower, is limited due to their low resource base as well as the nature of formal credit institutions.The popularly of the micro-finance Self Help Group steam from widespread recognition that formal banking channels are largely ineffective in catering to the credit needs of the poor.

Tiny savings and loans are therefore an unattractive business prpposition for formal banking institutions. In addition to disincentives faced by the banks,there are also problems faced by the poor in accessing loans from formal banking institutions.For example,to minimize risks,banks demand collateral security that the average micro-borrower does not possess.Banks also insist on complicated procedures that are too time-consuming and often tpp complicated for the poor and illiterate.Even in the implementation of direct lending programmes formal institutions find it difficult to overcome the problem of targeting.The experience is that the rich and powerful typically manage to corner the scarce loanable funds. Thus, formal banking channels remain largely inaccessible to the poor in developing countries like india.

As a result the poor continue to be dependent on informal sector lending,paying exorbitant rates or underselling the product and their labour owener to the creditor.It was in response to these limitations in formal banking channels that micro-credit mechanisms were innovated.

The most popular form of modern micro-finance organizations is women's Self Help Groups,consisting of a loose group of members who live in close proximity to each other and who meet at regular intervals (most often weekly).The primary focus of Self Help Group is savings and loans: the groups collect regular thrift from the members,the amount of which is collectively pre-agreed upon,and provide loans from the thrift fund to members.The groups may also access lonable funds from financial intermediaries, including commercial banks, co-operatives, special government agencies, or non-governmental organizations.

The success and sustainability of this pattern of Self Help Groups steams from the fact that the regular meetings create a mutual trust and bond among the members,which acts as a form of pressure ensuring regular repayment by the members. The system also caters to the savings needs of the poor through thrift collection. A further advantage of this system is that the group may diversify its activities on other social and economic objectives such as adult education,health education, health care, and micro-enterprise development.

There is no uniformity in the size of Self Help Group with the range generally falling between twenty members and forty members.Natural boundaries and geographically proximity in group formation has often led to the formation of larger groups.Though there is no uniformity in size, it is generally accepted that smaller groups contribute to better participation in the decision-making process and facilitate greater transparency, greater dissemination of information,and easier management. The large groups,by contracts,have grater potential for community-based action.

Self Help Group is a viable organized set up to disburse micro credit to the rural women and encourage them in entrepreneurial activities.SHGs and micro credit are the solutions to speed up the socio-economic development of poor women.In the November,2006 Micro Credit Simmit,U.S.first lady Hillary Clinton wrote: "micro enterprise is the heart of development because micro enterprise programmes work-they lift women and families out of poverty.It is called micro but its impact on people is macro;we have seen that it takes just a few dollars,often as little it takes as doller 10 to help a women gain self employment lift her and her family out of poverty.It is not a hand out;it is a helping hand;(Dr.Lekshmi R.Kulshreshta and Archna Gupta,2013). The various forms of micro-credit systems have proven successful in delivering credit to the poor and ensuring high rate of repayment when compared to the formal channels.Because micro-credit systems have been effective in reaching the poor, many developing countries have set up special financial institutions that either directly provide credit to Self Help Groups and the facilitating NGOs or help refinance commercial and co-operative banks that provide the credit.Thease national micro-finance institutions are in turn funded by international agencies as well as the national government.The important features of micro credit are:

1. Loans and micro finance programmes are very small;

2. Micro finance targeted the rural and urban households,I.e., women;

3. Credit under micro finance follows thrift, I.e.,mobilize savings and lend the same;

4. Low transaction cost;

5. Transparency in operation;

6. Short repayment period;

7. Liberal procedure for processing and delivering credit;

8. No collateral security required for loans;

9. Need based ioan disbursements;

10. Prompt repayment an also there is no ceiling from the RBI in respect of minimum and maximum amounts.

MICRO FINANCE AT NATIONAL LEVEL :

Micro Finance has become a part of the lending pattern of banks in india for providing credit to very small borrowers,who normally remain beyond the reach of institutional credit agencies.Credit delivery mechanism has adopted Self Help Group for reaching out to them. As a result of the promotional efforts made by the banks,regional rural banks, co-operative banks and voluntary organizations,over 8 lake SGHs have emerged in different parts of the country. Commercial banks have promoted the largest number,50 percent of them followed by regional rural banks (39 percent) . It is interesting to note that 3 private sector banks of the new generation also have taken the initiative in promoting SHGs mostly in urban areas.Micro Finance institutions have cropped up as intermediaries between banks and the SHGs,obtaining a line of credit from banks,which are ostensibly interesting in small borrowers.

NABARD has been working as cataiyst in promoting and linking more and more SHGs to the banking system. A Micro Finance Development Fund has been consituted in NABARD.This would be utilised for scaling up the SHG linkage programme and supporting other micro-credit initiatives. Special emphasis is on vulnerable sections including women,scheduled castes and scheduled tribes.The refinance assistance provided by NABARD with regard to micro credit is presented in the Table 1 below reveals that commercial banks and regional rural banks have developed linkage to 4,61,478 SHGs (31.03.2017). The cumulative credit disbursed by them is Rs.545.46 Crores as on 31.03.2017. The amount of refinance provided so far is Rs.395.73 Crores.

As per current growth rate,by 2018 NABARD aims at linkage one million SHGs involving 20 million poor households with the help of 4000 Non Government Organization and 1000 Micro Finance Institutions.

Table-1: Micro Finance at National Level

YEAR	No.of SHGs	Bank Loan (Rs.in Crores)	NABARD Refinance (Rs.in Crores)
2008-2009	255	0.289	0.268
2009-2010	620	0.650	0.459
2010-2011	2112	2.440	2.303
2011-2012	4757	6.058	5.661
2012-2013	8598	11.840	10.650
2013-2014	14317	23.760	21.380
2014-2015	32995	57.070	52.060
2015-2016	114775	192.870	150.130
2016-2017	263825	480.870	250.620
2017-2018	461478	545.46	395.730

Source : Kurukshetra , Aprill, 2018.

SHG Bank Linkage Programme in Andhra Pradesh:

In Andhra Pradesh ,up to the year 2010-2011,almost two-thirds of SHGs were those promoted by NGOs.Later,a little over half of the SHGs are promoted by the State Governament, less than a third by NGOs, and the balance by banks.SHGs promoted are under the SHG-Bank Linkage Programme (SBLP) and SGSY.

Involvement of the state government in promoting SHGs and bank linkage is through SBLP,as well as SGSY from 2010 and Indira Kranthi Patham (IKP) Programme from 2011.World Bank-assisted Andhra Pradesh District Poverty Initiatives Project (APDPIP) was started in june 2011 in 316 backward mandals in 6 districts. In june 2013,it was extended to 548 backed mandals in the remaining 16 districts. In 2015,the project,earlier known as Veluge,meaning light or brightness,was renamed as Indira

Kranthi Patham (IKP) ,and is in operation in all the backward mandals of the state. The focus of the programme is on assisting the poorest of the poor. For implementing the World Bank- assisted Poverty Reduction Project,Society for Elimination of Rural poverty (SERP) was registered at the state level. SERP along with District Rural Development Agencies (DRDAs) concentrated on the formation of new SHGs, strengthening of old groups,and credit linkage with the banks.

At the end of March,2018 the cumulative picture of SHGs credit linked with banks other than under SGSY programme in Andhra pradesh accounted for 6.84 lakh SHGs and Rs.7,121 crore bank loan. During 2017-2018 alone, total no.of SHGs credit linked is 359.276 (96,381 new, and 262,895 existing ones for repeat loans), with total SHGs credit of Rs.2,776 crore. Loans dirbursed is Rs.2,354 crore for existing SHGs for repeant loans as against Rs.422 crore for new SHGs. Cumulative pictures of NABARD refinance up to end March,2018 is Rs.2,282 crore,with Rs.418 crore for 2017-18.More than half (behond 3 lakhs) SHGs were formed from 2011 to 2018 under IKP and its predecessor programmes of rural poverty reduction. Thus the state-backed project has made a great difference in the growth of SHG movement in the state.During 2017-18,the share of Andhra Pradesh in india, in terms of number of SHGs credit linked is 31.4%, and SHG credit disbursed is 41.8%. In 2012-13, the corresponding percentages were 30.9 and 44.4 cumulative picture at end March,2018 reveals that Andhra Pradesh in relation to all india accounts for 23.4% of SHGs credit linked, and 39.5% of SHG credit . States standing a distant next are Tamil Nadu and Karnataka. Analysis of the cumulative picture for Andhra Pradesh agency-wise at end March,2018 reveals that commercial banks stand prominent with 65.1% of SHGs and 67.9% of SHG credit. The corresponding percentages for RRBs are 32.3% and 30.6% followed by co-operative banks (2.6% and 1.5%). As the programmehas gained momentum in a number of states over years,the share of Andhra Pradesh has been declining. Involvement of strong localcommercial banks and the healthy RRBs has undoubtedly given fillip to the SHG movement in the State, in addition to the proactive role played by the State Government .

What gives further distinctiveness to the State's endeavours is the federation structure that has been adopted from 2012. These individual SHGs are federated into a Village Organisation (VO). The VoS are,in turn, federated into mahila mandal Samakhyas. The mandal Samakhyas in a district come together to form a Zilla Samkhya. This federation structure is crucial to provide economies of scale, and to establish institutions of the poor , and by the poor at all the three tiers of administrative hierarchy . There are at present 22 zilla samakhyas, 1000 mandal samakhyas, and 29,000 VoS in Andhra Pradesh , all registered under the landmark Mutually Aided Co-operative Societies Act,(MACS ACT).

The SHG network in Andhra Pradesh has gone beyond credit,and assumed a number are responsibilities , which can be colled non-traditional. Four areas deserve special mention here :

1. It has taken up marketing of commodities like maize, neem,soybean , coffee , lac , and red gram .The big

challenge is to go beyond traditional marketing , and get into value addition in a meaningful measure , and develop linkage with exporters and processors directly .

2. Secondly,it is being used to distribute old-age pensions . Timely disbursement of pensions , and disbursements without a "consideration" atre the hallmark of the SHG involvement .

3. Thirdly , the elements of a community-based food security system are being put in place .

4. Fourthly , dairy interventions have started with livestock being purchased through SHG-Bank linkages , and with the SHG network setting up milk coolers and milk procurement centers . Ensuring that links are established between the network of SHGs and the traditional dairy procurement network is important , as dairying is very significant as a income - augmenting occupation to crop agriculture and horticulture .

5. One more, somewhat unusal intervention through the SHG network relates to non-pesticide management (NPM) in agriculture , particularly cotton . NPM agriculture , is probably , the first step to organic farming , which is gaining popularity with in the country and internationally . It has significance for exports as well .

The Andhra SHG story has undoubtedly been government-driven . Perhaps , that is one reason why it has not drawn attention as much as that received by some MFIs operating at vastly smaller scales , and vastly lower scope . What is shown is that the government can innovate , can demonstrate commitment and concern . With in the government system , there are people who are motivated and who give political support can and will deliver . The Andhra SHG story also involves subsidy. The state government provides an interest subsidy to SHGs of 75% of interest paid by them to banks. This subsidy is performace linked . Only SHGs that repay bank loans regularly are eligible . This is indeed the way it should be . As against 11% interest per annum charged by banks. SHGs have to pay only 3%; the balance will be met by the state government as subsidy . This is known as "Pavala Vaddi Scheme", referring to the fact that only 25% of interest is to be born by SHGs on loans obtained by them from banks .

STRENGTHENING MFIs BY LINKING WITH A BANK- ICICI BANK'S CUSTOMER- CENTRIC STRATEGY :

The ICICI Bank, despite its recent origin , has embarked upon new strategies to make borrowing customer - centric by enhancing space and time to reach distant and local call customers .The strategic partnership models that the Bank has been experimenting with could be summed up as follows:

A. Equity participation with MFIs.

B. Funding total loan requirements.

C. Securitisation of loans funded by MFIs.

D. Appointing NGOs as agents to reach the local poor .

E. Making them as agents to sell specific products of the bank .

F. Jointly promoting MFIs by providing intellectual and financing support to the interested social workers .

The MFIs have revealed the poteniality to become effective , economic , and viable agents to reach the poor . It is also observed that these organizations help the banks to reduce transaction costs , and provide technology and manpower support with less operating costs .

CONCLUSIONS :

The experience of Grameen Bank in Bangladesh and other programmes like in india shows that micro credit is effective in helping the poor people to use their own efforts and creativity to meet their basic needs . The coming year will be very critical for us in setting the stage to achieve the target of poverty erediction . For this, we have to make adequate institutional, financial and policy preparations . It is expected that this would come into a reality in the near future .

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