

PRAGMATICS OF MICRO-FINANCING IN INDIA:  
A STATE-WISE ANALYSIS

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Abstract

The study has been undertaken with the objective 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. The study also tries to analyze the trends of micro-financing scenario across major states of India. 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 micro-finance is also analysed on women empowerment and it turns out to be positive. Overall, the finance schemes are spreading all over India over the last few years.

*Keywords:* micro-financing, World Bank, development, population

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## 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. But according to Ravallion (2005) the developing world is poorer than we thought, but no successful in the fight against poverty. 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.

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 institutions and cannot borrow from informal institutions 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, micro-finance 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.

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According to consultative group to assist poor (CGAP) “ micro-finance 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 activities, build assets, stabilize consumption, and protect against risk. These services are not limited to credit, but include savings, insurance, and money transfer.

### **A Brief History of Micro-Finance**

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 micro-finance over the last couple of years to eradicate poverty with the help of NABARD.

### **Micro-Finance in India**

New micro-finance approaches have emerged in India over the past decade, involving the provisions 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

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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.

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## Literature Review

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 providing such services because of factors like high transaction cost emanating from the low scale of operation, high turnover of clients, frequency of transaction etc. (Mahajan and 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).

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 enabled to organize themselves. They need subsidized credit for increasing their income and are too poor to serve. The study by Yaron (1994) found that micro-finance 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 expanded in recent years. Some examples are: Membership of Sa-Dhan (a leading association) has expanded from 43 to 96 community development. The CARE CASH program took on the challenge of working with small NGO-MFIs and community owned-managed micro-finance organization. The study also reveals that results in term of micro-finance outreach can be identified that represents achievements that are far beyond any ambitious outreach 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 applying approval and collection processes, hence reduce cost. Barry (1996) is of the view that MFIs to become financially viable, self sustaining and interegral 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

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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 ownership, 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

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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 states account 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.

Micro-finance, 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. micro-finance is also increasingly becoming an investment opportunity. The total stock of foreign capital investment in micro-finance 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

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reported well. In comparison eastern India has not enjoyed the lime light in the stage of micro-finance.

### **Research Design and Methodology**

#### **Objectives of the Study**

The study has been undertaken with the following objectives:

- a) 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.
- b) To analyze the trends of micro-financing scenario across major states of India.

#### **Hypotheses**

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

### **Data Sources and Methodology**

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 micro-finance and loans disbursed to different agencies and SHG's by different banks. The main source of data has been NABARD.

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 using the formula  $Y = abt$ . The growth of various micro-finance agents have also been analyzed with the help of annual growth rates. The two indices penetration of micro-finance (MPI) and intensity of penetration of micro-finance among poor (MPPI) have been presented in the 2009 report for the first time. The intensity of penetration of micro-finance (MPI) has been computed by dividing the share of the state in micro-finance clients by share of population. Intensity of penetration of micro-finance among poor (MPPI) has been derived by dividing the share of the state in micro-finance 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

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## Results and Discussion

Table 1  
Growth of SHG's in Pre and Post Liberalisation Period

<u>Period</u>	<u>No of SHG</u>	<u>Growth%</u>
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 1 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

Table 2  
Bank Loan Disbursed to SHGs

<u>Period</u>	<u>Bank Loan (In Crores)</u>
1994-95	1.79
95-96	3.62
96-97	5.78
97-98	11.92
98-99	33.31

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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

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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.

Table 3

Correlations between No. of SHGs and Bank loan Disbursed by SHGs

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		<u>No of SHGs</u>	<u>Bank loan disbursed by SHGs</u>
No of SHGs	Pearson Correlation	1	.973**
	Sig. (2-tailed)		.000
	N	13	13
Bank loan disbursed by SHGs	Pearson Correlation	.973**	1
	Sig. (2-tailed)	.000	
	N	13	13

\*\* Correlation is significant at the 0.01 level (2-tailed).

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As depicted in Table 3 there is a strong correlation between no of SHGs and Bank loans disbursed, which is quite obvious, as more no of SHGs are going to disburse more loans. Thus the overall scenario depicts an increase in micro-financing activities in India. The results highlight that trend rates of growth of micro-financing in the post-2000 period are higher than that of 1994-1999.

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### State-Wise Analysis

#### Micro Penetration Index (MPI) and Micro Poverty Penetration Index (MPPI)

Switching over to Micro Penetration Index (MPI) and Micro Poverty Penetration Index (MPPI), the two important indices to gauge the performance of state-wise micro-financing scenario. 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 micro-finance (MPI) has been computed by dividing the share of the state in micro-finance clients by share of population. Intensity of penetration of micro-finance among poor (MPPI) has been derived by dividing the share of the state in micro-finance clients by share of population. Since the micro-finance 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  
Ranking of Selected States Based on MPI and MPPI (2009)

<u>Name of The State</u>	<u>Top Five States</u>	
	<u>MPI</u>	<u>MPPI</u>
Andhra Pradesh	3.84	6.68
Uttarakhand	2.46	2.75
Tamil Nadu	2.24	2.73
Orissa	2.13	2.14
Karnataka	1.94	2.13
	<u>Last Five States</u>	
Nagaland	0.06	0.08
Punjab	0.13	0.09
Haryana	0.15	0.15
Gujarat	0.16	0.16
Uttar Pradesh	0.18	0.27

The above Table 4 represents the trends of top 5 (Andhra Pradesh, Uttarakhand, Tamil Nadu, Orissa, Karnataka) and last 5 (Nagaland, Punjab, Haryana, Gujarat and Uttar- Pradesh) states 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.

Fig. 1  
Cumulative Growth in SHG Bank Linkage

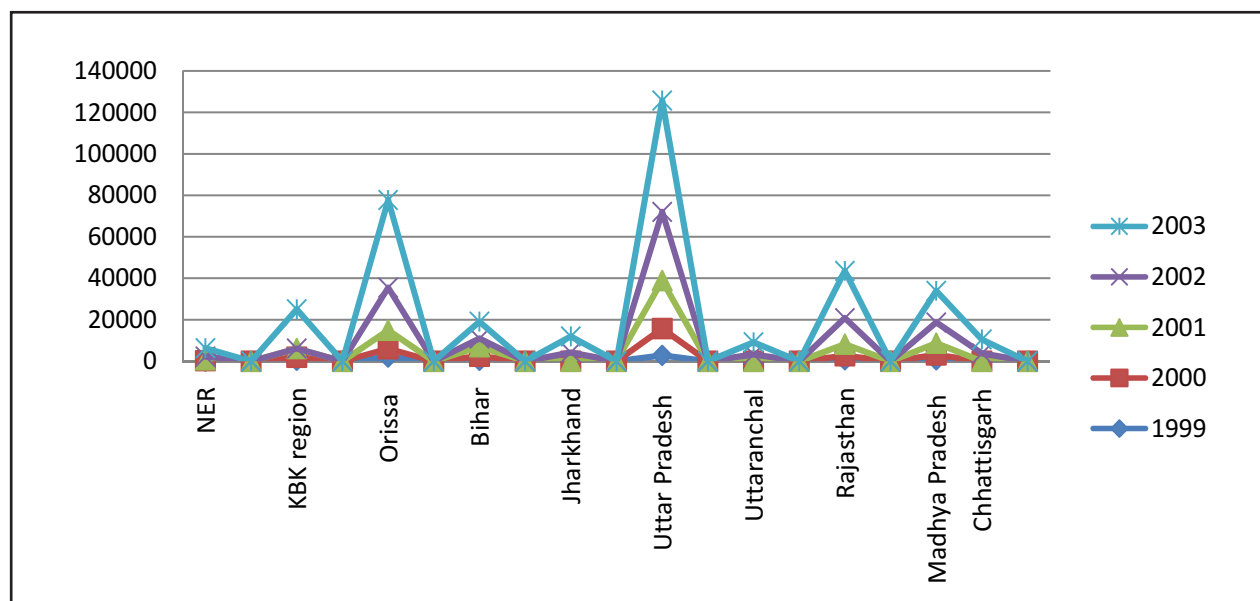


Fig.1 depicts the trends of SHG linkage with banks. The graph depicts that among the states, Uttar Pradesh is the state with maximum number of SHG's linked with the banks. The weakest among all the regions is North Eastern Region (NER) which needs to improve upon development of people and systems in order to enhance the number of SHG's that could cater to micro-financing.

Table 5  
Progress of SHG in Underserved 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

Table 6  
Growth of SHG's in 13 Priority States

<u>States</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Growth %</u>
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
Madhya Pradesh	7981	15271	27095	45105	57125	70912	24
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.

### 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 7  
Growth in Credit Linkage of SHGs - Regional Spread

<u>Region</u>	<u>Number of SHGs</u>		<u>Credit Linked</u>	
	<u>2000-01</u>	<u>Cumulative</u>	<u>2006-07</u>	<u>Cumulative</u>
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

Micro-finance 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 micro-finance programs for nearly two decades now. They have joined hands proactively with informal delivery channels to give micro-finance sector the necessary momentum.

During the current year too, micro-finance has registered an impressive expansion at the grass root level. The year 2008-09 is the third year that the data on progress in micro-finance 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 Swarajgar 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 micro-finance have reported their progress under the program. NABARD has been instrumental in facilitating various activities under micro-finance 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.

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 for 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.

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**Table 8**  
**Progress under Micro-Finance - Savings of SHGs with Banks**

States.	<u>Commercial Banks</u>			<u>RRB's</u>			<u>Cooperative Banks</u>			<u>Total</u>		
	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%
<b>Northern. Region</b>												
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	<b>2.61</b>	2552	189.67	<b>2.91</b>	4125	262.42	<b>2.51</b>	39155	2882.22	<b>2.66</b>
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	
<b>North eastern region</b>												
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	<b>0.91</b>	308	11.51	<b>3.83</b>	1005	34.92	<b>0.85</b>	6057	1577.69	<b>1.22</b>
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	
<b>Eastern region</b>												
Bihar	74343	3819.27		55662	2969.14		—	—		130005	6788.41	
Jharkhand	46570	2444.96		3183	106		—	—		49753	2550.96	
Orissa	216196	9008.84	<b>1.72</b>	164562	14164	<b>1.90</b>	61202	3774.92	<b>1.01</b>	441960	26948.7	<b>1.86</b>
West Bengal	292329	13947.66		151981	97366.4		165129	13013.54		609439	123327.6	
<b>Central region</b>												
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	<b>1.82</b>	8189	564.8	<b>2.20</b>	7111	363.8	<b>2.00</b>	34302	2540.5	<b>2.63</b>
Uttar Pradesh	173464	12933.5		212224	10585.4		6218	44160		391906	23960.5	
<b>Western Pradesh</b>												
Gujarat	51443	3413.02		32662	1432.5		20941	1430.4		105046	6276	
Maharashtra	373900	3211.5	<b>1.41</b>	83496	6551.2	<b>1.16</b>	227928	20262.4	<b>1.05</b>	685324	59325.2	<b>1.08</b>

**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	<b>1.52</b>	28769	545.2	<b>0.87</b>	47428	3812.77	<b>2.23</b>	358863	23241.84	<b>1.25</b>
Tamil nadu	540006	44839.16		73802	2369.75		116284	10522.18		730092	57731.09	

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

So the developments of Northern regions highlight that this is a growing region in terms of micro-financing.

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. The Micro Penetration Index (MPI) and Micro Poverty Penetration Index (MPPI) have also been used for state-wise comparison. Progress of SHG Bank Credit Linkages in underserved states and regions has also been covered.

One of the proposed hypotheses ( $H_{01}$ ) 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 (H2) 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. Thus 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.

### **Factors Affecting Micro-Financing**

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 micro-finance 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 micro-finance have reported their progress under the program. NABARD has been instrumental in facilitating various activities under micro-finance sector, involving all possible partners in the arena.

The intensity of penetration of micro-finance (MPI) has been computed by dividing the share of the state in micro-finance clients by share of population. Intensity of penetration of micro-finance among poor (MPPI) has been derived by dividing the share of the state in micro-finance clients by share

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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 underserved 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 par.

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.

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

### **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.

### **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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