

Role of financial institutions in promoting Self Help Groups and Women empowerment

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Abstract - Self Help Group is a small, homogenous affinity group of rural poor, comprising of not more than 20 members each. These groups represent and foster true democratic culture, wherein all members of the group take active part in decision making. The membership is open, voluntary and group is primarily formed to practice voluntary savings and thrift on a regular basis. Members save on a regular basis and contribute to the 'Group Common Fund (GCF)'. The fund includes not only the savings of the members but also grants from Non-governmental organizations (NGO's), or promoter, fine imposed on members for various irregularities, government aid for various programmes, service charges on external loan (inter SHG lending and borrowings) etc., All common expenses related to the group will be met from this 'Group Common Fund'. All savings and surplus of the fund would be rotated as short-term loans amongst members at a rate of interest, decided by the group and loan is given to the needy members on a priority basis. "Savings first-credit later", is the motto of every group and its members. For about six months in the beginning, the group collects the thrift and savings and no loan is given to any member. This tests the patience and tries to instill mutual trust amongst the members. During this period, the groups are expected to open a savings bank account with a bank or financial institution which would like to extend loan or credit at later stage. In turn RBI has directed all banks to allow Self Help Groups, both registered or unregistered, to open savings bank account with them. These financial institutions play a vital role in enhancing the savings habits of the self-help groups members and contribute immensely in achieving women empowerment. This paper analyses, the role of such financial institution.

Index Terms - Group, Savings and thrift, Capital formation, Women empowerment, Finance.

INTRODUCTION

The term Bank is derived from the Italian word "Banco", or Latin word "Bancus" or French word

"Banque" all of which means 'A wooden Bench'. This is because, the medieval European bankers transacted their banking activities i.e., exchanging one currency for another, money lending etc., by displaying them in big heaps on the benches in the marketplaces. What is a Bank? or who is a Banker?

It is very difficult to define the term 'Bank' or 'Banker' precisely. Even the best authorities on banking have failed to provide a precise and satisfactory definition of this term. Some of the efforts made in this regard are:

- The Indian Banking Regulation Act of 1949 – Section 5 (1) defines bank as "Accepting of deposit of money from the public, for the purpose of lending or investment, repayable on demand or otherwise and withdrawable by cheque draft, order or otherwise". Section 6 of the same act states that, a bank apart from above foresaid functions provides various subsidiary services to customers such as collection of cheques, drafts and bills, remittance of fund, acceptance and safe custody deposits etc., But this definition was not comprehensive, as it didn't include all branches of activities that a bank performs. To overcome this drawback Sir John Paget has defined bank as follows:
- Sir John Paget: "No person or body corporate or otherwise can be a banker, who doesn't take deposit account, take current a/c, issue and pay cheques and collect cheques, crossed and uncrossed, for his customer and one claiming to be a banker must profess himself to be one, the public must accept him as such and finally banking should be his main business"

From the above definition, the features of bank may be summarized as follows:

1. Acceptance of deposits from the public on current a/c, fixed a/c and savings bank a/c: Banking

institution must accept deposit of money from the public. If an institution doesn't accept deposit of money from the public but merely lends its own funds to the needy, can't be considered as bank.

2. Allowing of withdrawals of those deposits by cheques, drafts, orders or otherwise: This feature distinguishes bank from other institutions like building societies etc., which also receives deposits from the public, but don't permit the depositors to withdraw whenever they need. Hence deposits accepted from the depositors must be repaid to them on demand or after the specific period.
3. Utilization of deposits in hand for the purpose of lending or for investment in marketable securities like bonds of government and semi-government institution and shares and debentures of companies.
4. A bank, besides receiving deposits and lending or investing funds, should also perform subsidiary services like collection of cheques, drafts and bills, collection of interest and dividends on securities, payment of insurance premium and subscriptions, remittance of funds, acceptance of valuables for safe custody etc.,
5. Banking should be the main business of a bank. If banking business is carried on only as an ancillary to some other main business, it can't be considered a bank.
6. Bank should profess itself as a bank and public should accept him as a banker. For this purpose, the term 'Bank' or 'banking company' should be used as a part of its name.
7. A banker is not a mere dealer or trader in money, but a manufacturer of money. (Credit Creation).

These financial institutions play a vital role in enhancing the savings habits of the self-help groups members and contribute immensely in achieving women empowerment. There is a huge demand for credit in small amount for consumption, education, marriage, illness, petty trade etc., for varied duration. All these requirements necessarily do not match with the loan offerings of the financial institution. Any bank or financial institution would be benefitted by following "borrow short and lend long". This policy results in mismatch of demand and supply of credit structure. Lending small amount of money to large borrowers would result in high operational cost. Hence, financial institution always sanctions and

issues loan in the name of the SHG and not in the name of the individual members. The amount of loan to the SHG can be to the tune of 1 to 4 times of its savings. Therefore, lending to SHG instead of individual members, brings following benefits to the financial institution. Such as:

- Minimized transactional cost, because group takes the decision to borrow on behalf of all the members and also undertakes the responsibility of repayment.
- The transaction cost of the individual member is reduced, because the members transact at the group level only.
- The Mismatch between demand and supply of credit is reduced because the bank extends credit in lump sum amount and does not decide the purpose for which SHG gives loans to its members. The group will discuss and decide about the purpose for which loan has to be given to its individual members.
- The SHG is collectively responsible (Joint liability) for the repayment of the loan. Repayment pattern of members to the group and group to the bank need not be same.

REVIEW OF LITERATURE

Hulme and Mosley (1996): In a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programmes can improve the incomes of the poor and can move them out of poverty. They state that "there is clear evidence that the impact of a loan on a borrower's income is related to the level of income" as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the "middle and upper poor" (1996, pp109-112). However, they also show that when MFIs such as the Grameen Bank and BRAC provided credit to very poor households, those households were able to raise their incomes and their assets (1996, p.118).

Johnson and Rogaly (1997, p.122): States that "NGOs aiming for poverty reduction need to assess the impact of their services on user's livelihoods." They argue (1997) that in addressing the question of the impact of microfinance, NGOs must go beyond analyzing quantitative data detailing the numbers of users, and volumes and size of loans disbursed, to understanding

how their projects are impacting on clients' livelihoods. They state (1997, p. 118) that the provision of microfinance can give poor people "the means to protect their livelihoods against shocks as well as to build up and diversify their livelihood activities". Therefore, when analyzing the impact of microfinance, the overall impact of the microfinance services on the livelihoods of the poor needs to be taken into consideration. That is the focus of this study.

Pillai (1995): Has examined that the emergence of liberalization and globalization in early 1990's aggravated the problem of women workers in unorganized sectors from bad to worse as most of the women who were engaged in various self-employment activities have lost their livelihood. Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, Microfinance scene is dominated by Self Help Group (SHGs)-Bank Linkage Programme as a cost effective mechanism for providing financial services to the "Unreached Poor" which has been successful not only in meeting financial needs of the rural poor women but also in strengthening collective self-help capacities of the poor leading to their empowerment. Micro finance is necessary to overcome exploitation, create confidence for economic self-reliance of the rural poor, particularly among rural women who are mostly invisible in the social structure. Micro finance can contribute to solving the problems of inadequate housing and urban services as an integral part of poverty alleviation programmes. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit

requirements of the low income borrower without imposing unbearably high cost of monitoring its end use upon the lenders.

OBJECTIVES OF THE STUDY

- To study the role of Financial institutions in mobilizing savings of Self-Help Groups
- To ascertain the savings potential of Self-Help Groups
- To find out loan given and recovery percentage of loan
- To offer suggestions for further improvement.

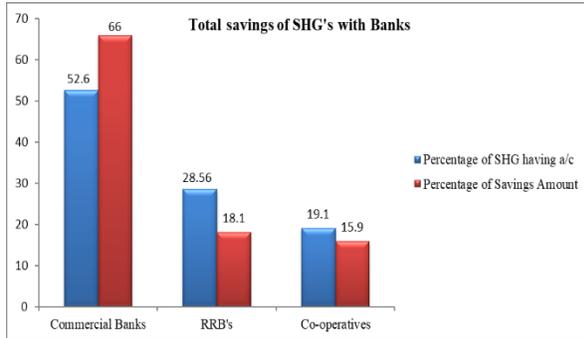
During 2015-16, banks and financial institutions provided loans to 18.32 lakh SHG's (23.2% of the total SHG's) as compared to 16.26 lakh SHG's (21.1% of total SHG's) during 2014-15. There is an overall 35% increase in the amount of loan disbursed by banks to SHG's during 2015-16, taking it to 37,287 crores as against 27,582 crores during 2014-15. The average loan disbursement per group during 2015-16 was Rs. 2.03 lakh which showed a healthy increase of 20% from Rs. 1.69 lakh during 2014-15. With the advantage of vast network of branches in the country, commercial banks enjoy the prominence. More than half (41.40 lakh, 52.39%) of the SHGs in the country maintain their savings account with Commercial Banks. During 2015-16, Commercial Banks had disbursed Rs. 25,185 crores (Rs. 17,334 crores in 2014-15) to 11.32 lakh SHGs (8.56 lakh in 2014-15) with an average of Rs. 2,22,482 (Rs. 2,02,567 in 2014-15) per SHG, against national average of Rs. 2,03,495.

The following table depicts the information. Table 1-Total Savings of SHG with Banks

Name of the Agency	Total Savings of SHGs with Banks as on 31 March 2016		Loans disbursed to SHGs by Banks during the year		Total Outstanding Bank Loans against SHGs		NPAs	
	No. of SHGs	Savings Amount	No. of SHGs	Loans disbursed	No. of SHGs	Loan Outstanding	Amount of Gross NPA	NPA (%)
Commercial Banks	41,40,111	9,03,389	11,32,281	25,18,497	26,26,364	37,14,562	2,32,140	6.25
% Share	52.6	66.0	61.8	67.5	56.2	65.0	62.98	
Regional Rural Banks	22,56,811	2,48,428	4,70,399	9,16,493	14,45,476	16,10,935	1,06,429	6.61
% Share	28.56	18.1	25.7	24.6	30.9	28.2	28.87	
Cooperative Banks	15,06,080	2,17,322	2,29,643	2,93,700	6,00,781	3,86,426	30,054	7.78
% Share	19.1	15.9	12.5	7.9	12.9	6.8	8.15	
Total (in Rs. Lakh)	79,03,002	13,69,139	18,32,323	37,28,690	46,72,621	57,11,923	3,68,623	6.45

Source: Status of Micro Finance in India 2015-16, Micro Credit Innovations Department, NABARD, Mumbai.

Diagram 1



Commercial banks accounted for 67.5% of bank loans disbursed to 61.8% SHGs during the year. The share of RRBs in credit disbursement to SHGs stood at 24.6%. However, the number of SHGs declined substantially to 25.7% from 32.1%. The average loan disbursement by RRBs during the year was Rs. 1,94,833. The share of Cooperatives both in number of SHGs provided bank loan during the year as well as the quantum of loan disbursed declined in 2015-16 as compared to previous year. The average loan per SHG provided by Cooperatives was Rs. 1,27,894.

The following table depicts the Savings of SHG's with different financial institutions in the Karnataka (as on 31st March 2016).

Table no: 2

Commercial Bank		Regional Rural Bank (RRB)		Co-operative societies		Total (amount in Lakh rupees)	
No. of SHG	Savings Amount	No. of SHG	Savings Amount	No. of SHG	Savings Amount	No. of SHG	Savings Amount
6,05,154	79,879.15	1,37,921	16,132.89	2,19,371	48,230.09	9,62,446	1,44,242.13

Source: Micro credit division, NABARD.

The following table depicts the total loan disbursed to SHG's from different financial institutions in the Karnataka (as on 31st March 2016).

Table no: 3

Commercial Bank		Regional Rural Bank (RRB)		Co-operative societies		Total (amount in Lakh rupees)	
No. of SHG	Loan disbursed	No. of SHG	Loan disbursed	No. of SHG	Loan disbursed	No. of SHG	Loan disbursed
1,95,477	4,83,737.82	43,056	65,159.58	42,856	77,010.73	2,81,389	6,25,908.13

Source: Micro credit division, NABARD

It is quite evident that, there is good number of Self-Help Groups functioning and performing well in Karnataka. Initially these Self-Help Groups were formed to encourage voluntary savings and thrift. Of late, the members of the groups are encouraged to take up income generating activities, so that they grow socially and economically to become more responsible citizens of the country. In the research visit, it was found that few members of the self-help group were into own business and earning income to supplement and to support the family. Many of these members were independent and earning comparatively well than before when they were working as wage earners. Many of these women were good at communication and also had good marketing abilities. Some of them were manufacturing goods or involved in providing services and directly linked with companies and some of them were procuring products from corporates and inturn selling them for a profit margin. The networking amongst these members enabled them to upgrade their capabilities. The personal identity and

rapport of these members helps them to involve in trading activities and personal selling was playing a predominant role in rural market. The nativity, personal rapport and convincing skills played an important role in influencing the consumption pattern of the rural consumers. The SHG members, who were into trading activities, had the initial investment capacity due to finance access at the time of need, because of SHG. As a result of taking part in discussions, group meetings– familiarity is developed. In the process, communication and logical ability is also strengthened. With these qualities, SHG members who were in trading activities, were in a better position to influence the consumption pattern of the rural consumers and time and again word of mouth advertisements yielded better results than media advertisements in creating awareness about the product, in the rural set up.

CONCLUSION

The banks in all the sectors-public, private, commercial, regional rural banks and district cooperative banks have been taking initiatives in enlarging the scope of microfinance the apex authority NABARD has been issuing guide lines for effective implementation of the various programs in the realm of microfinance. Various steps taken such as introduction of smart cards, linking of SHGs with post offices, creation of joint liability groups, project on computer munshi to make SHG self-sustainable have all yielded fruitful results which can be seen in the form of improved status of the poor. Government is playing the role of a catalyst by proving support to various programs of NABARD and providing incentives to banks which excel in this field. The government of Karnataka has taken initiatives in this field through its women and child development department, stree shakthi program and is continuously making efforts to make poor more self-reliant and in empowering women.

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