

ROLE OF BANKING SECTOR IN RURAL ECONOMIC DEVELOPMENT

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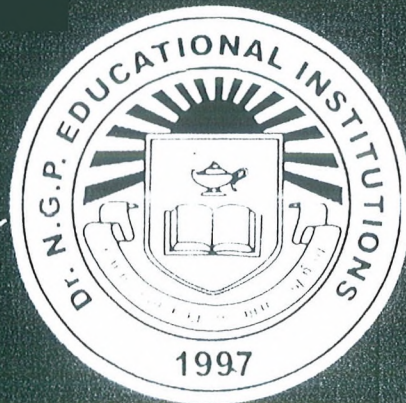
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Paper No.	Author Name	Title	Page No.
37	P.Deivanai S.Nithya	Microfinance –A Tool For Poverty Eradication Through Self Help Groups	235
38	E.Padma	Role of Kisan Credit Card In Agriculture	240
39	Rajavel.R	Growth of Banking And Rural Development	246
40	K.Sarala	Microfinance Through Self Helps Groups In India	251
41	Dr. V.Surekha	Role f Banking In Rural Development	254
42	B. Moble Dilani	Financial Inclusion In India	257
43	K. Gomathi J. Anitha	Role of Banking Sector In Rural Economic Development	261
44	M. Kalimuthu P.Sabarinathan	A Study On Rural Consumer Attitude Towards Selection of Selected Home Appliances (With Special Reference To Pollachi Taluk Rural Area Only)	267
45	M.Esther jansi	Role of Commercial Banks In Promoting Micro Finance	279
46	Dr.D.Geetha S.Kiruba Devi	Role of Kisan Credit Cards In Promoting Agriculture	284
47	M.G. Prasanna Vanitha	Role of Kisan Credit Card In Agriculture	290
48	S. Murugadoss K. Selvaraj	Role of Kisan Credit Card In Agriculture	297
49	D.Kiruthika M.S.Baby	Role of Kisan Credit Card In Agriculture	301
50	K.S.Dinesh kumar	Role of Micro Finance In Rural Banking	306
51	R.Rupa P.Salini	Role of Microfinance In Economic Growth	313
52	M. Nisha K. Ramya	Role of Kisan Credit Card In Agriculture	321
53	Dr.A.Chitra	Growth of Micro Finance Institutions In India	327
54	S. Srinivasan	Role of Subsidies And Its Impacts In Rural Economy	331
55	Dr.P.S.Venkateswaran N.Ananthi U. Geetha	A study on the impact of service quality attributes on customer satisfaction and customer loyalty for the commercial banks in Madurai.	335
56	Dr D.Geetha J.Abisha	Role Of Kisan Credit Card In The Development of Agriculture In Calicut, Kerala	347
57	Mrs.V.Jayalakshmi Mr.N.Dinesh	Role of Rural Banks in Agricultural Development	352
58	Dr.R.Rajasekaran Dr.R.Kalidoss	Retail Banking in Rural Areas	357
59	P. Manimalathi V.Saravanapandeeswari	Role of SHG in Rural Development	363
60	R.Sudha S.Saranaya T.Kalpna T.A. Shanjinparveen	Microfinance	366

MICROFINANCE –A TOOL FOR POVERTY ERADICATION THROUGH SELF HELP GROUPS

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INTRODUCTION

You are aware that the Government of India has launched several development programmes after independence. The programmes focused on improvement of socio economic conditions of rural masses and improvement in the standard of living through elimination of poverty. Unfortunately, the approaches and strategies of these programmes did not yield expected results in improvement of socio economic conditions vis -a-vis poverty eradication. As a result of this, the government and bankers targeting the poor and women self help groups (SHGs) to implement various activities in order to reach the desired ends and to attain their objectives. In this context as an extension worker, you need to understand various dimensions of SHGs and microfinance with related implications to extension work. The micro finance and SHGs are closely related, interdependent and considered as building blocks for women empowerment. In this unit, different aspects of women SHGs, Microfinance and their implications for extension are discussed for your understanding.

After studying this unit, you should be able to

- 1) Analyze the dimensions of self help groups and their role in development,
- 2) Discuss the significance of micro finance, and
- 3) Describe the knowledge of SHGs and micro finance in the fields of extension and development work.

II OBJECTIVE

- ✦ To overlook the history of microfinance
- ✦ To know how the Self help Group is helping in eradicating the poverty

III METHODOLOGY

From the study a specific framework has been used for collection of data from the secondary source. The Secondary data has been collected from the various publications and from the various book and journals.

III CONCEPT

Microfinance institutions aim to provide credit to the poor who have no access to commercial banks. In general, these institutions receive financial support from western donors, NGOs or commercial banks, who lend to microfinance institutions, often against below market interest rates. The microfinance institutions in turn, lend this money to domestic small companies and poor agents.

In addition to loans, microfinance is also provide a wider range of financial services, such as savings funds, and insurance services. Moreover, they also play an important role in training potential borrowers how to run a firm, and deal with health provision.

III SCOPE OF MICROFINANCE

The micro-finance scene in India is dominated by Self Help Groups (SHGs) - Banks linkage program for over a decade now. As the formal banking system already has a vast branch network in rural areas, it was perhaps wise to find ways and means to improve the access of rural poor to the existing banking network. This was tried by routing financial services through Self-Help Groups formed as grass roots level institutions developed for social/economic and financial intermediation for focusing on the poor. and formal agencies like banks for catering to the financial service requirements of the poor, especially women. Over the years, SHG-Bank linkage model has emerged in India as a core strategy for the banking system to extend their outreach to the poorest among poor. Intervening to forge a linkage, NABARD was instrumental in the emergence of a very strong micro-Finance movement in the country.

IV BENEFITS OF SHGS

- Instant access to credit at low interest during crisis
- Helps in reducing the dependence on money lenders
- Culture of thrift and disciplined loan repayment
- Helps meet production and consumption needs
- Helps to invest in new / existing economic activities
- Shift in the employment - from wage to self employment
- Asset building
- Improvement in health and nutrition status of the family and educational status of the children
- Improved knowledge on income generation activities
- Awareness and access to different schemes - increased information access
- Security
- Gender inequalities reduced
- Institutional framework.
- Winning confidence of mainstream financial sector as credit worthy institutions.

V MICRO FINANCE MOVEMENT IN INDIA

The micro finance movement in India was formally launched on a pilot basis by the National Bank for Agriculture and Rural Development (NABARD) in 1992. The formal financial institutions in India have not reached the poor households, particularly the women in the unorganised sector. Rigidities in the structure and overheads lead to high cost of making small loans. Further, the poor were not regarded as credit worthy. Low level of influence of the poor about either credit worthiness or their demand for saving services further aggravated the problem of the poor. Micro credit is a financial innovation that originated with the Grameen Bank in Bangladesh. It has successfully enabled extremely impoverished people of Bangladesh to engage in self-employment projects that allow them to generate an income and, in many cases, begin to build wealth and exit poverty. Due to the success of microcredit, many in the traditional banking industry have begun to realize that these microcredit borrowers should more correctly be categorized as *pre-bankable*; thus, microcredit is increasingly gaining credibility in the mainstream finance industry. Many traditional large finance organizations are contemplating microcredit projects as a source of future growth, even though almost everyone in larger development organizations discounted the likelihood of success of microcredit when it first began. A multi agency rural credit delivery structure comprising of Commercial banks, Regional Rural Banks and Cooperative banks was established across the country, but it was difficult for this structure to meet the credit requirements (small, frequent) of the poor. Complicated systems and procedures of banks also resulted in large section of poor keeping away from the formal banking sector. On the other hand, rapid expansion of bank network threatened its viability and at the same time they cannot keep the poor outside their fold. The need for alternate mechanism for catering the financial service needs of the poor has emerged.

VI STATUS OF SHGs IN TAMIL NADU (AS ON 31-03-2010)

- ✚ Total No. of SHGs 4,41,311
- ✚ Total No. of SHGs women members 69.91 Lakhs
- ✚ Total No. of Rural SHGs 3,02,092
- ✚ Total No. of Rural SHG members 48,33,472
- ✚ Total No. of Urban SHGs 21,57,894
- ✚ Total Savings Rs.2,568 Crores
- ✚ Total No. of SHGs Credit linked 4,02,046
- ✚ Total No. of SHGs 4.69 lakhs as on 30-10-2010 with 70 lakhs members.
- ✚ 99% of SHGs Bank Loans are promptly repaid by the groups.

VII SHG BANK LINKAGE

A most notable milestone in the SHG movement was when NABARD launched the pilot phase of the SHG Bank Linkage programme in February 1992. This was the first instance of mature SHGs that were directly financed by a commercial bank. The informal thrift and credit groups of poor were recognised as bankable clients. Soon after, the RBI advised commercial banks to consider lending to SHGs as part of their rural credit operations thus creating SHG Bank Linkage. The linking of SHGs with the financial sector was good for both sides. The banks were able to tap into a large market, namely the low-income households, transactions costs were low and repayment rates were high. The SHGs were able to scale up their operations with more financing and they had access to more credit products

The following were the major findings of the study:

- ✚ Average Savings per SHG – Rs. 23,000, average loan size Rs. 31,000.
- ✚ 50% of SHGs practice equal distribution of bank loan.
- ✚ Only 50% SHGs felt that the loan size was adequate and 54% studied SHGs were first time linked.
- ✚ 69% of SHGs got RLF, some got from multiple sources.
- ✚ It takes more than four months for an SHG to get a bank loan.
- ✚ No post linkage follows up by banker and others.
- ✚ 66% of bank linked SHGs are A grade as per CRI
- ✚ Only 22% of bank linked groups are appraised by banker, etc.
- ✚ Idle fund of bank linked SHGs average – Rs. 5,300
- ✚ Leaders dominate and have 30% loan on them.
- ✚ 12% SHG default to banks – repayment problem.
- ✚ 10% SHGs reported that they were forced to take loan.
- ✚ High percentage of SHGs participates in Government Programs.
- ✚ Bankers' attitude is still an issue.

Progress under Microfinance – Savings of SHGs with Banks

Agency-wise position as on 31 March 2010

(Amount ` lakh)

Name of the Agency	Total Savings of SHGs with Banks as on 31 march 2010		Out of Total – Under SGSY		Out of Total – Exclusive Women SHGs	
	No. of SHGs.	Saving Amount No	No. of SHGs.	Saving Amount No	No. of SHGs.	Saving Amount No
Commercial Banks	4052915	367389.24	1088160	83147.57	3350054	290057.64
Regional Rural Bank	1820870	129937.49	462370	26850.4	1240342	1240342
Cooperative Bank	1079465	122544.16	143380	19264.25	720040	60121.86
Total	6953250	619870.89	1693910	129262.22	5310436	449865.75

Sources: Micro Finance in India 2009-2010

VIII MICRO-FINANCE - INSTRUMENT FOR POVERTY ALLEVIATION

- ✦ Equitable gains from development on a sustainable basis and ensuring viability of financial services are key elements in a strategy of poverty reduction by means of credit support to the poor. As micro-finance is seen to be an approach addressing these concerns effectively, it has assumed significance in all the developing countries as an effective tool in fighting poverty.
- ✦ The micro-finance scene in India is dominated by Self Help Groups (SHGs) - Banks linkage program for over a decade now. As the formal banking system already has a vast branch network in rural areas, it was perhaps wise to find ways and means to improve the access of rural poor to the existing banking network. This was tried by routing financial services through Self-Help Groups, formed as grass roots level institutions developed for social/economic and financial intermediation for focusing on the poor. Drawing lessons from experiments carried out in various parts of the world, particularly Asia - Pacific, an attempt was made to build financial relationship between informal groups of people and formal agencies like banks for catering to the financial service requirements of the poor, especially women. Over the years, SHG-Bank linkage model has emerged in India as a core strategy for the banking system to extend their outreach to the poorest among poor. Though SHGs existed even before the linkage program, the banks could not recognize their potential as business clients and both operated independently, without knowing the strength of the other. Intervening to forge a linkage, NABARD was instrumental in the emergence of a very strong micro-Finance movement in the country.
- ✦ The SHG - Banks linkage program was conceived with the objectives of developing supplementary credit delivery services for the unreached poor, building mutual trust & confidence between the bankers and the poor and encouraging banking activity both on thrift as well as credit and sustaining a simple and formal mechanism of banking with the poor. The linkage program combines the flexibility, sensitivity and responsiveness of the informal credit system with the technical, administrative capabilities and financial resources of the formal financial sector. It is a design relying heavily on collective strength of the poor, closeness of NGOs to people and large financial resources of banks. Further, the SHGs have also undertaken effective social mobilization functions contributing to an overall empowerment process. The banks have externalized what would otherwise have been high transaction costs for mobilizing savings of the poor, appraisal and sanction of loans and improved loan recovery through the financial intermediative role played by SHGs.

IX IMPACT ON THE BANKS

As has been observed elsewhere the participatory approach to micro-finance has improved the cost-effectiveness of poverty alleviation strategy by substantially lowering transaction costs. 'there is a transformation in the attitude and approach of the participating banks to rural financial services and especially rural clients. Participating banks have become more confident and skilled in extending credit to the rural poor through groups and to individual clients'. A study of branch level operations conducted by NABARD revealed that the SHGs turned out to be a channel for social mobilization and women empowerment, as also new business with quality clients and significantly increased goodwill. Externalization of operating costs in deposit mobilization, credit management and recovery through Village development Councils and SHGs were other benefits which had a positive impact on the working results of the branches

X SUMMARY AND CONCLUSION

A country like India, still 60% of people do not have bank accessibility and still 56% of the people borrow from the local informal money lenders. Eradication of poverty can be done only by providing jobs to rural unemployed. Empowerment of women is a collective activity by the Govt. MFIs, NGOs and Banks. Providing micro-credit, skills training and entrepreneurship ability are essential for women empowerment. According to Bonaparte Napoleon – the French Emperor rightly quoted that, "Give me good mothers, I give you good Nation" – Women Empowerment alone will bring a developed India.

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