ABSTRACT
This article focuses on the role of the self help groups in West Godavari district of Andhra Pradesh, and how the microfinance is provided by them by establishing links to banks. Self Help Group (SHG) methodology is the most dominant form of microfinance in India. Organization of women around thrift and credit has emerged as one of the more effective methods for poverty reduction and women empowerment. Over the past 10 years, close to half a million SHGs have been formed in Andhra Pradesh. Self-help groups are run by and for group members. Professional providers may participate in the self-help process at the request and sanction of the group and remain in an ancillary, or consultant role. This article focused on the role of these groups in providing the key element for progress of poor, namely finance. The article finds that SHGs provide a better vehicle to provide microfinance and the challenges to their operations can be addressed by government.

Keywords: Microfinance; Self Help Groups; Andhra Pradesh; West Godavari District; DWCRA

INTRODUCTION
Andhra Pradesh leads the SHG movement in India with almost 439,000 SHGs covering approximately 54,00,000 women. Cumulatively, over 350,000 SHGs have been linked to banks under the linkage-banking program in AP. As on date, over Rs. 500 crores is outstanding with SHGs as loans from the banks. The most important government program involving women in savings and credit is DWCRA. In AP, almost Rs 500 crores was provided as revolving fund as against a saving of Rs 550 crores by the groups till March 2002.

By 2000, DWCRA became a flagship program of Government of AP to implement all its poverty reduction programs. State Government introduced schemes like Deepam (subsidized gas connections for DWCRA women) and State funded Revolving Fund, in addition to the Central Government Schemes. Several thousands of groups were formed instantly to access various Government Schemes. To give further impetus to the DWCRA movement, the State Government established a separate department called “Women Empowerment & Self Employment” under the Rural Development Department to focus on promoting DWCRA groups, increase bank linkage and to promote micro
enterprises. NABARD played a proactive role in sensitising NGOs, Government Officials and Bankers on SHG – Bank linkage. Greater Coordination was witnessed among DRDAs, Banks and NGOs during 1999 – 2002. NGOs that had internal capacities supported capacity building of DWCRA groups. During 1996-2001, UNDP funded Poverty Alleviation Program was implemented in Mahabubnagar, Kurnool and Anantapur districts with a total outreach of 3,200 SHGs. In 1999, CARE began the implementation of a DFID funded project called Credit and Savings for Household Enterprise (CASHE) to support the emergence of quality SHGs through NGOs and Government. Instances of competition among NGOs, DRDA and UNDP were also noticed. In June 2000, World Bank funded District Poverty Initiatives Project (DPIP) was initiated in six poorest districts of AP based on the UNDP experience. In 2002, the project was scaled up to all the 22 rural districts of AP with funding support from World Bank and the project is called AP Rural Poverty Reduction Project.

SHG-Bank Linkage

The rural credit delivery system in most of the developing countries was weakened by poor credit discipline among the borrowers resulting in low recovery of dues. High operating (intermediation) costs, burden of subsidized interest rates, non-viability of operations and heavy dependence on concessionary outside funding or refinance support were some of the other constraints in the development of self-sustaining systems. Many credit programmes started with support from the State or donor agencies operated as per their dictates and were abandoned due to poor results.

Generally all members of the group should belong to families below the poverty line. However, if necessary, a maximum of 20% and in exceptional cases, where essentially required, up to a maximum of 30% of the members in a group may be taken from families marginally above the poverty line living contiguously with BPL families and if they are acceptable to the BPL members of the group. This will help the families of occupational groups like agricultural labourers, marginal farmers and artisans marginally above the poverty line, or who may have been excluded from the BPL list to become members of the Self Help Group. However, the APL members will not be eligible for the subsidy under the scheme. The group shall not consist of more than one member from the same family. A person should not be a member of more than one group. The BPL families must actively participate in the management and decision making, which should not ordinarily be entirely in the hands of APL families.

In a recent study in India, the transaction cost to a small rural borrower raising a loan from a commercial bank under a poverty alleviation programme was placed at 24.6 %. Further, the transaction costs of operating a saving account with a bank was placed as high as 10% of the saving, on the assumption of only one transaction per month.

The core problem of rural finance is high transaction costs to the banks in financing a large number of small borrowers who require credit frequently and in small quantities. The same holds true of costs involved in providing saving facilities to small, scattered savers in rural areas. The rural savers and borrowers also face high transaction costs while dealing with banks due to distances, small value of financial transactions etc. In a recent study in India, the transaction cost to a small rural borrower raising a loan from a commercial bank under a poverty alleviation programme was placed at 24.6 %. Further, the transaction costs of operating a saving account with a bank was placed as high as 10% of the saving, on the assumption of only one transaction per month.

Credit needs of the poor are determined in a complex socio-economic milieu where the dividing line between credit for 'consumption' and 'productive' purposes is rather blurred making it difficult to adopt the traditional banking approach to lending. The result is that financial services of the formal banking system have remained inaccessible to majority of the poorer sections of the rural population in most developing countries and their reliance for credit is mainly on the informal credit channels. Informal channels include money lenders who operate outside the legal and policy framework of banks, market vendors, shopkeepers and others including friends and relatives. Credit in the informal system is usually available immediately, when and where required and often without collateral and lengthy
documentation formalities, since the lender usually relies on personal knowledge of borrowers and their circumstances. However, interest rates are not only extremely high, but sanctions often include conditions, verbal or written, which are heavily loaded in favour of the lender and are sometimes carefully guised and are detrimental to the interests of borrowers.

In most developing countries, attempts have been made to develop cooperatives by bringing together people of small means for fostering thrift and mutual help for their economic betterment. However, cooperatives have achieved only a limited success in selected pockets. On account of their large size, and the heterogeneous economic status of their members, the decision making gets invariably delegated to a small number of usually well-off and influential members. Such influential members are often also able to corner benefits at the cost of those who are poor and do not command ownerships of productive assist or influence.

Linkages of SHGs with banks aims at using the intermediation of SHGs between banks and the rural poor for cutting down the transaction costs for both banks and their rural clients. The objectives of the linkage program are:

a. To evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal financial institutions.

b. To build mutual trust and confidence between bankers and the rural poor.

c. To encourage banking activity, both on the thrift and credit sides, in a segment of the population that formal financial institutions usually find difficult to reach.

The Micro-Finance Operations of SHGs

The following key principles are applicable for the operations of SHGs:

- Savings first, no credit without saving.
- Saving as partial collateral
- Bank loans to the group, for on lending to members
- Credit decisions for on lending to members by the group
- Interest rates and other terms and conditions for loans to members to be decided by the group
- Joint liability as a substitute for physical collateral
- Ratio between savings and credit contingent upon credit worthiness of the group; increasing with good repayment record.

- Small loans to begin with.

Data of Microfinance & SHG

The table below provides the detail of borrowers of microfinance and the means of finance.

<table>
<thead>
<tr>
<th>Agency providing Microfinance</th>
<th>Number of clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks (including RRBs) small loan accounts</td>
<td>410,000</td>
</tr>
<tr>
<td>Primary cooperative societies Borrowers (small, vulnerable)</td>
<td>28,540</td>
</tr>
<tr>
<td>SHGs–members</td>
<td>470,000</td>
</tr>
<tr>
<td>MFIs–clients</td>
<td>14,100</td>
</tr>
</tbody>
</table>
| **Total**                                           | **931,000**       (adjusted for overlap)

We find that over 50% of the potential and target borrowers are through the SHGs thus outlining the importance of SHGs in delivering the monetary assistance for the poor.
Quality of Growth in Microfinance

The number of SHGs that were having a savings account with the banking system had increased from 4.16 million in 2007 to 5.01 million in 2008 and further to 5.99 million in 2009. This impressive increase of about 25 and 20 per cent in the number of savings in group over a one year period indicates that there is still a lot of momentum in the programme. In terms of actual amount saved, the increase was from Rs 35.12 billion to Rs 37.85 billion and further to Rs 54.47 billion in 2009. The incremental savings outstanding of Rs 16.62 billion in 2009 over 2008 was a phenomenal growth of 44 per cent. New groups bring in savings very slowly and incrementally. With 25 per cent of the groups having come in new over a year’s period, one does not expect a high average level of saving across all the groups. It is with time that the savings level increase and as such the high level of growth in amount saved should be a welcome phenomenon.

The average savings levels across agencies had been compared. The average savings in the case of commercial banks increased to Rs 7,800 in 2009 from a level of Rs 7,400 in the previous year. In the case of regional rural banks (RRBs), the average savings increased to Rs 12,300 from a level of Rs 8,400 in the previous year. In the case of cooperative banks the average per savings per group was higher in the year 2009 at Rs 8,400 compared to Rs 7,000 in the previous year.

Important Observations on SHG Function

- Village Leaders are aware about SHG performance
- Attendance in meetings is similar to that in Federations and is 77%, on average
- VO staff have basic education and “technical” skills
- Excellent fund availability – Rs 27,900/- per SHG
- Fund management is good. Idle funds are low in majority of the cases and in some cases, almost non-existent.
- As mentioned earlier, repayment of external loans is good.
- There is a limited awareness on social issues and development programs. There is a marked increase in political consciousness, and many are voting in elections. In some instances, SHG members have contested in elections to Village Panchayat and Mandal Parishad.
- The VO Board and staff have limited capacity to conduct training, to help improve the SHG performance.
- Systems to monitor SHG performance are not adequate.
- There is a need for better bookkeeping and accounting systems at the VO level.
- The VO is highly self-reliant in managing its affairs, and rarely depends on the Federation and/or promoter for its day-to-day functioning.

KEY FINDINGS

- Almost all (85%) SHGs are homogeneous. Members come from similar socio-economic background, and are from the same neighborhood.
- The primary objective/purpose of coming together is credit
- Meetings are regular, but attendance is low (76%).
- Adequate records are maintained, but accuracy in recording information is low.
- SHG members are well aware about functioning and activities of the SHG and VO.
- In majority of the SHGs, all transactions are within the group.
Limited leadership rotation. Many a time leadership is based on considerations like who can afford time to participate in meetings at the VO, transact with the bank etc.

Almost all SHGs provide multiple loans to their members. It is also noticed that many a time, the leaders take either more number of loans or a large chunk of the portfolio as loan(s).

SHGs have good availability of funds, irrespective of bank linkage. Average availability is in excess of Rs 25,000/- per SHG. These funds comprise of member savings, loans from VO/Federation, Banks and other Financial Institutions (FIs).

Idle funds are low (less than 6%) or almost non-existent.

CONCLUSION

Governance is a key area, which requires immediate attention. Leadership rotation, without giving adequate time for the leaders to understand the functioning of Self-Help Groups (SHGs) as they are mostly informal groups whose members pool savings and re-lend within the group on rotational or needs basis. These groups have a common perception of need and impulse towards collective action. Many of these groups got formed around specific production activity, promoted savings among members and use the pooled resources to meet emergent needs of members, including consumption needs. Sometimes the internal savings generated were supplemented by external resources loaned/donated by the Voluntary Agency which promoted the SHGs. Since SHGs were able to mobilize savings from the poor who were not expected to have any savings and could also recycle effectively the pooled savings among members, they succeeded in performing/providing banking services to their members, may be in a primitive way, but in a manner which was cost effective, simple, flexible at the door step of the members. In addition, the character of SHGs and their relations with members offered ways of overcoming the problem of collateral, excessive documentation and physical access which reduced the capacity of formal institutions to serve the poor.

REFERENCES


