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**A Review on Self Help Groups Bank Linked Micro Financing: Problems and Challenges**

*Kewal Kumar\*, Manish Kumar Agrawal\*\* and Atul Gambhir\*\*\**

**ABSTRACT**

*Economic development and growth should be inclusive, sustainable and real. Development mean positive changes at the grass root level in the field of primary education, health and qualitative food for poor. Micro financing (SHGsBLMF) this model has proved its effectiveness in improving the real life of rural poor. Self help group is a concept emerged in the direction of helping rural poor forming groups so that; they will improve their living conditions through voluntary participation in thrift and credit. The core objective is flexibility, transparency and autonomy with sensitiveness and responsiveness of the participants. This model of financing has outraced moneylenders and village sahumars in providing credit to rural sector. Repayment position is above the satisfactory under this system as group collectively takes responsibility to pay. No system is free from problems and challenges. MF is also not the exception. Here authors have made an attempt to reveals the various problems and drawbacks of this system of financing faced by borrowers, facilitators and agencies. A review on overall working and role played by SHGsMF have discussed as well as a list of suggestions has also provided for corrective actions for system strengthening and effective implementation in future.*

**Keywords:** *Economic Development; Inclusive and Sustainable Real Development; Moneylenders and Village Sahukar; Exorbitant Rate of Interest; RBI.*

**1.0 Introduction**

Self help group is a concept emerged in the direction of helping rural poor forming groups so that, they will improve their living conditions through voluntary participation in thrift and credit.

The core objective is flexibility, transparency and autonomy with sensitiveness and responsiveness of the participants.

Self help group is a small, homogenous affinity group of rural poor (10-20) comprising agricultural labor, small and marginal farmers, and micro entrepreneurs who have voluntarily come forward to form into a group. It can be a formal or informal group.

Members of SHG save and contribute to a common fund, from which small loans are lent to the needy members as per the decision of the group.

RBI & NABARD define microfinance as the provision of thrift credit & other financing services and products of very small amount to the poor

enabling them to raise their income levels & improve living standards.

NABARD is the first organization in India which understands the importance of microfinance. It has encouraged lending through Self-Help Group (SHGs) after achieving successful result from a pilot project of 500 SHG Bank linkage program in 1992.

Since then NABARD was playing a key role in the spread of microfinance to different parts of the country through the SHGs.

**2.0 Models of Micro Financing**

There are three models selected in this regard-  
**Model 1:** Here banks lend directly to SHGs without intervention or facilitation by NGOs (Non Government Organizations)

**Model 2:** In this model banks lend directly to SHGs with facilitations by NGOs and other formal agencies

**Model 3:** In which bank lend through NGOs as a facilitators and financing agency

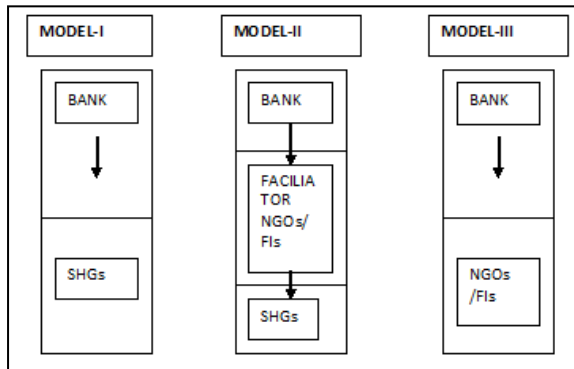
\*Corresponding Author: Department of Management, SCGIMT, Kashipur, Uttarakhand (UP), India  
(E-mail: kewalkumarksp@gmail.com)

\*\*Department of Management, SCGIMT, Kashipur, Uttarakhand (UP), India

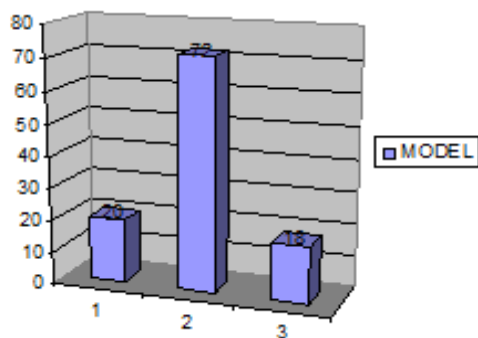
\*\*\*Department of Management, SCGIMT, Kashipur, Uttarakhand (UP), India

Figure 1 and figure 2 shows that MODEL-1 represents 20%, MODEL-2, 72% & MODEL-3, 18% of the total credit of bank linkage SHGs. Micro financing by commercial bank to SHGs through NGOs / financial institutions as facilitator is mostly preferred in India (MODEL-2).

**Fig 1: Model for Information Flow**



**Fig 2: Model of Bank Linkage**



**2.1 Advantages of SHG credit linkage programme**

**2.1.1 To banks**

- Wider Coverage
- Less desk work to field staff
- Low transaction cost to bank
- High recovery and no NPAs
- Externalization of credit function
- Goodwill creation and image building in villages for the Bank
- Profitability

**2.1.2 To SHG members**

- Credit delivery (small, timely and based) at the door step
- Flexible norms in credit dispensation

- Promotion of mutual trust and co-operation among members
- Development of thrift habit among poor
- Financial and social empowerment of members
- Employment generation in villages
- Confidence building among rural poor
- Improvement in standard of living
- Entrepreneurship development among SHG members
- Asset creation
- Loans without security and formalities
- Convenient loan repayment schedule.

**2.2 What makes the micro finance different**

- Targeting poorest among poor
- Organizing poor into group mode
- Stimulating thrift habit among poor
- Participation of rural poor in neighborhood lending process
- Loans without collateral
- Quick disbursement of small and short term loans
- Market related interest rates
- Default management through peer and moral pressure
- Transparent methods of operations coupled with clarity, defined responsibility and accountability of fund managers
- Provision of package of financial and non financial services for rural poor
- Report loaning for impressive credit history

**2.3 Review of the literature**

Though a lot of work by government and banks has been done in this regard. Yet there is a vast scope for a regional and micro level study. A study of impact of Micro-finance on self help groups in decision making (International journal of economic review page-162 july,Dec 2011) reveals that the role of women in taking decisions in regard to their children’s education improved during post-SHG period, from 12.70% to 21.30%. The decision-making on ‘family planning’ by the women was also increased from 18.33% to 44.18% during the post-SHG period. The today use of the expression micro financing has it roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of

micro financing. A project undertaken in Peru by Innovations for Poverty Action found that those borrowers randomly selected to receive financial training as part of their borrowing group meetings had higher profits, although there was not a reduction in "the proportion who reported having problems in their business".

Though a lot of literature is available on microfinance yet there is a scarcity of empirical study on regional/micro level about problems faced by participant groups & individual in this scheme. This study is a real & ground level effort in this regard.

### 2.3 Objectives of the study

Briefly speaking there are four main objectives of this study.

1. To review the present micro financing system especially self help groups bank linked model.
2. To study the barriers and challenges faced by borrowers, SHGs and banks.
3. To study the roll of micro financing system.
4. To provide some suggestions for a sound and less problems oriented system for future.

### 3.0 Methodology

Primary and secondary data both are collected according to purpose and use. Primary data are collected from sample area by questionnaire. A list of 100 SHGs are taken from bank of baroda of Kashipur block of Uttarakhand.

Personal interviews and discussions are held with various officials of banks and agencies. Findings (data) are classified and tabulated rank wise. Secondary data are taken from various books, papers and webs. Proper references and citations are quoted and thanked.

### 4.0 Findings and Analysis

#### 4.1 Barriers for the microfinance investment in non-farm economic activities

In order to examine the problems, economics and challenges of micro-financing in non-farming sector, questions were asked from the respondents related to barriers for the microfinance in non-farming sector is generally linked with the choice of enterprise, illiteracy/poor education of respondents, unavailability of suitable raw-materials, non-availability of timely credit, lack of proper marketing

facilities and unavailability of proper infrastructural facilities that is why questions related with these aspects were asked from the respondents.

#### 4.2 Enterprise related barriers (rank wise)

1. Fear to Business Failure
2. Fear to getting into debt
3. Fear to deprive of social status
4. Lack of Information
5. Lack of Interest in enterprise
6. Family Pressure

#### 4.3 Socio economics barriers (rank wise)

1. Lack of skilled labour
2. Lack of institutions for necessary training
3. Poor health status
4. Lack of technical knowledge
5. Illiteracy/Poor education
6. Family problems

#### 4.4 Resource barriers (rank wise)

1. Non-availability of raw materials
2. High seasonality of raw materials
3. High perishability of raw materials
4. Poor quality of inputs

#### 4.5 Financial barriers (rank wise)

1. Lack of capital/money
2. Lack of credit institutions (Bank/MFIs)
3. Lack of Collateral
4. High interest rate
5. Cumbersome banking process
6. Non availability of timely credit
7. Demand for bribe

#### 4.6 Marketing related barriers (rank wise)

1. Lack of market
2. Lack of weak market institution
3. Lack of market linkages
4. Intermediaries
5. Low prices of output
6. High perishability
7. Poor packaging labeling and branding

#### 4.7 Infrastructural barriers (rank wise)

1. Lack of transport facilities
2. Lack/Shortage of power
3. Lack of road connectivity
4. Lack of storage facilities
5. Lack of machines/equipments

## 5.0 Conclusions

Self Help Group is a concept emerged in the direction of helping rural poor forming groups so that, they will improve their living conditions through voluntary participation in thrift and credit. As the target group under SHGs are rural poor, illiterate and not able to understand the concept, the role of Non Government Organizations (NGOs) and Self Help Group Promotion Institution (SHPIs) is crucial in formation and development of SHGs in the villages. Problems in rural lending like poor recovery, wilful default, high transaction cost, diversion of funds, heavy desk work to field staff and difficulties in supervision and follow-up by Banks can be reduced to a large extent by financing SHGs. Sanction of loans to SHGs, by banks is based on the quantum of savings mobilized by the SHGs, but not for any specific purpose unlike in case of other schematic lending. Loan may be granted by the SHG for various purposes to its members. The bank does not decide the purpose for which the SHG gives loans to its members. Self Help Groups are graduating into village level organizations and SHG federations.

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