ROLE OF STAKE HOLDERS AND SELF HELP PROMOTING INSTITUTIONS (SHPIS) IN MICRO FINANCE

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Introduction

Different stake holders and self help promoting institutions play a significant role in creating an enabling environment for promotion and growth of self help groups and MFIs The SHG promoters as a whole promote a strong net work within them, collect and disseminate information and share experiences. . They strengthen the efforts to consolidate the SHGs for bringing more and more women actively participating in their own development movement. The focus of the Micro-Finance programme in West Bengal is on organization of the poor at grassroots level through a process of social mobilization for poverty eradication. This approach to organize the poor stems from the conviction that there is tremendous potential within the poor to help themselves and that the potential can be harnessed by organizing them. Social mobilization enables the poor build this own organization (SHGs) in which they participate fully and directly and take decisions on all issues concerning poverty eradication. Simultaneously SHGs have the advantage of the assistance, be it in terms of credit or technology or market guidance etc-in reaching the poor faster and more effectively.

Social mobilization is not a spontaneous process. It has to be induced. Herein lies the role of different stake holders to initiate and sustain the process of social mobilization for poverty eradication by formation, development and strengthening of the SHGs. Issues that are key to poverty eradication should become entry points for them to organize the poor into SHGs .The groups that are formed with thrift and credit as entry points have demonstrated that the poor can secure greater access to credit and other support services for enhancing their income levels. The different players have their own roles to play in the formation, nurturing of SHGs and their linkages with banks.

Self help groups go through various stages of evolution viz, Group Formation, Group Stabilization, Micro Credit Stage and Micro Enterprise Development Stage. **Group Formation** means formation, development and strengthening of the groups to evolve into self managed people's organisation at the grass roots level. Social mobilization and community organization is a process oriented approach as different from target oriented approach. The group formation should not be driven by any targets but lend itself to a 'process approach'. The members of SHGs should fully internalize the concept of self-help.

Group Stabilization :

Group stabilizes through thrift and credit activity amongst the members and builds their group corpus. The groups save regularly and take up internal loaning to the members. This provides the members with opportunities to acquire the skills to prioritise scarce resources, to assess the strength of each member, to fix up the time of sanction and schedule of repayment and determine interest rates. The group institutionalizes the need to introduce sanctions for deviant behavior, which could include delay in repayments, arriving late or absenting from meetings etc. During this stage of group stabilization the SHGs are brought in to contact with the local banks. They keep the savings corpus in the bank in the savings account opened in the name of the group. This may start in the 3rd or the 4th month after group formation and has a dual purpose .The SHG begins to realize the opportunities and also the mode of dealing with the banks. Likewise, the bankers can to familiarize themselves with the SHGs. Establishment of these linkages at the early stages will ensure the formation of strong SHGs. This stage generally lasts six months. At the end of six months of opening of savings account it is necessary to subject each SHG to a test whether it has evolved into a good group and is ready to go into the next stage of evolution. This is done through a grading exercise which is termed as first grading (Grading- I). The objective of this exercise is to identify the weaknesses, if any, and help the group to overcome the same so as to develop into a good group. Grading of the group also enable the District Rural Development Agencies to establish micro-credit linkages for the good groups with the Banks and regular, attendance of group members in the meetings, change of leadership annually, regular savings by the group members; 100 percent repayment of loans taken from the group and loans taken from outside sources more than once; maintenance of simple basic records by the group such as minutes book, Attendance register. Loan ledger, general ledger, cash book, Bank pass book and individual pass books up to date and lastly clarity and transparency in the activities of the group. Besides this members should abide by all the rules and regulations made by the group members unanimously for proper functioning of the groups. The grading exercise should be undertaken every quarter till such time when all the groups obtain good grade.

Micro-Finance Stage :

Every SHG that has opened savings account with the bank and performing group savings and inter loaning activity at least for a period of 6 months and has demonstrated the potential of a viable group enters this third stage. In this stage group receives Revolving fund and also embarks on further capacity building of its intire team. DRDA arrange to provide the revolving fund to such groups, meeting their share from out of 10% of SGSY fund. The revolving fund is provided to the group corpus so as to enable more number of members to access loans and also to facilitate increase in the per capita loan available to the members. The revolving fund imparts credit discipline and financial management skills to the members, so that they become credit worthy and bankable in the eyes of the bank. The linking bank opens a cash credit account in the name of the group and provides maximum four times of the group corpus as loan. Thus the cash credit limit is determined by (group corpus interest) revolving fund. The bank does not charge interest for the revolving fund amount as it is treated as own savings of the group. The self-help group could also have access to credit under the Self Help Group-Bank Linkage programme of NABARD.

Micro Enterprise Development Stage :

At the end of six months from the date of receipt of the revolving fund, the SHG will be subjected to another grading test (second grading) to see if it has been functioning effectively and is capable of taking up an economic activity through higher levels of investment. The linking bank should be satisfied about the grading of the SHG at this stage. Therefore, the choice of the agency carrying out the grading as well as the criteria should be to the satisfaction of the bank.

Once the SHG has demonstrated that it has successfully passed through the second stage, it is eligible to receive the assistance for economic activities. This is in the form of loan and subsidy. There are two ways in which a SHG can receive this assistance.

1) Loan-cum-subsidy to the individuals in a group, provided the prospective Swarozgar is in the group are capable of and willing to take up income generation activities. Though a few individuals are identified as beneficiaries under loan-cum-subsidy, the group essentially stands guarantee for the prompt repayment of the loan to the Bank. It also undertakes responsibility to closely monitor the asset management and income generation. It constantly interacts with the banks and takes initiative to secure continuous line of credit to the Swarozgaris to access multiple dose of loan. If the members of the group who are assisted under SGSY loan-cum-subsidy want to avail the backend subsidy, nothing can prevent the members to do so.

2) Loan-cum-subsidy for the Group Activity.

The SGSY will primarily follow the group approach. The group is entitled to subsidy of 50% of the project cost subject to per capita subsidy of Rs 10000/-or Rs 1.25 lakhs which ever is less.

Group takes up economic activity of their choice for income generation. This phase would include Entrepreneurship Development as well as Skill Development training of the members of the group to enable them to successfully implement the chosen activity. Groups, particularly formed with members who are skill less, asset less, destitute and living under object poverty might not graduate to the state of taking up micro-enterprise within 6 months to 1 year. Such group may continue to remain in the microfinance stage for a longer period of time and may require intensive training and capacity building inputs to reach higher levels of income generation.

We define five types of SHPIs as follows:-

NGOs are trusts or societies which promote SHG for bank linkage. Which NGO/MFIs are themselves financial intermediaries not included horer. SHG promotion may be a major or a minor part of NGOs work, but it must have the clear aim of linking the SHGs to a bank for saving and credit. The NGO may be paid for this from the banks own resources or from a Nabard or similar grant. They have concern for the poor and have belief in federations and group businesses. They offer enterprise development and marketing along with financial services. They are highly co-operative and continuously present with the SHG members. But they have to face some difficulty in communicating with bankers.

Banks are themselves SHPIs when branch staff themselves promote SHGs, from scratch and then mobilize their savings and lend to them. The banks may be commercial banks or RRBs, or co-operative banks. If the banks pay other agencies or individuals to perform the SHPI role, it is not itself considered a SHPI. But it is felt that banks should be encouraged and assisted to subcontract the SHG promotion task to others if they think fit. They are the most important stakeholders in the SHG movement, apart from the customers that is, the SHG members themselves. They are fast, business oriented, cost conscious and minimalist. They offer people a deal and allow them to decide whether they want to buy it.

Village Voluntary Vahini Clubs (V.V.Vs) are farmers clubs which have been set up, usually with assistance from NABARD, initially to improve the credit culture in the community. They are strictly local community voluntary organizations. They are usually unregistered. They have started to promote SHGs in their own communities for bank linkage, sometimes with pay or sometimes with financial assistance from NABARD or else where. These clubs have strong community contacts and good links to banks. But they have greater tendency to work with people they know rather than the poorest.

Government agencies cover a wide range of state and central government entities who promote SHGs under various schemes with SHG bank linkage as part of the scheme. The scheme may have an element of subsidy but this is not always essential. These agencies give emphasis on the poorest. They are continuously present with the community. They are driven by schemes and need to fulfill target.

Self employed individuals are people who promote SHGs as individuals but not as employees or members of an institution.. Sometimes they do this as genuine volunteers, without any remunerations or sometimes they may earn some income from this activity. From long time back individuals commission agents are used to improve the out reach of banking services. Many of these agents promote groups for facilitating their own work, particularly in urban areas. In case of Indian Bank and Bank of Baroda savings collection agents have promoted large numbers of informal savings groups. Thus the concept of individual group promoters is not a new one. NABARD has experimented in five States for encouraging individuals volunteers to promote SHGs. Various MFIs and some banks have also made variety of experiments with commission agents or local unpaid volunteers. The individuals' volunteers have close contact and concern for the poor and commitment. But they have limited scale of operation and are relatively slow compared to others SHPIs.

SHG Federation:-

A further type of SHPI is the SHG federation. Existing SHG members promote new group to join their federation and they are paid remuneration for their time spent by other members of the groups .These federations are set up in Andhra Pradesh, Jamshedpur in Jharkhand etc. Some federations act as financial intermediaries between their member SHGs or between financial institutions and the SHGs. But some perform no direct financial function, they perform a number of educational and advocacy roles.

Self-Promoted SHGs:-

There are also a number of "no SHPI" SHGs which are not promoted or assisted by any of the above five types of agencies. Their members have set them up on their own initiative probably after observing SHGs in other villages.

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, RBI has decided in 2006 (RBI/2005-06/288) to enable banks to use the services of intermediaries in providing financial and banking services. This service of intermediary is provided by Non-Governmental Organizations /Self Help Groups (NGOs/SHGs), Micro Finance Institutions (MFIs) and other Civil Society Organizations (CSOs). These intermediaries provided the services through the use of Business Facilitator and Correspondent models.

Business Facilitator Model: Eligible Entities and Scope of Activities.

Under this model banks use intermediaries such as NGOs/Farmers Clubs, co-operatives, community based organizations, Information Technology enabled rural outlets of corporate entities, Post offices, insurance agents, well functioning Panchayats, Village Knowledge Centers, Agri Clinics/Agri Business Centers, Krishi Vigyan Kendras and KVIC/ KVIB units, depending on the comfort level of the bank, for providing facilitation services. The facilitation services include (i) identification of borrowers and fitment of activities, (ii) collection and preliminary processing of loan applications including verification of primary information/data; (iii) creating awareness about savings and other products and education and advice on managing money and debt counseling; (iv) processing and submission of applications to banks; (v) promotion and nurturing Self Help Group (vi) post-sanction monitoring (vii) monitoring and handholding of Self Help Groups /Joint Liability Group /Credit Group /others and (viii) follow up for recovery. As these services are not intended to involve the conduct of banking business by Business Facilitators no approval is required from RBI for using the above intermediaries for facilitation of the services indicated above.

Business Correspondent model:Eligible Entities and Scope of Activities.

Under the "Business Correspondent" Model, NGOs/MFIs set up under Societies / Trust Acts, Societies registered under Mutually Aided Co-operative Societies Act for the Co-operative Societies Act of States, section 25 companies, registered NBFCs not accepting public deposit and Post Offices may act as Business Correspondents. In engaging such intermediaries as Business Correspondents, banks ensure that they are well established, enjoy good reputation and have the confidence of the local people. Banks give wide publicity in the locality about the intermediary engaged by them as Business Correspondent and take measures to avoid being misrepresented.

In addition to activities listed under the Business Facilitator Model, the scope of activities undertaken by the Business Correspondents include (i) disbursal of small value credit (ii) recovery of Principal/collection of interest (iii) collection of small value deposits (iv) sale of micro insurance /mutual fund products /pension products /other third party products and (v) receipt and delivery of small value remittances / other payment instruments.

The activities undertaken by the Business Correspondents are within the normal course of the bank's banking business, but conducted through the entities indicated above at places other than the bank premises. In furtherance of the objective of increasing the outreach of the banks for micro-finance in public interest, the Reserve Bank has permitted banks to formulate a scheme in compliance with the objectives and parameters for using the entities indicated as Business Correspondents.

Banks pay reasonable commission/fee to the Business Facilitators /Correspondents, the rate and quantum of which may be reviewed periodically. The agreement with the Business Facilitators /Correspondents specifically prohibits them from charging any fee to the customers directly for services rendered by them on behalf of the bank. The engagement of intermediaries as Business Facilitators/Correspondents involves significant legal and operational risks. As such due consideration is given by banks to those risks. They endeavor to adopt technology based solutions for managing the risk, besides increasing the outreach in a cost effective manner.

In this Micro-Finance programme the important stakeholders are District Rural Development Agencies (DRDAs), Panchayat Samithis, other Panchayati Raj institutions, the banks, the line departments and the NGOs. Following roles are played by them:

DRDAs:

They coordinate the implementation of the programme. Their role is critical in organization of Self-help groups and their capacity building. They co-ordinate with the technical institutions for technology and training, with the banks for planning and credit mobilization and with the line departments for infrastructure and technical follow up.

Gram Panchayats :

The Gram Panchayats play a crucial role. The Gram Sabha first approve the list of BPL families. At the beginning of each year, the potential Swarozgaris for taking up the designated key activities are identified in each habitation by a 3 member committee including the Sarpanch. The list of Swarozgaris who are sanctioned the loan by the banks are placed before the Gram Sabha. The Gram Panchayat also take steps to provide from its fund under SGSY or any other programme, the common infrastructure necessary for key activities. They actively monitor the performance of the Swarozgaris in particular whether they are repaying the loan regularly. The State Government desires that Gram Panchayat should give leadership in all matters related to MF activities. Accordingly, a G.O. has been issued by the P&RD Department for holding monthly review meeting on this matter at all GP offices on 2nd Saturday of each month. This has started from the month of March, 2007. This regular holding of 2nd Saturday meeting at G.P. level greatly increases the involvement of this sake holder in the MF activities of the area. The State Govt. has also proposed for arranging Basic Orientation Training/ Hand Holding Training of the Group members at the G.P. levels. The G.P. will be responsible for the management of these trainings. For this required training fund is given to the Prodhan directly. Construction of a training hall for the beneficiaries is also considered at the G.P. level for the G.P.S where 100 or more SHGs have been formed. In this way the Panchayat members are activated to think more about the MF programme.

Panchayat Samiti (Block level) :

This body approves the key activities that are identified for the blocks before the list of beneficiaries to be assisted under the programme is send to the BDO through the District level Technical Group. The Panchayat Samiti review every month the reports sent by Block SGSY committee. They review the recovery performance. The Zilla Parishad reviews the performance under SGSY in its general meeting.

Bankers :

They play a crucial role in this microfinance programme. SGSY is a credit-cum-subsidy programme. Credit is the key component and subsidy is only a minor and enabling component. This programme envisages the close association of bankers at all stages of programme implementation right from the identification of key activities, clusters, self help groups, identification of individual Swarozgaries as well as planning for all the elements of the key activities. The bank has a final say in the selection of beneficiaries. An elaborate mechanism has been put in place to ensure post credit monitoring as well as for loan recovery. Right from the date of the Group Formation with the opening of Saving Bank account, the Branch manager is the key person around whom the entire process of grading exercises, opening of cash credit account, and the Project based credit linkage revolves.

Line Departments :

The line departments have an important role to play in the entire exercise, for they will be responsible for implementation and monitoring of respective sectoral activities. The MF programme needs a very close collaboration between the implementing agencies and the line departments. This collaboration starts with the identification of key activities and of project preparation reports. The line departments are responsible for planning and creation of the infrastructure requires making the key activity successful. In addition, once the bank has sanctioned the loan, the line department must ensure that all facilities including technical guidance are provided to the beneficiaries. They also verify whether the Swarozgaris have the necessary skill and take steps to the train them. They satisfy themselves about the quality of training that is imparted. They assist the DRDAs in ensuring that the Swarozgaris are duly trained in appropriate institutions. It is their responsibility to monitor the progress and whether

Swarozgaris are able to derive the expected levels of income. They treat promotion of self employment as an integral part of their day-to-day monitoring.

NGOs:

They are used in the formation and nurturing of the SHGs as well as in the monitoring of progress of the beneficiaries. Where feasible their services are also utilized for provision of technology support, quality control of the products. Only capable and competent NGOs are utilized in the programme.

Thanks to the role of stake holders and Self-Help Promoting Institutions, India is home to one of the largest Micro Finance programmes in the world.2.5 crore rural BPL households have been organized and brought into SHG network till date.

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