

## MICRO FINANCE AND SELF HELP GROUP IN TAMIL NADU

### Article Particulars

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### Dr.A.T.SENTHAMARAIKANNAN

*Professor and Head, Department of Commerce**Madurai Kamaraj University College, Madurai, Tamil Nadu, India*

### Abstract

*This paper provides a review of the recent literature on microfinance in developing countries and a critical assessment of its effectiveness. It examines the experience of India, which has one of the largest microfinance sectors in the world, and particularly the unfolding of the microfinance crisis in Tamil Nadu. It concludes that microfinance cannot be seen as a silver bullet for development and that profit-oriented microfinance institutions are problematic. To fulfil even some of its progressive goals, it must be regulated and subsidised, and other strategies for viable financial inclusion of the poor and of small producers must be more actively pursued.*

**Keywords:** *Financial Inclusion, Micro finance, NGO, Self-Help Groups(SHG)*

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### Introduction

Microfinance can be defined as an economic development approach to provide saving and investment facility to the poor around world. Microfinance is not just about giving micro credit to the poor rather it is a tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counselling etc. With financial inclusion emerging as a major policy objective in the country, Microfinance is playing a pivotal role to extend financial services to unbanked sections of population. The Government of India has initiated various programmes and schemes in the area of microfinance. The most important programmes are SGSY (1999) and NABARD's SBLP (1992) which are using SHGs approach. Other initiatives by government include IMY, Swa-Shakti, DW CRA, CAPART, SJSRY, IFAD, Swayamsiddha, RMK etc. These all programmes are aimed at reduction of poverty and improving the living condition of rural poor with the help of economic activities. Microcredit offers access to financial resources to the poorest of the poor in the rural areas. It allows people to undertake self-employment activities or to venture very small businesses without depending on money-lenders who demand exorbitant interest rates.

In India microfinance operates basically through two channels:

1. SHG – Bank Linkage Programme (SBLP)

### **Micro Finance Institutions (MFIs)**

In India, Self Help Groups or SHGs represent a unique approach to financial intermediation. The approach combines access to low-cost financial services involving a process of self-management, with an objective of social and economic development for the women SHG members. Formations of SHGs are facilitated by the Government or by NGOs. SHGs are linked not only to banks but also to wider development programmes. SHGs are seen to confer many benefits, both economic and social. They encourage women to save and access the credit which banks are increasingly willing to lend.

SHGs can also be community platforms from which women are encouraged to become socially active especially with regard to issues affecting their daily life. It is felt that proper monitoring and auditing of accounts on regular basis will help these organizations to work in transparent manner nurturing their relationship of trust and interdependency amongst themselves. Community audits provide stakeholders in a local area the information they need to develop, a shared view of the critical economic and social challenges that confront them and a forum within which they can find solutions. Community audits focus not only on the needs of a community, but also on its assets. A huge amount of fund is being mobilized through these SHGs. It requires proper auditing of accounts on regular basis to provide the transparency & accountability among the members.

NABARD is proud to say that the Self-Help Group - Bank Linkage Programme, which is the largest microfinance programme in the world, today touches 10 crore households through more than 85 lakh SHGs with deposits of about 16114 crore and annual loan offtake of 38800 crore and loan outstanding of nearly 61600 crores.

### **Statement of the Problem**

The rural poor-men and women, landless artisans, agricultural labourers, peasants in particular, who rely on wages as a means of livelihood, find considerable fluctuations in their earnings from month to month. Credit is required for such people to smooth consumption over time to cover their needs in period of low income by borrowing. In developing countries, financial institutions (government banks, commercial banks, credit bureaus and so on) whether public or private do not show much enthusiasm to put their resources in rural and backward areas for the benefit of poor people. The rural poor-men and women, landless artisans, agricultural labourers and small fisher-men have almost been excluded from these financial services either because they are not available (collected and procedural requirements rendered them inaccessible) or simply because they are not considered creditworthy. The erroneous view is that the poor do not have any resources, do not save, they cannot invest in view of immediate consumption needs and they are ignorant of the basic principles of sound money management.

The main problems with formal lenders are---

- High transaction cost of the bank in financing a large number of small borrowers who need credit frequently in small quantities. (Transaction costs include those of information, negotiation, monitoring, co-ordination and enforcement of contracts).
- They are urban orientation and lack of flexibility in their operation.
- They lack information regarding the characteristics, history or current activities of their clients.
- They cannot accept collateral in some monetary forms such as labour or output.
- The banks neither lend small amounts nor entertain loans for consumption. Further, they cannot provide quick loans when needed (Fernandez, 1994).
- The risk involved in providing credit to small borrowers who can not provide physical collateral.

The rural poor, therefore, perceive banks as alien institutions which exist to serve the needs of 'others'. The result is that formal banks cannot effectively reach out to poor borrowers, and informal moneylenders, the landlords, the shopkeeper, and the traders do the better job. Credit in the informal system is usually available immediately, when and where required and often without collateral and legally documentation formalities, since the lender usually relies on personal knowledge of borrowers and their circumstances. Transaction costs (both for the borrower and the lender) for the non-institutional rural credit delivery system are very low mainly due to the lack of detailed documentation, immediate decision about loan sanction and disbursement and lack of information cost.

### **Objective**

- To study about the development the micro finance and self help groups in Tamil Nadu
- To study the behavioural of micro finance and self help groups in Tamil Nadu

### **Scope of the Study**

The present research was to study the critical study of self help groups with reference to Tamil Nadu. This would be of great help to the implementing agencies to bring necessary improvements in the self help groups for attaining the overall empowerment of women & men. The knowledge on these aspects could be used to develop strategies to motivate self help group members for their enhanced participation in the group. The outcome of the study would suggest the factors that are responsible for the good performance of self help groups formed by Government and Non Government organization. Further the study would highlight the role and importance of micro-credit, microfinance institution; role of government and self help groups in offering micro-credit. The results of this study would be offer important input to planners, policy maker, Non-governments organizations for framing policies to

empower the women through self help groups. The success of the programmes depends upon its critical study of self help group. Hence attempts have also been made to find out the benefits attained after implementation of self help groups and effectiveness made under this study. The study also surveys the problem faced by the members of the groups. The findings of which can be used for planning programmes and better strategies can be evolved based on the results for the effective functioning of self help groups.

### **Problems in Microfinance**

Inherent problems associated with most microfinance in India, has led to no particular model emerging as a clear winner in this regard. Microfinance models are attempting to traverse on a new and sustainable paradigm to work with in India. The supply-leading approach, for instance, assumes that farmers either lack capital or have limited access to financial sources and are often charged high interests by informal sources. The need was felt to obtain production inputs like high-yielding varieties of rice and wheat at subsidised rates. Towards this end, several rural financial institutions came up in developing countries to extend credit to farmers. The supply-leading system only temporarily succeeded in disbursing credit. It largely failed to achieve its objective to serve the rural poor grow into sustainable credit institutions. The Grameen Bank model, on the other hand, has been replicated and used in many developing countries. Their sustainability, nevertheless, has been questioned because they rely more on grants from donors that are relatively limited. Besides, the interest rates are too low to achieve cost recovery. As a result, they require frequent recapitalisation for long-term operation. A number of studies have revealed that a repressive financial system, and subsidised loan approach for rural development, has actually been counterproductive. The euphoria over Muhammad Yunus and Grameen Bank winning the Nobel Peace Prize notwithstanding, microcredit plunged into turmoil in the following years and has been increasingly labelled as 'microscams'. Beneficiaries in Asian countries, particularly India, were badly hit by the evils of microfinance. Even The Wall Street Journal (WSJ), on 29 October 2010, reported about India's microlending crises. MFIs in India, many scams later, realised the importance of behavioural patterns in microfinance.

### **Behavioural Microfinance**

Over the past few decades, a new field of science has emerged which integrates theoretical research in economics with empirical research in psychology. It examines how people actually behave in decision-making scenarios, as opposed to merely how they ought to behave. Behavioural economists have uncovered a wealth of data about human behaviour that contradicts traditional economic models.

It is concerned with how the human mind interprets information, evaluates risk, and takes decisions. Sociologists, psychologists, and economists have tried to understand

the economic lives of the poor. The fundamental belief across disciplines is, if we can better understand the way the poor live, we can better cater to their needs. Behavioural microfinance helps to understand how the poor takes their decision under given circumstances and how they react in utilising and repaying.

Everyone faces problems in decision making, while for the poor, it is tough. They are characterised with inadequate savings, high interest borrowings, financial illiteracy, and even lack of adherence to lifesaving medications. These problems lead to short-sighted decisions, lack of self-control over decisions and landing in guilty situations. Traditionally, individuals plan their finance and future cost benefits. Self control is very important in savings. The poor, with minimal savings, are usually vulnerable with unexpected income shocks. They save less because their disposable income is marginal.

They then approach MFIs for loans. Though access to formal financial services is increasing, most people in developing countries still do not have savings accounts, and many of those who have, do not use them. Repayment of MFI loans begins a week or two after the initial disbursement. It's one of the distinctive features of microfinance and is believed to act as an 'early warning system' for default risk. While the fixed repayment structure may reduce the risk of default, it leads to higher transaction costs for the MFI that are passed on to the borrowers through a higher effective interest rate.

This further limits the repayment capacity of the poor (Armendáriz and Morduch, 2005). But if the repayment structure is flexible then it may control the indisciplined behaviour among the beneficiaries. People usually manage their income by factoring in how much their earnings will be worth in future after considering possible shocks (Mullainathan, 2004). The traditional view assumes that people plan about how to spend in good and bad times, as well as the future challenges to meet. In the behavioural perspective people are often distracted from their set goals and face difficulty to optimally manage their income. Trustworthiness varies widely between the microfinance lender and the traditional money lender, in a way that the latter maximises exploitation of the borrower, whereas the former tries to improve their well being.

The MFIs, with time, to improve their financial stability and expand their customer base, started following coercive methods. They put pressure on the borrower to recollect the loans, often leading them to a debt trap. The distinctive feature among the beneficiaries of microfinance is repeated borrowing. Once a loan is repaid, the beneficiary is lured to a further loan. It becomes a practice instead of savings, whereas the purpose of microfinance is to alleviate poverty, not to entrench it (Burkett & Sheehan, 2009).

MFIs in India are not necessarily reducing poverty. The money lent is often gambled away or spent on alcohol. Stressing on merely increasing the incomes is not enough. The focus needs to be on helping the poor to "sustain a specified level of well-being"

(Wright, 1999, p.40), by offering them a variety of financial services tailored to suit their needs so that their net wealth and income security improves. Sociologists and economists, warned by the pitfalls of microfinance, are trying to understand the economic lives of the poor.

Behavioural economics conglomerates psychology and economics to study how the poor make financial decisions or finds better alternatives to take those decisions, as well as how they respond to their microfinance loans. The new approach has been labelled as behavioural microfinance. Essentials for behavioural microfinance The success of behavioural microfinance requires strengthening of institutional capacity with good governance to provide better financial services to the poor. It must also significantly increase their outreach and achieve financial self-sufficiency.

Following are the critical issues that must be taken into consideration.

- Improving management capacity with more autonomy and sound governance practice.
- Improving the operation and procedures that focus on increasing efficiency, lowering transaction cost, improving client satisfaction, and ensuring that earned income covers operating and financial expenses.
- Enhancing management information systems and accounting policy which more timely informative and transparent.
- Strengthening internal supervisory system and audit capacity, and integrate with daily operations and routines.
- Developing a risk management framework which covers a comprehensive strategy for arrears and fraud prevention.
- Developing human resources through career development and training programmes, and incorporation of corporate culture to put in place an incentive system to motivate employees.
- Providing adequate physical infrastructure, and accessible offices close to the customers.
- Developing highly suitable products that are both marketable as well offer incentives to the poor. Conclusion Behavioural microfinance is the need of the hour.

**Districtwise SHG outstanding as on 31.01.18 (Rs. In crore)**

STATENAME	DISTNAME	SHG_NO	SHG_BAL	NPA_SHGNO	NPA_SHG_BAL
TAMIL NADU	ARIYALUR	283	3.38	148	1.03
TAMIL NADU	CHENNAI	2973	69.30	592	5.90
TAMIL NADU	COIMBATORE	1740	48.43	247	2.57
TAMIL NADU	CUDDALORE	3332	54.74	1151	8.79
TAMIL NADU	DHARMAPURI	9783	227.86	2174	29.82
TAMIL NADU	DINDIGUL	1015	17.55	487	5.11
TAMIL NADU	ERODE	431	8.62	53	0.26
TAMIL NADU	KANCHEEPURAM	3446	74.15	542	3.46
TAMIL NADU	KANYAKUMARI	767	13.67	557	8.12

TAMIL NADU	KARUR	949	18.62	409	5.70
TAMIL NADU	KRISHNAGIRI	10835	282.51	1321	18.40
TAMIL NADU	MADURAI	2115	38.59	1092	12.91
TAMIL NADU	NAGAPATTINAM	858	16.87	145	0.87
TAMIL NADU	NAMAKKAL	2033	46.45	258	2.22
TAMIL NADU	NILGIRIS	335	6.98	84	0.73
TAMIL NADU	PERAMBALUR	46	1.15	1	0.00
TAMIL NADU	PUDUKKOTAI	726	11.77	231	1.96
TAMIL NADU	RAMANATHAPURAM	57	0.54	46	0.36
TAMIL NADU	SALEM	5921	190.16	1218	10.46
TAMIL NADU	SIVAGANGA	527	6.38	168	1.38
TAMIL NADU	THANJAVUR	3564	76.37	848	7.21
TAMIL NADU	THENI	311	5.30	101	0.75
TAMIL NADU	THIRUVALLUR	4020	81.36	754	5.29
TAMIL NADU	THIRUVARUR	1602	30.39	573	4.46
TAMIL NADU	TIRUCHIRAPALLI	1873	37.45	418	3.69
TAMIL NADU	TIRUNELVALI	819	20.64	93	0.74
TAMIL NADU	TIRUPPUR	240	4.08	13	0.05
TAMIL NADU	TIRUVALLUR	4	0.15	0	0.00
TAMIL NADU	TIRUVANNAMALAI	2864	65.31	268	2.39
TAMIL NADU	TOOTHUKUDI	305	7.95	75	0.81
TAMIL NADU	VELLORE	3269	72.34	694	6.14
TAMIL NADU	VILLUPURAM	3084	43.56	1103	8.76
TAMIL NADU	VIRUDHUNAGAR	773	13.74	456	5.85
	<b>Total</b>	<b>70900</b>	<b>1596.34</b>	<b>16320</b>	<b>166.20</b>

### Need of the Study

Poverty is social phenomenon in which a section of society is unable to fulfill even its basic needs of life. Though rapid industrial development has taken place since independence mass poverty persists all over the country. In the mildest of mass poverty, real progress is not much importance. Therefore, there is an urgent need to eradicate mass poverty. India's anti-poverty strategy comprises of a wide range of poverty alleviation and employment generation programmes, many of which have been in operations for several years and have been strength to generate more employment create productive assets, impact technical and entrepreneurial skills and raise the income level of the poor. The SHG programs has to be successful in not only meeting the peculiar needs of the rural poor but also in strengthening collecting self help capacities of the poor at the local level, lending to their empowerment. The performance and achievement of the SHGs in Tamil Nadu employment and income generating activities through the rural enterprise development discussed. A critical study of self help groups well enable us to know the role of SHGs in Tamil Nadu it also helps us in locating the strength, weaknesses, opportunities and threats of SHGs and to give suggestions for improvement and remedial measures wherever necessary. Though there are a large number of studies related to microfinance self help groups empowerment of women through SHGs is not studied so far. Hence, this study assures great importance.

### **Research Methodology**

The overall progress of self help groups is being assessed with the help of secondary data which are collected from published sources like Noted publication of Government of India. Viz. Yojana, Kurukshetra, RBI bulletin, India 2008, Annual reports and Records of NABARD, District Rural Development agency (DRDA), District Urban development agencies, collection of research in available to other universities agencies in comparative study, preparation of profile from various magazines and research journals periodicals, newspaper, internet. Opinion, interviews, extrudes of executive of corporate houses from relevant articles etc

### **Conclusion**

SHGs can play an effective role in achieving the long cherished objectives of poverty alleviation and rural development through their diversified programmes. The formation of common interest groups has had a substantial impact on the lives of its members. Empowerment of women and the inculcation of financial training and discipline amongst the poor will undoubtedly have long term socio-economic benefits. Still, there are key areas of SHG management that need to be improved.

SHGs must be self managed units, independent of promoting institutions, with proper accounts, audit and credit management ability. Over dependence on leaders is a major problem faced by the SHGs in Tamil Nadu. The leader also becomes autocratic, 207 interfering with each and every decision of the members. This system of spoon feeding can't be considered as a positive sign. Strategy of democratic style of leadership with co-operation, unity, and mutual understanding from the part of each and every member in group activities, seems to be the ideal mechanism for making the groups self reliant. Identification of the deserving one is very important in the case of monetary aspects. Loans and other benefits of SHGs sometimes flow away bypassing the poorest to the powerful and least needy of the members. This process of marginalization may lead to the destruction of the whole process. There is a need to pay considerable attention to this aspect, for achieving the real goal of overall development of the weak and poor section of the society. Whatever be the short comings, the impact of SHG programme on socio-economic conditions of the members have been invariably an improvement from the pre-existed status of the rural poor in Tamil Nadu.

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