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Microfinance: A Tool for Poverty Alleviation: A Case Study of Rastriya Seva Samithi, Andhra Pradesh, India

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Abstract:

India for long has been trying to uplift poor masses through various Interventions. During the early seventies poverty alleviation programs were initiated and the most significant one was Integrated Rural Development Program wherein rural poor were provided loans to purchase livestock and other livelihood enhancing assets. It was one of the first microfinance intervention at a large scale. Later number of other schemes were introduced with the support of commercial banks and rural banks. But formal financial sector has not been able to fulfill the requirements for small loans especially for consumption purposes. To bridge this gap, microfinance movement came into existence. Bangladesh's Grameena Bank led way in the region. International development agencies and networks during the 1990s showed great enthusiasm for promoting microfinance as a strategy to alleviate poverty. As a consequence, microfinance grew significantly in many countries.

The paper mainly focuses the role of Rashtriya Seva Samithi (RASS) a Non-Government Organization in providing financial assistance to poor women through Self-Help Groups (SHGs). RASS has been established in 1981 at Tirupati in Chittoor District in Andhra Pradesh, India. It is presently operating in 4 States of India viz. Andhra Pradesh, Tamil Nadu, Orissa and Delhi implementing 42 different welfare and development programmes with the funding support of Government of India, State Governments and International donor agencies and philanthropists. The experience of RASS with microfinance is 24 years old and is fairly intensive. The concept of SHGs as an effective instrument to alleviate the problems of poverty and employment was conceived by RASS. It now operates microfinance activities in all its development projects under the banner of RMP (RASS Mahila Pragathi) through SHGs. Now, RASS is providing financial assistance to SHGs accessible to poor women, both in urban and rural areas of Andhra Pradesh and Tamil Nadu with a vision to empower women through promotion of entrepreneurial skills and empowering on social issues. Hence, an attempt is made to study in detail the growth, financial assistance, recovery of loans, training and evaluation of SHGs.

Keywords: Microfinance, Self Help Groups, Selection, Loans, Training, Evaluation

1. Introduction

India for long has been trying to uplift poor masses through various Interventions. During the early seventies poverty alleviation programs were initiated and the most significant one was Integrated Rural Development Program wherein rural poor were provided loans to purchase livestock and other livelihood enhancing assets. It was one of the first microfinance intervention at a large scale. Later number of other schemes were introduced with the support of commercial banks and rural banks. But formal financial sector has not been able to fulfill the requirements for small loans especially for consumption purposes. To bridge this gap, microfinance movement came into existence. Bangladesh's Grameena Bank led way in the region. International development agencies and networks during the 1990s showed great enthusiasm for promoting microfinance as a strategy to alleviate poverty. As a consequence, microfinance grew significantly in many countries. It is defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards".

2. Need for the Study

Microfinance came into prominence in India in 1980s, although early experiments date back 30 years in Bangladesh, Brazil and a few other countries. The typical microfinance clients are low-income persons who do not have access to formal financial institutions. In rural areas, they are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade. In urban areas, microfinance activities are more diverse and include shopkeepers, service providers, artisans, street

vendors, etc. Microfinance is, perhaps, the only economic programme that aims at broader range of goals that promote well being of poor and its philosophy is rooted in human welfare economics. Hence an attempt is made to study how microfinance acts as a tool to alleviate poverty. The paper mainly focuses the role of **Rashtriya Seva Samithi (RASS)**, situated in Tirupathi, Chittoor District, Andhra Pradesh a Non-Government Organization in providing financial assistance to Self-Help Groups (SHGs).

3. Objectives

The objectives of the present study are as follows:

- i. To study the role of RASS in providing financial assistance to SHGS to alleviate poverty.
- ii. To evaluate growth of SHGS and
- iii. To assess loan assistance and recovery and repayment of loans.

4. Data Collection

The study used both primary and secondary data. Primary sources include collection of information from the staff, members of SHGs etc. Secondary sources include various books, magazines, records etc.

5. Period of Study

The study covered a period of 5 years from 2009-14.

6. Scope

The study made an attempt to enlighten the role of microfinance as a tool to alleviate poverty. The present study mainly focuses the role of RASS in providing financial assistance to alleviate poverty through SHGS. The study covered aspects relating to SHGS in respect of growth; financial assistance; repayment and recovery of loans; SHGs linkages; training and evaluation etc.

6.1. Profile of RASS

RASS has been established in the year 1981 with Registered Office at Tirupathi in Chittoor District in Andhra Pradesh. It is presently operating in 4 States of India viz. Andhra Pradesh, Tamil Nadu, Orissa and Delhi implementing 42 different welfare and development programmes with the funding support of Government of India, State Governments, International donor agencies and philanthropists. The main emphasis of programmes is on women and child development, aged welfare, disabled, the disadvantaged sections of the people and rural development. It has its programmes in over 2504 Villages serving around 3.10 million of population in 4 States of the country.

7. The Role of RASS in Providing Microfinance

The experience of RASS with microfinance is 24years old and is fairly intensive. The concept of SHGs as an effective instrument to alleviate the problems of poverty and employment was conceived by RASS. It now operates microfinance activities in all its development projects under the banner of RMP (RASS Mahila Pragathi), through SHGs.

The main objectives of RMP are as follows:

- i. To provide the regular financial services.
- ii. To develop skills of SHGs and its members.
- iii. To provide linkage with various financial and development institutions and
- iv. To promote livelihood alternatives for SHGS.

The main principles on which RMP works is integrity, quality of service, transparency, fair practices, privacy of client information, integrating social values into operations and feed mechanism.

7.1. Procedure in the Selection and Promotion of SHGs

The success of any Micro Financial Institution depends primarily on methodology of loan sanctions and the design of eligibility criteria of the ultimate beneficiaries for availing the loan assistance. RASS has designed an eligibility criterion for sanction of loans to SHGs taking its past experiences and the suggestions of professionals into consideration. SHG is a registered or unregistered group of micro entrepreneurs having common social and economic backgrounds, voluntarily coming together to save regular small sums of money, mutually agreeing to contribute to a common fund and to meet their emergency needs on the basis of mutual help. RASS provides loans only to Women Self Help Groups. The following procedure is adopted by RASS in the promotion of SHGs.

1. Identification of needy area by conducting survey.
2. Identification of eligible members.
3. Promotion of SHG by giving orientation to members on SHG concept.
4. Selection of leaders and introduction of books of accounts.
5. Providing training at RASS to the SHG members.
6. Opening a Saving Bank Account in Nationalized bank in the name of SHG.

7.2. Growth of SHGs

It can be observed from the following table that there was a decrease in the growth of number of SHGs during the study period except 2010-11. At the end of 2009-10, the number of SHGs formed was 4200, it increased to 4569 in 2010-11 Whereas in the rest of the period the number of SHGs constantly decreased. It can also be seen that there was a gradual decrease in the number of members. It decreased from 60230 to 48210 during 2009-14.

Year	Number of SHGs	Number of Members
2009-10	4200	60230
2010-11	4569	58770
2011-12	4339	54338
2012-13	4083	50969
2013-14	3781	48210

Table 1: Growth of SHGs during 2009-2014

Source: From the Records of RASS.

The main reason for the decrease in the number of SHGS as well as members is due to the implication of ordinance regulating microfinance activities by the Government of Andhra Pradesh in the month of October 2010 where in it has restricted the SHG members to stay only with a maximum of two microfinance institutions thereby reducing the quantum of turnover of private microfinance institutions.

7.3. Branch-wise Particulars of SHGs

RASS has categorized SHGs into various branches on the basis of area of operation. Of the total of 6 branches, five are established in Chittoor District of Andhra Pradesh and one in Tiruvallur District of Tamil Nadu. Each branch is named resembling women empowerment, such as i) Mahila Pragathi – Branch at Tirupati. ii) Mahila Bharathi – Branch at Papanaidupet, iii) Mahila Jyothi – Branch at Karakambadi, iv) Mahila Vani – Branch at Srikalahasti, v) Mahila Kranthi, Puttur and vi) Mahila Vikas – Branch at Tirutani.

There is ups and downs in the growth of all branches except Mahila Pragathi, Tirupati which witnessed a gradual decrease from 2605 branches during 2009-10 to 2241 branches during 2013-14 (see table 2). Of all the branches, Mahila Pragathi,

Name of the Branch	2009-10	2010-11	2011-12	2012-13	2013-14
Mahila Pragathi, Tirupati	2605	2604	2528	2346	2241
Mahila Vikas, Tiruttani	593	599	551	538	547
Mahila Vani, Sri Kalahasthi	493	509	430	382	381
Mahila Bharathi, Papanaidupet	341	349	336	310	303
Mahila Kranthi, Puttur	260	326	315	328	309
Mahila Jyothi, Karakambadi	181	182	179	179	180
Total:	4473	4569	4339	4083	3961

Table 2: Branch-wise particulars of SHGs during 2009-14

Source: From the Records of the RASS.

Tirupati stood first followed by Mahila Vikas, Tiruttani, Mahila Vani, Sri Kalahasthi, Mahila Bharathi, Papanaidupet, Mahila Kranthi, Puttur and Mahila Jyothi, Karakambadi.

7.4. Loan Assistance

RASS has categorized issue of loans to SHGs into two types.

7.4.1. Productive Loans

These loans are issued for generation of income such as running of small business, agricultural allied activities, purchase of dairy equipment, infrastructure development, etc.

7.4.2. Non-Productive Loans

These are issued for housing consumption, education, medical expenses, repayment of hand loans, family functions, etc.

Based on these RASS has segregated its loan portfolio in the following 6 products:

- Income Generation Loans
- Consumption Loans
- Asset Creation Loans
- Repayment of Loans
- Agricultural Loans and

- Emergency Loans.

It is issuing major portion of the loan amount for income generating purpose. The amount of loan to each member of SHG ranges from a minimum of Rs.10,000/- to a maximum of Rs.50,000/-. However in the cases of Special Income Generation Activities, such as running of large petty shops, small and tiny manufacturing units, etc., a minimum amount of Rs.50,000/- to a maximum is Rs.1,00,000/-, is issued per member of SHG. At present, RAAS is charging interest @ 20% P.A. on loans issued.

7.5. Financial Assistance provided to SHGs:

The amount of financial assistance to SHGs drastically fluctuated during the study period (see table 3). With regard to percentage of change over previous year there was a decrease

Year	Amount of Loan (Rs. in Lakhs)	Percentage of Change over previous year
2009-10	7321.32	-
2010-11	5802.07	-20.75
2011-12	5777.50	-0.42
2012-13	6218.95	7.64
2013-14	6329.15	1.77

Table 3: Year-wise Financial Assistance to SHGs

Source: Annual Reports of RASS

from 20.75 percent during 2010-11 to 0.42 percent during 2011-12. The year 2012-13 experienced an increase of 7.64 percent whereas in the following year again there was a decrease of 1.77 percent. It can be inferred that the financial assistance to SHGS fluctuated considerably during the study period.

7.6. Institution-wise assistance availed by RASS:

A study period from 2009 to 2014 revealed that there were 9 institutions which provided financial assistance to RASS (see Table 4). Out of these, Andhra Bank occupied first in providing financial assistance worth Rs.2,528.30 lakhs over the years. It is the only institution, which continuously provided financial assistance for all the years.

Name of the Institution	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Andhra Bank	1026.85	69.02	382.95	639.52	409.96	2528.30
State Bank of India	950.00	-	-	-	-	950.00
SIDBI	400.00	400.00	-	-	-	800.00
Canara Bank	500.00	-	-	-	-	500.00
Dhana Lakshmi Bank	-	-	-	500.00	-	500.00
HDFC Bank	375.00	-	-	-	-	375.00
NABARD	300.00	-	-	-	-	300.00
Rashtriya Mahila Kosh	-	-	150.00	150.00	-	300.00
Agri Business Finance Limited (Subsidiary of NABARD)	-	-	-	100.00	-	100.00

Table 4: Institution-wise Financial Assistance during 2009-2014 (in lakhs)

Source: Annual Reports of RASS

The State Bank of India stood second by providing Rs. 950 lakhs followed by SIDBI with Rs.800 lakhs, The Canara Bank and The Dhana Lakshmi Bank with Rs.500 lakhs each. From the foregoing table, it can be observed that except Andhra Bank, for all other financial institutions there is yearly gap in providing assistance. The main reason is that RASS is distributing its requirements to various institutions in order to give opportunity to all the institutions in their mission of women empowerment.

7.7. Repayment and Recovery of Loans

RASS has fixed repayment period for loans issued to SHGs as 20 monthly installments. There is a record of 100% repayments by SHGs and the repayments to financial institutions within time schedules. There are number of factors which contributed for the success of recovery of loans, such as:

- The constant efforts made by the staff of RASS in creating awareness among SHG members through awareness and training.
- Collective wisdom in credit decision
- Grading of SHGs
- Linkages with Government programmes
- Internal checks and audit
- Inspection by the funding agencies.

7.8. SHG Linkages

RASS is also adopting the strategy of linking SHGs with number of Government welfare programmes, such as pre-school education for the children of SHG members, non-formal education for school dropouts and child labour, integrated child development services with special focus on nutrition, health, education and livelihood activities for the benefit of SHG members have had great impact on the members and their families. In addition to this, SHGs in productive activities are provided with marketing linkages. Under Support to Training and Employment Programme (STEP), RASS provides dairy marketing facilities to SHG members in Dairies like Tirumala Dairy, Balaji Dairy, Heritage Dairy etc located at in and around Tirupathi.

7.9. Training and Evaluation

RASS is providing training to newly joined SHG members to make them acquaint with the Concepts, Objectives and Principles of SHG, Duties and responsibilities of Group members and leaders, Characteristics of a good SHG, records and registers to be maintained at SHG level, Group meetings, Importance of training and Credit policy of RASS, etc. Besides providing training to members, RASS is also providing Capacity Building Training with the financial support of SIDBI to SHG Supervisors, animators, cluster and advisory committee members. It has also adopted a three-pronged strategy for strengthening the microfinance sector through strengthening SHGs through Capacity Building inputs, mentoring services and information dissemination by establishing a user friendly Capacity Building Institute. Since June 2003, the institute has trained **13000** SHG members.

RASS is also maintaining a separate Evaluation Department, which sees that there should not be any default in loan payment. If there is any such, then the department

- Searches the reasons for default
- Fixes SHG/staff responsible for such default
- Discusses the issue with advisory committee
- Finds corrective measures for such default
- Submits a report to the head of the institution.

7.10. Problems in Running the Programme

The problems faced by RASS in respect of microfinance are very meager. One of the major problems faced is utilization of funds by members other than the one who is given financial assistance. Some are generally becoming members for assisting others with their share of assistance. Another problem is lack of knowledge about end use. Though there is a feedback system of loan still there are cases of utilization of funds by the members for the purpose other than those mentioned while availing assistance.

8. Suggestions for Improvement of the Programme

- i. RASS has achieved commendable progress in financing SHGs but it has limited its operations to certain areas of Chittoor District in Andhra Pradesh and Tiruttani in Tamil Nadu only. With the experience it gained and the respect its commands among the general public, it has ample scope of increasing the area of operation by which it can support thousands of additional needy.
- ii. It is providing loans to only women SHGs. It would be appreciable if it starts providing loans to unemployed youth, irrespective of gender.
- iii. Interest rates may be decreased so as to encourage the members to avail more quantum of financial assistance regularly and develop their trades further and advent into new trades.
- iv. At present the SHG linkages for marketing of produce is confined to dairy industry only and steps may be taken to provide such linkages in other areas.
- v. The financial limit in case of special income generation activity may also be increased.

9. Conclusion

RASS believes that development of the poor without refining their circumstances is neither conceivable nor sustainable. Development can be self-sustaining only if it brings about a change in the entire socio-economic conditions of their lives. With promotion of Self Help Groups and micro enterprise development initiatives, it has achieved to bring about changes in the quality of life of poor in the areas of its operation.

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