Indian microfinance: lessons from Bangladesh

Debnarayan Sarker

Centre for Economic Studies, Department of Economics, Presidency College, Kolkata, India

2008

Indian Microfinance: Lessons from Bangladesh

Debnarayan Sarker,

Professor and Secretary, Centre for Economic Studies, Presidency College, Kolkata

86/1 College Street, Kolkata – 700073 (India).

Email: sarkar_d_n@rediffmail.com

(Abstract: That more than three-fourths of old SHGs in every year remain outside credit linked further with mainstream banks in India makes the doubt whether old SHGs are becoming non-existent within a very short period of their formation. The re-survey to some previously productive SHGs makes the doubt stronger. But to set up a successful enterprise by poor SHG members' households to earn a sustainable living under microcredit programmes of Grameen Bank, Bangladesh, loans are received by their borrowers in a continuous sequence; and to this process, 'customer-made credit service' and 'flexible loan' are locally designed a best suited for borrowers.)

That Mohammad Yunus of Bangladesh and his Grameen Bank on Friday, the 13th Oct., 2006, emerged winners of the Nobel Peace Prize for their pioneering work in lending to the poor has influenced us deeply think over the performance of microcredit programmes through SHGs (Self-help Groups) in india with a lot of issues .Are the microcredit programmes through SHGs in India , which seek to set up successful enterprise for poor SHG members' households to earn a sustainable living, functioning well ? Or, Are the new SHGs increasing at a increasing rate on records vis-à-vis most of the old credit linked SHGs are becoming non-existent within a very short period of their formation? If the microcredit programmes do not function well or most of the old credit linked SHGs are non-existent within a very short period of their formation in India, does Grameen Bank of Bangladesh give any insight into these problems? These questions are much more relevant for a critical examination of Government of India's principal mode of poverty alleviation programmes through the formation of SHGs and the development of micro enterprise effective on and from 1. 4 .1999.

Since NABARD's debut in microcredit programmes through SHGs in India on and from 1992-93 onwards, it has been catalyzing the banking system in the country to join hands progressively with informal delivery channels to give SHG – Bank linkage the necessary momentum. But the performance of Bank in linking SHGs to the banking system under microcredit programmes started scaling enviable heights on and from 1. 4. 1999, when, IRDP being subsumed in SGSY, formation of SHGs has become the principal mode of poverty alleviation through self-help and development of micro finance .The progress of SHG-Bank linkage programmes 2005-06 shows that the cumulative number of SHGs credit linked with banks up to 31st March 2006 is 2238565; in 2000-01 (up to 31st March) the cumulative number was 263825, registering 149.70 per cent positive growth (simple) per annum between 2000-01 and 2005-06.Under these programmes, loans are given to the SHGs in certain multiples of the accumulated saving of the SHGs i.e. the groups' own accumulated saving are part of the aggregate loan the group can receive from mainstream bank. One of the distinguishing achievements of SHG-Bank linkage microcredit programmes is that, despite providing loan to the SHGs in certain multiples of their accumulated savings, timely repayment of SHG loans reported by participating banks is around 95 percent and around 90 percent of the SHGs linked were exclusive women SHGs during 1992-2005 (NABARD, 2004-05 : p.1, 4,8). Most importantly, during 2005-06, 620109 new SHGs were credit linked with mainstream banks; during the same year, out of the remaining SHGs, 1618456 (i.e. 2238565 –620109), already financed in earlier years, repeat loan was provided to only 344502 SHGs, i.e. out of old credit linked SHGs, only 21.29 per cent of SHGs were provided with repeat loan in 2005-06. In other words, 78.71 percent of old SHGs, already financed by mainstream banks in earlier years, did not receive loan from such banks further in 2005-06 (NABARD, 2005-06); in 2004-05, 2003-04, 2002-03, 2001-02 these worked out to 76.08 per cent, 76.07 per cent, 77.81 per cent and 84.30 per cent respectively (NABARD, 2004-05:p.28). But it is also observed from the same report that timely loan repayment (95 percent of total loans) continue to be the prominent feature of the programmes starting on and from 1992 onwards up to 2004-05. The highlights of SHG-Bank linkage programmes has not yet reported the percentage of timely repayment figure of SHG loan during 2005-06. However a pertinent issue arises from this fact is why more than 76 per cent of old SHGs in every year remain outside credit linked further with mainstream banks, although around 95 percent of all SHG loans are repaid on time. Is it for the fact that the economic condition of more than 76 per cent of old SHGs has been made so well off after receiving primary loan(s) from the mainstream bank that they are not receiving loan from such banks further? Or, Is it for the fact that the borrowers of microcredit go outside the purview of being credit linked with mainstream banks further because of their falling into a 'debt trap' with informal lenders (like, village money lenders) for receiving loan from the latter at a very high rate of interest in order to repay the group loan the borrowers received from the mainstream bank on time?

Microcredit of Grameen Bank

As regards microcredit programmes of Grameen Bank of Bangladesh is concerned, one of the distinguishing features of Grameencredit of Grameen Bank is that ' borrowers join a group in order to obtain loans and loans are received in a continuous sequence, with new loans becoming available as previous loans are repaid (Yunus, 2004: p4078) .To this process, if any group or group member faces any difficulty with regard to timely repayment of loan or unable to repay loan 'customer-made credit service and greater responsiveness to the needs of its borrowers ' initiated by Grameen Bank II by August 2002 ,after the completion of its transition period , incorporated greater flexibility for its borrowers(ibid:p4079) . Under the new system, local staff of Grameen bank can design a loan product to make it a best fit for the clients. Besides duration of loan, the size of weekly installments can be varied and borrowers can pay less during lean period and pay more during peak business period. The prime loan product of Grameen Bank II is the basic loan .All borrowers start with a basic loan, which is offered to borrowers for creating self-employment for income generating activities. In order to bring about a sustainable improvements into the lives of poor borrowers' families, the same borrowers are also allowed to receive the housing loan and higher education loan (for their children), with low rate of interest compared with the basic loan, along with the basic loan. If borrowers face any difficulty or problem in repaying the basic loan, according to the repayment schedule, there is an exit option. This option is called the ‘flexible loan, which is simply a rescheduled basic loan, with its own set of separate rules. The main objective of this “flexible loan’ is that the borrowers who are unable to pay their basic loan are no longer seen as defaulters; rather the borrowers have a legitimate way to remain within the folds of the organization.

Study and Investigation

But that more than 76 per cent of old SHGs in every year remain outside credit linked further with mainstream banks on the one hand, but, around 95 percent of all SHG loans are repaid on time on the other, makes the doubt about the success of SHG-Bank linkage programmes in India. My practical experience is not also satisfactory.

Based on published survey report of State Institute of Panchayet and Rural Development (SIPRD), Kalyani, Nadia (Sen.: 2000), Sarker (2001) examined the data of 96 households in 10 SHGs under Howrah district, where Tajmahal Gram Bikash Kendra (TGBK), an NGO, formed SHGs and financed those SHGs, under SHG-NGO model; on the other hand, for SHG-non NGO model, the data of 1651 SHGs on 16 Blocks in Hooghly district, where SHGs were formed by Primary Agricultural Cooperative Society (PACS) and financed by Hooghly District Central Cooperative Bank(DCCB),were also examined .The study reveals that there is a similarity in forming SHGs in two models : about 90 per cent of members of these two models are women and all members are poor ,all SHG members under TGBK belong to minority community , whereas about 65 per cent of SHG members under PACS belong to SC or ST community , the saving mobilization is executed regularly by all members in both the models . As regards receiving credit and its recovery status are concerned, about 90 per cent of SHG members were credit linked with TGBK under SHG-NGO model and over 65 per cent of SHG loan were timely repaid by its borrowers, whereas about 50 per cent of SHGs were credit linked with PACS in the SHG-non NGO model and major amount of loan in this model was outstanding. More importantly. 70 per cent of households reported employment for 200 days and the rest for over 200 days each in a year, with high wage rate for both male and female in the SHG-NGO model. However, the study suggests that the impact of microcredit programmes of SHG-NGO model is not only more popular but also more productive in terms of mobilization of savings and utilization of credit. This year I undertook a field survey during the month of July in those two villages of Howrah district, where SIPRD conducted their survey in July 1999. I found that all those SHGs were defunct in 2001 within three years of their formation. The main reason is that the borrowers did not repay the major portion of loan they received from TGBK.

Next, in 2002, based on published data, Sarker and De (2005a) examined the relative performance of microcredit activities through SHGs between 105 SHGs, formed by NGOs but directly financed by Allahabad Bank in 12 villages of Amdanga block in north 24 Parganas district, and 1651 SHGs in 16 blocks in Hooghly district formed by PACS but financed by Hooghly DCCB. The comparative study suggests that although most of the SHG member in both the microcredit programmes are women and poor, SHGs of Amdanga Block are not only productive in terms of saving mobilization and utilization of credit but also generative in higher degree of cost efficiency compared with SHGs of Hooghly district. We also undertook a field survey to all SHGs of Amdanga Block in north 24 Parganas district in July-August 2004 in order to investigate the then existing performance of those SHGs, which were observed more productive in microcredit activities by the comparative study based on the published data. We found that all those SHGs were defunct within two years of their receiving finance from Allahabad Bank and about three years of their formation. One of the main causes of their non-existence was that the major portion of the loan the borrowers received from Allahabad Bank was outstanding.

Sarker and De (2005b) examined the data of SIPRD, kalyani, Nadia, which conducted a field survey in July 1999 on 50 households randomly selected from total SHGs promoted by different organizations, and observed that whilst most of the SHG members in all microcredit programmes are women and poor , NGO- led microcredit programmes through SHGs charges high rate of interest on its borrowers and timely repayment rate is also high compared with state-led micro credit programmes (like

Swarnajyanti Gram Swarozgar Yojana ,SGSY).but, microcredit programmes promoted by different organizations are found to be income-generating for all borrowers , who received loans only from microcredit source , although income generation is small per borrower for the use of small size of loan. No evidence of income generation is found among borrowers, who received loans from other source (s) along with microcredit source; rather it leads to the 'debt trap' for all borrowers.

Causes of doubt

That more than 76 per cent of old SHGs in every year remain outside credit linked further with mainstream bank in India on the one hand, but, around 95 percent of SHG loans are repaid on- time on the other, raises a pertinent issue as to whether the credit de-linked SHGs are dead within a short period of its formation or existing by setting up a successful enterprise for poor borrowers' families for their sustainable living .Our field investigation to some SHGs, which were observed more productive in terms of saving mobilization, utilization of credit and cost efficiency based on the study of published report , shows that those SHGs were defunct within three years of their formation .Moreover, The study of Sarker and De (2005b) also suggests that SHGs promoted and financed by different organizations are found to be income-generating in all cases of SHG members , who receive loans only from microcredit source under microcredit programmes , irrespective of the rate of interest paid by the borrowers. No evidence of income generation is found among borrowers, who received loans from other source (s) along with microcredit source; rather, it leads to the 'debt trap' for all borrowers. However, if more than three-fourths of old SHGs in every year remain outside credit linked further with mainstream bank in India, there might be the doubt about such a 'debt trap' for old credit linked SHGs.

But, one of the distinguishing features of Grameencredit of Grameen Bank, which we are lacking, is that borrowers join a group in order to obtain loans, and loans are received in a continuous sequence; to this process, in addition, the housing loan and higher education loan run parallel to the basic loan for the same borrowers; if any borrower or any group is unable to repay loan,'customer –made credit service' and 'flexible loan' are made best suited to the needs and ability of poor borrowers by local staff of bank .The objective of this process is to set up a successful enterprise for poor borrowers' families to earn a sustainable living that helps the beneficiaries lift themselves above the poverty line and bring about sustainable improvements into their lives. So, if the number of new SHGs being credit linked with mainstream banks increases at a increasing rate every year on records at the one hand, but, old credit linked SHGs become non-existent also at increasing rate within a very short period of their formation on the other, then the microcredit programmes through the formation of SHGs as the principal mode of poverty- alleviation programmes of the Government of India effective on and from 01. 04. 1999 would be, no doubt, futile.

References

Sarker, D. 2001: 'A study of SHG-NGO and SHG –non NGO models of microfinancing in West Bengal' Indian Journal of Agricultural Economics, Vol. 39, No.3, July-September.

Sarker, D. and Dey, S. 2005a: ' Economic Liberalization and Institutional Reforms in Rural Credit through SHGs in West Bengal', edited by Falendra K. Sudan in' Globalization and Liberalization: Nature and Consequences', Serials Publications, New Delhi.

Sarker, D. and Dey, S. 2005b : 'Targeting the Poor , Increase in Income and Social Implications under SHG-led Microcredit Programme in West Bengal' , The Asian Economic Review , The Journal of the Indian Institute of Economics ,Vol. 47 ,No. 3 ,December.

Sen., M. 2000: 'Self-help Groups and Microfinance: Study of Rural Credit in West Bengal' Draft Report, State Institute of Panchayats and Rural Development, Kalyani, Nadia, November.

NABARD, 2004-05: 'SHG-Bank Linkage Programme –Progress', 2004-05, NABARD, Microfinance, India.

NABARD, 2005-06: 'SHG-Bank Linkage Programme –Progress', 2005-06,Web page, http. /www.nabard.org/roles/microfinance/index.htm. NABARD, Microfinance, India.

Yunus, M. 2004: ' Grameen Bank, Microcredit and Millennium Development Goals ' Economic and Political Weekly, Vol.39.No. 36.September.