

Self Help through Microfinance: A Paradigm Shift in Orissa, India

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Abstract

Microfinance has proved very relevant and effective in India and offers the rural and urban poor the possibility of gradually breaking away from exploitation and isolation. Over the years, the provision of microfinance has brought significant increased productivity among the rural poor. Self reliance and sustainability of income generating and micro enterprise development programmes of self help groups have been successfully achieved with effective linkage and networking. The interplay between the two sub systems of socio-economic development, i.e., micro enterprise development and the micro credit and saving mechanism has been quite smooth and effective in the case of SHGs linkage to mainstream institutions. Through the microfinance revolution, rural villagers of Orissa, the most backward state of India, have undergone a remarkable social upliftment. The value and acceptance of women has also increased substantially and is analyzed through a series of case studies.

Introduction

Self Help through mutual help by the provision of microfinance is one of many intervention strategies for social empowerment, poverty alleviation, Income generation and employment promotion. Self Help Groups not only provide financial services to the rural poor but also act as a launching pad for social development livelihood intervention. A growing number of very poor women are actively organizing themselves and linking up with the outside world.

The poor require a range of financial services, such as opportunities to safeguard earned income and credit to enable them to maintain minimum levels of consumption throughout the year. The

rural economies within which the majority of poor people live and work are characterized by numerous small transactions. Although the financial transactions are very small in magnitude (high frequency) for outsiders, they are an essential component of rural livelihoods.

The major strength of a self help group is its ability to unite growth and poverty agendas. There are many options that have the potential to reduce poverty and increase economic growth and profit making capacities. A self help group is one of the options, which can reduce poverty and increase economic growth in a sustainable manner in a people-centered approach.

The innovation of microfinance aims not only to provide a range of customized financial products to rural residents but also to facilitate the promotion and protection of livelihood. To fulfil this aim, microfinance was strategically channelised through self help groups.

Self-help groups (SHGs) are used extensively as an effective tool for poverty alleviation, empowerment and livelihood options and have become a fast developing commercially viable business proposition. The group-based approach has been highly successful in providing access to the rural poor.

An SHG is a small group of persons (mostly in rural areas/villages) who come together with the intention of finding a solution to a common problem, mainly to get access to credit and livelihood generation with a degree of self-sufficiency. These groups are the conduits through micro credit, which serve as a catalyst in helping to pull them out of poverty.

Microfinance & Rural Financial Products in Orissa

At the time of the SHG revolution, the rapid introduction of a range of savings/credit products was made by NGO based MFIs for expanding their micro credit clientele. In the early 90s, the SHG concept was spread by NGOs as SHGs became a tool for initiating developmental and livelihood projects. NGOs were governed by grants and a part of that grant percolated as a grant for SHGs. The major focus was initiation of internal savings rather than provision of external credit. The external credit was generally geared by a grant from an NGO or a bank loan from a commercial nationalized bank with the support of more than six months of internal savings. In this system, the provision of grants or loans focused on the group rather than on individual clients.

MFIs largely finance clients/groups/individuals for productive uses. In most cases, MFIs scan the geographic location and finance location-specific business/activities. For example, NGOs/MFIs finance small business kiosks, dairy enterprises, piggery and poultry enterprises, agri-farming etc. and they provide insurance for each loan. In fact the insurance deduction is done at the time of the loan disbursal.

Micro-insurance

The supply of insurance services to the poor has increased substantially since 2000. There are a large number of low premium schemes which cover against death, accidents, natural calamities and loss of assets due to fire, theft, etc. MFIs also extend insurance against crops, livestock and other businesses along with subsidized loans. The KAS Foundation in Orissa has demonstrated its efficiency and effectiveness by bringing all clients into livestock insurance.

¹Methodology

The study was conducted using qualitative research tools – principally the case study methodology. This was supplemented by quantitative – through collection of both primary and secondary data.

Various social research tools like PRA, RRA and focus group discussion were used for the study. Rapid assessment² was done to understand the depth of the underlying issues. Cases were analyzed through social analysis tools like RLS Matrix, Nine Square Mandala and simple statistical tools.

The sampling was done through a mix of a three stage stratified sampling and Delphi technique. In the first stage, blocks were selected, in the second stage, Gram Panchayats and in the third stage, villages. The selection of the SHGs was done by purposive sampling.

³Results and Discussions

The study is an analysis of ten cases based on self help through microfinance in Orissa. The Self Help Groups were:

¹ *At the individual level, all group members were studied through pretested questionnaires and personal interviews.*

² *Rapid Assessment methods: The method involved direct observation, informal conversation, key-informant interviews and participant observation concerned with employment scenario, entrepreneurship scenario, potential areas which would involve large labour forces, entrepreneurship related behaviors, knowledge, attitudes and practices (KAP), crucial entry points for intervention and local responses to entrepreneurship development. Conceptual issues included the structure of incentives, the complex relationship between cognition and behavior and how people respond to the components and factors of labour and entrepreneurship issues.*

1. Maa Durasuni Self Help Group (Female)
2. Adam Changa Self Help Group (Male)
3. Patherkata Village Committee
4. Kalajhini Mahila Self Help Group (Female)
5. Maa Bhagabati Sangh (Female)
6. Purana Sahi Mahila Self Help Group (Female)
7. Jay Hanuman Krushak Kalyan Sangh (Male)
8. Maa Tarini Mahila Samiti (Female)

The biggest revolution in microfinance started in the late 90s and early 2000 with both national (Indian) and international agencies involved in bringing social upliftment through microfinance. International donors channelised microfinance through local NGOs with a proven track of working at grass root level whereas the Government of India channelised rural financial services through nationalized banks and NGOs. The SHGs under this study were benefited by rural financial services from both national and international donors.

3 The group members were fined Rs. 1 for not attending monthly meetings. In case of default in repaying the loan, members were fined Rs. 1 for Rs. 10.

Governance & Policy

After initiation of these SHGs, the members decided to conduct one group meeting every month and made it mandatory that all members had to attend. In every group meeting, proceedings were recorded by the secretary or president. Those absent from the meeting were fined (Rs. 1 to 3 based on the group) per meeting (except for emergencies). By common consent, the groups fixed the monthly members' saving (Rs. 10 to 20) and the interest on the loan was fixed at 4-5% per month.

The Status of SHGs by 31 Dec 2004

Status of the female groups on micro-financial transaction Cash in INR Rupees

Formation of Association

Orissa is one of the most backward states in India. The backwardness is due to its traditional forms and frames influenced by the social environment and problems. Livelihoods are based on traditional agriculture and wage labour. There is absolutely no provision of credit except for village moneylenders, neighbors and relatives. Rural financial services have always been very poor. Livelihoods have been fully under the control of nature.

Under the active influence and motivation of NGOs, villagers have formed associations (both male and female) for self-help or thrift and credit groups. Most group members are married villagers, who have a common perception of need and impulse towards collective action. They were encouraged to form mutual helping associations.

The villagers were unable to perceive the reason behind their absolute and relative poverty. They were unable to understand the complexities behind rural indebtedness and poverty. The vicious circle of poverty seemed unbreakable. At that point, with the intervention of NGOs and govt. agencies, some of the women understood the problem and possible solutions to mitigate it. Thus some women folk came forward and developed SHGs.

Bank Linkage

Within six months of formation, all the groups opened accounts in commercial nationalized banks with the help of NGOs who had earlier assisted their initiation. All the SHGs opened their accounts as early as possible. There were regular transactions between the bank and the group. The group deposited their savings every month and withdrew them when required. All groups were financed by the bank with seed money loans and within six months all groups had repaid the loan.

Name of The SHG	Kalajhini Mahila SHG	Purana Sahi Mahila SHG	Maa Tarini Mahila Samiti	Maa Mangala Nari Sangh	Maa Durasuni SHG	Maa Bhagabati Sangh
Date of Initiation	18/02/01	01/01/01	10/02/01	01/01/98	18/01/01	01/04/03
Members	20	15	14	20	15	18
Monthly Saving/ Interest per Rs.100 per month	10/5	10/4	10/5	10/5	10/5	10/4
Cash in Bank	78485	1500	12117	5656	78801	2000
Cash in Hand	2400	0	813	800	0	2400
Total Group saving	20315	27934	3170	76470	14695	1760
Interest on the loan from the group	6000	120	640	7600	5709	116
Principal Loan Recovery	20000	2000	3840	65800	16000	1650
Other Source of Income including grant from NGOs	1019	20635	56316	22000	15400	2550
Bank Loan Received by the Group	124790	30000	15000	5000	124832	0
Total Loan distribution by the Group	78000	3500	6290	69650	57000	1700
Principal Loan Repaid to the Bank	20000	30000	15000	5000	20000	0

**Status of the male groups on micro-financial transaction
Cash in INR Rupees**

Name of The SHG	Adam Changa Self Help Group	Patherkata Village Committee	Dharamveer Self Help Group	Jay Hanuman Krushak Kalyan Sangh
Date of Initiation	25/06/01	1990	08/99	01/2002
Members	13	70	14	14
Monthly Saving/	10/3	10/5		20/5

Interest per Rs.100 per month				
Cash in Bank	182247	82782	22000	16504
Cash in Hand	13351	7469	2000	150
Total Group saving	6760	NA	13440	5200
Interest on the loan from the group	1233	18000	1700	160
Principal Loan Recovery	9341	12070	12500	1200
Other Source of Income	80000	223800	40000	16960
Bank Loan Received by the Group	220000	95000	18000	32760
Total Loan distribution by the Group	24600	42800	12500	1700
Principal Loan Repaid to the Bank	NA	NA	18000	NA

With financial support from the banks, NABARD, other government agencies and NGOs, the Self Help Groups diversified from traditional agriculture and took up income generating activities. Along with modern agriculture, the groups adopted Golden Grass Trading, processing and cultivation. Some groups entered into business by taking up piggery, goat-raising and livestock enterprises, and renting out tarpaulin, paddy winnowing, mite sets etc (which the group purchased from the group fund).

The average annual income of these groups was Rs. 3345 with a minimum of Rs. 790 and maximum of Rs. 5700.

The Average annual Income (2003-2004) of the Groups

Groups	Avg. Monthly Income (Rs.)	Major Activities
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Kalajhini Mahila SHG Trading,	5700	Golden Grass Cultivation on leased in land & Pisciculture
Purana Sahi Mahila SHG	2581	Golden Grass Processing & Trading, Renting out Sprayer, Diesel Pump, Tarpaulins etc.
Maa Tarini Mahila Samiti	3257	Renting out Sprayer, Diesel Pump, Paddy Thresher Holler, Golden Grass cultivation & Trading
Maa Mangala Nari Sangh	4582	Rice Trading, Goatery Turmeric Processing, Pisciculture
Maa Durasuni SHG Culture	3160	Golden Grass Processing, Pisciculture & Prawn Culture
Maa Bhagabati Sangh	790	Herbal garden, Lemon, Pisciculture
Adam Changa SHG Patherkata Village Committee	6300	Pisciculture, Agri – processing, Cashew plantation
Dharamveer SHG Jay Hanuman Krushak Kalyan Sangh	5200	Golden Grass cultivation & Processing

Linkage Building – a way for Effective Empowerment

The empowerment of these Self Help Groups was possible because of their strong contacts and links with other institutions and government machinery. All groups regularly visited the block office of the local government for information and had a good rapport with the Block Development Officer. They regularly visited the DRDA and local NGOs. Seeing their interest, various govt. agencies and NGOs conducted training programmes on goat-raising, piggery, fishery, dockery, dairy farming, Golden Grass cultivation and processing. In most meetings, the Block Development Officer, Asst. Agriculture Officer and other govt. bureaucrats/ technocrats along with NGOs participated.

⁴Capacity Building for Institutional Sustainability

The SHGs felt that participation and interaction with others would reduce the inequalities in their social system. Consequently they kept good contacts with DRDA, Block Offices, local NGOs and Orissa University of Agriculture & Technology. In turn, these agencies provided training in pisciculture, piggery, Goat-raising, dockery, dairy farm management, cultivation and processing of Golden Grass, squash and pickle-making. Groups were taken on exposure visits to various places. At group level, these SHGs started Golden Grass cultivation, processed the products into ropes and sold them in nearby markets. Groups also took block level contracts for renovation of ponds, construction of community halls and repairing of the village road from the block office.

⁴ *These groups got grants from DRDA, GVT, and NYK. The grants were in both cash and kind. They varied depending on group activities. In some cases, the grant was on a share basis i.e., input from granting agency and labour from the groups for activities like threshing floor, community hall and adult education center. GVT provided grants in the form of sprayers, tarpaulins, rice winnower and huller on a 50% cost sharing basis.*

Improved Standard of Living

All members of the 10 SHGs were studied and the results revealed that the average personal income of the members increased significantly. This was due to the capacity building of the members and initiatives to undertake enterprises at a personal level (apart from the group level). The literacy percentage increased from 14% to 68%. The literacy level increased due to high peer pressure and motivation from other members. There was 92% attendance of members in health and sanitation camps and the few absences were due to emergencies.

Conclusion

These groups were informal groups whose members pooled savings and lent out within the group on a rotational or needs basis. These groups' formation was based on specific activities; they promoted savings among members and pooled resources to meet the emergent needs of members, including consumption as well as production needs.

The internal savings generated by these groups were well supplemented by external resources loaned/donated by banks, NGOs and govt. agencies. These Self Help Groups were able to mobilize and effectively recycle pooled savings among members. They succeeded in providing banking services to their members, though in a primitive way, but in a manner which was cost effective, simple and flexible.

The groups developed good linkages with various NGOs and govt. institutions. On a personal level, the average income of the members increased substantially. The literacy level increased from 14 % to 68%. The level of awareness of health and hygiene increased. Group members clearly perceived their social, educational and economical upliftment by the SHG formation. Seeing the upliftment through the SHG movement, other women of the village have also started forming groups.

The clearcut visible outcome from Microfinance

- Enhanced self-reliance, in terms of identification of appropriate resources
- Creative use of locally available resources
- Increased ability of SHG members and villagers to work together
- Strengthening institutional strength and institutional health
- Coming out from traditional issues & social stigmas
- Marked increase of literacy due to high peer pressure to handle microfinance among the SHG group members
- Positive change in knowledge, attitude and behaviour among the villagers

Abbreviations

DRDA: District Rural development Agency
GVT: Gramin Vikas Trust, a national Level NGO in India

SHG: Self Help Group

MFI: Micro Finance Institutions

NABARD: National Bank of Agriculture & Rural Development

NGO: Non Government Organization

NYK: Nehuru Yubak Sangh, a national Level NGO in India