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An Analysis of Profitability and Sustainability of Self Help Groups in Uttarakhand

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Abstract

Microfinance has emerged as a powerful tool of poverty reduction, economic prosperity and the most effective intervention of empowerment of poor women in rural areas. In India, Microfinance scene is dominated by Self Help Group (SHGs)-Bank Linkage Programme of NABARD and SGSY which has witnessed phenomenal growth in terms of number of SHGs, savings funds and credit disbursed during last two decades. However, it was revealed in many empirical studies that a significant number of SHGs are inactive and defunct which compromised their profitability and sustainability. Financial sustainability is essential for any financial institutions. Moreover, long term sustainability is influenced by both economic and non economic factors. In this paper an attempt is made to analyze the profitability and sustainability of SHGs to explore ways to strengthen and empower them leading to their long term sustainability which is inevitable for the real success of this programme.

Keywords: MF- Micro Finance; SHG- Self Help Groups; CD Ratio-Credit Deposit Ratio; CCL-Cash credit Limit; RF-Revolving Fund; PLR-Prime Landing Rate; SHPIs-Self Help Promotion Institutions.

Introduction

Microfinance is the provision of financial services basically savings and loans to poor and low income households who have limited access to formal financial services. The micro finance movement has experienced economic transition over more than four decades across the world.[1] Today micro finance is seen as the main tool of poverty reduction,[2] the most effective treatment of poverty alleviation,[3] modern solution of bringing prosperity in rural economy,[4] and the most effective intervention of economic empowerment of poor[5] etc. In India various models of micro finance exist, however, SHG bank linkage programme is the most popular among them. The SHG Bank linkage Programme which commenced in 1992 has grown exponentially, enjoyed unprecedented popularity over last two decades and 73.18. lakh SHGs covering around 95 million families were linked to different Banks with a cumulative savings of 8217.25 crore and the total outstanding loan of 39375.30 crore to 44.51 lakh SHGs up to 2012-13 . Of these nearly 59.18 lakh were women SHGs with a cumulative savings of 6517.87 crore and the total outstanding loan of 39375.30 crore to 44.51 lakh women SHGs.[6]

However, despite this phenomenal growth of Number of SHGs, savings funds and credit disbursed. it was revealed in many empirical studies that a significant number of SHGs are inactive and *defunct after the group loans were paid by rest of members on behalf of defaulted member* (Rajgopalan Shashi:2005)[7]. SHGs are financial institutions and unless care is taken to have sound accounting and management systems….Default, mismanagement and even fraud, are inevitable.[8] The major objectives of micro finance are poverty alleviation, empowerment of women and financial sustainability, outreach and impact. Financial sustainability, outreach and impact is achieved by sustainability. (Agarwal, Kashyap: 2005).[9] The concept of Sustainability can be discussed in three respects : Financial , Institutional and social. Financial sustainability implies that not only do revenues cover the cost of running the operation, but also create sufficient reserve for contingencies. (Padia Veena: 2005)[10] Financial sustainability is not an end in itself but the means of reaching a large and growing number of women.[11] Profitability which is excess of revenues over expenditure refers to short term sustainability whereas overall sustainability can be attained in the long term and involves both the economic and non economic impact of SHGs. If micro finance progrmme has to succeed, the profitability and sustainability of SHGs must be ensured. The overall success of SHGs is required to be examined by their sustainable growth and not alone by their numbers, saving funds and disbursed credit. In this paper, the profitability and sustainability of SHGs has been analyzed in order to find ways to make them sustainable.

Methodology

Present study is undertaken in purposefully selected five hilly districts of Kumaun division in Uttarakhand where 20SHGs, randomly selected from one block each from each district thus making an overall sample of 100 SHGs, were surveyed through a survey schedule interviewing a total number of 400 respondents comprising 02 office bearers and 02 members from each SHG. Profitability and viability is dependent on regularity of savings, utilization of funds by frequency of inter loaning, disbursement of loans to maximum members and repayment of loans etc. The results were are analyzed by the ratios used by Sa Dhan SHG performance evaluation tool.[12]

Results and Discussion

Regularity of Savings

To compute this ratio savings of last six months has been taken. The standard size of this ratio is 100%.The formula used is :

$$\frac{Total\ mobilized\ savings\ during\ last\ six\ months\ x\ 100}{monthly\ savings\ x\ number\ of\ membersx\ 6months}$$

Fig. No.1.1

Position of Regularity of Savings in Sample Area

Ratio of Regularity of Savings	No. of SHGs	Percentage to total SHGs
>80%	59	59
61-80%	13	13
41-60%	07	07
21-40%	12	12
<20%	09	09
Total	**100**	**100**

Source: Survey (2009)

Fig. 1.1 shows that among 59% SHGs the regularity of savings is found as excellent whereas among 41% groups the ratio was 80% or below. 21% groups where the regularity ratio was 40 or less, compromised their profitability with the loss of interest receivable on such anticipated savings. In some cases the savings due for couple of months was deposited in the last month and in some cases deposited by the office bearers to run the group mainly due to absenteeism among members.

Management of Group Fund

The formula used to compute the turnover of internal loans is :

$$\frac{cumulative\ Amount\ of\ loan\ dibursed\ by\ SHG}{Closing\ Balance\ of\ savings\ fund}$$

The standard of this turnover is 2.0. Fig. 1.2 shows that 51% SHGs could not fully utilize their savings fund which compromised their revenues. Only23% groups could get turnover more than 1.5 and it has been more than1.0 in case of 26% groups. This clearly indicates the limited options available with SHG members of productive use of internal loaning due to lack of basic infrastructure and business environment.

Fig. No.1.2

Position of Turnover of Internal Loans in Sample Area

Turnover of internal loans	No. of SHGs	Percentage to total SHGs
1.51-2.00	23	23
1.01-1.50	26	26
0.51-1.00	12	12
≤ 0.50	39	39
Total	**100**	**100**

Source: Survey (2009)

Group sustainability is also determined partly by the number of members as internal borrowers which determines the loan portfolio which is influenced by members degree of participation in financial decisions, credit risk and purpose, office bearers authority and perception etc. This ratio is computed with the help of the following formula.

$$\frac{\text{members with outstanding loans x 100}}{No.of\ total\ members}$$

Sa Dhan determined 60% as the standard of this ratio. Fig.1.3 reveals that 94% SHGs have 60% or less members with outstanding loans, whereas in case of 59% SHGs this ratio is 40% or less which is indicative of the fact that loan portfolio has been limited to a small fraction of members in most of the SHGs due to less need of credit in hill areas having low CD Ratio as compared to plain areas in the same state. This again has reduced the revenues of SHGs compromising their profitability and sustainability.

Fig. 1.3

Position of Ratio of Members with Outstanding Loans in Sample Area

Ratio of Members with Outstanding Loans	No. of Respondent SHGs	Percentage
>80%	03	03
61-80%	03	03
41-60%	35	35
21-40%	45	45
<20%	14	14
Total	**100**	**100**

Source: Survey (2009)

Loan Quality

The Sustainability of SHGs is greatly influenced by the anticipated risk generated by the ratio of loan outstanding 60≥ days in total outstanding loans which determines the loan quality in respect its potential repayment which depends on repayment rate, age and size of loans etc. A higher loan portfolio ratio indicates the lower quality of loan portfolio and greater risk. The ratio is computed by using the following formula :

$$\frac{\text{principal sum of loan outstanding } 60 \geq \text{ daysx } 100}{\text{outstanding loan portfolio}}$$

The survey results indicates as shown in fig,1.4 that the risk portfolio ratio is good in case of 58% SHGs where it is observed 40% or less whereas

in rest of SHGs it is observed as higher and risky which
inversely effect the group sustainability.

Fig. 1.4
Position of Loan Portfolio Outstanding for 60≥ Days in Sample Area

Risk Portfolio Ratio of Loan Outstanding 60≥ days	No. of Respondent SHGs	Percentage
>80%	05	05
61-80%	16	16
41-60%	21	21
21-40%	38	38
<20%	20	20
Total	**100**	**100**

Source: Survey (2009)

Cost of Credit and Non Credit Support

The cost of SHGs comprised both direct and indirect costs. The former is determined by the interest on loans taken by them and latter include the expenditure incurred by them as transportation charges during their visits to the bank offices and various costs incurred from the processing to sanction of loan. The survey observed that in SGSY groups the costs were increased by banks charging interest over interest in case of default by any member some of whom complained the confusion about time and process of sanction of Back end subsidy and about time and cost incurred in documentary formalities of filling too many papers. Fig. 1.5 and 1.6 indicates that 83% SHGs visited once or twice the bank offices and 71% SHGs incurred expenditure in between Rs.101-500.The SHGs incurred costs more than 500 were only 14% Whereas 27% of SHGs reported to have visited the bank offices 4-5times which definitely increased costs and inversely effected their profitability.

Fig. 1.5
Position of Respondent SHGs in Respect F Their Monthly Bank Visits in Sample Area

Frequency of Monthly Visits to Bank Offices for CCL/RF	No. of Respondent SHGs	Percentage
1	49	45
2	28	28
3	19	19
4	8	8
≥5	-	-
Total	**100**	**100**

Source: Survey (2009)

Fig. 1.6
Position of Respondent SHGs in Respect of Their Monthly Transport Expenditure in Bank Visits in Sample Area

Size of Monthly Transport Expenditure in Visits to Bank Offices for CCL/RF	No. of Respondent SHGs	Percentage
≤ 100	15	15
101-300	33	33
301-500	38	38
≥500	14	14
Total	**100**	**100**

Source: Survey (2009)

Problems of Sustainable Development of Self Help Groups

In addition to financial sustainability or profitability, the long term sustainability requires SHGs viability on non financial factors too. Non economic support and services attracts members to be with SHGs for a long time. But for this not only the structure, internal management and dynamics needs to be efficient but also SHGs must extend its linkages and activities at broader level vis a vis through clusters , federations and cooperatives . Presently in its absence the members were found difficult to be retained in the groups. Fig. 1.7 reveals that one of the main reason behind defunct group is drop out of members due to marriage (13.51%), Migration (10.82%) and other causes such as default, clash of interest leading to conflicts, death etc. However default in payment of installment (40.54%) is observed as the main factor followed by irregular savings by members (21.62%).

Fig. 1.7
Position of No. of SHGs According to Causes of Drop Out from Groups in Sample Area

Causes of drop out from groups	No. of SHGs	Percentage to total SHGs	Percentage to total SHGs with drop outs
Irregular savings	8	8	21.62
Absence from meetings	-	-	-
Default in the repayment of loan installment	15	15	40.54
Marriage	5	5	13.51
Migration	4	4	10.82
Any other	5	5	13.51
Total	37	37	100

Source: Survey (2009)

In hill areas of Uttarakhand the small size of the SHGs is attributed by members belonging to fragmented villages spread over distanced places. Overlapping of members who joined different SHGs formed for different purposes under various schemes of the governmental line departments, is also observed as a dominant factor for group inactivity. This leads to absence from group meetings as reflected by Fig. 1.8 which clearly indicates that only 26% SHGs could organize 6 regular monthly meetings whereas the 46% groups were reduced to organize less than 4 meetings due to absenteeism of the magnitude of less than 50%in case of 18 % groups whereas the percentage of absenteeism ranging 50%-75% in case of 69% SHGs compromising the group mobility and activity leading to gradual non functioning and closure.

Fig. 1.8
Position of SHGs According to Number of Group Meetings and Absence in Meetings During Last Six Months in Sample Area

No. of meetings/ percentage of absentees	No. of SHGs
No. of Meetings	
6	26
5	28
4	18
≤3	28
Percentage of Absentees	
>75	13
50-75	69
<50	18

Source: Survey (2009)

Conclusions and Recommendations

1. Sustainable development of SHGs needs both financial and non financial sustainability. Former is associated with short term profitability but the latter is related to long term sustainability based on non economic factors. Training and orientation of SHPIs particularly in southern states where spectacular growth in MF sector is registered, must be organized frequently. The impact of training should be monitored periodically.
2. The turnover of inter loaning observed as very low due to poor forward and backward linkages which requires to be improved by focusing on rural infrastructure and establishment of group federations and clusters in the area providing various types of support.
3. The direct and indirect cost of credit for SHGs is observed as very high due to interest rate charged by banks determined by Prime Landing rate (PLR) and cumbersome processing procedures of banks .Though the SHG bank linkage programme is subsidized however, the procedure simplification for MF sector is a need of the hour. The direct costs may be offset by enhancing the credit absorption capacity of members through rural entrepreneurship promotion.
4. The repayment position of SHGs has inversely effected their long term sustainability. To improve recovery position, regular training, monitoring and audit of SHG records. Moreover, stringent regulatory provisions and mechanism with awareness of SHG office bearers and members about the recovery of outstanding debts by drop out members is also inevitable.
5. Absenteeism prevalent in group meetings and activities requires to be tackled by restructuring of existing SHGs by their consolidation, preference to larger size of SHGs in bank linkage, extension of group activities and support through greater training, monitoring, motivation of SHGs by SHPIs on a continuous basis.
6. To sum up, it may be concluded that success of popular SHG bank linkage programme lies in the profitability and long term sustainability of SHGs. To make this happen, SHGs are required to become sound in internal management, financial procedures, leadership as well as in social dynamics.

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