

## Status of microFinance in Rajasthan<sup>1</sup>

### 1. Background

Rajasthan is the largest state in India and the peculiar natural, social and economic features of Rajasthan define the need and scope for a strong microFinance movement. The primary sector dominates the essentially agrarian economy, with 2/3<sup>rd</sup> of the population dependent on agriculture and allied activities for their livelihoods. As per the Human Development Index, Rajasthan comes at 12<sup>th</sup> rank among 15 major states in India.

In terms of availability of credit from RFI the state is among the least privileged states. This is reflected in the number of bank outlets per lakh population, per capita bank deposits, per capita bank credit and, over all credit deposit ratio. In all these respects Rajasthan is lagging. For example, per capita bank deposit in Rajasthan is Rs 6151, as against Rs. 12922 for the country as a whole; per capita bank credit in Rajasthan is Rs. 3355, as against Rs. 7486 for the country. Overall bank penetration is also low.

### 2. Current Situation of MicroFinance and important issues

In Rajasthan, microFinance is almost synonymous with Self Help Groups. There is no other model of mF in the state. There are approximately 1.5 lakh self help groups of women. Department of women and child development has promoted about 50% of these groups. Other government departments under developmental schemes like SGSY, Watershed Development etc, have organized another 20-25% groups. NGOs have promoted remaining 25-30% groups.

The Self Help Movement started more as ‘social mobilisation’ of women for their better place in family and society rather than ‘microFinance movement’ in Rajasthan. Many voluntary organisations had been working with poor organising them in ‘village development committees’. But participation of women in these VDCs was sub optimal. So they started a separate group of women ‘Mahila Smooh/ or Mahila Mandals’ as sub set of larger village institution purely with a purpose of having increased participation of women in development.

Most development practioners and policy makers realized that mere women participation through MM/MS is not adequate and some direct action in terms of improving economic status of women is needed. The assumption was that if women have access to income/ money, their status in family and society would be better. Many voluntary organisations and government (together and/or separately) started organising women in to groups to take up small business (IG Activities) collectively. Most of these activities were Off Farm like sewing, *dari*, *galicha*, *candle*, *chalk*, *agarbatti*, *achar*, *badi*, *papad*, handicrafts, etc.

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But due to lack of proper marketing networks and many other reasons, there was mixed experience. Except some success stories at highly micro level, no significant impact is seen. It is probably a case of ‘Double Fault’. First pushing poor to become entrepreneur and that too in a collective way.

### Need of financial services:

It has been well researched and documented that poor have temporary surpluses and they are in need of services to keep their savings safe. A poor family may get the payment for their labour or they sell their small assets or crops etc. The money received from such transactions would have small temporary surplus, which they would use over next few days/ months. If they do not have access to a place where they can save that safely, it might result in to expenses on less critical items or even on things like drinking etc. It has been noticed that due to lack of access to banks or SHGs, they keep the money in cash and it does not earn any interest.

### Preliminary Observations on Credit Needs of Rural People

Category	Description	Credit For	Loan Size	Source of Credit
Very Poor	Landless, SC/ST, Single women HH, Migrants	Food, Clothes, Illness, HH consumption	Consumption loans up to Rs. 2000/-	Money lenders,
Poor	Small and Marginal Farmers, Traditional services trades	Food, health, marriage and other social obligations, equipments	Consumption and productive loans up to Rs. 10,000/-	Money lenders, SHGs, friends, relatives
Average	Medium farmers, shopkeepers	Working capital, agri inputs, small assets	Productive loans up to Rs. 25,000/-	SHG, PACS, Banks, moneylenders
Better off	Large farmers, permanent/ semi permanent job holders, traders	Big assets-tractors, vehicles, to pay old loans, to advance loans,	More than Rs. 25,000 loans, may be up to Rs. 2,00,000	Commercial Banks, Coop banks

### SHG Status: Major SHPIs:

Sr. No.	SHPIs	Scheme/ Project	Remarks
1.	Department of Women and Child Development	ICDS	Groups are organised by Anganwadi workers and sathins
2.	Department of Rural	SGSY	BPL groups- through

	Development	Watershed Development Programmes	NGOs
3.	NABARD and Banks	SHG-Bank Linkage	A few RRBs Through NGOs
4.	Voluntary Organisations	With support from Donor agencies and government programmes	

**Under SGSY: (from Department of Rural Development- Till November 2005)**

- Till November 2005, **total 26263 SHGs** have been organised. (Max in Dungarpur-3636 and Min in Dholpur- 309)
- Of these 11212 SHGs are women SHGs.
- SHGs passed grade-I are 13951 and SHGs passed Grade-II are 4372
- Groups taken up economic activities (entrepreneurship) are 2873 of which 192 are women SHGs

**SHG Bank Linkage: (From NABARD)**

Year	Nos. of SHG Credit Linked	Loan amount (Rs. Lakhs)	Refinance (Rs. Lakhs)
<b>2002-03</b>	22742	2184.12	1472.28
<b>2003-04</b>	33846	2587.61	992.13
<b>2004-05</b>	59906	6723.28	2864.77
<b>2005-06 (till Nov. 05)</b>	79584	4344.18	924.52

**Department of Women and Child Development (DWCD): (till October 2005)**

Total SHGs formed:	100424 (Max 10269 in Jaipur and Min 623 in Jaiselmer)
Total savings in the groups:	Rs. 4633.78 Lakhs
Nos. of Groups taken loan from banks:	38138 (Max 3994 in Bhilwara and Min 28 in Rajsamand)
Amount of loan taken from banks:	Rs. 7182 Lakhs
Nos. of groups engaged in IG activities:	5926 (in 23 districts)

**Voluntary Organisations:** In every district, there are about 5-10 voluntary organisations that are organising SHGs either on their own or in collaboration with government. Most of the voluntary agencies have promoted 50 to 100 SHGs. However there are a few agencies that have substantial number (300 to 800 SHGs) of groups. For example: PEDO in Dungarpur, Lupin Foundation in Bharatpur, PRADAN in Dausa, Dholpur, IBTADA in Alwar, ASSEFA in Baran and Banswara, URMUL in Bikaner, Sewa Mandir in Udaipur, Navyuvak Mandal and Bhoruka Charitable Trust in Churu, and a few others.

**District Poverty Initiative Project (DPIP):** in 7 districts (Churu, Baran, Dholpur, Dausa, Jhalawar, Rajsmand and Tonk): Under DPIP more than 20,000 common interest groups (CIG) have been formed. Though as per the project norms these groups are supposed to function as SHGs but these groups are working as ‘activity groups’. Very few groups are doing regular savings and inter loaning. Lately efforts are being made to transform CIGs in to SHGs.

**Credit Cooperative Structure:** There is a formal cooperative structure to extend credit to farmers. As of 30<sup>th</sup> June 2003, the recovery rate at the apex level is 95.46%, at the DCCB level it is 77.24%, and at the PACS level it is 62.75%. The financials often do not reflect the true picture. Short-term agricultural loans, for example, are converted into medium term loans, once they fall overdue. They are then not part of the current or overdue demand of the PACS, and this helps the PACS report better recoveries than have actually been achieved.

The total membership of all PACS in Rajasthan is 4.59 million persons, as of 2001-02. The PACS were envisaged to cover in their fold all agricultural families in the villages. The average share of members that currently borrow from PACS across Rajasthan was at 37% in 2002-03.

**MicroFinance and Livelihood:** The share of agriculture and allied activities in to GSDP is reducing and people engaged in primary sector are also looking for employment in wages and in non-farm sector. On an average a person need around Rs. 10-15,000/- for initiating a micro enterprise. It is difficult for these people to get the credit from formal institutions. As they do not have assets to offer as collateral, informal sources (moneylenders) also do not give them the credit. Many of these people end up as wage earners.

**The major issues that need to be addressed are:**

1. Access of poor to formal financial institutions
2. Quality of the existing Self Help Groups- only 30% SHGs have been able to take loan from Banks
3. Spread of the movement: About 80% of SHGs are located in 30% of the districts
4. Outreach: Large number of poor are still beyond the reach of SHGs and formal financial institutions
5. MicroFinance is limited to micro savings and credit
6. Human resource challenge: Perspective and capacities of mF promoters is very limited. Numbers of skilled persons in microFinance is very less
7. Most mF products and services offered are pre determined and they are not based on the needs of the clients
8. There is double reporting (same group being reported by different SHG promoters). There are also cases where one person is member of many groups.
9. Largely the SHGs are promoted to meet project requirements/ targets
10. Still there are many operational problems in SHG-Bank linkage
11. Inadequate financial support so far on SHG formation, it needs at least 3 years and about Rs.8-10, 000/- per SHG for promoting a good quality SHG.