

Reaching the Unreached-Through SHG-Bank Linkage

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Halving global poverty is one of the most important Millennium Development Goals (MDGs) as set out at the Millennium Summit in New York in Sept. 2000. Almost all the countries in the world including India have committed themselves to attaining the MDGs by the year 2015. India is the second most populous country having more than one billion population. Over 22% of its population is living below poverty line. Increasing access to credit has always remained at the core of government's planning in its fight against poverty. The GOI, since independence has been making concerted efforts in this direction viz., nationalization of existing private commercial banks, massive expansion of branch network in rural areas, mandatory directed credit to priority sectors of the economy, subsidized rates of interest and creation of a new set of rural banks at district level and an apex bank for agriculture and rural development (NABARD) at national level. But the institutional structure was neither profitable in rural lending nor serving the needs of the poorest. In short, it had created a structure "quantitatively impressive but qualitatively weak" (Misra, Alok, Sept. 18, 2006) The failure of financial institutions to deal with poor borrowers in an imaginative and sustainable way and the inaccessibility of these institutions to the poor is stated to be the major disadvantages of the existing system (Swaminathan, Madhura 2007). Micro credit institutions are seen as being able to rectify these weaknesses. Microfinance is the new mantra in rural finance. It has been recognized world over as an effective tool for poverty alleviation and improving socio-economic status of rural poor. Micro finance refers to the programs that provide credit or self-employment and other financial and business service, including savings and technical assistance to the poor persons (Micro Credit Summit held in US in February 1997). Micro finance services are available at the doorstep of the poorest at affordable price and the institution that provides service does not give it as a charity, but as a business proposition. Sums involved are small, but the coverage is vast, which means number-wise a huge chunk of the population is covered. The micro finance sector in India has experienced a tremendous growth in the last decade due to the efforts of various agencies including Government, NGOs and Banks. There are two models of microfinance in India:

- a) The Self Help Group model under the SHG-Bank Linkage Program (SHG-BLP).
- b) Micro Finance Institutions (MFIs)

The present paper focuses on the growth and outreach of SHGs in India.

WHAT ARE SHGs?

A self-help group (SHG) is a group of like-minded people especially women, who come together to pool their small savings to a common fund and agree to meet their emergency needs on mutual help basis. The group decides whom the loan should be given to, for which purposes, on what terms and at what schedule of recovery. The locus of decision-making is shifted to the group, which provides the members with the opportunity to develop the skills to negotiate, to decide on what is manageable and feasible, to impose sanctions where required and to adjust repayment schedules if circumstances make the previously agreed-to schedule impossible to follow (Fernandez 2007). The provision of credit is therefore not the only major objective; more important is to develop the members' skill to manage finance. Collective wisdom and peer pressure of group members helps in proper use as well as timely repayment of credit. In fact, peer pressure has been recognized as an effective substitute of collateral.

SHG-BANK LINKAGE PROGRAM

Lack of financial resources was found to be a major obstacle in the growth of SHGs in India. NABARD with the policy backup of the RBI designed the concept of linking these groups with banks to overcome the financial constraints. The program has come a long way since 1992 passing through stages of pilot study (1992-95), mainstreaming (1995-98) and expansion phase (1998 onwards). The Indian experience of SHG linkage program is unique in some respects. RBI and NABARD have tried to promote 'relationship banking' i.e., improving the existing relationship between the poor and bankers with the social intermediation of NGOs. The program initiated by NABARD, in active collaboration with NGOs aimed at enhancing the coverage of rural poor under institutional credit thereby focusing

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on poverty alleviation and empowerment The design of SHG-Bank Linkage program is built on combining the collective wisdom of the poor, the organizational capabilities of the social intermediaries and the financial strengths of the banks.

DESIGN FEATURES

- ❖ 10-20 persons having similar socio-economic background form SHGs.
- ❖ Each SHG has its own written by laws regarding savings, rate of interest, repayment period, meeting etc.
- ❖ Each member deposits a small amount of savings regularly into the group fund.
- ❖ Group leaders are elected by members and rotated periodically
- ❖ Inter-lending begins immediately for a variety of small needs.
- ❖ Once the group shows its performance maturity it is linked to the local rural bank branch
- ❖ The group can apply to the bank for loans within six months of opening the bank account.
- ❖ The group takes loans from the bank at a fixed interest without any collateral.
- ❖ The group on-lends to its members with flexible repayment schedules and the rate of interest, which is decided by the group.
- ❖ The group takes the responsibility of timely repayment to the bank, even if the members are in default because of an emergency.
- ❖ Participatory decision-making.

MODELS OF LINKAGE

Three broad models of SHG-Bank linkage which have emerged over the past few years are as under:

➤ Model 1

Bank-SHG-Members

In this model, the bank itself acts as a self-help group promoting institution. It takes initiatives in forming the groups, nurtures them over a period of time and then provides credit to them after satisfying itself about their maturity to absorb credit.

➤ Model 2

Bank-Facilitator Agency-SHG-Members

In this model, groups are formed by NGOs or by government agencies. These groups are nurtured and trained by these agencies. The bank then provides credit directly to the SHGs after observing their operations and maturity to absorb credit. Most linkage experiences begin with this model with NGOs playing a major role.

➤ Model 3

Bank-NGO-MFI-SHG-Members

Due to various reasons, banks in some areas are not in a position to even finance SHGs promoted and nurtured by other agencies. In such cases, the NGOs act as both facilitators and microfinance intermediaries. First, they promote the group nurture and train them and then approach banks for bulk loans for on lending to the SHGs.

SHGs IN INDIA: OUTREACH AND GROWTH

Micro finance has gained a lot of significance and momentum in the last decade. India occupies a significant place and niche in global microfinance through promotion of SHGs and the SBL model. Go to any village in India and what you will find besides leaky hand pumps, parched fields and bony cattle, is the ubiquitous SHGs. Going by several names from thrift and credit societies to micro finance, the SHG is now a fixture in the lives of rural women. (Laxmi Murthy, May 27, 2007).

Table 1 shows that the cumulative number of SHGs financed by banks has jumped to 22, 39,000 in the year 2005-06 from 33,000 in 1992-99. Banks extended loans of Rs. 4,499 crore in 2005-06 as against 57 crore in 1992-99. Significant progress was made during the year 2005-06 with 6, 20,000 new SHGs financed by banks. The number of poor families benefiting through SHGs increased from 24.3 million as on March 31, 2005 to 32.9 million as on March 31, 2006 registering a growth of 35.4%. 90% of the SHGs are women groups (Table 2).

Historically, there has been a concentration of SHGs in southern states mainly on account of proactive role played by the state governments. Table 3 and Chart 2 exhibits that the southern region accounted for 71.2% of the SHGs credit linked, followed by central (10.9%), eastern (8.4%), western (5.9%), northern (3.4%) and north eastern (0.2%) regions in the year 2000-01. During 2005-06, the share of southern regions has declined to 54.3% and the share of other regions is showing an increasing trend i.e., eastern (17.6%), central (12%), western (7.4%), northern (5.9%), and north eastern (2.8%). As on March 31, 2006, Andhra Pradesh (26%), Tamilnadu (14%), Karnatka (10%), Orissa (8%) and UP (7%), together accounted for 65% of total SHGs credit linked and 79% of the total amount of bank loan disbursed.

NABARD has taken up the intensification of the SHG-Bank Linkage Program in 13 identified priority states, which account for about 70% of the rural poor population as depicted in Table 4. Consequently, the share of cumulative SHGs credit linked in southern states has declined. During 2005-06, the number of SHGs credit linked in 13 priority states constituted 54.4% of the all India credit linkage of 6,20,109 SHGs. The share of these 13 states in total number of SHGs credit linked has increased to 45% as on March 31, 2006 as against 31% in the year 2002. Proactive measures such as emphasis on priority states, enlisting partnerships and capacity building of partner agencies have served to expand the program in non-southern states.

The SHG-BLP is now considered by the banking system as a commercial proposition with advantages of lower transaction costs and higher coverage of rural clientele by the bank branches. Commercial banks have maintained good progress in financing SHGs. As shown in Table 5 and Chart 3, the share of commercial banks in financing SHGs as on March 31, 2006 is 53% followed by RRBs (33%) and Co-operative banks (14%). During the year the commercial banks extended bank loans worth Rs. 6,987 crore followed by RRBs (3,322 crore) and credit co-operative banks (1,087 crore).

Out of the three models emerged under the SHG-Bank Linkage program over the years, about 75.3% of the SHGs were financed by Banks accounting for 80.7% of the total bank loans under model 2, involving NGOs and government agencies as depicted in Table 6 and Chart 4.

SHG-BANK LINKAGE PROGRAM: WIN-WIN PROPOSITIONS

SHGs are an instrument of empowerment of the poor and marginalized sectors. According to SGSY Guidelines, “The SHG approach helps the poor to build self-confidence through community action, interactions in group meetings and collective decision-making enable them in identification and prioritization of their needs and resources. This process would ultimately lead to the strengthening and socio-economic empowerment of the rural poor as well as improve their collective bargaining power.” Win-win propositions include:

- Reduced transaction costs for both lenders and borrowers.
- Availability of credit at low rates of interest.
- Reaching out to the poor because of proximity, trust, commitment, flexibility and knowledge about each other.
- Developing saving habits among members.
- Reducing dependence on informal moneylenders.
- Reduction in the formal paper work.
- Women empowerment leading to increasing awareness among women, their involvement in family decision making and social and community development activities, their contribution to family income, making them self confident and competent and learn skills for income generation.
- Income and employment generation.
- Capacity building of members by making them self-confident and competent.
- Improvement in basic infrastructure facilities like health, sanitation and education in rural areas.
- Promotes communication and co-operation among group members.
- Elevation of social status of members.
- Enforces repayment discipline (repayments are as high as 95-100%).
- Eradication of social evils like alcohol abuse, spousal abuse, excessive dowry, and other undesirable social practices.

Table 1: Growth of SHGs in India

Year	Total SHGs Financed by Banks (in '000)		Bank Loans (in crore)	
	During the Year	Cumulative	During the Year	Cumulative
1992-99	33	33	57	57
1999-00	82 (147.9)	115 (247.9)	136 (138.1)	193 (238.1)
2000-01	149 (82.3)	264 (129.9)	288 (111.8)	481 (149.2)
2001-02	198 (32.6)	461 (74.9)	545 (89.5)	1,026 (113.4)
2002-03	256 (29.5)	717 (55.4)	1,022 (87.4)	2,049 (99.6)
2003-04	362 (41.4)	1079 (50.4)	1,856 (81.5)	3,904 (90.6)
2004-05	539 (49.1)	1618 (50.0)	2,994 (61.4)	6,898 (76.7)
2005-06	620 (15.0)	2239 (38.3)	4,499 (50.3)	11,398 (65.2)

Note: Figures in parenthesis indicate percentage growth.

Source: NABARD

Table 2: Performance of SHGs in various years

	March 1993	March 1996	March 2005	March 2006
SHGs linked	255	4,757	16,18,456	22,38,565
% Women's groups	70	74	90	90
Families assisted	5,100	80,000	24.3 m	32.9m
Banks participating	14	95	573	545
SHG Promoting partners	32	127	4323	4896
Districts covered	26	157	572	583
Aggregate bank loans handled (US\$ million)	0.06	1.24	1604	2533

Source: NABARD

INNOVATIVE PROJECTS

The micro finance sector is making rapid strides and has had a positive impact on the lives of the rural poor. In order to improve the sustainability of the SHG-BLP and also to simplify some of the procedures related to it, NABARD has been experimenting with innovative ideas. (Annual Report of NABARD for the year 2005-06.) Some of the innovative projects are:

- ❖ **Grain Banks:** The project started in Orissa, aims at ensuring food security to village poor through establishments of grain banks by SHGs and provision of bank loan against the stock of food grains.
- ❖ **Rural Volunteers as Book Writers:** The pilot project being implemented in the three districts of UP and two districts of Bihar since 2004-05 for associating local rural volunteers as book writers for SHGs to improve regularity and accuracy in the maintenance of books of accounts and to explore the possible evolution of MIS between banks and SHGs.
- ❖ **Project on Processor Cards:** The project, which is being implemented in AP and Karnataka, aims to introduce processor cards for SHGs.
- ❖ **Project on e-Grama:** With the aim of equipping and enabling SHGS members to access information, NABARD during 2005-06 has part-funded establishment of 13 village information centers (e-Grama) through an NGO in Davanagare district of Karnataka. The technology integrated information network covers various areas like weather conditions, crop inputs, product prices, land records and other useful information for the rural folk.
- ❖ **Micro Enterprise Promotion by SHGS:** NABARD has initiated a pilot project for promotion of micro-enterprises by members of matured SHGs in nine selected districts across the country in association with Marketing and Research Team (MART) as its technical partner. The project will adopt the 3M-model approach (micro finance, micro markets and micro planning).

Table 3: Regional Spread of SHG-Bank Linkage

Region	SHGs Credit Linked during 2000-01		SHGs Credit Linked during 2005-06	
	During 2000-01	Cumulative as on 31-3-01	During 2005-06	Cumulative as on 31-3-06
North	4,221 (3.0)	9,012 (3.4)	47,079 (7.6)	1,33,057 (5.9)
North East	160 (0.1)	477 (0.2)	28,279 (4.5)	62,517 (2.8)
East	11,057 (7.9)	22,252 (8.4)	1,28,723 (21.0)	3,94,351 (17.6)
31-3-06 Centre	8,631 (6.2)	28,851 (10.9)	70,550 (11.4)	2,67,915 (12.0)
West	6,911 (4.9)	15,543 (5.9)	69,988 (11.3)	1,66,254 (7.4)
South	1,09,218 (77.9)	1,87,690 (71.2)	2,75,490 (44.4)	12,14,431 (54.3)
Total	6,20,109 (100)	2,63,825 (100)	6,20,109 (100)	22,38,565 (100)

Source: NABARD

- ❖ **Computer Munshi:** PRADAN, an NGO has been sanctioned a grant assistance of Rs 6.10 lakh for setting up of computer munshi. The project is being implemented in four districts in Jharkhand and one district in Orissa.
- ❖ **Social Security System for SHGs members:** With a view to create a community based Social Security System for SHGs members in rural areas, a pilot project was sanctioned in two villages in MP.

FEATURES, WHICH WEAKENED THE SHG MOVEMENT

There are certain features which have undermined the strength and effectiveness of the SHG movement. As a result there are several areas where there has been a good growth in the number of SHGs but their quality is poor and many are collapsing as a result (Fernandez A Loysius P., March 22,2006). The major features, which weakened the SHG movement, are as follows:

- High and unrealistic targets fixed by Government.
- Predetermined criteria to identify beneficiaries.
- Forming the SHGs without assessing the affinity among members.
- Diversion of funds earmarked for capacity building for other purposes i.e. organizing large gathering with a political agenda etc.
- Ineffective performance assessment.
- Too much emphasis on attaining the targets in terms of number of SHGs.
- Formation of SHGs for the sole purpose of receiving grants.
- Translation of the success of SHG movement into political capital.
- Practice of the bureaucracy to use the SHGs to implement state sponsored programmes.
- Lack of interest on the part of some banks to adopt the linkage wholeheartedly.
- Unhealthy competition among states to claim the highest number of SHGs without any concern for quality.
- Lack of transparency and record keeping.
- Not serving the needs of the poorest of the poor.

CONCLUSION

Micro finance has gained a lot of significance and momentum in the last decade. India now occupies a significant place and niche in global microfinance through the promotion of SHGs and the SHG-BLP. It is felt that by providing micro credit to the poorest of the poor, the gap in the formal rural credit sector can be filled. Although micro finance through the network of SHGs has expanded in a big way, but it is still a minuscule player in the rural credit scene. Micro finance is not a panacea, but it is one of the effective tools to help poor people. In order to further strengthen the role of these institutions in rural finance, there is a need for the development of more effective management information system, more focus on training and capacity building of SHG members, further strengthening the

Chart 1

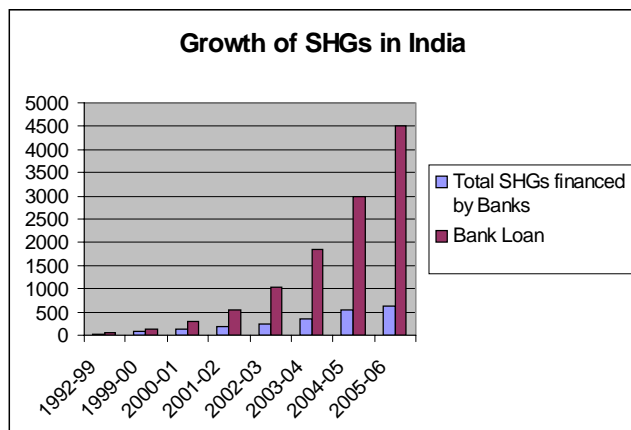


Chart 2

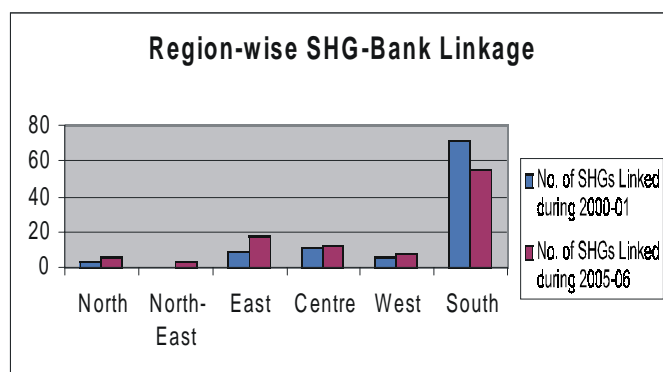


Chart 3

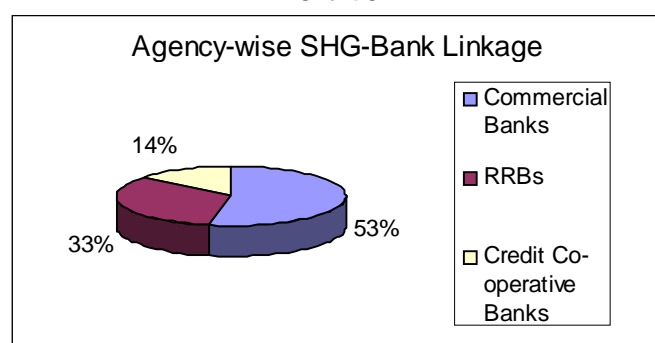


Chart 4

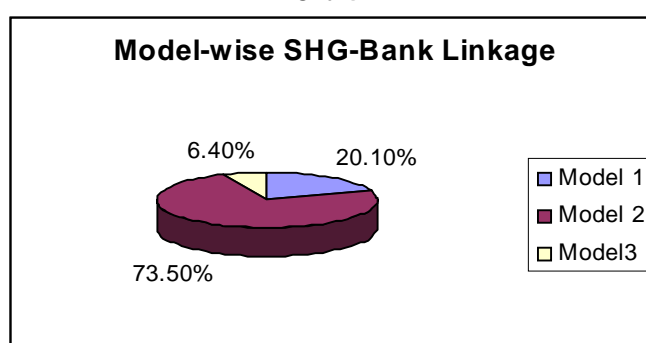


Table 4 Cumulative Growth of SHG-BLP in Priority States

State	2002	2003	2004	2005	2006
Assam	1,024	3,477	10706	31234	56449
Bihar	3,967	8,161	16246	28015	46221
Chhattisgarh	3,763	6,763	9796	18569	31291
Gujarat	9,496	13,875	15974	24712	34160
Himachal Pradesh	5,069	8875	13228	17798	22920
Jharkhand	4,198	7765	12647	21531	30819
Maharashtra	19,619	28065	38535	71146	131470
Madhya Pradesh	7,981	15271	27095	45105	57125
Orissa	20,553	42272	77588	123256	180896
Rajasthan	12,564	22742	33846	60006	98171
Uttar Pradesh	33,114	53696	79210	119648	161911
Uttaranchal	3,323	5853	10908	14043	17588
West Bengal	17,143	32647	51685	92698	136251
Total Priority States	1,41,804 (31)*	249462 (35)	397464 (37)	667761 (41)	1005272 (45)

*Figures in parentheses indicate percentage share of priority states in total number of SHG credit linked.

Source: NABARD

Table 5: Agency-wise Linkage as on 2005-06

Agency	Number of SHGs (000)	Percentage to Total
Commercial Banks	1188	53
RRBs	740	33
Co-operative Banks	310	14
Total	2238	100

Source: NABARD

(Contd. on page 40)

(Contd. from page 31)

Table 6: Model-wise Linkage

Model	Number of SHGs (000)	Percentage to Total
Model 1	449	20.1
Model 2	1646	73.5
Model 3	143	6.4
Total	2238	100

Source: NABARD

transparency and accountability, promotion of federal structure of SHGs etc. Micro finance is not yet at the center stage of the Indian financial sector with a more enabling environment and surge in economic growth. The next few years promise to be exciting for the delivery of financial services to poor people in India.

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