

SHG – BANK LINKAGE PROGRAMME

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ABSTRACT

With a view to evolving supplementary credit strategies for reaching the unreached poor in rural areas like landless agricultural laborers, rural poor/women, etc., in a transparent and a cost-effective way, NABARD launched its pilot phase of the SHG bank Linkage Programme in February, 1992 which could be considered as a land mark development in banking with the poor. To initiate the pilot project NABARD also held extensive consultations with the RBI. This resulted in the RBI issuing a policy circular in 1991 to all the commercial banks to participate and extend finance to SHGs. NABARD also issued a broad set of flexible guidelines in February, 1992 to the formal rural banking system, explaining the project's modalities. The project was extended to the RRBs, and co-operative banks, in addition to the commercial banks in 1993. Thus an informal credit system was evolved with assistance from formal financial institutions. The agencies involved in the scheme were NABARD, banks, NGOs and SHG members.

An SHG is a group of 10-20 individuals, voluntarily formed and related by affinity for a specific purpose. It is a group whose members use savings, credit and social involvement as instruments of empowerment. The group opens a savings account in a nearby bank branch. The group will keep a minimum balance for meeting any crisis needs and deposit the rest in a bank. The leaders jointly operate the bank account. While the leaders withdraw the cash from the bank, members are expected to deposit the cash by rotation. Such a system will help familiarize the bank to the members. A system will be developed to ensure accountability for cash in hand and to minimize the risk of fraud – usually the cash will be kept in a locked box and in the custody of one leader while the key will be with another leader.

The groups will maintain simple records and books of accounts to document the SHG operations and transactions. The documentation related to the operations of the SHG such as meeting proceedings, resolutions passed, attendance of the members etc., will be recorded in the minutes book and attendance register. The financial transactions related to savings, loans, income and expenditure would be recorded in the books of accounts. The members are also provided with a passbook, wherein their transactions with the SHG are recorded in detail. The Predominant model in the Indian Micro finance context continues to be the SHG Bank Linkage Model that accounts for nearly 20 million clients. It started as an Action Research Project in 1989. Under this model, Self Help Promoting Institution usually a NGO helps groups of 15-20 individuals through an incubation period after which time they are linked to banks. There are three linking models in the country.

Key Words : NABARD, SHGs, NGO, RRBs etc.

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1. BACKDROP

With a view to evolving supplementary credit strategies for reaching the unreached poor in rural areas like landless agricultural laborers, rural poor/women, etc., in a transparent and a cost-effective way, NABARD launched its pilot phase of the SHG bank Linkage Programme in February, 1992 which could be considered as a land mark development in banking with the poor. To initiate the pilot project NABARD also held extensive consultations with the RBI. This resulted in the RBI issuing a policy circular in 1991 to all the commercial banks to participate and extend finance to SHGs. NABARD also issued a broad set of flexible guidelines in February, 1992 to the formal rural banking system, explaining the project's modalities. The project was extended to the RRBs, and co-operative banks, in addition to the commercial banks in 1993. Thus an informal credit system was evolved with assistance from formal financial institutions. The agencies involved in the scheme were NABARD, banks, NGOs and SHG members.

2. SELF – HELP GROUP (SHG)

An SHG is a group of 10-20 individuals, voluntarily formed and related by affinity for a specific purpose. It is a group whose members use savings, credit and social involvement as instruments of empowerment. According to PRADAN, “A self-help group is an informal association of 10 to 20 rural women, socio-economically homogeneous, with a background of affinity, who meet regularly to transact the business of Savings and Credit. It mobilizes the savings from individual members and extends credit from the funds so mobilized, to the needy members for consumption and investment purposes. The primary purpose of the SHG is to facilitate the members to save and extend to them credit, as necessary. These funds may be supplemented by funds accessed from external institutions. The group may take up agenda other than savings and credit, for fulfillment of common interests, without diluting its primary focus. The operational guidelines of the group would be generated through participatory processes. For these purposes the group would maintain an accounting and documentation system as suitable”.

The SHG will state the objectives and evolve its rules for functioning. Such rules will include savings, lending, group meetings, penalties for any deviant behaviour, election and rotation of leaders and duties of leaders and the members. The group will meet regularly, on

specified dates / days, at the specified place and time. The meeting will be at a common venue or if need be, held at each member's house, by rotation.

Each SHG will elect two leaders / representatives, to represent the group. The SHG is to have regular elections – at least once in a year – when the leaders will have to seek the mandate of the members. Some promoters prefer the terms representatives, and not leaders, so that the 'position' is seen as more of a responsibility than authority. The SHG operations are based on democratic principles and participatory processes, which means decision making will be done with the participation of all and by majority opinion.

The initial loans will be small in size and therefore, predominantly for consumption purposes. As the fund availability increases (through internal mobilisation, revolving fund grants and borrowings), and the group gains confidence, the loan size also increases and will be utilized, more for income generation and investment purposes. The SHG depends peer pressure for collecting repayments, in case of default by any members.

3. SHG – BANK LINKAGE

The group opens a savings account in a nearby bank branch. The group will keep a minimum balance for meeting any crisis needs and deposit the rest in a bank. The leaders jointly operate the bank account. While the leaders withdraw the cash from the bank, members are expected to deposit the cash by rotation. Such a system will help familiarize the bank to the members. A system will be developed to ensure accountability for cash in hand and to minimize the risk of fraud – usually the cash will be kept in a locked box and in the custody of one leader while the key will be with another leader.

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While microfinance (MF) will be the core function of the group, it will also provide a platform for taking up social issues affecting the position and condition of women. SHGs could discuss problems affecting the women members when they expand their enterprises or take up new enterprises such as excessive work load, male control of the enterprises etc., and try and address the same. The PI will provide information and awareness about various government schemes and extension facilities to the SHG and will facilitate the SHG's access to these.

4. OBJECTIVES OF SHG-BANK LINKAGE

- Provision of supplementary credit to SHGs.
- Reduction in transaction cost for both the banks as well as SHGs by reducing paper work
- Building mutual trust and confidence between banks, NGOs and rural poor.
- Mobilizing small savings among poor rural women.
- Creating healthy relations between SHG members and the linking agencies.
- Constant supervision and monitoring by banks through NGOs.

5. PRINCIPLES OF SHG-BANK LINKAGE

- ▶ Savings first, no credit with out savings
- ▶ Savings as partial collateral
- ▶ Bank loans to the SHG for on-lending to members
- ▶ Credit decisions by SHGs for on-lending to their members
- ▶ Interest rates and other terms and conditions for loans to members to be decided by the group
- ▶ Joint liability as a substitute for physical collateral
- ▶ Ratio between savings and credit contingent upon credit worthiness and could increase over a period due to good repayment record, if needed.
- ▶ Small loans to begin with and different credit cycles clearly defined

6. BENEFITS OF SHG- BANK LINKAGE PROGRAMME

a) Benefits to the Banks

Linking and financing of SHGs is expected to give the following benefits to the banks.

- ▶ An effective rural credit deliver system
- ▶ Reduction in transaction cost

- ▶ Improvement in recovery performance
- ▶ Ensuring better end – use of the loan
- ▶ Profitable proposition as 100% refinance is available from NABARD at cheaper rate.
- ▶ Simple loaning procedure and documentation.
- ▶ Pool of savings mobilized from rural poor.
- ▶ Fostering rural publicity that builds/improves bank linkage
- ▶ Above all, the rural poor reposing confidence on banks.

b) Benefits to NGO

- ▶ Facilitates deepening of their developmental efforts.
- ▶ Leads to synergy in operating social programmes with economic programmes.
- ▶ Increases the outreach to the poor through credit plus approach
- ▶ Recognizes NGOs as socio-economic change agents.
- ▶ Avenue for performing financial intermediation in unbanked and backward areas.
- ▶ Results in NGOs emerging as bridge between banks and the poor
- ▶ propagates innovative credit delivery approaches.

c) Benefits to SHGs

- ▶ A via-media for development of thrift habit among the poor.
- ▶ Access to larger quantum of resources.
- ▶ Availability of emergent, consumption/production credit at the door step.
- ▶ Scaling up of economic operations.
- ▶ Access to various promotional assistance.
- ▶ Freedom, equality, self-reliance and empowerment
- ▶ A window for access to better technology/skill up gradation

7. EMERGING MODELS OF SHG - BANK LINKAGE

The Predominant model in the Indian Micro finance context continues to be the SHG Bank Linkage Model that accounts for nearly 20 million clients. It started as an Action Research Project in 1989. Under this model, Self Help Promoting Institution usually a NGO, helps groups of 15-20 individuals through an incubation period after which time they are linked to banks. The SHG had proved their efficacy over time but they suffer from a meager resource base which handicapped their capacity to expand the economic activities of their

members. The factors received by the SHG members were the lack of information, time consuming and expensive procedures for obtaining bank loans, rigid lending policies of banks in respect of unit costs, unit sizes and group guarantee for loans. There are three linking models in the country.

(i). SHG Bank Linkage Model - I

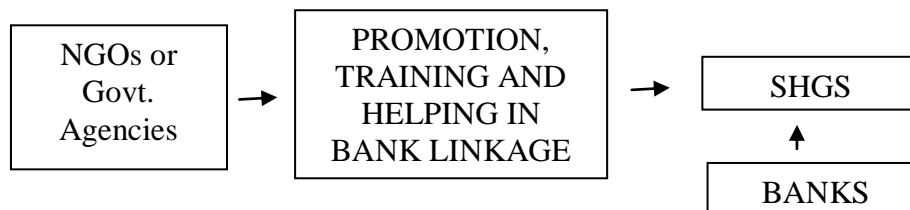
Fig.1: Bank – SHG Members (SHGs Formed and Financed by Banks)



In this model, the bank itself acts as a Self-help group promotion institution (SHPI), taking initiatives in forming the groups, nurturing them over a period of time and then providing credit to team after satisfying itself about their maturity to absorb credit

(ii) SHG – Bank Linkage Model - II

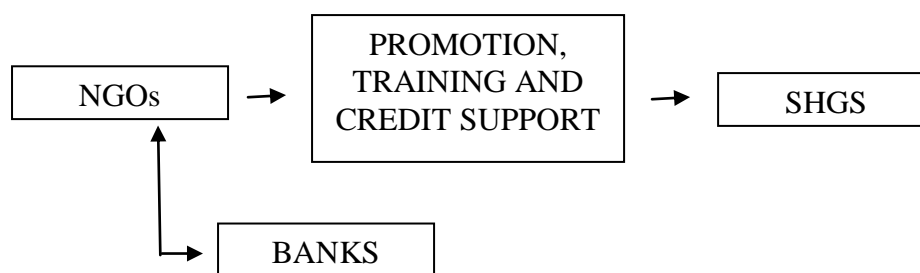
Fig. 2: Bank – Facilitating Agency - SHG Members (NGOs/Government agencies as SHPIs) NGO s act as Facilitators and SHGs Financed directly.



In this model, groups are formed by NGOs in most of the cases or by Government Agencies and 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. While the banks provide loans to the groups directly, the facilitating agencies continue their interactions with the SHGs. Most linkage experiences being with the model with NGOs playing a major role. This model has also been popular and more acceptable to banks.

3. SHG – Bank Linkage Model – III

Fig. 3: Bank – NGO – MFIs – SHG Members (NGOs as Financial intermediaries)



Due to various reasons, banks in some areas are net in a position to even finance SHGs promoted and nurtured by other agencies. In such cases, the NGOs act as both facilitator and micro finance intermediaries. First they promote the groups, nurture and train them and then approach the banks for bulk loans for lending to the SHGs. SHG – Bank Linkage progress in India is shown in Table No.1.

TABLE – 1. PROGRESS OF SHG BANK LINKAGE IN INDIA

(Rupees in crores)

Year	No. of SHGs	Loan Amount
2006-07	11,05,749	6,570.39
2007-08	12,27,770	8,849.26
2008-09	16,09,586	12,253.51
2009-10	15,86,822	14,453.30
2010-11	11,96,456	14,547.73

SOURCE: NABARD, Mumbai, Progress of SHG-Bank Linkage in India., 2001-11

It can be observed from the above table that the number of SHGS increased from 11.05 lakhs to 11.96 and the loan amount increased from Rs.6570 crores to Rs.14547 crores over a period of 5 years.

TABLE 2

PROGRESS OF SHG BANK LINKAGE BY COMMERCIAL BANKS, RRB AND CO-OPERATIVE BANKS IN INDIA 2006-2007 TO 2010-2011

Period	Commercial Banks		RRBs		Cooperative Banks		All Banks (Total)	
	SHGs (Nos)	Bank loan (Rs in Crores)	SHGs (Nos)	Bank loan (Rs in Crores)	SHGs (Nos)	Bank loan (Rs in Crores)	SHGs (Nos)	Bank loan (Rs in Crores)
2006-07	571636 (51.7)	3918.94 (59.6)	381199 (34.4)	2052.73 (31.2)	152914 (13.8)	598.72 (9.11)	1105749	6570.39
2007-08	735119 (59.8)	5403.90 (61)	327650 (26.6)	2651.84 (29.9)	165001 (13.4)	793.52 (8.96)	1227770	8849.26

2008-09	1004587 (62.4)	8060.53 (65.7)	405569 (25.19)	3193.49 (26.06)	199430 (12.39)	999.49 (8.15)	1609586	12253.51
2009-10	977521 (61.61)	9780.18 (67.6)	376797 (23.7)	3333.20 (23.06)	232504 (14.65)	1339.92 (9.27)	1586822	14453.3
2010-11	669741 (55.91)	972455.71 (66.8)	229620 (19.19)	162556.3 3 (11.2)	296773 (24.8)	319761.59 (21.9)	1196134	1454773.2

Source: NABARD, Mumbai, Progress of SHG-Bank Linkage in India., 2001-11

As shown in the Table 2 loans given by commercial banks, RRBs and Co-operative banks to SHGs are presented. Year wise data reveal that during 2006-07 the commercial banks had percentage shares of 51.70% in SHGs and 59.6% in loans given as compared to the corresponding percentage shares of 34.4% and 31.2% of RRBs and 13.8% and 9.11% of Co-operative banks. During the final year i.e., 2010-11 Commercial banks had percentage shares of 55.9% in SHGs and 66.8% in loans given as compared to the corresponding percentage shares of 19.19% and 11.2% of RRBs and 24.8% and 21.9% of Co-operative banks from the preceding analysis it can be concluded that Commercial banks are leading both in SHGs linked and loans given followed by RRBs and Co-operative banks all through the period under review.

TABLE 3: SHG – BANK LINKAGE BY BANK SECTOR – WISE.2006-07 TO 2010-2011

Period	Public Sector Banks				Private Sector Banks		Total	
	SBI & Associates		Other Banks		SHGs (Nos)	Bank loan (Rs in Crores)	SHGs (Nos)	Bank loan (Rs in Crores)
	SHGs (Nos)	Bank loan (Rs in Crores)	SHGs (Nos)	Loan (Rs in Crores)				
2006-07	233255 (40.81)	137574.73 (35.1)	303973 (53.18)	210338.70 (53.67)	34408 (6.01)	43980.89 (11.23)	571636	391894.32
2007-08	357673 (46.59)	232376.20 (40.28)	377446 (49.17)	308014.15 (53.4)	32452 (4.24)	36445.39 (6.32)	735119	540390.35
2008-09	336424 (33.49)	333431.17 (41.37)	650589 (64.76)	451639.23 (56.03)	17574 (1.75)	20982.70 (2.6)	1004587	506053.10
2009-10	381874 (39.06)	388647.01 (39.74)	577821 (59.11)	567831.24 (58.06)	17853 (1.83)	21540.30 (2.2)	577521	978018.55
2010-11	232087 (33.46)	348308.76 (34.76)	437654 (63.1)	624146.51 (62.3)	23860 (3.44)	29442.57 (2.94)	669741	972455.27

Source: NABARD, Mumbai, Progress of SHG-Bank Linkage in India., 2001-11

Bank Sector – wise data relating to SHGs linked and loans given for the period 2006-11 are provided in Table.3. In the initial year 2006-07 public sector banks had percentage shares of 93.99 in SHGs linked and 88.77 in loans given to SHGs. In the Final year i.e., 2010-11 the corresponding percentage shares of public sector were 96.56 and 97.06. Based on the above analysis it can be concluded that public sector banks dominate micro-credit as

compared to the marginal role of private sector commercial banks. With in the public sector the percentage shares of SBI and its associates were 33.46 and 34.76 in SHGs linked and loans to SHGs respectively as compared to the corresponding shares of 50 and 50 of other public sector banks. ANOVA calculated for the data available in Table 3 and the results are shown in Table 4A and 4B.

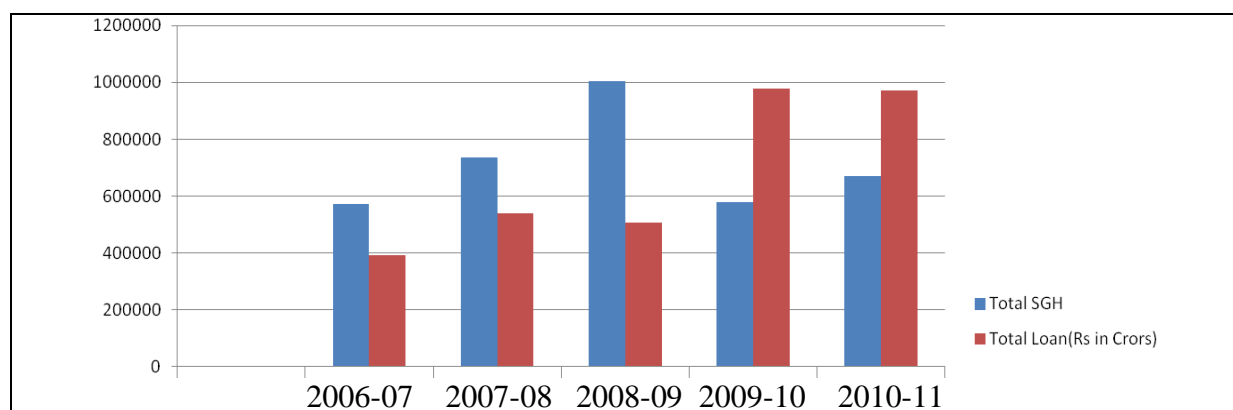
TABLE 4A
ANOVA TEST FOR BANK SECTOR DIFFERENCE IN SHG LINKAGE

Bank Sectors	Sum of shares	Df	Mean shares	F
Between Bank sectors	1580430407000	3	526810135600	35.1807
Within Bank Sectors	239590792600	16	14974424530	--
Total	1820021200000	19	--	--

TABLE. 4B
A NOVA TEST FOR BANK SECTOR DIFFERENCES IN LOANS TO SHGS

Bank Sectors	Sum of shares	Df	Mean shares	F
Between Bank sectors	$Q_1=1.354382 \times 10^{12}$	3	$4.514606666 \times 10^{11}$	16.4537
Within Bank Sectors	$Q_2=4.39011363 \times 10^{11}$	16	$2.743821018 \times 10^{10}$	--
Total	$Q=1.793393363 \times 10^{12}$	19	--	--

F-Test Results reveal that there is a significant difference between Banking Sector as to SHGs Linkage at 1% Level. But the difference between Bank Sector is not significant as to their loans to SHGs. The shares of Public sector and private sector banks loans to SHGs for the period from 2006-2011 is depicted in the following figure.



8. CONCLUSION

Though in India multi-agency approach has been in existence to purvey credit to the rural sector, majority of the marginal groups still have no access to credit from formal sector

banking institutions subsidized and targeted credit programmes like priority sector lending have made little impact on rural poor house-holds. In this back ground micro-credit assumes greater importance of all MFIs Commercial banks are dominant one. SHGs have emerged as community institutions through which formal sector building system reaches the rural households which are earlier considered as unworthy of the bank lending SHG-bank linkage offers triple benefits to banks, SHGs/NGOs/other facilitators of three emerging models, Bank facilitator agency- SHG-Members Model is a dominant model in India with regard to regional spread of SHG-bank linkage, south region dominates in SHGs linked and bank loans to SHGs.

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