

# Microfinance in Banks with Self Help Group- (Shg)

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**INTRODUCTION:** The Self-Help Group (SHG) movement is a noble mission on the lines of the microfinance movement which originated in Bangladesh under the Leadership of Noble Laureate Mohamed Yunus. The innovative concept, that has roots in Bangladesh, has touched every part of the globe. In order to achieve the mission of reaching those families who did not have access to credit by any formal financial institution and, therefore, were dependent on informal sources and moneylenders, the National Bank for Agriculture and Rural Development (NABARD) introduced the “SHG-Bank Linkage Programme” as a pilot project in 1992. The Reserve Bank of India (RBI) had then advised commercial banks to participate actively in this programme. Subsequently, the programme was extended to all Regional Rural Banks (RRBs) and cooperative banks. The SHG-Bank Linkage Scheme has the following objectives:

1. Develop mutual faith and confidence between bankers and rural poor,
2. Expand credit flow to the rural poor with less transaction costs.
3. Combine flexibility, sensitivity and responses of the informal credit system with the strength of technical and administration capabilities and the financial resources of formal financial institutions.

## WHAT IS SHG?

Self Help Groups means a group which represents a financial intermediation, but the financial intermediation is not the only primary objective of the groups. The idea is to combine the access to low-cost financial services with a process of self management and development. They are usually formed

and supported by NGOs or Government agencies.

- SHGs may or may NOT be registered.
- Number of members is between 10-25. But, for irrigation projects there is no upper ceiling.
- One person from one family can become a member.
- There are regular weekly or fortnightly meetings.
- These members save the amount and this amount is used as loans.

## WHAT IS SHG BANK LINKAGE PROGRAMME?

The Self-Help Group-Bank Linkage Programme (SBLP), which started as a pilot programme in 1992 has developed with rapid strides over the years. SHG-Bank Linkage Programme was started on the basis of recommendation of S K Kalia Committee.

## MODELS OF SHG-BANK LINKAGE PROGRAMME

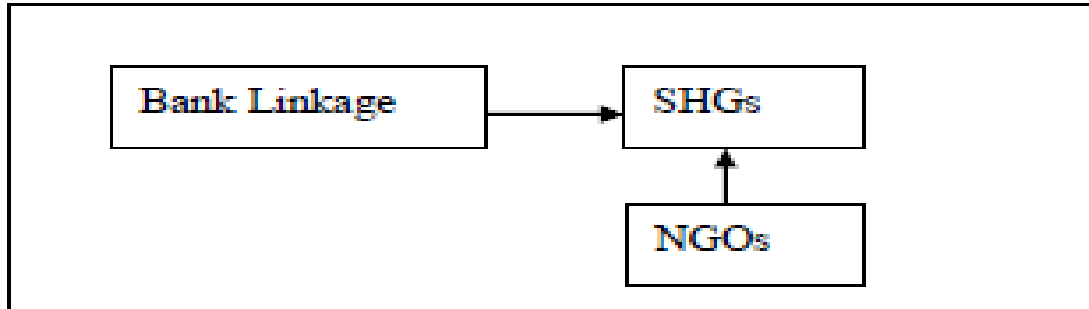
### SHG MODEL

The strategy involved in this model is that of forming small, cohesive and participative groups of the poor, encouraging them to pool their savings regularly and using the pooled savings to make small interest bearing loans to members and, in the process, learning the nuances of financial discipline. Subsequently, bank credit also

becomes available to the group to augment its resources for the purpose of lending to its members. The SHG-bank linkage program has proved to be the major supplementary credit delivery system with a wide

acceptance by banks, NGOs and various government departments. There are three models of SHG-bank linkages that have evolved over time, especially in India.

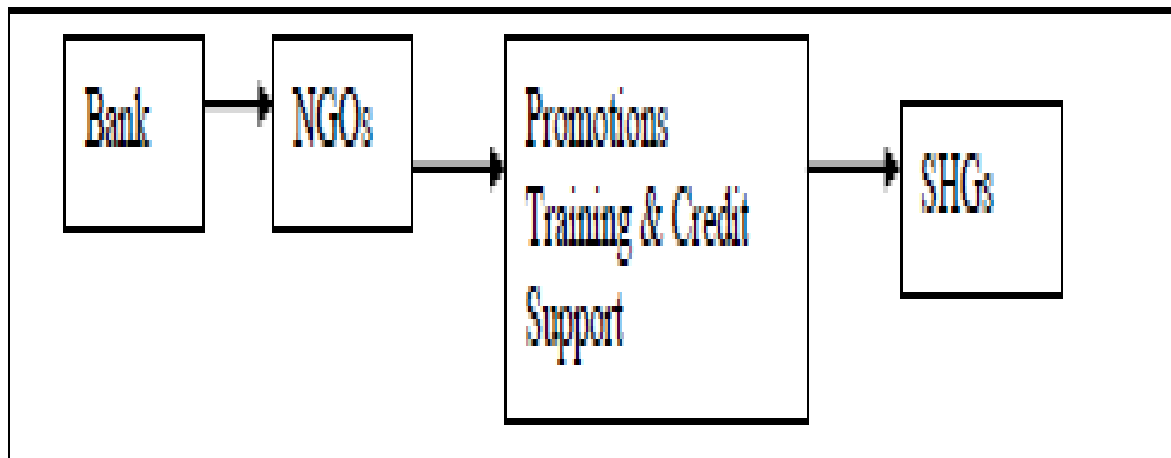
**MODEL I: SHGS FORMED AND FINANCED BY BANK**



In this model, banks themselves take up the work of forming and nurturing the groups, opening their savings accounts and providing them bank loans. Up to March 2006, 20% of the total number of SHGs financed were from this category. This showed an increase of 61.63 per cent in bank loan to SHGs over the

position as on March 05, reflecting an increased role of banks in promoting and nurturing SHGs.

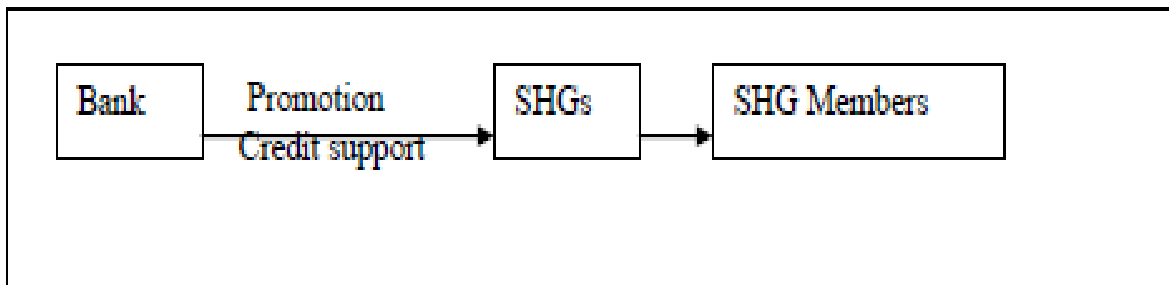
**MODEL II: SHGS FORMED BY NGOS AND FORMAL ORGANISATIONS, BUT DIRECTLY FINANCED BY THE BANKS**



This model continues to have the major share, with 74 % of the total number of SHGs financed up to 31 March 2006 falling under this category. Here, NGOs and formal agencies in the field of microfinance act only

as facilitators. They facilitate organizing, forming and nurturing of groups, and train them in thrift and credit management. Banks give loans directly to these SHGs.

**MODEL III**



In the model iii, banks take sole responsibility for promoting, developing, and financing SHGs. This programme requires considerable effort by the banking staff towards SHG formation. This model is not an encouraging one and only 8% of SHGs follow this model.

**CURRENT STATUS OF SHG-BANK LINKAGE PROGRAMME** In 2009-10, 1.59 million new SHGs were credit-linked with banks, and bank loan of 14,453 crore (including repeat loan) was disbursed to these

SHGs. Further, at end-March 2010, 6.95 million SHGs maintained savings accounts with banks.

On an average, the amount of savings per SHG was 8,915 as compared to the amount of credit outstanding of 57,795 in 2009-10. While there was a continued increase in the amount of credit outstanding per SHG, there was a fluctuating trend in the amount of saving per SHG in the recent years.

**EXHIBIT 1: NOTABLE COMPARATIVE FEATURES OF SHGS AT A GLANCE**

	<b>SHGs - Under NABARD Guidelines</b>	<b>SHGs - Under SGSY Guidelines</b>
A. Strategy	Conceived as organizing generally poor people to address their common problems with voluntary thrift supported by bank loans and helping them imbibe the essential	Conceived as a holistic programme of self-employment. It covers all the aspects of self employment of the rural poor, viz. organizing them in SHGs, their capacity building selection of key activities, planning of activity clusters, infrastructure build-up, technology and marketing support.
B.SHG Formation	SHG members are generally from poor families	Specifically SHG members from BPL families with some exception for a few marginal APL families if acceptable to the BPL members of the group.
	Group size of about 15 persons	Group size of 10-20 persons, with the exception of deserts, hills and disabled persons where the number of members may vary from 5 to 20.
	SHGs may be formed with all women members also.	Special focus on the formation of exclusive women Self-Help Groups.50% of the groups formed in each block should be exclusively for women.
	SHGs are generally formed by banks, NGOs, Farmers' Clubs and IRVs.	SHGs are normally formed by NGOs, CBOs, Animators, Network of

		Community-based Coordinators, or team of dedicated functionaries of the government.
C. Income-Generating Activities (Micro enterprise selection)	SHG members are free to choose their income-generating activities without any precondition.	SGSY Committee identifies about 10 farm and non-farm key activities per block for the individual/SHG Swarozgar is of the block to choose some of them as the sustainable income generating activity for themselves.
	Income- generating activity is normally taken up by individual members.	Primarily, single income-generating activity by the group is given preference under group loan. Group, however, may go for multiple activities also under group loaning. Thus, IGAs are taken by the SHG members as a group activity or by individual Swarozgar is independently.
	There is no activity cluster approach for selection of IGAs by the SHG members.	The focus is on the development of activity cluster to facilitate forward and backward linkages to IGAs.
D. Promotional Support	There is no direct financial assistance to SHGs.	Revolving Fund Assistance (RFA) is provided to groups equal to their group corpus within the prescribed limit.
(i) Financial Support		Back-ended subsidy to the extent of 30% to 50% of the project cost is provided to individual beneficiary, and 50% of the project cost for group level activity is provided within the prescribed limits.
(ii) Group Formation and Nurturing	Maximum Grant Assistance of Rs.2, 000 is provided as a group building support for promotion and linkage of one SHG.	Financial Assistance is provided to NGOs/CBOs/SHPI, etc., for formation and development of SHGs, as mentioned below. Rs10,000 per SHG is paid for the formation and development of SHGs in four installments. 1st – 20% at the beginning of the group formation. 2nd – 30% when group qualifies for Revolving Fund. 3rd – 40% when group takes up economic activity. 4th --10% after the start of economic activity and on adherence of group to repayment of bank loan .
(iii) Capacity Building Support	Fund support is provided for conducting/sponsoring various types of training programmes for group members .	Fund support is made available to organize training of beneficiaries in group processes and skill development.
(iv) Infrastructure	There is a conceptual focus.	There is planned focus on infrastructure build- up, technology and marketing

Building Support		support to make self-employment activity economically sustainable.
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### ADVANTAGES OF SHGs

The methodology behind micro-credit through SHGs involves collective wisdom of the poor, the organizational capabilities of the social intermediary and the financial strengths of the banks. The advantages of this methodology are elaborated in the following sections:

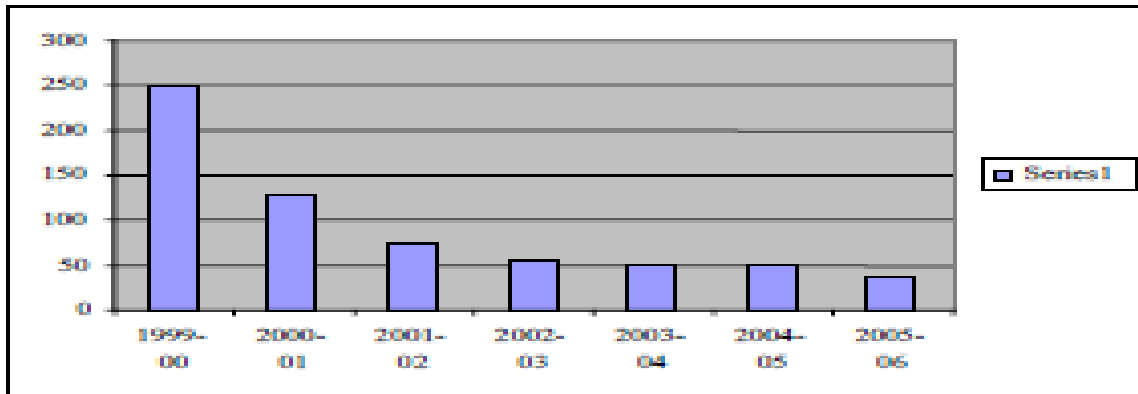
- Peer group monitoring- The group members have the incentive of monitoring each other to ensure timely repayment of the loan and to avoid any potential social sanction in the event that any member defaults on repayment.
- Peer pressures-Microfinance institutions (MFIs) use social collateral in the form of peer groups in ensures loan repayment. Borrowers take loans in groups of five to eight individuals. If a borrower defaults on loan repayment, the entire group typically is penalized and sometimes barred altogether from taking further loans. This peer pressure encourages borrowers to very selective about their peer group members and to repay loans in full, on time, resulting in a higher than 95% repayment rate industry-wide.
- Compulsory saving mobilisation: the SHGs encourage group savings as collateral substitute for the loan.
- Weekly meets- These meetings reinforce a culture of discipline routine repayments, and accountability among the borrowers.
- Voluntary group formation- These groups are voluntarily formed by the borrowers so there is no possibility of any adverse selection problem arising. Micro-credit generally uses

self-selected groups of borrowers, who guarantee each other's loans.

- Homogeneous and affinity in groups- Generally, these groups are formed by people belonging to the same caste, religion, tribe, gender, age or community- thus having a social bond amongst themselves and making it's solidarity group.
- Joint liability- The joint liability concept means that SHGs should be formed with like minded people who would voluntarily take up joint liability for the group or individual's loans. In this, the group offers a joint undertaking which enables them to avail a loan from the bank.

**PROGRESS OF THE PROGRAMME:** The NABARD introduced SHG-Bank linkage to discard the general perception of bankers that customers with no formal education or source of income or of no use to the bank and thus are not welcome. The SHG-Bank Linkage programme is an effective way of providing credit to very small borrowers. Statistics show that since the year 2000, the rate of growth in SHGs linked under the programme is gradually falling in the year 1999-2000 this growth rate more than 245% whereas it fell below 38.3% in 2005-06. However, the higher growth in the late nineties may be due to initial penetration of SHGs under the programme. Yet there is considerable scope for formation of new SHGs and it should be worked upon.

### CHART-1: PERCENTAGE GROWTH IN NUMBER OF SHGS LINKED UNDER SHG-BANK LINKAGE PROGRAMME



Source: Report on Trend and Progress of Banking in India, 2007-08.

The cumulative number of SHGs linked with banks increased sharply from 255 in 1992-93 to 461,478 in 2002-03 and further to 292,497 in 2005-06.

**TABLE1--: CUMULATIVE PROGRESS OF SHG-BANK LINKAGE PROGRAMME**

Year	SHGs linked	Bank loan	Refinance assistance
1992-93	255	.29	.27
1995-96	4757	6.06	5.66
1999-2000	32995	57.07	52.06
2002-03	461478	1026.34	790.24
2005-06	223856	13975.4	4153.83
2006-07	292497	18040.7	5446.49
2007-2008	347796	22268.3	7061.99

in 2006-07. During this period the cumulative loans disbursed to SHGs also witnessed a sharp increase from INR 0.29 crores in 1992-93 to INR 1026.34 crores in 2002-03 and further to INR 18040.74 crore in 2005-06.

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Source: NABARD Annual Report 2007-08.

Table--1 shows the cumulative progress in this area with the amount of refinance assistance during the respective periods. The growing role of SHGs through unique processes of socio-economic engineering is also important. So far, the SHG movement in the country is mostly south-centric and it is yet to take off in the real sense in other regions of India.

**TABLE—2 SHG – BANK LINKAGE CUMULATIVE PROGRESSIVE (1992-2006)**

Up to end march	SHGs Financed	Bank Loan (Rs. Million)
1992-99	32995	571
1999-00	114775	1930
2000-01	263825	4809
2001-02	461478	10263
2002-03	717360	20487
2003-04	1079091	39042
2004-05	1618456	68985
2005-06	2238565	113975

Source: NABARD Annual Report.

As may be seen from Table – 2, the bank loans aggregating Rs.113,975 million were disbursed to 2,238,565 SHGs with refinance support of Rs. 41,597 million from NABARD, up to 31 March 2006. Around 90

per cent of the SHGs linked were exclusive women SHGs. Various studies revealed that the on-time repayment of SHG loans to banks was over 90 per cent.

**TABLE—3 AGENCY WISE DISTRIBUTION OF SHGS FINANCED UP TO MARCH 31, 2007**

Agency	SHGs Number (000's)		Bank Finance Amount (INR in crores)	
Commercial Banks	572	52	3919	60
RRBs	381	34	2053	31
Co-operative Banks	153	14	599	09
Total	1106	100	6570	100

Source: Report on Trend and progress of Banking in India, 2007-08.

Today, the SHG-Bank linkage programme led by NABARD in India claims to be the largest and fastest growing micro credit of the world with over 11 million poor households accessing micro-credit through their over 11 lakhs SHGs with the association of over 2800 NGOs and 30000 branches of 500 banks. NABARD has set up the Microfinance Development Fund in 2001 with a corpus of INR 100 crores which is now renamed as Micro-credit Development and Equity Fund since 2005 with an increased corpus of INR 200 crores. This fund has been set up to address institutional and delivery issues like institutional growth and transformation, governance, accessing new sources of funding, building institutional capacity and increasing volumes and to support the following activities of SHGs.

- Give training and exposure to SHG members, partner NGOs, Banks and government agencies.
- Provide start-up to micro-credit institutions and meet their initial operational deficits.
- Bear the cost of formation and nurturing of SHGs.
- Design new delivery mechanisms.

- Promote research, action research management information systems and dissemination of best practices in micro-credit.

### CONCLUSION

Microfinance has emerged as a vital approach to meet the heterogeneous needs of the poor. In India, microfinance in the formal sector has assumed the form of SHG-bank linkage program. Through this program, the Reserve Bank of India and NABARD have tried to promote relationship banking, i.e., “Improving the existing relationship between the poor and the bankers with the social intermediation of the NGOs.” The SHG-bank linkage program in India is rapidly expanding its outreach under the pioneering initiative of NABARD, the monitoring and supervision of RBI, and the promotional policies of the government of India. At the grass root level the program is being implemented by the commercial banks, cooperatives, and regional rural banks, with government agencies. Pro-activeness of the rural folk and artisans is need of the Hour.

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