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SHG - BANK LINKAGE – A HELPING HAND TO THE NEEDY POOR

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ABSTRACT

In the present study an analysis is made on the SHG and bank linkage. The study has made the research from the point of view of Banks as a helping hand to the needy poor. Micro finance has gained a lot of significance and momentum in the last decade. India has obtained prominent position through the promotion of SHG and bank linkage. In alleviation of poverty, people's involvement is needed. The SHG movement is considered as ray rope for India.

KEYWORDS

SHG, Bank, Poor, India.

INTRODUCTION

Poverty is an acute problem of today's global economy especially in the developing countries. Almost all the countries in the world including India have committed to attaining the Millennium Development Goals by the year 2015. India is the second most populous country having more than one billion population over 22%¹¹ of its rural population and 15%¹¹ of its urban population is living below poverty line and. Govt of India has made sincere effort to provide the institutional credit to fight against poverty but the institutional structure was neither profitable in rural lending nor serving the needs of the poorest. Due to the failure of financial institutions to provide the credit to the poorest, microfinance becomes the new mantra in rural finance.

Micro-finance is the term most often used to describe financial services for poor people in developing countries. Micro finance includes micro credit or micro loans (Small amounts of money lent to poor people to finance self employment activities or for other purposes); savings; payment transfers (services which enable breadwinners living elsewhere to send small amounts of money regularly to family members back home, a major revenue stream in many developing countries); micro insurance and other financial services. The modern micro finance movement was born to ease the human suffering caused by poverty, and to waken the global economy's sleeping gains; the almost completely uncapitalised productivity of the world's overwhelming majority of economically active people. It has scored impressive gains, developed consensus about best practices, and improved the lives of tens of millions of people. India being a developing country has achieved tremendous growth in the last decade due, to the various agencies including Government, NGOs and Banks. There are two models of micro finance in India:

- a) The self help Group Model under the SHG- Bank Linkage
- b) Micro Finance Institutions (MFIs)

OBJECTIVES

The present paper throws light on the following

- To understand the concept of SHG and its working.
- To study the growth SHG bank linkage region wise.
- To study the growth of SHG-bank linkage in India particularly in Karnataka.
- To study the agency wise SHG-bank linkage in Karnataka.
- To offer useful suggestions.

METHODOLOGY

The present study is purely based on the secondary data such as NABARD Annual Reports and internet. The collected data analyzed with the help of statistical tools such as percentage.

WHAT ARE SHGs?

The country has witnessed a rapid growth of self-help groups (SHGs) in the last one decade or so. The SHG growth which has almost assumed the form of a movement represents a massive grass roots level mobilization of poor rural specially women into small informal associations capable of forgoing links with formal systems to help access financial and other services needed for their socio-economic advancement. Basically SHGs are being promoted as a part of the microfinance interventions aimed at helping the poor to obtain easily financial services like savings, credit and insurance. The promotion of SHGs in India began more formally in 1992 with the launch of the SHG bank linkage by National Agricultural and Rural Development (NABARD). The purpose of this programme is to improve rural poor access to formal credit system in a cost effective and sustainable manner by making use of SHGs.

A self help group (SHG) is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily coming together to save small amounts regularly. They mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis. The group members use collective wisdom and peer pressure to ensure proper end- use of credit and timely repayment there of. In fact, peer pressure has been recognized as an effective substitute for collaterals.

An economically poor individual gains strength as part of group. Besides, financing through SHGs reduces transaction costs for both lenders and borrowers. While lenders have to handle only a single SHG account instead of a large number of small-sized individual accounts, borrowers as part of a SHG cut down expenses on travel (to and from the branch and other places) for completing paper work and on the loss of work days in canvassing for loans.

FEATURES OF SHGs

- 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 contributes a small amount of savings regularly into group fund.
- Group leaders are elected by the 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 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 banks at fix interest without any collateral.
- In turn, the group 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.

SHG BANK LINKAGE

In the post nationalization era, the banking sector in India witnessed substantial growth and expansion unparalleled in the world. Institutional Credit came to be recognized as a remedy for many of the ills of poverty. Credit packages and programmes were designed based on the on the perceived needs of the poor. Programmes also underwent qualitative changes based on the experience gained.

NEED FOR BANK LINKAGE

NABARD, during the early eighties, conducted a series of research studies independently and in association with MYRADA (a leading NGO from South India) which showed that despite having a wide network of rural bank branches that implemented specific poverty alleviation programmes with subsidy and bank components for almost two decades. But the institutional credit involving the existing banking policies, procedures and system does not suit the most immediate needs of the poor. It also appeared that what the poor really needed was a better access to these services and products, rather than cheap subsidized credit. Against this background, a need was felt for alternate policies, systems and procedures, savings and loan products, other complementary services etc which would fulfill the requirements of the poorest, especially the women members of such households.

The brain child of NABARD started as an action research project in 1989. Positive field level findings led, in 1992, to the setting up of a pilot project. The project was designed as a "Partnership Model" between three agencies viz., the SHGs, bank and Non governmental organizations (NGOs). SHGs were to facilitate collective decision making by the poor and provide "doorstep banking" Banks as wholesalers of credit were to provide the resources and NGOs were to act as agencies to organize the poor, build their capacities and facilitate process of empowering them.

MODELS OF LINKAGE

There are 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 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

Groups are formed by NGOs or Govt agencies. The groups will be trained and nurtured by these agencies. The banks provide credit directly to members 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

The wide network coverage of banks has not reached the rural areas. In such cases, the NGOs act as both facilitators and micro finance intermediaries. First, they promote the group, nurture and train them and then approach banks for bulk loans for on lending to the SHGs.

ANALYSIS OF SHG BANK LINKAGE

The SHG-Bank Linkage has passed through various phases- pilot testing (1992-95), mainstreaming (1996-98) and expansion (1998 onwards) and metamorphosed into the biggest micro finance movement in the world. The physical and financial outreach of the programme has been impressive in as much as the cumulative number of SHGs having savings bank accounts were 61.21 lakh with aggregate savings of Rs 5,455.62 crore, out of which credit linked SHGs were 44.81 lakhs covering 860 lakh poor households as on 31st March 2009, as per the reported all India data. An overview of the number of SHG accounts, bank loans disbursed to SHGs and loan amounts outstanding with SHGs together with bank loans disbursed to MFIs for on lending and the amount of loans outstanding with MFIs is presented in the following table.

TABLE 1: SHG-BANK LINKAGE – ALL INDIA

| Particulars | 2006-07 | | 2007-08 | | % Growth (2007-08) | | 2008-09 | | % Growth (2008-09) | |
|--|------------|----------|------------|----------|--------------------|------|------------|----------|--------------------|------|
| | No of SHGs | Amt | No of SHGs | Amt | No of SHGs | Amt | No of SHGs | Amt | No of SHGs | Amt |
| Savings of SHGs with Banks as on 31 st March | 4160584 | 3512.71 | 5009794 | 3785.39 | 20.4 | 7.8 | 6121147 | 5545.62 | 22.2 | 46.5 |
| Bank Loans disbursed to SHGs during the year | 1105749 | 6570.39 | 1227770 | 8849.26 | 11 | 34.7 | 1609586 | 12253.51 | 31.1 | 38.5 |
| Bank Loans outstanding with SHG as on 31 st March | 2894505 | 12366.49 | 3625941 | 16999.91 | 25.3 | 37.5 | 4224338 | 22679.84 | 16.5 | 33.4 |

Source: Reports of NABARD

It is revealed from the table that as at the end of 2008-09, 61.21 lakh SHGs saving linked with banks having saving of 5,455.62 crore as against 50.10 lakh SHGs having savings of Rs 3785.39 crore as on 31st March 2008. During 2008-09, 42.24 lakh SHGs credit linked with outstanding bank loan of Rs 22679.85 crore as against 36.26 lakh SHGs with bank loan outstanding of Rs 16999.90 crore as on 31st March 2008, thereby registered a growth 16.5% (No of SHGs) and 33.4% (Bank loan). During 2008-09, the banks financed 16.10 lakh SHGs including repeat loans, to the extent of Rs 12,253.31 crore against 12.28 lakh SHGs with bank loan of Rs 8,849.26 crore in 2007-08. The process in the SHG-Bank linkage programme since its inception is given in table 2.

TABLE 2: SHG-BANK LINKAGE (1992-93 TO 2008-09)

| Year | No of SHGs financed | Bank loan financed (Rs in lakh) | No. of families assisted | Average Loan per SHG (Rs) | Average Loan per family (Rs) |
|---------|---------------------|---------------------------------|--------------------------|---------------------------|------------------------------|
| 1992-93 | 255 | 30 | 4335 | 11765 | 692 |
| 1993-94 | 365(43.14) | 36(20) | 6205(43.14) | 9863(-16.17) | 580(-16.18) |
| 1994-95 | 1502(311.51) | 179(397.22) | 25534(311.51) | 11917(20.83) | 701(20.86) |
| 1995-96 | 2635(75.43) | 361(101.68) | 44795(75.43) | 13700(14.96) | 806(14.98) |
| 1996-97 | 3841(45.77) | 578(60.11) | 65297(45.77) | 15408(12.18) | 885(9.80) |
| 1997-98 | 5719(48.89) | 1192(106.23) | 97223(48.89) | 20843(35.27) | 1226(38.53) |
| 1998-99 | 18678(226.60) | 3330(170.36) | 317526(226.60) | 17828(-14.26) | 1049(-14.44) |
| 1999-00 | 81780(337.54) | 13590(302.65) | 1390260(337.84) | 16618(-6.79) | 978(-6.77) |
| 2000-01 | 149050(82.26) | 28789(111.84) | 2533850(82.26) | 19315(16.23) | 1136(16.16) |
| 2001-02 | 197653(32.61) | 54554(89.50) | 3360101(32.61) | 27601(42.90) | 1624(42.96) |
| 2002-03 | 255882(29.46) | 102231(87.39) | 3754874(11.75) | 26985(-2.23) | 1799(10.78) |
| 2003-04 | 361731(41.37) | 185550(81.50) | 4586000(22.13) | 36180(34.07) | 2412(34.07) |
| 2004-05 | 518173(43.25) | 296180(59.62) | 7774000(69.52) | 42971(18.77) | 2864(18.74) |
| 2005-06 | 482598(-6.87) | 309613(4.53) | 7238970(-6.88) | 64155(49.30) | 4277(49.34) |
| 2006-07 | 1105749(129.12) | 657039(112.21) | 15480486(113.85) | 59420(-7.38) | 3961(-7.38) |
| 2007-08 | 1227770(11.03) | 884926(34.68) | 17188780(11.03) | 72076(21.30) | 5148(29.97) |
| 2008-09 | 1609586(31.10) | 1225351(38.50) | 22534204(31.09) | 76108(5.60) | 5436(5.59) |

Source: Reports of NABARD

Note: Figures in bracket indicate the percentage of growth as compared to previous year.

It can be known from the table that the percentage of growth of SHGs is highest in the year 1999-00 (ie 337.54) and the percentage of growth when compared to the previous year is negative in the year (-6.87). With respect to bank loan financed, the percentage of growth was highest 1994 -95 ie 397.22 and was lowest in the year 1993-94 ie 20. This indicates that there is uneven growth in number of SHGs in the country. The commercial banks and other banks should increase the tempo of financing to SHGs. It leads to reach the poorest of poor.

The progress under Microfinance –Savings of SHGs with Banks Region-wise and Agency wise position as on 31st March 2009.

TABLE 3: SAVINGS OF SHGS BANKS REGION WISE AND AGENCY WISE

| Sl. No. | Region wise | Commercial banks | | Regional Rural Banks | | Cooperative Banks | | Total | |
|---------|------------------|------------------|-------------|----------------------|-------------|-------------------|-------------|-----------|-------------|
| | | No of SHG | Savings Amt | No of SHG | Savings Amt | No of SHG | Savings Amt | No of SHG | Savings Amt |
| 1 | Northern Region | 169319(54.4) | 14688.04 | 79448(25.6) | 4520.19 | 62231(20) | 3495.69 | 310998 | 22703.92 |
| 2 | Northern Eastern | 93354(38.9) | 4453.75 | 125305(52.2) | 5216.75 | 21434(8.9) | 539.66 | 240093 | 10210.16 |
| 3 | Eastern | 629728(51) | 29231.32 | 375388(30.4) | 114606.52 | 228519(18.6) | 15850.2 | 1233635 | 159688.04 |
| 4 | Central | 319952(44.9) | 19670.46 | 333672(46.8) | 16562.6 | 59291(8.3) | 2446.14 | 712915 | 38679.2 |
| 5 | Western | 429453(53.9) | 36583.83 | 116158(14.6) | 7983.74 | 250651(31.5) | 21860.83 | 796262 | 66428.4 |
| 6 | Southern | 1907703(67.5) | 172671.54 | 598617(21.2) | 50085.28 | 320924(11.3) | 34095.28 | 2827244 | 256852.1 |

Source: Report of NABARD

Figures in brackets indicate the percentage to total number of SHGs formed by the respective agencies.

The above table gives region wise formation of self help group by different agencies viz commercial banks, regional rural banks and cooperative banks and the amount of savings made by the groups. The commercial banks account highest number of SHGs in southern when compared to other regions. The share of RRBs is highest in northern eastern region whereas co-operative banks' share is highest in western region.

Karnataka, a pioneer in SHGs and also in bank linkage programme, continues to maintain its leading status in promotion of SHGs. The various agencies are doing their best in the growth and development of micro finance by linking the SHGs with banks. Table 4 provides the performance of SHG-Bank linkage in Karnataka for selected years.

TABLE 4: SHG-BANK LINKAGE IN KARNATAKA

| Year | No of SHGs credit linked | Bank loan (Rs in lakh) | Refinance (Rs in lakh) |
|------------|--------------------------|------------------------|------------------------|
| 1992-93 | 114 | 5.73 | 5.73 |
| 1993-94 | 51(-55.26) | 5.51(-3.84) | 5.51(-3.84) |
| 1994-95 | 481(843.14) | 77.71(1310.34) | 70.71(1183.30) |
| 1995-96 | 1046(117.46) | 145.08(86.69) | 145.08(105.18) |
| 1996-97 | 760(-27.34) | 159.25(9.77) | 159.25(9.77) |
| 1997-98 | 1138(49.74) | 232.19(45.80) | 228.10(43.23) |
| 1998-99 | 2002(75.92) | 429.86(85.13) | 422.28(85.12) |
| 1999-00 | 5018(150.65) | 1054.81(145.40) | 649.00(53.69) |
| 2000-01 | 8009(59.61) | 1714.00(62.49) | 1404.00(116.33) |
| 2001-02 | 18413(129.90) | 3475.39(102.76) | 2229(58.76) |
| 2002-03 | 25416(38.03) | 7249.50(108.60) | 4073.55(82.75) |
| 2003-04 | 41688(64.02) | 13960.37(92.57) | 6090.22(49.51) |
| 2004-05 | 59332(42.32) | 26653.00(90.92) | 9951.00(63.39) |
| 2005-06 | 61730(4.04) | 44260.00(66.06) | 6695.43(32.72) |
| 2006-07 | 92708(50.13) | 81368.87(83.84) | 15599.24(132.98) |
| 2007-08 | 94280(1.70) | 100446.47(23.45) | 12699.52(18.59) |
| 2008-09 | 60439(-35.89) | 120702.37(20.17) | 19219(51.34) |
| Cumulative | 472235 | 402222.53 | 79646.49 |

Source: Reports of NABARD

Figures in brackets indicate the percentage of growth as compared to the previous year.

The Table shows the number of Self help groups' credit linked and bank loan and refinance for the respective years. It is indicated from the table that the number of SHGs credit linked is inconsistent whereas bank loan provided to such SHGs is increasing. Similarly, the refinance by NABARD to these banks is also increasing year by year. It is evident from the above table that there is positive growth with respect to the number of SHGs credit linked to banks except for 1993-94, 1996-97 and 2008-09. The growth rate for 1994-95 is highest as compared to 2007-08.

The self help movement is deep-rooted in southern states of the country. Karnataka has been among the top three states in the country in SHG-Bank Linkage. The key stakeholders have continued innovations for sustaining the SHG movement. The status of Self Help movement at the end of the year 2008-09 is highlighted below.

Women & Child Development Department (WCDD)-Government of Karnataka, Non-Governmental Organizations, the District Central Co operative Banks (DCCBs), Primary Agriculture Co operatives (PACs) and Regional Rural Banks (RRBs) continued to play a very significant role in promotion of SHGs in the state. Agency-wise number of SHG accounts added during the year and the cumulative position as on 31st March 2009, with percentage share of SHG accounts by each agency, are tabulated below.

TABLE 6: AGENCY-WISE NO. OF SHG ACCOUNTS

| Sl. No. | Agency | No. of SHGs Accounts as on 31.03.2008 | New SHG Accounts opened during 2008-09 | Total No. of SHG Accounts as on 31.03.2009 | Percentage of accounts held |
|---------|----------------------|---------------------------------------|--|--|-----------------------------|
| 01 | Commercial Banks | 170928 | 37113 | 208041 | 40 |
| 02 | Regional rural Banks | 136155 | 16429 | 152584 | 29 |
| 03 | Cooperative Banks | 148663 | 10621 | 159284 | 31 |

Source: Reports of NABARD

From the table, it can be known that the role of commercial banks in financing SHG has increased. The share of cooperative banks in financing SHGs is high compared to the RRBs.

FINDINGS

- There is an imbalance in the growth of SHGs region wise. SHGs are more popular only in southern region. So the central government and non government organizations should make efforts to increase in the number of SHGs through educating the people.
- The growth of number of SHGs along with financial assistance in Karnataka is on increasing trend.
- The role played by Commercial banks with respect of linking of SHGs with them is significant.
- There is positive growth of number of SHGs during the period 2007-08 and 2008-09 at all India level.

CONCLUSION

Micro finance has gained a lot of significance and momentum in the last decade. India has obtained prominent position through the promotion of SHG and bank linkage. Prof Muhammad Yunus a Nobel laureate says "social entrepreneurs" is a weapon to fight against the problems of humanity. If the dream of former president A. P. J. Abdul Kalam is to be realized, Micro finance is considered as tool for alleviating poverty. In alleviation of such poverty, people's involvement is needed. The SHG movement is considered as ray rope for India.

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