



## GROWTH AND DEVELOPMENT OF SHG-BANK LINKAGE PROGRAMME IN INDIA

**Miss. Jyoti Vinayak Moholkar**

*Research Student*

*Dept. of Commerce and Management,*

*Shivaji University, Kolhapur.*

### **ABSTRACT:**

*The Indian microfinance sector is increasingly becoming a viable investment sector. It has developed a successful and sustainable business model which has been able to overcome challenges traditionally faced by the financial services sector by diversifying its base to address financial and non-financial needs of low income population. Self-Help Group means a group of 10-20 members which may or may not be registered representing financial intermediation, but the financial intermediation is not the only primary objective of the groups. The motive is to combine the access to low-cost financial services with a process of self management and development. The SHG-bank linkage programme is carried out under the guidance of National Bank for Agriculture and Rural Development (NABARD) with an active participation of NGOs, state development institutions, commercial banks, regional rural banks, District Rural Development Authorities (DRDAs) and local bodies like panchayati raj institutions (PRIs). This paper studies the growth and trends of the SHG-Bank Linkage Programme. The paper analyzes the issues and challenges faced by the banks in financing SHGs and also explore some of the measures taken by the government to strengthen the credit linkage between SHGs and the banks.*

**Keywords:** *Self Help Group (SHG), Bank Linkage Model, Growth and Trend of SBLP, Issues and Challenges, and Agenda for Future.*

**INTRODUCTION:**

The Self-Help Group (SHG) movement originated in Bangladesh under the Leadership of Noble Laureate Mohamed Yunus. It is a noble mission- an innovative concept that has its roots in Bangladesh and also touched every part of the globe. In order to achieve the mission of reaching those families who did not 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. Thereafter, RBI had advised commercial banks to participate actively in this programme. Subsequently, this programme was further extended to all Regional Rural Banks (RRBs) and cooperative banks. SHGs through the network of commercial banks, RRBs cooperative banks, NABARD and NGOs has been largely supply driven as well as a recent approach in the provision of financial services to the poor.

**SELF HELP GROUP:**

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 fulfilment 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.

**OBJECTIVES OF THE STUDY:**

The present study has two fold objectives.

1. To study the growth and trends of the SHG-Bank Linkage Programme in India.
2. To analyzes the issues and challenges faced by the banks in financing SHGs.

**METHODOLOGY ADOPTED FOR THE STUDY:**

For accomplishing the objectives of the study secondary data were collected. Data published by various institutions such as Government of India, Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), etc are used for the purpose of the present study.

**MODELS OF SHG-BANK LINKAGE PROGRAMME:**

The strategy behind these models is to form small, cohesive and participative groups of the poor and encourage them to pool their savings regularly and use the pooled savings in order to make small interest bearing loans available to the members. Bank credit facility also 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 banks:***

In this model, banks themselves take up the work of forming and nurturing the groups, opening their bank accounts and providing them with bank loans after satisfying themselves as to their maturity to absorb credit. Upto March 2006, about 20% of the total number of SHGs financed was from this category. This shows an increase of 61.63 percent in bank loan to SHGs over the position as on March 2005 reflecting an increased role of banks in promoting and nurturing SHGs. Here, the banks act as the SHGPI.

***Model- II. SHGs formed by NGOs and formal organisations but directly financed by the banks:***

In this model, groups are formed by NGOs (in most cases) or by the government agencies. The groups are nurtured and trained by the

agencies. The bank then provides credit directly to the SHGs after observing their operations and maturity to absorb credit. While the bank provides loans to the groups directly, the facilitating agencies continue their interactions with the SHGs. Most linkage experiences begin with this model, where NGOs play a major role. This model has also been popular and more acceptable to banks, since some of the difficult functions of social dynamics are externalized. This model continues to have a major share. About 70 percent of the total number of SHGs is financed under this model.

***Model- III. SHGs financed by banks using NGOs and other agencies as financial intermediaries:***

For various reasons, banks in some areas are not in a position even to finance SHGs promoted and nurtured by other agencies. In such cases, the NGOs act as both facilitators and microfinance intermediaries. First, they promote the groups, nurture and train them and then they approach banks for bulk loans for further lending to SHGs. In other words, banks take the sole responsibility for promoting, developing and financing SHGs. In fact, this programme requires considerable effort by the bank staff towards the formation of SHG. This model is not so encouraging.

**OBJECTIVES OF SHG-BANK LINKAGE:**

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

**GROWTH AND TRENDS OF SHG-BANK LINKAGE PROGRAMME:****Table 1 : Growth trends in SBLP**

Year	No. of SHGs provided with bank loans	Of which in southern region	Share of southern region (%)	Average disbursed loan per group	Outstanding loans (billion)	Incremental groups (million)	Incremental loans O/S (billion)
2006	2,238,565	1,214,431	54	37,574			
2007	2,924,973	1,522,144	52	44,343	123.66	0.69	123.66
2008	3,625,941	1,861,373	51	46,800	169.99	0.70	46.33
2009	4,224,338	2,283,992	54	74,000	226.76	0.60	56.77
2010	4,587,178	2,421,440	53	115,820	272.66	0.36	45.90
2011	4,813,684	2,663,569	55	122,744	306.19	0.22	33.53
2012	4,354,567	2,355,732	54	144,086	363.41	(-) 0.05	57.22

*Source: NABARD Provisional data.*

The growth performance of SBLP during the last two years has reached a stage of a plateau, and it is time for giving it new direction for future expansion. The provisional data available from NABARD for the year 2011–12 shows that the number of SHGs provided with bank loans was 4.36 million, which is about 9 per cent less than the previous year performance (Table 1.1). On the other hand, the outstanding loan amount during the reference year has registered an increase of 19 per cent more than the previous year. In terms of incremental loans outstanding, the SBLP added `57.23 billion.

**ISSUES AND CHALLENGES IN SHG - BANK LINKAGE PROGRAMME:*****Quantum of Loan:***

The second major constraint faced by SHGs is the continued restrictive loan policies of the commercial banks. The commercial banks took a long time to clearly recognize and internalize the concept. The SHG model is primarily a savings based model. The commercial banks have been following largely 1:4 savings-credit ratios (Sayantan Bera, 2009). SHGs having lower savings ability find the lending ratio highly restrictive. As a result, many SHGs are unable to access credit adequately. This is

forcing SHG members to restrict loan size/period. In many cases banks are also not able to give adequate time to SHGs forcing SHGs to operate more in ways which suit banks than the SHGs. If SHGs, whose strength lies in informality, have to make a better impact, the formal system has to tune itself to the needs of SHGs and their members. This calls for adopting highly proactive and innovative policies to deal with the SHGs.

### ***Quality of SHGs:***

Due to the fast growth of the SHG Bank Linkage Program, the quality of SHGs has come under stress. This is reflected particularly in indicators such as the poor maintenance of books and accounts etc. The deterioration in the quality of SHGs is explained by a variety of factors including:

1. The intrusive involvement of government departments in promoting groups,
2. Inadequate long-term incentives to NGOs for nurturing them on a sustainable basis
3. Diminishing skill sets on part of the SHG members in managing their groups.
4. Significant financial investment and technical support is required for meeting this challenge.

### ***Managing Funds:***

Managing funds of SHGs has been found to be ranging from weak to average. Internal controls at SHGs and SHG Federations are lacking. The systems and processes have been ill-defined and poorly executed by members. Managing cash flows in SHGs is also important. Since SHGs are accessing external borrowings through SHG bank Linkage and then lends these funds to its members, there have been cases of poor cash flow management to repay debt (A.K. Pokhriyal, et.al., 2011). There is a need for systematic monitoring of SHGs with the help of latest technology like smart cards, biometric IDs, mobile handsets and rural kiosks.

### ***Governance:***

Since SHGs are informal organizations, there is lack of proper governance. The members of SHGs do not have much experience with establishing formalized monitoring and review functions or complying with legal regulations (Ganesh Thapa, 2006). As the loans being disbursed to SHGs is growing, a strong governance system is needed.

***Promoting Micro Enterprises:***

The critical constraining factor is that SHG members face a lot of problems in marketing of their produce besides low level of skills (Radha Gupa, 2011). There is a need to promote micro enterprises to create livelihood and employment opportunities among SHG members besides imparting relevant skills and developing their risk taking abilities.

***Attitude of Bankers:***

Banks are unable to understand fully the commercial importance of SHG lending and they feel that the SHG lending is being carried to fulfill the social obligations. The participation of commercial banks into the microfinance intervention requires change in their conventional attitude towards the poor (Sangeeta Arora, 2010). Even when the banks realized the potentials of SHGs, they could not attend to the needs of SHGs as required because of staff shortage and procedural bottlenecks.

***Capacity Building:***

Bankers need to be involved in promoting and financing SHGs. Since many of the SHGs are maturing and their business level has increased, the focus should shift to capacity building of SHG members so that the accounts keeping, auditing and credit management at the group level improves (Pooja Bhalla & Gagandeep Kaur, 2008).

***Sustainability:***

The financial sustainability of an SHG depends mainly on its repayment patterns. Only when SHGs make timely repayments to banks do they gain access to bigger loans. The ability to make timely repayments to banks, in turn, depends on the repayment patterns of the individual members (Purna Chanra Parida, et.al., 2010). In order to ensure sustainability of the SHGs, their activities and linkages, there should be better transparency in the books of accounts maintained at the group level. These books should reflect the position of deposits in members accounts, interest paid on savings, distribution of corpus or operating surplus among members, ever greening of loan accounts, etc.

**CONCLUSION:**

The bank is considered to be the pioneer in the field of micro finance. Through SHG-Bank Linkage program, the RBI and NABARD have tried to promote relationship between the poor and the bankers. The programme has brought about a positive social and economic impact on the livelihood

of the people in rural areas. It has increased the social empowerment of women. With the collective effort from banks, regulators, government, SHGs and voluntary sector, more of the rural poor can be brought within the ambit of financial inclusion. SHG Bank Linkage Programme and its impact can be made sustainable with sincere interventions by banks in the areas of awareness building, skill development, training and continuous counselling. As currently the functioning of self help groups is not regulated, the government should redefine the policies and frame certain regulations for such groups. There is a crucial need to focus on awareness programs, imparting training and developing entrepreneurial skills among the rural poor. The bankers should coordinate the formation and functioning of the self help groups linked to them.

**SUGGESTIONS:**

Banks need to play a more pro-active role in covering more number of weaker sections and low income groups by taking measures to increase the share of smaller credit in the total credit disbursed.

1. There should be more banking penetration in North-Eastern, Central and Eastern regions where the concentration of poverty is higher.
2. As the poor can and do save in a variety of ways, the banks should work towards creative harnessing of such savings.
3. Banks need to have flexibility in terms of working hours, documentation, mode of interactions and transactions.
4. Banks also need to explore ways to generate and utilize local knowledge and information for effective loan monitoring and risk mitigation.

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