Self Help Group (SHG)-Bank Linkage Programmes: Focusing On The Inclusion Of Financially Excluded People

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INTRODUCTION

Finance is the root of economic growth and credit is considered to be its branch. The latter grow vertically, which helps the former to inflate horizontally. In other words, the rapid growth of finance system depends upon the strong and sound system of credit policy in an economy. Credit is a basic lubricant (Singh 2000) that helps to provide a push to the development process. It is the fourth basic prerequisite after food, cloth and shelter for the development of people. Providing credit to the needy people at the right time, at the right place helps in speed development of the society. As the one third of population in our country is living in rural areas, so there is much necessity for inclusion of rural people in the finance system. Delivery of credit at the doorstep of those who are not covered by the formal banking business, coupled with capacity building, is one of the ways for achieving financial inclusion (Sharma 2009). Inclusive financial system, one that allows broader access to financial services, can lead to faster and more equitable growth. Such a system allows poor households to save and manage their money securely, decreases their vulnerability to economic shocks and allows them to contribute more actively to their development. In India, as far as rural credit system is concerned, it has many dimension and peculiarities and informal source of finance was once the only and dominant from of rural credit. It consists of village moneylenders, landlords, friends and relatives. The appearance of co-operatives, Regional Rural Banks (RRBs) and commercial banks has no doubt reduced the share of informal source of finance to supply credit, but not up to the desired extent. This leads to limp down the growth rate of the rural economy. To solve the above problem, the Self Help Groups-Bank linkage programmes (SBLP) approach of National Bank for Agricultural and Rural Development (NABARD) started in 1992, which not only helps to improve the village economy but also makes the rural finance system more inclusive and sociable for common people. An attempt has made in this study to analyses the progress of SHGs-bank linkage (SBLP) programmes of NABARD in rural India to provide financial service to the helpless and neglected groups and to make un-bankable people bankable. The section-I of the study focuses the rural finance system of the Indian economy. Section-II highlights the achievements and performance of SHGs-bank linkages programmes in the Indian financial system. The section-III of the study analyses the challenges and suggestions to bring some change for socialization of the linkages.

SECTION-I
RURAL FINANCE SYSTEM IN INDIA: HOW INCLUSIVE IS IT ?

In India, rural people in general and women in particular are largely illiterate, unaware and lack courage to borrow from formal credit institutions to meet their socio- economic needs. Again, urban orientation of financial institutions, staff apathy, and lack of work experience in the rural sector has restricted the formal flow of credit to the rural poor. Another need of rural people is for consumption credit to meet urgent religious, social, educational and medical needs and again, banks do not normally give loans for such purposes. There appears to be a divergence between the services provided by the formal rural finance sector and the loan requirements of the rural people. It restricts the growth of parallel credit systems, which are better able to meet the genuine credit needs of rural people. A World Bank study (1995) reveals that 67 % of the credit needs of poor people in India are for consumption needs, 75% was for short period for emergencies such as illness and household expenses during the lean monsoon seasons. It was estimated that 75% of production credit (comprising of 33% of the total credit) was met by the bank, while 100 percent of consumption credit requirements are met by informal sources at interest rates ranging from 30% to 90% per annum. As no collateral is being offered, Banks could not sanction consumption loans as per current norms. In India, since the early national plans, successive governments have emphasized the role of finance in promoting equitable growth.

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With the overwhelming majority of Indian poor living in rural areas, policies aimed at financial inclusions have understandably focused on the rural economy. *Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost*[1]. It generally helps the financially excluded sections largely comprising of marginal farmers, landless labourers, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women (Thorat, 2007). In order to bring about inclusion of poor people residing in rural areas, various institutions like commercial banks, Regional Rural Banks (RRBs) and Cooperative societies were built at the national, state, district and village levels to intermediate savings and credit for investment. The objectives of broad based financial development would allow financial institutions to mobilize savings from throughout the economy and allocate to agriculture and small industry by the target of low price loans. It leads to the *expansion of finance institutions to more than* 1,50,000 retail rural credit outlets for a rural population of 680 million people, giving a population per credit outlet ratio of 4155 in 2006-07. It overwhelmingly shows more inclusive nature of Indian banking towards common people. However, majority of the rural population still does not appear to have access to finance from formal sources, and the poor particularly face severe problem in getting finance. Data from a survey by the World Bank and the National Council of Applied Economic Research (NACER) - the Rural Finance Access Survey (RFAS) 2003 shows, some 59 % of rural households does not have a deposit account and 79 % of the rural household have no access to credit from a formal source. Indeed, the bank branches in rural areas appear to serve primarily, the needs of richer borrowers i.e. some 66 % large farmers have a deposit account while 70 % of the marginal farmers do not have a bank account. On the other hand, 44 % of large farmers have access to credit but in case of marginal farmers, 87 % have no access to credit from a formal source. It also analyses that all type of formal institutions demand bribes before approving the loan. Besides, approximately 27 % households from RRBs, 27 % of households from commercial banks and 10 % of credit cooperatives had to pay bribes to get loans. Procedures for opening an account or seeking a loan are cumbersome and costly, with high rejection rates. It takes, on average, 33 weeks for a loan to get an approval by a commercial bank. Longer processing times for loans, together with bribes, have resulted in high ineffective cost for small borrowers. Banking data has revealed that credit exclusion is severe in 139 districts of the country. In these districts, only 10 % or less out of the 100 persons have access to credit from the fact that the exclusion is large, there is also a wide variation across regions, social groups and asset holdings with special reference to poorer the group, the greater is the exclusion (Rangarajan, 2007).If we analyse the page from NSSO 59th round data, which shows that 51.4% of farmer households, have been financially excluded from both formal/informal source (459 lakh out of 893 lakh). Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrows from non-formal sources. Overall, 73% of farmer households have no access to formal sources of credit. This financial exclusion is most acute in Central, Eastern and Northeastern regions, having a concentration of 64% of all financially excluded farmer households (from formal sources) in the country (415.61 lakh households out of 649.54 lakh households). Overall indebtedness to formal sources of finance alone is only 19.66% in these three regions (4.09% for North-Eastern Region, 18.74% for Eastern Region and 22.41% for Central Region). Among non-cultivator households, nearly 80% do not access credit from any source. In case of category wise, it is only 36% of ST farmer households who are indebted (SCs and Other Backward Classes - OBC - 51%), mostly to informal sources. Thus, to compensate for the relative lack of success which formal banks have had to serve the poor, the new microfinance approach is being developed. Of these, linkages between self-help groups (SHGs) and bank championed by NABARD, have received strong support from the government. The SBLP programmes of NABARD revive the life for rural finance system by providing the taste of credit and opportunity of saving to the "*Aam Adami*" living in rural areas. The study has analysed the success story of the linkages with the following objectives.

OBJECTIVES

1) To examine SHGS-Bank linkage services in providing cash credit to SHGs and its sustainability.

2) To enumerate the achievements and problems of SHG microfinance in including the excluded section of the society in the rural area and to suggest some strategies for further strengthening the connection.

METHODOLOGY

The study is based on secondary data derived from various published sources. The required data has been collected from NABARD reports on banking, journals and books. The collected data is complied and analyzed for the purpose of the study.

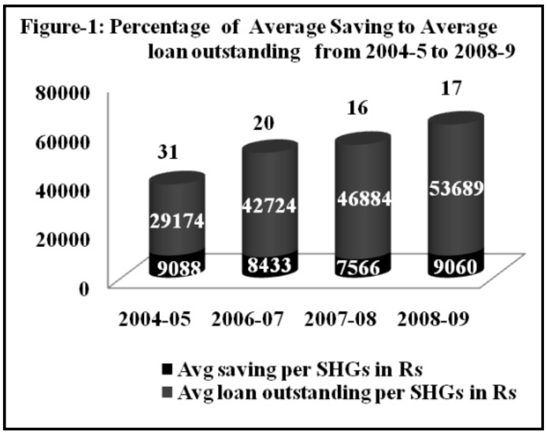
SECTION-II

MICROFINANCE-SHGs BANK LINKAGE MODEL: THE WAY AHEAD

Microfinance has been defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi urban and urban areas for enabling them to raise their income levels with standard of living. Microfinance is considered as a "silver bullet" (Kalpana 2000) or "Golden Stick" that helps the poor to avoid distress sale of assets and replacement of productive assets. The concepts of micro credit was created by Noble laureate (2006) and Medal of Freedom (2009) award winner Prof Muhhmmad Yunus of Bangladesh. The evolution of microfinance has taken place due to concerns (in developing countries) for the alleviation of poverty. It has evolved as a need based policy and programme to cater to the needs of neglected groups i.e. women, poor, rural and deprived sections of the society. It was started to provide employment, help in poverty reduction, and serve as a livelihood earner and is now focusing on the empowerment of women. Of course, there are many ways and means to have used the tools to eradicate the poverty in India. But in the recent past, Microfinance-SHG linkages approach is often considered as one of the most effective and flexible strategies to fight against poverty from third world countries to developed countries. It is sustainable and can be implemented on a massive scale that is necessary to respond to the urgent needs of those living on less than $1 a day - 100 million people who are the World's poorest. Such programmes help the poor to live with dignity and transforms their dreams into reality with open eyes. In India, micro credit has been generally given to the group of people known as Self Help Groups (SHGs). Self Help Groups (SHG) are small economically homogeneous affinity group of the rural poor voluntarily coming together to save small amount regularly, which is deposited in a common fund to meet members' emergency needs and to provide collateral free loans decided by the group. It provides the members, in particular women, with a launch pad to gain confidence, skills and power to promote their interests. By making credit available, it also provides opportunity to people belonging to the weaker sections to start income generating activities and empower themselves by improving their economic status. In 1992, NABARD launched the SBLP on a pilot basis to link 500 SHGs to financial banks with the aim of improving access to financial services for about one-third of the rural poor by 2008 (NABARD and GTZ, 2005). Since the concept of SHGs is more than 25 years old, a number of studies have already examined the impact of microfinance on various aspects. As noted above, we make an effort here to review a few of them to highlight the pros and cons of these programmes in India. The existing literature suggests that the concept of forming SHGs and linking to banks would raise incomes and broaden financial markets by principally providing credit, among other services, to small scale entrepreneurs and thereby, reducing poverty (Aghion & Morduch 2000, Manikalai and Rajeswari 2001, Planning commission 2007, NCAER 2008,). It helps in the empowerment of women, since microfinance programmes have mostly targeted women as clients (MYRADA 2002, Siebel and Dave 2002, Cheston and Kuhn, 2002, Swain 2006, 2007, Maux 2003). India, which has about 70 per cent of the total population living in rural areas-most of who are poor - the programmes of microfinance in terms of linking SHGs with banks holds a critical role in targeting poverty reduction and empowering them with improvement in consumption pattern (Deininger & Liu 2009). In India, SHGs bank linkage programmes have come a long way since 1992, passing through stages of pilot (1992-95), mainstreaming (1995-98), expansion phase (1998 onwards) and has emerged as the biggest micro finance programmes in terms of outreaching, linking 61.21 lakh groups by March 31,2009. This enabled an estimated 8.60 Cr poor people in the country to gain access to micro finance facilities from the formal banking system. By December 2007, approximately 3150 such institutions were servicing about 150 million clients across the world. India's share in the global micro credit market in 2005 was 15 % of all clients and 20 % of the poorest clients, thanks to the SHG Bank linkage programmes of NABARD. India, thus, is the home of the largest micro credit programmes in the world (Kramkar 2008). The linkage of SHGs had cut down the transaction cost for both banks and their rural client's popularity among women. Over 90 % number of SHGs comprised of only women who not only reduce poverty, and longer program exposure has positive impacts on consumption, nutritional intake, and asset accumulation (Deininger & Liu 2009). The detailed progress of SHGs-Bank linkages service in India has been discussed in the following ways.

ACHIEVEMENTS

The Table-1 analyses the growth of SHGs in India since 1999 to 2008. The total number of SHGs related to bank loan were 32,995 in 1999 , which increased to 42.24 lakh in March 2009. Besides, there is the growth of bank loan from 57.07 Cr in 1999 to 22,2679.84 Cr up to march 2009. In this time period, the amount of refinance also increases by NABARD from52.09cr in 1999 to Rs9682.02 Cr in 2008-9.The Table-2 gives the year wise details of growth in the number of SHGs and amount saved on two consecutive years in the year 2007-8 and 2008-9. In the year 2007-8,the total number of SHGs was ₹ 50.09 Lakh and saves ₹ 3785.39 crore that increases to 61.21 Lakh SHGs with savings of ₹ 5545.62 Cr in the year 2008-9. Here, the growth rate of SHGs increased by 46.5 %, but the growth rate of saving increased to 19.9 % in comparison to previous years. The commercial bank plays a major role in the group formation i.e. 58 % followed by 27 % by RRBs and 15 % by cooperative banks. In case of total savings, the commercial banks share in average 50 % followed by 36 % by RRBs and 14 % by cooperative banks. The average saving per SHGs is ₹ 7556 in 2007-8 with 7.01 Cr people that increases to ₹ 9060 in 2008-9 with the support of 8.60 Cr poor people, making it the largest and fastest network system of the world.The Table-3 explains the agency wise bank loan outstanding of the SHGs in the year 2007-8 and 2008-9. In the year 2007-8, the total number of SHGs was 36.26 Lakhs with loan outstanding of ₹ 16999.90 Cr, which increases to ₹ 42.24 Lakhs with loan outstanding ₹ 22679.85 Cr SHGs up to Mar 2009. In this period, there is 33.4 % in growth of SHGs with loan outstanding growth rate of 14.5 %. In both the subsequent years averagely, 65 % of commercial banks have 69 % of loan outstanding followed by 24% of RRBs with loan outstanding 24 percent and 11 percent of cooperative bank with outstanding of percent. The average loan per SHGs increased from ₹ 46884 in 2007-8 to ₹ 53,689 in 2008-9 with growth rate of 14.5%.The growth of SHG-Bank Linkage in region wise is explained in Table-4 and has been developed by NABARD in consultation with its Regional Offices at the State level, banks, NGOs and the State governments. The largest share in this linkage has been shared by southern states with 46 percent followed by eastern states with 29 percent and 12 percent by central states. In case of growth rate in comparison to 2006-07, the eastern states have high performance of 8 percent of growth followed by western region with 3 percent of growth. The figure-1 shows an average saving per SHGs is ₹ 9088 and average loan outstanding per SHGs is ₹ 29174 with 31% of amount of saving to loan outstanding in the year 2004-5. There is an increase in average saving of ₹ 9060 per SHGs and average loan outstanding to ₹ 53689 per SHGs with decrease in i.e. 17 % of amount saving to loan outstanding in the year 2008-9. However, if we compare with the previous year, there is the increase in 1% of saving to the loan outstanding per SHGs. The performance of recovery is very good i.e. 90% (NABARD 2009) but as per the long term sustainability, there is the necessity of taking appropriate steps in the right time for the macro impact of micro credit to the beneficiaries. It is because of continuous decrease in the percentage of savings per SHGs to the loan outstanding per SHGs and the ratio of savings per SHGs to loan outstanding per SHGs. Otherwise, this small amount of credit would be a big burden for the common people and would lead them towards the poverty trap.



SECTION-III
THE CHALLENGE AHEAD

a) Upscalling The System : In most of the SHGs, there is a dominance of two or three members and others are passive.

On the other hand, for most of the groups, there is the presence of dual membership and the male persons are really users of the credit in the name of the female members. The burden on children, particularly girls, has increased with children working longer hours to assist their mothers (Fuwa et al 2009). More than half the women organized have reported that they still did not have full or major control over the income they earned. That is, they handed over more than 60 per cent of the income to their husbands or in laws (Burra 2004).

b) No Benefit To The Poorest : Since the poorest are extremely vulnerable, and their incomes are not regular (apart from being very meager), micro-credit programmes linked to compulsory savings exclude the poorest by default. The poor were able to move one-step higher, but they have not been able to overcome poverty in the same way as the middle-level poor. The very poorest members who have joined the groups have not been able to access as many loans (both in numbers and in quantum) as the middle-level poor. Besides, very few numbers of matured SHGs are now in a position to take up micro enterprise by taking up income generating activities.

c) Sustainability In Management : Financial management and book keeping practices of SHGs are totally inadequate and weak and this approach is not strengthening by the NGOs and institutions. The sustainability of SHGs largely depends upon the quality of SHGs. The quality of SHGs is depending upon the care and attention given by NGO or self help promoting institutions in the formation stage. The capacity of the poorest section of society to absorb credit and to start enterprises is very limited. This is partly to do with their lack of business skills, illiteracy, their inability to take risks and their lack of motivation for business (SGSY 2009). There is a large share of south eastern states in the formation of SHGs-credit linkages to the country. It makes the regional imbalance in the growth of the programmes.

NEED TO EXAMINE?

This note is based on field experience over 15 years, working particularly with NGOs and women's groups in several parts of the country, namely Andhra Pradesh, Gujarat, Orissa, and Tamil Nadu. The reports indicate that the household giving the access to micro credit spend more on education than non-clients' households. They send their children to school and there is reduction in the drop out rate in the primary grades. It improves their awareness in social issue and raise their participation in economic areas. Organizing women's groups on a mission-mode approach is now fashionable and government departments in various states have been set targets to achieve. There is no doubt that while micro-credit activities have enlarged economic opportunities for the poor, particularly women, and have provided short-term loans; it is time to examine the extent to which the assumptions being made hold up with experience on the ground. Has Micro Finance-SHGs synergy developed in a reliable tool for development of poor? To what extent are the poor able to absorb loans? Are SHGs becoming building blocks for participatory planning and development? Can SHGs provide the services that outreach to the poor households? Is the SHGs-Micro Finance structure sustainable at present level of growth? Will SHG-Bank linkage model continue to be "inclusion" of rural poorest members? Is empowerment only a question of bringing together a group of 15-20 women and giving them loans? Are not policy makers and practitioners putting an enormous burden on women to reduce household poverty? Is it not time to focus on men? Has the gender equality on the issue of access to food, nutrition and education provided?

SUGGESTIONS FOR "INCLUSION" TOWARDS THE LINKAGE

Credit constitutes the most crucial component of SHGs. Its role in strengthening livelihoods of the SHGs depends on supply of credit along with credit and services as well as credit worthiness of SHGs. Micro-credit must have a flexible system of savings and loan repayment so that those with uncertain incomes can also participate. This programme has to package to provide other inputs as well -such as training and capacity building, which will provide value-addition and drudgery reduction, marketing support, storage facilities on a continuous basis. In the case of agricultural activities, the support package needs to include training on the manufacture and use of bio-fertilizers, bio-pesticides, provision for irrigation, land development, inputs like seeds, and special facilities for seed and grain storage, purchase or lease of land for the landless. Interest subsidy is much simpler and relatively free from any misuse. For this reason, suggestions has made that instead of capital subsidy, interest subsidy may be a better mode of subsidizing the poor. However, since interest subsidy is borne by the government and not by the banks, there may not be any distortion to the banking business. Further, interest subsidy to the poor households on par with the priority lending to the farming sector could be seen as a part of financing of poverty elimination programmes. There is the need for more research on which segment of the population the SHGs are serving, the use to which credit put, interest rate spread, the class of assets created and these assets are owned by whom. It needs to be stressed that SHGs never intended to empower rural women, but they have emerged as a strong factor in empowerment of women. Successful micro-credit programmes are those, which mobilize women first on Non-banking related issues and built their capacity- built in end-to-end planning and execution of micro projects. Knowledge is a key instrument of empowerment. Apart from micro-credit, women require information and knowledge related to livelihood options, finances and political processes. Knowledge transfer has to extend beyond knowledge related to savings, book-keeping, accounting, investments and information about the banking system.

CONCLUSION

It has worldwide recognized that the strategy for micro finance has been successful in providing the much-needed financial service to the poor on a sustainable basis. The access of financial services has enabled the large number of the poor throughout the developing world to make a significant progress in their own efforts to challenge poverty through the exercise of options. Many other linkages programmes with MFIs have shown the path forward for accessing mainstream finance exclusively from the formal banking sector for microfinance. But this SBLP linkage facilitates financial deepening and smoothing of credit services by accessing mainstream banking resources. From micro credit to micro saving, to microfinance, to micro entrepreneurs and then micro insurance, it has been a long way to go if it has to become the core strategy of the banking of the poor. The key of the success lies in retaining the basic character and strength of SHGs along with integrating them appropriately with outside systems to meet the needs of the members in an endearing way. As highly co-ordinate effort among the entire participant from down to up levels is what is called for, lest the SHGs linkages programmes goes the same way, as per the past interventions which were intended to help the poor. Thus, it is the imperative part of the government; the Reserve Bank of India (RBI) and NABARD to encourage and promote this strong and synergetic relation between common people and banks for financial inclusion. This will help to half the percentage of extreme poor by 2015 i.e. the Vision of Millennium Development Goal.

Table 1: Cumulative Progress In Self-help Groups-bank Linkage Programmes In India (As On 31st March 1999 To 2009)

Year	SHGs Financed In Lakh	Bank Loans In Cr	Refinance In Cr
1998-99	32995	57.07	52.09
1999-2000	114775	192.98	150.13
2000-1	263825	480.87	400.74
2001-2	461478	1026.34	796.47
2002-3	717360	2048.67	1418.80
2003-4	1079091	3904.20	2124.24
2004-5	1,618,456	6,898.46	3092.01
2005-6	2,238,565	11,397.55	4156.56
2006-7	2,894,505	12366.49	5446.49
2007-8	3,625,941	16999.91	7061.99
2008-9	4,224,338	22679.84	9682.02

Table 2: Agency Wise Number Of SHGs Saved in The Year 2007-8 & 2008-9

	No Of SHGs in Lakh					Amt of Saving in Crore				
	2007-8		2008-9			2007-8		2008-9		
	No	%	No	%	% ofGrowth	Amount	%	Amount	%	% Of Growth
CommBanks	28.11	56.1	35.49	58.0	26.3	2077.33	54.9	2772.99	50.0	33.5
RRBs	13.86	27.7	16.28	26.6	17.4	1166.49	30.8	1989.75	35.9	70.6
CoopBanks	8.12	16.2	9.43	15.4	16.1	541.17	14.3	782.88	14.1	44.7
Total	50.09	100	61.21	100	22.2	3785.39	100	5545.62		46.5
Saving per SHGs						Rs 7556		Rs 9060		19.9
Total members						7.01 Crore		8.60 Crore		

Source-NABARD 2009

Table 3: Agency Wise Number Of SHGs Bank Loan Outstanding in The Year 2007-8 & 2008-9

Agency	No Of SHGs in Lakh					Amt of loan outstanding in Crore				
	2007-8		2008-9			2007-8		2008-9		
	No	%	Amt	%	% In growth	Amt	%	Amt	%	% In growth
CommBanks	23.78	65.6	28 31	67.1	19.0	11475.47	67.5	16149.43	69.6	40.7
RRBs	8.76	24.2	9.77	23.1	11.7	4421.04	26.0	5224.42	23.0	18.2
CoopBanks	3.71	10.2	4.15	9.8	11.8	1103.39	6.5	130600	5.8	18.4
Total	36.26	100	42.24	100.	16.5	16999.90	100	22679.85	100	33.4
Loan Per SHGs outstanding						Rs 46884		Rs 53,689		14.5

Source-NABARD2009

Table 4:Region Wise Spread Of SHG Bank Linkages Up To March 2007-8 & 2008-9

		2007 -8				2008 -9			
S.I	Region	SHGs link	%	Saving	%	SHGs link	%	Saving	%
1	Northern	208166	4.15	12767.69	3.37	310998	5.08	22703.92	4.09
2	NorthEast	203045	4.05	8633.18	2.28	240093	3.92	10210.16	1.84
3	Eastern	1074043	21.43	80599.65	21.2	1233635	20.15	159688.04	28.79
4	Central	644896	12.87	33531.01	8.87	712915	11.67	38679.20	6.97
5	Western	472734	9.46	33063.23	8.73	796262	13.00	66428.40	11.97
6	Southern	2406910	48.04	209944.2	55.4	2827244	46.18	256852.10	46.34
	Total	**5009749**	**100**	**378538.9**	**100**	**6121147**	**100**	**554561.82**	**100**

Source- NABARD 2009

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