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Reconciling Self Help Groups and Bank Linkage Programme: A descriptive study

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***Abstract*— Existence of Chronic poverty is the major concern for the country and mitigating it has been the core of all developmental efforts. Post-independence, several poverty alleviation programs initiated by the government have resulted in the overall development of the poor but these programs were not able to achieve the targeted success. Lack of capital and inaccessibility to credit is the serious constraint to the development and inhibits poor from responding to the opportunities created by the process of development. Empowerment of women is the most important means of poverty eradication. Despite considerable improvement in the status of women post-independence, they still constitute the largest section of deprived population. Certain problems such as poverty, illiteracy, lack of skills, availability of proper health care facilities, ignorance etc., which are persistent in rural economy, cannot be tackled individually but could be effectively solved through group efforts. Such group efforts are called as 'Self Help Groups", which has become a powerful tool in initiating the change and transforming the lives of crores of poor and marginalized across the country. Self Help Groups are small, homogenous affinity group of rural poor, comprising of not more than 20 members each. These groups represent and foster true democratic culture, wherein all members of the group take active part in decision making through discussion. The membership is open, voluntary and group is primarily formed to practice voluntary savings and thrift on a regular basis. After being formed, Self Help Group starts collecting a fixed amount of thrift from each member regularly. Almost for six months, SHG only collects thrift and no loans will be given to any member, irrespective of need. It tests the patience and tries to instill mutual trust amongst the group members, and this is how the working fund is generated out of small thrift though initially it is negligible. During this period, the group opens a savings account with a bank or a co-operative society, which further would like to extend credit for the group's activities and deposit the collected savings in that financial institution. In turn RBI has directed all banks to allow Self Help Groups, both registered or unregistered, to open savings bank account with them.**

***Index Terms*— Women empowerment, Self Help Groups, Bank linkage, Thrift, Savings, Loans.**

INTRODUCTION

Involving banks or financial institution as self-help promoting institution (SHPI's) would facilitate in credit linkage of groups, which is crucial for economic empowerment and sustenance of Self-Help Group. A free and transparent conduct of the meeting and a fair discussion amongst the members, makes the borrowers realize the value of loan and how repayment is important for the growth and sustainability of the group. Accountability and credibility with the lending institution develops mutual trust between two. Hence it is quintessential for the Self-Help Group to open a savings bank account with the financial institution who would like to extend credit in the later stage. Savings bank account in the name of SHG could be opened after obtaining the following documents, along with the application for account opening, from the group. They are:

1. Resolution Copy: SHG has to pass a resolution copy in the group meeting, indicating their decision to open savings bank account with a particular bank. This copy of resolution must be signed by all the group members.
2. Authorisation letter: Each SHG, opening a bank account must authorize at least three members of the group, out of whom, any two of them to jointly operate the account.
3. Copy of rules and regulation of the SHG: If the group has formulated any specific rules and regulation, duly signed by all the members to be submitted. However, this is not mandatory. Opening of an account may be very much permitted and loan could be sanctioned without a copy of rules and regulations also. After opening savings bank account passbook in the name of SHG will be issued. Passbook must not be issued

in the name of any individual member or in the name of individuals of the group.

'Group Common Fund' created out of savings and thrift will be used for internal lending. Most of the time the 'Group Common Fund' created may not be adequate to meet all types of credit needs of all the members. The group then approaches the financial institution, where it has opened the savings account. The financial institution lends only to those SHG's which are functioning well. It is necessary to test whether a particular group (SHG) has evolved into a good group or not. This helps to understand the weakness of the group and to overcome such deficiencies, in due course of time. Members can also evaluate their own performance through a participatory approach. There is a huge demand for credit in small amount for consumption, education, marriage, illness, petty trade etc., for varied duration. All these requirements necessarily do not match with the loan offerings of the financial institution. Any bank or financial institution would be benefitted by following "borrow short and lend long". This policy results in mismatch of demand and supply of credit structure. Lending small amount of money to large borrowers would result in high operational cost. Hence, financial institution always sanctions and issues loan in the name of the SHG and not in the name of the individual members. The amount of loan to the SHG can be to the tune of 1 to 4 times of its savings. {SHG savings includes, the group's balance in savings bank account, amount held as cash with the authorized persons, amount of money internally lent amongst members, interest earned on loan, all other contributions received by the group like grants, donations etc.,}. Therefore lending to SHG instead of individual members, brings following benefits to the financial institution. Such as:

- Minimised transactional cost, because group takes the decision to borrow on behalf of all the members and also undertakes the responsibility of repayment.
- The transaction cost of the individual member is reduced, because the members transact at the group level only.
- The Mismatch between demand and supply of credit is reduced, because the bank extends credit in lump sum amount and does not decide the purpose for which SHG gives loans to its members. The group will discuss and decide about the purpose for which loan has to be given to its individual members.
- The SHG is collectively responsible (Joint liability) for the repayment of the loan. Repayment pattern of members to the group and group to the bank need not be same.

The financial institution initially extends a term loan of a smaller amount and on the prompt repayment of the earlier loans by the borrower, the financial institution extends loan of a higher amount and even provides cash credit implying more flexibility and less interest burden. Therefore, banks enjoy the freedom to decide on the interest rates to be charged to the SHG's and the interest rate charged by the group to its members will be left to the group. Normally it would be 1 to 2% per month.

RBI/NABARD rules stipulate that no collateral security should be taken from SHG's by banks. Collateral security is not necessary for loans sanctioned to SHG's because:

- The members of SHG's know that the bank loan is their own money like savings.
- They are aware that they are jointly responsible for the repayment.
- They exert moral pressure on the borrowing members for repayment.
- Banks gets better repayment from SHG.
- RBI/NABARD asserts that banks should not hold balance of Savings Bank account as security, as this will prevent the SHG from lending from its internal savings.

Hence the documentation procedure is very minimal while extending loans to SHG's. Along with loan application only two vital documents viz., Inter-se agreement (authorizing any three member of the group to operate the group's account with the bank) and Articles of Agreements (duly stamped agreement between bank and SHG, agreeing to abide by the terms and conditions set thereon) need to be submitted.

REVIEW OF LITERATURE

Malcom et al (2005) in their article entitled "SHG-Bank Linkage: A Tool for Reforms in Cooperatives?" discussed that the SHG initiative was launched to provide the poor with access to formal financial services and agricultural credit societies and cooperative banks have thus played a limited role in the programme of linking SHGs to formal financial institutions. The paper examined the spread of the cooperative SHG linkage across states, the relationship between the commercial success of cooperative banks, the extent of the linkage established and the impact of such linkage on performance.

Basu and Srivastava (2005) in their article entitled "Exploring Possibilities- Micro finance and rural credit access for the poor in India" has emphasized despite substantial efforts and a vast network of rural banks, the rural poor still have very little access to formal finance. Over the past decade, new micro finance approaches designed to deliver finance to the poor have 23 emerged and some have shown promise. However, empirical assessments of their reach or impact are still relatively few. Drawing on a recent rural access to finance survey of 6000 households conducted by the authors, the paper analyses the reach of the most dominant micro finance initiative, the SHG bank linkage model. Based on this and international experience, the paper draws lessons for exploiting the potential of micro finance in India and outlines areas of concern for government policy towards this important sector and suggests ways to scale up access to finance for the poor.

Smita and Haripriya (2010) analysed Self Help Group bank linkage model and financial inclusion in India. Their main objectives were to examine the role of SHG bank linkage model in achieving financial inclusion across sixteen states for the year 2008 and portrayed the status of financial inclusion. They adopted cross sectional regression analysis to know the impact of selected independent variables on financial inclusion. The results indicated that the financial inclusion created a positive impact on SHG bank linkage model. They concluded that Self Help Group linkage model was a highly successful operated model of microfinance in India and it would reduce transaction costs which would facilitate proper monitoring of funds.

Raja Reddy and Reddy (2012) analysed the quality and sustainability of Self Help Groups in India. The main objectives of the study were to know the quality of SHGs, to access the credit point and issues under the SHG movement. The study covered a sample of 1942 SHGs from 41 districts in 8 states. The researchers indicated that there were wide disparities in SHGs credit linkage with banks. They concluded that SHGs and their institutions were evolving an ecosystem to support and realize the vision of poverty free India and SHGs needed sustained training and capacity building support as well as self-help promoting institutions.

OBJECTIVES OF THE STUDY

- To study the importance of SHG and Bank Linkage programmes
- To ascertain the progress in SHG – Bank Linkage Programme in Karnataka.
- To know the impact of SHG – Bank Linkage Programme in Karnataka
- To offer suggestion for better functioning of SHG- Bank Linkage Programme

RESEARCH METHODOLOGY

- Type of Research: Descriptive study
- Types of Data: The report is purely based on Secondary Data.
- Sampling units: Financial Institutions and Self-Help Groups.
- Analysis of the data: The information has been tabulated. It has been indicated through graphs. Percentages and Averages have been found, wherever necessary.

Inference:

As per NABARD annual report of 2015-16, now there are 7.9 million Self Help Groups with a total thrift and deposits of Rs. 1,36,914 million, annual loan off take of Rs. 3,72,869 million, touching lives of almost 101 million households.

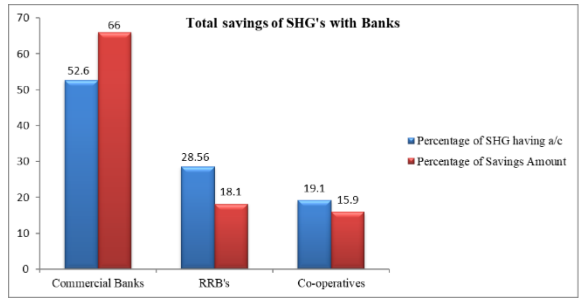
Total Savings of SHG with Banks

Name of the Agency	Total Savings of SHGs with Banks as on 31 March 2016		Loans disbursed to SHGs by Banks during the year		Total Outstanding Bank Loans against SHGs		NPAs	
	No. Of SHGs	Savings Amount	No. Of SHGs	Loans disbursed	No. Of SHGs	Loan Outstanding	Amount of Gross NPA	NPA (%)
Commercial Banks	41,40,111	9,03,389	11,32,281	25,18,497	26,26,364	37,14,562	2,32,140	6.25
% Share	52.6	66.0	61.8	67.5	56.2	65.0	62.98	

Regional Rural Banks	22,56,811	2,48,428	4,70,399	9,16,493	14,45,476	16,10,935	1,06,429	6.61
% Share	28.56	18.1	25.7	24.6	30.9	28.2	28.87	
Cooperative Banks	15,06,080	2,17,322	2,29,643	2,93,700	6,00,781	3,86,426	30,054	7.78
% Share	19.1	15.9	12.5	7.9	12.9	6.8	8.15	
Total (in Rs. Lakh)	79,03,002	13,69,139	18,32,323	37,28,690	46,72,621	57,11,923	3,68,623	6.45

Source: Status of Micro Finance in India 2015-16, Micro Credit Innovations Department, NABARD, Mumbai.

Analysis:
During 2015-16, banks and financial institutions provided loans to 18.32 lakh SHG's (23.2% of the total SHG's) as compared to 16.26 lakh SHG's (21.1% of total SHG's) during 2014-15. There is an overall 35% increase in the amount of loan disbursed by banks to SHG's during 2015-16, taking it to 37,287 crore as against 27,582 crore during 2014-15. The average loan disbursement per group during 2015-16 was Rs. 2.03 lakh which showed a healthy increase of 20% from Rs. 1.69 lakh during 2014-15. With the advantage of vast network of branches in the country, commercial banks enjoy the prominence. More than half (41.40 lakh, 52.39%) of the SHGs in the country maintain their savings account with Commercial Banks. During 2015-16, Commercial Banks had disbursed Rs. 25,185 crore (Rs. 17,334 crore in 2014-15) to 11.32 lakh SHGs (8.56 lakh in 2014-15) with an average of Rs. 2,22,482 (Rs. 2,02,567 in 2014-15) per SHG, against national average of Rs. 2,03,495.



Commercial banks accounted for 67.5% of bank loans disbursed to 61.8% SHGs during the year. The share of RRBs in credit disbursement to SHGs stood at 24.6%. However, the number of SHGs declined substantially to 25.7% from 32.1%. The average loan disbursement by RRBs during the year was Rs. 1,94,833. The share of Cooperatives both in number of SHGs provided bank loan during the year as well as the quantum of loan disbursed declined in 2015-16 as compared to previous year. The average loan per SHG provided by Cooperatives was Rs. 1,27,894.
The following table depicts the Savings of SHG's with different financial institutions in the Karnataka (as on 31st March 2016).

Commercial Bank		Regional Rural Bank (RRB)		Co-operative societies		Total (amount in Lakh rupees)	
No. of SHG	Savings Amount	No. of SHG	Savings Amount	No. of SHG	Savings Amount	No. of SHG	Savings Amount
6,05,154	79,879.15	1,37,921	16,132.89	2,19,371	48,230.09	9,62,446	1,44,242.13

Source: Micro credit division, NABARD.
The following table depicts the total loan disbursed to SHG's from different financial institutions in the Karnataka (as on 31st March 2016).

Commercial Bank		Regional Rural Bank (RRB)		Co-operative societies		Total (amount in Lakh rupees)	
No. of SHG	Loan disbursed	No. of SHG	Loan disbursed	No. of SHG	Loan disbursed	No. of SHG	Loan disbursed
1,95,477	4,83,737.82	43,056	65,159.58	42,856	77,010.73	2,81,389	6,25,908.13

Source: Micro credit division, NABARD
It is quite evident that, there is good number of Self-Help Groups functioning and performing well in Karnataka. Initially these Self-Help Groups were formed to encourage voluntary savings and thrift. Of late, the members of the groups are encouraged to take up income generating activities, so that they grow socially and economically to become more responsible citizens of the country. In the research visit, it was found that few members of the self-help group were into own business and earning income to supplement and to support the family. Many of these members were independent and earning comparatively well than before when they were working as wage earners.

Many of these women were good at communication and also had good marketing abilities. Some of them were manufacturing goods or involved in providing services and directly linked with companies and some of them were procuring products from corporates and in turn selling them for a profit margin. The networking amongst these members enabled them to upgrade their capabilities. The personal identity and rapport of these members helps them to involve in trading activities and personal selling was playing a predominant role in rural market. The nativity, personal rapport and convincing skills played an important role in influencing the consumption pattern of the rural consumers. The SHG members, who were into trading activities, had the initial investment capacity due to finance access at the time of need, because of SHG. As a result of taking part in discussions, group meetings – familiarity is developed. In the process, communication and logical ability is also strengthened. With these qualities, SHG members who were in trading activities, were in a better position to influence the consumption pattern of the rural consumers and time and again word of mouth advertisements yielded better results than media advertisements in creating awareness about the product, in the rural set up.

CONCLUSION

Self Help Group-Bank Linkage Programme (SBLP) aims to deliver financial products & services to the section of Indian population that lacks access to formal banking. This segment, often from the lower income, meets its financial needs through informal sources such as money lenders, traders, family, and friends etc. However, these sources have their own limitations. Under SBLP, 10-20 individuals are organised in groups known as Self Help Groups (SHGs) by NGOs commonly known as Self Help Promoting Institutions (SHPI). The SHGs are also encouraged to take up livelihood activities, for which skill training is provided by certain NGOs. The members of the SHG are encouraged to save and internally lend the savings to members during times of need. SHPIs also provide knowledge on managing books of accounts.

Access to finance by the rural poor and vulnerable groups is an essential pre-requisite for poverty reduction and sustainable development. The Government of India has implemented several policies such as Nationalization of Banks, Lead Bank Scheme, Regional Rural Banks, Service Area Approach and financing of SHGs, for promoting the access of the rural poor to institutional finance. However, the share of the rural poor in the bank credit continues to be very low. Lending the rural poor continues to be considered as risky by the banks. One of the important reasons for this situation is the lack of an effective credit delivery mechanism for the poor, besides limited outreach and coverage. It is in this context that the National Rural Livelihoods Mission (NRLM) has taken up the task of promoting financial inclusion of the rural poor. According to the latest NABARD Annual Report, 45% of the SHGs in the country have not been able to get access to credit linkage even once. NRLM seeks to bridge this gap by collaborating with financial institutions. NRLM aims at making poor, the preferred clients of banking system and help them mobilize adequate bank credit for meeting both consumption and production requirements.

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