CHAPTER-III

CONCEPTUAL EVALUATION OF MICRO-FINANCE AND SHGs

Introduction

Poverty has global presence and varied genesis and dimensions. It does not mean only human or income poverty but it also means deprivation of human dignity caused by vulnerability to social and cultural shocks. Development Economics, till 1970s was considering that the “trickle down effect” of growth oriented GNP will help in eradicating poverty gradually. But, despite the spectacular growth achieved by the countries from East and South-East Asia, poverty continues to afflict a large section of the population. Even after more than 50 years of planning and employment of various poverty alleviation programmes, official estimates show that 26.1 percent of total population has been living poverty line in India. It indicates the tardy pace of these programmes for the poor as they were by and large by-passed by the development impulses.

Historical Development of Rural Credit System in India

The first effort in institutionalizing rural credit was made by the Government of India in the first decade of the present century with the passing of the Co-operative societies Act in 1904 to support the country’s predominantly agricultural economy. Though the country witnessed significant growth of the commercial banks since then, their involvement in rural lending was negligible till the mid-sixties. Following the introduction of social control in 1967 by the Government of India & later nationalization of major Commercial Banks in 1969, these banks were also directed to involve themselves in rural lending. Later in 1975. The Government of India also introduced a specialized state sponsored, regionally based & rural oriented Regional Rural Banks with the objective of accelerating rural economic development of the identified target groups i.e., weaker sections comprising small & marginal farmers, agricultural labourers, artisans, small entrepreneurs etc.
In 1981 National Bank for Agriculture and Rural Development (NABARD) came into existence. Rural financing has been playing & will continue to play an important role in the development of the Indian economy as 75% of the India’s population has been living in its villages. Commercial Banks, co-operative credit institutions & RRBs, which form an important segment of the rural financing system, have been helping in progressive monetisation of the rural economy through their operations in the rural areas. Although the institutional share in total rural credit has increased many fold over the years there is still a large institutional credit gap.

Despite the multi agency approach adopted to provide rural credit, certain inbuilt formalities viz. documentation, restricted working hours, loan amount, purpose of loan & proximity factors have been causing inconvenience to the deserving rural poor. Yet, exploitation of the rural poor continues by the local money-lenders. Only 2% of the 500 million small & micro entrepreneurs are accessed to formal sources all over the world.

There is need to provide them micro credit. The Banks have evolved a new approach to reach out the rural poor, named “SELF HELP GROUP FINANCING”. In India local money lenders dominate the rural areas. Self Help Group Financing (SHG) - a new concept. SHG - a group of rural poor generally comprising small/marginal farmers, landless agricultural labourers, rural artisans, women folk & other micro entrepreneurs organised themselves to achieve socio economic development by raising resources at their level initially & linking with the bank subsequently with the help of NGOs.

Concept of Microfinance

Microfinance is defined as the provision of thrift, credit and other financial services such as money transfer and micro insurance products for the poor, to enable them to raise their income levels and improve the living standards. It refers to the entire aspect of financial services such as savings, money transfers, insurance, production as well as investment credit and includes the need for improvement in skill and entrepreneurial development that would help them in overcoming poverty. Micro finance programs have significant potential for contributing to economic and
social empowerment to members of SHGs. Access to savings and credit can initiate or strengthen a series of interlinked and mutually reinforcing ‘virtuoso spirals’ of empowerment. Micro finance development has emerged as a major strategy to combat the twin issues of poverty and unemployment that continue to pose a major threat to the polity and economy of both the developed and developing countries. So micro finance is a way of financing to poor in their business, to alleviate their poverty, empowering them, giving socio economic benefits in a sustainable way.

The concepts of microfinance have existed long back since 1904, when the Co-operative Societies Act was passed for ensuring production credit loans to the farmers through Primary Credit Societies. The formation of long-term co-operative credit institutions to meet investment credit needs of the farmers started in 1928. With the various priority sector targets under social banking in 1967 and after bank nationalization in 1969, microfinance concepts in banking institutions once again came to the forefront. However it was found that rural credit market was still dominated by the rural moneylenders and traders who offered loan at a high rate of interest even for consumption purposes. The Integrated Rural Development Programme (IRDP) and the revamped programme named as Swarnajayanti Grameen Swarozagar Yojana (SGSY) laid emphasis on investment credit needs only. The rural poor did not receive the subsidized and low interest credit rather the same were channeled to the better-off sections of the rural people. Further, poor monitoring and follow-up by the bankers resulted in poor repayment of loan. Under the above circumstances, NABARD launched a pilot project named as Self-Help Group – Bank Linkage programme in 1992. The major emphasis was given to disburse loans without collateral, 100 percent repayment norms and lending to groups instead of an individual alone who would also invest their savings and regulate their groups and group loans, thus reducing transaction costs for the borrowers and the banks. Thus, microfinance as a means of meeting the credit requirements of rural poor is not a new concept and was met both by formal as well as informal credit agencies. As the SHG-bank credit linkage programme is now a decade old, it is high time, to review and analyse the lessons learnt the SHG movement.
Concept of Self-Help Group (SHG)

Theorists consider SHG as a homogeneous affinity group of poor villagers, voluntarily formed, with not less than five members. The group in its formulation does not have very strict guidelines and the decision as to the period of loan rests solely on the group members. Credit is given both for consumption and production purpose. The loan lending process would be channelized from NABARD, refinanced to banks and banks would further lend it to groups. It is assumed that groups thus formed would gradually become viable to meet credit needs of their members. Thus a SHG basically comes together to:

- Save small amounts regularly
- Mutually agree to contribute to a common fund
- Meet their emergency needs
- Have collective decision making
- Resolve conflicts through collective leadership and mutual discussion
- Provide collateral-free loans on terms decided by the group at market rates

SHG is formed and groomed by a NGO or a bank branch or a government agency called a Self-Help Promoting Institution (SHPI). The members of the group are encouraged to collect regular thrift on a weekly or fortnightly or monthly basis and use the pooled resources to give interest bearing small loans to their members. A savings bank account is opened with a bank branch and regular thrift collection and loaning to members builds up financial discipline among the members.

Origin of SHGs in India

In 1976, Prof. Mohammed Yunus of Bangladesh started women’s groups in Bangladesh and developed thrift and savings among the poorest. Now it has developed into a bank named Bangladesh Grameen Bank. Its report in February 1998 states that the bank has 1138 branches and covers 39572 villages. It has 2367503 members of which only 124571 are men. The bank has disbursed a cumulative amount of US $ 2714.61 Million whereas the savings of the members has reached US $ 202.73 Million.
With the success of BGB and similar organisations elsewhere, the concept of Micro credit has gained momentum in India. Based on this success many Non-Governmental Organisations (NGOs) in our country are involved in organising SHGs and they serve as an agent between the bank and the poor.

Self- help groups (SHGs) play today a major role in poverty alleviation in rural India. A growing number of poor people (mostly women) in various parts of India are members of SHGs and are actively engaged in savings and credit, as well as in other activities (income generation, natural resources management, literacy, child care and nutrition, etc.). The S/C focus in the SHG is the most prominent element and offers a chance to create some control over capital, albeit in very small amounts. The SHG system has proven to be very relevant and effective in offering women the possibility of breaking away gradually away from exploitation and isolation.

In our country the pioneer in this field is Self-Employed Women’s Association (SEWA). Without the Grameen model SEWA was started in 1972. Though started as a Trade union for women in the un organized sector, today SEWA boasts of running the first Women’s Bank in the country. By the year 2000 SEWA had a membership of 209250. The SEWA Bank has 87263 depositors, and 41757 borrowers whose loan outstanding was Rs.887 lakhs as on March 1998. SEWA has also networked many co-operatives and emerged as the largest federation of co-operatives in the country.

In Southern India organisations like PRADAN, MYRADA, ASSEefa, MALAR etc. have entered into this rural credit system. PRADAN has a membership of 7000 women who have availed 40000 loans worth $ 600000 as on March 1997. MYRADA has 62769 members who have saved RS.48 lakhs and availed loan to the tune of Rs.2.90 crores. MALAR has a membership of 15000 women who have saved RS.86 lakhs and availed loan to the tune of Rs.2.23 crores.

NABARD refinances the banks, which lend to SHGs. As per NABARD’s Annual Report 1998-99, banks have financed 30447 SHGs with a finance of Rs. 53 crores as on 31st March 1999. The repayment is excellent. The Finance Minister in his budget speech has asked NABARD and SIDBI to increase the number of SHGs
to 100000. Even this number will be minuscule as it will cover only 2000000 people in our country which has nearly 38 crores of people below poverty line.

MALAR has emerged as a new self-reliant model for our nation. An offshoot of the Total Literacy Campaign in Kanyakumari District, MALAR has emerged as an organization of poor women who share the interest income to sustain a full time structure, office and training schedule. This has kindled a new hope. Already 10 districts in Tamilnadu have undergone training at MALAR and started similar organisations for micro-credit.

Revamping of the rural credit system has already started. The banks Regional Rural Banks, Co-operatives and SHGs linked with Non-Governmental Organisations (NGOs) have a role to play. There is need for closer study to support the system, so that the country can eradicate poverty at least in the beginning of the next millennium. NABARD introduced a Pilot Programme for starting and lending to SHGs in 1992 based on the experience of BGB and MYRADA. Now seeing the success in repayment many banks are eager to lend to SHGs and because of the pressure from the Government NABARD has started placing targets for Banks.

NABARD also provides training support, Grant cum Aid support for micro credit under it’s different schemes. SIDBI has entered this field late but now SIDBI has formed a Micro-credit foundation, which gives loans to NGOs after getting them rated them by an external agency. The minimum loan is Rs.50 lakhs and it has to be used only for micro enterprises.

Rashtriya Mahila Kosh - an organisation promoted by Govt. Of India also gives direct loans to NGO’s for on lending with incentives for proper repayment. All Banks including co-operative Banks and Private Banks lend to SHGs based on their savings at the ratio of 1:1 initially and this can go upto 1:4. Suddenly World Bank and IMF have found a way to reach the poor through NGOs and they see this opportunity to reduce poverty and also to prevent the poor from agitation because of the ill effects of their Economic policies.

The Government of India, which is under IMF and WB guidance, has launched schemes scrapping Integrated Rural Development Programme, Scheme for Urban Micro enterprises, Prime Ministers, Urban Poverty alleviation programme
and TRYSEM. The Schemes are known as (1) Swarnajeanthi Gram Swarozhar Yojana – SGSY. (2) Swarnajeanthi Sahahari Swa Rozhar Yojana – SJSRY

The former is for Gram Panchayats and the latter is for Town Panchayats, Municipalities and corporations. According to this scheme, the Panchayats will select the good group with assistance from BDO, Bank and NGOs and provide Rs.10000/- as revolving fund - free of Interest and then banks will provide loan to the group - seeing the performance. There is an individual subsidy of 30% for those who engage themselves in individual enterprises and 50% subsidy for Group enterprises. After the introduction of this scheme NGOs and Panchayat are forming groups or trying to get control of the Groups and funds. The scheme has a trap. If the repayment under this scheme is less than 70% in a Panchayat, nobody will get loan in this panchayat.

After the Micro Credit summit held at Washington WB, IMF and many foreign funding agencies have directed their projects towards micro-credit. Now Govt. of India has also directed CAPART and other funding agencies to focus on micro credit because of which all NGOs are running after people to for SHGs so that they can get funds.

Self-help Groups in Global Context

The emergence of self-help groups can be seen as a response to industrialization, the breakdown of the kinship system, and the decline of the community (Katz & Bender, 1976; Humm, 1997; Kessler et al. 1997), although alternative views see it as a reflection of an ineffective, inefficient and dehumanizing formal system of care (Gartner & Riessman, 1977). Currently, the increasing interest in providing services that are family-centered is also considered a factor contributing to the increased number of self-help groups (Rosenbaum et al., 1998). Despite the variety of explanations for the self-help phenomenon, the consensus is that there is a need for a new model to supplement and complement professional services, and that self-help groups are growing at an unprecedented speed worldwide. For example, about two percent of Canadians belonged to self-help groups in 1987 (Gottlieb & Peters, 1991), approximately 10 percent of Israel’s population, was estimated to have had some type of involvement in a self-help group (Ben-Ari & Azaiza, 1995),
and cancer self-help groups were found to be prevalent in major cities in China (Mok & Zhang, 2001). In the United States, self-help group participation amounted to 10 million in 1996 (Kessler et al., 1997) and it was recently noted that more Americans try to change their health behaviors through self-help than through all other forms of professional programs combined (Davison et al., 2000). The proliferation of self-help groups in various countries can be seen as an initial indication of self-help group effectiveness, because groups will cease to exist without value.

The self-help movement is becoming a global phenomenon. In some countries, self help groups already exist for every medical condition listed by the World Health Organization (Riessman, 2000a), and they are serving people who encounter almost every physical, behavioral and emotional problem (Humphreys, 1997; Kessler et al., 1997). In spite of the rapid growth of self-help groups in India, the full potential of utilizing self-help groups remains untapped. One of the reasons may be attributed to the lack of systematic research and solid methodological foundations. Little was known about how helpful self-help groups are to members, and what kind of social impact they have brought about. The research component of the self-help phenomenon has clearly been left behind by the self-help movement itself.

Theoretically and empirically, the effectiveness of self-help groups has been widely documented in global context. The “helper-therapy principle” postulated by Riessman (1965) pointed to the process by which helping others has a therapeutic effect on the helper, and the self-help group provides the context for members to gain the unique benefits that may arise from helping someone who has the same problem as the helper. Rappaport (1993) asserted that self-help groups, which offer the venue for, shared experience; emotional support and social learning, can help constitute a social identity. Along the same line of thinking, Yalom (1995) contended that self-help groups provide a unique opportunity for growth, social experimentation and change. Past research has also identified several major outcomes of self-help groups. These include: emotional support, acceptance, empathy, affirmation, spirit of hope, and sharing of feelings; provision of factual information and sharing of experiential knowledge; development of a sense of
community; and individual and collective empowerment (Gottlieb, 1982; Kurtz, 1988; Borkman, 1976; Levy, 1979; Gartner & Riessman, 1977; Katz & Bender, 1976; Gidron et al., 1991; Jacobs & Goodman, 1989; Bennett et al., 1996; Humphreys & Rappaport, 1994).

**Conceptual Evaluation of Micro-finance (MF)**

Since independence, the formal banking institutions had ignored the poor due to perceived high risks, high transaction costs involved in small-scale rural lending to a large number of poor households and absence of collateral securities. Against this backdrop of failures of earlier poverty alleviation schemes and the financial institutions to reach the really needy, microfinance schemes using self-help groups (SHGs) were designed and NABARD considered this „SHG-Bank Linkage” model as a core strategy for rural development. In the earlier schemes like IRDP, DWCRA, the beneficiaries perceived the loan as grant. The poor did not feel the responsibility of repaying the loan and the bankers only concentrated on disbursement of loan which led to poor recovery and the schemes became non-viable. But microfinance through SHGs has proved the notion wrong and showed that even the poor are bankable. The SHG members thrift, mobilize the savings and invest in microenterprises. The recovery rate was reported around 95 percent. Hence, microfinance though SHGs has evolved as an accepted institutional framework in providing financial services to the poors. Further, it is regarded as better mechanism in reducing poverty gradually as against giving one time loan for productive assets which may or may not lead to sustained increase in income (Madheswaran and Dharmadhikary, 2001).

The irrepressible desire and inherent capacity of poor to improve their living for themselves is considered as the foundation for concept of Micro Credit. Propelled by the demonstrative success of Bangladesh Grameen Experiment Micro Credit is acknowledged as an effective channel in taking the poor into a new domain of economic empowerment. Micro credit movement assumed global advocacy through Micro Credit Summit held in February 1997 at Washington. The summit representing 1500 institutions and 137 countries is a landmark in the collective crusade against poverty undertaken by the developed and developing countries together. The Micro Credit Summit launched a nine-year campaign to reach 100
million of the world’s poorest families by the year 2005. Micro credit is referred as providing “Credit for self employment, financial and other business services including savings and technical assistance.

Most of the countries have long-established cooperative movements, including credit cooperatives. In most countries in South Asia and also in Indonesia, credit cooperatives have been largely unsuccessful in extending financial services to poor households. Generally, the cooperative movement includes people of all income levels within a particular village or community, and does not target the poor. Moreover, the management of the cooperative movement has been inadequate in most countries.

In some countries such as India and Pakistan, a large proportion of cooperatives is reported to be non-functional, due to financial mismanagement and inability to recover dues. Even where they are functional, management is often dominated by rural elites, with funds allocated on the basis of patronage rather than needs. Frequently they rely heavily on government funds and are largely owned and controlled by governments. In India and Pakistan, for instance, state and provincial cooperative departments have the right to be represented on the board of directors, and can exert considerable influence on the management of cooperatives. For instance, permission may be needed to hold elections, invest funds, change their area of operations, use funds from their reserves, and similar matters. Particularly in India there are very few highly successful cooperative banks and societies, which are devoted specifically in providing financial services to the poor, such as SEWA Bank and Working Women’s Forum etc.

Micro – credit is distinctly different from other poverty alleviation schemes. Loans under micro – credit programs are very small, on an average less than $100 by world standards and in hundreds of rupees by Indian standards. Micro – credit continues to target the rural and urban households, with emphasis on women borrowers, provision of finance for creation of assets and their maintenance and bringing in greater quality of services. The beneficiaries are identified by micro – credit providers themselves independently or through NGOs/Self Help Groups/ the repayment period is generally very short. The amount is increased based on the borrower’s repayment history.
Micro – credit is a novel approach of banking with poor having the distinct advantages of high repayments of loans and low transaction cost. Various micro – finance initiatives have gathered pace in the recent years. In Micro – Credit NABARD’s role has been twofold, viz., promotional and financial. Promotional efforts assume the form of the SHG – Bank Linkage programme and facilitating training. Financial involvement is in terms of providing refinance, revolving fund assistance and grants.

In the course of the last decade micro finance has become an accepted institutional framework in taking financial services to the poor. Micro finance has now evolved into a type of independent financial system of its own and there are a number of variants in micro finance institutions and systems. But broadly they can be classified into two—the individual approach and the group approach. An example of the group approach, where the group itself, not the individual member, is the client, is the self-help group program in India.

In all countries there are wide variety of small, informal savings and loans groups, such as rotating savings and credit associations (ROSCAs), which operate informally and are not registered. In at least three countries, these or similar groups have been institutionalized to some extent by involving them in formal micro finance programs. In India self-help groups (SHGs) are an integral part of the National Bank for Agriculture and Rural Development (NABARD) program for linking banks and SHGs. Nevertheless, they are generally not registered. Under Indian law, SHGs are only required to be registered (as a society, trust or cooperative) if they have more than 20 members. For this reason, many SHGs restrict their membership to 20 persons or less. It is also observed in Gujarat and some other parts of the country that some larger SHGs operate informally and are not registered.

The purpose around which an SHG is initially formed varies depending on the kind of program being implemented and the need for collective working. It varies from managing a collective resource to promoting a social cause. In the context of microfinance, SHGs are formed (and sometimes old SHGs established with another purpose are converted) to foster savings and credit. A small group of individuals become members and pool their savings on a regular basis to form a
collective fund. This fund is then rotated as credit amongst the members through a system of self-generated norms. Hence, the basis of the SHG is the mutuality and trust in depositing individual savings in group funds. Once the initial trust is established, the incentive or motivation for a member is the access provided to financial services through the common pool fund, which is higher than the individual’s own savings. Once such an SHG is formed and stabilized (through repeated rotations of their own savings converted to mutual credit), it is possible for it to become a source of funds to others outside the SHG.

Indonesia has hundreds and thousands of groups engaged in savings and credit. Some of these are indigenous, based on traditional custom, while others are the result of action by government agencies, community groups and NGOs to form groups in connection with various government-initiated microfinance schemes. These include Bank Indonesia’s microcredit project and program linking banks with self-help groups (PHBK), the income generating project for marginal farmers and landless of the Ministry of Agriculture, and the newer mass programs (IDT and Prosperous Family program). There is no provision for registration of SHGs, nor are they regulated except in the context of the particular government program from which they arise.

Similarly in Thailand, some of the community organisations involved in the microfinance programs of the Government Savings Bank (GSB) and Urban Community Development Office (UCDO) are registered as cooperatives. However, most are unregistered and operate informally. For instance, figures from UCDO show that of the 385 members with savings activities, only 66 are legally registered as cooperatives while the other 319 are not registered and operate informally.

Moreover, in most countries the cost of subjecting MFIs to full prudential regulation and supervision would be prohibitive. In Bangladesh, for instance, there are around 1,000 NGOs involved in microfinance. And while MFIs in other countries do not have nearly the same outreach as in Bangladesh, the number of MFIs is not necessarily less. In India there are perhaps as many NGOs engaged in microfinance as in Bangladesh, plus some 90,000 primary agricultural credit societies and thousands of self-help groups. In the Philippines, there are some 500
MFIs reaching a combined total of only 30,000 borrowers. In Thailand there are more than 1,500 community organisations engaged in microfinance.

In India, there are at least three official second tier institutions, which on-lend to specialist MFIs. However, none of them imposes rigorous performance and reporting standards. The second tier institution with the largest lending program is Rashtriya Manila Koch (RMK). For a partner organisation to borrow from RMK, it should have at least three years experience in thrift and credit administration, a 90 per cent recovery performance during the last three years (in practice, RMK generally accepts a recovery rate in the range of 80 to 90 per cent), satisfactory funds management and financial performance, and a good track record of work in the socioeconomic field. These requirements are all quite general in nature. There are also a number of requirements relating to loans by the partner organisations to individual borrowers. Further, partner organisations are supposed to maintain 10 per cent of the loan provided by RMK as reserves, but this is not strictly enforced.

The performance and reporting standards imposed by two other significant second tier institutions, the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are even less specific than those imposed by RMK and do not provide a basis for monitoring the financial performance of the NGO.

As a part of its mandate, NABARD initiated certain research projects on SHGs as a channel for delivery of micro-finance in the late eighties. Amongst these, the project sponsored by the Mysore Resettlement and Development Agency (MYRADA) on “Savings and Credit Management of SHGs” was partially founded by NABARD in 1986–87. In 1988–89, in collaboration with some of the member institutions of the Asia Pacific Rural and Agricultural Credit Association (APRACA), NABARD undertook a survey of 43 nongovernmental organizations (NGOs) in 11 states in India, to study the functioning of microfinance SHGs and their collaboration possibilities with the formal banking system (NABARD, 1991). Both these research projects produced encouraging possibilities, and NABARD initiated the pilot project called the SHG linkage project in 1992. NABARD also held extensive consultations with the Reserve Bank of India. This resulted in issuing a policy circular to all commercial banks to participate and extend finance to SHGs
(RBI, 1991). NABARD also issued a broad set of flexible guidelines in February 1992 (NABARD, 1992) to the formal rural banking system, explaining the project’s modalities. The project was extended to the regional rural banks and co-operative banks, in addition to the commercial banks in 1993.

**Microfinance in India:**

Prof. Mohammad Yunus the Nobel laureate for peace is considered the pioneer of micro credit who started a women’s group with a loan equivalent to $27. The demonstrative success of micro credit has introduced the concept with modification in many developing countries including India. The microfinance movement in India was unleashed around 1970s. Microfinance has gained a lot of significance and momentum in the last decade. India now occupies a significant place and has etched niche in global microfinance through promotion of the self-help group (SHGs) under SHG-Bank Linkage (SBL) programme and the microfinance Institution (MFI) model. The Indian model offers greater promise and potential to address poverty as it is focused on building social capital by providing access to financial services by way of linking with the mainstream. In the most simplistic way it can be termed as “banking for the poor”.

In India microfinance has been defined as “provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards.

**Indian Scenario**

India has adopted the Bangladesh’s model in a modified form. To alleviate poverty and to empower women, the micro-finance has emerged as a powerful instrument in the new economy. With the availability of micro-finance, self-help groups (SHGs) and credit management groups have also been started in India. And thus the movement of SHG has spread throughout in India.

In India, banks are the predominant agency for delivery of micro-credit. In 1970, Ilaben Bhat, founder member of ‘SEWA’ (Self Employed Women’s Association) in Ahmadabad, had developed a concept of ‘women and micro-
finance’. The Annapurna Mahila Mandal’ in Maharashtra and ‘Working Women’s Forum’ in Tamilnadu and many National Bank for Agriculture and Rural Development (NABARD)-sponsored groups have followed the path laid down by ‘SEWA’. ‘SEWA’ is a trade union of poor, self-employed women workers.

Since 1987 ‘Mysore Resettlement and Development Agency’ (MYRADA) has promoted Credit Management Groups (CMGs). CMGs are similar to self-help groups. The basic features of this concept promoted by MYRADA are: 1] Affinity, 2] Voluntarism, 3] Homogeneity and 4] that membership should be limited to 15-20 persons. The aim of the CMG is social empowerment of women.

In 1991-92 NABARD started promoting self-help groups on a large scale. And it was the real take-off point for the ‘SHG movement’. In 1993, the Reserve Bank of India also allowed SHGs to open saving accounts in banks. Facility of availing bank services was a major boost to the movement.

The movement of SHG was nourished in the states of Gujarat, Maharashtra, Andhra Pradesh, Rajasthan, Tamilnadu and Kerala. Now nearly 560 banks like NABARD, Bank of Maharashtra, State Bank of India, Cooperative Banks, Regional rural banks, the Government institutions like Maharashtra Arthik Vikas Mahamandal (MAVIM), District Rural Development Agency (DRDA), Municipal corporations and more than 3,024 NGOs are collectively and actively involved in the promotion of SHG movement.

I. The early years

Self-help groups (SHGs) first emerged in MYRADA in 1985. In 1986/87 there were some 300 SHGs in MYRADA’s projects. Many had emerged from the breakdown of the large cooperatives organized by MYRADA. In these areas, a number of members asked MYRADA to revive the credit system. They usually came in groups of 15-20. When reminded of the loans they had taken out from the cooperative, they offered to return them to MYRADA, but not to the cooperative, which in their experience was dominated by a few individuals. MYRADA staff suggested that they return the money to themselves – in other words to the members who had come in a group to present their case to MYRADA. After some hesitation, they decided to continue meeting in these smaller groups.
MYRADA staff realized that they would need training: how to organize a meeting, set an agenda, keep minutes, etc. Efforts were made to train the members systematically. On analysis it emerged that the members were linked together by a degree of affinity based on relationships of trust and support; they were also often homogeneous in terms of income or of occupation (for example, agricultural labourers), but not always. Caste and creed played a role, but in several groups affinity relationships and economic homogeneity were stronger; as a result, several groups included different castes and creeds. From the time that the first SHGs emerged in 1985 to the inclusion of the SHG strategy in the annual plan for 2000/01 (Government of India, 2000), several important steps were taken by the National Bank for Agriculture and Rural Development (NABARD), the Reserve Bank of India (RBI) and leading NGOs, as well as by multilateral agencies, particularly IFAD.3 The SHG strategy is an important component of the Government’s overall thrust to mitigate poverty and has been included in every annual plan since 2000. This period of 20 years can be divided broadly into two phases.

II. Phase I: From 1987 to 1992

During this phase – largely omitted in recent studies – NABARD focused on supporting NGO initiatives to promote SHGs and on analysing their potential and performance. In 1987 NABARD first put funds into the SHG/SAG4 movement (in response to a proposal from MYRADA submitted in 1986). In 1987 it provided MYRADA with a grant of 1 million Indian rupees (Rs)5 to enable it to invest resources to identify affinity groups, build their capacity and match their savings after a period of 3-6 months. The grant was based on MYRADA’s experience in promoting SHGs since 1985 and the initiative of the NABARD chairperson at that time, Shri P.R. Nayak.

As a result of the feedback from this initiative, in 1989 NABARD launched an action research project in which similar grants were provided to other NGOs. After an analysis of this action research, and owing to the efforts of successive NABARD chairpersons and senior management, in 1990 RBI accepted the SHG strategy as an alternative credit model. NABARD (1992) issued guidelines to provide the framework for a strategy that would allow banks to lend directly to SHGs. Based on these initial experiences, the SHG-Bank Linkage Programme was
launched in 1992 (this second phase is described in Section III). Since then – and on the basis of its extensive network of officers – NABARD has promoted and monitored the SHG programme, provided funds for capacity building and innovation, and helped change policy to create an enabling environment.

The Tamil Nadu Women’s Empowerment Project, an IFAD-supported project implemented through the Tamil Nadu Women’s Development Corporation, was the first project in the country, in about 1990, to incorporate the SHG concept into a statesponsored programme. MYRADA was asked to play a lead role, which it accepted to take up in Dharmapuri District. This was a year or more before the launch of the SHG-Bank Linkage Programme. The empowerment of women was sought through SHG strengthening, with capacity-building modules, and through the provision of credit for income-generating activities.

Although an enabling policy framework was not yet in place for the SHG-Bank Linkage Programme, RBI nevertheless decided to extend credit to the groups, with some modifications in the design and paperwork. As a result, this became the first statesupported project to initiate the SHG-bank linkage strategy. This experience also contributed to the initiatives undertaken by NABARD to shape policy on microfinance models, which resulted in the launching of the SHG-Bank Linkage Programme through a pilot project.

III. Phase II: from 1992 onwards – the SHG-Bank Linkage Programme

The programme began in 1992 with a two-year pilot project to link 500 SHGs. It was indeed the pilot of the SHG-Bank Linkage Programme, although not of the SHG movement, with which NABARD had already been involved since 1987. Without that 1987 investment, the SHG movement would not have secured official recognition and ownership. The SHG-Bank Linkage Programme was slow to take off, but has been speeding along since 1999. It has received unstinting support from RBI, the central and several state governments of India – notably Tamil Nadu, Andhra Pradesh, Maharashtra and Karnataka6 – and thousands of NGOs and the banking sector, as well as multilateral agencies, notably IFAD. This paper focuses on the progress of the SHG movement as reported by official documents, which understandably highlight the SHG-Bank Linkage Programme.
However, SHGs are also instruments for the empowerment of poor and marginalized sectors. They have proved to be effective instruments for changing oppressive relationships in the house holds (gender- and tradition-related) and in society. This is especially true of those relationships arising from caste, class and political power, which have made it difficult for poor people to build a sustainable base for their livelihoods and to grow holistically. Owing to this social impact, MYRADA has pointed out that the SHG movement does not focus on the provision of credit; rather it focuses on the management of savings and credit. It is the experience of managing finance that gives poor people the confidence and skills to initiate and create change in society. The SHG movement arises from the belief that it is not enough to teach people to fish when they cannot reach the river. There are hurdles in their way (class, caste and political) which the SHGs have been able to overcome. NABARD has also financed case studies focusing on these social issues and on the changes that SHGs have been able to initiate.

The SHG-Bank Linkage Programme is the major component of the SHG movement for which official data are available. Such data give a reliable overview of the progress of the movement in India. One can assume that the majority of well-functioning SHGs have been advanced loans by banks; however, this may not be the case in parts of the country in which banks have been slow to initiate the linkage.

Many of the SHGs that are functioning well have not approached banks for their own reasons – some, for example, have adequate savings and grants provided by NGOs to meet their requirements. In some areas, banks are located too far away from the SHGs. A number of SHGs are too young to access bank loans, while others are functioning poorly and are thus ineligible. Hence the number of SHGs is greater than that reported in the NABARD document: other reports indicate that they number some 3 million, including the good, the average and the bad.

**Functions and Characteristics of an SHG**

NABARD (1997) defines SHGs as “small, economically homogenous affinity groups of rural poor, voluntarily formed to save and mutually contribute to a common fund to be lent to its members as per the group members’ decision”. Most SHGs in India have 10 to 20 members, who can be either only men, or only women,
or only youth, or a mix of these. As women’s SHGs or sangha have been promoted by a wide range of government and nongovernmental agencies, they now make up 90% of all SHGs. As Indian women do not generally have the same opportunities to migrate for wage work as men due to social obligations and taboos, it is particularly important for women to improve employment and income earning opportunities in situ, and in a way that is compatible with their role in child care.

Self-help groups are mostly informal groups where members pool savings as a thrift deposit. The groups have common perception of need and improvise collective activity. Many such groups formed around specific production activities, promote saving among members and they use the pooled resources to meet the various credit needs of members. Where funds generation is low in the initial phases due to low saving capacities, it is supplemented by external resources. Thus self help groups have been able to provide primitive banking service to its members that are cost effective, inflexible and without defaults, based on local requirement. Self help group have also evolved their own characteristics of functioning.

The rules and regulations of SHGs vary according to the preferences of the members and those facilitating their formation. A common characteristic of the groups is that they meet regularly (typically once a week or once a fortnight) to collect the savings from members, decide upon the member to whom loan has to be lent, discuss joint activities (such as training, running of a communal business, etc.), and mitigate any conflicts that might arise. Most SHGs have an elected chairperson, a deputy, a treasurer, and sometimes other office holders. It appears as though the vast majority of rural SHGs invest the loan amounts in a mix of consumption and productive purposes. As credit needs of the poor are determined in a complex socio-economic milieu, where the dividing line between credit for ‘consumption’ and ‘productive’ purposes is rather blurred, it is difficult to adopt the traditional banking approach to lending and insist that loans are not used for consumption.
MICRO CREDIT

1. **Micro Credit**

Micro Credit 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 and improve their living standards. Micro Credit Institutions are those, which provide these facilities.

2. **The self Help Group (SHG)-Bank Linkage Programme**

Despite the vast expansion of the formal credit system in the country, the dependence of the rural poor on money lenders continues in many areas, especially for meeting emergent requirements. Such dependence is pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks. For various reasons, credit to these sections of the population has not been institutionalized. The studies conducted by NABARD, APRACA and ILO on the informal groups promoted by non-governmental organizations (NGOs) brought out that Self-Help Savings and Credit Groups have the potential to bring together the formal banking structure and the rural poor for mutual benefit and that their working has been encouraging.

The NABARD accordingly launched a pilot project for the purpose and support it by way of refinance. It also provided technical support and guidance to the agencies participating in the programme. The following criteria would broadly be adopted by NABARD for selecting SHGs:

a) The Group should be in existence for at six months.

b) The Group should have actively promoted the savings habit.

c) Group could be formal (registered) or informal (unregistered)

d) Membership of the group could be between 10 to 25 persons.

The advances given by the banks to the groups were treated as advances to “Weaker sections” under the priority sector. While the norms relating to margin, security as also scales of finance and unit cost would broadly guide the banks for
lending to the SHGs, deviations there from could be made by banks, where deemed necessary. These relaxations in margin, security norms, etc., were only in respect of SHGs to be financed under the pilot project.

NABARD, vide its circular letter No. NB.DPD.4631/92-A/91-92, dated 26 February, 1992, issued detailed operational guidelines to banks for implementation of the project. Quick studies conducted by NABARD in a few states to assess the impact of the linkage project brought out encouraging and positive features like increase in loan volume of the SHGs, definite shift in the loaning pattern of the members from non-income generating activities to production activities, nearly 100% recovery performance, significant reduction in the transaction costs for both the banks and the borrowers, etc., besides paving way for gradual increase in the income level of the SHG members. Another significant feature observed in the linkage project was that about 85% of the groups’ links with the banks were formed exclusively by women.

With a view to studying the functioning of SHGs and NGOs for expanding their activities and deepening their role in the rural sector, in November 1994, RBI constituted a Working Group comprising eminent NGO functionaries, academicians, consultants and bankers under the Chairmanship of Shri S.K. Kalia, the then Managing Director, NABARD. As a follow up of the recommendations of the Working Group, banks were advised in in April 1996 as under:

a) **SHG Lending as Normal Lending Activity**

The SHGs linkage programme would be treated as a normal business activity of banks. Accordingly, the banks were advised that they may consider lending to SHGs as part of their mainstream credit operations both at policy and implementation level. They may include SHG linkage in their corporate strategy/plan, training curriculum of their officers and staff and implement it as regular business activities and review it periodically.

b) **Separate Segment under priority sector**

In order to enable the banks to report their SHG lending without difficulty, it was decided that the banks should report their lending to SHGs and/or to NGOs for on-lending to SHGs/members of SHGs/discrete individuals or small groups which
are in the process of forming into SHGs under the new segment, viz. ‘Advances to SHG’s irrespective of the purposes for which the members of SHGs have been disbursed loans. Lending of SHGs should be included by the banks as part of their lending to the weaker sections.

c) **Inclusion in Service Area Approach**

Banks may identify branches having potential for linkage and provide necessary support service to such branches and include SHG lending within their Service Area. Plan, keeping in view the potential reliability, the Service Area Branches may fix their own programme for lending to SHGs as in the case of other activities under the priority sector.

With a view to enabling the bank branches to get the benefit of catalytic services of NGOs, the names of NGOs dealing with the SHGs would be indicated on a block-wise in the “Background paper for Service Area Credit Plans”. The Service Area branch managers may have constant dialogue and rapport with the NGOs and SHGs of the area for effecting linkage. If a NGO/SHG feels more confident and assured to deal with a particular branch other then Service Area branch and the particular branch is willing to finance, such a NGO/SHG may, at its discretion, deal with a branch other than the service Area branch. The lending to SHGs by banks should be included in the LBR reporting system and reviewed, to start with at SLBC Level. However, it as to be borne in mind that the SHG linkage is a credit innovation and not a targeted credit programme.

d) **Opening of Savings Bank A/c.**

The SHGs registered or unregistered which are engaged in promoting saving habits among their members would be eligible to open savings bank accounts with banks. These SHGs need not necessarily have availed of credit facilities already from banks before opening savings bank accounts.

e) **Margin and Security Norms**

As per operational guidelines of NABARD, SHGs are sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4). Experience showed that group dynamics and peer pressure brought in excellent recovery from
members of the SHGS. Banks were advised that the flexibility be allowed to the banks in respect of margin, security norms, etc. pilot project would continue to be operational under the linkage programme even beyond the pilot phase.

f) Documentation

Keep in view the nature of lending and status of borrowers, the banks may prescribe simple documentation for lending to SHGs.

g) Presence of defaulters in SHGs

The defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by banks provided the SHG is not in default to it. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

h) Training

An important step in the Linkage Programme would be the training of the field level officials and sensitization of the controlling and other senior officials of the bank. Considering the need and magnitude of training requirements of bank officers/staff both at field level and controlling office level, the banks may initiate suitable steps to internalize the SHGs linkage project and organize exclusive short duration programmes for the field level functionaries. In addition suitable awareness/sensitization programmes may be conducted for their middle level controlling officers as well as senior officers.

i) Monitoring and Review of SHG Lending

Having regard to the emerging Potential of the SHGs and the relative non-familiarity of the bank branches with lending to SHGS, banks may have to closely monitor the progress regularly at various levels. Further the progress of the programme may be reviewed by the banks at regular intervals. A progress report may be sent to NABARD (Micro Credit Innovations Department), Mumbai, in the format as per Annexure, on a half-yearly basis, as on 30 September and 31 March each year so as to reach within 30 days of the half-year to which the report relates.
In order to give a boost to the going SHG bank linkage programme for credit flow to the unorganized sector, banks were advised in January 2004 that monitoring of SHG bank linkage programme may be made a regular item on the agenda for discussion at the SLBC and DCC meetings.

3. **MBFCs engaged in micro-financing activities**

The Task Force on Supportive Policy and Regulatory Framework for Microfinance set up by NABARD in 1999 recommended that the policy and regulatory framework should give a fillip to the self Help Groups (SHGs) or Non-Governmental Organisations (NGOs) engaged in micro-financing activities. Accordingly, it was decided to exempt such NBFCs which are engaged in (i) micro financing activities, (ii) licensed under Section 25 of the Companies Act, 1956 and (iii) which are not accepting public deposits from the purview of Sections 45-1A (registration), 45-1B (maintenance of liquid assets) and 45-IC (transfer of profits to Reserve Fund) of the RBI Act, 1934.

Based on the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related activities from the Banking System (Vyas Committee), in the Annual Policy Statement for the Year 2004-05, it has been announced that, in view of the need to protect the interests of depositors, microfinance institutions (MFIs) would not be permitted to accept public deposits unless they comply with the extant regulatory framework of the Reserve Bank.

4. **Interest rates**

The interest rate applicable to loans given by banks to micro-credit organizations or by the micro-credit organizations to Self Help Groups/member beneficiaries would be left to their discretion.

5. **Mainstreaming and enhancing outreach**

A Micro Credit Special Cell was set up in RBI to suggest measures for augmenting flow of micro credit as announced in Governor’s Monetary and Credit Policy for the year 1999-2000. In the meantime, a Task Force on Supportive Policy and Regulatory Framework for Micro Credit was also set up by NABARD. On the
basis of their recommendations, banks were advised to follow the under noted guidelines for mainstreaming micro credit and enhancing the outreach of micro credit providers:

(i) The Banks may formulate their own mode(s) or choose any conduct/intermediary for extending micro credit programmes can be implemented. It will be useful to start with a selected small area and concentrate fully on the poor in that area and thereafter with the experience gained replicate the arrangement in other selected areas. Micro Credit extended by banks to individual borrows directly or through any intermediary would be reckoned as part of their priority sector lending.

(ii) The criteria for selection of micro credit organizations are not prescribed. It may, however, be desirable for banks to deal with micro credit organizations having proper credentials, track record, system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow-up.

(iii) Banks may prescribe their own lending norms keeping in view the ground realities. They may devise appropriate loan and savings products and the related terms and conditions including the size of the loan, unit cost, unit size, and maturity period, grace period, keeping in view the prevalent local conditions and the need for provision of finance to the poor. Such credit should, therefore, cover not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements.

(iv) Micro credit should be included in branch credit plan, credit plan and state credit plan of each bank. While no target is being prescribed for micro credit, utmost priority is to be accorded to the micro credit sector in preparation of these plans. Micro credit should also form an integral part of the bank’s corporate credit plan and should be reviewed at the highest level on a quarterly basis.

(v) A simple system requiring minimum procedures and documentation is a pre-condition for augmenting flow of micro credit. Hence, banks should strive to
remove all operational irritants and make arrangements to expeditiously sanction and disburse micro credit by delegating adequate sanctioning powers to branch managers. The loan application forms procedures and documents should be made simple which would help in providing prompt and hassle-free micro credit.

6. **Delivery Issues**

The Reserve Bank constituted four informal groups in October 2002 to examine various issues concerning micro-finance delivery. On the basis of the recommendations of the groups and as announced in Paragraph 55 of the Governor’s Statement on mid-term Review of the Monetary and Credit Policy for the year 2003-04, banks have been advised as under:

(i) Banks should provide adequate incentives to their branches in financing the Self Help Group (SHGs) and establish linkages with them, making the procedures absolutely simple and easy while providing for total flexibility in such procedures to suit local conditions.

(ii) The group dynamics of working of the SHGs may be left to themselves and need neither be regulated nor formal structures imposed or insisted upon.

(iii) The approach to micro-financing of SHGs should be totally hassle-free and may include consumption expenditures.

7. **Financing of MFIs by banks**

A joint fact-finding study on microfinance conducted by Reserve Bank and view major banks made the following observations:

(i) Some of the microfinance institutions (MFIs) financed by banks or acting as their intermediaries/partners appear to be focusing on relatively better banked areas, including areas covered by the SHG-Bank linkage programme. Competing MFIs were operating in the same area, and trying to reach out to the same set of poor, resulting in multiple lending and overburdening of rural households.
(ii) Many MFIs supported by banks were not engaging themselves in capacity building and empowerment of the groups to the desired extent. The MFIs were disbursing loans to the newly formed groups within 10-15 days of their formation, in contrast to the practice obtaining in the SHG-Bank linkage programme which takes about 6-7 months for group formation / nurturing / handholding. As a result, cohesiveness and a sense of purpose were not being built up in the groups formed by these MFIs.

(iii) Banks, as principal financiers of MFIs, do not appear to be engaging them with regard to their systems, practices and lending policies with a view ensuring better transparency and adherence to best practices. In many cases, no review of MFI operations was undertaken after sanctioning the credit facility.

These findings were brought to the notice of the banks to enable them to take necessary corrective action where required.

8. Total Financial Inclusion and Requirement of SHGs

Attention is invited to Paragraph 93 of the Union Budget announcement made by the Honorable Finance Minister for the year 2008-09 where it has been stated as under: “Banks will be encouraged to embrace the concept of Total Financial Inclusion. Government will request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs like housing, education, marriage, etc., and (c) debt swapping”. Bank is advised to meet the entire credit requirements of SHG members, as envisaged therein.

NABARD Guidelines on SHG Assessment

NABARD assessment for micro-credit is really an appraisal of the various dimensions of the group. The assessment parameters are really aspects of group norms, group cohesiveness and group behavior. For any financing institution, appraisal is very important to ensure the utility of the loan and repayment of the loan. The SHGs have to be assessed in terms of Group dynamics like cohesion, vibrancy, and goal-oriented action, participation of members, democratic decision
and collective leadership. The appraiser has to see whether the group is functioning, actually as a group, why the members have come together, whether it is for obtaining loan from bank or the group sees other purposes, what is the group discipline and whether it is sustainable.

The basic principles on which the SHGs function are:

i. The members of the groups should be residents of the same area and must have an affinity.
   Homogeneity of relationship could be in terms of caste/occupation/gender or economic status (which is critical).

ii. Savings first, credit thereafter

iii. SHGs should hold regular meetings

iv. SHGs should maintain record of financial and other transactions

v. They should have norms regarding membership, meetings etc.

vi. Group leaders should be elected by members and rotated periodically

vii. Transparency in operations of the group and participatory decision making

viii. Rates of interest on loans should be decided by the group

ix. Group liability and peer pressure to act as substitutes for traditional collateral.

1. Norms for functioning:

   The SHG should have developed some kind of norms for its functioning the norms should be covering major areas of its functioning as well as the decision making processes, leadership etc., Norms generally relate to

   a. Membership

   b. Meetings - time, periodicity

   c. Savings - amount, periodicity, rate of interest (return)

   d. Credit - procedure for sanction, ceiling amount, purposes, rate of interest to be charged, repayment, period etc.
e. Fines - in case of default in attending meetings, savings and credit repayment. Group may also impose fines if group norms are violated.

f. Leadership - election or nomination of leaders, rotation of leaders etc

g. Personal/social improvement - minimum literacy level to be achieved, social work to be done etc.

h. The above norms may be written or oral. They may be decided in the initial meetings or they may evolve over a period of time depending upon the need of the group. The important aspects to be looked into are:

- How the norms are evolved, whether it is done by the consensus of the whole group.
- Whether the members are aware of the norms (even if they are oral) and whether they understand them,
- Whether the norms are implemented.

2. Meetings

The group decides the periodicity of the meetings i.e., weekly, fortnightly or monthly. They also decide on the time of the meeting. Decision on time and periodicity helps in regular conduct of meetings. The regularity in the holding of the meeting and the attendance during meeting gives an indication about groups functioning.

3. Maintenance of Books

Whether the group is maintaining the basic books that will give details of its functioning and accounts of the group is an important criterion to be taken in to account. The books should give the details of number of meetings held, decisions taken in the meetings, amount of savings of the members and credit availed, the total savings of the group and repayments. Who maintains these books are another important criteria for judging the group. Do the members maintain it; if not are they making efforts to achieve basic numeracy or literacy so that they can start doing it on their own.
4. Leadership

Two or three group members are elected as leaders, book-writers. Initially the opinion of leaders and over a period of time they are expected to be take turns. The group leaders are expected to a) regularly convene and conduct the meetings, b) help the group members in taking decisions, c) resolve conflicts, d) maintain books of account and e) approach bank branch for operation of accounts.

- The aspects that are to be seen are:
- Whether the leaders have been elected and rotated
- Whether they help in democratic functioning of the group
- Whether there is a conscious attempt to groom other members to take up leadership
- Are they marginalising the benefits (especially loans)

5. Participation and Awareness of the group members

Are the Members aware of the purpose of group formation, the operations and activities of the group viz. The savings and the credit of the group as well as the individual member’s savings and credit details.

- Do they participate in group discussions and decision making?
- Do they help solve the problems that are raised in the meetings?
- Do they work cohesively and have transparent dealings?

6. Savings:

The group decides on the amount of savings as also its periodicity. It has to be seen whether the saving, as decided upon, is regularly made, how the defaults are dealt with and whether the system is modified as per the requirements of the members.

7. Credit:

The following aspects have to be looked into while assessing the credit function of the group:
• The decision making process of selecting loanees.

• The system followed in assessing credit requirement of individual members and the amount to be sanctioned.

• The system of monitoring the credit.

The repayment performance of members and incidence of defaults besides the effectiveness in dealing with such defaults; whether the concept of ‘peer pressure’ is working.


Can the group function on its own without the support of the NGO is an important criterion for assessment? The level of dependency on the NGO/promoter of the group and impact of withdrawal of NGO/promoter on the group is to be assessed and its assessment.

ROLE OF NABARD UNDER SHG-BANK LINKAGE PROGRAMME

NABARD has been playing a very important –financial, developmental and promotional-the growth of SHG-Bank Linkage in the State, which is depicted below:

1. NABARD’S INITIATIVES:

During 2009-10, assistance to the tune of Rs.97.17 lakh benefiting 21348 members/partners has been disbursed towards various promotional initiatives by NABARD.

(a) Training and Capacity Building

NABARD provides financial support by way of grant for the following activities:

• Capacity building of the partner agencies likes NGOs, Banks, and Govt. Officials.

• Capacity building of SHG leaders/members.

• Exposure visits to banks/institutions pioneering in mF initiatives.

• Field visits to nearby SHGs for officials of Block Level Bankers’ Committee.
Several programmes aimed at capacity building of the stakeholders were organized contributing to the excellent performance by them in the State. The training and capacity building programmes, among others, include the following:

443 training programmes covering about 13290 leaders/members. 65 book writers’ programme covering 220 SHG members facilitating proper maintenance of books of accounts. 74 Taluk Level Awareness meets for the stake holders covering all the districts. 124 programmes for all officials of Commercial Banks, RRBs, Cooperatives, Government Officials, NGOs etc at State, District and Taluk level.

(b) **Grant Assistance**

(i) **Promotion and linkage of SHGs**

NABARD has been extending assistance for promotion of SHGs. Self Help Promoting Institutions (SHPIs) that are being supported by NABARD include Non Government Organizations, District Central Cooperative Banks and Regional Rural Banks. During the year 2009-10, NABARD sanctioned grant assistance of Rs.79.45 lakh for promotion and linkage of 2190 groups taking the cumulative sanction to Rs.350.11 for promotion and credit linkage of 25200 groups. As against this an amount of Rs.33,95 lakh has been released during the year taking the cumulative release of Rs.235.68 lakh.

(ii) **Capacity building of SHGs**

Assistance to the tune of Rs.11.73 lakh, to NGOs is sanctioned for capacity building of SHGs

(iii) **Micro Enterprise Development Programme [MEDP]**

Under the scheme, matured SHGs of more than 3 years are provided training for undertaking Income Generation Activities/ livelihood activities. During the year 2009-2010 NABARD sanctioned 80 MEDPS with a grant assistance of Rs 21.60 lakh covering 2400 individual SHG members. The MEDPs covered wide range of activities like vermin composting, food products, Zardosi, Integrated agri system, soft toys making, rubber tapping, Agarbathi making etc.
(iv) Micro Entrepreneurship Promotion Agency [MEPA]

In order to develop micro enterprises with requisite linkages, NABARD had initiated a pilot project known as MEPA in Hunsur and K.R. Nagar Taluks of Mysore district. The nodal agency for implementation of the project is MYKAPS. The project has been successfully implemented. Out of the total grant assistance of Rs 10 lakh sanctioned, an amount of Rs 8.41 lakh has been released. The Group members under MEPA have been trained in various activities like Agriculture, Agarbathi Making, Vermi Composting, Vegetable Cultivation, Animal Husbandry, Jute bag making, leaf plate making, condiments making etc. Forty SGH members of Hunsur taluk are actively involved in making and selling Agarbathi is under a brand name “Vandana Agarbathi”.

(v) Support for SHG Federations

As a measure to ensure sustenance of SHGs, NABAD initiated a scheme for supporting SHG Federations during 2007-08. The scheme is presently on a model-neutral basis. As on 31 March 2010, NABAD has sanctioned grant assistance of Rs 12.06 lakh to 18 Community Managed Resource Centres [CMRCs] for supporting 65 Federations covering 1849 SHGs. The SHG Federation can support SHGs with various non-financial services like skill development training, procurement of inputs, marketing of products, legal counseling, etc.

(vi) Scheme for providing technology support to NGOs for strengthening MIS

NGOs associated with NABARD for promotion of SHGs are provided grant assistance of a maximum of Rs 50,000/- for purchase of computer for strengthening MIS. NABARD provides software and hardware support to NGOs who have promoted a minimum of 250 SHGs. During the year 2009-10, three NGOs with grant assistance of Rs 1.33 lakh have been supported.

(viii) Scheme for rating of MFIs

To enable MFIs / MFOs to leverage funds from banks/financial institutions, a one time grant assistance of Rs 3.00 lakh is provided to MFIs / MFOs to get themselves rated through accredited rating agencies. MFIs with minimum loan
outstanding of Rs 50 lakh and maximum of Rs 10 crore would be eligible. Banks can also avail 100% reimbursement of expenses towards rating of MFIs upto Rs 3.00 lakh by way of grant. During the year 2009-10 an amount of Rs 2.12 lakh was sanctioned to two MFIs.

(c) Joint Liability Groups [JLGs]

In order to give focused attention to the needs of mid-segment groups, especially those of landless farmers/ share croppers / oral lessees taking up farming and allied activities, there is a need to promote JLGs. This would enable the members of such groups to access timely and adequate loans required for taking up their activities. Some NGOs like SKDRDP and IDF have already facilitated formation of JLGs and providing loans through their MFI arm. Even in the formal sector, Cauvery – Kalpatharu Grameena Bank and Pragathi Gramin Bank have been providing loans to JLGs.

Promotion of JLGs also helps the farmers to strengthen their collective bargaining power. JLGs can collectively involve in procurement of inputs and thereby save the cost of inputs besides liaise with Government agencies and Krishi Vigyan Kendras for adoption of technology and prudent farming practices.

Similar to JLGs for the members in the farm sector, Activity Based Groups [ABGs] for the members in the non-farm sector need to be promoted to enable them access institutional credit for meeting their financial requirements for undertaking their activities. Many such ABGs have been promoted under various activity clusters. Such efforts have to be replicated to promote Activity Based Groups for people engaged in various non-farm vocations in the rural areas. NABARD has recently formulated guidelines for supporting promotion of JLGs and ABGs and is providing an incentive of Rs 2,000/- per Group for forming, nurturing and credit linking to banks over a period of three years.

(d) Documentation & Dissemination

NABARD has supported development of exclusive software known as NABYUKTI by MYRADA to facilitate the Self Helping Promoting Institutions to have appropriate data base for effective monitoring. NABARD has been distributing
the software free of cost to SHPIs wanting to develop database on the functioning of their SHGs. NABARD has also sanctioned assistance to MYRADA for upgrading the software to a web based solution in various languages that can be directly downloaded from the MYRADA/NABARD.

NABARD publishes booklets/brochures capturing the developments under SHG-Bank Linkage programme in the State. Every year NABARD brings out a booklet on the status of SHG-Bank Linkage Programme in the State.

(e) SHG-Bank Linkage Award

Public recognition of excellent performance motivates the bankers/NGOs and enables to sustain the interest in the SHG-Bank Linkage Programme. In pursuit of this, NABARD over the years has instituted State Level Awards for the best performance under the SHG-BLP to felicitate and motivate the stakeholders. The awards are based on specific parameters such as ratio of SHG portfolio to overall loan portfolio, average per group finance, average per branch SHG credit linked etc.

II FINANCIAL SUPPORT

(a) General Refinance Scheme

NABARD provides refinance support to Commercial Banks, Regional Rural Banks against their lending to SHGs. The refinance support provided by NABARD to banks during the year under review is as under:

<table>
<thead>
<tr>
<th>Agency</th>
<th>No. SHGs</th>
<th>Amt of refinance [Rs in crore]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>34</td>
<td>2.29</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>12225</td>
<td>144.43</td>
</tr>
<tr>
<td>Co-operative Banks</td>
<td>7419</td>
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<tr>
<td>NABFINS</td>
<td>-</td>
<td>1.76</td>
</tr>
<tr>
<td>Total</td>
<td>19678</td>
<td>224.64</td>
</tr>
</tbody>
</table>
(b) Refinance Scheme for financing matured SHGs for Farm Production and Investment Activities.

Following the Hon’ble Union Finance Minister’s announcement in his 2007-08 Budget speech, NABARD, in addition to the existing refinance facility for SHGs, has opened a separate line of refinance for banks for financing Farm Production and Investment activities through matured SHGs. Term loan and cash credit limits given by the banks for a period of five years to matured SHGs exclusively for farm production and investment activities covering agriculture sector and allied activities will be eligible under the scheme. No refinance has been drawn by banks under the scheme, though banks are reportedly lending to SHGs for the purposes specified under the scheme.

As per the revised guidelines of Priority Sector Advances issued by RBI, if banks keep desegregated data pertaining to agricultural loans to SHGs, they can treat such loans as direct advances to agriculture. This will also facilitate banks to claim refinance from NABARD under this special line of refinance.

(c) Support to MFIs

Realizing the need and potential of micro Finance Institutions [MFIs] and the importance attached to their role by the GOI, NABARD has been supporting MFIs to further accelerate the availability of financial services in rural areas. The support from NABARD to MFIs is available in the following forms:

**Scheme for Capital / Equity Support to MFIs**

The scheme for capital / equity support to MFIs has been introduced during the year 2006-07. The specific objectives of the scheme are to provide capital / equity support to Micro Finance Institutions [MFIS] so as to enable them to leverage capital / equity for accessing commercial and other funds from banks, for providing financial services at an affordable cost to the poor and to enable MFIs to achieve sustainability in their credit operations over a period of 3-5 years. Though, the RBI has deregulated interest rate, for the limited purpose of our support, MFIs having the effective interest rate of more than 25% p.a. to the ultimate clients are not considered for support under the scheme. As on 31 March 2010 an amount of Rs 2 crore has been lent to MFIs under the scheme.
Revolving Fund Assistance to MFIs for on-lending to SHGs.

NABARD has been selectively supporting NGOs/MFIs experimenting various models of micro finance like Grameen Model, NGO networking, SGH Federations etc. especially in areas where sustainability of the systems is yet to be established. The focus of RFA support will be directed for encouraging alternative micro-credit innovations. The assistance is aimed at facilitating the supported agencies to provide funds to the disadvantaged and excluded persons at an affordable cost. Though the RBI has deregulated interest rate, for the limited purpose of our support, MFIs having the effective interest rate of more than 25% p.a. to other ultimate clients are not considered for support under the scheme. During 2009-10 an amount of Rs 5 crore was sanctioned to Sanghamitra Rural Financial Services for on lending to SHGs taking the cumulative sanctions to Rs 12.01 crore as on 31 March 2010.

Capital Support / Revolving Fund Assistance to Start-up MFIs

With a view to have a balanced growth of the MFI sector and enable they leverage funds from banks, NABARD provides capital support/ Revolving Fund Assistance to the Start up MFIs who are between 6 months to 2 years old. For the purpose of NABARD support, MFIs having an effective rate of interest equal to or less than 25% are considered.

ROLE OF STAKEHOLDERS

1. Government of India (GOI)

Taking cognizance of the role of SHG-Bank linkage in ensuring inclusive growth, GOI has been attesting utmost importance to the programme, as has been evident through Union Budget announcement every year. Union Govt. in its budget announcement has indicated that the plan outlay of Woman and Child Development Department would be stepped up by almost 50%. As indicated by union Government in its budget announcement for 2009-10, 50% of rural women are to be covered under SHGs by the end of the XII Five year Plan.
2. **Reserve Bank of India (RBI)**

RBI through its policy announcements have made the environment conducive for banks to participate in a larger way in the programme. Loans granted by banks to such SHGs engaged in agriculture and allied activities are classified as directed finance to agriculture, if engaged in agriculture and allied activities are classified as direct finance to agriculture, if banks maintain disaggregated data on SHG/micro credit portfolio. Further, small amounts not exceeding Rs.50,000/- per borrower, either directly or indirectly through SHG/JLG mechanism or to NBFC/MFI for on-lending upto Rs.50,000/- per borrower will constitute micro credit.

3. **Government of Karnataka (GOK)**

In Karnataka, the State Government through its Women & Child Development Department (WCDD) continued its mission of empowering rural poor women in all the districts through its Stree Shakti Programme. WCDD has facilitated promotion of 1,40,000 Stree Shakthi Groups as on 31 March 2010 of which 1,25,000 Groups have been credit linked. Earnest effort has been made to strengthen these Groups by forming them into Federations; Extensive training is underway for capacity building of the members of Stree Shakthi federation through MYRADA and with financial support from NABARD.

**Loans to SHGs at 4% by the Cooperative Bank**-

The interest subvention scheme of providing loans to SHGs at 4% by the Cooperative Bank has been extended for the year 2010-11.

**Interest subvention of 6% to banks –**

Government of Karnataka, has also for the year 2010-11, extended the scheme for interest subvention of 6% to nationalized banks in respect of loans extended to women SHGs promoted with the assistance from various Government Departments.
4. **Banks**

Banks in Karnataka have given due importance to SHG-Bank Linkage programme. The overall credit flow during the year 2009-10, is Rs.1233.55 crore taking the cumulative bank loan to Rs.5257.51 crore. All the 3 agencies viz., Commercial Banks, Regional Rural Banks and Cooperative Banks have made significant contribution to the programme.

Commercial banks have disbursed loans amounting to Rs.613.88 crore, constituting around 50% of the loan disbursed during the year. Further, Commercial banks have also been reaching SHGs through MFIs and nearly 70 to 80% of the loans of the MFIs to SHGs are through borrowings from Commercial Banks.

During 2009-10, RRBs have also made significant disbursement and have disbursed Rs.338.05 crore. Some RRBs like Karnataka Vikas grameena Bank and Pragathi Gramin Bank are also lending to SHGs through MFIs.

Cooperative banks with support from Gok in the form of interest subvention, has increased their lending to SHG over the years. During the year 2009-10, they have disbursed loans amounting to Rs.281.92 crore. The State Cooperative Bank has come out with a Vision Document 2010. Wherein they have estimated formation and linkage of SHGs for the next five years. As per the vision document the cooperative banks intends promoting around 1.25 lakh SHGs by 2015 and provide linkage to 1.40 lakh new Groups.

5. **Micro Finance Institutions (MFIs)**

The MFIs in Karnataka are registered either as NBFC-MFI under Companies Act or as MFO under Trust/ Societies Act. Out of 48 MFIs are active in the State, 22 have registered themselves with Association of Karnataka Microfinance Institutions’ (AKMI). The MFIs registered with AKMI have lent around Rs.2764.06 crore to SHGs during the year 2009-10.

6. **NGOs**

There are around 800 NGOs operating in the State, out of which 170 NGOs are working with NABARD as SHPI partners. The NGOs have played a very crucial
role in SHG-BLP movement. They have remained a crucial link between SHGs on one side and banks/ developmental functionaries including the Government on the other. The NGOs not only promote SHGs but are actively involved in building the capacities of SHGs and inculcating financial discipline.

7. NABARD

Right from the pilot phase, NABARD is actively involved in the SHG-BLP movement. NABARD facilitates interaction among the stakeholders to address various issues relating to up-scaling the SHG–Bank Linkage, besides continuing its various promotional and developmental interventions.

Summary:

This chapter has presented various concepts related to Micro Credit SHGs, MFIs, SHG credit linkage programmes, Historical Development of Rural Credit System in India. Self-help Groups in Global Context and Conceptual Evaluation of Micro-finance. (MF) Functions and Characteristics of an SHG history of SHG credit linkage programmes, Structure of SHG credit linkage programme in India, Stake-holders of SHG credit linkage programme, linkages among governments, financial institutions, NGOs and SHGs.