The existing model for microcredit delivery has been studied and presented as a case study of The Gurgaon Gramin Bank based in Haryana State. The Gurgaon Gramin Bank (GGB) was established in March, 1976, under the Regional Rural Banks Act, 1975. GGB was sponsored by Syndicate Bank. It participates and contributes to developmental activities in 4 districts of Haryana, namely, Gurgaon, Faridabad, Rewari, and Mahendergarh, through a network of 119 branches and 2 extension counters. By concerning the personal loan business segment, it has achieved a leading position among the banks operating in the National Capital Region. As on 31.03.2002, the total business of the bank amounted to Rs. 827.87 crores, comprising deposits of Rs. 581.07 crores, and advances of Rs. 246.80 crores, the credit-deposit ratio working out to 42.5%.

The GGB is fully committed to the importance of purveyance of credit to all those who need it since this helps in the fulfillment of their original mandate. GGB is especially committed to the cause of making credit readily available to poor and rural women. It is towards this end that GGB has identified and pursued "Microcredit" as a thrust area. Microcredit has been made an integral part of the bank's corporate credit plan, and as such, is closely monitored and reviewed on a monthly basis, at the highest levels.
Several Self-Help Groups (SHGs) have been formed by Non Government Organisations (NGOs) and by Bank officials, thereby providing SHG members with opportunities to acquire and manage their collective abilities and group affairs. Since the credit and consumption needs of SHGs have to be met on a sustained basis, linking them to bank finance ensures a smooth flow of credit from the bank to the SHGs.

Initially, NGOs were the main agents involved in the formation of SHGs. This is because NGOs being closer to the rural people and poor women both physically and emotionally, have an inherent advantage in organizing them into productive groups. However, it was felt that if more SHGs were to come up rapidly, their formation and promotion could not be left entirely to NGOs. Thus, GGB was prompted to undertake the work of SHG promotion in identified areas where no NGO was working, and to finance the promoted groups once they had stabilized their activities.

4.1 Concept of Self Help Groups:

Self-help is one of the attributes of cooperation. As a form of economic organization, besides economic self-sufficiency, it also envisages propagation of a value system. Since the poor do not have enterprise as individuals, it has to be realized at the group level, or the delivery system has to fill the gap. The poor can improve their economic situation primarily on the basis of self-help. Self-help organization is a means of raising the claim-making capacity of the rural poor, especially women, for reaching out to banks to avail of production
resources. In fact, self-help has emerged as a new paradigm for combating rural poverty.

Self-help Groups are mostly informal groups where members pool savings and relend to the group on a rotational basis. The groups have a common perception of need and improvise towards collective action. Many such groups formed around specific production activities, promote savings among members and use the pooled resources to meet various credit needs of members (even consumption needs). There is a great incentive to form a SHG if people feel that it is the only way (apart from the omnipresent and exploitative moneylender) to have access to credit. A strong savings programme enables group members to acquire financial discipline and expertise in money management.

Therefore, a SHG is a small, economically homogeneous and affinity group of the rural poor, voluntarily coming together for the following reasons:

- To save small amounts of money regularly
- To mutually agree to contribute to a common fund
- To meet their emergency needs
- To have collective decision making
- To solve conflicts through collective leadership and mutual discussion
- To provide collateral free loans with terms decided by the group at market-driven rates².
4.2 Formation of Self Help Groups:

SHGs can come up on their own, or through the intervention of Voluntary Agencies (VAs)/ NGOs, or by officials of financing agencies like banks. The size of the group is normally less than 30 members divided into 5-6 subgroups for better coordination and control. Peer pressure keeps the group members in line and contributes to the collective strength of the group.

Thus, SHGs have been able to provide primitive banking services that are cost-effective and flexible, to their members. SHGs have evolved their own characteristics of functioning:

(i) Group members usually create a common fund by contributing their small savings on a regular basis.

(ii) Groups evolve flexible systems of working, and manage pooled resources in a democratic way.

(iii) Loan requests are considered by groups in periodic meetings and competing claims on limited resources are settled by consensus.

(iv) Loans are given mainly on trust with minimum documentation, and without any security.

(v) The loan amounts are small, frequent, for short duration, and are mainly for unconventional purposes.

(vi) The rates of interest vary from group to group, and also depend on the purpose of the loan. The rates are higher than that of banks, but much lower than that of moneylenders.

(vii) At periodic meetings, besides collecting money, social and economic issues are also discussed.
(viii) Defaults are rare due to group pressures and transparency about the end-use of credit.

Gurgaon Gramin Bank, in recognizing and appreciating the promise of self help, has been actively involve in the promotion and formation of SHGs. The yearwise comparative position of SHGs in the 4 districts of GGB’s operation is given below in Table 4.1:

Table 4.1

<table>
<thead>
<tr>
<th>S.No.</th>
<th>District</th>
<th>Position of SHGs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>As on 31.03.2000. As on 31.03.2001. As on 31.03.2002.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total Women Total Women Total Women</td>
</tr>
<tr>
<td>-------</td>
<td>---------------</td>
<td>-------------------------------------------------------</td>
</tr>
<tr>
<td>1</td>
<td>Gurgaon</td>
<td>379 378 538 538 984 965</td>
</tr>
<tr>
<td>2</td>
<td>Rewari</td>
<td>24 20 26 22 36 29</td>
</tr>
<tr>
<td>3</td>
<td>Faridabad</td>
<td>47 44 105 101 193 187</td>
</tr>
<tr>
<td>4</td>
<td>Mahendergarh</td>
<td>51 49 93 88 184 134</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>501 491 762 749 1397 1315</td>
</tr>
</tbody>
</table>

Position of SHGs

![Graph showing position of SHGs in GGB’s operation in different districts.](image-url)
As is evident from the above table, GGB has taken up the cause of formation and promotion of SHGs very seriously, and the outcome is visible in the 278% growth in the total number of SHGs in a short span of 2 years. The number of women SHGs grew 268% in the same time.

4.3 Financing Of Self Help Groups:

Although small groups help in the enhancement of managerial skills through active participation of members in all the affairs of the group, it also results in the disadvantage of a very small resource or capital base as the members' capacity to save is small. Often, the concerned VAs/NGOs supplement the resources of the SHG by providing some seed capital, in the form of a grant or an interest-free loan to be used as a revolving fund by the SHG. This improves the SHGs capacity for providing small loans, both for production and consumption. In the process, they successfully eliminate money-lenders. VAs and NGOs, however, survive on donor assistance, which in turn is limited and uncertain. In providing seed capital to SHGs, their funds also get locked up for a long time. Therefore, their capacity to finance SHGs on a large scale is limited.

On the other side of the coin, financial institutions find it difficult to provide credit to SHGs for reasons of lack of security, non-viability of the operations, and the general disinterest of the staff in handling tiny accounts in high volumes. The cost of mobilizing SHG savings and financing them through the normal banking system is prohibitive.
Therefore, cost-effective innovations for meeting the consumption and production needs of SHGs are imperative. This is where banks have an all-important role to perform, and this is achieved through Linkage Banking.

4.4 Linkage Banking:

The SHGs pool the savings and deposit the pooled sum with the bank. No doubt, individual members are denied the benefit of interest in this process. Considering, however, that the funds with the SHGs are generally onlent to the members at substantial rates of interest, the returns to the members, whenever distributed, would far outweigh the interest earnings foregone from the bank.

Similarly, in order to reduce the cost of servicing a large number of borrowers’ accounts, banks have come out with innovations that have externalized some of their functions and thereby, reduced costs substantially. For example, Syndicate Bank floated a farmers’-based subsidiary named Syndicate Agricultural Foundation (SAF). SAF promotes “farm clinics” which are small attachments to rural branches and are manned by carefully selected local youths, who act as a bridge between the bank and the villagers by making them aware of credit possibilities and helping them with the formalities.

Some other banks have associated themselves with VAs which identify prospective borrowers, appraise their requests and forward viable proposals to the bank. After the loan is sanctioned, VAs (sometimes through SHGs promoted by them) also help in providing necessary training to the borrowers, in maintaining assets, and in monitoring loans and recoveries. For instance, GGB
has associated itself with a NGO named Anarde for operations in the Gurgaon
district. The banks, thus, successfully cater to the requirements of their target
group while saving their costs on three counts:

(i) They save on appraisal costs of totally non-viable cases which are not
forwarded to them;

(ii) The appraisal by the VA provides them with adequate material for their
own appraisal; and

(iii) The VAs help in monitoring and recovering lent amounts.

These experiments are, however, limited to loans under existing banking
norms. And, a relationship of dependency continues between the VA and the
borrowers. The positive feature is that the resources of the VA are not locked
up in the form of seed capital to the SHG\(^4\).

4.5 RBI Guidelines to Banks on Providing Linkage to SHGs:

(i) Banks must give permission to open savings bank accounts in the name of
SHGs.

(ii) Banks have to relax norms for margin/security/service area approach for
lending to SHGs.

(iii) Banks must treat lending to SHGs as advances to the weaker sections
under the priority sector.

(iv) Banks should treat the linkage programme as a regular banking activity
and a business opportunity and include this in their corporate strategy / plan, which should be monitored/reviewed periodically.

(v) The programme must be made a part of the Service Area Plan of the
bank.
(vi) Defaults by a few members of SHGs and/or their family members to the financing banks should not ordinarily come in the way of financing SHGs.

4.6 Objectives of SHG Linkage:

These are:

(1) To evolve supplementary credit strategies for meeting the needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the technical/administrative capabilities and financial resources of formal Financial Institutions.

(2) To build mutual trust between bankers and SHGs.

(3) To encourage banking activity in both the savings and credit aspects in a segment of the population that formal Financial Institutions otherwise may not reach.

4.7 Models Of SHG-Bank Linkage:

Different SHG Models have been experimented with:

Model I

Banks deal directly with the SHG, providing financial assistance for onlending to individual members.

Bank----SH Groups promoted at the initiative of bank

Model II

Banks give direct assistance to the SHG while the NGO provides training and guidance to the SHG for effective functioning.

Bank----SHG NGO is promoter, nurturer and facilitator
Model III

The NGO can be a financial intermediary between the bank and a number of SHGs, with the NGO accepting the contractual responsibility for loan repayment, so the linkage between the bank and the SHG is indirect. Bank—NGO—SHG NGO acts as a financial intermediary

4.8 Procedure For Extending Bank Finance:

(i) Banks may finance SHG directly or through bulk lending to NGOs/VAs for onlending to the group.

(ii) Bank loan may be linked with the savings mobilized by the group. The ratio of savings to credit may be 1:1 or 1:2 initially, and can be raised to 1:4 depending on the confidence gained by the bank.

(iii) For availing bank finance, group will prepare a credit plan for members and submit a loan application, along with a resolution of the group, inter-se agreement. The office bearers of the SHG with the bank will execute loan agreement.

(iv) Bank may finance any activity-Conventional / Unconventional / Production/ Consumption, treating the purpose as SHG.

(v) Rates of Interest will be:

* Bank to SHG As decided by the Bank
* Bank to NGO/VA As decided by the bank in negotiation with the NGO/VA
* NGO to SHG As decided by the NGO in negotiation with the SHG
* SHG to members As decided by the SHG
(vi) The repayment period is fixed as follows:

- The bank may prescribe an appropriate repayment period in consultation with the group.
- The loans from banks to SHGs have to be normally repaid in regular monthly instalments.
- The group decides the repayment period and other terms of the loan from SHG to members.

(vii) Security and Margin:

- The Reserve Bank of India (RBI) has relaxed security and margin norms for SHGs.
- Mutual trust and confidence among the members, unity and cohesiveness of the group and peer pressure form the collateral for the bank.

4.9 Selection Criteria for Linkage:

The following requirements have to be met by SHGs seeking linkage to banks:

1. The group should be in active existence for a period of at least 6 months, and should have attained unity and cohesiveness during such time.

2. The group should have successfully undertaken savings and credit operations from its own resources.

3. The group should maintain proper accounts/records.

4. The group may be evaluated by the bank (as per the rating norms devised by it) to satisfy themselves about the functioning, cohesiveness and unity of the group.

5. Group formation should reflect a genuine need to help each other and to work together.
### Table 4.2

Details of SHGs linked and amount disbursed:

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Year</th>
<th>Total SHGs Linked</th>
<th>Cumulative SHG Linkage</th>
<th>Cumulative loan amount disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1997-1998</td>
<td>02</td>
<td>02</td>
<td>45</td>
</tr>
<tr>
<td>2.</td>
<td>1998-1999</td>
<td>05</td>
<td>07</td>
<td>57</td>
</tr>
<tr>
<td>3.</td>
<td>1999-2000</td>
<td>81</td>
<td>88</td>
<td>947</td>
</tr>
<tr>
<td>4.</td>
<td>2000-2001</td>
<td>159</td>
<td>247</td>
<td>3541</td>
</tr>
<tr>
<td>5.</td>
<td>2001-2002</td>
<td>263</td>
<td>510</td>
<td>15471</td>
</tr>
</tbody>
</table>
**Chapter 4: The Existing Model**

**Additional information related to SHGs:**

<table>
<thead>
<tr>
<th></th>
<th>31.03.97</th>
<th>31.03.98</th>
<th>31.03.99</th>
<th>31.01.2K</th>
<th>31.03.2K1</th>
<th>31.01.2K2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total SHGs</td>
<td>05</td>
<td>101</td>
<td>175</td>
<td>501</td>
<td>762</td>
<td>1317</td>
</tr>
<tr>
<td>Total Members</td>
<td>75</td>
<td>1565</td>
<td>2650</td>
<td>7515</td>
<td>10668</td>
<td>19558</td>
</tr>
<tr>
<td>Total Savings</td>
<td>--</td>
<td>451</td>
<td>1999</td>
<td>1974</td>
<td>12050</td>
<td>38833</td>
</tr>
<tr>
<td>Total Credit</td>
<td>--</td>
<td>45</td>
<td>57</td>
<td>947</td>
<td>3541</td>
<td>15471</td>
</tr>
<tr>
<td>No. of credit-linked</td>
<td>--</td>
<td>02</td>
<td>07</td>
<td>88</td>
<td>247</td>
<td>510</td>
</tr>
</tbody>
</table>

SHGs

Therefore, a good starting point for SHGs is savings. Since savings is more a nature with women than with men, most such SHGs are women SHGs.
4.10 Financial Requirements of Poor Women:

The information, resources, skills and technology base of poor women are very weak. However, they have an exceptional ability to optimise their frugal resources, and are certainly not unproductive. In fact, by virtue of sheer numbers and labour potential, they are one of the more productive segments of the population. The ideal solution for them, therefore, would be a credit programme targeted for poor women such that their genuine credit needs are met.

Individually, a poor woman tends to be rather tentative and uncertain in her behaviour, but group membership smoothenes the rough edges of her behavioural pattern, making her more confident and reliable as a borrower. Since she feels exposed to all kinds of hazards, she requires guidance and advice from people she knows, and can trust. Membership of a group gives her a feeling of security. Thus, formation of a group ensures the best participation of poor women in credit programmes. Individual effort often proves too inadequate to improve their fate. By organising into a group, poor women get the benefits of collective perception, collective decision-making, and collective implementation of programmes for mutual benefit. Therefore, a group becomes an antidote for the helplessness of poor women.

The savings of the group get calibrated in very small steps, and any small savings can be ploughed back into investments at any time. Group savings, however, serve a wider range of objectives other than immediate investments:

(1) It imposes discipline on group members to develop the habit to save.
(2) Savings enhance the self-confidence of the members.

(3) Investments of a risky nature can also be considered because of the savings cushion.

(4) Group savings demonstrate the unity and strength of the group.

Savings plus credit, therefore, is an excellent starting point even for women self-help groups. Their nature and potential for small savings are utilised and their production/consumption needs are not exploited by private money-lenders. In fact, the income from investments in micro-enterprises is generally used for the betterment of the families, especially the children. Thus, it makes great economic and social sense to target the flow of credit to women SHGs and rural women entrepreneurs.

The GGB has oriented itself to handle the needs of women entrepreneurs with a focus on the microcredit needs of poor rural women. This is in recognition that women and women SHGs are able to manage their credit operations very practically, and this allows them to face the future with a greater degree of confidence.

4.11 Initiatives for Women's Empowerment:

During 1995-96 i.e., before the establishment of Women Development Cell, GGB has made a disbursement of Rs. 121.27 lakhs to women beneficiaries, under various Government-sponsored programmes, as well as the General schemes. The credit flow to women has also picked up. The comparative
position in respect of last four years of disbursement and outstanding levels is
given as below:

Table 4.3

Position of Disbursement of Loans and Outstanding Level of Credit of Women Beneficiaries:

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Year</th>
<th>Disbursement during the year</th>
<th>Loans to Women (Outstanding level)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1998-99</td>
<td>274.36</td>
<td>900.00</td>
</tr>
<tr>
<td>2.</td>
<td>1999-2000</td>
<td>355.87</td>
<td>1006.88</td>
</tr>
<tr>
<td>3.</td>
<td>2000-2001</td>
<td>538.34</td>
<td>1252.33</td>
</tr>
<tr>
<td>4.</td>
<td>2001-2002</td>
<td>891.24</td>
<td>1473.21</td>
</tr>
</tbody>
</table>

GGB's successful experience with women has established that there is an
urgent need for reorientation as regards microcredit needs of poor (rural)
women, using new production and distribution channels, and promotional
services, based on the perceived needs of such women entrepreneurs. As the
need for credit is in small but frequent doses, innovative savings-linked cash
credit is the answer that will provide safety, liquidity and lower transaction costs. The credit programmes should be based on savings, and credit alone should not be made the basis for group formation. Thus, the approach towards alleviation and empowerment of poor (rural) women should be to help them to help themselves. The multiplier effect of investment can be vividly noticed in such a programme. The vicious cycle of low income-low savings-low investment-low income can be broken by injections of credit in the cycle. Credit-more investment-more income-more savings-more investment is the outcome that is sought to be achieved through such credit interventions.

4.12 Women SHG Promotion and Financing:

4.12.1 Benefits to GGB:

The women SHGs promoted by GGB have been very regular in savings. This is a precondition for a good SHG. However, more generally speaking, the bank has the following advantages by promoting and financing women SHGs:

It leads to externalisation of some of their credit activities. Such activities as assessment of credit needs, appraisal, disbursal, supervision and repayment, which hitherto were carried out by the bank, now get taken up by the SHGs.

1. It leads to a reduction in the formal paper work, thus leading to a reduction in the transaction cost of processing loans.

2. Assured and timely repayment of loans leads to faster recycling of funds.

3. The bank gains an opportunity for expansion of its business, therefore allowing for a better diversification of its loan portfolio.
(4) The bank is also able to contribute to social welfare by covering the poor clientele. By coverage of women, the bank promotes the cause of economic empowerment of women.

(5) It leads to a much larger mobilisation of small savings.

(6) Finally, it generates prospects of quality clients in the future also.

4.12.2 Benefits To Women Borrowers:

SHG activity and bank linkage has helped the women also. For instance, in Badshahpur village of Gurgaon District, where the GGB has played a key role since 1979 in the formation and financing of women SHGs, the women have formed themselves into as many as 64 SHGs (Laxmi, Parvati, More, Hanuman, Jagrit, Saraswati, Sriram to name a few of them). These women had nothing to do with a bank prior to this, and did not have any bank deposits to their credit before becoming a part of the SHG. Now, by virtue of their membership of SHGs, they now have access to savings. This has provided them with a much better access to collateral-free loans, at reasonable interest rates. The women have used this opportunity to set up small enterprises such as weaving, basket-making, pottery, tailoring etc., helping themselves to become financially independent. Their financial independence is mirrored in their homes, their children, and their life and families in general. The women borrowers now lead their lives with respect, dignity and confidence befitting a segment of the population as hard-working and dedicated as women are.
4.13 Emerging Lessons:

The average deposit and loan size of SHG accounts is larger than that of individual accounts under the priority sector, whereas the cost of operating the above two accounts is same or slightly less for SHG accounts\(^8\). Thus, for the bank, the transaction cost of dealing with SHGs is obviously lower than that of individual borrowers (particularly under the priority sector). Moreover, the rate of growth of credit absorption of SHGs is much higher than individual borrowers under the priority sector. If banks provide proper training for skill and entrepreneurship development, the SHG members would be able to diversify into income generating activities, thus improving their credit absorption capacity substantially\(^9\).

Banks can further reduce the operating costs of forming and financing SHGs by involving NGOs/Vas or educated and unemployed village youth (preferably young women) for forming and nurturing SHGs. Such involvement is more useful while forming the first SHG in the village, which needs considerable time and effort, and that may not be cost effective to the banks.

The cost of appraisal, sanction and monitoring of SHG accounts compares favourably with that of crop loans and investment loans. As the average deposit and loan size of SHGs is larger than that of individual borrowers, formation and financing of SHGs is a profitable proposition for rural banks.

And finally, banks involved in the formation and financing of women SHGs are not only fulfilling their economical role, but also participating in bringing about the economic empowerment of women, and thus, playing a very important social role. Since GGB has proven its awareness of its social responsibility, and
taken it up in an economically justifiable way, it is only natural to expect that many more commercial banks will also wake up to the same.

As comes out clearly from the above description, formal institutional agencies, especially the commercial banks, play a dominant role in the rural financial markets in contemporary India. It also needs to be recognized that the commercial banks do have a sizeable portion of small borrowal accounts (SBA) with credit limits of Rs. 25,000 or less, constituting 90% of all accounts. However, the development outlook of the banking sector is a reflected one, and does not signify its belief in bankability of the poor and poor women. The banking sector is merely used by the fiscal system to achieve broad development objectives, including poverty alleviation, and economic empowerment of the poor. Commercial banks, left to themselves, have shown a disinclination to service a clientele whose risk profile is difficult to assess. The transaction costs of dispensing credit to them is also found to be higher, given the spatial dispersal, volume of transaction, size of loan and limited manpower. Political interventions in the frequent loan waivers and write-offs have, added to the erosion of the microcredit delivery system. Interestingly therefore, It is the formal banking sector that has taken the initiative to develop a supplementary credit delivery mechanism by encouraging institutional arrangements outside the financial system (like NGOs) to act as facilitators or intermediaries. This is advantageous to the bank from the angle of both fulfillment of its social goal (like reaching out to the poor) and achieving operational efficiency (by externalizing part of the transaction cost). The paradigm of development that has emerged out of this has the concept of self-reliance, self-sufficiency and self-help at its core. The role of the state is limited to providing a facilitative
policy environment that is stabled, unbiased, and in tune with broad financial sector reforms.

However, the emerging microfinance sector in India, despite initiatives to promote linkages between the formal and non-formal sectors\(^{11}\), has a dualistic nature. The formal banking institutions form the legal and regulated component of this sector, and largely functions as the provider of bulk credit and other services to the non-formal sector. The NGOs, SHGs, and federations of groups, who serve as non-formal intermediaries, operate outside the legalised structure, largely surviving on the gaps and loopholes within the system. The most noteworthy point about this intermediary layer is that it has demonstrated considerable organisational flexibility and dynamism in responding to the demands at the grassroots.

Thus in the microfinance sector in India, the formal funds get into the non-formal channel before they reach the desired segment of the clientele. The entry of a new set of players in the financial system has definitely eased a lot of delivery obstacles, by externalising a part of bank’s responsibilities in the spheres of identification of clients, assessment of their risk profiles, loan monitoring and recovery etc.

But, in the absence of any direct transaction between the bank and the final user of credit, it is unclear whether the emotional and spatial distance between the two has narrowed in the new arrangement. Also, the status of non-formal institutions that function as financial intermediaries remains vague. From the bank’s point of view, they could be considered as primary clients, or just go
between brokers. But from the point of view of the borrower, they are nothing less than a bank.

Reservations about the sustainability of this structure relate to whether credit per se can optimally bring about poverty alleviation and economic empowerment\(^\text{12}\). Even credit cannot play its part in the long run if investments are not made in developing structural factors. Unless basic needs like transport and marketing infrastructure, land reforms and social progress are not achieved parallely, relying on the delivery of credit alone to fight poverty may be an unduly optimistic vision\(^\text{13}\). Therefore, empowerment through strong and viable people's structures like SHGs and NGOs has to be seen in the light of these concerns.

References:


