CHAPTER THREE

Origin of SHGs, Microcredit Institutions and Poverty Alleviation in India: an Overview

"Money going through a woman in a household brought more benefits to the family as a whole than money entering the household through a man".
—Muhammad Yunus (1998:88)

According to Yunus¹, “Poverty has been created by the economic and social system itself that we have designed for the world. It is the institutions that we have built, and feel so proud of, which created poverty. It is the concepts we developed to understand the reality around us, which contributed to the creation of poverty, made us see things wrongly, and took us down a wrong path, causing misery for people. It is our policies borne out of our reasoning and theoretical framework, with which we explain interactions among institutions and people, which caused this problem for many human beings. It is the failure at the top, rather than lack of capability at the bottom which is the root cause of poverty”.

The socio-economic deprivation includes economic, educational, health, social and other forms of deficiency experienced by the poor indicates the level of poverty. One of the causes of poverty is deprivation of income or purchasing power. Though goods and services are available in the market, the poorer sections in the society cannot afford them. The intensity of deprivation can be understood by the widening gap between the incomes of the affluent population and their counterparts. In this chapter, attempt will made to revisit some well-rehearsed but nevertheless relevant questions on poverty. What is the place of development and SHG growth in broad-based growth and poverty alleviation?

3.1. Definition of Poverty

The discourse on poverty is still a predominantly central phenomenon for economists, sociologists, political economists, and policy formulators, etc. However, the context of rural poverty is rapidly changing across the world, with high growth in some economies

and stagnation in others. Persistence of poverty is to a large extent also related to a poor growth performance in national economies. Furthermore, in large parts of the world, poverty remains in absolute numbers, mainly in a rural and agriculture, in that most of the poor depend on the rural sector for their livelihood. Nevertheless, it is similarly striking that the declines are not totally dissimilar either some links between urban and rural poverty clearly exist. Poverty has various causes, including structural ones.

According to Singh (1989), poverty is a complex socio-economic state characterising particular families in a given society. Part of it is a social determinate because it depends substantially on the structure of class and family as well as social attitudes and values. Part of it is economic because it can be measured economically. It is regarded as both a condition of economic inefficiency and a condition of social and political exclusion. It surpasses the narrow limit of income and encompasses the wide complex of political and personal realities.

Poverty can be involved not only the lack of well-being but denial of opportunities for living a tolerable life. According to World Development Report (2001), poverty implies lack of adequate food and shelter, deprivations that keep them away from a decent standard of living—better housing, sanitation, access to safe drinking water and so on. Poverty is a complex, multidimensional problem, with origins in both the national and international domains. Poverty is not purely an economic phenomenon. It has also a social dimension that can be referred to as human poverty. Human poverty includes dimensions such as poor health, limited educational opportunities, cultural backwardness, poor housing, lack of access to safe water, low life expectancy, limited access to public and private resources, and limited participation in community development. It adversely affects the ability of individuals and communities to gain access to and use of assets not just economic assets but also social and political.

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3.2. Poverty Line and its Measurement

A poverty line represented by an income that commands a minimum calorie intake to individuals is first defined and then estimates are made of all those people whose income falls below this line. The method is known as head count ratio (HCR) of poverty and is commonly used measure in Indian planning and development. The official estimates are, however, based on consumption expenditure generated by National Sample Survey Organisation (NSSO) instead of income to estimate the number of poor. The planning commission had accepted the poverty line that would be necessary to provide an individual a minimum per day intake of 2400 calorie in rural and 2100 calorie in urban areas. Converted in expenditure at the 1973-74 prices this was monthly expenditure of Rs.49.1 in rural and Rs. 56.6 in urban India. In order to capture the inflationary implications over time, adjustments, using a price deflator, were made in the poverty line over time and space\(^5\).

3.2.1. Absolute Poverty

Jeffrey Sachs in his book *The End of Poverty* (2005) defines absolute or extreme poverty means that households cannot meet basic needs for survival. They are chronically hungry, unable to access health care, lack of amenities of safe drinking water and sanitation, cannot afford education for some or all of the children, and perhaps lack rudimentary shelter—a roof to keep the rain out of the hut, a chimney to remove the smoke from the cook stove and basic articles of clothing. Unlike moderate and relative poverty, extreme poverty occurs only in developing countries\(^6\). In the study of poverty, defining poverty in terms of the nutrition-base poverty lines is not uncommon. The poverty line used in the United States is estimates with scale by three a minimum-budget estimate for food requirements (the scaling proxies for other requirements such as rent and clothing). In India poverty lines have traditionally been drawn by using estimates of expenditure necessary to guarantee a minimum consumption of calories that is below a limit of 2100 calories per day in urban areas and 2400 calories per day in rural areas. It is understood

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that, there is something absolute about the notion of poverty. Regardless of the society we live in, people need adequate levels of food, clothing, and shelter. Whereas it is certainly the case that there are variations in what might be considered adequate (shelter, in particular, might be subject to varying society-specific interpretations), nobody would deny the biological imperative of nutrition, for instance, or the near-universal norms of adequate clothing. At the same time it is unclear that the phrase “acceptable levels of participation in society” can be given absolute meaning, independent of the contours of the society under consideration.

3.2.2. Moderate Poverty

Generally, moderate poverty refers to conditions of life in which basic needs are met, but just barely. In some societies, the ownership of television may be deemed socially necessary for living a “full” life in other it is not. Likewise, minimal standards of leisure, access to scientific education, ownership of private means of transportation and so on, are all concerns that must be evaluated relative to the prevailing socio-economic standards. These considerations quite naturally give rise to the one for poverty lines that share certain common components, but vary from country to country. The World Bank has long used a complicated statistical standard i.e. income of $1 per day per person, measure at purchasing power parity (PPP is a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries. This means that the exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services.) to determine the numbers of extreme poor around the world. Another World Bank category i.e. income between $1 per day and $2 per day per person, can be used to measure moderate poverty7.

3.2.3. Relative Poverty

Relative poverty refers to the individual or group lack resources when compared with that of other members of the society. Since relative poverty is a matter of differences in levels

of material resources that is inequalities in their distribution across a society. Relative poverty is normally constructed as a household income level below a given proportion of average national income. The relatively poor are found in high income countries but lack access to cultural goods, entertainment, recreation quality health care, education and other privileges for upward social mobility.

3.3. Indian Scenario of Poverty

In order to understand poverty in India, the official consensus since the late nineteen-seventies has been made to estimate the number of people who live in households with a consumption expenditure that is insufficient to command the minimum number of calories necessary for sustenance. This per capita daily calorific minimum has been defined as 2,400 calories in villages and 2,100 calories in cities. This is poverty line and all those who live below this line are the official poor. Every few years the National Sample Survey Organisation (NSSO) conducts surveys around the country to estimate the expenditure of different household classes. Another important problem in identifying the poor in India using the official poverty line is that the line is defined at an absolutely low level of income, corresponding to the expenditure required to purchase a minimum of calories. It is in no way an indicator of purchasing power to provide for a minimum decent standard of living. It is from these surveys that the Planning Commission periodically derives its numbers about the poor in rural and urban India. In the early 1950s, nearly half of India’s population was living in poverty. Since then, poverty has been declining, though slowly, and today vast disparities between and within India’s 28 states persist. More than 260 million people—about 26 percent of the population—live below the official poverty line; seventy-five percent of these live in the rural areas. Since first economic plan the nation has been experimenting with various alternatives to alleviate deep rooted poverty from the country. Such a high incidence of poverty is a matter of concern in view of the fact that poverty alleviation has been one of the major objectives of the development planning process.

It is estimated that women and children account for 73 percent of those below the poverty line. At the same time, the ratio of females to males in India is 933:1,000.

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8 Tenth Five Year Plan (2002-07, Government of India, p.293
Increased female labour force participation, particularly among the lowest-income households, is the single most important coping strategy of poor households. Even while we say that 26 percent of the people are below the poverty line, it must be remembered that identification of persons on the basis of a narrow definition of poverty based only on income, in a population that works predominantly outside the formal sector, is problematic. For instance, where income fluctuates from day to day, as it does for a vast majority of the Indian population, a single static poverty line is an inappropriate indicator of vulnerability. Therefore, Alleviation of poverty in India is a major challenge for the government as well people concern about the extreme poverty. Poverty alleviation has been one of the guiding principles of the planning process in India. Before entering into the era of SHG in India, here are some observations of poverty reduction methods taken by government of India followed by credit system in pre-colonial and post-colonial era.

3.4. Poverty Alleviation Programmes in India
Since First Five Year plan (1951-56) alleviation of poverty has consistently been one of the foremost objectives adapted by the government of India. It has also been realised since the beginning of the planning era that economic growth can reduce poverty by generating employment and income and labour intensive growth can reduce it even faster. Hence, the country needs to have comprehensive National Poverty Reduction strategy. In India, many anti-poverty programmes have been implemented on adhoc and isolated manner. A number of employment and income generation schemes were launched to provide employment in rural areas for sustaining livelihoods and eradicating poverty. The main programmes of the Five Year Plans had been reduction of relative disparities and in the First Plan, for instance, reduction in inequalities of income was accepted one of its objectives. In the Second Plan (1956-57 to 1960-61) also the reduction in inequalities of income and wealth distribution and a more even distribution of economic empower was accepted as one of the four major objectives. The other main objectives were: (i) an increase of 25 per cent in the national income; (ii) rapid industrialisation with particular emphasis on the development of basic and heavy industries; and (iii) large expansion of


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employment opportunities. The Third Plan (1961-52-1965-66) aimed at securing a marked advance towards self-sustaining growth. Its major objectives were: (i) to secure an increase in the national income of over five per cent per annum and (ii) to achieve self-sufficiency in foodgrains and increase agricultural production to meet the requirements of industry and exports. In fact, this plan has given more importance to heavy industries, such as steel, chemicals, fuel and power but not to rural development\textsuperscript{10}.

Initially, the earlier Five Year Plans had proceeded on the assumption that the normal programmes of development would improve the living standards of the poor through the trickle-down process. The trickle-down theory means that rapid growth of per capita income will trickle-down in improved living standards for the very poor. In the context of rural India, this theory has been anticipated to mean that the agricultural growth without major institutional reform will reduce poverty. Accordingly, Community Development Programme (1952), Intensive Agricultural District Programme (1960-61) were introduced. Intensive Agriculture Area Programme (1964) and High Yielding Varieties Programme (1966-67) were started to raise agricultural production\textsuperscript{11}.

The trickle-down theory was criticised because it failed to reduce any visible impact on the economic condition of the poor. It is argued that growth itself need not be poverty-reducing. In this context Bardhan argues that, in general, agricultural growth seems to be helpful to poverty eradication, but big farmer dominated growth dependent on private ownership, in the absence of land reforms, need not be so favourable to alleviation of poverty. It was becoming increasingly clear that the trickle-down process had failed in India.

In 1962 the perspective Planning Division of the Planning Commission released an important paper entitled "Perspective of Development 1961-1976, Implications of Planning for a Minimum level of Living" with the approach of direct attack on poverty. This paper had paved the way for shaping the Fourth Plan (1969-74). The highlight of this paper was that, it mainly tried to draw attention towards the abject poverty in which the bulk of Indians lived, but more than that it made a forceful plea for removal of poverty. The approach of development can be regarded as a forerunner of the "direct

\textsuperscript{10} India 2008, Ministry of Information and Broadcasting, Government of India, p.676-77.
attack on poverty” by means of poverty focused on pro-poor policies adopted since the Fourth Five Year Plan. This approach appears to be more promising and effective in reducing poverty both in the short and longer runs. But poverty can not be attacked directly without detailed knowledge of its location, extent and characteristics. The Fourth Plan highlighted the need for creation of employment opportunities and a more even distribution of income. It also showed a greater awareness of the need to alleviate poverty by direct means as would be obvious from the following observation of the Fourth Plan: “to some extent income disparities can be reduced through fiscal measures aiming at reduction of income at the top levels, but for us it is important to lay far greater stresses on positive steps for ameliorating the conditions of poorer people through planned economic development”\textsuperscript{12}.

In this Plan it was identified that the poor comprised-landless agricultural labourers, small and marginal farmers and village artisans. Among them SCs and STs constitute the principal segment of the poor. This Plan could note that there are backward areas located mainly in areas with scanty rains, hill areas, some costal regions, forest areas, etc. Keeping these in mind, specific poverty eradication programmes for target groups and specific areas were started\textsuperscript{13}. Such as Marginal Farmers and Agricultural Labour Agencies (MFALDA) and the Small Farmer Development Agency (SFDA) was setup in 1969 on the recommendations of Rural Credit Review Committee (RCRC). Main objective of the MFALDA programme is to support the marginal farmers in making the maximum productive use of their small holdings by undertaking horticulture, animal husbandry etc. Both these schemes were combined and renamed as District Rural Development Agency (DRDA) in 1979. In order to decrease the gap among the regions in the distribution of benefits from agricultural development in the Country, Hill Area Development Programme (HADP) was started in 1970-71. Its focus was to control shifting cultivation, soil conservation, availing facilities of minor irrigation, land reclamation and development of tribal agriculture and animal husbandry. Employment Generation Scheme (EGS) 1972 embodied a commitment by the states to provide employment to person who comes forward to offer labour. Under this programme


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emphasis was given to both wage employment and enhancement of household income to set free from the clutches of cycle of poverty.

3.4.1. Minimum Needs Programmes (MNP, 1977)
The most important programme of the Fifth Five Year Plan (1974-79) was the Minimum Needs Programme (MNP) was introduced in 1977, a direct approach to attack on poverty which is known as ‘Garibi Hatao’. The fundamental objective was to provide basic minimum needs and Growth with justice, where importance was given both to the growth of national income (GDP) as well as its redistribution. It envisaged the provision of free and subsidised services through public agencies to improve the consumption levels of those living below the poverty line and raise productive efficiency of both rural and urban workers. Its basic components are as of elementary health, water supply, roads, electrification, improvement of slums and nutrition etc. Again importance was given to Village Development Programme (VDP) to increase productive capabilities in the rural areas and promoting the welfare and prosperity as well as equitable distribution of the benefit of development.

3.4.2. Integrated Rural Development Programme (IRDP, 1978)
This programme was started in 1978, and is the central pillar of poverty eradication since the Sixth Five Year Plan. It was the single largest anti-poverty programme aimed at the eradication of poverty among the target group of the poorest of the rural poor namely small and marginal farmers, agricultural and non-agricultural labourers rural artisans and crafts men and SCs and STs who live below poverty line The fundamental objectives of the IRDP as follow: (i) to raise the production and productivity in agriculture and allied sectors and (ii) to setting up agro-industrial complexes so that presently unemployed or under employed person may get jobs in activities of the than agriculture. This programme was not integrated effectively and therefore the success is marginal and short-lived. Under IRDP scheme, subsidy loan were given to members of the SCs, STs and physically handicapped persons are entitled to subsidy upto 50 percent of the cost of projects. As it was provided high subsidy to unplanned activities so it came to a disaster. Cattle loans were financed without adequate attention to other details of fodder availability marketing
of milk. The abiding legacy of the programme for India’s poor has been that millions have become bank defaulters for no fault of their own. Today, they find it impossible to rejoin the formal credit sector. Under the IRDP, there is a separate component for micro-finance to women’s groups under the programme of Development of Women and Children in Rural Areas (DWCRA). Under DWCRA upto Rs.25000 were provided as revolving fund to a group of 10 to 15 women for investing in any group-based income generation activity. The IRDP alone accounted for 40 percent of the losses incurred by commercial banks in rural lending in 1988. As a result the programme has paralysed and new programmes are come into being for rural credit and poverty alleviation.

3.4.3. Rural Landless Employment Guarantee Programme (RLEGP)
Eradication of rural poverty was the most important objective of the Sixth Plan (1980-85). The Rural Landless Employment Guarantee Programme (RLEGP) was launched on 15 August 1983 to generate additional employment in rural areas particularly for the rural landless workers. Objectives behind the programmes are: to create productive and durable assets for strengthening rural infrastructure. To improve and expand employment opportunities for the rural landless, which will lead to rapid growth of rural economy and steady rise in the employment opportunities for the rural poor and to improve overall quality of the life in rural areas.

3.4.4 Employment Assurance Scheme (EAS)
In terms of social security and broader it, government India in its Eight Five Year Plan (1992-97) introduced various schemes. These are:

Employment Assurance Scheme (EAS) in 1993 with the primary objective creation of additional wage employment opportunities during the period of acute shortage of wage employment, through manual work for the rural poor living below the poverty line.

The National Social Assistance Programme (NSAP) in 1995, with the objectives of providing social assistance benefits to poor households affected by oldage, maternity

care and death of primary breadwinner. The programme supplements the efforts of the state government with the objective of ensuring minimum level of well being.

The Training for Rural Youth for Self-Employment (TRYSEM) in 1997, with the purpose to generating employment opportunities for the unemployed educated rural youth. The main thrust of this scheme is on equipping rural young in the age group of 18-35 years with necessary skills and technology to take up vocations of self-employed in the broad fields of agriculture and allied activities industry, services and business.

3.4.5. Swarnajayanti Gram Swarozgar Yojana (SGSY)

In the Ninth Plan (1997-2002) emphasis was given to capital formation and redistribution which would ensure food security and good live for all. The objectives of the plan included, rural development with a view to generating adequate productive employment and eradication of poverty, accelerating growth process and ensuring food security to all. To fulfill these objectives government of India introduced many schemes. These are as follows:

The Swarnajayanti Gram Swarozgar Yojana (SGSY) was introduced in April 1999. It has incorporated the IRDP, TRYSEM and DWCRA along with Millions Wells Schemes (MWS) in to a single self-employment programme. It purposes at promoting micro enterprises and helping the rural poor into self help groups (SHG).

The objective of the Antyodaya Anna Yojana (AA Y, 2001) scheme is economic upliftment of the poor families in last ladder among the poor. The poorest of the poor households from the BPL are provided foodgrains (wheat at Rs.2/- per kg and rice at Rs.3/- per kg). Under this scheme initially target was given to the State and accordingly ration cards were issued to the beneficiaries, and being distributed to them from May, 2001.

Pradhan Mantri Gramodaya Yojana (PMGY) introduced in year 2001. It is focuses on village level areas, health, primary education, and drinking water, housing and rural roads with the objective of improving the quality of life of vulnerable section of the rural areas.

To reduce unemployment in rural areas Sampoorna Gramin Rojgar Yojana (SGRY), a centrally sponsored wage employment programme came into existence with
effect from 25 September, 2001 by amalgamating two other wage employment programmes namely, Jawahar Gram Samrudhi Yojana (JGSY) and Employment Assistance Scheme (EAS). The fundamental objective of the scheme is to provide additional and supplementary wage employment and thereby providing food security and improving nutritional level in rural areas. Creation of durable community, social and economic assets and essential infrastructure in rural areas are the secondary objectives. The programme is being implemented in cost sharing basis between the centre and state in the ratio 75:25 of the cash component. Fifty per cent of the total allocation is released in shape of food grains by Govt. of India on free of cost. Wages are paid through a mix of at least 5 kg of food grain and minimum 25 per cent in cash.

3.4.6. National Rural Employment Guarantee Act (NREGA)

It aims at social equity and justice ushering in fundamental changes in villages. The Act commenced from 2nd February 2006 in 200 districts all over the country, including 19 districts of Orissa. The SGRY and the NFFWP have been subsumed under the NREGA in these districts. Under Sec-4 of the Act, the state government shall formulate and Employment Guarantee Scheme for implementation of the Act following the guidelines prepared as NREGS (National Rural Guarantee Scheme) by the Central government. The objective of the Act is to provide enhancement of livelihood security to the rural households by guarantying at least 100 days of wage employment in a year to every household whose adult member volunteer agree to do unskilled manual work. Besides, a durable asset is to be created implementation of the Act to strengthen the livelihood resource base of the rural poor. It is a centrally sponsored scheme with the funding shared between the centre and state 75:25. In case of failure to provide employment within the stipulated period, i.e., within 15 days from the date of application, unemployment allowance has to be paid and the same is be borne by the state government. The Gram Panchayat has a pivotal role in its implementation. It is responsible for planning, registration, issuing job cards, allocating employment, executing 50 per cent of the works and its monitoring, supervision and social audit. The scheme came into implementation in Orissa in March, 2006 and the achievement under this scheme during 2006-07. In 2008, it has been proposed by the central government to implement all the districts of India.
3.5. Women Participation and Poverty Alleviation

Since the inception of First Five Year Plan (1951-56), various anti-poverty programmes have been implementing, as a result the degree of poverty has declined both at the national, urban and rural level. In deed, these policies and programmes recognised importance of women involvement for poverty reduction and made many provisions in implementation level. The post-liberalisation era in India witnessed the emergence of a new phenomenon, mainly in terms of social re-engineering and growing inclusion of the poor people at large and women folk in particular, who were keen on expanding their economic opportunities, i.e., the Self-Help Group (SHG).

Meanwhile, with success of NABARD’s pilot project in 1992 on SHG has given a source to the rural women for self-employment and it is become one of the major mechanisms for poverty alleviation in India. SHG has become a substituted tool for poverty reduction and also become alternative collateral for the rural and urban poor to free from the clutches of moneylenders who charges high interest rate and monopoly of the local market.

The Swarnjayanti Grameen Swarozgar Yojana (SGSY) which has been launched in 1999 is a holistic programme covering various aspects of self-employment, such as organisation of the poor into self-help groups, training, credit, technology, infrastructure and marketing. It is visualised that 50 per cent of the groups formed in each Block should be exclusively for women who will account for at least 40 per cent of Swarozgaris. Under the scheme, women are encouraged in the practice of thrift and credit which enables them to become self-reliant. Through assistance in the form of revolving fund, bank credit and subsidy, the Yojana seeks to integrate women in the economy by providing increasing opportunities of self-employment. Under the Sampoorna Grameen Rozgar Yojana an objective was set up that to provide additional wage employment in all rural areas and thereby provide food security and improve nutrinational levels. Wage employment under this scheme is extended to below poverty line families. It is stipulated that 30 per cent of the employment opportunities should be reserved for women. The Indira Awas Yojana (IAY) aims at providing assistance for the construction of houses for
people below the poverty line in rural areas. Under the scheme, priority is extended to widows and unmarried women. It is stipulated that IAY houses are to be allotted in the name of women members of the household.

3.6. Cooperative Credit Societies in India
Under Sir Purshottamdas Thakurdas in 1949, the Central Banking Enquiry Committee found that the cooperative infrastructure was quite satisfactory and that commercial banks had not shown any appreciable interest in agricultural and rural credit and had not gone beyond taluka headquarters. In 1954, the All India Rural Credit Survey pointed out that the development of the cooperative credit movement had been inadequate in coverage and recommended its strengthening by developing a three-tier cooperative structure. Under Sir Mehta The Committee on Cooperative Credit has founded in 1960, it recommended the development of a strong and stable institutional framework for cooperative societies, suggesting they should follow sound business methods, distribute assets properly, maintain fluid resources, attract local deposits, developed proper lending norms, supervise the utilisation of credit, improve recovery, maintain a good audit report

For the first time the Reserve Bank of India set up the All India Rural Credit Survey Committee (1951-52). While assessing the role of cooperatives, the committee found that agriculturist money-lenders together supplied about 70 percent of the total borrowing of agriculturists. On other hand, government agencies and cooperatives supplied only 6.4 percent and commercial banks only 0.9 percent. Therefore, the committee recommended an integrated recognition of the cooperative credit system, which envisaged state partnership through contribution to the share capital of the cooperative credit institutions. Coordination between credit and other economic activities, especially marketing and processing; and administration through adequately trained and efficient personnel responsive to the needs of the rural people

The cooperatives play a prominent role to in the provision of credit to the agricultural sector. Though there are large numbers of banks are functioning and

facilitating loans, still it is not enough for the millions of cultivators and present SHGs. The credit cooperative operates in three tiers, i.e., state, district and village. At the state level, there is the apex cooperative Bank, which accesses funds from NABARD. It passes the funds on to the district cooperative banks, which in turn, provide funds to the Primary Agricultural Cooperative Societies (PACS) at the village level. PACS were permitted loans to the extent of only 10 times farmer’s savings or margin money. There are 90000 PACS in the country which are engaged in financing for productive purposes. In the rural areas, cooperative institutions enjoy some concessions which are not available to the normal commercial banks. Indira Misra argues that, although the “coverage of the PACS is quite large; their working is not uniformly good. Financial mismanagement, failure to mobilise local savings, inability to recover dues, and politicisation of their functioning are some of the known maladies the PACS suffer from”18. Now it is extending credit to SHGs.

In 1954, All India Rural Credit Survey (AIRCS) has carried out on formal credit institutions. Money lenders, traders and rich landlords accounted for more than 75 percent of rural credit. Cooperative credit societies had already been in existence for 50 years but their share in rural credit was still less than 5 percent. The 1945 cooperative planning committee had discerned early signs of sickness in India’s cooperative movement, finding that a large number of cooperative were saddled with the problem of frozen assets because of heavy overdues in repayment19. In the 1950s and 1960s, the way forward was seen to lie in cooperative credit societies. These cooperative were to take the lead in the integrated scheme of Rural Credit suggested by the AIRCS. The share of cooperatives in rural credit did rise to cross 20 percent in 1971. Presently, India’s Cooperative Credit Structure (CCS), with over 13 crore members (including six crore borrowers), constitutes one of the largest rural financial systems in the world. The over one lakh Primary Agriculture Credit Societies (PACS) can, in many ways, be regarded as the veritable bedrock of India’s rural economy20. The CCS services farm input

20 Ibid, pp.14-15
distribution, crop production, processing and marketing as well as dairying weaving and textiles.

Shah et al argued that however, the CCS has never realised the enormous potential opened up by its vast outreach. According to the task force on revival of rural cooperative credit institutions, this owes mainly to a “deep impairment of governance”\(^{21}\). While they were originally visualized a member-driven, democratic, self governing, self-reliant institutions, cooperatives have, over the years, constantly looked up to the state for several basic functions. The task force describes in detail how state governments have become the dominant shareholders, managers, regulators, supervisors and auditors of the CCS. The concept of mutuality (with savings a credit functions going together), that provided strength to cooperatives all over the world, has been missing in India. This “borrower-driven” system is best with conflict of interest and has led to regulatory arbitrage, recurrent losses, deposit erosion, poor portfolio quality and a loss of competitive edge for the cooperatives. Domination by richer elements in the rural elite that characterised cooperatives in the colonial period continues to be an abiding feature of these institutions even after independence.

In the 1950s the government of India invested a great deal of faith in cooperative societies. But credit societies in particular did not succeed because of bureaucratic control, high incidence of default, especially by the rich. Because cooperative societies failed, the government could not disperse with private moneylenders. There is now talk of registering and regulating private moneylenders instead of abolishing them entirely.

### 3.7. Chit Fund System in India

In India, Chit Fund (CF) is a kind of savings and credit practice among the main and petty-businessmen. Normally, in chit fund scheme, a specific number of individuals come together to pool a specific amount of money at periodic intervals. This schemes run by relatives, rural moneylenders and agriculture traders. As a group of individuals organised for mutual interest, it call called Rotating Savings and Credit Associations (ROSCAS) in South Asian countries\(^{22}\). Usually the number of individuals and the number of periods

will be the same. At the end of each period, there will be an auction of the money. Members of the chit fund will participate in this auction for the pooled money during that interval. The money will be given to the highest bidder. The bid amount will be divided by number of members, thus determining per head contribution during that period. Usually the discount will continue to decrease over periods. The person getting money in the last period will receive the full scheme amount. Such chit fund schemes may be conducted by organised financial institutions or may be through unorganized schemes conducted among friends or relatives. There are also variations of chits where savings are done for a specific purpose.

3.7.1. Method of Functioning of Unorganized Chit Funds
Functioning of Chit funds are better explained using an example. Take a typical chit fund with 20 members contributing Rs.100 per week. This fund will run for 20 weeks. On the first week all members will contribute Rs.100. An auction meeting will be conducted, and the foreman of the chit fund will preside over it. The total amount that is pooled will be Rs.2000. The auction will start with this amount. Bidders will start bidding by discounting this amount. Let us suppose that lowest any person bids Rs.1800 (a discount of Rs.200). This amount (Rs.1800) is given to the winning bidder. Rest of the amount is divided by 20, bringing the discount per person to Rs.14. This discount amount is returned to each member. Sometimes a part of this may be kept by the foreman as service charges, usually in organised chit funds.

3.7.2. Methods of Functioning of Organised Chit Funds
Chit funds in India are governed by various state or central laws, like Travancore Chit Act of 1945, Chit Funds Act, 1982 and Madras Chit Fund Act, 1961. Organised chit fund schemes are required to register with the Registrar Firms, Societies and Chits. In north India the common type of chit fund is where small slips with each members name are written and gathered in a box. When all members gather for a monthly or weekly meeting then person in-charge picks up one slip from the box in front of all the others and the person whose name comes up will be entitled to get the collection of that day. Afterwards that person's name slip is torn but after he has to come for subsequent meetings and give his share of the kitty.

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Chit Funds are also misused by its promoters. There are many instances of the founders running away with the collected fund and absconding. Hence chit funds have gained notoriety as “cheat” funds.

3.8. Paradigm Shift in the Rural Credit Systems

During 1966, numbers of bank were undertaken on commercial purposes and these were financed to large industries. The bulks of deposits collected were being deployed in organised sectors of industry and trade. But the farmers, small entrepreneurs and self-employed had to depend on informal moneylenders who used to exploit the clients by charging high rates of interest. In 1966, a scheme of social control was set up, whose main function was to periodically assess the demand for bank credit from various sectors of the economy to determine the priorities for grant of loans and advanced so as to ensure optimum and efficient utilisation of resources. However, the scheme did not provide any remedy.

On 19 July 1969, the Government promulgated the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969 to acquire 14 larger commercial banks with paid-up capital of Rs.2850 crore, deposits of Rs.2629 crore, loans of Rs.1813 crore and with 4134 branches accounting for 80 percent of advances. Subsequently in 1980, six more banks were nationalized which brought 91 percent of the deposits and 84 percent of advances in public sector banking. At the time of nationalisation the socio-economic objectives were explicitly laid down and the banks were asked to contribute to the maximum possible extent towards to economic and social development of the country. The underlying philosophy of nationalisation was that “an institution, such as the banking system, which touches and should touch the lives of millions, has necessarily to be inspired by a larger social purpose and has to sub-serve national priorities and objectives”23. Therefore, the operations of banks should be in alignment with the national policy objectives of increasing production, diffusion of economic power, reduction of inequalities, and alleviation of poverty.

Subsidising credit rates has been on of the elements of the strategy for the economic development and rural upliftment. The principal justification for charging

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lower interest rates to certain categories of borrowers has been that farm-based investment activity in the short run does not always yield returns which enable regular servicing of loans while at the same time meeting minimum consumption requirements. In 1955, Subsidiary Banks Act passed, enabling the SBI to take over seven banks of the princely states as its associated banks. The formation of SBI and its seven associate banks was undertaken with the objective of accelerating the pace of the extension and attainment of the priority sector objectives. Prior to the nationalisation of banks, the commercial banks has a policy of benign neglected to agriculture credit\textsuperscript{24}.

Despite all its landing stage, there was not sufficient progress in regard to flow of consumption credit to the poor by the formal banking sector. Legislative reforms vis-à-vis universal membership in PACS was introduced; but the cooperative banks themselves became weaker and weaker in the subsequent years. The introduction of SHG in the 1970s and linking-SHGs with commercial banks introduced in the 1990s seems to have provided an alternative route to meet the credit needs of the poor.

\section*{3.9. Regional Rural Banks (RRBs)}
To find a solution for the wide banking gap between commercial and non-commercial credit, particularly in meeting the credit requirements of the weaker section the society living in rural areas, such as small and marginal farmers, agricultural labourers, rural artisans and people involved in petty trades, etc., the Government of India established Regional Rural Banks (RRBs) through the Regional Rural Banks Act of 1976. The Government of India appointed a working group on rural credit under the Chairmanship of Narsimham. The Narsimham Committee observed that the cost of structure of commercial banks, the attitudes of their employees and the lack of a professional banking approach in the cooperative credit structure were the major problems in rural credit. It also observed that the deposits collected by banks in rural areas were not totally deployed in the rural areas\textsuperscript{25}.

There are 196 RRBs, together covering 427 of the more than 516 districts and serve a client base of close to 6.27 crore in the country (see Table 3.2). The RRBs prepare

\textsuperscript{24} Ibid, pp.64-65.
\textsuperscript{25} Ibid, p.82.
their area-specific programme of micro lendings and after assessing the present and potential credit requirements conduct techno-economic surveys. These banks are sponsored by various commercial banks in different districts. Despite the various measures taken by the Government and the RBI through social control and the nationalisation of major commercial banks, a large proportion of the rural poor remain outside the banking fold.

Looking into all aspects of consumption credit for the poor, the Export Committee on Consumption Credit (Under the Chairmanship of Shri B. Shivaraman, 1978) recommended for allowing a line of credit to poor households by the formal banking sector. The committee recommended a line of credit equal to Rs.750 per household. The specific consumption demands identified by the Committee were: (a) medical expenses (33 percent), (b) marriage (33 percent), (c) education (13 percent), (d) birth, death and religious purposes (10 percent) and (e) general consumption (10 percent)\(^26\). The committee recommended for a higher percentage (10 percent) of risk cover by the government than usually done for other rural loans extended by the cooperative and commercial banks. On the estimated demand for consumption loan of Rs.170 crore in 1976, it provided for Rs.17 crore as Risk Fund. This fund, moreover, was required to be shared equally by the Central and the State Governments.

3.10. Self-Employed Women’s Association (SEWA) Cooperative Bank
The textile mills in Ahmedabad faced various problems, many of the casual women labourers become jobless and started searching for other market opportunities. In 1972, in the city, under the leadership of Ela Bhatt, 4000 self-employed women started the Self-Employed Women’s Association (SEWA), which was a trade union with the objective of fighting against market pressures. One of the primary demands of the union members was credit. In the beginning, the members tried to obtain credit from banks, but gradually they felt that they required a Bank or an organisation for their financial transactions, which is flexible enough for their needs, meeting their small credit needs repeatedly which can also safely keep their small savings; and where their poverty and illiteracy does not

become a handicap for them. Therefore, in 1974, these women set up their own bank. SEWA bank is a creation of women, who have learnt to sign overnight. Today, there are 33,000 woman account holders. At the end of 2001, SEWA Bank had a working capital of Rs.10 crores in outstanding loans to about 200000 women. As a Bank, it provides credit to the members. It also helps in improvement of designs of the traditional craft items of the women, and in the sale of the products. It reflects the need for flexible credit by many women to sustain their micro-businesses and their household expenditure. Thus, this was the beginning of small credit era for the poorest of the poor for earning livelihoods. It also became a collateral free credit delivery systems and rates of interest also minimal.

The implementation of formal lending programmes towards the poor suffer from the difficulties such as of exact targeting, screening problems of distinguishing good and bad borrowers. Usually lending agencies would be able to ensure the productive usage of loans. Also, the high transaction costs incurred in lending to the poor made the formal lending agencies leave the poor un-banked. The India cooperative credit structure meant to empower the poor was not very successful as it was captured by a few powerful and because of excessive governmental interference and regulation. The search for an alternative to the formal banking sector and an effective financial system to cater to the needs of the poor for coping the poverty. The origin of microcredit or microfinance can be traced to the establishment of the SEWA cooperative bank in 1974, to provide banking services to the poor women employed in the unorganized sector in Ahmedabad in Gujrat. This all happened because SEWA bank is a bank where are the users, owners and managers. Through identified leaders and organisers, continuous personal contact in the field is maintained with members. As owners, the members elect their own executive committee, make policies, decide interest rates and share profits. The bank is accountable to members as well as depositors and subject to audit by RBI and by the Cooperative

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27 Ibid, p.107

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Department of the state government of Gujarat. SEWA Bank facilitates loans to three types of members:

- Hawkers and Vendors (vegetable and fruit vendors, small shopkeepers, flowers and fish vendors)
- Home-based workers (Weavers, Carpenters, bidi rollers, women who process agricultural produce)
- Manual labourers and service providers (agricultural labourers, construction workers, paper-pickers and domestic workers).

The SEWA movement is committed to addressing a wide range of needs of its women members, known within SEWA as the “10 points” e.g., enhancing their income, employment and their ownership of assets, improving housing, health-care and the intake of nutritious food, providing child-care, organising women and building leadership and greater self-reliance.

3.11. Grameen Bank

Grameen Bank Project was born in the village of Jobra, Bangladesh, in 1976 by Professor Muhammad Yunus, the founder of Grameen Bank and its Managing Director. In 1983 it was transformed into a formal bank under a special law passed for its creation. It is owned by the poor borrowers of the bank who are mostly women. It works exclusively for them. Borrowers of Grameen Bank at present own 95 per cent of the total equity of the bank. Remaining 5 per cent is owned by the government.

Grameen bank clients follow the basis of group discipline. For example, Yunus started with “Ten Decisions’ in 1982 and it has been increased to Sixteen Decisions” in 1984. These “Sixteen Codes” are the soul of Grameen. So meeting is most important to discuss group activities. If the group has some structure agenda to discuss and implement in future course of action, we can say that the SHGs is sustaining for its cause. The Sixteen Decisions are as follows:

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31 Ibid, pp.51-52.
1. We shall follow and advance the four principles of the Grameen Bank-dicipline, unity towards constructing new houses at the earliest opportunity.

2. Prosperity we shall bring to our families.

3. We shall not live in a dilapidated house. We shall repair our houses and work towards constructing new houses at the earliest opportunity.

4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.

5. During the plantation seasons, we shall plant as many seedings as possible.

6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.

7. We shall educate our children and ensure that we can earn to pay for their education.

8. We shall always keep our children and the environment clean.

9. We shall build and use pit-latrines.

10. We shall drink water from tubewells. If it is not available, we shall boil water or use alum to purify it.

11. We shall not take any dowry in our son’s weddings, neither shall we give any dowry in our daughter’s wedding. We shall keep the centre free from the curse of dowry. We shall not practice child marriage.

12. We shall not commit any injustice, and we will oppose anyone who tries to do so.

13. We shall collectively undertake larger investments for higher incomes.

14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.

15. If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.

16. We shall introduce physical exercises in all our centres. We shall take part in all social activities collectively.
3.11.1. Loan disbursing Methodology in Grameen Bank

Grameen brought credit to the poor, women, the illiterate, the people who pleaded that they did not know how to invest money and earn an income. Grameen created a methodology and an institution around the financial needs of the poor, and created access to credit on reasonable term enabling the poor to build on their existing skill to earn a better income in each cycle of loans.

Grameen Bank starts with the belief that credit should be accepted as a human right, and builds a system where one who does not possess anything gets the highest priority in getting a loan. Grameen methodology is not based on assessing the material possession of a person, it is based on the potential of a person. Grameen believes that all human beings, including the poorest, are endowed with endless potential. Grameen Bank does not require any collateral against its micro-loans. Since the bank does not wish to take any borrower to the court of law in case of non-repayment, it does not require the borrowers to sign any legal instrument. Its methodology of loan disbursements is "no collateral, no legal instrument, no group-guarantee or joint liability". Although each borrower must belong to a five-member group, the group is not required to give any guarantee for a loan to its member. Repayment responsibility solely rests on the individual borrower, while the group and the centre oversee that everyone behaves in a responsible way and none gets into repayment problem. There is no form of joint liability, i.e. group members are not responsible to pay on behalf of a defaulting member.

Grameen Bank (GB) has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. GB provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At GB, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the over all development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable.

33 This portion extract from http://www.grameen-info.org (dated, 27/7/2008)

Today, one can find variety of SHG in village Chopal to Wall Street of USA, the concept SHG has dominated in the world wide. The model Self-Help Groups is one of the widespread tools for poverty alleviation in India. The SHGs are informal groups of persons join hands together for sharing a common cause and concern. These groups are formed voluntarily and managed democratically. Their membership consists of homogeneous individuals. The objective of the SHG is the common good of members a possibly of others around them. Any group of individuals can decide and form an SHG and start functioning the same day. The SHGs are expected to evolve a strategy with a clear concept of mutual help between the members who are like-minded, belonging to similar socio-economic strata. SHGs are also expected to muster up resources for future use towards income generation activities. The general experience is that the SHGs have to pass through many phases in the course of becoming mature. In order to proceed methodically over a long period of time, the SHGs need to learn to maintain a record of their activities and financial transactions. In course of their dealings, they have to identify the serious from the non-serious members and ease out the latter. Before settling down to serious business they have to satisfactorily lay down common rules and codes of conduct.\(^3^4\)

3.12.1. Phases of Self-Help Groups Formation

Indira Misra has illustrated four phases of SHG formation and it function. Theoretically there is every justification in anticipating that SHGs can be formed by any group of individuals, in practice the outside helping hand is a must. In any faulty move at the initial phase lie seeds of the SHGs destruction. The main cause and concern for any group formation is to wipe out the poverty so as provide sustainable livelihoods for the poor.

In the formative stage, any person or NGO functionary can locate likeminded people who can form a group and ensure confidence in them to save some money by curtailing from the daily expenditures. Choosing likeminded people ensures that conflicts are reduced. Even the presence of a single who has discordant views may dissipate the energy of the members of the group in driving conflicts rather then in finding profitable

economic opportunities. Second stage is the stage when members face opposition from the members of families, the local leaders and politicians. Third stage is normative. After settling the problems, the group members decide about the functioning of the groups. Decision about savings, opening of bank account, authorisation to maintain the account, frequency of meetings, convenient time for group meeting, participating in social agenda of the village have to be taken. The last stage is performative. Once the cycle of loan activity has been completed, the NGO and the SHG both gain stability. They can also expand their programmes and activities as per the requirement. The performative stage can go on indefinitely in a smooth manner on the basis of sound foundations laid in the earlier stages of SHG.

3.12.2. Functioning of SHG

SHGs are mostly informal groups where members pool savings and relend in the group on a rotational basis. The groups have a common perception of need and improvise 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 member. Where fund generation is low in initial stages due to low savings capacities, this is supplemented by external resources loaned by NGOs or donor agencies. Thus, SHGs have been able to provide primitive banking services to its members that are cost-effective, flexible and without defaults. It is generally noticed that the main hesitation in starting a programme is the fear of accounts keeping. However, this aspect is not so difficult to handle only if the various requisite records are maintained methodically in writing. Some of the important functions SHG manage:

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

- Groups evolve flexible systems of working and managing pooled money in a democratic way. If the group is formed by NGOs and its members are uneducated then an animator or an educated, knowledgeable person helps to manage their accounts.

• Loan requests are considered by groups in periodic meetings and competing claims on limited resources are settled by consensus.
• Loans are given mainly on trust with minimum documentation and without any collateral.
• The loan amounts are small, frequent, for short duration and are mainly for unconventional purposes.
• The rates of interest vary from group to group and the purpose of loan. It is higher than that of banks but lower than that of moneylenders.
• Besides collecting money, socio-economic issues are also discussed in the periodic meetings.
• It is essential that the records regarding the membership fee are maintained. First of all, the SHG has to determine in the first few meetings how much membership fee will be charged per month from every member.

The SHGs are not in a position to keep adequate staff for updating their bank transactions and individual accounts. For such exigencies, the SHGs can do well by engaging a local person, school teachers or students on a part-time basis for completing the passbook entries during the meeting itself, when the savings are brought by the group member. This is a vital exercise for NGOs channelising micro-credit. The person who deals all the SHGs formal work on behalf NGOs is called an animator. Attending SHG meetings regularly should be compulsory. Leave of absence may be given only for strong reasons.

3.13. SHG Federation

A federation is a informal primary association in which members realise economies scale get strength as an interest group. A cluster level federation is a network of several SHGs and a structure evolved by SHGs themselves consisting of representatives from all member-SHG, with the motive of supporting member-SHG to attain the goals of economic and social empowerment of women members and their capacity-building. The group may have a cooperative credit society or a federation of cooperative societies. The case the groups are a federation, the savings are collected by the group leader and brought to the federation office which maintains detailed accounts of group savings. Sharing a platform and gathering under a roof regularly engenders a spirit of friendship in
members, which is so valuable to women who are otherwise so vulnerable and weak in the isolation of member’s homes. A majority of the well-functioning SHGs have bank linkage. SHG federation is not required to play the financial intermediary role as SHG-bank linkage is a sustainable relationship. Activities of SHG federation includes-it strengthen SHG member through training, information, onsite support, book-keeping, accounting, marketing, financial management, advocacy and accessing government schemes. Federation also helps to resolve any conflicts that may arise within member-SHG, assist in achieving sustainability of SHGs. It helps to promote new SHGs and facilitate women’s empowerment by creating social, political awareness.

3.14. Models of Microcredit
For member’s flexibility and smooth running of SHG, there are seven types of SHG models functioning in India and in South Asia. The models are as follows:

3.14.1. Model I: SHGs formed and financed by Banks
In this model, banks deal directly with the SHGs, provides financial assistance for on-lending to individual members. Here, credit at rates decided by members and by bank. Saving is the first priority. In this model, banks themselves take up the work of forming and nurturing the groups. Opening SHGs accounts and providing them bank loans. Upto march 2006, 20 percent of the total number of SHGs financed was from this category. This showed an increase of 61.63 percent in bank loan to SHGs over the position as on March 2005, reflecting an increased role of banks in promoting and nurturing of SHGs.

3.14.2. Model II: SHGs formed by formal agencies other than banks, NGOs and others, but directly financed by Banks
In this model savings is the first priority. Member’s pool money and deposit in the bank. The credit rates decided by the Banks not by the SHG. This model continues to have the major share, with 74 percent of the total number of SHGs financed upto 31 March 2006 falling under this category. Here, NGOs and formal agencies in the field of microfinance

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act only as facilitators. They facilitate organising, forming and nurturing of groups and training them in thrift and credit management. Banks give loans directly to these SHGs.

3.14.3. Model III: SHGs financed Banks using NGOs and other agencies as financial intermediaries
In this model savings and credit decided by the SHG and also by the Bank. The NGO provides support and linkages services to the SHG to Bank and also provides training etc. This is the model wherein the NGOs take on the additional role of financial intermediation. In areas where the formal banking system faces constraints, the NGOs are encouraged to approach a suitable bank for bulk loan assistance. This, in turn, is used by the NGO for lending to the SHGs. In areas where a very large number of SHGs have been financed by bank branches, intermediate agencies like Federations of SHGs are coming up as links between bank branch and member SHGs. These Federations are financed by banks, who, in turn, finance their member SHGs. The share of cumulative (increasing by one addition after another) number of SHGs linked under this model upto March 2006 continued to be relatively small at 6 percent.

3.14.4. Modified NGO Model-BASIX (Andhra Pradesh) and SEWA (Gujarat)
Savings and credit decided by the group itself and savings goes to the NGO. 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 to the bank and linkage between the bank and the SHG is indirect.

3.14.5. Indirect NGO Model -BOB-SEWA (Lucknow)
In this model savings are as usual with the bank and Bank offer credit to the NGO. In return the NGO provides raw material and job work to the members.

3.14.6. IFAD Model (Tamil Nadu, Uttar Pradesh, Maharashtra)
Members save their money to the SHG and SHG deposit it in the bank. NGO provides training and linkages services to the SHG and Bank. There is a line department to support to the bank and members.
3.14.7. SGSY Model
In this model government involvement can find with the SHG. Savings and credit decided by the members, SHG and Bank. NGO get training from the Government and provides training and support services to the SHG and linked with the bank and line departments. The line departments have linkages with the Government and under SGSY scheme members get training.

3.15. SHG and Different Models of Bank Credit Linkage
Of the above seven model of SHGs credit linkage, model second is popular one. The chart 3.1 shows that during 2005-06 model second has linked 74 per cent SHGs and disbursed loan. In this model SHGs member, first collect money and deposit in the bank and the rate of interest decided bank. The NGOs are the only training facilitators for income generating but bank transaction directly takes place between the SHGs and bank.

Bar Chart: 3.1.
SHG and Different Models of Bank Credit Linkage

Source: Annual Report of NABARD 2005-06
Table: 3.1.  
SHG-Bank Linkage-Model-wise Cumulative Position upto 31 March 2006

<table>
<thead>
<tr>
<th>Region</th>
<th>Model I</th>
<th></th>
<th>Model II</th>
<th></th>
<th>Model III</th>
<th></th>
<th>Total (Rs. Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of SHGs</td>
<td>Bank Loan</td>
<td>No. of SHGs</td>
<td>Bank Loan</td>
<td>No. of SHGs</td>
<td>Bank Loan</td>
<td>No. of SHGs</td>
</tr>
<tr>
<td>Northern</td>
<td>11799</td>
<td>305.61</td>
<td>121109</td>
<td>3676.15</td>
<td>189</td>
<td>4.09</td>
<td>133097</td>
</tr>
<tr>
<td>North Eastern</td>
<td>47375</td>
<td>1377.56</td>
<td>10073</td>
<td>227.06</td>
<td>5069</td>
<td>52.39</td>
<td>62517</td>
</tr>
<tr>
<td>Eastern</td>
<td>129521</td>
<td>3419.71</td>
<td>228769</td>
<td>5274.3</td>
<td>36061</td>
<td>660.18</td>
<td>394351</td>
</tr>
<tr>
<td>Central</td>
<td>52763</td>
<td>1403.40</td>
<td>210031</td>
<td>6552.01</td>
<td>5121</td>
<td>94.66</td>
<td>267915</td>
</tr>
<tr>
<td>Western</td>
<td>52705</td>
<td>1613.13</td>
<td>104298</td>
<td>3240.94</td>
<td>9251</td>
<td>397.32</td>
<td>166254</td>
</tr>
<tr>
<td>Southern</td>
<td>155275</td>
<td>8247.74</td>
<td>971790</td>
<td>73030.19</td>
<td>87366</td>
<td>4398.99</td>
<td>1214431</td>
</tr>
<tr>
<td>Total</td>
<td>449438</td>
<td>16367.15</td>
<td>1646070</td>
<td>92000.65</td>
<td>143057</td>
<td>5607.63</td>
<td>2238565</td>
</tr>
<tr>
<td>Percentage</td>
<td>20</td>
<td>14</td>
<td>74</td>
<td>81</td>
<td>6</td>
<td>5</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Annual Report NABARD 2005-06


Since the widespread recognition of Grameen Bank in Bangladesh in 1970s and SEWA in India in 1980s brought new path of development and credit availability for the poor. This was the period when the old paradigm of directed agricultural credit with subsidized interest rates, rural and agricultural finance kept a low profile on the agenda of many governments and donors. In 1992, National Bank for Agriculture and Rural Development (NABARD) has renewed the credit delivery system, started a pilot project in the interest of the farmers. It picked up some five hundred SHGs. It has described in Table 3.2.
Table: 3.2.
Grant Assistance Extended to various Partners in SHG-Bank Linkage Programme by NABARD

<table>
<thead>
<tr>
<th>Agency</th>
<th>Sanctions during the Year 2005-06</th>
<th>Cumulative Sanctions</th>
<th>Cumulative Progress (Rs. Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Amount</td>
<td>No. of SHGs</td>
</tr>
<tr>
<td>Co-operatives</td>
<td>15</td>
<td>8.61</td>
<td>6,700</td>
</tr>
<tr>
<td>RRBs</td>
<td>8</td>
<td>2.84</td>
<td>2,255</td>
</tr>
<tr>
<td>NGOs</td>
<td>337</td>
<td>62.70</td>
<td>25,087</td>
</tr>
<tr>
<td>Farmers’ Clubs</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IRVs</td>
<td>415</td>
<td>7.10</td>
<td>4,275</td>
</tr>
<tr>
<td>Total</td>
<td>775</td>
<td>81.25</td>
<td>38,317</td>
</tr>
</tbody>
</table>

Source: Annual Report NABARD 2005-06

National Agricultural Bank for Rural Development (NABARD) has been instrumental in the formation and nurturing of quality SHGs by means of promotional grant support to Non-governmental organisations (NGOs), Regional Rural Banks (RRBs), District Central Co-operative Banks (DCCBs) Farmers’ Clubs (FCs) and Individual Rural Volunteers (IRVs) and developing capacity building of various partners, which has brought about excellent results in the promotion and credit linkage of SHGs. Further, increasing number of partner institutions functioning as Self-Help Promoting Institutions (SHPIs) over the years resulted in the expansion of the programme throughout the country. The financial support provided by NABARD to its partner institutions and their progress in SHG promotion are revealed in above Table 3.2. During the year 2005-2006, a total 219,060 SHGs were promoted by the five partner agencies of NABARD with the grant of Rs.153.11 million in India. 128762 SHGs were linked with the Bank credit.

3.16.1 Financial Grants to Regional Rural Banks (RRBs)
The local character and regional spread of RRBs given them an advantage in providing promotional and nurturing support to SHGs. Therefore, NABARD has been encouraging
RRBs for this purpose from 1999 onwards. During the year, 8 RRBs in 6 States were sanctioned grant assistance of Rs.2.84 million for promotion and linkage of 2255 SHGs, taking the cumulative total of grant sanctioned to Rs.33.39 million for 109 RRBs in 21 States for promotion and linkage of 41,190 SHGs. Out of this, grant assistance aggregating Rs.13.77 million was availed by banks, which resulted in promotion of 48,281 SHGs, of which 29,783 were provided with bank loans.

Table: 3.3.
SHG-Bank Linkage-Physical & Financial Progress of Participating Regional Rural Banks upto 31 March 2006

<table>
<thead>
<tr>
<th>RRBs Region-wise</th>
<th>Cumulative No. of SHGs provided with bank loan upto 31 March 2005</th>
<th>No. of SHGs provided with bank loan during 2005-06</th>
<th>Cumulative No. of SHGs provided with bank loan up to 31 March 2006</th>
<th>Cumulative Bank loan disbursed during 01 April 2005-31 March 2006</th>
<th>Bank loan disbursed upto 31 March 2005</th>
<th>Bank loan disbursed upto 31 March 2006 (Rs. Million)</th>
<th>Cumulative Bank loan disbursed upto 31 March 2005 (Rs. Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern</td>
<td>31701</td>
<td>14071</td>
<td>45772</td>
<td>841.95</td>
<td>414,46</td>
<td>1256.41</td>
<td>1256.41</td>
</tr>
<tr>
<td>North-Eastern</td>
<td>18970</td>
<td>16138</td>
<td>35108</td>
<td>273.78</td>
<td>297.10</td>
<td>570.88</td>
<td>570.88</td>
</tr>
<tr>
<td>Eastern</td>
<td>111877</td>
<td>47775</td>
<td>159652</td>
<td>2081.64</td>
<td>1595.61</td>
<td>3677.25</td>
<td>3677.25</td>
</tr>
<tr>
<td>Central</td>
<td>101060</td>
<td>27330</td>
<td>128390</td>
<td>2510.05</td>
<td>1011.37</td>
<td>3521.42</td>
<td>3521.42</td>
</tr>
<tr>
<td>Western</td>
<td>23845</td>
<td>10579</td>
<td>34424</td>
<td>664.95</td>
<td>496.13</td>
<td>1161.08</td>
<td>1161.08</td>
</tr>
<tr>
<td>Southern</td>
<td>276393</td>
<td>60285</td>
<td>336678</td>
<td>14623.10</td>
<td>8411.33</td>
<td>23034.43</td>
<td>23034.43</td>
</tr>
<tr>
<td>Total</td>
<td>563846</td>
<td>176178</td>
<td>740024</td>
<td>20995.47</td>
<td>12226.00</td>
<td>33221.47</td>
<td>33221.47</td>
</tr>
</tbody>
</table>

Source: Annual Report NABARD 2005-06

The Regional Rural Banks (RRBs) financed SHGs in a very significant way during 2005-06. All the 158 RRBs in the country participated in the SHG-Bank Linkage Programme. During the year 2006, maximum cumulative number of SHGs has been linked by RRBs Southern region (336678 SHGs), and cumulative Rs.23034.43 million has been disbursed as bank loan, followed by Eastern region 159652 SHGs with cumulative Rs.3677.25 million, in Central region 128390 SHGs with cumulative of Rs.3521.42 million, Northern region 45772 SHGs with cumulative of Rs.1256.41 million, North-Eastern region 35108 SHGs with cumulative of Rs.570.88 million and Western region 34424 SHGs with
cumulative of Rs.1161.08 million disbursed as on 31 March 2006. During the year 2005-06, maximum number of SHGs have been linked by Pragjyotish Goanlia Bank in Assam (9190 SHGs) followed by Balangir Anchlik Gramya Bank (7278 SHGs) in Orissa and Karnataka Vikas Gramin Bank (5819 SHGs) in Karnataka.

3.16.2. Financial grants to Cooperative Banks

NABARD has been supporting capacity building, exposure and awareness creation initiatives among the cooperative to mainstream SHG-Bank Linkage in the Cooperative banking sector. During the year, 15 District Central Cooperative Banks (DCCBs) in 5 States have been sanctioned grant assistance of Rs.8.61 million for promotion and linkage of 6700 SHGs, taking the cumulative total grant assistance of Rs.31.64 million for 69 DCCBs for promotion and linkage of 34910 SHGs. Out of this grant assistance, an amount of Rs.7.63 million has been released which resulted in the promotion of 27,547 SHGs and linkage of 11,258 SHGs.

Table: 3.4.
SHG-Bank Linkage-Physical & Financial Progress of Participating Co-operative Banks upto 31 March 2006

<table>
<thead>
<tr>
<th>Cooperative Banks Region-wise</th>
<th>Cumulative No. of SHGs provided with bank loan upto 31 March 2005</th>
<th>No. of SHGs provided with bank loan during 2005-06</th>
<th>Cumulative No. of SHGs provided with bank loan upto 31 March 2006</th>
<th>Cumulative Bank loan disbursed during 01 April 2005-31 March 2006</th>
<th>Cumulative Bank loan disbursed upto 31 March 2006 (Rs. Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern</td>
<td>11773</td>
<td>8021</td>
<td>25794</td>
<td>545.62</td>
<td>303.85</td>
</tr>
<tr>
<td>North-Eastern</td>
<td>1419</td>
<td>2124</td>
<td>3543</td>
<td>34.40</td>
<td>30.23</td>
</tr>
<tr>
<td>Eastern</td>
<td>55153</td>
<td>22753</td>
<td>77906</td>
<td>750.50</td>
<td>605.59</td>
</tr>
<tr>
<td>Central</td>
<td>14842</td>
<td>5164</td>
<td>20006</td>
<td>297.14</td>
<td>167.55</td>
</tr>
<tr>
<td>Western</td>
<td>18873</td>
<td>22605</td>
<td>41478</td>
<td>415.41</td>
<td>502.67</td>
</tr>
<tr>
<td>Southern</td>
<td>103077</td>
<td>38697</td>
<td>141774</td>
<td>4355.87</td>
<td>2870.64</td>
</tr>
<tr>
<td>Total</td>
<td>211137</td>
<td>99364</td>
<td>310501</td>
<td>6398.94</td>
<td>4480.53</td>
</tr>
</tbody>
</table>

Source: Annual Report NABARD 2005-06
In India, Cooperative Banks are other nodal agencies which are granting loans to the SHGs for poverty alleviation. In cumulative total number of SHGs linked with the CBs in India was 310501 SHGs with cumulative of Rs.10879.47 million as on 31 March 2006. As per the Table: 3.4 region-wise it revealed that Southern region was dominant that 141774 SHGs has been linked with the cooperative banks and disbursed cumulative of Rs.7226.51 million. Followed by Eastern region (77906 SHGs) with Rs.1356.09 million, Western region (41478 SHGs) with Rs.918.08 million, Northern region (25794 SHGs) with Rs.849.47 million and the North-eastern (3543 SHGs) with the cumulative Rs.64.63 million disbursed as loan as on 31 March 2006. Cooperative Banks are comparatively late starters in the microfinance sector. The amendments made by many of the States in their respective Cooperative Societies Acts (CSA) enabled Cooperative banks to take up the activity of promotion and nurturing of SHGs. Influenced by the pioneering performance of District Central Cooperative Banks (DCCBs) in Hoogly (West Bengal) Chandrapur (Maharashtra) and South Canara (Karnataka) in the SHG-Bank Linkage (SBL) programme, many other DCCBs also evinced interest in SHG-Bank Linkage Programme (SBLP). The number of partners for the SHG-Bank Linkage in the Cooperative banking sector increased to 342 as on 31 March 2006. During the year, maximum number of SHGs has been linked by Kolhapur DCCB (4229) in Maharashtra followed by Hoogly DCCB (4115) in West Bengal, Chandrapur DCCB (4027) in Maharashtra and Mursheedabad DCCB (3944) in West Bengal. The other DCCBs showing significant achievement cumulatively were Hassan DCCB and South Canara DCCB in Karnataka, etc.

3.16.3. Financial grant to Non-governmental Organisations (NGOs)

Recognising the core competence of the Non-governmental agencies (NGOs) in the formation and nurturing of good quality the SHGs, NABARD and external agencies continued to involve an increasing number of NGO partners to take up the function of Self-Help Promoting Institutions (SHPIs). The NGOs, which act as SHPIs as an add-on function, were provided with supplementary assistance in the form of promotional grant and infrastructural support.
Promotional grants were being provided to SHGs to upgrade themselves. During the year, grants aggregating Rs.62.70 million were sanctioned to 337 NGOs for the promotion and credit linkage of 25,087 SHGs as against Rs.42.66 million sanctioned to 317 NGOs for promotion and linkage of 24234 SHGs during the previous year. The amount of cumulative grant support of Rs.256.50 million has been sanctioned to 1515 NGOs for promotion and linkage of 164550 SHGs. As against this, a cumulative grant of Rs.124.96 million was, so far drawn by the NGOs, which resulted in promotion of 128553 SHGs and credit linkage of 80511 SHGs.

3.16.4. Financial grants to Individual Rural Volunteers (IRVs)
In India, on feedback received in respect of a pilot scheme for encouraging socially committed Individual Rural Volunteers (IRVs) in organising the rural poor into SHGs for alleviating poverty, it was decided to extend the scheme to 13 States which account for bulk of the rural poor. During the year, financial assistance of Rs.7.10 million was sanctioned to 9 RRBs for promotion of 4275 SHGs through 415 volunteers. As on 31st March 2006, the progress under the pilot scheme has been good. Total 124 IRVs have been actually associated who have promoted 2020 SHGs out of which 701 are credit linked. A grant assistance of Rs.1.27 million has been released.

3.16.5. Financial grants to Farmers’ Clubs
The Farmers’ Clubs, promoted by banks under the Farmers Clubs Programme of NABARD enjoy local acceptability and goodwill by being informal ambassadors of the village to the banking system. Cumulatively, as on 31 March 2006, the Farmers’ Clubs promoted 12659 SHGs, of which 6509 have been credit linked, with the cumulative grant of Rs.5.48 million.

3.17. The Rashtriya Mahila Kosh (RMK)
The RMK was created under the Societies Registration Act 1860 in the National Capital Territories (NCT) of Delhi on 30 March 1993. On 31 March 1993, a corpus fund of Rs.31 crores was placed with the RMK. The Government resolution in this respect states that the focus of Government of India’s endeavor to improve the status of women in India has been for their economic upliftment, particularly for the women working in the informal sector. Government of India’s resolution dated 25.5.1993 states as follows: “...it has been recognised that credit availability it such women has been critical
constraint in their efforts for achieving economic self-reliance. With this end in view, the government has been considering the issue of facilitating the flow of credit to such women. This has also been one of the major recommendations of the National Commission on Self-employed Women and women in the informal sector.37

The main objectives of RMK as threefold:

- To facilitate credit to women, treating credit as an instrument of socio-economic change,
- To sensitise existing credit delivery systems towards poor women’s credit requirements, holding them out as vital and viable clientele, and
- To promote the networking of women’s organisations for exchange of experience and development of skills and for social mobilisation.

The Women Development Corporation and women’s cooperative societies could also perform these functions in case they were themselves managed on sound financial principles and met the infrastructural components.

3.18. Commercial Banks

The most recent entrants to the microfinance industry are the commercial banks. This modality includes many variants: transformed microfinance NGOs, government owned development banks, reformed state banks and diversification into microfinance by existing commercial banks. In comparison, state banks have generally underperformed. In the heyday of directed credit in the 1970s, subsidized loans often went to politically-favored wealthy-landowners rather than poor farmers. Despite this repayment rates were low and many programs operated at a loss. However, many state owned banks have extensive branch networks, enabling them to achieve significant outreach.38 The ICICI Bank Ltd. in India, for example, has expanded its involvement in microfinance sector. In these cases and others where such requirements do not exist, the motive seems to be profits and diversification of business lines. During the year 2005-06, both public and private sector banks (47) combinely promoted and linked with banks loan was 344567 SHGs and bank loan disbursed Rs.28284.30 million. Cumulative number of SHGs

provided with bank loan was (118840 SHGs) and cumulative amount was disbursed Rs.69874.49 million as on 31 March 2006. Public sector banks are reaching to the people more than the private sector banks, if we compare, there are 27 public sector banks, and it has linked cumulative 1141570 SHGs and disbursed Rs.64396.78 million as on 31 March 2006. It makes sense for commercial banks to lend to SHGs because of high repayment rate and record by the SHG members and because commercial banks set fairly high rates of interests. Also the banks are merge with deposits and the industrial do not absorb all the liquidity.

The SBI became a part of business for all the 27 Public Sector Banks (PSBs) and 20 private sector banks. SBI credit-linked the highest number of SHGs (142034) during 2005-06, followed by Indian Bank (30632) and Canara Bank (18445). During the year, many more banks registered impressive growth in SHG-Bank Linkage. These are Indian Overseas Bank, PNB, AB, BoI and BB. The private sector banks which significantly supported SHG financing are ICICI Bank Ltd. (6746 SHGs), Vysya Bank (1,531 SHGs) followed by Dhanalaxmi Bank (1201 SHGs). The bank-wise position of SBL is demonstrated in the Table: 3.5.

Table: 3.5.

<table>
<thead>
<tr>
<th>Commercial Banks</th>
<th>No. of CBs</th>
<th>Cumulative No. of SHGs provided with bank loan upto 31 March 2005</th>
<th>No. of SHGs provided with bank loan during 2005-06</th>
<th>Cumulative No. of SHGs provided</th>
<th>Cumulative Bank loan disbursed during 01 April 2005-31 March 2006</th>
<th>Bank loan disbursed upto 31 March 2005</th>
<th>Bank loan disbursed upto 31 March 2006 (Rs. Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Banks</td>
<td>27</td>
<td>810175</td>
<td>331395</td>
<td>1141570</td>
<td>38158.93</td>
<td>26237.85</td>
<td>64396.78</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>20</td>
<td>33298</td>
<td>13172</td>
<td>46470</td>
<td>3431.26</td>
<td>2046.45</td>
<td>5477.71</td>
</tr>
<tr>
<td>Total</td>
<td>47</td>
<td>843473</td>
<td>344567</td>
<td>1188040</td>
<td>41590.19</td>
<td>28284.30</td>
<td>69874.49</td>
</tr>
</tbody>
</table>

Source: Annual Report NABARD 2005-06
3.19. Banking Service for the Poor

In 1991, Reserve Bank of India (RBI) issued a circular requesting the bank branches to link 500 SHGs with banks under a pilot project. RBI again issued another circular in 1998, indicating that the SHGs linked with banks under the pilot project proved to be extremely successful; the loan given through the SHGs recorded a 100 percent rate of recovery, and secondly, it was noticed that these loans were increasingly being used for income generating activities rather than consumption purposes. Henceforth, the banks were directed under “Service Area Approach” RRBs prepare detailed plans to meet the potential demand of the credit in their area. They should try to encourage the SHG formation and linkage with banks as a normal activity to encourage the weaker sections of the society. As a result, all rural SHGs can open their bank accounts. Under the scheme, the SHGs are eligible to receive credit limits form the banks to the extent of four times of their savings. The interest rates relevant per annum indicated below are found at the time of filed survey:

- NABARD to Banks @ 6.5 per cent per annum
- Bank to SHG @ 12.5 per cent per annum
- Bank to NGO @ 10.5 per cent per annum
- NGO to SHG @ 12 per cent per annum
- SHG to Member @ as decided by the SHG

In India, banking sector is regulated by the RBI under the provisions of Banking Regulating Act, 1949. There are 27 nationalised banks, 35 private commercial banks and 29 foreign commercial banks, with around 35,000 branches in all. In addition, there are 196 Regional Rural Banks (RRBs) with about 15,000 branches, 28 State Cooperative Banks with nearly 650 branches and 361 District Cooperative Banks with about 11,000 branches. In addition, there are Urban Cooperative Banks working in urban areas. The NABARD is the nodal bank, who supervises the functioning of RRBs and Rural Cooperative Banks, while commercial banks and Urban Cooperative banks continue to be supervised by the RBI. So far the most important steps taken by RBI and NABARD in respect of microcredit are: Their involvement with the IRDP, Support to tiny enterprises.

and agriculture under priority sector lending programme through Regional Rural Banks (RRBs), the adoption of self-help groups-bank linkage programme (SBLP) and collaboration and support to cooperative banks.

In 1992, to develop a supplementary credit delivery system to reach the poor in a cost-effective and sustainable manner, NABARD introduced a pilot project for linking up SHGs. As the rule of bank is “first suspect and than respect” to its customer. The broad principles were followed under the linkage scheme were:

- Savings first then credit. Without saving no credit.
- Savings as partial collateral.
- Bank loans to the SHG for on-lending to members.
- Credit decisions for on-lending to SHG members.
- Interest rates and other terms and conditions for loans to members to be decided by the group.
- Joint liability as a substitute for physical collateral.
- Ratio between savings and credit contingent upon credit worthiness and could increase over a period due to good repayment record, if needed.
- Small loans to begin with and different credit cycles clearly defined.

To review the linkage process, various studies were carried out by NABARD. The finds confirmed the following:

- Large numbers of participant were women clients (particularly resource poor regions).
- Membership in SHGs mostly came from the poorest sections of society.
- Demand for credit was frequent, for small amounts, at unpredictable times and not necessarily for purchasing income-generating assets.
- Even the very poor are able to save and savings increased with addition to their incomes.
- SHG intermediation led to reduction in the time spent by the bank staff on identification of borrowers, documentation, follow-up and recoveries. This resulted in 40 percent reduction in transaction cost which could increase further with increase in loan sizes.

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• SHG intermediation significantly reduced transaction costs of the borrower due to elimination of cumbersome documentation procedures, time spent and costs incurred on repeated visits to banks\(^{40}\).

After observing the success rate of SHG and regular savings and repayment against credit, NABARD decided to amplify the scheme so as to improve the outreach of the formal banking system in a cost-effective manner. The aim being to enhance the quality of credit in rural areas and promote people's participation in self-help group and grassroots institutions. A number of studies document the positive economic impact of SHGs on indicators such as average value of assets per household, average net income per household, employment and borrowing for income generation activities (Puchazhendi and Satyasai 2000; Puchazhendi and Badatya 2002; Harper et al 1998). It has been shown that SHGs help inculcate the banking habit in rural women (Varman 2005) the running of an SHG is also a great lesson in governance.

The SHG-bank Linkage model is the indigenous model of microcredit evolved in India and has been widely acclaimed as a successful model with a present coverage of over 1.4 million groups involving a cumulative credit flow of Rs.6300 crore as at the end of March 2005 from the banking system. Being a savings first model, where credit discipline is inculcated in the group with their own funds, banks have found comfort in lending to such groups as they build up an adequate corpus of their own funds before they approach the bank for credit. In view of availability of social collateral and joint liability, banks have found the repayment experience encouraging enough to actually take charge of this a programme. The SHGs has a set of byelaws devised and agreed by the members themselves. These include rules for monthly savings. Lending procedures periodicity and timing of meetings, penalties for defaulted. Meticulous accounts and records are maintained. The SHG itself functions like a small bank. The group lends money to its members. After a certain period (six months to a year) of disciplined functioning, it becomes entitled to a loan from the bank where it has an account\(^{41}\). It is also now widely organized that with increase in awareness and build-up of equity for savings and credit


history, the poor would need credit in an increasing quantum depending on their stages of
development. Keeping in view of long-term security of the households and as a means for
inclusion in the mainstream of the financial sector, easier and wider availability of
savings products has become imperative. With increasing rural-urban migration within
and outside India, the need for remittance service to and from remote rural villages is also
felt acutely. Protection against vulnerabilities of rural poor to disease, death, old age, also
considered essential as social security measure. Thus there is need for comprehensive
financial services encompassing savings, credit, remittance, insurance and pension
products which the formal financial system has not been able to provide effectively in the
rural areas.42

The Physical achievements of Self-help groups and bank linkage, financed by
bank directly and indirectly to the groups during the year 2005-06, 781958 new SHGs
were formed and 620109 were financed by the banks. 344502 existing SHGs were
refinanced by banks and 13.50 million poor families were accessed bank credit including
repeat loan and 67.50 million estimated poor people covered during 2005-06. Cumulative
number of SHGs financed by banks upto March 2006 was 2,238,565. 32.98 million poor
families have accessed bank credit upto March 2006. Estimated 32.98 million poor
people assisted upto March 2006 and about 90 percent SHGs members are only women.
Following table depicts number of SHGs formed during the last five years and slice chart
illustrates their percentage of SHG formed during the year.

Table: 3.6.
SHGs Financed by various Banks during the last five years (2001-2006) in India

<table>
<thead>
<tr>
<th>year</th>
<th>No. of SHG</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>197,653</td>
<td>10</td>
</tr>
<tr>
<td>2002-03</td>
<td>255,882</td>
<td>13</td>
</tr>
<tr>
<td>2003-04</td>
<td>361,731</td>
<td>18</td>
</tr>
<tr>
<td>2004-05</td>
<td>539,365</td>
<td>27</td>
</tr>
<tr>
<td>2005-06</td>
<td>620,109</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Annual Report NABARD 2005-06

42 Reserve Bank of India (2004): Draft Report of the internal group to examine issues
relating to “Rural credit and microfinance”, p-17.
Table 3.6 shows that during 2005-06, these efforts have resulted in credit linkage of 620,109 (32 percent) new SHGs with mainstream banks as against 539,365 (27 percent) SHGs during 2004-05 thus registering 15 percent growth over the previous year. The cumulative number of credit linked SHGs increased from 1,618,456 as on 31 March 2005 to 2,238,565 as on 31 March 2006. The active clients who are regularizing their accounts are 90 percent women and repayment rates also same percent. The SHG-Bank linkage programme enabled an estimated 32.98 million poor households in the country gain access to microfinance for the formal banking system.

Chart: 3.2.
SHGs financed by Banks during the last Five Years

Total bank loans disbursed to SHGs during the year aggregated Rs.4,4990.83 million (including repeat loans of Rs.2,1686.32 million provided to existing SHGs already financed in the earlier years) as compared to Rs.2,9942.52 million disbursed during the previous year, registering a growth of 50.3 percent over the previous year. The refinance drawn by banks from NABARD stood at Rs.1,0677 million during 2005-06. The cumulative progress in financing SHGs from 1992 onwards, in physical and financial terms is indicated in Table 3.7.
Table: 3.7.
Self-Help Groups and Bank Linkage (2005-06) in India

<table>
<thead>
<tr>
<th>Upto end March</th>
<th>SHGs financed</th>
<th>Bank Loan (Rs. Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-99</td>
<td>32,995</td>
<td>571</td>
</tr>
<tr>
<td>1999-00</td>
<td>114,775</td>
<td>1,930</td>
</tr>
<tr>
<td>2000-01</td>
<td>263,825</td>
<td>4,809</td>
</tr>
<tr>
<td>2001-02</td>
<td>461,478</td>
<td>10,263</td>
</tr>
<tr>
<td>2002-03</td>
<td>717,360</td>
<td>20,487</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,079,091</td>
<td>39,042</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,618,456</td>
<td>68,985</td>
</tr>
<tr>
<td>2005-06</td>
<td>2,278,605</td>
<td>113,975</td>
</tr>
</tbody>
</table>

Source: Annual Report NABARD 2005-06

Above Table 3.7 illustrates the bank loans aggregating Rs.113,975 million were disbursed to 2238565 SHGs with refinance support of Rs.41597 million from NABARD, upto 31 March 2006. Around 90 percent of the SHGs linked were exclusive women SHGs. Various studies are witnessed that the on-time repayment of SHG loans was over 90 percent.

Chart: 3.3.
SHG and Bank Linkage Cumulative Progress


- 1999-00: 2%
- 1992-99: 1%
- 2000-01: 4%
- 2001-02: 7%
- 2002-03: 11%
- 2003-04: 17%
- 2004-05: 25%
- 2005-06: 33%
3.20. SHG and Bank linkage-Achievements in 2005-06

Forming and nurturing small, homogeneous and participatory SHGs of the poor has today emerged as a potent tool for human development. This process enables the poor, especially the women from the poor households, to collectively identify and analyse the problems they face in the perspective of their social and economic environment. It helps them to pool their meager resources, human and financial, and priorities their use for solving their own problems. The emphasis on regular thrift collection and its use to solve immediate problems of consumption and production not only helps to meet their most urgent needs, but also trains them to handle larger financial resources more skillfully, prudently and with a more lasting impact43.

3.21. Region-wise spread of SHG-Bank Linkage upto 31st March 2006 in India

The positive growth of SHG and Bank linkage was facilitated by the States or regions specific strategies developed by NABARD in consultation with its Regional Offices at the State level, Banks, NGOs and the State governments. Promotional efforts were launched in these States by NABARD through its Regional Offices, participating agencies. The year witnessed a perceptible increase of SHG-Bank Linkage across all the regions as revealed in Table 3.8.

Table: 3.8.
Region-wise spread of SHG-Bank Linkage

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern</td>
<td>9,012</td>
<td>19,321</td>
<td>34,923</td>
<td>52,396</td>
<td>86,018</td>
<td>133,097</td>
</tr>
<tr>
<td>North-Eastern</td>
<td>477</td>
<td>1,490</td>
<td>4,069</td>
<td>12,278</td>
<td>34,238</td>
<td>62,517</td>
</tr>
<tr>
<td>Eastern</td>
<td>22,252</td>
<td>45,892</td>
<td>90,893</td>
<td>158,237</td>
<td>265,628</td>
<td>394,351</td>
</tr>
<tr>
<td>Central</td>
<td>28,851</td>
<td>48,181</td>
<td>81,583</td>
<td>127,009</td>
<td>197,365</td>
<td>267,915</td>
</tr>
<tr>
<td>Western</td>
<td>15,543</td>
<td>29,318</td>
<td>42,180</td>
<td>54,815</td>
<td>96,266</td>
<td>166,254</td>
</tr>
<tr>
<td>Southern</td>
<td>187,690</td>
<td>317,276</td>
<td>463,712</td>
<td>674,356</td>
<td>938,941</td>
<td>1,214,431</td>
</tr>
<tr>
<td>Total</td>
<td>263,825</td>
<td>461,478</td>
<td>717,360</td>
<td>1,079,091</td>
<td>1,618,456</td>
<td>2,238,565</td>
</tr>
</tbody>
</table>

Source: Annual Report NABARD 2005-06

43 NABARD, 2002.
Table 3.8 shows that against 2,238,565 SHGs in India, South region has promoted and nurtured an overwhelmingly 1,214,431 SHGs as on March 2006, followed by Eastern region (394,351 SHGs), Central region (267,915 SHGs), Western region (166,254 SHGs), Northern region (133,097 SHGs) and in North-Eastern region (62,517 SHGs) as on 31 March 2006.

3.22. Scheme for Financial Assistance to Banks for Rating of Micro Finance Institutions (MFIs)
In order to identify MFIs, classify and rate such institutions and empower them to intermediate between the lending banks and the clients, NABARD has decided to extend financial assistance to Commercial Banks and Regional Rural Banks by way of grant. The banks can avail the services of credit rating agencies, M-CRIL, ICRA, CARE and Planet Finance in addition to CRISIL for rating of MFIs. The financial assistance by way of grant for meeting the cost of rating of MFIs would be met by NABARD to the extent of 80 per cent of the total professional fees subject to a maximum of Rs.80,000/-. The remaining cost would be borne by the concerned MFI. In addition to 20 per cent of the professional fee, the cost of local hospitality (including boarding and lodging) towards field visit of the team from the credit rating Agency, as a part of the rating exercise, would also be borne by the MFI. Those MFIs which have a minimum loan outstanding of more than Rs. 50.00 lakh (Rupees fifty lakh only) would be considered for rating and support under the scheme. Financial assistance by way of grant would be available only for the first rating of the MFI.

3.23. Refinance Support to Banks for Financing MFIs
The scheme is to provide 100 per cent refinance to banks for financing MFIs. Interest rate on refinance to Commercial Banks and Regional Rural Banks on their loans to MFIs for on lending to poor clients will be at lowest rate of interest. The stipulation that banks will charge not more than 9.0 per cent per annum rate of interest to the MFIs. As the banks are free to determine the rate of interest on their loans, the rate of interest on NABARD refinance will be 3 per cent less than that charged by the banks on their loans to MFIs. However, the minimum rate of interest on the refinance to banks for their loans to MFIs
will be at interest rate on refinance applicable to the lowest slab stipulated by NABARD from time to time.

3.24. Scheme for Financing Matured SHGs for Farm Production and Investment Activities

The objective of the scheme is to facilitate the members of matured SHGs to meet their credit requirement for farm production and investment activities and to enable them to diversify their income generating activities. Term Loan and Cash Credit limit given by the banks for a period of five years to SHGs exclusively for farm production and investment activities covering agriculture sector and allied activities. Banks can also sanction composite loans by combining consumption credit to the extent of 30 per cent of the total limit. Matured SHGs which have successfully utilised bank loans and whose members have moved from consumption requirements to production requirements, may be considered for financing for farm production and investment activities. Due freedom may be given to SHGs to monitor and ensure end-use of credit as is usually practiced by banks under SHG Bank Linkage Programme. Refinance – 100 per cent of the bank loan under Automatic Refinance Facility (ARF). The refinance provided to the banks under the scheme will be payable in 5 years at half yearly intervals.

During 2005-06, these efforts have resulted in credit linkage of 620,109 new SHGs with mainstream banks as against 539,365 SHGs during 2004-05 thus registering 15 per cent growth over the previous year. The cumulative number of credit linked SHGs increased from 16, 18,456 as on 31 March 2005 to 22, 38,565 as on 31 March 2006. The active participation of women (90 per cent), and timely loan repayment (over 90 per cent) continue to be the prominent features of the programme. Proactive measures such as enlisting partnerships, capacity building of partner agencies, documentation and dissemination of best practices etc., served to expand the programme. The year witnessed an all round growth in the SHG-Bank Linkage programme in many non-southern states. The programme thus enabled an estimated 32.98 million poor households in the country gain access to microfinance from the formal banking system.\textsuperscript{44}

\textsuperscript{44} Annual report of NABARD, 2006, P.18.
On an experimental basis, Revolving Fund Assistance (RFA) to select NGOs and micro Finance Institutions (MFIs) is provided by NABARD. So far, RFA of Rs. 273.20 million has been sanctioned to 32 agencies and Rs. 215.28 million has been released against which Rs. 92.49 million is outstanding as on 31 March 2006. NABARD’s emphasis on scaling-up the SHG-Bank Linkage programme in 13 priority states that account for 70 per cent of the country’s rural poor has resulted in seven fold increase in the number of SHGs credit linked during the period 2003-06. As a result, the share of states other than the southern states increased from 28 percent as on 31 March 2002 to 46 percent as on 31 March 2006.

In this chapter the potential and limitation of different poverty alleviation programmes have been analysed wherein it has also been examine the SHGs and microcredit institutions.