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Pillai, Rajasekharan

School of Management, Manipal University, Manipal, India

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Dr. K. R. Pillai
Professor

School of Management
Manipal University, Manipal, Karnataka, India
e-mail: kr.pillai@manipal.edu, krpillai123@gmail.com

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K. R. Pillai, Professor, School of Management, Manipal University

Abstract

India embraced financial inclusion as a major macroeconomic reform initiative to amplify the social approach of banking even in the era of privatisation of banking and finance. The SHG-Bank linkage programme is trying to build partnership between an entrepreneurial class and repository of finance. A growing country like India, with perceptible rural-urban divide, has ample potential to develop and nurture entrepreneurial culture. Bank nationalisation gave an impetus to the social approach of banking. The broad based role of financial inclusion is possible only through the focus oriented partnership of government, banking institutions, RBI, NGOs, MFIs and SHGs. The present paper reviews the SHG-Bank linkage programme during 2001 to 2010 in Indian perspective.

Key Words: financial inclusion, micro-credit, micro finance, NABARD, pro-poor banking, SHG-Bank Linkage.

INTRODUCTION

Bank nationalization, a trailblazer for banking with a humane face, was the first organised effort to bring unbanked areas to a banking embedded system. The impact of social approach of banking was impressively exceptional with phenomenal branch expansion and banking access to rural poor. The Self-Help Group (SHG) -Bank (S-B) linkage programme was conceived to fill the gap existing in the formal financial network and extending the outreach of banking to the poor (Kumar & Golait, 2009). Nationalization paved the way for conditioning the level playing field for a social approach to banking by instituting ceiling on interest rates, targeted deployment of credit, sectoral allocation of funds etc. Despite many supply side initiatives such as nationalization of banks, targeted priority lending, differential rate of interest scheme and the concept of regional Rural Banks, the underprivileged strata of the Indian society remained excluded from the formal banking support. The corridors of formal banking system were considerably unfamiliar to socially and economically vulnerable sections of the population due to their 'conferred untouchabilities'.

The concept SHG had been floated as an effective solution to poverty reduction. A small group of neighbourhood households can calibrate more group dynamics and impose effective self-discipline, there by a perfect synergy can be attained through collective group strength and empowerment. The basic premise of SHG is the mobilisation of money by infusing/developing regular habits of thrift. Due to its collective responsibility, borrowed money can also be used effectively. Savings plus credit is said to be a good starting point for group formation called SHG (Karmakar, 1999). As Karmakar (1999) aptly remarks that SHGs are mostly informal groups of people where members pool their savings and relend in the group on rotational basis, depending upon consumption, production or investment needs. It had been perceived that the SHGs would act as catalysts for better credit delivery and recovery by closely monitoring ultimate beneficiaries through a principle of mutual role modeling and peer coercion.

In its report of the pilot project, NABARD (1995) clearly delineates its objective of S-B linkage programme as "to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity, responsiveness of informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institutions." In this backdrop, the present paper reviews the S-B programme initiated in India during the early period of this century.

BRIEF HISTORY

When we trace the history of enabling the vast section at the bottom of the population pyramid with access to banking services, we may come across certain milestones that occurred precisely in decadal gaps. With bank nationalization as the harbinger of social approach the banking in 1969, the year 1972 was much celebrated in the history of credit access to poor people, when differential rate of interest system was announced. The scheme was to make bank nationalization initiative more effective by ensuring the credit service percolate down the eligible and needy people. Under the scheme it was mandated to every nationalized bank to set a targeted of lending of one per cent of their total advances outstanding at the end of the previous year. Later NABARD was launched in the year 1982, as a broad based organisation at the apex level to extend support and give guidance to credit institutions in matters relating to the formulation and implementation of rural development programmes (Datt & Sundaram, 1998). It is well reckoned that mandate of NABARD is holistic by converting isolated rural credit into a wider rural development perspective. As furtherance to the focus of rural development, the SHG-Bank linkage programme, as a pilot project, was introduced in 1992, which has become a topic of the present study. The S – B linkage programme was started as an action research project in 1989, which was the off-shoot of NABARD initiative, during 1987, through sanctioning Rs. 10 lakh to MYRADA Foundation as seed money for experimenting credit management groups (NABARD, 2008).

The S-B linkage model was introduced as an experimental project during 1991-’92 for enabling more banking reach to the needy and poor. It was expected to develop a supplementary credit delivery system to reach the poor in a cost-effective and sustainable manner (Karmakar, 1999), addressing the multifarious needs of saving, consumption, production and investment needs of the target group. The primary objective of the programme was to facilitate the poor and otherwise neglected people to have access to formal banking system and, thereby, enable them to obtain substantial livelihoods. The programme started with a low profile and gained rapid strides from 1998 onwards (NABARD, 2008). Greatly enchanted with the success of the initiative, The NABARD intensified the programme so as to improve the outreach of the formal banking system in a cost-effective manner. The aim was to enhance the quality of credit in rural areas and promote people’s participation in self-help group and grass root institutions.

It would also be essential to mention another historic initiative of the central government in the 1980s by announcing the Integrated Rural Development Programme (IRDP) to address the financial needs of the vulnerable sections in the rural areas. Despite its wide coverage and reach in the rural landscape, there was a vast unmet gap (Sreekantaradhya, 2004).

REVIEW OF LITERATURE

Upholding the capacity of SHG-Bank partnership to develop an efficient and effective alternative credit delivery and management system, Karmakar (1999) airs the concern of finding an adequate number of committed bankers and NGOs to carry forward the system. The research presents a few successful cases of linkage programme from Orissa. The study finds that if linkage between SHGs, banks and NGOs are usefully built, transaction cost will be lower for both banks and borrowers. Sreekandaradhya (2004) observes that SHG-Bank linkage programme compatibly co-exists with conventional pro-poor approach of commercial banking policies. The study indicates that the concept of micro-credit system was introduced as an alternative approach to the social banking dimension of IRDP, which was beset with various issues such as lack of effective credit delivery, identification of eligible beneficiaries, erosion of credit discipline, repayment ethics, credit diversification etc.

he underscores that the new initiative for poor-friendly credit dispensation has several merits over government sponsored and subsidy oriented programmes and undoubtedly the most appropriate, which needs to be greatly strengthened to meet the banking needs of the poor.

Evoking the significance of banking and financial re-engineering in the Indian scenario, Kumar and Golait (2009) deplore that the physical out reach of the rural credit has not been effective in achieving income expansion and poverty reduction, access to needed financial services still persists an issue in the rural areas. Studies (Sreekantaradhya, 2004; NABARD, 2008) have observed that the saving potential and credit-worthiness of economically weaker sections can be enhanced, if proper approach is developed.

METHODOLOGY

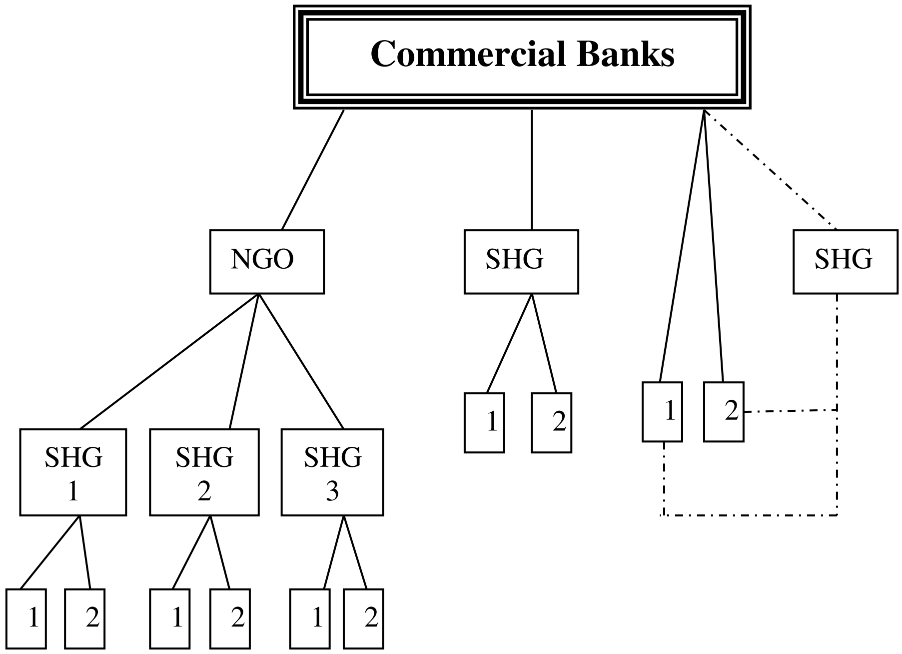
The research followed a descriptive approach to the trends in the progress of SHG-Bank linkage programme initiated by NABARD to ensure the reach of timely and cost-effective banking and financial services to those who are badly in need of such facilities. The study was quantitative in nature. The major data support comprised of annual quantitative date pertaining to the number of SHGs financed by NABARD, the amount of loan disbursed to SHGs and the amount disbursed under refinance scheme covering 1999-'00 to 2009 – '10. The required data were obtained from the various issues of Economic Review.

The percentage annual growth rate of each data set was estimated to decipher the year-on-year growth trend of the variables identified for the study. Trend line of each variable was also plotted for an easy comprehension. A theoretical model has also been formulated based on the approach paper of NABARD (1995) on SHG-Bank linkage programme.

SHG- BANK LINKAGE MODEL

NABARD had proposed three alternative models of S - B linkage programme. Commercial banks were given the liberty to attempt any alternative befitting to the operational feasibility of their locality.

Figure 1: Models of SHG – Bank Linkage Programme



TRENDS IN SGH-BANK LINKAGE PROGRAMME IN THE LAST DECADE

For analysing the trends of S-B linkage programme in the third millennium, the data regarding the number of SHGs covered, the total amount advanced to them and the of refinance were presented in table 1.

Table 1
Trends in SHG-Bank Linkage Programme in India

Year	No. of SHGs (Lakh)	% growth	Amount disbursed (Rs. Crore)	% growth	Refinance extended (Rs. Crore)	% growth
1999 - 00	0.8178	--	136	--	98.04	--
2000 - 01	1.49	82.19	288	111.76	250.61	155.62
2001 - 02	1.98	32.88	545	89.24	395.76	57.92
2002 - 03	2.56	29.29	1020	87.16	622.30	57.24
2003 - 04	3.62	41.41	1858	82.16	705.40	13.35
2004 - 05	5.39	48.89	2994	61.14	967.80	37.20
2005 - 06	6.2	15.03	4499	50.27	1067.70	10.32
2006 - 07	11.06	78.39	6570	46.03	1292.86	21.09
2007 - 08	12.28	11.03	8849	34.69	1615.50	24.96
2008 - 09	16.09	31.03	12257	38.51	2620.03	62.18
2009 - 10	15.87	-1.37	14453	17.92	3173.56	21.13

Source: Economic Survey, various issues

The table discloses that the financial year 2000 – '01 experienced the highest growth rate consistently for the three data sets. The highest average growth rate is displayed by the amount advanced by NABARD for the programme. The three data sets recorded a positive enduring growth rate except in the year 2009 – '10, where the growth rate of SHG coverage registered a marginal negative growth. However, the other two sets have recorded comfortable positive growth rate, signifying the outreach of fresh credit and refinance support to the target groups. These trends have been restated in the following figures. The growth trends in amount advanced exhibit a smooth growth path. But other two display certain step-like upward movements for certain years.

DISCUSSION

The S-B linkage programme has been trying to build partnership between an entrepreneurial class and repository of finance. A growing country like India, with perceptual rural-urban divide, has ample potential to develop and nurture entrepreneurial culture. In this regard the lending institutions have additional responsibilities such developing viable business models, offering consultancy services, extending monitoring support, facilitating markets etc., in addition to being a lender. The success of linkage model depends upon the guarantor system for loan disbursement, where joint liability has been a substitute to physical collateral (Karmakar, 1999)

The scope of this partnership is impressively high as micro, small and medium enterprises have obtained a privileged position in the development model of India for quite some time. The income and employment generation potential of small and medium enterprises has been well-reckoned with in the wake of collapse of giant business edifices.

It is widely understood that S-B linkage programme is effective in realizing financial inclusion, which is a sin qua non of inclusive growth agenda of the country. The habit of thrift and prudential spending can be promoted through group norms and self-imposed or peer-pressured moral suasion. Hence the mobilisation of saving is successful through trickling down principle. Credit delivery by banks will be more efficient by lending to SHGs than to individuals, and the former has economies of size and scale. The credit repayment mechanism is impeccable in the linkage model, as the members can exert moral pressure on their peer members, which, in turn, leads to better circulation of funds. One of the distinctive features of this linkage programme has been a very high on-time recovery (NABARD, 2006).

Taking cognizance of the proximity of microfinance institutions (MFIs) to SHGs, the RBI has recently allowed the former to mobilize funds through external commercial borrowing up to $ 10 million or equivalent during a financial year for permitted end use under the automatic route, aiming to strengthen the MFIs in the long run. It has been stipulated that the amount floated should strictly be used for lending to SHGs and for bona-fide microfinance activities, including capacity building programmes.

CONCLUSION

In fact, the S-B linkage programme enabled partnership between formal and informal institutional set up based on the philosophy of 'trickle-down' theory. The initiative has been well received in the Indian banking and rural landscape, which has been corroborated by the phenomenal growth of the linkage programme. Driven by the goal of thrift promotion among the economically weaker sections of the social strata, the SHGs are meticulous in addressing the genuine credit requirements of their members on time in a cost-effective manner. Since the mode of repayment is informal and mutually agreeable, with an unrelenting tag of peer pressure, almost cent percent repayment is ensured. The veritable success of linkage programme confirms the credit-worthiness of poor and marginalised people.

Despite remarkable progress in S-B linkage programme, a glaring defect is its locational dispersion in terms of spread and loan disbursement. The NABARD (2006) points out that the regional coverage of S-B linkage programmes is not uniform, characterized by the visible dearth of financial services to certain deprived areas. The southern states in the country still out-pace the other regions pertaining to the linkage programme. Civil societies play vital role in materializing the linkage programme. MYRADA, Dhan Foundation, SEWA, PRADAN etc. are plausible evidences.

The programme can ideally realise the development agenda of financial inclusion, but issue that remains unresolved is the pro-activeness and/or accommodative response of formal banking system. This programme ushers joint liability to ensure the repayment of loans obtained through banks. The SHG mechanism is able to induce peer monitoring by restricting the number of borrowers that borrow simultaneously in the group (Aniket, 2006). The inclusive growth strategy of government of India will be efficacious only through ample coverage of financial inclusion. As for that matter to happen the banking system in the country is expected to play a crucial role by prioritizing the grass-root democratic institutions.

As furtherance to women empowerment and promotion of their SHGs, a proposal has been mooted in the budget 2011 – 12 to create a ‘Women’s SHG Development Fund’ with a corpus of RS. 500 crore.

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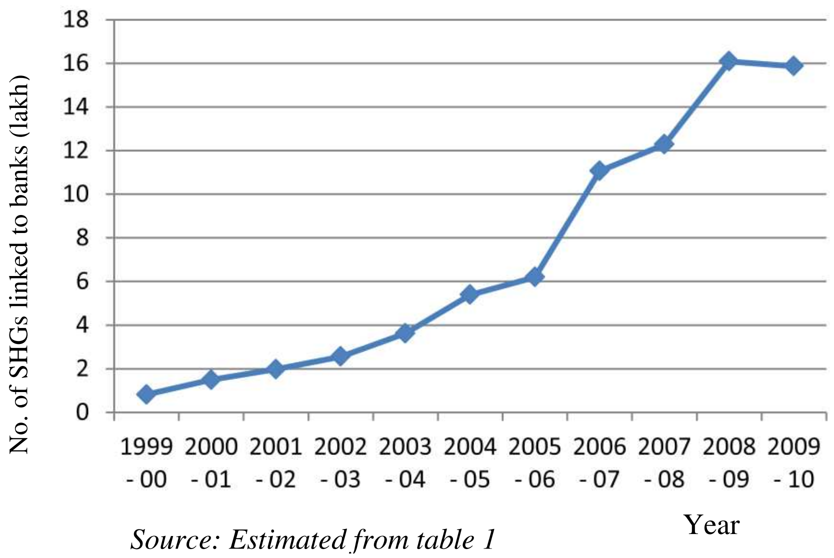
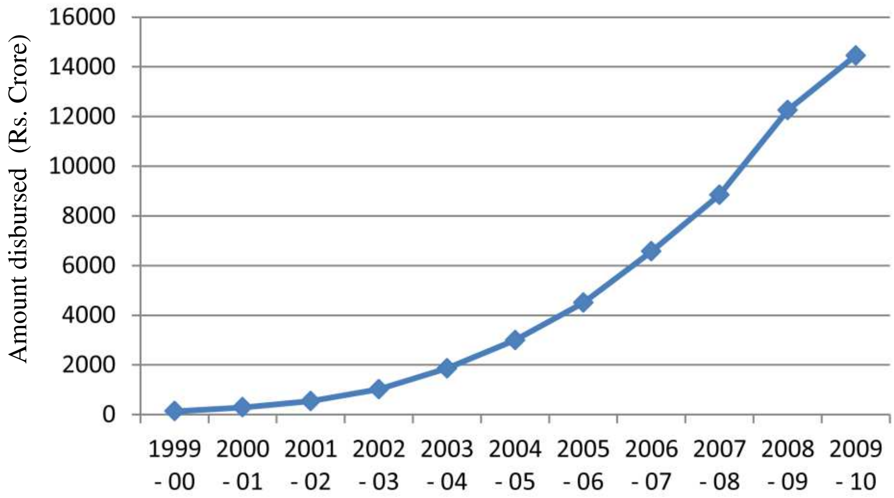
Figure 2: The annual growth trends SHGs covered programme



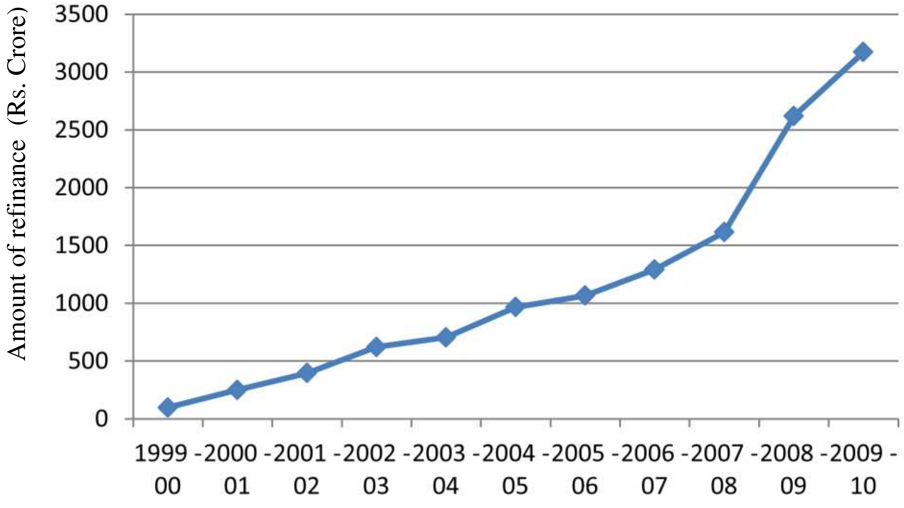
Source: Estimated from table 1

Figure 3: The annual growth trends of Amount disbursed under S-B programme



Source: Estimated from table 1

Figure 4: The annual growth trends of Refinance extended



Source: Estimated from table 1