



Tata Institute  
of  
Social Sciences

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THE  
INDIAN JOURNAL  
OF  
SOCIAL WORK

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Volume 71, Issue 1  
January 2010

## ARTICLES

### **Role of NABARD in Strengthening SHGs** Current Issues and Future Concerns

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The SHG–Bank Linkage Programme has been heralded as one of the largest microfinance programmes in the world. This article presents the evolution of the concept, the efforts of NABARD in grounding the programme, and also the impact of the programme as revealed in studies conducted by NABARD. The last section of this article discusses the major challenges faced by the programme. The article ends with a note that the SHG movement involves poor people across the country and interference with the design of the SHG movement has the potential to vitiate the credit culture and affect the relationship of SHGs with the banking structure.

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#### **INTRODUCTION**

The SHG–Bank Linkage Programme (SBLP) launched by the National Bank of Agriculture and Rural Development (NABARD) in 1992. One of the largest microfinance models in the country, it was first launched as a pilot project to link 500 SHGs<sup>1</sup> with banks. Today, the SBLP has come a long way, passing through various stages: the pilot (1992–1995), mainstreaming (1995–1998), and expansion (1998 onwards) phases. It has emerged as the largest non-directed microsavings and microcredit programme in the developing world enabling around 410 lakh poor households to gain access to microfinance from the formal banking system as of March 31, 2007. The SBLP has received strong public policy support from

both the Government of India (GoI) and the Reserve Bank of India (RBI). While NABARD provided a leadership role, NGOs played a catalytic and enabling role at the grassroots level in group formation, nurturing, capacity-building and enhancing credit absorption capacities of SHGs.

The SBLP is built on the people's own resources supplemented by the existing banking infrastructure, obviating the need for the creation of a new institutional set-up. The conceptual thinking behind the SHG initiative is: (i) self-help supplemented by mutual help can be a powerful vehicle in the socioeconomic transformation of the poor; (ii) the poor can save and are bankable; and (iii) the collective wisdom of the poor and peer pressure are valuable collateral substitutes.

The design feature of the SBLP involves identification, formation and nurturing of SHGs either by NGOs, other development agencies or banks; hand-holding; and initial period of inculcation of the habit of thrift followed by collateral-free credit from the bank in proportion to the group's savings. The decisions to borrow, lend internally and fix the rate of interest are left to the discretion of group members. Thus, the design is built on combining the collective wisdom of the poor, the organisational capabilities of the social intermediary and the financial strength of the Banks.

The SBLP has changed the attitude of the banking system — that the poor are not bankable and that commercial principles cannot be applied in lending to the poor. Banks have realised that lending to the poor can also be a viable activity apart from fulfilling their social obligation (Thorat, 2005). As of now, the SBLP has outgrown its initial objective of providing supplementary credit strategies for meeting the credit needs of the poor and has emerged as a tool for the empowerment of rural women.

This article first traces the role of NABARD in the evolution of the SBLP. It then covers some of the major initiatives taken by NABARD and follows it up with a look at the impact of the SBLP. The article concludes with the current issues and future concerns regarding the Programme.

## **EVOLUTION OF THE SBLP**

Studies conducted by the NABARD in the mid-eighties brought out the simple fact that the most important and immediate banking needs of poor households, in the order of priority, are:

- Opportunities to keep safe their occasional small surpluses for a period convenient to them.

- The credit needs of the rural poor are characterised by the absence of any clear distinction between production and consumption purposes, but have a strong bearing on productivity. The needs are small, but often arise at unpredictable times and are usually of an emergent nature. Their credit needs are ‘lifecycle’ events like marriage, celebration of festivals, funeral expenditure, and so on. They also need money to deal with ‘personal’ emergencies like illness, accidents and ‘natural disasters’ like floods, cyclones, and fires, among others.
- Hassle-free access to financial services and products, including loans for income-generating activities.

Viewed against such a demand, there were serious limitations on the supply side as the existing banking systems, and its procedures of deposit and loan products were largely meant for a different type of customer segment, and were not well-suited to meet the most immediate needs of the poor. Banks also found it difficult to meet the savings and credit needs of the poor due to the high transaction cost to be incurred on a large number of small accounts. Further, the poor do not have any collateral to offer as security to banks. Most importantly, meeting the credit needs of the poor quickly, as and when they arise, is crucial to reduce their dependence on informal credit agents.

Keeping these aspects in view, alternative policies, systems and procedures, savings and loan products began to be explored to meet the requirements of poor rural households. It was found that the poor tended to — and could be induced to — come together in a variety of informal ways for pooling their savings and dispensing small and unsecured loans at varying costs to group members on the basis of need. The advantages of a group approach are that the tasks are best carried out by small groups as they allow active participation and contribution of the members as the interactions take place face-to-face. According to group behaviour theory, people come together and function as a group if they are organised for a purpose, which furthers their common interest.

The NABARD recognised the importance of this empirical evidence and, in the late eighties, initiated a few action research projects on groups as a channel for delivery of microfinance. In 1987, NABARD provided a grant support of Rupees 10 lakh to the Mysore Resettlement and Development Agency to promote Credit Management Groups to experiment with the ‘group-approach’ for meeting the financial needs of the rural poor. This is the beginning of the story of the SBLP in India.

## **PILOT PROJECT ON THE SBLP**

Based on the positive and encouraging findings of the action research projects, NABARD, in consultation with the RBI, initiated a pilot project in 1992 to link 500 SHGs with banks. The objective of this linkage was to evolve supplementary credit strategies for meeting the credit needs of the poor by combining flexibility, sensitivity and responsiveness of the informal credit system with the strengths of technical and administrative capabilities, and financial resources of the formal credit institutions.

This pilot project was designed as a partnership model between three agencies — the SHGs, banks, and the NGOs. The SHGs were to facilitate collective decision-making by the poor and provide ‘doorstep banking’; banks — as wholesalers of credit — were to provide the resources; and NGOs were to act as agencies to organise the poor, build their capacities and facilitate the process of empowering them. The process under the SHG–bank linkage is simple, as explained in Box 1.

### **BOX 1**

The members of SHGs make voluntary thrift on a regular basis and use the pooled resources to make small interest-bearing loans to their members on the terms decided by the group. The process helps them to imbibe the essentials of financial intermediation, including prioritisation of needs, setting terms and conditions, and account-keeping. This gradually builds financial discipline and credit history for themselves, as the money involved in lending operations is their own hard earned money saved over time with great difficulty. This is ‘warm money’. They also learn to handle resources of a size that is much beyond their individual capacities.

The SHG members begin to appreciate that resources are limited and have a cost. Once the groups show this mature financial behaviour, banks are encouraged to make loans to the SHG in certain multiples of the accumulated savings of the SHGs. The bank loans are given without any collateral and at market interest rates. Banks find it easier to lend money to groups as its members have developed a credit history. ‘Cold (outside) money’ gets added to the own ‘warm money’ in the hands of the group and becomes its ‘common fund’. The groups enforce credit discipline among the members. The members have experienced the benefits of credit discipline by being able to save and borrow regularly without many hassles. The groups continue to decide the terms of loans to their own members. The peer pressure ensures timely repayments and replaces the ‘collateral’ for the bank loans.

Source: Kropp and Suran (2002:vii)

In the initial phases, it was a modest beginning. During 1992–1993, 255 SHGs; in 1993–1994, 620 SHGs; and during 1994–1995, 2,122 SHGs were brought under the fold of the SBLP. The growth of the linkage model

gathered momentum once the RBI, in 1996, classified the loan under SHG as a mainstream activity of banks under their priority sector lending.

In the decade that followed (1998–2007), the SHGs linked with banks grew at a CAGR of 113.17%. Families that were assisted grew by 108.38%. The average loan per SHG increased by more than two times, growing at an annual compound growth rate of around 15.79% (Table 1).

**TABLE 1**  
**Growth Indicators of SBLP**

<i>Particulars</i>	<i>Year</i>		
	<i>1997–1998</i>	<i>2006–2007</i>	<i>CAGR (%)</i>
Number of SHGs Linked	5,719	11,43,818	113.17
Number of Families Assisted (lakhs)	2.4	409.5	108.38
Bank Loan (in lakh Rupees)	1,190	6,64,319	146.83
Refinance Assistance (in Lakh Rupees)	107	1,29,286	175.62
Average Loan Size per SHG (Rupees)	20,807	58,079	15.79
Number of Participating Banks	150	498	18.70

*Source:* NABARD Annual Reports.

The mission of NABARD was to form and assist, by the end of the 11th Five Year Plan (2011–2012), 40 lakh SHGs covering about 5.6 crore families under the SBLP.

## **INITIATIVES OF NABARD**

### **Promotion and Nurturing of SHGs**

The formation and nurturing of SHGs requires a self-help promoting institution (SHPI). The NABARD has been sanctioning financial assistance by way of grants to NGOs for the promotion and credit linkage of SHGs. In addition, services of NGOs are also utilised for capacity building of SHGs and other stakeholders. Services of individual rural volunteers like retired and active school teachers, postmasters, village elders, anganwadi workers, members of existing SHGs, and so on, are also used in the SBLP by extending grant support for promotion, formation and nurturing of SHGs. In order to widen the spectrum of SHPIs, the Regional Rural Banks (RRBs), Cooperative Banks and Farmer's Clubs have also been included and involved. The number of SHGs formed by SHPIs and other agencies with the assistance of NABARD as on March 31, 2007, is given in Table 2.

**TABLE 2**  
**SHGs Formed with Financial Support from NABARD**

<i>Agency</i>	<i>Cumulative Progress up to March 31, 2007</i>		
	<i>Grant Assistance (in Lakhs)</i>	<i>Number of SHGs Formed</i>	<i>Number of SHGs Linked</i>
NGOs	1,619.78	1,49,464	95,856
Cooperatives	125.25	28,811	16,546
RRBs	159.28	49,475	32,112
Farmer Clubs	57.77	13,002	6,825
IRVs	18.69	3,934	1,589
Total	1,980.77	2,44,686	1,52,928

*Source:* NABARD Annual Reports.

### **Capacity-building of Partner Institutions**

The large-scale capacity building taken up by NABARD of all the stakeholders has been one of the major contributing factors for the phenomenal growth of the SBLP in the country. The orientation programmes have been conducted by NABARD for a wide range of officials from the highest to the lowest levels of hierarchy. A large number of meetings and seminars have also been organised for propagating the concept of the SBLP. Best practices and innovations of partner agencies have been widely circulated among the stakeholders.

### **Microenterprise Promotion by SHGs**

The NABARD has initiated a pilot project for the promotion of microenterprises by members of matured SHGs in nine select districts across the country — Ajmer (Rajasthan), Chandrapur (Maharashtra), Kangra (Himachal Pradesh), Madurai (Tamil Nadu), Mysore (Karnataka), 24 North Parganas (West Bengal), Panchmahal (Gujarat), Puri (Orissa), and Rae Bareilly (Uttar Pradesh), in association with Marketing and Research Team (MART) as the technical partner. The project adopts a 3-M model covering microplanning, microfinance and micromarkets. The NGOs identified under the project act as microenterprise promotion agencies and have been provided training by MART in conducting village surveys and identifying key activities which have market potential. The NGOs also conduct training for the SHGs in key activities and help in the marketing of the products. At present, a survey of villages and SHGs by

NGOs has been undertaken and microbusiness development plans have been prepared for each district wherein potential activities have been mapped for the benefit of SHG members.

The NABARD also extends grant support to NGOs for conducting microenterprise development training programmes for mature SHGs. These training programmes provide technical skills in running an enterprise, entrepreneurial inputs, enterprise management and marketing aspects to the SHG members. The training is for the activities in both the farm and non-farm sectors.

### **Microfinance Development and Equity Fund**

The NABARD has established the Microfinance Development Equity Fund with a corpus of Rupees 200 crores and the objective to facilitate and support the orderly growth of the microfinance sector for enlarging the flow of financial services to the poor — particularly women and vulnerable sections of society. The fund is to support interventions to eligible institutions and stakeholders, like:

- (i) capacity-building of SHGs for livelihood, skill upgradation and microenterprise development;
- (ii) capacity-building of microfinance institutions (MFIs), banks, NGOs, government departments, NABARD, and so on;
- (iii) funding support for contributing equity/other forms of capital support to NGOs/Voluntary associations (VAs), community-based organisations, MFIs, banks, and so on, to provide financial support for start-ups and on-lending for microfinance activities, supporting self-help promotion initiatives of banks and other SHPIs, and rating of MFIs;
- (iv) supporting systems management with regard to management information system (MIS), accounting, internal controls, audits and impact assessment;
- (v) building an appropriate database and supporting its development;
- (vi) studies, publications and research; and
- (vi) MIS of SHGs, NGOs/VAs, banks, MFIs, NABARD.

### **Enhancing Ground Level Credit Flow to the SHGs**

Refinance support is provided to banks at concessional rates to enable them to enhance ground level credit to the SHGs. NABARD has cumulatively provided refinance assistance of Rupees 54.59 billion as on March 31, 2007, under the SBLP to the banks in the country.

### **Innovative Pilot Projects**

The NABARD has initiated several pilot projects in the area of microfinance, some of which are enumerated below:

#### ***Application of Information Technology in SBLP: Introduction of Processor/Memory Cards***

With the increasing number of SHG accounts in bank branches, banks are facing problems in monitoring and adequately servicing SHG accounts. Branch managers in rural areas are hard pressed for time and as a result do little for developing the business of the branch or scouting for new business opportunities for the branch. It was felt that the use of information technology in the form of processor/memory cards for SHGs and other clients coupled with automation in a branch would serve to solve these vexed issues and leave adequate time for business development work. NABARD has, therefore, decided to launch an experiment through five branches each of two RRBs in Andhra Pradesh and Karnataka. The first pilot project on smart cards has been launched with Sri Visakha Grameena Bank in Andhra Pradesh (reorganised as the Andhra Pradesh Grameen Vikas Bank). With the use of processor/memory cards, the transaction data of each SHG collected from the field could be consolidated at the branch office to generate MIS reports, which the branch staff could effectively use to track the functioning of SHGs, and ensure prompt credit. Introduction of processor/memory cards for active clients and SHGs and automation of book-keeping in SHGs is expected to reduce paper work, save time and thus improve the efficiency of the field worker.

#### ***SHG–Post Office Linkage Programme***

A pilot project for the linkage of 200 SHGs with rural post offices in Kancheepuram and Pudukottai districts of Tamil Nadu is being implemented by NABARD with the objective of examining the feasibility of utilising the vast network of post offices in rural areas in the disbursement of credit to the rural poor. The coverage of the project has since been extended to 10 more states.

#### ***Computer Munshi***

Quality and regularity of book-keeping is an important aspect of linkage banking, which is most affected because of the widespread illiteracy amongst the SHG women. NABARD has extended grant support of Rupees 6.10 lakh to Pradan to engage skilled rural youth as ‘computer munshies



(CM)' and establish 10 CM units in the states of Jharkhand and Orissa. The trained individuals would be equipped with a computer and software to serve 100–300 SHGs. The SHG-level meeting transaction statement will be sent to the CM after every meeting. This will be keyed in by the trained individual using the software, which would generate outputs like trial balance, member savings and loan balances. The SHG promoter and the banker could also access data about SHGs from the CM on payment of a fee. The software for the project has been developed by Pradan.

### ***Pilot Project on Joint Liability Groups***

In order to develop effective credit products for mid-segment clients having access to productive assets, NABARD had piloted the project during 2004–2005 in eight states of the country through 13 RRBs through the model of joint liability approach. During 2004–2005, these select banks promoted 285 joint liability groups (JLGs) and extended finance of Rupees 4.48 crores. In the second year of the project, banks disbursed Rupees 6.79 crores to 488 JLGs. Based on the feedback of the project, NABARD has formulated a scheme for financing JLGs of tenant farmers in September 2006.

### ***Rythu Mithra Groups: Bank Linkage Programme***

The Government of Andhra Pradesh formed Rythu Mithra Groups (RMGs) consisting of small, marginal and tenant farmers with the objective of training and technology dissemination in activities like soil testing, training and assessing input requirements and provide access to credit facilities from banks. Each RMG consists of 15 farmers belonging to the small, marginal and tenant farmer categories. They function along the lines of SHGs by saving Rupees 50 every month with regular meetings, internal lending, book-keeping, and so on. A pilot project for financing RMGs by the banks was launched by NABARD in 13 districts of Andhra Pradesh during 2004–2005. Encouraged by the success, the project was extended to all districts of the state. The ground level credit to the RMGs for the past three years is given in Table 3.

### ***Security System for SHG Members***

A community-based, social security system for improving the livelihood and securing uncertainties of life for members of SHGs in rural areas is being implemented through Organisation for Awareness of Integrated Social Security, an NGO. So far, two villages covering 500 poor households from Betul district of Madhya Pradesh state, involving a grant assistance of

Rupees 8 lakh have benefitted. Self-employed groups from SHGs are formed by the NGO to provide various services involving selling of products at a discount. The project components include provision of a package of health insurance, life insurance, and so on, for SHG households by paying premium generated through discounts offered by service providers like grocery shop, cloth merchant, and so on, in the project area for SHG members in rural areas.

**TABLE 3**  
**RMGs Financed in Andhra Pradesh**

<i>Year</i>	<i>Number of RMGs Financed</i>	<i>Estimated Number of Farmers Covered</i>		<i>Bank Loan (Crore)</i>	<i>Ref. (Crore)</i>
		<i>SF/MF/TF</i>	<i>Of which TF</i>		
2004–2005	4,504	67,000	9,000	28.95	1.94
2005–2006	12,468	1,87,000	40,000	131.77	7.37
2006–2007	12,559	1,88,835	27,233	162	6.81

*Note:* SF= Small Farmers, MF = Marginal Farmers, and TF = Tenant Farmers.

*Source:* NABARD.

### ***Distance Education Programme***

The Indira Gandhi National Open University, New Delhi, is conducting a six-month certificate course on ‘Empowering Women’s Self Help Groups’ as a distance education programme. NABARD reimburses the course fee of Rupees 1,000 to candidates who successfully complete the course in the first attempt. This approach was expected to facilitate the spread of the SHG concept by developing a cadre of competent resource persons in the subject area.

### ***Certificate Course for SHG Facilitators***

The NABARD has partnered with Yashwantrao Chavan Maharashtra Open University, Nashik, in developing and offering a six-month certificate course for SHG facilitators on promotion and nurturing of SHGs. This comprehensive course on the subject offers coverage of topics like empowerment of women, poverty alleviation, issues on social communication at the pre-formative stage of SHGs, and aspects like stabilisation of group functions, conflict resolution, and so on. NABARD has also extended its support by reimbursing

the course fee to the first batch of 500 candidates who have successfully passed the certificate course examination in the first attempt.

### **IMPACT OF THE SBLP**

The programme has proved to be an attractive proposition for banks due to high recovery rates and lowering of transaction costs by outsourcing costs associated with monitoring and appraisal of loans. Records show a recovery rate as high as 95% for loans extended by banks to SHGs. In a study sponsored by the Foundation for Development Cooperation (FDC, 1996), Australia, it was observed that the reduction in costs for the bankers is around 40% as compared to earlier loans under the Integrated Rural Development Programme (IRDP). Seibel and Dave (2002) have come out with similar findings with respect to the commercial benefit of SHG lending to banks. The study has observed that SHG banking is a robust financial product in terms of low, non-performing loans, higher return on assets of SHG banking, higher operational self-sufficiency ratios, performing well in healthy and distressed financial institutions.

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 women from poor households — to collectively identify and analyse the problems they face in their social and economic environments. It helps them pool their meagre resources — human and financial — and prioritise 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 impact. We can, thus, see the evolution of SHGs at three levels:

1. Households use microfinance to meet 'survival' requirements where small savings and loans serve as a buffer in the event of an emergency or smoothen consumption or even service previous debts to give itself more liquidity during lean times.
2. 'Subsistence' needs are met through microfinance, where a household begins to utilise microfinance to diversify its basket of income-generating activities, or to meet working capital requirements in traditional activities.
3. As households reach a stage where they can assume a higher degree of risk, microfinance would be used to invest in setting up an enterprise

or facilitating entry into employment in one way or the other in order that the household becomes 'sustainable'.

Evaluation studies conducted on the impact of the SBPL in the state by NABARD and other agencies have reported significant impact on the socioeconomic front of the rural poor. The main findings are that:

### *Economic Impact*

- Financially excluded disadvantaged sections of society have been able to access financial services from the formal banking sector. Microfinance has reduced the incidence of poverty through an increase in income, enabled the poor to build assets and thereby reduce their vulnerability.
- It has contributed to a reduced dependency on informal moneylenders and other non-institutional sources. The interest rates of moneylenders have also come down.
- Access to credit has enabled women to meet their consumption expenditures initially. There is a gradual shift in loaning pattern from consumption loans to production activities with creation of assets. Economic activities taken up by women are mainly agriculture, animal husbandry, service and business sector activities. Access to credit has enabled them to improve income levels of the poorest of the poor and enabled the near poor to cross the poverty line.

### *Social Impact*

- It has enabled households to spend more on education than non-client households. Families participating in the programme have reported better school attendance and lower drop-out rates.
- It has empowered women by enhancing their contribution to household income, increasing the value of their assets and generally by giving them better control over the decisions that affect their lives. A positive impact on the level of confidence, self-reliance, and ability to make decisions, articulation and empowerment of women has taken place.
- Housing conditions generally improved with a shift in the ownership from *kuchha* (mud walls, thatched roofs) to *pucca* (brick walls, tiled roofs) housing.

- Members were relatively more assertive in confronting social evils and problem situations. As a result, there was a fall in the incidence of family violence.
- In certain areas, it has reduced child mortality, improved maternal health and the ability of the poor to combat disease through better nutrition, housing and health — especially among women and children. In Andhra Pradesh, the average annual rate of growth of population has shown a significant decline from 2.17% in 1981–1991 to 1.30% in 1991–2001, amounting to a 40% decline in the 10-year period. The decline in decadal growth rate of population has also been attributed to the phenomenal growth of SHGs in the state in addition to better governance of both family planning-related and welfare-oriented programmes.
- The SHG movement has expanded avenues for women to assume leadership position. In Andhra Pradesh, a large number of community activists, community resource persons, and para-professionals have emerged from SHGs who have helped in the formation of new SHGs, spreading awareness on health, hygiene, education, and so on. Women were able to discuss confidently the social issues with the political leadership and the government officials.

## **CURRENT ISSUES AND FUTURE CONCERNS**

The growth of microfinance in India has reached a stage where future policy options have to be carefully weighed so that this movement can become a truly strong one. The current issues and future concerns with regard to the programme are discussed below.

### **Regional Imbalances**

The first challenge is the skewed distribution of the SHGs across the states. About 60% of the SHGs credit linked in the country are in the southern states of Andhra Pradesh, Tamil Nadu, Karnataka and Kerala. Thus, the number of SHGs per lakh population for the southern region is 703, which is more than double the average at the all-India level (310) and almost five times of the Central Region (142) (Kumar and Ramesh, 2009:129). However, in states which have larger share of the poor, the coverage is comparatively low. This skewed distribution is attributed to the overzealous support extended by some of the state governments to the programme,

skewed distribution of NGOs, local culture and practices. To reduce the regional imbalances in the spread of SBLP, NABARD has identified 13 states having a large population of the poor for focussed attention, and has started giving new directions to the linkage programme.

### **Quality of SHGs**

The massive mobilisation of SHGs has posed challenges to their quality and sustainability. The critical indicators of the quality of SHGs are regularity in savings, increase in the corpus of the groups, internal lending, repayment of loans, attendance of members in meetings, regularity of meetings, up-to-date and accurate maintenance of books of account, and participation of all the members in the group activities. The target-oriented approach of some state government departments, inadequate facilities for training and insufficient incentives to NGOs promoting SHGs for nurturing them on a sustainable basis are standing in the way of attaining the required quality. Continuous training of all the stakeholders — SHG members, SHG promoters and the bank staff — is of paramount importance.

### **Thrust for Formation of Farmer Groups**

The SHG movement has mainly remained gender-centric, covering only women. There are a large number of farmers in the country who are marginal farmers, small farmers, share-croppers/tenant farmers, and so on, who are unable to access credit from formal financial institutions either due to the small size of their landholdings or lack of clear title. The SHG movement has not touched these segments in large parts of the country. More efforts are required from the NGOs in mobilising this segment of farmers in the group mode. Such experiences are already available in a limited way in the RMGs of Andhra Pradesh and Farmer Groups formed by the Dharmasthala Rural Development Trust in Karnataka. NABARD has formulated guidelines for banks to finance JLGs of tenant farmers. This scheme can be instrumental in purveying credit to small farmers, marginal farmers, tenant farmers and the landless.

### **Loan Size to Group**

During 2006–2007, the average loan provided to new SHGs was Rupees 44,342 and the average loan per family worked out to Rupees 3,167.<sup>2</sup> Many believe that such loan amounts are grossly inadequate for pursuing any meaningful livelihood activity and making the SHG members move

to taking loans from MFIs. However, per capita loans in mature SHGs are increasing gradually. It has also to be kept in view that members take very short-term loans of three to six months on many occasions and there can be more than one cycle of borrowing/repayment in a single year.

In case all the family needs are taken into account, SHGs may have to be advanced higher amount of credit than what is being given at present. It is estimated that to rise above the poverty line, each member may require bank credit of Rupees 25,000–30,000. The question is whether such a higher quantum of loans can be given under the present SHG mode or whether the members requiring higher quantum of loan should be encouraged to take resort to the regular banking system. These questions have to be resolved in the interest of sustaining the growth of SHGs as viable means of poverty alleviation.

### **From Consumption Credit to Income-Generating Activities**

Another challenge is to graduate the SHGs from availing loan for consumption purposes to income-generating microenterprises. Studies have indicated that the SHG members are availing loans for income-generating activities once their consumption needs are met. Transition to microenterprise level by SHG members is a 'training intensive' process, and bank loans alone cannot ensure this transition. This needs a holistic approach of skill development, development of entrepreneurial qualities, developing an understanding of the markets, and so on. Existing livelihoods of the group members are to be kept in view and income-generating activities need to be introduced, based on known skills, knowledge and resources. Market linkages are crucial for the promotion of microenterprises. Market surveys need to be conducted for resource mapping and the right type of products suiting the capacities of SHG members may have to be identified. This task has to be handled with care to ensure that genuine concerns do not lead to failure of enterprises, increased debt burden, and then default.

### **Role of State Governments**

There is no doubt that the SBLP has achieved its outreach and scale due to the proactive role played by the state governments. A few state governments have used SHGs as the route for poverty eradication and as a means of making public services available to the rural poor. But many state governments have been over-stretching to achieve scale and access without critical assessment of humanpower and skill sets available with them for forming and nurturing groups and hand-holding and maintaining them

over time. In the process, a few basic and next generation issues have arisen for maintaining the quality of SHGs and sustainability of SHGs.

There is another danger of state governments obsessed with the target approach and populist demands, and overloading the SHGs with other development functions. Once members of the SHG perceive that government monies and subsidies are available in plenty, the self-help spirit and mutual trust will get eroded and malpractices will grow, as has happened in the case of cooperatives. It is also to be noted that subsidies will eventually turn out to be a constriction rather than an incentive due to budgetary limitations.

### **Emergence of Federations**

In many states, SHG federations have started emerging as important players in the field of microfinance. Federations represent the aggregation of collective bargaining power, economies of scale, and are a forum for addressing social and economic issues. However, there is a concern that every additional tier increases the cost of the funds to the SHG members and may weaken the primary building blocks. NABARD believes that:

- SHG federations should be evolved based on the felt need of the SHGs and the group should have freedom to join or not to join the federation.
- Federations need to evolve as member-owned, member-driven institutions so that they can function in a democratic manner, keeping in view the aspirations of their constituents, the SHGs.
- The promoting organisation should commit itself for mentoring the SHG federation so as to ensure that it is able to function on a sustainable basis. This would mean that the SHG federation needs to put in place a mechanism for pricing its services to the members.
- The process and systems of federations need to be designed in such a way that these federations do not depend on the promoter perpetually and become self-managed over a period of three years.
- The federations should not normally involve themselves in managing the financial resources of SHGs and in on-lending to groups as it is likely to weaken the self reliance of the groups. However, they can act as business facilitators and business correspondents to the banks.

NABARD has decided to support the SHG federations on a model-neutral basis for building the capacities of SHGs, to conduct training programmes for SHG members for taking up microenterprises, and for facilitating SHG



members to participate in the organised supply chain management and primary process of produce.

### **Need to Restructure Design and Direction of Swarnjayanti Gram Swarozgar Yojana Subsidy**

The norms and working of groups promoted under Swarnjayanti Gram Swarozgar Yojana (SGSY) are not in tune with the SBLP. The report of the Sub-Group on Innovative Finance and Microfinance, Planning Commission, GoI, had observed that the availability of subsidy to groups under SGSY had led to weakening of the concept of self-help as most people joined groups for availing only the subsidy. The pressure for achieving targets has led to the formation of groups that lack understanding of group concept and working. The survival rate of the groups, after the project loan is sanctioned, is poor. This happens because members usually lose interest after receiving their subsidies. The sub-committee had, therefore, recommended for greater synergy between the SHG programme of NABARD and SGSY. Various studies, conducted by the National Institute of Bank Management and National Institute of Rural Development, point out that linking credit with subsidy is not an effective approach for reaching out to the poor.

The Committee on Financial Inclusion (Rangarajan, 2006) has recommended that subsidies provided under SGSY be restructured. The Committee felt that there is a need to formulate a single programme synergising the positive features of SGSY such as specific targeting of BPL families, and so on, and those of the SBLP such as group cohesiveness, and discipline. The Committee recommended that the government may consider redirecting subsidy in the SGSY for the following purposes:

- capacity-building of NGOs and other field-based agencies such as Krishi Vigyan Kendras, to form and strengthen SHGs;
- exposure visits to successful models by bankers, government officials and SHG leaders; and
- strengthening input supply and marketing arrangements.

### **Emergence of MFIs**

The MFIs those are institutions, other than banks, which are engaged in the 'provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling

them to raise their income level and improving living standards'. MFIs are extremely heterogeneous groups comprising non-banking finance companies, societies, trusts and cooperatives. During the budget speech of 2005–2006, the Finance Minister announced that the GoI intended to promote MFIs in a big way. The GoI has felt the need to identify MFIs, classify and rate such institutions and empower them to intermediate between the lending banks and clients. The Minister also indicated that commercial banks may appoint such MFIs as 'banking correspondents' to provide transaction services on their behalf.

Keeping the policy thrust to MFI, NABARD has decided to support the rating of MFIs by the accredited rating agencies such as CRISIL, M-CRIL, Planet Finance and CARE to enable the MFI sector to avail finance from the banking sector. NABARD has also decided to provide capital/equity support to MFIs so as to enable them to leverage capital/equity for accessing commercial funds from banks and provide financial services at an affordable cost to the poor. This can enable the MFIs to achieve sustainability in their credit operations over a period of three to five years.

Certain concerns regarding the operations of MFIs such as lack of transparency in operations, high rates of interest, coercive methods of recovery, hidden charges in the form of processing fees, service charges, and so forth, have come up in the public domain. The challenge before the MFI sector is to gain acceptance by adopting best management practices and transparency in their operations. As a large number of MFIs come from the NGO sector, they suffer from capacity and skills constraints to deliver financial services. Thus, the sector needs capacity building in financial control and management, business planning, product design, MIS, and internal controls, among others.

### **SUSTAINING THE MICROFINANCE MOVEMENT: FUTURE STRATEGY**

Keeping these in view, NABARD has evolved the following strategies to relate with the microfinance sector:

- Facilitate formation, nurturing and linkage of SHGs to access credit from formal banking channels.
- Scale up the programme in 13 priority states,<sup>3</sup> which account for 70% of rural poor in the country.

- Build capacity of all stakeholders through training, awareness creation, exposure visits and skill development training programmes.
- Promote microenterprises among mature SHGs through skill development training programme.
- Develop the MFI sector with support for rating, equity and refinance through the banking sector.

The SHG movement involves common people across the country with their main strength being mutual interest, informality and flexibility. It is, therefore, desirable that their organisational structure, method of raising funds, interest rate, and structure should be left to themselves. The interference with the design of the SHG movement has the potential to vitiate the credit culture and affect the relationship of SHGs with the banking structure. But steps to consolidate the movement and upgrade their activities from intra-lending to income-generating activities, and group microenterprises are welcome development, which the banking sector should encourage and support as part of social banking. Lastly, the MFIs hold significant potential for reaching the financial services to the poor people provided it can address the critical challenges confronting them such as sustainability, capital, capacity and transparency.

#### NOTES

1. An SHG is an unregistered 'affinity group' of about 20 poor people from a homogeneous class, who come together for addressing their socioeconomic problems. After successfully running the group for a period of six months, the group can approach the nearby bank branch for credit.
2. As on March 31, 2008, the average loan provided to SHGs was Rupees 64,027 and the average loan per member worked out to around Rupees 6,000.
3. Assam, Bihar, Chhattisgarh, Gujarat, Himachal Pradesh, Jharkhand, Maharashtra, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, Uttaranchal, and West Bengal.

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