

## SHG's - BANK LINKAGE

### An era in Credit Delivery

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### **ABSTRACT:**

The Self help groups (SHG)-Bank linkage programme has emerged as the largest micro credit programme in the world. At the grassroots level, the program is being implemented by the commercial banks, cooperatives, and regional rural banks. The SHG-Bank linkage program was conceived with the objectives of developing supplementary credit delivery services for the unreached poor, building mutual trust and confidence between the bankers and the poor and encouraging banking activity both on thrift as well as credit and sustaining a simple and formal mechanism of banking with the poor. SHG-Banking linkage (SBL) programme for credit has been able to reduce transaction costs. It has enabled the banks to achieve better loan recovery and mobilize low cost deposits. The SHG-Bank linkage programme in which SHGs are linked to banks in a gradual way-initially through savings and later through loan products-is considered to be an effective strategy to ensure financial inclusion. 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.

The present paper elucidates and focus the status of Micro - Finance, Self Help Group, Bank Linkage, Women Empowerment.

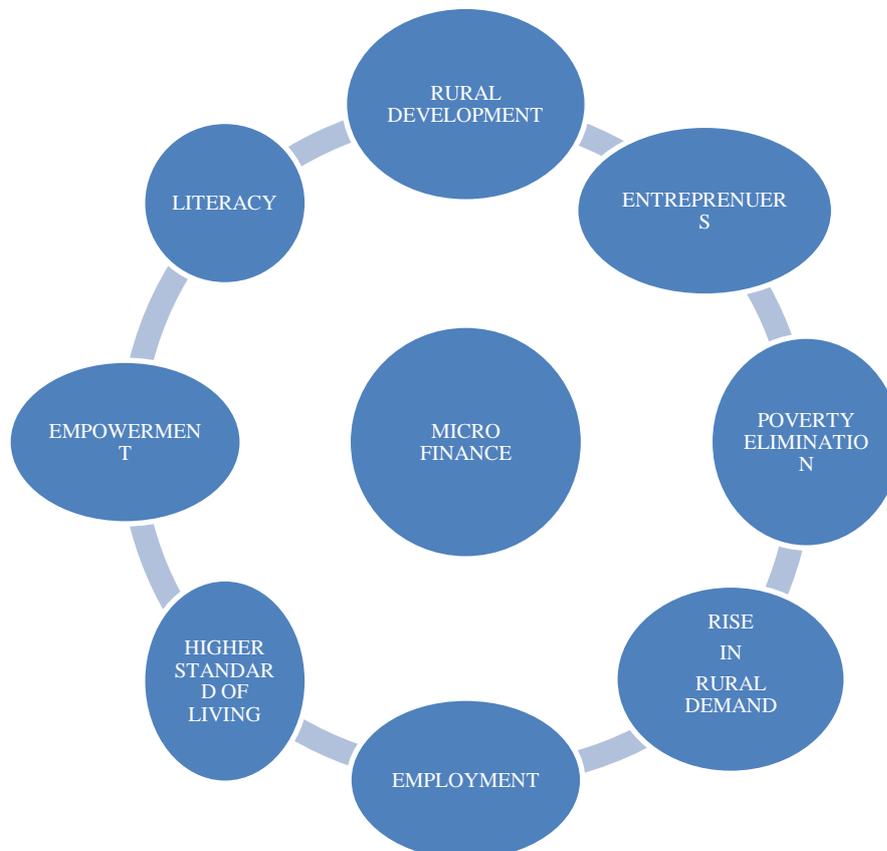
**KEY WORDS:** Micro Finance, Self Help Groups, Bank linkage programme, Women Empowerment

**INTRODUCTION:**

The importance of women to economic development of India was first recognized during the country's struggle for independence. Women-owned business has the potential to make significant contributions to Job creation and economic growth, economic empowerment of women changes the balance of power because its allow half the world's population to contemplate higher goals than basic survival. In rural areas, there is a urgent need of empowering women. The formation of SHGs and microfinance will enhance their socio-economic status in society. Mohd. Yunus, born 1940, is a Bangladeshi banker and the developer and founder of Concept of micro credit. With the help of micro finance, women get small loan for business and its gives them an independent means of generating wealth and becoming self-reliant in a society.

The two important models/channels of microfinance involving credit linkages with banks in India are (i) SHG - Bank Linkage Model: This model involves the SHGs financed directly by the banks viz., CBs (Public Sector and Private Sector), RRBs and Cooperative Banks. (ii) MFI - Bank Linkage Model: This model covers financing of Micro Finance Institutions (MFIs) by banking agencies for on-lending to SHGs and other small borrowers.

CHART 1: STRUCTURE OF MICRO - FINANCE:



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Micro-finance initiatives are now recognised as a cost effective and sustainable way of expanding the banking system to the rural poor. The guiding spirit behind microfinance initiatives is:

- i. To offer cost effective approach to formal institutions for expanding outreach to poor;
- ii. To develop collateral substitutes;
- iii. To focus on the rural and the urban poor, especially women;
- iv. To pilot test other micro-credit delivery mechanisms as alternative channels to the formal banks; and
- v. To effectively pursue the objectives of macro-economic growth.

#### **OBJECTIVES OF THE STUDY:**

The following are objectives of the study,

1. To examine the impact of SHG's membership,
2. To express the features of NABARD - SHG model unique,
3. To discuss about Women Empowerment and SHG - Bank Linkage Programmes

#### **RESEARCH METHODOLOGY:**

This is a descriptive research paper; this study is compiled with the help of the secondary data. Secondary data are collected from the various websites, Books, Journals and Magazines.

#### **SIGNIFICANCE OF THE STUDY:**

The present study has been conducted to know the impact of the participation of the women in the "Self-Help Groups" to empower themselves and how far they are utilizing their collective strength to upgrade their status in society. The bankers can understand the members, through this study, what they are expecting from the banks. The Government can provide assistance to the groups based on their requirements. Also, through this study, the NGOs may be able to understand the credit need of SHGs and accordingly suggest to the banks for extending the ceiling of loan.

#### **STATEMENT OF THE PROBLEM:**

Success of SHGs exclusively depends on how the members associate themselves with the groups. In this direction it becomes highly important to examine with what purpose the members join SHGs. Further, SHGs play an important role of providing funds to the members through the banks. What are the purposes to which such loans are utilized by the members? Do they find the amount of loan adequate? SHGs are claimed to bring forth many

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benefits to the members. They enable them get economically empowered. What is the impact of SHG membership on monthly income? In order to find solutions to all the questions raised above, the present study has been undertaken.

### **REVIEW OF LITERATURE:**

**B. Revathy & M. Kailash (2012):** The study conducted in Guntur district of Andhra Pradesh revealed that micro finance has positive impact on the respondents' self confidence and courage whereas self esteem and asset creation require attention. It suggested that women should explore self employment avenues to steer not only their families but also society at large in the path of progress. MFIs must adopt holistic approach by taking into account cultural, economic and political factors affecting women's empowerment.

**Salman Asim (2008):** Studied on evaluated the impact of microcredit on indicators of women's empowerment in the urbans slums of Lahore District of Pakistan. The different dimensions of household decisions – child related, health related, social mobility, economic and major household purchase decisions were assessed in order to explore the link between micro credit and women's empowerment.

### **SHGS AND WOMEN EMPOWERMENT:**

The complexity of the concept of 'women empowerment' is clear from the different interpretations and methodologies that have been used to measure it. It is therefore not surprising that every investigation of the impact of microfinance programmes on women empowerment has its own incomplete interpretation of the concept. Using the World Bank's definition of empowerment along with Kabeer's sensible interpretation of women empowerment within the South Asian context, this paper argues for a more strict interpretation of women empowerment. It is interpreted as the process in which a woman challenges the existing norms and culture to effectively improve her well-being. A distinction is therefore made between the outcomes that lead to greater efficiency within the existing norms, community driven development (CDD) and outcomes that can be directly interpreted as women empowerment. For instance, activities like improvement in nutrition of children, lead to greater efficiency in the woman's role in the household but it also falls within the existing role of the women within the norms of the society. When a woman is better able to perform such activities, it leads to an increase in her self-confidence and feeling of well being. This might create conditions leading to woman empowerment, but are not empowering on their own. Similarly, Community Driven Development activities, undertaken under the

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initiative of the SHGs – for instance, solving drinking water problems in the village, reduces the demand on a woman’s time while leading to better health of all household members, particularly children. However, most of these activities are for the welfare at the household (including women) or community but are not directly empowering. According to our definition, the truly empowering activities are those that reflect the changes that women have effectively made to better their lives by resisting the existing norms of the society. Over the past decades, subsidized rural banking in India, despite its large network of rural bank branches has failed to reach the poorer sections of the society. By the early 1980s, the All India Debt and Investment Survey (Government of India, 1981) showed that the share of non-institutional agencies (informal lenders) in outstanding cash dues of the rural households was 38%. The main limiting factor in reaching formal finance to this group was the high transaction costs and lack of appropriate credit and saving products.

**PRINCIPLES OF SHG-BANK LINKAGE:**

- ▶ Savings first, no credit without savings
- ▶ Savings as partial collateral
- ▶ Bank loans to the SHG for on-lending to members
- ▶ Credit decisions by SHGs for on-lending to their 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

**SELF-HELP GROUP BANK LINKAGE PROGRAMME:**

NABARD (2005) explains that the Self Help Group is a group with “an average size of about 15 people from a homogenous class. They come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritization of needs, setting terms and conditions and accounts keeping. This gradually builds financial discipline in all of them. They also learn to handle resources of a size that is much beyond the individual capacities of any of them. The SHG members begin to appreciate that resources are limited and have a cost. Once the groups show this mature financial behavior, banks are encouraged to make loans to the SHG in certain multiples of the accumulated savings of the

SHG. The bank loans are given without any collateral and at market interest rates. The groups continue to decide the terms of loans to their own members. Since the groups' own accumulated savings are part and parcel of the aggregate loans made by the groups to their members, peer pressure ensures timely repayments." The SHG bank linkage programme links a SHG group to banks, where the banks provide a loan to a mature group. The group places its savings in the group deposit account in the bank (at about 12% per annum), using its group savings and group guarantee as a collateral. NABARD provides subsidized refinancing support to banks to encourage such lending. However, the demand for such refinancing support to banks has fallen, as SHG lending is more profitable and has lower default rates (less than 1% as compared to 11-12% of their regular portfolios) (Base and Srivastava, 2005). The NABARD SHG bank linkage programme has achieved only 1.4% of the potential demand, reaching out to seven million households with an average credit of Rs. 2,000 a household, as against the need to reach 100 million with Rs. 10,000 per household. The microfinance institutions (MFIs) on the other hand, have been able to meet only 0.25% of the demand (Mahajan, 2002). India has 37% of the world's population earning less than \$1 a day, of which 60% are women (Human Development Report, 2003). The Government of India, National Policy for the Empowerment of Women (2001), declared various measures aimed towards achieving greater equality between men and women. In 1993, the Indian government ratified the International Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW). The government's poverty alleviation programmes such as Swaranajayanti Grama Swarojgar Yojna (SGSY) and the Rashtriya Mahila Kosh implement their programmes through microfinance interventions of NABARD's Self Help Group bank linkage programme.

Apart from the large numbers of households that this programme services, the following features make the **NABARD SHG model unique**:

1. The distinctive process of formation of the SHGs and the freedom that they have in deciding the terms of their lending and borrowings within the group, once they receive the loan.
2. The use of the existing and extensive infrastructure of rural bank branches for disbursing microfinance services.
3. Three distinctive ways of linking the SHGs to the banks, through NGOs, commercial and rural banks, with the NGOs playing a major role in promotion of the SHGs and their training.

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4. The government's poverty alleviation programmes such as Swaranajayanti Grama Swarojgar Yojna (SGSY) and the Rashtriya Mahila Kosh implement their programmes through microfinance interventions

**IMPACT OF THE SHG-BANK LINKAGE PROGRAMME:**

- Microfinance has reduced the incidence of poverty through increase in income, enabled the poor to build assets and thereby reduce their vulnerability.
- It has enabled household that have access to it to spend more on education than non-client households. Families participating in the programme have reported better school attendance and lower dropout 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 decisions that affect lives.
- 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.
- It has contributed to a reduced dependency on informal money lenders and other non-institutional sources.
- It has facilitated significant research into the provision of financial services for the poor and helped in building 'capacity' at the SHG level.
- Finally it has offered space for different stakeholders to innovate, learn and replicate. As a result, some NGOs have added micro-insurance products to their portfolios, a couple of federations have experimented with undertaking livelihood activities and grain banks have been successfully built into the SHG model in the eastern region. SHGs in some areas have employed local accountants for keeping their books and IT applications are now being explored by almost all for better MIS, accounting and internal controls.

**CONCLUSION:**

Micro-finance interventions through SHGs programmes are well-recognized world over as an effective tool for poverty alleviation and improving socioeconomic status of rural poor in India too, micro-finance is making headway in its effort for reducing poverty and empowering rural women. Micro-finance through the network of cooperatives, commercial banks, regional rural banks, NABARD and NGO's has been largely a supply driven recent approach.

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