Training as a Catalyst of Sustainability of SHG's – A Study

*** N.Sreenivas**

**** Dr. V.V.Subramanya Sarma**

Abstract:

Micro Finance has gained a lot of significance and momentum in the last decade. It is a novel approach to "Banking with the poor". Bank credit is extended successfully to the poor through Self Help Groups (SHGs), NGOs, Credit Unions etc. India now occupies a significant place in global micro finance through promotion of the SHGs and SHG-Bank Linkage Programme (SBLP). This is essentially because of the potential training and capacity building programmes organized by NABARD. More than 30,000 branches of Commercial Banks, RRBs and Co-operative Banks in over 520 districts in 30 states and union territories are now implementing the SBLP. This article describes features of SHGs, models of SBLP and operational aspects of SBLP. This article also examines the role of training in growth and development of SHGs under SBLP.

Key Words: Microfinance, SHG-Bank Linkage Programme, Training and Sustainability of SHGS.

*N.Sreenivas, Lecturer in Business Management, Thushara PG School of Information Science & Technology, Rampur, Warangal. He can be reached at asksreenivas@gmail.com

**Dr.V.V.Subramanya Sarma, Professor of Commerce and Business Management, Kakatiya University, Warangal.

Introduction:

Micro Finance is an economic development approach that involves providing financial services to low income clients. It is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. It helps the poor people to meet their financial needs through small credit (Anil and K.Khadelwal, 2007). The beginning of the micro finance movement in India could be traced to the Self-Help Group (SHG) – Bank Linkage Programme (SBLP) started as a pilot project in 1992 by National Bank for Agricultural and Rural Development (NABARD). SHG-Banking is a programme that helps to promote financial transactions between the formal rural banking system in India comprising of public and private sector commercial banks, regional rural banks and cooperative banks with the Self Help Groups (SHGs) as clients. They usually start by making voluntary thrift on a regular basis. They use this pooled resource together with the external bank loan to provide interest-bearing loans to their members. Such loan provides additional liquidity or purchasing power for use in any of the borrower's production, investment, or consumption activities. SHG-Banking, through SHGs and the existing decentralized formal banking network including several organizations in the formal and non-formal sectors as banking partners, allow for large-scale outreach of micro finance services to the poor in India. These banking services such as depositing savings and taking loans are made available at low cost and are easily accessible and flexible enough to meet poor people's needs. This programme has emerged as the most popular model of micro finance in India. NABARD has been conducting several training programmes for SHG members, bankers and NGOs to improve the efficiency of SBLP. NABARD has been able to achieve the sustainability of SHGs in India by implementing SBLP successfully (S Nadarajan and R Ponmurugan, 2006).

Objectives of the Study:

The main objective of the study is to analyze and present the performance of the SHG-Bank Linkage Programme. However, the objectives have been grouped into the following:

1. To examine the features of the SHGs.
2. To bring out various models under SHG-Bank Linkage Programme.

To discuss the operational aspects of SBLP in which savings, bank loans and training to SHGs, bankers and NGOs.

3. To analyze the progress of SBLP with reference to the growth rate of number of SHGs, bank loans and loan disbursed per SHG by banks in India.
4. To present the agency-wise and model wise SBLP position in India.
5. To identify the sustainability of SHG's under SBLP.

Methodology:

The study is based on secondary data. The secondary data source is research journals, books, news papers, magazines, internet and NABARD. It is collected by visits to libraries for accessing books, research journals, news papers, magazines, browsing internet etc. Cumulative frequencies and simple percentage analysis is used to analyze the data. The data is presented in the form of tables.

Features of SHGs:

The term Self-Help Group (SHG) is used to describe a wide range of financial and non-financial associations promoted by government agencies, NGOs and banks. A distinction is made between different types of SHGs according to their origin and sources of funds. Several SHGs have been carved out of larger groups, formed under pre-existing NGO programmes for thrift and credit or more broad-based activities. Some have been promoted by NGOs within the parameters of the bank linkage scheme but as part of an integrated development programme. Others have been promoted by banks and the district rural development agencies (DRDAs) (A.P.Pati, 2009). The following are some of the characteristic features of SHGs:

1. An SHG is an economically homogeneous group formed through a process of self-selection based upon the affinity of its members.
2. Most SHGs are women's groups. The membership ranging between 10 and 20. Thus they are small groups.
3. SHGs have well-defined rules. They hold regular meetings, maintain records, promote savings and possess credit discipline.
4. SHGs are self-managed institutions characterized by participatory and collective decision making.

SHG-Bank Linkage Programme (SBLP):

In India the SHG-Bank Linkage Programme has launched in 1992. Early results achieved by SHGs promoted by

NGOs such as MYRADA, prompted NABARD to offer refinance to banks for collateral-free loans to groups, progressively up to four times the level of the group's savings. SHGs thus "linked" became micro-banks and are able to access funds from the formal banking system. The linkage permitted the reduction of transaction costs of banks through the externalization of costs of servicing individual loans and also ensuring their repayment through the peer pressure mechanism (Sukhbir and Singh, 2008). The following are the three broad models of SBLP.

Model I: SHGs formed and financed by banks:

In this model the bank promotes and nurtures the self-help groups until they reach maturity. It accounted for 14 per cent of average bank loan provided during the period 2003-04 to 2005-06.

Model II: SHGs formed by NGOs/Government agencies and financed by banks:

These groups are formed and supported by NGOs or government agencies. It is dominant model, which accounted for 81 per cent of average bank loan provided during the period 2003-04 to 2005-06.

Model III: SHGs financed by banks using NGOs, formal agencies as financial intermediaries:

In this model NGOs act as both facilitators and micro finance intermediaries, and often federate SHGs into apex organizations to facilitate inter-group lending and larger access to funds. It accounted for 5 per cent of average bank loan provided during the period 2003-04 to 2005-06.

Operational aspects of SHG-Bank Linkage Programme:

1. Savings:

Newly established groups do not start with a loan from the bank. They start as savers' groups with regular fortnightly or monthly small savings targets. Each member saves identical amount of Rs.20 to Rs.50. This contractual saving system has been introduced by every group with an aim to start developing a basic financial discipline and to build-up an own capital stock as an internal resource base and to become eligible for a bank loan. SHGs usually discourage members who voluntarily contribute or save higher amounts with SHG - this is partly because of the comply issues of bookkeeping as also the fear that they may gain more influence in decision making in the group. The savings account of the group was opened at the bank for a future relationship with the banker. Each member of the group continues to save a small but fixed amount after receiving the first bank loan. The savings are collected during the regular meetings and entered into individual passbooks and the group passbook (K.V.Naik, 2004).

2. Bank Loans to SHGs:

After 6 months of normal functioning the bank acknowledged "bankability" recognition to the SHG. Then, a loan or an overdraft facility is sanctioned by the bank to SHGs in relation to the savings amount accumulated based on the SHG's request. Market rates of interest are applied and the participating banks are free to modify according to local conditions. The RBI created the necessary conditions by deregulating the interest rate, enabling application of market rates in this case. NABARD original guidelines on SHG-Bank Linkage Programme recommended that banks start lending with a loan to saving ratio of 1:1 or 1:2 and may gradually increase it to 4:1, keeping in view the resource handling capacities of the SHG (J.A.Sarvaiya, 2007).

3. SHG-Loans to Members:

SHGs use resources i.e. own savings and the external bank loan to provide interest bearing loans to their members. The decision on who gets the loan is being taken by the group and not by the bank staff. Sometimes a loan appraisal of individual loan requirements is made within the group. Members request loans during the group meetings and loans are granted during the group meeting from the collections during the day. The system is designed to make sure that the loan fund is reaching them directly in a transparent manner. The interest charged for internal lending to members ranges from 24 per cent to 36 per cent as a flat rate partly to simplify calculation by SHG members (Dr.Aminul Islam, 2009). Inappropriate loan utilization and other issues like non-payment of monthly installments are taken care of within the context of the group. Members take great pride making their payments in fixed equal installments on time. Flexibility of repayment is also granted if necessary. The loans are used by them to finance working capital or to meet capital requirements for a micro-entrepreneurial activity; crop loans etc. that is usually not linked with marketing and short term consumption and emergency requirements. The entire transactions are recorded in the loan books.

The loan ceiling for the SHG can be upgraded and can also be fixed on the basis of the total amount of savings and performance of the SHG. A borrower in the group can enhance the loan size by increasing the regular savings and repay the group loan to the bank in time. In SHG-Banking, the central assumption underlying is the firm belief that the SHGs of the poor are reliable partners in handling bank funds, they will always pay back their loans and are much more creative in allocating the loan fund among their members than any outside agency because they know the character and capacity of every person very intimately. Therefore, full autonomy is given to them by the bank to decide, to which member a loan is given and how to make it best fit for them in terms of purpose, amount, duration, size of installments, interest rates etc. The first set of decisions incumbent upon the group is deciding the amounts of the loans and the amount of loan. They allow for individual or joint enterprise initiatives while committing individual members to a strong social accountability. Some SHGs are providing loans for productive purposes to their members but not fully excluding loans for consumption, medical treatment, and marriage (Narayana Swamy, 2005).

4. Training and Development:

The SHG-Bank Linkage Programme has been continuously supported by NABARD. Organizing rural poor into SHGs, building their capacities to manage their own finances and negotiating bank credit on commercial terms to be a challenging task for NABARD. For that NABARD has been organizing several training programmes to SHGs, Bankers and NGOs (www.nabard.org).

i) SHG Training:

The processes of group formation and training are critical stages for stability of the group. Training includes characteristics of rural credit needs, rigidities of formal credit structure, sustainability of SHGs over other groups, features of good SHGs, formation, monitoring and linking of SHGs, conduct of meeting, conflict resolution, RBI/NABARD guidelines on linkage of SHGs, financing of SHGs by banks, rate of interest, quantum of loans, rating of SHGs/NGOs, etc.

ii) Bankers' Training:

Bankers ought to know their new functions and responsibilities. Bankers' training includes:

1. Description of rural scenario and why earlier target-oriented programmes could not give the desired results.
2. The policies of NABARD, RBI and GOI.
3. The benefits accruing to banks out of SHG -bank linkage, i.e. reduction in transaction cost, coverage of more clients and area, associating with new partners, nearly cent percent recovery of loans, even recovery of old loans, getting future quality clients and also becoming part of the social development through SHGs.
4. Assessment of SHGs, opening of SB A/cs, types of linkage models, etc.

iii) NGOs Training:

NGOs Training Programme includes:

1. Role of Rural financial institutions in rural development, credit delivery, present problems, characteristics of rural credit needs and minimizing transaction cost.
2. Formation, monitoring and nurturing of SHGs, sustainability of SHGs over other groups, features of good SHGs.
3. Group configuration such as grouping norms, membership and leadership.
4. Group process such as framing rules, conduct of meetings, self governance, group control and conflict resolution.
5. Group functions such as thrift management and loan management.
6. Formats of Books of Accounts, maintenance of books of accounts, monitoring reports, community issues, and assessment of members and imparting training.
7. RBI/NABARD guidelines on linkage of SHGs.

In order to understand the training and capacity building , the training and capacity building programmes organized by NABARD are presented in Table-I.

Table-I: Training and Capacity Building Programmes during 2008-09

Sl.No.	Programme	No. of programmes conducted	No. of participants
1	Awareness creation and capacity building programmes organized for SHG members	3122	141984
2	Training programmes conducted for bankers covering officials of Commercial banks, RRBs and Co-operative Banks	585	23848
3	Awareness-cum-refresher programmes conducted for NGOs	324	18594

Source: NABARD

NABARD has been continued to organize training programmes and exposure visits for the benefit of officials of banks, NGOs, SHGs and government agencies to enhance their effectiveness for the growth and development of SBLP. During the period 2008-09, Awareness creation and capacity building programmes organized for SHG members are 3122 covering 141984 participants. Training programmes conducted for bankers covering officials of Commercial banks, RRBs and Co-operative Banks are 585 with 23848 participants and awareness-cum-refresher programmes conducted for NGOs are 324 covering 18594 participants. It shows that NABARD has concentrated more on awareness creation and capacity building programmes organized for SHG members to make them realize the importance of SBLP.

Initially there was slow progress in SHG-Bank Linkage Programme up to 2005-06 as only 22,39,000 groups were credit linked during the period 1992-2006. To increase the progress of SBLP, NABARD has conducted several training and development programmes to create awareness among SHGs, Bankers and NGOs. Since then the programme has been growing rapidly and the number of SHGs credit linked are increased in the years 2006-07, 2007-08 and 2008-09 with 11,06,000, 12,28,000 and 16,10,000 respectively. In these three years the total number of SHGs credit linked are 39,44,000.

Growth and Development of SHGs under SBLP:

The SHG-Bank Linkage Programme has been positioned in the banking system as a commercial proposition with advantages of lower transaction costs and generation of goodwill among the rural clientele for the banks leading to other quantifiable benefits in business expansion. The growth and development has been presented with the help of Bank Loans Disbursed to SHGs, Agency wise and model wise SBLP position.

i) Bank Loans Disbursed to SHGs:

It is proposed to examine the pattern and trend in the growth rate of number of SHGs, bank loans and loan disbursed per SHG by the banks in India with a view to point out the progress of SBLP. The SBLP has made considerable progress since its inception in the early 1990s, both in terms of the number of SHGs credit linked with banks and also the bank loans disbursed by SHGs. The Table-II present the combined data of number of SHGs financed by banks, bank loans and loan per SHG from 1999-2000 to 2008-09.

Table II: Bank Loans Disbursed to SHGs

Year	Total Number of SHGs financed by Banks (in '000)		Bank loans (Rs. In crores)		Loan disbursed per SHG (Rs. In crores)	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1992-99	33	33	57	57	1.73	1.73
1999-00	82	115	136	193	1.66	1.68
2000-01	149	264	288	481	1.93	1.82
2001-02	198	462	545	1026	2.75	2.22
2002-03	256	718	1022	2048	3.99	2.85
2003-04	362	1080	1856	3904	5.12	3.61
2004-05	539	1619	2994	6898	5.55	4.26
2005-06	620	2239	4499	11397	7.26	5.09
2006-07	1,106	3344	6570	17967	5.94	5.37
2007-08	1228	4572	8849	26816	7.21	5.87
2008-09	1610	6182	12254	39070	7.61	6.32

Source: NABARD.

The analysis of the data reveals that the cumulative number of SHGs credit linked with banks increased sharply from 33,000 in 1992-99 to 1, 15,000 in 1999-2000 and further to 61,82,000 in 2008-09. During the study period, the cumulative bank loans disbursed to SHGs also witnessed a sharp increase from Rs. 57 crores in 1992-99 to Rs.193 crores in 1999-2000 and further to Rs.39,070 crores in 2008-09. Total bank loans disbursed were at Rs.12,254 crores during the year 2008-09. In addition, bank finance per group has been decreased from Rs.1.73

crores in 1992-99 to Rs.1.66 crores in 1999-2000 and further it has been increased to Rs.7.61 crores in 2008-09. The massive expansion of the programme was witnessed during the period from 1992-99 to 2008-09 with credit linkage of 15,77,000 new SHGs by the banking system. The analysis shows that the phenomenal growth can be accounted for the sustainability movement launched in NABARD and banks.

ii) Agency wise SBLP position:

Micro Finance agency banks are categorized into three types. They are Commercial Banks, Regional Rural Banks and Co-operative Banks. In terms of relative share of different agencies, commercial banks continued to account for the largest share, both in terms of number of SHGs credit linked and bank loans disbursed, followed by regional rural banks and co-operative banks. For the purpose of analysis of agency-wise SHG-Bank Linkage position, the relevant data during the period 2002-03 to 2008-09 presented in Table-III.

Table-III: Agency-wise SHG –Bank Linkage Position

Agency	No.of SHGs credit linked (in '000)							Bank Loan (Rs.in crores)						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Commercial Banks	361 (50)	538 (49)	843 (52.1)	1188 (53.1)	1760 (52.6)	2495 (54.6)	3500 (56.6)	1150 (56)	2255 (58)	4158 (60.3)	6988 (61.3)	10906 (60.7)	16310 (60.8)	24371 (62.4)
RRBs	277 (39)	406 (38)	564 (34.8)	740 (33.1)	1121 (33.5)	1449 (31.7)	1854 (30)	727 (36)	1278 (33)	2100 (30.4)	3322 (29.2)	5375 (29.9)	8027 (29.9)	11220 (28.7)
Cooperative Banks	79 (11)	135 (13)	211 (13)	310 (13.9)	463 (13.9)	628 (13.7)	828 (13.4)	172 (8)	371 (9)	640 (9.3)	1088 (9.5)	1686 (9.4)	2479 (9.3)	3479 (8.9)
Total	717 (100)	1079 (100)	1618 (100)	2239 (100)	3344 (100)	4572 (100)	6182 (100)	2049 (100)	3904 (100)	6898 (100)	11398 (100)	17967 (100)	26816 (100)	39070 (100)

Source: NABARD

The analysis of data highlights that the commercial banks have maintained good progress in financing SHGs as their share increased from 50 per cent in 2002-03 to 56.6 per cent in 2008-09. The share of Co-operative banks SHGs linkage increased marginally from 11 per cent to 13.4 per cent over the period, while that of RRBs declined to 30 per cent from 39 per cent. The total number of SHGs financed by commercial banks rose from 3,61,000 in 2002-03 to 35,00,000 in 2008-09 and the number of SHGs financed by RRBs increased to 18,54,000 in 2008-09 from 2,77,000 in 2002-03 and in the case of co-operative banks, the number is 79,000 in

2002-03 and increased to 8,28,000 and reflecting the significant interest being evinced by banks. In respect of the bank finance provided to SHGs during the above period, the share of commercial banks increased from 56 per cent to 62.4 per cent, RRBs decreased from 36 per cent to 28.7 per cent and Co-operative banks also decreased marginally from 9 per cent to 8.9 per cent. This shows that the commercial banks have maintained lion's share in financing SHGs under SBLP.

The Indian banking industry has been dominating by the commercial banks. Commercial banks have played a crucial role in the growth and development of the SBLP as it is relatively transparent in its operations and adopting international benchmarks and best practices of disclosure. The Post-nationalization era witnessed a phenomenal change of focus for the Commercial banks, giving thrust to social and mass banking and expanding the network. The commercial banks have been better at reducing costs by centralizing process through the use of technology. The strategy of commercial banks is to stimulate economic growth and reduce poverty. So the commercial banks are dominating in SHG-Bank Linkage Programme (NABARD, 2007).

iii) Model wise SBLP position:

The performance of three models emerged under the SHG-Bank Linkage Programme over the years is shown in Table-IV.

Table-IV: Model wise SBLP position

Model	No.of SHGs (in '000)				Bank Loan (in Rs.crores)			
	2003-04	2004-05	2005-06	Average	2003-04	2004-05	2005-06	Average
I. SHGs formed and financed by banks	218 (20)	343 (21)	449 (20)	337 (20)	550 (14)	1013 (15)	1637 (14)	1067 (14)
II. SHGs formed by NGOs/Government agencies and financed by banks	777 (72)	1158 (72)	1646 (74)	1194 (73)	3165 (81)	5529 (80)	9200 (81)	5965 (81)
III. SHGs financed by banks using NGOs, formal agencies as financial intermediaries	84 (8)	117 (7)	143 (6)	115 (7)	189 (5)	356 (5)	561 (5)	369 (5)
Total	1079 (100)	1618 (100)	2239 (100)	1646 (100)	3904 (100)	6898 (100)	11398 (100)	7401 (100)

Source: NABARD, **Note:** NABARD has changed the data reporting format since 2006-07 and now does not publish model wise figures relating to SBLP.

The analysis of the data shows that the average number of SHGs (11,94,000) formed under Model-II is very high than Model-I and Model-III. Bulk of finance (81 per cent) extended by the banks is under Model-II where the bank finances SHGs promoted by a facilitating agency such as NGOs, Government agencies etc. Where as, finance extended by banks to SHGs under Model-I is 14 per cent and Model-III is only 5 per cent. However, the trends clearly indicate that Model-II seems to be most acceptable format in the SHG-Bank Linkage Programme.

The second model, where SHGs were formed and nurtured by the NGOs, was more popular among the bankers. Banks opened saving accounts and then provided credit directly to the SHGs, while NGOs acted as facilitators. This approach has been widely accepted by the practitioners partly because of the large scale participation of state government through development agencies like the District Rural Development Agency (DRDA), District Women Development Agency (DWDA), and some of the centrally sponsored social sector missions, and also because of special initiatives of NABARD.

Sustainability of Self-Help Groups under SBLP:

The SHG's provide the members with a launching pad to gain confidence, skills and power to promote their interests. Financial supporting through bank-linkages per independent SHG promoting institutions and SHG's, which are self managed and have the potential to be self sustaining. To enable the SHG's to perform their multifaceted empowerment role, it is necessary that they are operationally and financially supported by micro-finance institutions and other agencies (Punithavathy Pandian and R.Eswaran, 2002). The studies conducted by the Department of Economic Analysis and Research of NABARD, to investigate the impact of SBLP on incomes, poverty reduction and several aspects of living conditions of SHG member households, the following facts are evident to identify the sustainability of SHG's:

1. In borrowing patterns of SHG members a shift can be observed overtime from consumption loans to loans for income generating purposes.
2. Increased capital improve the self financing capacities and even out

the household's cash flow, thus creating higher risk absorption capacities and decreased vulnerability.

3. The access to formal financial services contributes to a strongly reduced dependency on informal money lenders with positive effects on the reduction of capital cost.
4. The improved access to financial service benefit households and individuals in maintaining, intensifying and diversifying their economic activities, also in the non-agriculture sector with positive effects on income and employment generation.
5. The financial services and their impact on income raise the capacities of the beneficiaries of the programme to increase their household expenditure for basic needs such as better nutrition, education and health.
6. Most of the clients of SBLP being women, contribute substantially to human capacity building and empowers women to become more self confident and competent.

Conclusion:

Small, homogeneous and participatory Self-Help Groups (SHGs) of the poor have today emerged as a potential tool for human development. Micro Finance provides small loans to the poor as capital through these Self-Help Groups. This small amount is used by the poor to become an entrepreneur and improve their living standards. Self-Help Groups are acting as financial intermediaries in both deposit mobilization and in the loan transactions. The members in the SHGs will identify the needy and cooperate with one another to take a loan and in turn help the individual to earn. They also help the individual to repay the loan amount. The Government should organize more training and capacity building programmes to develop the skills of the leaders of the SHGs which in turn improves the performance of the group and avoids competition among SHGs. SHG-Bank Linkage Programme achieved a phenomenal growth over the years. Still there is a large segment of society that is denied access to financial services. Thus, there is an urgent need to widen the scope of the programme to cover the unreached population.

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