



SHG and Bank Linkage in India

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ABSTRACT

An SHG is a group of 10-20 individuals, voluntarily formed and related by affinity for a specific purpose. It is a group whose members use savings, credit and social involvement as instruments of empowerment. The group opens a savings account in a nearby bank branch. The group will keep a minimum balance for meeting any crisis needs and deposit the rest in a bank. The leaders jointly operate the bank account. While the leaders withdraw the cash from the bank, members are expected to deposit the cash by rotation. Such a system will help familiarize the bank to the members. A system will be developed to ensure accountability for cash in hand and to minimize the risk of fraud – usually the cash will be kept in a locked box and in the custody of one leader while the key will be with another leader. The groups will maintain simple records and books of accounts to document the SHG operations and transactions. The documentation related to the operations of the SHG such as meeting proceedings, resolutions passed, attendance of the members etc., will be recorded in the minutes book and attendance register. The financial transactions related to savings, loans, income and expenditure would be recorded in the books of accounts. The members are also provided with a passbook, wherein their transactions with the SHG are recorded in detail. The Predominant model in the Indian Micro finance context continues to be the SHG Bank Linkage Model that accounts for nearly 20 million clients. It started as an Action Research Project in 1989. Under this model, Self Help Promoting Institution usually a NGO helps groups of 15-20 individuals through an incubation period after which time they are linked to banks. There are three linking models in the country.

KEYWORDS: NABARD, SHGs, NGO, RRBs etc.

SHG banking, or linking banks and self-help groups, in India is the largest and fastest-growing microfinance program in the developing world. Implemented since 1996 on a national scale, it has reached 1.43 million groups with 21 million members, covering over 100 million people from the lowest strata of the rural population (as of March 2005). It is a flexible approach adapted to local conditions by the participating agencies as autonomous business partners. The enormous growth in outreach has been made possible by drawing on a wide array of institutional resources - India's social capital. This includes the National Bank for Agriculture and Rural Development (NABARD) as the prime mover and refinancing agency; some 36,000 bank branches and primary cooperatives providing deposit services and credit; some 3,100 governmental and non-governmental agencies with experience in group development as facilitators of previously existing or newly established SHGs; the National Reserve Bank of India which has adjusted the policy framework for banking relations with informal groups; and the political leadership at various state and union levels, prominently providing legitimacy in the annual union budget speech as an unequivocal expression of the political will. NABARD has been compiling and analyzing the data on progress made in microfinance sector, based on the returns furnished by Commercial Banks (CBs), Regional Rural Banks (RRBs) and Cooperative Banks operating in the country. The banks operating, presently, in the formal financial system comprises are Public Sector CBs (27), Private Sector CBs (22), RRBs (82), State Cooperative Banks (31) and District Central Cooperative Banks (370). Most of the banks participating in the process of microfinance have reported the progress made under the programme.

SHG – Bank Linkage:

The group opens a savings account in a nearby bank branch. The group will keep a minimum balance for meeting any crisis needs and deposit the rest in a bank. The leaders jointly operate the bank account. While the leaders withdraw the cash from the bank, members are expected to deposit the cash by rotation. Such a system will help familiarize the bank to the members. A system will be developed to ensure accountability for cash in hand and to minimize the risk of fraud – usually the cash will be kept in a locked box and in the custody of one leader while the key will be with another leader. The groups will maintain simple records and books of accounts to document the SHG operations and transactions. The documentation related to the operations of the SHG such as meeting proceedings, resolutions passed, attendance of the members etc., will be recorded in the minutes book and attendance register. The financial transactions related to savings, loans, income and expenditure would be recorded in the books of accounts. The members are also provided with a passbook, wherein their transactions with the

SHG are recorded in detail. Depending on the education level of the members, the SHG will utilize the services of its members, or hire a book keeper from the village / locality. In the absence of such an alternative, the field worker of the Promoting Institution (PI) will maintain the SHG documentation as a temporary measure. The SHG books will be audited once a year, generally by the field staff of the PI. While microfinance (MF) will be the core function of the group, it will also provide a platform for taking up social issues affecting the position and condition of women. SHGs could discuss problems affecting the women members when they expand their enterprises or take up new enterprises such as excessive work load, male control of the enterprises etc., and try and address the same. The PI will provide information and awareness about various government schemes and extension facilities to the SHG and will facilitate the SHG's access to these.

There are basically three models that are emerging now a day the first one is the model where the bank itself acts as the SHG promotion institution, taking initiatives in forming the group, nurturing them over a period of time and then providing credit to them after satisfying itself about their maturity to absorb credit. In the second model groups are formed by the NGOs in most of the cases or by Govt. agencies that are responsible to form SHGs. They then nurture and train the SHGs. The banks then provide credit directly to the SHGs after observing their operations and maturity to absorb credit. While the banks provide loans to the group directly, the facilitating agencies continue their interactions with the SHGs. The third model explains that due to various reasons banks in some areas are not in a position to finance the SHGs. In such case

NGOs act as both facilitator and micro-finance intermediaries. First they promote the group, nurture and train them and then approach the banks for bulk loans for lending to the SHGs.

Progress of SHG Bank Linkage in India:

In India it has been observed that the number of SHGs has increased from the year 2006-07 to the year 2008-09 thereafter the number of SHGs is found to decrease till the year 2010-11. But the amount of loan received by the SHGs has found to increase throughout the period i.e. from 2006-07 to 2010-11 (Table-1).

Progress of SHG Bank Linkage in India

Year	No. of SHGs	Loan Amount (Rupees in Crores)
2006-07	11,05,749	6,570.39

2007-08	12,27,770	8,849.26
2008-09	16,09,586	12,253.51
2009-10	15,86,822	14,453.30
2010-11	11,96,456	14,547.73

Source: NABARD, Mumbai, Progress of SHG-Bank Linkage in India, 2001-11.

It can be observed from the above table that the number of SHGs in-

creased from 11.05 lakhs to 11.96 and the loan amount increased from Rs.6570 crores to Rs.14547 crores over a period of 5 years.

Progress of SHG Bank Linkage by Commercial Banks, RRBs and Cooperative Banks in India:

Now considering the linkage between SHGs by Commercial banks, RRBs and Cooperative banks separately we may have comparative analysis of the three situations and also considering the overall progress we may get the overall picture as shown in Table-2.

Table : 2 Progress of SHG Bank Linkage by Commercial Banks, RRBs and Cooperative Banks in India

Period	Commercial Banks		RRBs		Cooperative Banks		All Banks (Total)	
	SHGs (Nos)	Bank loan (Rs in Crores)	SHGs (Nos)	Bank loan (Rs in Crores)	SHGs (Nos)	Bank loan (Rs in Crores)	SHGs(Nos)	Bank loan (Rs in Crores)
2006-07	571636 (51.7)	3918.94 (59.6)	381199 (34.4)	2052.73 (31.2)	152914(13.8)	598.72 (9.11)	1105749	6570.39
2007-08	735119 (59.8)	5403.90 (61)	327650 (26.6)	2651.84 (29.9)	165001(13.4)	793.52 (8.96)	1227770	8849.26
2008-09	1004587 (62.4)	8060.53 (65.7)	405569 (25.19)	3193.49 (26.06)	199430(12.39)	999.49 (8.15)	1609586	12253.51
2009-10	977521 (61.61)	9780.18 (67.6)	376797 (23.7)	3333.20 (23.06)	232504(14.65)	1339.92 (9.27)	1586822	14453.3
2010-11	669741 (55.91)	972455.71 (66.8)	229620 (19.19)	162556.33 (11.2)	296773(24.8)	319761.59(21.9)	1196134	1454773.2

Note: The figures in the parenthesis are % values.

Source: NABARD, Mumbai, Progress of SHG-Bank Linkage in India, 2001-11.

As shown in the Table 2 loans given by commercial banks, RRBs and Co-operative banks to SHGs are presented. Year wise data reveal that during 2006-07 the commercial banks had percentage shares of 51.70% in SHGs and 59.6% in loans given as compared to the corresponding percentage shares of 34.4% and 31.2% of RRBs and 13.8% and 9.11% of Co-operative banks. During the final year i.e., 2010-11

Commercial banks had percentage shares of 55.9% in SHGs and 66.8% in loans given as compared to the corresponding percentage shares of 19.19% and 11.2% of RRBs and 24.8% and 21.9% of Co-operative banks from the preceding analysis it can be concluded that Commercial banks are leading both in SHGs linked and loans given followed by RRBs and Co-operative banks all through the period under review.

SHG - Bank Linkage by Bank Sector - Wise.2006-07 to 2010-2011:

Bank Sector - wise data relating to SHGs linked and loans given for the period 2006-11 are provided in Table.3.

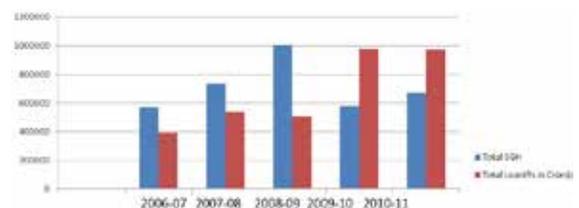
SHG - Bank Linkage by Bank Sector - Wise.2006-07 to 2010-2011.

Period	Public Sector Banks				Private Sector Banks		Total	
	SBI & Associates		Other Banks		SHGs (Nos)	Bank loan (Rs in Crores)	SHGs(Nos)	Bank Loan (Rs in Crores)
	SHGs (Nos)	Bank loan (Rs in Crores)	SHGs (Nos)	Bank loan (Rs in Crores)				
2006-07	233255 (40.81)	137574.73 (35.1)	303973 (53.18)	210338.70 (53.67)	34408 (6.01)	43980.89 (11.23)	571636	391894.32
2007-08	357673 (46.59)	232376.20 (40.28)	377446 (49.17)	308014.15 (53.4)	32452 (4.24)	36445.39 (6.32)	735119	540390.35
2008-09	336424 (33.49)	333431.17 (41.37)	650589 (64.76)	451639.23 (56.03)	17574 (1.75)	20982.70 (2.6)	1004587	506053.10
2009-10	381874 (39.06)	388647.01 (39.74)	577821 (59.11)	567831.24 (58.06)	17853 (1.83)	21540.30 (2.2)	577521	978018.55
2010-11	232087 (33.46)	348308.76 (34.76)	437654 (63.1)	624146.51 (62.3)	23860 (3.44)	29442.57 (2.94)	669741	972455.27

Note: The figures in the parenthesis are % values.

Source: NABARD, Mumbai, Progress of SHG-Bank Linkage in India, 2001-11.

Bank Sector - wise data relating to SHGs linked and loans given for the period 2006-11 are provided in Table.3. In the initial year 2006-07 public sector banks had percentage shares of 93.99 in SHGs linked and 88.77 in loans given to SHGs. In the Final year i.e., 2010-11 the corresponding percentage shares of public sector were 96.56 and 97.06. Based on the above analysis it can be concluded that public sector banks dominate micro-credit as compared to the marginal role of private sector commercial banks. Within the public sector the percentage shares of SBI and its associates were 33.46 and 34.76 in SHGs linked and loans to SHGs respectively as compared to the corresponding shares of 50 and 50 of other public sector banks.



Conclusion:

Though in India multi-agency approach has been in existence to supply credit to the rural sector, majority of the marginal groups still have no access to credit from formal sector banking institutions subsidized and targeted credit programmes like priority sector lending have made little impact on rural poor households. In this background micro-credit assumes greater importance of all MFIs Commercial banks are dominant one. SHGs have emerged as community institutions through which formal sector building system reaches the rural households which are earlier considered as unworthy of the bank lending SHG-

bank linkage offers triple benefits to banks, SHGs/NGOs/other facilitators of three emerging models, Bank facilitator agency- SHG-Members Model is a dominant model in India with regard to regional spread of SHG-bank linkage, south region dominates in SHGs linked and bank loans to SHGs.

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