CHAPTER-III

MICROFINANCE

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A. Introduction

Since the attainment of independence, the Government of India had taken various plans and programmes to eradicate poverty from the country like Community Development Programme, National Extension Service Integrated Rural Development Programme as so on. As most of the people of India reside in rural areas and therefore based on rural economy, development means the development of agricultural and related activities like, diary, fishery, poultry and other subsidiary occupations availing small loan from the Micro-Finance Agencies, like Commercial banks, NGO’s Cooperative Banks, Grammeen Banks and NABARD including Government assistance for their socio-economic development.

Starting from the 1952, these programmes went for two decades covering almost all of the community development blocks of the country. An important development that came out of the experiences of these programmes is the formation of Self Help Groups (SHGs). The main objectives of SHGs are to eradicate poverty of the poor people, particularly rural poor women by way of availing small loans for different and suitable activities from the Micro-Finance Agencies, like Banks, NGO’s, NABARD and other partner agencies through the SGSY and NRLM.

Our country has observed different programmes and scheme for the alleviation of poverty, but the results were not up to the desired level. There remained a gap between the policy formulation and policy implementation. The concept of SHG has emerged as the alternative to the poverty alleviation programmes. The unique feature of SHG is to inculcate the habit of thrift and encourage banking activity as well as credit delivery in a segment of population amongst the poorest of the poor, who struggle to earn two square meals a day. The formal financial institutions find it difficult to cover this segment of population of the society. It also builds mutual trust and confidence between the banks and the rural poor, That ultimately helps proper utilization and timely repayment of bank loan.

NABARD has been playing a vital role in the Micro Finance Programme during the last three decades. It has been working as a catalyst to help the banks to join hands with informal delivery channels in the SHG-Bank Linkage Programme. It is nurturing healthy expansion of the programme by way of providing enormous support to its stake holders. Cooperative banks, though comparatively late starters have began making their way into the Micro Finance Sectors on a large scale. The amendments made by many of the state in their respective Cooperative Societies Acts, enabled Cooperative Banks to take up the activity of promotion and nurturing of SHGs. In the long run it may be stated that, measure may be taken to see the Micro Finance innovation as the means of profitable business by way of inculcating the habits of thrift of the SHG- members, lending, availing loan, taking on economic activities, developing micro entrepreneurship and thus to empower the poor members, particularly the poor rural women members through the SHG movement.

B. Concept of Microfinance

Microfinance is defined[1] as the provision of thrift, credit and other financial services such as money transfer and micro-insurance products for poor, to enable them to raise their income levels and improve living standards. Microfinance refers to the entire range of financial services such as savings, money transfers, insurance, productions and investment credit as also housing finance and includes the need for skill upgradation and entrepreneurial development that would enable them to overcome poverty. Microfinance provides credit support in small doses along with housing and other related services to people who are resource-poor but are able to undertake economic activities.

Microfinance rests on the following principles: (a) Self-employment or enterprise formation is a viable means for poverty alleviation. (b) Lack of access to capital assets or credit is a constraint for existing and potential microenterprises. (c) The poor may save despite their low level and sporadic incomes.

Microfinance concepts have existed since 1904[2], when the Cooperative Societies Act was passed for ensuring credit, loans for farmers through primary Cooperative Credit Societies. The formation of long-term cooperative credit institutions to meet investment needs of farmers started in 1928. The Syndicate Bank started in 1921, concentrated on raising micro-deposits in the form of daily/weekly savings and sanctioned micro-loans for its constituents. With the various priority sectors targets under social banking in 1967 and after bank nationalization in 1969 microfinance concepts in banking institutions once again came up in the forefront. However, in the rural areas, the moneylenders and traders extended loans at high rate of interest and even for consumption purposes. Under priority sector norms, microfinance was extended for investment credit purposes, but included elements of production credit and even consumption credit. The Integrated Rural Development Programme named as Swarnajayanti Gramin Swarozgar Yojana, laid emphasis on investment credit needs only. But the subsidies and low interest rates ensured that the rural poor did not receive those loans which were instead cornered by the better-off sections of the rural people. Also, repayment rates were poor possibly due to "rent cost" incurred by the borrowers and poor monitoring and follow-up by bankers. With the NABARD programme on self-help group (SHGs) in 1992, the emphasis shifted to loans without collateral, 100 per cent repayment norms and lending to groups of people who would also invest their savings and regulate their group loans, thus reducing transaction costs for the borrowers and for the banks. Other innovative concepts were sanctioning of production-cum-consumption loans, unregulated interest rates, weekly/monthly savings and loan repayments.

Thus, microfinance as a means of meeting the credit requirements of the rural people is not a new concept and was made both by formal/informal credit resources. As the SHG- bank linkage programme is of more than two decades old, it is high time that the SHG movement is reviewed to analyse the lessons to be learnt. The journey from priority sector loans to IRDP loans to microcredit and now to microfinance, has been a long journey with many lessons learnt for banks. Since its humble start in the late 1980s, the SHG- bank linkage programme took off in 1992 and the positions of SHG- bank linkage programme in the country as on 31.03.2012 was ₹ 6551.41 crore loan disbursed with total number of SHGs being 79.60 lakhs[3]. [Source: Status of microfinance in India 2011-12: NABARD]

Micro Enterprise refers to[4] "a very small business that produces goods or services for cash income" [Allerdice et al., 2000]. In organizational terms, micro enterprises have been characterized as having low levels of organization and informal accounts, if any [Karekezi, 2002a]. According to Karekezi the primary legal feature of micro enterprises is that they are not registered with a Registrar of Companies, nor recorded in official or tax records. Such business may or ma not have the necessary licences to operate and as a result of their low-profile and informal nature, they are not usually attracted by official government statistics. [Allerdice et al., 2000] Micro enterprises operate in a number of economic sectors, including commerce (eg, retail and trading in new and second hand goods); manufacture (i.e. production activities) and service (including personal and non personal services). The distinction has also been made between "survivalist" micro enterprises businesses and "flyers" or "potential flyers" which typically have different needs [Heeks et al., 2001]. The latter has greater potential for growth and development.

In order to mitigate the problems of unemployment and poverty, micro enterprises have come up because they fulfil many priorities of development. Small and micro enterprises are generally more labour intensive. Micro enterprises usually operate in the informal sector of the economy, mainly in the rural areas. Initially they start with very low amount of capital and have very few employees.

The crucial importance of rural livelihood cannot be overlooked in the context of poor households, especially in resource-poor regions or where the infrastructure is not very supportive. There is a need to appreciate that the livelihood strategies of the poor are invariably in a mix of natural resource management and agricultural wage employment, with migration often an important livelihood strategy. Any improvement in the livelihood of the poor is possible on a complex, slow and incremental strategy. Management of human and social capital through institutions like SHGs is crucial for poverty reduction strategies to uplift the socio-economic conditions of the poor people. SHGs can be catalysts in building human and social capital, in order to move towards sustainable natural capital management so that livelihood options are available and longstanding. The following opportunities may have to be explored to secure preferred livelihoods for the poor and other weaker sections of the people through the micro enterprising activities like SHGs and so on, supporting home-based livelihood initiative like dairy, weaving, papad making, candlestick making and so on, assisting incremental approach to capital asset formation, supporting of tribal people for their better livelihood to take up the small economic activities on sal leaf plate making, broom making, weaving, basket making from bamboo, furniture from cane, supporting in digging of ponds for pisciculture, nursery for social forestry, minor forest produce and so on. Supporting in the form of vocational training for skill upgradation and hence to alleviate their socio-economic conditions. To assist for organizing marketing of SHG products on horticulture, floriculture, dairy, pottery, piggery, poultry, handicrafts, handlooms and so on, for facilitating better earning. Supporting arrangement for processing the local products and enabling to earn better income. Microfinance provisions of credit facilities and linkage with banks particularly for women SHG members. Formation of SHG Federations and to develop infrastructures to provide necessary support services and formation of village level information centre for dissemination of information. Support of SHG members for the creation of a steady production base, enabling them to cater to the demands of the market for attaining the empowerment of rural poor women in the light of liberty, equity, right, justice, cooperation, peace and last but not the least, non-exploitation, particularly of the poor women at the earliest possible time.

Different Micro Finance Institutions[5] act as the agencies for extending financial services to the microfinance sector in the country by raising resources from bank and other institutions. Micro Finance Institutions could be (i) NGO-MFIs-registered under the Societies Registration Act, 1860 or the Indian Trust Act, 1880, (ii) Cooperative MFIs-registered under the State Cooperative Societies Act or Mutually Aided Cooperative Societies Act or Multi State Cooperative Societies Act, (iii) Non Banking Financial Company (NBFC) MFIS incorporated under Section 25 of Companies Act, 1956 (These NBFCs are working “not for profit”), (iv) NBFC MFIs incorporated under the Companies Act, 1956 and registered with RBI.

In addition to their internal resources these MFIs seek and obtain bulk loan from Banks/other Financial Institutions for providing micro credit. Though most of these MFIs entered the microfinance only after the SHG-Bank linkage programme was well entrenched, the turnover of these institutions grew at a much larger scale than the former. They were more aggressive and innovative in reaching out to the rural poor than the formal banking system. Of late, however, the functioning of these institutions (mostly “for profit” NBFCs) were being subjected to closer public scrutiny on account of alleged unethical business practices and questionable recovery practices. These developments resulted in Andhra Pradesh Government promulgating an ordinance to severely restricting their lending operations and recovery mechanism. As a result, the lending operations of these institutions virtually came to a halt not only in Andhra Pradesh where most of their lending operations were concentrated but in other areas as well while the recovery of loans nose-dived. The Reserve Bank of India has since notified guidelines for the lending operations of MFIs based on Malegam Committee[6] recommendations. A new class of financial organizations named as NBFC-MFIs has been created and subject to certain conditions regarding the capital to be employed, lending to SHG members, cap on interest to be charged and margin to be retained and so on, the loans extended to these NBFC-MFIs by banks now qualifies for priority sector loan.

The fact that the Commercial Banks and financial institutions like Small Industries Development Bank of India (SIDBI)[7] are losing their confidence in lending to

MFIs is evident from the fact that the fresh lending to MFIs by banks during the year, 2011-12 is declined by over 38% as compared to last year. There has also been a marginal decline in the number of MFIs availing fresh loans from banks in spite of the fact that the loan outstanding against MFIs has come down by almost 17% during the year 2011-12. If the trend continues, this sector is likely to face serious resource crunch and would affect its outreach plan in the near future. The Regional Rural Banks on the other hand have increased their lending to MFIs during the year 2011-12 while reducing the outstanding loans although they still remain an insignificant player in this arena. The agency wise details of loans extended to MFIs in India during the year from 2009-10 to 2011-12 are shown in the Table 3.1.

Table 3.1:

Loans to MFIs by Banks/Financial Institutions

Financing Agency	Period	Loans disbursed to mFIs during the year		Loan outstanding against mFIs as on 31st March	
		No. of mFIs	Amount (Rs. crore)	No. of mFIs	Amount (Rs. crore)
All Commercial Banks	2008-09	522	3718.93	1762	4977.89
	2009-10	645	8038.61	1407	10095.32
	2010-11	460	7601.02	2153	10646.84
	2011-12	336	4950.98	1684	9810.98
Regional Rural Banks	2008-09	59	13.4	153	31.2
	2009-10	46	24.14	103	52.22
	2010-11	9	4.16	23	42.01
	2011-12	113	13.28	128	37.51
Cooperative Banks	2008-09	NA	NA	NA	NA
	2009-10	0	0	3	0.01
	2010-11	NA	NA	NA	NA
	2011-12	4	1.61	19	4.75
SIDBI	2008-09	NA	NA	NA	NA
	2009-10	88	2665.75	146	3808.2
	2010-11	2	843.78	139	3041.77
	2011-12	12	239.42	129	1597.11
Total by all agencies	2008-09	581	3732.33	1915	5009.09
	2009-10	779	10728.5	1659	13955.75
	2010-11	471	8448.96	2315	13730.62
	2011-12	465	5205.29	1960	11450.35

[**Source**: Status of Microfinance in India 2011-12: NABARD, Mumbai, Table-5, P-157]

The Micro-Finance Development and Equity Fund (MFDEF)[8] is being utilized for promotion of various micro-finance activities such as formation and linkage of SHGs through SHPIs, training and capacity building of stakeholders, livelihood propagation, studies, documentation and so on. During 2011-12, ₹ 33.31 crore was released of which

₹ 28.68 crore was grant support fpr promotional activities and ₹ 4.63 crore for capital support and lending resources to MFIs. As against a total corpus of Rs 200 crore contributed by RBI, NABARD and commercial banks, the actual (cumulative) utilization of the fund stood at ₹ 278.31 crore as on 31st March 2012. NABARD has been augmenting this fund from its own resources and has also been crediting interest on the unutilized portion of this fund. There have been no further receipts forthcoming from other contributors of this fund.

Ever since the SHG-Bank Linkage Programme was launched by NABARD, the Self Help Promoting Institutions (SHPI) such as NGOs, Banks (Regional Rural Banks, District Central Cooperative Banks), Farmers Clubs and Individual Rural Volunteers (IRV) are being extended grant support to organize and nurture SHGs of the poor. In fact, the phenomenal growth of the SHG-Bank Linkage Programme in the country is the result of the painstaking efforts put in by these agencies in forming and nurturing SHGs especially in areas where the concept never existed. The financial support extended by NABARD to various SHPIs during the year 2011-12 is indicated in Table 3.2 below[9].

Table 3.2:

Grant Support to Partner Agencies.

Agency	Cumulative sanction		Cumulative Acheivement (31.3.2012)	
	Amount (Rs. lakh)	SHG nos.	Amount (Rs. lakh)	SHG nos.
NGOs	16200.59	499909	4882.31	283007
RRBs	542.19	53145	197.1	56070
Coop. Banks	857.81	71695	289.19	47515
IRVs	733.58	43223	86.02	13105
Farmers Clubs	83.16	7689	73.81	17356
Total	**18417.33**	**675661**	**5528.43**	**417053**

[Source: Status of Microfinance in India 2011-12: NABARD, Mumbai, Table – 6, P-18]

The Micro Enterprise Development Programme launched by NABARD in 2006 is intended to nurture the entrepreneurial talents of members of mature SHGs to set up and run micro enterprises as a livelihood option in farm or non-farm sector, either on individual basis or on group basis. Support is extended under the programme to members of such SHGs to enrich their knowledge on enterprise management, business dynamics and rural markets. Nearly 5000 skill upgradation training programmes have been conducted under these initiatives covering nearly 2 lakh members of mature SHGs upto the year 2011-12 since 2006. Most of the trained SHG members have since started on their journey to become promising entrepreneurs by availing loans from their SHGs. West Bengal, Tamil Nadu and Chhattisgarh are major states where maximum number of SHG members were given skill training.

C. Women and Microfinance : Formation of SHGs

According to 2011 census[10] women account for 586.47 million in absolute number and represents 48.46% of the total population of the country. Women are significant contributors to the growing economy of the country. For growth to be truly inclusive we have to ensure their protection, well being, development, empowerment and participation. India has committed to the meeting the Millennium Development Goals and is a signatory to many international convention, including convention for Elimination of all forms of discrimination against women. Yet, at the start of the Eleventh Five Year Plan, women continue to be victims of violence, neglect and injustice. The Eleventh Five Year Plan aimed to address these problems by looking at gender as a cross cutting theme. It aimed to recognise women's agency and the need for women's empowerment. The aims of the Eleventh Five Year Plan were to end the multifaceted exclusion and discrimination faced by women and to ensure that every woman in the country is able to develop her full potential and share the benefits of economic growth and prosperity. The road map for this has already been laid in the National Policy on Women 2001. We are still to wait and see the success if the aforesaid empowerment of women depending upon our ability to adopt participatory approach to that effect.

In the Eleventh Five Year Plan, for the first time[11], women are recognised not just as equal citizens but as agents of economic and social growth. The approach to gender equity is based on the recognition that intervention in favour of women must be multi-pronged and they must provide women with basic entitlement, address the reality of globalisation and its impact on women by prioritising economic empowerment, ensure an environment free from all forms of violence against women (VAW) physical, economic, social, psychological and so on, ensure the participation and adequate representation of women in the highest policy Levels, participatory in Parliament and State Assemblies, and strengthen existing institutional mechanisms and create new ones for gender main streaming and effective policy implementation.

No country or society can achieve its potential without adequately increasing in developing the capabilities of women and encouraging the empowerment of women. And yet, in most developing countries, women have much less access to education, jobs, income and power than men.[12]

Microfinance and Micro Enterprise programmes have the potential to transform power relations and empower the poor both men and women. Since SHG based microfinance and micro enterprise programmes cover a large number of women, it is expected that such programmes will have an important bearing on women's empowerment. However, the historical involvement of banks and microfinance institutions in India have ensured that these programmes adopt a minimalist approach and ignore non-financial inputs like literacy, health, awareness, capacity building and skill training. This approach has an impact on the long term sustainability of such efforts.

The initiative of 1992 to make the traditional and formal banks to extend financial services to deprived sections through informal Self Help Groups (SHGs), has now blossomed into a "monolith" microfinance initiative. It has been recognized as a decentralized, cost effective and fastest growing microfinance initiative in the world, enabling over 103 million poor households' to get access to a variety of sustainable financial services from the banking system by becoming members of nearly 8 million SHGs as on 31.3.2012. The linkage with banks has provided the members of the Groups the facility of not only pooling their thrift/savings and access to credit from the banking system, but also created a platform through which they could launch a number of livelihood initiatives and also facilitate the empowerment process. [13]

While the first decade of the programme was meant to demonstrate the potential of SHGs to organize themselves and be instrumental in managing their own savings and extending emergent micro credit needs, the second decade laid emphasis on establishing the replicability of the model across the regions, with focus on resource poor regions of the country. The 2nd decade also witnessed greater confidence among the financing banks to "own" up the programme as a potential business model thereby extending its outreach to the current level. The development planners including the Government of India and the State Governments also recognized the real potential of the SHG movement in development of the poor and it was made an essential ingredient of all poverty alleviation programmes of the Government. Even the private sector started realizing the untapped potential of SHGs for deep penetration to the emerging rural markets. The turbulence witnessed in the microfinance sector in the recent past due to the mushrooming growth of microfinance institutions (MFIs) and their questionable ways in which they went ahead in extending their outreach and credit intensification, could not make any significant dent in the popularity of the SHG-Bank Linkage Programme.[14]

The small beginning of linking only 500 SHGs to banks in 1992[15], had grown to over 0.5 million SHGs by March 2002 and further to 8 million SHGs by March 2012. From almost 100% of the SHGs linked to Banks at the pilot stage from southern states, the share of the southern states in the total number of SHGs linked shrank to 46% by March 2012, while the share of the eastern states (especially, West Bengal, Odisha, Bihar) shot up to over 20%. The third decade of the programme promises to be one of maturing the linkage programme with livelihoods support, loot more innovations in the product range offered through SHGs and path breaking reforms in leveraging technology to improve efficiency, while extending its outreach to more geographical regions, especially the most resource poor regions of the country. It is widely believed that the SHGs of the poor will be the vehicles leading the march of India's emergence as a super economic power in the next decade. A number of countries, especially the developing countries and international agencies are turning to India to learn from its experiments with microfinance and to explore possibilities of replication of the model in other parts of the globe[16].

Together the 8 million SHGs of the poor maintain a balance of over ₹ 6550 crore[17] in the Savings Bank accounts with the Banks, while they are estimated to have harnessed savings of over ₹ 22000 crore of which nearly 70% (over ₹ 15000 crore) goes for internal lending. Over 4.4 million SHGs are regularly availing credit facilities from the Banks. During 2011-12 alone, over 1.15 million Groups availed loans amounting to ₹ 36340 crore outstanding against them with the financing banks as on 31.3.2012. as the credit availed by the Groups along with their internal savings are revolved many times within the group for shorter durations, the multiplier effect makes the process much larger then the basic figures indicate.

Detailed analysis of the SHG-Bank Linkage programme shows that, over 103 million rural households have now i.e. as on 31.03.2012 access to regular savings through 7.96 million SHGs linked to banks. About 27% of these SHGs are savings linked through the SGSY programme- the rural poverty alleviation programme of the Government of India where predominantly households below the poverty line are admitted as members.

Table 3.3 shows the growth of SHGs – saving as well as credit linked during the last 3 financial years from 2009-10 to 2011-12, separately for all groups, groups formed under SGSY and exclusive women groups.

Table 3.3:

Overall Progress under SHG-Bank Linkage for last 3 years

(Amount in ₹ Crore/ Numbers in lakh)

Particulars		2009-10		2010-11		2011-12	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Savings with Banks as on 31st March	Total SHGs	69.53 (13.6%)	6198.71 (11.8%)	74.62 (7.3%)	7106.30 (13.2%)	79.60 (6.7%)	6551.41 (-6.7%)
	Of which SGSY Groups	16.94 (12.5%)	1292.62 (-17.3%)	20.23 (19.4%)	1817.12 (40.6%)	21.23 (5.0%)	1395.25 (-23.2%)
	% of SGSY Groups to Total	24.4	20.9	27.1	25.9	26.7	21.3
	All women SHGs	53.10 (9.18%)	4498.66 (1.46%)	60.98 (14.8%)	5298.65 (17.8%)	62.99 (3.3%)	5104.33 (-3.7%)
	% of women Groups	76.4	72.6	81.7	75.5	79.1	77.9
Loans Disbursed to SHGs during the year	Total SHGs	15.87 (-1.4%)	14453.3 (17.9%)	11.96 (-24.6%)	14547.73 (0.01%)	11.48 (-4%)	16534.77 (13.7%)
	Of which SGSY Groups	2.67 (1.0%)	2198 (9.1%)	2.41 (-9.9%)	2480.37 (12.8%)	2.10 (-12.9%)	2643.56 (6.6%)
	% of SGSY Groups to Total	16.9	15.2	20.1	17	18.3	16
	All women SHGs	12.94 (5.8%)	12429.37 (18.1%)	10.17 (-21.4%)	12622.33 (1.6%)	9.23 (-9.2%)	14132.02 (12.0%)
	% of women Groups	81.6	86	85	86.8	80.4	85.5
Loans Outstanding against SHGs as on 31st March	Total SHGs	48.51 (14.8%)	28038.28 (23.6%)	47.87 (-1.3%)	31221.17 (11.4%)	43.54 (-9.0%)	36340.00 (16.4%)
	Of which SGSY Groups	12.45 (27.5%)	6251.08 (6.6%)	12.86 (3.4%)	7829.39 (25.2%)	12.16 (-5.4%)	8054.8 (2.9%)
	% of SGSY Groups to Total	25.7	22.3	26.9	25.1	27.9	22.2
	All women SHGs	38.98 (18.9%)	2303.36 (23.9%)	39.84 (2.2%)	26123.75 (13.4%)	36.49 (-8.4%)	30465.28 (16.6%)
	% of women Groups	80.3	82.1	83.2	83.7	83.8	83.8

[Source: Status of Microfinance in India 2011-12: NABARD, Mumbai, Table-1, P-5]

There has been a decline in the amount of savings balance with banks to the extent of 6.7% as compared to the previous year although the number of SHGs saving linked has shown a growth of 6.7% during the financial year 2011-12. This decline is almost entirely attributable to the groups formed under SGSY where the decline was to the extent of 23.2%. Increasing awareness at the SHG level about the advantage of using the savings for internal loaning is also partly responsible for the decline in saving balance with banks.

The number of saving linked SHGs now i.e. as on 31.03.2012 stands at 7.96 million with a membership of over 103 million poor households. While bulk of these savings is used for internal lending within the Group (over 70%), the balance is maintained in the savings accounts with the financing banks. Over 79% of SHGs linked to banks are exclusive women groups, which is one of the most distinguishing features of microfinance sector in the country.

The balance in the savings accounts of he banks as at the end of March 2012 stood at ₹ 6551.41 crore. Among the major states, Karnataka SHGs maintain the highest S.B. balance of over ₹ 16000 per SHG followed by Punjab of nearly ₹ 12500 per SHG. Among the regions, southern region is highest at ₹ 10080 per SHG and north-eastern region recorded the lowest balance of ₹ 4159 per SHG. On an average, the SHGs maintain a balance of ₹ 8230. Commercial Banks account for 58% of the savings account maintained by SHGs and RRBs 27% and Cooperative Banks the remaining 15%.

The details of the SHG 2: Revisiting the SHG bank linkage programme as per the New concept on the development and policy initiative introduced by the NABARD vide their Ref.no.NB.MCID/1563/SHG-1(Policy)/2011-12, Circular No: 65(A)/MCID-04/2011-12 dated 27/03/2012. (Micro Credit Innovation Department), Head Office: Plot No, ‘G’ Block, Bandra (E), Mumbai - 400051 is given below:

Revisiting the SHG-Bank Linkage guidelines issued two decades back, NABARD, issued revised guidelines (SHG 2 guideline)[18] after holding numerous rounds of discussions with various stakeholders. The key changes in the guidelines include allowing voluntary savings for SHG members either by opening individual bank accounts/reviving existing “no frill accounts” or by depositing the voluntary savings within the SHG corpus without any additional entitlements. The approach is intended to facilitate SHG members to steadily graduate from community banking to individual banking. The second key feature of SHG 2 is about extending initial loans to SHG as flexible cash credit facility instead of term loans. The limits are granted based on the estimated savings potential of the SHG for the ensuing 3-5 years while actual operation of the limit is to be based on actual savings harnessed. The guidelines also suggest creation of enterprise/livelihood based groups (Joint Liability Groups) within the SHGs as separate entities without disturbing the functioning of SHGs; while higher loan requirements for a few enterprising members could be accessed through JLGs. The guidelines also suggest risk mitigation mechanisms like audits, ratings and also about leveraging active members of SHGs to serve as Business Facilitators for helping the bank monitor the functioning of SHGs. The programme envisages positioning an anchor

NGO[19] in each of the 150 backward districts of the country for promotion and financing of Women SHGs. The project envisages a tie up with at least 2 bank branches in each block of the district for financing the SHGs to be promoted. The role of the partner NGO is expected to be for longer term and not merely for promoting and enabling credit linkage of these groups, but also for serving as a business facilitator, tracking, supporting livelihoods and also being responsible for loan repayments. Besides, providing the partner NGO support for promotion of SHGs, a Service Charge of 5% p.a. of average loan outstanding is to be levied from clients for continued handholding support given to the SHGs by the anchor NGO. Promotional support to anchor NGOs will be funded by NABARD out of Women SHG Development Fund of ₹ 100 crore created for the purpose.

Realizing the inherent strengths of SHG federations being associated with the entities and having a clearer understanding of SHG members need, aspirations as also nuances of SHG functioning; a scheme to facilitate federations to serve as Self Help Promoting Institution (SHPI) for formation and credit linking of SHGs with the banks with grant assistance from NABARD was introduced during the year, 2011-12. A scheme to encourage Primary Agriculture Cooperative Society (PACS) to function as SHPI for promotion and nurturing of SHGs was introduced during the year 2011-12. Besides, forming SHGs and facilitating its savings and credit linkage directly or through branches of the affiliated DCCB, the PACS are expected to improve their business and their client outreach. The approach is also expected to improve the participation of cooperative banks share in the SHG-Bank Linkage Programme and also lead to its improved business and profitability of PACS.

A pilot programme, with the objective of strengthening the self Help Group movement, is being implemented across 25 resource poor districts from 10 priority states of the country. The programme aims at leveraging the services of retired bankers by placing them as District Micro Finance Anchor Persons (DMAP). The role of the DMAP in the district will be to prepare a roadmap for promotion of SHG-BLP (Block Level Programme) , to establish a SPIN (Self Help Institutions Network), facilitate conduct of training programmes for SHGs, facilitate better MIS & document success and failure stories, serve as anchor resource person for SHG-BLP and facilitate promotion of livelihoods and so on. The sources of income for SHG members are predominantly seasonal in nature. At the same time major part of their expenditure habits are routine in nature coupled with occasional contingencies. With the objective of gathering some leads on the propensity of the SHG members' habit to save for meeting their future financial needs and the extent to which the available banking services and their products can meet such aspirations, an action research pilot on voluntary savings is being implemented across 10 districts in five states of the country viz. Chhattisgarh, West Bengal, Maharashtra, Tamil Nadu and Kerala. The pilot will cover about 500 members from 50 matured SHGs from these states. The pilot entails carrying out the need mapping of the SHG members, enabling a suitable framework for them to save beyond their compulsory group savings amount, suggesting suitable financial products for meeting their future needs, imparting financial education to the members and studying the impact of the process over a period of one year, which has been already started in the year 2013-14.

Characteristic features of Self Help Groups (SHGs) and the norms for their linkage with banks were first enumerated in the guidelines of NABARD circular dated 26 February 1992. Two decades hence the SHG-Bank Linkage Programme (SHG-BLP) continues to be the mainstay of the Indian microfinance scene with 74 lakh SHGs covering over 10 crore households saving with the formal banking system with savings balance of over ₹ 7000 crore as on 31 March 2011. About 49 lakh of these SHGs have also accessed bank credit and have over ₹ 31000 crore as outstanding credit from the banking system. In other words, the SHG-BLP has so far been the most preferred and viable model for financial inclusion of the hitherto unreached poor. However, despite the unique characteristics of SHGs and noteworthy accomplishments, the following issues continue to affect the programme in many areas, viz: inadequate outreach in many regions, delays in opening of SHG accounts and disbursement of loans, impounding of savings by banks as collateral, non-approval of repeat loans even when the first loans were repaid promptly, multiple membership and borrowings by SHG members within and outside SHGs and Limited banker interface and monitoring and so on. While the basic tenets of the SHGs being savings led credit, product remain true even today, many recent developments require crucial changes in the approach and design of SHG-BLP to make it more flexible and client friendly.

D. Basic features of SHGs

SHGs are small informal group of 10-20 individuals promoting savings habit among members. However, in hilly tracts/ regions and predominantly tribal dominated areas where communities are dispersed, smaller groups of less than 10 are also formed into SHGs. The internal savings mobilized by the group are then lent by it to its members for emergent needs or such purposes as decided by the group. The SHGs, which are informal and unregistered groups engaged in promoting savings habits among their members would be eligible to open savings bank accounts with banks (Ref: RBI circular letter DBOD. No. BC. 63/13.01.89/92-93 dated 4 January, 1993). These SHGs need not necessarily have availed of credit facilities from banks before opening savings bank accounts. Some of the basic characteristics for provision of credit by the bank to the group are 1) should have been in active existence for at least a period of six months, 2) it should have successfully undertaken savings and credit operations from its own resources 3) should be democratic working, wherein all members feel that they have an equal say and it should be evident 4) the group is maintaining proper accounts/records 5) banker should be convinced that the group has not come into existence only for the availing benefits and there should be genuine need to help each other and work together among the members 6) SHG members should preferably have homogenous background and interest.

As per existing operational guidelines, SHGs may be sanctioned savings linked loans by banks (varying from saving to loan ratio of 1:1 to 1:4). However, in case of matured SHGs, loans may be given beyond the limit of four times the savings as per the discretion of the bank. However, the Banks may make the credit decision on the basis of certain objective parameters such as proven track record, savings pattern, recovery rates, credit history, housekeeping and so on. Keeping in view the nature of lending and status of borrowers, the banks normally prescribe simple documentation for lending to SHGs. Three basic documents which were prescribed for use of banks were 1) an inter-se agreement to be executed by the members of the SHGs, 2) a loan application to be submitted by SHGs, model loan agreement 3) introductory cum sponsorship letter from NGO/SHPI. The defaulters by a few members of SHGs and/ or their family members to the financing bank should not ordinarily come in the way of banks financing SHGs provided he SHG has not defaulted to it. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

Presently, SHGs save fixed amounts as compulsory saving deposit in weekly/ fortnightly/ monthly meetings. Growth in rural economy and opportunities like Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and other schemes has positively influenced the SHGs and their member’s capacities to save. While many

SHGs and their members have enhanced the amount of compulsory savings over the years (eg: ₹ 50 per month per member in the first two years raised to ₹ 100 per month/ member in year 3-4 and so on.); the compulsory savings in the SHGs are often restricted to the lowest savings potential of a member of SHG. It has been observed that the savings capacity and potential varies across members. Therefore, the concept of voluntary savings by members over and above the compulsory savings provides an opportunity for banks. It is desirable that such SHG members are encouraged to open individual bank accounts/revive their existing “no frill accounts” by depositing the surplus so as to facilitate them to steadily graduate from community banking to individual banking. However, until the members of SHGs graduate to the level of opening and maintaining individual bank accounts, there is a need to create a suitable alternate framework within the group. SHG members with greater savings potential may be allowed to park their surplus fund within the group in the form of voluntary savings over and above the compulsory savings mandated in the group and a suitable accounting system may be started in the SHG for this purpose. Voluntary savings can be reckoned in two ways; (1) not forming a part of the group corpus (2) as a part of group corpus and utilized for intra group lending. In case of (2), it will also be reckoned for assessing the quantum of loan to the group from bank. However, it is desirable that the additional savings by group members does not entitle the concerned members to seek proportionately higher dosage of credit for themselves. The SHGs should have freedom to decide as to whether the voluntary savings by members of the group are eligible for proportionate share in the interest income or dividend from the group. The suggested approaches of capturing voluntary savings of the members of SHGs need to be introduced with commensurate financial education of SHGs.

Loan granted by the bank to the SHG is purpose neutral as the group decides the purpose for which loan can be given to its members. As indicated by RBI in its circular (Ref: RPCD. FID. BC.No.06/ 12.01.001/ 2011-12 dated 1 July, 2011) the banks are expected to meet the entire credit requirements of SHG members for (a) income generation activities, (b) social needs like housing, education, marriage and (c) debt swapping and so on.

Measures may be taken to meet the credit needs of SHG members for income generation activities, social needs and debt swapping and so on for the alleviation of SHG members in all respects and aspects sustainably. There are instances of non-sanction of repeat loans to SHGs, as also cases of limiting need based credit. Sanction of a cash credit credit/ overdraft system of lending for SHGs for a longer operational tenure may therefore be adopted to overcome these issues and to permit SHGs to have larger loans in tune with increasing pooled savings. This approach will provide considerable flexibility to SHGs in meeting their frequent needs as well as help them in reducing their cost of borrowings. The loan limit may be sanctioned for a period of three to five years based on the projected savings of the SHGs up to the end of 3 to 5 years, thus avoiding repeated documentation. Drawable limits for each year can however, be fixed within this aggregate ceiling as a multiple of actual pooled savings reached.

Although the approach has been in operation in certain States and has found reasonable acceptance among the banks and SHG clients, apprehensions are mooted by some that such an approach could drive to financial indiscipline at the SHG level and lead to overborrowing and potential defaults. The following measures may therefore be adopted: Though the cash credit facility is to be sanctioned by the bank to SHG; the sanction of credit by SHG to is individual members will be guided as per their terms and duration as decided by the groups. This is expected to remain unchanged and thus ensure continuance of financial discipline at the member level. Further, in order to ensure that the financial discipline is maintained between the SHG and the banks, banks may insist for servicing of interest at monthly rests. Besides servicing interest, the bank may also introduce appropriate prudent mechanisms for review and continuance of limit by ensuring that all or part of the principal drawals is repaid in an operational year. Similar to approaches applicable in KCC, the bank could insist that every drawal be repaid within twelve months from the date of drawal or insist for turnover of at least 25-30% of the principal drawn in the first half of the year while reviewing the operations of the credit limit. Banks approving repeat cycles of cash credit to SHGs may sanction larger credit approvals beyond a multiple of four times of SHG’s corpus. These approvals may be done based on the performance review of existing operations, actual growth in SHG’s own corpus and the debt servicing history and capacity of SHG. In mature SHGs that have been supported with a few cycles of credit; the requirement of credit for purchase of capital assets and so on would increase. This would necessitate that the bank approves a different type of credit accommodation like term loans to these groups in addition to the cash credit limit.

A few members of an SHG may graduate faster to start or expand economic activities requiring much higher levels of loans than required by other SHG members. In such cases, the other members may not like to stand mutual guarantee for a few large sized loans. In such cases, as per NABARD guidelines, a smaller "Joint Liability Group (JLG)" from members of an SHG may be created. The members of JLG will continue to remain members of the SHGs and continue to participate in the activities of SHGs as earlier. Banks may encourage creation of such enterprise/ livelihood based JLGs as a separate entity. Banks may use financial and other support extended by NABARD for this purpose. These JLGs may be created and financed by the bank on the lines of NABARD guidelines on JLGs already in vogue and such financing would be in addition to the loan/ credit limit to the SHG. In order to further strength the banker's comfort and confidence in financing of SHGs, a few risk mitigation mechanisms, viz; self-rating tools by SHGs, conduct of audits at SHG level and so on are recommended.

The self-rating mechanism by SHGs is intended to educate SHG members of their strengths and weakness in an SHG's functioning for initiating corrective action. Audit in SHGs is a third party assessment of SHGs' operations while keeping SHGs' own functioning free and flexible. Audit, *inter alia*, should cover aspects like regularity in meetings, savings, internal lending process, correctness of interest application, accounting foe all receipts and payments, drawing out final accounts of SHGs and so on the audit may be informal in nature, but be made compulsory for credit expansion beyond the normal limit of four times of the savings of SHGs. Banks could source SHG-level Business Facilitators (Auditors) from amongst active SHG members or NGOs or other agencies, which promote SHGs , or existing BCs of the bank to enable the audit process in SHGs. Experience gathered over the years in promotion and nurturing of SHGs suggests the need for a much longer and sustained hand holding by SHG Promoting Institutions (SHPIs) to ensure SHG's sustainability. Members of well functioning or active members of SHGs and NGOs or other entities engaged in promotion of SHGs best provide these support services to SHGs. Such entities may be engaged by banks to serve as Business Facilitators for helping the bank monitor the functioning of SHGs and take corrective action. Besides nurturing SHGs and conducting their audits, they could also facilitate financial literacy, help SHG members/ to open individual savings accounts, guide and improve existing livelihoods. RBI and NABARD have reiterated that banks consider lending to SHGs as part of their mainstream operations. Considering the growth in SHG financing already achieved as well as the future potential, it is essential that SHG and JLG financing finds an appropriate place in the bank's corporate and strategic plans. Financing banks should also strengthen their monitoring of SHGs and capture SHG data through their Core Banking Solution (CBS) platforms.

It is to be mentioned here that for the realistic approach towards fulfilment of credit need to the poor women, Government of India restructuring of SGSY as the National Rural Livelihoods Mission (NRLM) launched the same in June 2011 for the grounds as follows: The SGSY was launched in 1999 by restructuring the integrated rural development programme (IRDP). The cornerstone of the SGSY strategy was that the poor need to be organised and their capacities built up systematically so that they can access self-employment opportunities. In the years of implementing SGSY, there is a wide spread acceptance in the country of the need for poor to be organised into SHGs and SHG federations as a prerequisite for their poverty reduction. A major problem identified by the Radhakrishna Committee[20] on credit related issues under SGSY (2009) is that most of the SHGs remain crowded in low productivity primary sector activities. The success of the programme depended on raising their abilities to diversify into other high productive activities. Even in the better performing state of Andhra Pradesh, the income gain to a Swarozgari from enterprise activities under SGSY was a mere ₹ 1228 per month. This small income gain was due to low productive, traditional activities in which they were engaged and due to low absorption of technology. The committee argued that nearly two thirds of the total funds were given out as a subsidy, thus making the whole programme subsidy-driven. The subsidy disbursed under SGSY was ₹ 12900 crore, while credit mobilised was ₹ 27800 crore, i.e. a credit-subsidy ratio of only 2.15:1. much below the target ration of 3:1. this was partly due to the failure to strengthen the demand side by improving the capacity of the poor to absorb credit for income generating activities. But it was also due to supply side failures. Financial services did not have these systems and procedures suited to the poor.

Only 6% of the total SGSY funds were utilised for training and capacity building during the past decade. Ill-trained groups under SGSY were a severe handicap in moving towards the 11th Plan Goal of Inclusive Growth. Training is of vital importance in the management aspects of running both SHGs and their federations, as well as in improving existing livelihood options and also adopting new ones. It is very important to recognise as argued by the Radhakrishna Committee 'that SHG-Bank Linkage, substantial preparatory work needs to be done for bringing the poor together through a process of social mobilisation, formation of sustainable SHGs and training them to pool their individual savings into a common pool for lending it among the needy. It also includes equipping them with skills to manage corpus-fund created with their own savings, interest earned from lending and revolving fund contributed by the government.' Another defining feature of SGSY was the very uneven distribution of SHGs across regions, with the southern states, which account for 11% of the rural poor having 33% of the SHGs, while the northern and north-eastern States, which account for more than 60% of the rural poor having only about 39% SHGs. It was in the backdrop of these limitations of the SGSY that the Government of India approved restructuring of SGSY as the National Rural Livelihoods Mission (NRLM) and launched the same in June 2011. The details of the NRLM has been narrated in the chapter named "Rural Development Programme during the Five Year Plan Period in India: Special emphasis on SHG and SGSY" and therefore the same is not narrated here.

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