

## **CHAPTER – VI**

# **SHG-BANK LINKAGE – PROGRESS AND PERCEPTIONS**

## **6.1 Introduction**

Banks have been major purveyors of micro finance in rural areas. "Institutional Fit" is extremely important for the successful implementation of any program. The ideal institutions to deliver financial services to smaller users is one which initiates, develops the activity and carries it on for as long as it is needed. In India, institutions like commercial banks, Regional Rural Banks (RRBs), Co-operatives viz. Central Co-operative Banks (CCBs). Primary Agricultural Credit Societies (PACS), Primary Land Development Banks (PLDBs) and State Level Development Banks (SLDBs) have deployed rural credit.

Commercial banks have the necessary outlets, security, equipment, hierarchy of administrative systems, record keeping, and efficient staff to manage savings and lending operations.

The co-operatives operate at ground level, they lend largely for farm activities in small amounts for purposes including: minor irrigation, land development, plantation, horticulture, fisheries, farm mechanization etc. Co-operative sector financing is in small amounts with exception of financing non-farming activities. The co-operatives have had a longer experience in delivering micro finance, but lack resources and dynamism and are subject to frequent interventions from government functionaries.

Government of India have issued guidelines and formulated various plans at the different levels of the administrative hierarchy. Till liberalization, public sector and co-operative banks operated in India with severe constraints in terms of regulations and government interventions. Earlier joint venture with government and priority sector impositions had hampered the banks profitability levels. The programs of rural development too have had limited success in terms of achieving income, employment and social benefits to the poor.

Despite the vast expansion of the formal credit system in India, the dependence of the rural poor on moneylenders continues especially for meeting emergent credit requirements. Such dependence is more pronounced in resource poor areas and in the case of marginal farmers, landless labourers, petty traders and artisans belonging to the socially and economically backward classes and the tribal population. The formal sector took the initiative to develop a supplementary credit

delivery mechanism by encouraging institutional arrangements outside the financial system to act as a facilitators or intermediaries. With a view to developing a supplementary credit delivery mechanism to reach the poor in a cost effective and sustainable manner, banks and other financial institutions had initiated strategic change to enter into the microfinance- individual as well as group based.

The SHG approach of lending was introduced to banks as a new micro finance approach with innovativeness and flexibility in order to enjoy certain benefits to the banks. Presently, the SHG-based microfinance is the main form of microfinance in India and it is well integrated into the formal banking system in India. The group based microfinance schemes have been introduced by the banks to cater cost effective finance which is anticipated to decrease the banker's burden of scrutinization of application, loan disbursals, monitoring and recovery of loan accounts. It is also anticipated that reduction in individual loan procedures is anticipated to reduce the cost to the banks, increase profits and small savings in rural areas. It is envisaged that this SHG based microfinance approach shall bring proximity and affinity between bankers and rural people.

## **6.2 Bank Linkage**

The SHG-bank Linkage Programme has its origins in a Gesellschaft fur Technische Zusammenarbeit (GTZ)-sponsored project in Indonesia. As a beginning in India, National Bank for Agriculture and Rural Development (NABARD) introduced a pilot project in Karnataka for linking 255 SHGs with formal banks in 1992 through the mediation through the NGO, Mysore Resettlement and Development Agency (MYRADA). This BANK-SHG Linkage project was introduced after thorough discussion with the Reserve Bank of India, commercial banks and NGOs. NABARD provides refinance facilities to banks for collateral free loans to groups, progressively up to four times the level of the group's savings deposits. SHGs thus "linked" became micro-banks and was able to access funds from the formal banking system.

It is not only the SHG-Bank Linkage-programme of NABARD that allows the SHGs to obtain loans from formal banking institutions. Harper (2002) viewed that the NABARD micro-finance programme was designed to benefit poor people by enabling them to access formal financial services, and to benefit the banks by introducing them to a new and potentially profitable market segment. People who do not need or do not

want such services are not NABARD's concern. Dadhich (200), Puhazhendhi and Satyasai (2001) and Puhazhendhi (2000) indicated a positive impact being experienced by the poor in terms of getting easy access to formal savings and credit facilities leading to improvements in the socio economic conditions. In another study

Special credit facilities to SHGs also provided by other apex development banks in India such as SIDBI, HDFC and government institutions like RMK, as well as private financial agencies such as BASIX. In order to ensure the financial viability and sustainability of SHGs as small informal organizations, these institutions also have started to promote SHG federations as a new strategy.

NABARD has issued flexible operational guidelines to enable the participating banks and field level bankers to innovate and contribute to building and strengthening the project concept. To state the advantages of linkages to the bank, the guideline shows that

"Under the linkage project, the main advantage to banks would be externalisation of a part of the work items of the credit cycle - assessment of credit needs, appraisal, disbursal, supervision and repayment, reduction in the formal paperwork involved and a consequent reduction in transaction costs. Improvement in recoveries and also in the margins would lead to a wider coverage of the target group. A larger mobilization of small savings would be equally advantageous. For the groups, advantages lie in the access to a larger quantum of resources as compared to their corpus generated through thrift, access to better technology and skill upgradation through different schemes of banking sector and a general improvement in the nature and scale of operations that would accelerate economic development"

Therefore, banks were not only to act as a credit disbursement mechanism but also as financial intermediaries which attract more savings and stimulate internal banking by SHGs from internal and external bank sources to meet short-term emergent credit needs of their members.

The aim of SHGs intermediation between banks and the rural poor is to reduce the transaction costs for both banks and their rural clients. The objectives of the linkage programmes are:

- i) Establishment of the supplementary credit strategies for meeting the emergent credit needs of the poor by combining the flexibility, sensitivity

and responsiveness of the informal credit mechanism with the strength of technical and administrative capabilities and financial resources of the traditional formal financial institutions.

- ii) Development of mutual faith and confidence between bankers and the rural clients.
- iii) Give impetus to the banking activity, both on the thrift and credit sides, within a segment of the population that traditional formal financial institutions usually find difficult to attain.

Keeping in view these above objectives, the formal banking institutions have entered into micro banking activities through the intermediation of SHG. As a phenomenal change, traditional banking institutions have spread their cobweb to channalise the microfinance among the rural masses.

### **6.3 Attributes of successful Bank Linkage Programme.**

The factors that contribute to successful SHG-Banking can be summarised as follows:

1) The SHG is an organizational framework that ensures members direct access to and control of additional financial resources borrowed from the bank. They participate collectively and willingly as the SHG-system is designed in ways conducive to their active participation, shared interest, responsibility and economic potential. These additional money resources can be managed by the SHGs without prescription of the bank about the purpose of use the loan. As a result, SHG members can use the money according to own economic inspiration and preference without any tight supervision by the bank personnel.

(2) The modern microfinance is based on the concept of saving first which had a much more decisive impact than anything else. This saving is the initial source of loanable fund and by transforming their savings plus the loan from the bank into interest bearing loans; the SHGs can increase their group corpus fund with retained earnings. The accessibility of banking services has increased the propensity to save. Self help, autonomy, flexibility and spontaneity may be determining factors for success.

(3) SHGs bank linkage programme facilitate wider outreach at lower transaction costs and much lower risk costs. The participating banks distribute loan at a low additional operational cost and marginal loan losses.

#### **6.4 Formal Banking Vs SHG Banking**

SHG-Banking has become a big challenge to the formal banking system in India. It has led to formulate new strategies through the process of “downscaling” and new capacity building in banks to handle SHG-Banking:

(1) SHG-Banking looks as an extension compartment of well established traditional banking practices, which required written contracts with individuals, a clearly defined project and activity for loan use, which has been exclusively one-purpose oriented, required legal identification of the borrower, collateral, etc. where as in SHG Banking, the most rigid requirements of the formal banking system have been overthrown; SHG-Banking is need based and multi dose credit policy with bankers to the poor approach. Therefore, SHG Banking is an extremely innovative approach in banking;

(2) The SHG banking focuses to operate target segment of in the low income client market segment with substantial freedom which was considered as unbankable so far. It operates with a dynamic and more unregulated service design and most flexible credit product design in order to fully meet the requirements of the low income strata and particularly of women.

(3) Different attitudes and different motivation of bank staff is required to perform social banking with the vulnerable section of the village society especially with women.

(4) The bankers, who deal with the SHG-Banking portfolio, enjoy a complete new banking experience. Since it involves very careful and sensitive loan applications by SHGs, high rate of loan recovery, development of financial management skill of poor people and their reliability, entrepreneurial capacity and dignity.

(5) As SHG-Banking is directly involved in social banking, so it gave the participating bankers a new dimension of job satisfaction that they never had experienced before in “directed lending regime.”

(6) SHG-Banking initiated a demand oriented service structures instead of supply oriented “directed” loan delivery structures. Formal banking system does not make provisions of continuous loan advisory services support to low income people.

(7) SHG-Banking needs to change the traditional bankers attitude of interference and belief that the banker has all the solution for his clients

(8) SHG-Banking focuses on feminisation of microfinance.

## **6.5 Banking Outreach**

The vast network of commercial banks, cooperative banks and regional rural banks involved in SHG-Banking with 160,000 retail outlets is ready to cooperate. The following banking and non banking financial institutions are actually or can be potentially involved in Linkage Banking: some 94,000 cooperative societies or branches of cooperative banks, around 60,000 branches of 27 public sector commercial banks and 196 regional rural banks and another 4,700 branches of 55 smaller private banks providing financial services in India as well as other financial institutions (37,000 NBFCs) spread all over the country (partially involved in micro-savings). A large proportion of the population of the country are within the ambit of the banks and agricultural cooperatives which cater semi-formal and formal financial services through banks and agricultural cooperatives are within physical reach (less than 5 km). Actually 444 Banks (121 RRBs, 209 cooperatives banks, all 27 public sector banks and 17 private banks) through their 17 085 branches are now involved in Linkage Banking. As an important part of the rural financial system, Regional Rural Bank has also received specific attention in the financial sector reform process and later on in SHG-Banking. National Bank for Agriculture and Rural Development [NABARD], as an institutional development agency for rural financial institutions, had assisted RRBs in formulation of its development action plans and facilitated the improvement of this segment of rural financial institutions. The action plans of RRBs also covered SHG financing as an integral part of its lending portfolio.

A special role in the implementation of Linkage Banking was the policy support of RBI. RBI gave appropriate guidelines and circulars to the banking system to take up the programme. The RBI's initiative of permitting informal entities like

SHGs to open savings bank accounts in formal institutions was instrumental in providing the necessary thrust to the programme at the pilot phase itself. Further, it also enabled the banks to deregulate the lending conditions and to allow the interest rate to be fixed according to market conditions. The built-inflexibility for the start-up period of the programme has not yet been narrowed by restrictive regulations. SHG Banking was made a component of priority sector lending for Commercial Banks, for RRBs and for Cooperative Banks. The terms and conditions allowed banks to consider mainstream financing of SHGs as a business activity (not only because of the additional volume of lending). Special guidelines and circulars about the SHG banking under SGSY have been issued by the RBI on a regular basis.

SHG banking under SGSY got prominence in the prioritization of the banking activities in most of the cases. “Saving fist” is the main feature of SHG banking. After the formation of a group, members have to go bank to open a saving account for their group. All the members save as per their unanimously decided rate out of their emergent needs to build group corpus. The groups are formed and grew up under the close supervision of different concerned functionaries and monitoring agencies. Within the 1<sup>st</sup> six month of its vintage period a group learns various aspects of SGSY scheme and develops banking habits which are the main indicator of success. A panel of judges assesses the potentiality of the group. Bank provides multiple credits along with the interest free financial incentive to the groups as per the assessment report of the judges. In order to meet the large-scale credit needs of the groups, 2<sup>nd</sup> time assessment is needed. At this stage, again an assessment committee consists of DRDC officials, Bank officials and Block officials assess the sustainability of the groups through SWOT analysis. Track record and potentiality of the group, peer pressure and peer support are the principle factors of group lending. After the 2<sup>nd</sup> grading of a group, bank can go for schematic lending along with subsidy. Therefore, first saving linkage and thereafter credit linkage with back ended subsidy is the basis of SHG banking under SGSY.

## **6.6 Fine-tuning Future Strategy**

The corporate mission for microfinance set by NABARD envisages reaching banking services to one-third of the very poor of the country, i.e., a population of

about 100 million rural poor through one million SHGs by the year 2007-08. The banking system has already reached microfinance services to 40 million poor through SHGs, reinforcing this commitment. NABARD and its partners are all set the required framework to traverse the path beyond the mid-mark. This is the right time to fine-tune the strategies for the future, based on the experiences of the past.

The overall strategy adopted by NABARD relies on two main bases: (i) formal and informal agencies can work as SHG promoting institutions through the expanding the range of operation and (ii) enhance capacities of the increasing number of stakeholders. Upgradation of skill and knowledge through the training and capacity building of various stakeholders including the SHG members themselves has been acting as the key to all such initiatives. The range of the capacity building is growing at a fast pace. The series of studies had undertaken which were oriented in this direction, and were expected to help NABARD and its partners in this process of fine-tuning their future strategies. Outcome of those studies highlighted the basic indicators of SHG Bank linkage programme.

## **6.7 Indicators of Bank Linkage**

Kropp & Suran (2002) identified the following indicators for measuring the performance of SHG Bank Linkage programme:

1. Number of SHGs linked—which have taken loans from banks (which explains the great effort to form new SHGs) (“groups linked”).
2. Volume of micro credit extended to SHGs by the Formal Banking System (which explains the credit disbursement orientation of the Linkage Banking programme) (“money disbursed”)
3. Number of banks or bank branches involved

Bank linkage under SGSY has been started since 1<sup>st</sup> April 1999. Upto the end of 2006-07 total 2501623 SHGs were linked with the different banks in India. A proceeding of debate in Loksabha, July 2005, pointed out that the credit mobilization stepped up from 40-45% during 2000-2003 to 65% in 2004-05. Credit flow to SHGs increased from 20-25% during initial three years to over 60% during 2004-05. Agenda for the Tenth Meeting of the Central Level Co-ordination Committee (LCC), 702.2007 described that for the three quarters ending 31.12.2006 only Rs.1080.55

crore disbursed as loan by 2643 bank branches. During the current year 2006-07 4,18,203 loan applications have been submitted to the banks under SGSY but only 2,25,565 loan applications have been sanctioned and loan has been disbursed in respect of 1,92,499 loan applications. There were 1,92,475 loan applications which were pending with banks as on 31.12.2006. These trends point to the consolidation of group approach in the implementation process. Banking industry in India has been started to enter into the modern microfinance sector with a slow pace.

## **6.8 The fruits of SHG-Banking-Some Evidences.**

Academicians and practitioners had studied various aspects of SHG-Bank Linkage programme and identified a list of emerging issues. Some of them, Kropp & Suran (2002), Wilson (2002), Harper (1998), Seibel & Dave (2002), Fernandez (1998), Jayaraman (2001) Tankha (2002), Karmakar (1999), NABARD (2001), Puhanzhendhi & Satyasai (2000), Satish (2000), Dasgupta (2001), MYRADA (2002), Sharne, Ahmed and Rashid (2002), Puhanzhendhi & Badatya (2002) etc. has made unbounded contribution in the field of SHG- Bank Linkage system.

Outcome of some of these studies have stated that SHG-Banking system provides a new dimension for the formal bank branches and bank branch managers. They feel comfortable and safe in their job with the new flexible SHG- Banking practice. This group based microfinance system has created a new vistas for the bank staff and manager to interact with the rural vulnerable section specially women. Peer pressure among the members plays the pivotal with in the group which ensure high loan recovery rate. This achievement gives inspiration to the bank staff and motivates them to serve the unbankable section with more faith and enthusiasm.

Some studies have found SHG Bank Linkage Programme approach is free from all kind of deficiencies of the Government directed credit programmes. The frustration of the traditional ordinary bank staff has not been transferred into the SHG Bank Linkage Programme approach. As a tactical measure, SHG Banking formulates new strategy to provide microfinance services through the already established Banking System. It reflects a break from the conventional wisdom of development banking and supply led finance schemes of conventional banks. The staff interacts with customers/ individuals in a very limited way and relationship is mostly impersonal. This social development function by providing financial services to SHGs

of poorer families exclusively (and paying them a visit from time to time) has been accepted by the banks and by the new clients.

Kropp & Suran (2002) observed that “a steady growth in number of new SHGs, an increase of the amount of loans disbursed and an excellent loan recovery performance has created a new job satisfaction among the bankers. It is a vital source of attainment of emotional needs of the bankers. Many bankers show great satisfaction to report about the socio-economic achievements of their groups. There are a number of indicators that highlighted the relative advantages of SHG banking and showing the gap between formal bankers and rural poor has been bridged:

- The number of civil suits and amount of NPA have reduced
- Overdue loans outstanding for longer periods are increasingly repaid
- People showing substantial interest in a permanent relationship with “their” bank.
- Songs and other PR-relevant measures of people praise the role of bankers
- More job satisfaction among the bankers involved in SHG-Banking
- Concept of cost externalisation of giving micro-loans to poor successfully implemented
- High potential for increased outreach of formal banking shared by the bankers”

These positive effects of SHG banking have been found in different areas in India and provide an encouragement or motivation to further the process of SHG-bank linkage. However, no study on outreach, impact, bankers involvement and perception has focussed on area of North Bengal. It is in this context that these aspects have been explored in Jalpaiguri district.

## **6.9 Grading of SHGs under SGSY- a sine quo non for bank linkages**

Experience of previous poverty amelioration programmes like IRDP, DWCRA, etc. has brought to the forefront the need for assessment of potentiality and economic viability, cohesiveness, solidarity of the groups. Peer pressure and peer support are the main pillars of collateral free group based lending in the new paradigm of microfinance. Banks play pivotal role in the microfinance delivery mechanism

under SGSY. It is therefore necessary to assess the performance of various aspects of the SHGs specially under SGSY. The SGSY guidelines stated that, a group would be eligible for the assessment- 1<sup>st</sup> grading after the completion of vintage period of at least six months. It is mandatory for all groups under SGSY before the issue of revolving fund and bank loan for them.

Concerned functionaries at block level or at GP level maintain database of the SHGs within its jurisdiction. These functionaries submit the list of eligible groups for 1<sup>st</sup> grading to DRDC at regular intervals. Accordingly nodal agency, DRDC, has to organise the grading activities and select the venue of grading with the consultation of concerned bank manager, block officials, GP officials, concerned NGOs or animator. Bank officials, DRDC officials and block level officials ask various oral questions to examine the various aspects of the groups like- banking habit of the groups, interloaning performance, maintenance resolution books by the group members, regularity of meeting, involvement in social activities, group cohesiveness. DRDC has prepared a grading schedule with suitable marks for all the groups in the district. Full marks of the grading schedule is 36. The group which obtains above 25 is called a strong group and the group which obtains marks within 20-25 is called a moderate group. These two categories of groups are treated as 1<sup>st</sup> graded groups and are eligible for revolving funds and bank loans. On the other hand, the group that obtains less than 20 marks is treated as weak group. More time and effort is required for the development of this category of groups. A schedule which is used for the 1<sup>st</sup> grading of the groups under SGSY is given in the Appendix- A5. Grading activities have been carried out according to the guidelines of DRDC. All groups that have been assessed on the basis of scores specified by DRDC. Groups that have passed 1<sup>st</sup> grading are eligible for assessment after a period of one year. The grading process is also score based and a group can score upto sixty points. The schedule for 2<sup>nd</sup> grading is given in Appendix-A6

## **6.10 SHG- Bank Linkages – Progress and Perception in Jalpaiguri District**

SHG- Bank linkage under SGSY was started in Jalpaiguri in 1999. By the end of 31<sup>st</sup> March 2007, this new programme has completed its 8<sup>th</sup> years journey in this district. A large number of groups were formed with the close supervision of the bank

officials. Under SGSY, savings linkage should be completed at first and before credit linkage. Multi dose credit is disbursed to the SHGs after assessing its sustainability and potentiality. Bankers have to extend their helping hands to provides to provides different types problem solving techniques. A good performance of bank linkage programme is highly depends upon the perception of the bankers regarding all aspect of bank linkage programme. The perception of bankers motivates them to perform more active function in SHG- Bank linkage programme. Therefore it is very much essential to assess the perception of the bankers.

The following table depicts the distribution of SHGs on the basis of different banks in Jalpaiguri district.

**Table No: 6.10.A**

**SHGs linked to different banks in Jalpaiguri district as on 31<sup>st</sup> December 2006**

SL No	Name of the Bank	No of SHGs Formed	No of SHGs Passed Grade-1	No of SHGs Passed Grade-II	No of Bank branch
1	<b>State Bank of India</b>	3251 (141)	2003 (87)	43 (2)	23
2	<b>Allahabad Bank</b>	300 (50)	109	5 (0.83)	6
3	<b>Bank of India</b>	250 (125)	181 (90)	0(00)	2
4	<b>Central Bank of</b>	4776 (119)	2547 (63)	47 (1.18)	40
5	<b>Indian Bank</b>	25 (25)	8 (8)	0 (00)	1
6	<b>Indian overseas</b>	0 (00)	0 (00)	0 (00)	1
7	<b>Punjab National</b>	160 (53)	106 (35)	0 (00)	3
8	<b>Syndicate Bank</b>	174 (174)	116 (116)	5 (5)	1
9	<b>United Bank of</b>	350 (27)	318 (24)	5(0.3)	13
10	<b>UCO Bank</b>	310 (77)	271 (67)	5 (1.25)	4
11	<b>Co operative Bank</b>	0 (00)	0(00)	0	3
12	<b>UBKGB (RRB)</b>	6578 (164)	4280 (107)	52 (1.3)	40
<b>Total</b>		<b>16174</b>	<b>9939</b>	<b>162</b>	<b>137</b>

*Source: Performance report of Jalpaiguri DRDC*

- Figure in the parenthesis shows SHG formed and graded per branch

The above table highlighted the fact that, total 137 branches of twelve different banks in this district have been introduced and performed SHG-Banking as a main activity of social banking. Till the end of 31<sup>st</sup> December 2006, highest number (6578) of SHGs has been formed through forty branches of UBKGB. It becomes the giant player in the field of group based microfinance programme. The second largest player is Central Bank of India. Total 4776 SHGs have been formed through the forty branches of this bank. State Bank of India also acting as a vital player in this field. Total 3251 SHGs have been formed through 23 branches of this bank.

In respect of per branch performance, till 31<sup>st</sup> December 2006, Syndicate Bank has highest number of SHG. Though it has only one branch. Uttar Banga Kshetriya Grameen Bank (UBKGB) has 164 SHGs per branch in this district. Where as State Bank of India has 141 SHGs per branch. The pattern and growth of group formed by the different banks in different years is described with the help of following table.

**Table No: 6.10.B**

**Yearwise SHG formed with different banks in Jalpaiguri**

**(Cumulative figure upto 31-03-07)**

<b>Bank</b>	<b>1999- 2000</b>	<b>2000 -01</b>	<b>2001 -02</b>	<b>2002 -03</b>	<b>2003 -04</b>	<b>2004- 05</b>	<b>2005- 06</b>	<b>2006- 07</b>	<b>Growth rate</b>
<b>CBI</b>	4	18	126	392	1142	2113	4311	5282	247.16
<b>SBI</b>	0	3	28	381	796	1780	2650	3471	155.01
<b>UBI</b>	8	13	38	132	184	210	250	500	21.78
<b>UCO</b>	0	19	19	30	46	120	205	441	26.3
<b>ALLB</b>	3	4	7	43	50	135	250	336	16.29
<b>PNB</b>	0	0	19	32	32	68	140	196	9.40
<b>SYND</b>	0	0	32	32	38	87	150	174	6.43
<b>IB</b>	0	0	0	0	5	5	10	25	1.61
<b>BOI</b>	0	0	0	7	7	158	250	250	10.79
<b>CCB</b>	0	0	0	0	0	0	0	0	00
<b>UBKGB</b>	27	55	507	801	1707	3326	5828	7180	306.64
<b>Total</b>	<b>42</b>	<b>112</b>	<b>776</b>	<b>1850</b>	<b>4007</b>	<b>8002</b>	<b>14044</b>	<b>17855</b>	

*Source: Compiled from Annual report of SGSY (Different year)*

Above table highlighted the growth rate of SHGs linked with the different banks in Jalpaiguri district. Among all the banks in this district, UBKGB has attained

highest growth rate i.e. 306.64. On the basis of growth rate, Central Bank of India and State Bank of India hold 2<sup>nd</sup> and 3<sup>rd</sup> position respectively. On the other hand, Indian Bank has lowest growth rate (1.61).

The above table depicts different growth rate for different banks. To test the statistical significance of growth rate of SHG linkage in different banks F-test is used.

**Null Hypothesis:** Average rate of SHG linkage of different banks are equal.

**Alternative Hypothesis:** Average rate of SHG linkage of different banks are unequal.

Value of F 5.432 (At 9 degree of freedom)

Due to high value of F statistic, Null hypothesis is rejected. So it is clear that, the average rate of bank linkage of different banks differs significantly.

Till the above mentioned date, total 9939 (about 61% of total group formed) SHGs have passed 1st grading test. Out of which 4280 groups of UBKGB, 2547 groups of Central Bank of India and 2003 SHGs of State Bank of India have qualified 1<sup>st</sup> grading test. Only eight SHGs of Indian Bank have qualified there 1st grading. Highest proportion of SHGs, formed with the Union Bank of India, has qualified 1<sup>st</sup> grading. In case of most important bank UBKGB 65% of its total groups have qualified 1<sup>st</sup> grading test. Where as 72% of SHGs of bank of India have qualified 1<sup>st</sup> grading test.

Number of 2<sup>nd</sup> graded group in Jalpaiguri district stood at 162. Highest number of group of UBKGB have qualified 2<sup>nd</sup> grading test. Where as in case of central bank it becomes 47 through the same number of branch. In this respect it can be highlighted that, SBI have 43 second graded group. Bank wise physical progress along with the financial progress can provide better information regarding the SHG banking in this district. Financial progress of different banks in this district has given in the following section

The following table depicts the fact that upto 31<sup>st</sup> December 2006 different banks in Jalpaiguri have completed saving linkage for 13553 SHGs. This volume constituted with the grate contribution of UBKGB. Highest number of SHGs (5625) with highest amount of savings have been linked with UBKGB. Second largest number of SHGs and amount of saving has been linked with Central Bank of India. A

significant number of SHGs with a sizable amount of saving has been linked with the state bank of India.

**Table No:6.10.C**

**Bank wise Financial Progress under SGSY in Jalpaiguri district Upto 31-12-2006**

Name of the Bank	SHGs Savings Linked		RF Released		Cash Credit Sanctioned		Cash Credit Disbursed	
	No	Amt	No	Amt	No	Amt	No	Amt
<b>SBI</b>	2830	198.10	2003	120.2 0	1615	295.00	1450	254.00
<b>ALLB</b>	135	10.80	109	5.45	115	23.00	95	19.11
<b>BOI</b>	220	15.40	181	5.65	92	18.40	87	17.40
<b>CBI</b>	3985	278.95	2547	150.8	2318	453.60	2100	420.00
<b>IndB</b>	9	0.72	8	0.40	7	1.0	7	1.40
<b>IOB</b>	0	0	0	0	0	0	0	0
<b>PNB</b>	143	10.01	106	5.20	100	20.00	90	18
<b>SyndB</b>	146	10.22	116	5.80	112	22.40	100	20.00
<b>UBI</b>	260	18.20	318	13.20	225	45.00	200	40.00
<b>UCO</b>	200	14.00	271	8.30	165	33.00	128	25.60
<b>CO-OPB</b>	0	0	0	0	0	.0	0	0
<b>UBKGB</b>	5625	460.26	4280	247.5	3982	796.40	3896	759.20
<b>Total</b>	<b>13553</b>	<b>1016.66</b>	<b>9939</b>	<b>562.5</b>	<b>8731</b>	<b>1708.20</b>	<b>8153</b>	<b>1574.6</b>

*Source: Performance report of SGSY Jalpaiguri.*

As stated earlier that, after completion of 1<sup>st</sup> grading bank disbursed loan to the swarojgaris as cash credit form. It ensures that swarojgaris can draw and deposit as many time, as they required. It means that, the swarojgaris can operate within this limit.

The entire concerned bank, who are performing SHG Banking in Jalpaiguri district, have sanctioned cash credit to the 8731 SHGs with 1708.20 lakh amount. Where as UBKGB has sanctioned highest amount of cash credit to the highest number of SHGs in Jalpaiguri district. Central Bank of India got 2<sup>nd</sup> position and State Bank of India got third position in this field. Following table is given to describe the status

of cash credit in this district. In this regard, three years data (from 31-3-05 to 31-12-06) is available and shown in the following table.

**Table No: 6.10.D**

**Bank wise trend of Cash Credit under SGSY in Jalpaiguri district**

SL No	Name of the bank	C/C upto 31-3-05		C/C upto 31-3-06		C/C upto 31-12-06	
		No	Amt	No	Amt	No	Amt
1	<b>SBI</b>	500	100.00	972	194.40	1615	295.00
2	<b>CBI</b>	600	120.00	1990	398.00	2318	453.60
3	<b>Allahabad</b>	42	8.40	90	16.50	115	23.00
4	<b>BOI</b>	29	5.80	82	13.05	92	18.40
5	<b>UBI</b>	53	10.60	220	44.00	225	45.00
6	<b>UCO</b>	52	10.40	135	27.00	165	33.00
7	<b>Syndicate</b>	28	5.60	90	18.00	112	22.40
8	<b>PNB</b>	30	6.00	80	16.00	100	20.00
9	<b>Co-op Bank</b>	0	0.00	0	0.00	0	0.00
10	<b>Indian Bank</b>	3	0.60	7	1.30	7	1.00
11	<b>IOB</b>	0	0.00	0	0.00	0	0.00
12	<b>UBKGB</b>	673	134.60	3715	743.00	3982	796.40
<b>Total</b>		<b>2274</b>	<b>402.00</b>	<b>7381</b>	<b>1471.25</b>	<b>8731</b>	<b>1708.20</b>

*Source: Performance report of SGSY Jalpaiguri*

Above table depicts that volume of cash credit has increased significantly during 2005-06. Over all increase in volume of cash credit in Jalpaiguri district during 2005-06 stood at 265.98%. Highest rate of increase is highlighted in case of UBKGB, which stood at 454.84%. Near about 200% rate of increase in cash credit during 2005-06 is noticed in case of most of the other banks in this district.

Alongwith the cash credit, DRDC has provided interest free support to the SHGs. Till the end of 31<sup>st</sup> December 2006 total Revolving Fund issued by the DRDC of Jalpaiguri to the 9939 (61% of 1<sup>st</sup> graded group) with Rs. 562.50 lakhs. Out of which highest amount of Revolving Fund disbursed through the UBKGB. Where as only 729 SHGs have received Revolving Fund in the last year as shown in the table (No:6.9.C). In the same way Central Bank of India and State Bank of India got 2<sup>nd</sup> position and 3<sup>rd</sup> position respectively.

The pattern of Revolving Fund issued by DRDC of this district is shown in the following table. The table depicts that the number of SHGs, who have received Revolving Fund have increased abruptly during 2006-07. The main reason behind that, the number of group formation has been increased significantly during 2004-05 and 2005-06. Through the proper nourishment and close supervision by different

SHPI, a sizable number of groups have been able to acquire knowledge to upgrade their skill. As a result most of the SHGs have passed their 1<sup>st</sup> grading.

**Table No:6.10.E**

**Yearwise Revolving Fund released by the different banks in Jalpaiguri district  
(Cumulative figure)**

Bank	1999- 2000	200 0-01	200 1-02	2002 -03	2003 -04	2004- 05	2005- 06	2006- 07	Growth rate
<b>CBI</b>	00	16	47	174	416	664	2029	3047	398.655
<b>SBI</b>	00	3	10	60	354	552	1399	2403	306.202
<b>UBI</b>	00	13	18	51	63	82	235	468	54.643
<b>UCO</b>	00	00	19	19	42	74	186	361	43.393
<b>ALLB</b>	00	00	00	3	26	55	109	159	21.976
<b>PNB</b>	00	00	00	00	19	40	106	166	21.798
<b>SYND</b>	00	00	00	00	13	35	116	186	23.810
<b>IB</b>	00	00	00	00	0	5	8	18	2.155
<b>BOI</b>	00	00	00	7	15	38	97	251	28.143
<b>CCB</b>	00	00	00	00	0	00	00	00	----
<b>UBKGB</b>	00	45	77	317	612	729	3608	5180	670.548
<b>Total</b>	<b>00</b>	<b>77</b>	<b>171</b>	<b>631</b>	<b>1560</b>	<b>2274</b>	<b>7893</b>	<b>12239</b>	

*Source: Compiled from Annual report of SGSY (Different years)*

Above table depicts a clear picture of growth rate of revolving fund issued to the SHGs in Jalpaiguri district. This growth was calculated through the trend analysis of time series technique. It shows that the growth rate of revolving fund of UBKGB is significantly higher than other banks in this district, which stood at 670.548. On the other hand, growth rate of Central Bank of India State Bank of India was 398.655 and 306.202 respectively. It is important to note that Central Bank of India and UBKGB both the banks have 40 branches each in this district but the growth rates are different. Whereas the growth rates are quite low for all others banks operating in this district.

During the initial years of the SGSY, the guidelines stated that with a revolving fund of Rs 10000 a cash credit upto Rs 15000 would be sanctioned to the 1<sup>st</sup> graded groups. Later the guidelines stated that revolving fund Rs 5000 and cash credit would be four times the group corpus. These guidelines imply that there ought to be some relationship between revolving fund and cash credit disbursed. The relationship was tested using correlation coefficient between the cash credit issued to the groups and revolving fund disbursed to the groups. The Pearsonian co-efficient correlation ® was found to be 0.442 which was not significant. There is no significant correlation between the cash credit issued to the groups and revolving fund disbursed to the

groups. It suggests that banks had issued cash credit to the groups without having much parity with the revolving fund. Revolving fund is issued by the DRDC in a phased manner and has different types of operational difficulties. On the other hand group members frequently come to the concerned bank branches after the completion of their 1<sup>st</sup> grading and request for loans. In many cases the branch managers had sanctioned bank cash credit loan without having proper information about their revolving funds.

This large number of 1<sup>st</sup> graded group of different banks have used cash credit limit to start and operate individual and group microenterprises. Through the good performance and excellent loan recovery, those groups able to come forward and qualify 2<sup>nd</sup> grading test. Scheme based large scale financial and long-range non-financial support provides sufficient enthusiasm to run sustainable group microenterprises. The performance of different banks in Jalpaiguri regarding 2<sup>nd</sup> grading and schematic lending is examined in the following section with the help of following table.

**Table No:6.10.F**

**Bank wise performance of 2<sup>nd</sup> grading and schematic lending as upto 31-12-2006**

<b>Name of the Bank</b>	<b>No of 2nd graded group</b>	<b>Scheme submitted in banks</b>		<b>Sanctioned / Disbursement</b>	
		<b>No</b>	<b>Amt (Lakh)</b>	<b>No</b>	<b>Amt (Lakh)</b>
<b>State Bank of India</b>	43	45	90.00	43	28.00
<b>Allahabad Bank</b>	5	8	6.00	5	7.00
<b>Bank of India</b>	0	0	0.00	0	0.00
<b>Central Bank of India</b>	47	58	90.00	47	30.10
<b>Indian Bank</b>	0	0	0.00	0	0.00
<b>Indian overseas Bank</b>	0	0	0.00	0	0.00
<b>Punjab National Bank</b>	0	0	0.00	0	0.00
<b>Syndicate Bank</b>	5	8	4.00	5	5.00
<b>United Bank of India</b>	5	5	10.00	5	6.60
<b>UCO Bank</b>	5	6	12.00	5	4.00
<b>Co operative Bank</b>	0	0	0.00	0	0.00
<b>UBKGB (RRB)</b>	52	80	160.00	32	71.00
<b>Total</b>	<b>162</b>	<b>210</b>	<b>372.00</b>	<b>162</b>	<b>151.70</b>

*Source: Performance report of Jalpaiguri*

The above table depicts that, till 31<sup>st</sup> December 2006 total 162 SHGs in Jalpaiguri have qualified 2<sup>nd</sup> grading test. Here also 1<sup>st</sup> position have occupied by UBKGB. Total 52 SHGs, who have linked with UBKGB, have qualified 2<sup>nd</sup> grading

test. In the same 47 & 43 SHGs of CBI and SBI respectively have qualified 2<sup>nd</sup> grading test. The table highlight that large scale schematic lending has been done by UBKGB (72 lakhs for 52 SHGs). On the other hand SBI disbursed 28 lakhs for 43 SHGs. These groups perform their activities through the active participation different banks with the help of back-ended subsidy, issued by the DRDC. Banks play pivotal role in this field. Different types of activities of banks are described in the following section.

The pattern of subsidy issued by DRDC as a nodal agency of SGSY in different years is described with the help of following table. On the basis of available data it can be noted that, the volume of subsidy has increased greatly in most of the banks. The rate of increase in disbursement of subsidy is shown in case of UBKGB. Upto 31<sup>st</sup> March 2005, its subsidy disbursement was Rs38.48 lakhs. It became Rs 71 lakhs. On the other hand, volume of credit disbursement of SBI and CBI during 2004-05 was Rs. 10.25 lakh and Rs. 9.50 lakh respectively. It became Rs.25 lakhs and 26lakhs respectively during 2006-07. Out of the remaining banks in this district UBI, UCO and SYND banks have issued few amount of subsidy.

**Table No: 6.10.G**  
**Bank wise trend of Subsidy under SGSY in Jalpaiguri district**

SL No	Name of the bank	Subsidy upto 31-3-05		Subsidy upto 31-3-06		Subsidy upto 31-12-06	
		No	Amt	No	Amt	No	Amt
1	<b>SBI</b>	16	10.25	30	25.00	43	28.00
2	<b>CBI</b>	8	9.5	28	26.00	47	30.10
3	<b>ALLB</b>	0	0.00	2	1.37	5	7.00
4	<b>BOI</b>	1	0.80	0	0.00	0	0.00
5	<b>UBI</b>	2	1.25	3	6.00	5	6.60
6	<b>UCO</b>	0	0.00	4	4.00	5	4.00
7	<b>SYND</b>	5	2.56	2	4.00	5	5.00
8	<b>PNB</b>	1	0.50	0	0.00	5	5.00
9	<b>CCB</b>	0	0.00	0	0.00	0	0.00
10	<b>IB</b>	0	0.00	0	0.00	0	0.00
11	<b>IOB</b>	0	0.00	0	0.00	0	0.00
12	<b>UBKGB</b>	40	38.48	66	60.00	52	71.00
<b>Total</b>		<b>73</b>	<b>63.34</b>	<b>135</b>	<b>126.37</b>	<b>162</b>	<b>151.70</b>

*Source: Performance report of Jalpaiguri*

## **6.11 Activities and perception of bankers regarding linkages under SGSY**

Bankers play pivotal role in the implementation and operation of SGSY. Bankers had to perform various activities for the SHG linkage with the bank. "Saving first" is an ideal concept in the new paradigm of modern microfinance. Enthusiastically continuous effort is needed from the awareness generation in the pre SHG period to post credit follow up in the bank linkage process. Banks officials play active role in motivating rural women to form SHGs. Bankers had to attain the group meeting occasionally with the officials of BDO and DRDC in order to disseminate knowledge about the saving / credit linkage process and banking procedures. Bankers had to take necessary step to learn the banking habits and documentation procedures through the training and workshop. They had to go for grading the group before credit linkage.

Guidelines of SGSY also supported the above activities of banks. It stated that, "Banks will closely involved with Government agencies in implementing, planning and preparation of projects, identification of key activities, clusters, self-help groups, identification of individual Swarozgaris infrastructure planning as well as capacity building and choice of activity of the SHGs, grading of SHGs, selection of Swarozgaris, pre-credit activities and post credit monitoring including loan recovery. The bank has the final say in the selection of Swarozgaris.

Therefore, successful operation of the scheme is highly depends on the active co-operation of bankers with others stakeholders of the programme. So perception of the bank officials regarding the SGSY is the key to success of the programme. In these phenomena the activities and perception of the bankers related to this programme in Jalpaiguri is to be tested.

In this respect, questionnaire survey has been conducted to the randomly selected branch all concerned banks in Jalpaiguri district. All concerned banks mean the banks who are performing SHG banking. Total 32 branches have been taken for this study. The relevant questionnaire has given in the appendix. Composite figure of different activities of banks has been tabulated below.

**Table No: 6.11.A**  
**Activities of Bank Personnel (N=32)**

Types of activities	No of banks who send their officer for the activities
1. Visit to motivate the group	32 (100%)
2. Grading of SHGs	32 (100%)
3. Visit the group to solve internal disputes	20 (62.5%)
4. Arrange and impart training (BOP)	12 (37.5%)

*Source: Field survey*

The above table depicts that cent percent of sample banks have performed two activities mainly i.e. visit to motivate the group and growing of SHGs. It signifies, SHGs gained motivation from the bankers. Frequency of group visit by the concerned bank personnel is given in the following table. This table highlights the fact that about 84% of sample bank visit their group as per the requirement of the groups. Favourable attitude of bankers is vital source of motivation, because bank provides basic means of economic activity. Other than this activity bank also extended helping hand to solve the internal problem of SHGs.

**Table No: 6.11B**  
**Frequency of group visit (N=32)**

Statement	Weekly	Monthly	Bimonthly	Half yearly	Yearly	As & when required
Frequency of group visit	0	0	0	0	4 (16%)	21 (84%)

*Source: Field Survey*

Through the regular interaction with the group members, the bank personnel have able to gain perception about the SHG banking system. The perception of bankers is examined in the following section.

The following tale depicts the perception of bankers' regarding different aspect of group based microfinance scheme.

The perception of bankers have been assessed with the help of 10 independent variables placed on the likert's five point scale from strongly agree to strongly disagree. The value assigned on this scale as follows; – Strongly agree (2), Somewhat agree (1), Cannot say (0), Some what disagree (-1), Strongly disagree (-2). Therefore, mean score ranges between (-2) to (2).

**Table No: 6.11.C**  
**Perception of bankers regarding SGSY scheme (N=32)**

Statements	Strongly agree (2)	Somewhat agree (1)	Can not say (0)	Some what disagree (-1)	Strongly disagree (-2)	Mean score
1. SGSY is a better microcredit programme than previous credit programme like IRDP	27	5	0	0	0	1.84
2. Savings of SHGs have resulted in more deposit for banks	22	10	0	0	0	1.68
3. Recovery rates are excellent.	25	7	0	0	0	1.78
4. Establishing savings & credit linkage with bank has resulted in better business for your branch	17	10	5	0	0	1.36
5. The amount financed through your bank are utilised properly for microentrepreneurial activities by SHGs	6	7	5	8	6	-0.03
6. Previous IRDP defaulter are restricted from having finance under SGSY.	17	8	3	4	0	1.18
7. Beneficiaries understand all the operations and documents of savings credit linkage.	6	8	0	15	3	-0.03
8. Only the group leaders/treasurers understand all the operations and documents of savings credit linkage.	10	11	0	11	0	0.68
9. It is difficult to explain the operation and maintains documents to the SHG leader or treasurer.	6	18	2	6	0	0.75
10. The SGSY will prove to be a sustainable microcredit delivery system in the long run.	3	11	6	8	4	0.03

*Source: Field survey*

The above table depicts that mean score of 1<sup>st</sup> variable stood at 1.84%. Therefore bankers' have strong perception about the fact that SGSY is better microcredit programme than previous credit programme like IRDP. Average mean score of second variable stood at 1.6. It signifies the fact that, bankers have strongly perceived that savings of SHGs have resulted in more deposit for banks. Another important variable of perception measurement is excellent recovery rates. The mean score of this variable stood at 1.76. A large number of respondents strongly perceived that the loan recovery is very high. It is a good indicator of success of SHG banking. Bankers have also perceived that large number of small savings have been mobilised due to SHG Bank linkage. This has augmented the volume of savings for the banks. SGSY provides technical support to upgrade the skill of members. Bankers have also perceived that the SHG connection i.e. saving-credit linkage with the groups have led to better business for the banks. This is evident from the average mean score of 1.36.

Though these are positive perceptions, however bankers are not unanimous about their opinion of utilisation of credits for building up microenterprises. Though some bankers find that the loan amounts are used to finance microenterprises, about half of the respondents have negative views. This has resulted in a mean score of -0.03. Another important variable reveals that bankers are careful in selecting to loanees group members. However discussions revealed that previous IRDP defaulters are restricted from having finance under SGSY. If any member of a SHG was an IRDP defaulter, other members took active role in convincing the bankers that defaulter member would repay SGSY loans through peer pressure and peer support.

More than 50% bankers perceived that members of SHGs were not able to understand all operations and documents of saving credit linkage. The mean score on this variable stood at (-0.03). However, bankers perceived that in most cases group leaders and treasurer could understand all the operational documents of saving credit linkage. The mean score stood at 0.68. In many cases the group leader and treasurer were illiterate or able to put signature only. Naturally, bankers had to face difficulty in explaining the subject matters of all documents of SHG bank linkage programme before those leaders and treasurers.

The perceptions are mixed as evident from the scores. On one hand when most bankers believe that SHG connections can be good business for banks, deposits have increased and loan recoveries are good, on the other hand they perceive that the

operational aspects are not very easy as the beneficiaries are not very conversant with documentation procedures. These mixed perceptions have probably led to the variations in perception that SGSY would be a sustainable microcredit programme. The mean score of 0.03 really depicts that on the whole bankers are neither unsure nor sure of the success of the scheme.

SHG banking is social banking; it needs continuous interaction with vulnerable rural people, especially women. Most of the rural women are illiterate and they live under tight control of male members of their families. Working with this clientele base needs adequate staff with knowledge about handling SGSY linkage system. Moreover, such linkages are difficult if co-operation from government agencies are not available, since these agencies can act as the intermediaries in the bank SHG linkages.

In the following table the different types of problems faced by bankers from the SHG banking activities are given. The perception regarding the problem faced by the bank official is assessed through Likert's five-point scale with the help of six variables and through the five-point scale. This five-point scale ranges from very high to very low. The value assigned on this scale is as- very high (2), moderately high (1), Average (0), moderately (-1), very low (-2). Therefore, the mean score ranges from (-2) to +2.

**Table No: 6.11.D  
Problem faced by bank officials (N=32)**

Statements	Very high (2)	Moderately high (1)	Same (0)	Moderately low (-1)	Very low (-2)	Mean score
1. Problem of staff shortage to cater to SHG work.	11	21	0	0	0	1.34
2. Knowledge of bank staff about SGSY.	0	20	12	0	0	0.53
3. Frequency of receiving guidelines from head office.	27	5	0	0	0	1.84
4. Co-operation from DRDC.	0	15	9	8	0	0.21
5. Co-operation from panchayats.	18	8	1	5	0	1.21
6. Extra workload.	19	7	6	0	0	1.42

*Source: Field Survey*

The table depicts that a significant portion of respondent bank personnel are facing acute problems of staff shortage. This is probably because a large number of unbankable sections had come under the SHG banking fold and banks have not been staffed at the same pace. As a consequence, workload has increased to a great extent. The mean score in this variable stood at 1.34. SHG banking and a different modern banking concept is a modern banking philosophy which involves continuous revision of policy variables. Top level management at the head office takes proper decision regarding the revision of policy variables. It needs distribution of proper guidelines and circulars. The respondents expressed that the head office of all concerned banks issued and distributed new guidelines and revised circular very frequently. The mean score on this variable stood at 1.84. SGSY is a composite and comprehensive programme in which DRDC acts as a nodal agency. It needs co-operation with all other concerned entities. So cordial relationship among the concerned entities is very much is very much inevitable for the sustainable development of the microfinance programme. Survey depicts that the level of cooperation among the bank and DRDC was not very high. Discussion revealed that other than gradation of group and monitoring of subsidy and credit approvals DRDC was not found to be very co-operative. In many cases DRDC did not know the status of Revolving Fund which had been issued by the banks. The mean score on this variable stood at 0.21. Another important Government carrier of microfinance programmes are the grampanchayats. Banks seeks co-operation from gram panchayats for smooth functioning of SHG banking in any village. The survey reveals that panchayat members or animators are very much active and perform an important role to disburse and recovery of loan. More over, gram panchayat members very often attend the bank to communicate the information related to SHGs. Mean score on this variable stood at 1.32.

Another important problem is that lack of knowledge of the staff about this scheme, therefore calling for continuous training and development of bank staff. Though it is sometimes difficult to arrange training programmes for the bank personnel, however almost all banks have taken serious steps to upgrade the knowledge of all branch managers through the continuous training programmes. The table (No6.10.D) highlights the fact that about 94% managers of sample banks attended training programme to upgrade their skills.

**Table No: 6.11.E**

**Training received by the bank official (N=32)**

<b>Statement</b>	<b>Yes</b>	<b>No</b>
Whether the bank manager has received training on microfinance	30 (94%)	2 (6.25%)

*Source: Field Survey*

The above discussions revels that bankers have taken up the linkage programme under SGSY with seriousness and are working towards the programme with a positive but cautious approach. The perception and involvement of the bankers is commendable considering the fact that there are hindrances in the form of clientele illiteracy, shortage of bank staff, work overload and need for more cooperation for government agencies.

Bankers are now aware that the SHG banking concept is a new philosophy of social banking, which has created a new avenue for the formal banking organisation. This new concept is a paradigm shift in the banking history. It has tremendous scope for the generation higher rate of return as well as attainment social goal through its formal, existing and established banking network. Irrespective of above all discussion, this new concept has to face various difficulties. The possible difficulties of new philosophy of social banking are given below.

### **8.12 Main Threat against SHG Banking.**

It is well accepted by the vulnerable rural people that Bank participated in the SHG movement as a Self Help Promoting Institution (SHPI). It becomes remarkable that it provides necessary banking support for those section whom hardly had any bank support so far. Where as it suffers from various problem.

#### **(1) Stability of Bank-SHGs**

Due to time constraints and staff shortage, the SHG-Bankers do not undertake many more interacting functions besides offering saving and credit services to SHGs. Some bankers have spent their time and effort for assisting in-group formation only. There is no special service offered to change the people's attitude and behaviour by constant supportive educational interventions starting from changing traditional attitudes (dowry system, bad drinking habits of husbands etc) to family planning and

to new practices in agriculture, horticulture or business management etc. Kropp & Suran (2002) stated that, bankers seem to feel: As long as the loan recovery from SHGs is showing good results (as compared to the “directed loan”- portfolio) there is no need for follow-up or a trouble-shooting service in order to avoid that something is going wrong inside the SHGs. As long as there are no significant identifiable weaknesses yet in SHG-Banking the Banks will be not so much concerned with establishing more SHG internal checks and controls by bank staff.

**(2) *Availability of adequate saving Products to SHGs and to their Individual Members***

SGSY Guidelines stated that SHGs are entitled to get bank loan, upto four times of group savings, after passing 1<sup>st</sup> grading. Most of the groups have qualified their 1<sup>st</sup> grading test within their vintage period of one year. Naturally, with in this time span SHGs may able to accumulate very minimum amount of savings. As a result, bank provides small amount of loan to the concerned SHGs, which is inadequate as noticed by the groups in several occasion. On the other hand, comparatively large volume of bank loan is required to start and run a group based microenterprise or individually separate microenterprise.

**(3) *Instability of Bank Personnel.***

As per bank management strategy, every bank’s Head Office makes the schedule of transfer of bank personnel at the different branches. All the banks maintain frequent (within 2-3 years) transfer policy. Transferee personnel take time to adjust in the new branch with new working environment. The new comer has to know all about the working condition in the new branch. Within this time, the new manager do not takes any step to disburse loan to the SHGs even though there is large volumes of pending loan applications at every branch. On the other hand, outgoing manager try to avoid responsibility regarding SHGs related activities at the forth-coming maturity stage.

**(4) *Lack of proper attitudes of Bankers.***

There are many instances where bank personnel spent very short duration at a particular branches. They may not have thought about the well being of the rural women. Which may have led to non-cooperation with the rural women regarding the SHG movement at the branch. The discussion during survey revealed that bankers

who were conservative and had not developed a warm attitude towards SHG. As a result women were refraining from financing the SHGs, as they believed that in case of default it was not possible to file a suit against the SHGs due to direct involvement of government's administrative machinery.

#### **(5) Lack of quality SHGs.**

The quantum of SHGs has been mounted to 17845. Accordingly, the number of 1<sup>st</sup> graded group stood at 9939. It is a matter of satisfaction that such a large number of have passed their 1<sup>st</sup> grading and have received their bank loan. Some of these groups did not have taken any kind of economic activities for them. Again performance of well-established and sustainable existing groups have influenced and motivated other individuals to form new groups in the locality thus increasing the density of SHGs in the village. Very often it has been observed that most of the group in the same locality are involved in same business by availing the same resources and markets. With the limited know-how and alternatives available for investment within the village economy - diminishing returns from investments in existing micro-enterprises for income generating may result in decreasing trend in ROI. This may later lead to problems of recovery.

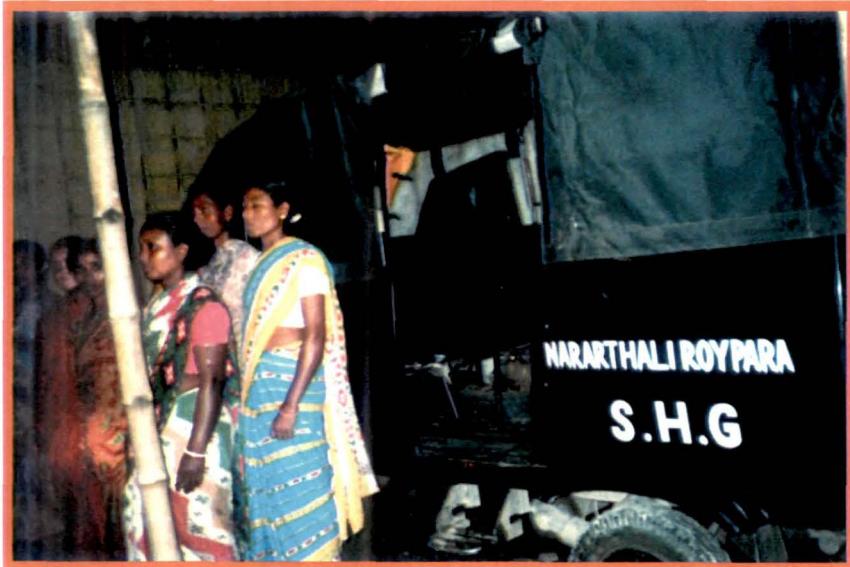
### **6.13 Conclusion**

Sustainability of SHG movement is depends on the cordial relationship between SHGs and banks. SGSY is a composite and comprehensive rural development scheme which provides various social benefits along with multi-dose economic benefits.

To enhance the quality of SHG banking service, banks should be more vigilant to take proper steps on time. Banks and other SHPIs have to change their focus from target oriented to quality oriented. In this regard banks have to develop instruments for proper rating of SHGs - for self-evaluation of the organisational strength and the participative discipline of the members, which the groups or the bank partner could use for evaluation. Banks should use this instrument more and more for credit appraisal, assessing capacity building needs etc and to ensure that corrective actions are undertaken in case the rating instrument shows increasing tensions in the group.

Bank should develop organizational tools and problem solving mechanisms for an effective facilitation of SHG sustainability. Proper action should be taken to increase the frequency of group visit. This endeavor can reduce the SHG bank linkage related problems. Intensive supervision of SHGs can reduce the possibility of defaulting, poor fund management and accounting. But this is a complex task and requires a high degree of organisational activities and hard work by the bank staff. Moreover it can become a substantial cost item since new staff has to be added to those branches with high SHG-Banking portfolio. However, since SHG banking creates a win-win situation for both bankers and SHGs such cost should be offset by increased returns from multiplying SHG loan portfolios.

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Treading into transport business - SHG members posing proudly before their new autorickshaw



Rearing buffaloes and cows is an important economic activity for SHGs.