Report
of
Sub Group on
Innovative Finance and Micro Finance

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Working Group on

Gender Issues, Panchayat Raj Institutions, Public Private Partnership, Innovative Finance and Micro Finance in Agriculture
For the Eleventh Five Year Plan (2007 – 2012)

Planning Commission

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Draft Report of Sub-Group on Innovative Finance and Microfinance

1.0 Background

Planning Commission has set up a Working Group on Gender issues, Panchayati Raj Institutions, Public-Private partnership, Innovation Finance and Micro Finance in Agriculture for the XIth Plan. The Terms of Reference of the Working Group are indicated in Annexure – I. Under this Working Group, four Sub-Groups were constituted. These are:

- Gender and Agriculture
- Land Issues
- Institutions: PPP, PR institutions and NGOs
- Innovative Finance and Micro Finance

The Terms of Reference of Sub-Group on Innovative Finance and Microfinance are:

1. To consider the trends and performance of innovative micro-finance, problems faced by the farmers in accessing micro-finance and suggest measures to make micro-finance programmes more effective, enhancing their outreach.
2. To review the performance of the existing schemes and comment on their strength and utility.

The composition of the Sub-Group is given in Annexure – II.

2.0 Gap in credit for informal sector

In the 10th Five Year Plan document, Dimensions and Strategies (volume I) the need for reaching out to the informal sector through innovative means has been rightly emphasised. The lack luster performance of the banking sector in this regard has been criticized as, "The banking system must be encouraged to reach out to the enterprises in the informal sector through innovative means. This is effectively what is intended by the various targets specified for priority sector lending by commercial banks. However, priority sector lending has *created a culture of mechanical lending in public sector banks*, in which there is little effort at credit appraisal of lendings made to priority sectors" (page 152)

There is large concentration of the SHGs in a couple of states, making the inter-state disparities very conspicuous. The Sub-Group has to examine this anomaly and has to suggest steps to be taken in some of the states for promoting SHGs in good number, with more incentives, if necessary.

According to the Census 2001, only 4.16 crore households out of 13.83 crore households in rural India are reported to have availed banking services. With all efforts made by banks and SHGs, only 30 percent of rural households are linked to the banking sector. *Over 9.67 crore of rural households - inferentially a vast majority of them are dependent* *on farming – are yet to be reached by banks.* Among them 5.59 crore households are the *deprived lot,* who do not own any of the assets listed in the Census enumerations. They deserve immediate attention of the institutions involved in purveying microfinance.

3.0 SHG - Bank Linkage Programme

3.1 Progress

NABARD initiated the "SHG - Bank Linkage Programme" in 1992 as a pilot project and mainstreamed in 1996. The objective of the programe is to enable formal banking services to provide financial services to the rural poor through the process of savings and credit linkage of Self Help Groups[1]. This scheme has made tremendous progress in the recent years. As on March 2006, banks have cumulatively linked 22.38 lakh groups and disbursed loans of Rs. 11,397.55 crore. The trend in disbursement of bank loans to SHGs since inception is presented in Table 1.

Table 1

Progress in credit linked SHGs

Year	New SHGs financed by banks			Bank Loan (Rs. in crore)		
	During the year		Cumula-tive	During the year		Cumula-tive
	No.	Growth %	No.	Amt.	Growth %	Amt.
1992-99	32,995		32,995	57.07		57.07
1999-00	81,780	148	114,775	135.91	138	192.98
2000-01	149,050	82	263,825	287.89	112	480.87
2001-02	197,653	33	461,478	545.47	89	1,026.34
2002-03	255,882	29	717,360	1,022.34	87	2,048.68
2003-04	361,731	41	1,079,091	1,855.53	81	3,904.21
2004-05	539,365	49	1,618,456	2,994.25	62	6,898.46
2005-06	6,20,109	15	22,38,565	4,499.09	50	11397.55

In addition to this, 1,71,669 existing SHGs in 2003-04, 2,58,092 in 2004-05 & 3,44,502 existing SHGs in 2005-06, were given repeat finance by banks.

Today commercial banks with more than 32,000 rural branches have the largest share (50%) credit linked SHGs followed by RRBs (38%) through their 11,900 branches. More

[1] A Self Help Group (SHG) is a group of 10 to 20 poor homogeneous people who pool their thrift on a regular basis so as to lend money to the most needy member out of the group. After successful running of the group for a few months, the group can approach the nearby bank branch for credit linkage.

than 3,000 NGOs and other development agencies joined the programme primarily as promoters of SHGs or capacity building agencies. The Central Govt.'s initiative to employ the concept of Self Help Groups in their poverty alleviation programmes has gone a long way in rooting the idea in extremely backward areas.

The southern region currently constitutes about 54% of the credit linked SHGs in the country. The share of southern region has come down from 71 % in March 2001 to 54 % in March 2006 (Table 2).

Table 2
Regional spread of Credit Linked SHGs

Region	**2000-01**		**2005-06**	
	SHGs Credit linked to banks	**Per cent to total**	**SHGs Credit linked to banks**	**Per cent to total**
Northern	9012	3.4	133057	5.9
North Eastern	477	0.2	62517	2.8
Eastern	22252	8.4	394351	17.6
Central	28851	10.9	267915	12.0
Western	15543	5.9	166254	7.4
Southern	187690	71.2	1214431	54.3
Total	**2,63,825**	**100.0**	**22,38,525**	**100**

The financing to SHGs is a unique contribution to methods of development intervention for social and economic change that relies on peoples' own resources and gradually supplement its resources from the banking system. It builds on the collective decision making, capacity of people and utilize such a capacity for all round development of the people and the area. The evaluation studies conducted show that SHGs have made positive social and economic impact on the lives of poor men and women. The findings of the some of the major studies are given in Annexure – III.

Banks have found in SHGs a reliable credit delivery mechanism which is cost– effective. Concerned, as they are, with the imperative need for avoiding Non Performing Assets, lending through SHGs is accepted as a safer means of reaching out to the poor, especially in rural areas.

The view, therefore, is that SHG financing should be continued with greater thrust under the XI Five Year Plan. The efforts should be made to bring all the poor, in a phased manner, into the fold of SHGs. Keeping in view the past progress and existing potential, it is proposed that additional 3.97 lakh new SHGs can be financed by banks in XIth Five Year Plan.
Year-wise broad goals recommended for financing new SHGs for the XI Five Year Plan are as under:

Year	No. of Groups
2007-2008	530000
2008-2009	640000
2009-2010	770000
2010-2011	920000
2011-2012	1110000

3.2 Emerging Challenges

The phenomenal expansion of the programme in the last 4 to 5 years, has thrown many challenges:

- System for monitoring of SHGs: The general reports on the progress of SHGs show statistics of growth and spread of SHGs without questioning the process and internal health of SHGs. There is a need to pay considerable attention to this aspect for developing healthy and sustainable groups. For this purpose, there is a need to establish a separate SHG Monitoring Cell in every State. The cell should have direct links with district and block level monitoring systems. The cell should collect both quantitative and qualitative information.
- Capacity building of SHG members: Currently, there is a significant emphasis on capacity building for bankers, NGOs and government officials involved in promoting and financing SHGs. The time has come when there is a need to focus on capacity building of SHG members as many of the SHGs are maturing and the business level of the groups is increasing.

  A Task Force could be set up to review the existing capacity building programmes for SHG members and suggest innovative approaches in addressing the capacity building needs. The task force should also suggest ways of monitoring the capacity building programmes. Routine or poor training is worse than no training.

  SHGs as self managed units: It has been observed that groups, in case there is withdrawal of promoting institutions, tend to slip in their performance. The solution lies in nurturing of group upto a point where it becomes self managed and independent of promoting institutions. This implies setting up of proper accounts keeping and auditing, credit management, etc.

  NABARD is implementing a pilot project – 'Computer Munshi' in five districts – four districts in Jharkhand and one district in Orissa. The project envisages entrusting the task of maintaining SHG accounts, preparation of relevant reports for use by the groups as well as bankers by training a skilled youth from local communities as a Computer Munshi (CM). The trained individual is equipped with a computer and software to serve 100 to 300 SHGs. The results of the pilot project have been quite encouraging.

  There are also other examples of trained para accountants cum facilitators paid by the groups who successfully keep the records and the accounts of the groups. It is recommended that such practices may be studied, documented and replicated in other regions through identification and training of group based accountants cum facilitators. This would help in providing stability and continuity to groups essential for sustained micro finance lending in future.

- Regional Imbalances: There are regional imbalances in the spread of SHGs. A cursory glance at the banks' penetration ratio into rural households (the percentage of rural households availing banking services out of total rural households) among the States reveals that there is a positive co-relation between this ratio and the number of SHGs in operation in States. This underlines the need for expanding the SHG network in the States, where the banking penetration ratio is very low. It is recommended that based on the Census 2001 data, 100 districts having the highest percentage of the deprived rural households, can be selected and special strategies need to be designed for increasing the number of SHGs in the identified districts.

Special surveys and analytical studies should be undertaken in such regions to identify factors effecting spread and sustainability of SHGs. There will also be a need to invest more in capacity building programmes in these areas. For this, It will be essential to build training capabilities in these regions by identifying or promoting new training institutions that may be trained and guided by training institutions of excellence in other areas.

- SHG lending and agriculture: The SHGs have been quite active in disbursing small doses of credit but their foray into agriculture per se is somewhat limited. They have excelled in providing micro credit for activities allied to agriculture sector but the loans made for crop cultivation and land based activities are comparatively less.

  In line with the Budget announcements for the year 2006-07, a separate line of credit for financing Farm Production and Investment activities through matured SHGs has been introduced by NABARD in addition to existing refinance facility available to banks.

- Livelihood promotion among members of SHGs: Of the total groups financed by banks, there are over 4 lakh SHGs which are more than three years' old and are well stabilized in their credit and savings operations. Members of these mature SHGs are now in a position to scale up and diversify their income generating activities. Many of the NGOs are trying to promote micro enterprises among SHG members. But the experience is very limited. The critical constraining factor is that SHG members face a lot of problems in marketing of their produce. There is a need to evolve a methodology for promoting micro enterprises among SHG members that can be replicated on a large scale. With this view, NABARD is implementing a pilot project in nine districts spread over nine States with a view to evolving a replicable methodology. The lessons from these interventions need to be documented and disseminated.

- It is proposed that SHGs need to offer wide range of saving products so as to capture the huge demand for savings that remains unmet. SHGs can be encouraged to collect savings on daily basis from their members on the lines of daily deposit schemes being implemented by the banking system. SHGs can consider to pay higher rate of interest on these deposits and the rate of interest could be even to the level at which SHGs borrow from the commercial banks.

4.0 Government sponsored programmes

There are a few Government sponsored programmes, which are aiming at poverty alleviation, though not directly linked to farm financing. Swarnajayanti Gram Swarozgar Yojana is one among them. It envisages formation of SHGs by the beneficiaries of Swarozgar scheme and financing them by banks in different stages. It is a holistic scheme covering all aspects of self-employment such as organisation of the poor into Self Help Groups, training, credit, technology, infrastructure and marketing. The main objective of the scheme is to raise every assisted family above the poverty line by providing them income-generating assets through a mix of bank credit and government subsidy. Since its inception in 1999, a total of 6.23 lakh groups have been assisted by banks up to 31 March 2006 involving a bank loan of Rs.3933 crore.

Since SGSY has been in operation for about 7 years, it is necessary to look into the evaluation studies of this programme. The committee felt that the SGSY groups had some weaknesses:

- Availability of subsidy had led to weakening of the concept of self help as most people joined groups for availing subsidy only.
- The pressure for achieving targets has led to formation of groups that lack understanding of group concept and working.
- The survival rate of the groups, after the project loan is sanctioned, is poor. This happens because members usually lose the interest after receiving their subsidies.
- The norms and working of the groups promoted under SGSY are not in tune with SHG – Bank Linkage Programme. This has produced a lot of confusion among SHG members, bankersand NGOs etc. There is even parallel reporting of groups and hijacking of groups. There is thus a need to bring better synergy between SGSY groups and SHGs. It is recommended that subsidies provided under SGSY need to be restructured. The committee felt that subsidy can be given in a way so that it helps in lowering the cost of credit rather than the quantum of credit. The subsidies can be placed with the groups so that the groups are able to charge lower rate of interest from members on the loan raised by them from banks. This would facilitate higher credit flow through SHGs. Also, the loan repayments would improve. Further, it is proposed that all subsidies meant for the poor, other than those oriented for specific activities, should be routed through SHGs and similar other groups such as Joint Liability Groups, Rhytu Mitra Groups, etc. This would help in better utilization of the subsidy and better repayment of the loan wherever subsidies and loans are given together.

5.0 Joint Liability Groups (JLGs)

There are a large number of farmers in the country who are share-croppers / tenant farmers, etc. These farmers do not have clean title to land. These farmers are not able to raise loan from the banks as the land is not accepted as a good collateral. In 2004-05, NABARD has introduced a pilot project for developing effective credit products for mid segment clients having access to productive assets, in 8 states through 13 gramin banks, adopting the joint liability approach. Under this scheme, the gramin banks have promoted 850 Joint Liability Groups and extended finance of Rs 12.40 crore by 31 March 2006. It is an informal group of 4 to 10 tenant farmers joining together for availing bank loan, against mutual guarantee. Based on the experience of the pilot project, NABARD recently formulated guidelines for banks for financing JLGs. At the behest of RBI, IBA recently issued the guidelines for financing of JLGs through the banks. The scheme of financing JLGs, properly grounded can be instrumental in purveying credit to small farmers, marginal farmers, tenant farmers and landless.

6.0 Micro Finance Institutions (MFIs)

During the last few years, there has been an increase in the number of MFIs in India, promoted by banks, NGOs and individuals. Their exact number is not authenticated by any official publication. While their number is proliferating, there is hardly any regulation in place to keep a track of their activities. Some of them have played a very positive role in extending micro credit in certain regions. In some states, a few of them have come under cloud for using coercive methods to recover their dues, leading to what is termed as micro-credit deaths. One charge against most of them, in general, is the high rate of interest charged by them, which in some cases is no better than that of the much-maligned village moneylender. It is possible to cap the rate of interest through a government directive but such an intervention may prove counter-productive as it is likely to curb the expansion of the market. The committee felt that the best way to bring down the rate of interest is to expand the microfinance operations of RRBs in a big way as discussed in detail in the subsequent paragraphs in this section. The advantage with RRBs is that they are able to mobilize low cost funds and would therefore be in a position to charge reasonable rate of interest.

MFIs can play a vital role in improving the financial access, particularly in those areas which are underbanked. There is a need to promote linkage of MFIs with the banks so that MFIs can have better access to commercial funding. To facilitate this, Micro Finance Development and Equity Fund (MFDEF) has been set up recently in NABARD. There is a need to bring in more transparency in the operations of the MFIs and an appropriate legislative framework can play an important role in achieving this.

Gramin banks have been in existence in rural India for three decades. Passing through various stages of stagnation and development, they are currently under-going a process of reorganisation. Their number has come down from 196 to133. Their operational bases have been widened and most of the reorganised gramin banks, whose operational results are available, are financially viable.

Gramin banks may be considered as one of the most suitable financial agencies for promoting and fostering SHGs as a conduit for extending microfinance in rural India. Rural banking being their core-competence, they could be major players in this arena in the future banking scenario. Recognising their strategic position, it is desirable to make them the kingpin in the microfinance movement. The strategic advantages, which these banks possess, make them ideal micro finance institutions. They already have a ready made rural base, designed for handling the credit delivery system, conducive for small lending. These banks have easy access to low cost funds, mobilised through savings bank deposits from rural households. Performance of many of them in this field is remarkable. The increased share of microfinance is likely to improve the portfolio quality of these banks as the repayments under microfinance are generally above 90 per cent. However, they have been lending to the weaker sections in a routine manner all along. Micro finance should not become one more column in their reporting format. There has been very little effort made to re-orient their lending programmes, assigning the importance due to micro finance programmes. Over a period, there is a deterioration in the quality of human resources in terms of skills, age profile, discipline, etc. and this need to be corrected.

Some of progressive gramin banks have already graduated into micro-finance institutions. Besides lending small doses of credit and encouraging thrift by collecting small deposits, many of them have started selling other financial products like insurance and mutual funds. Quite a few of the annual reports of these banks reveal details relating to efforts made by them through cross selling such products.

There is a need to evolve a policy framework that should encourage RRBs to graduate as MFI. Over a period, RRB should aim that 60% of their loan outstanding is with SHGs and JLGs. This is possible to achieve without compromising on the viability of operation. This would involve designing of new products, reorienting services of staff and reengineering business procedures. To facilitate the process, a monitoring committee can be set up at the district level. The committee should assess the potential of SHGs and JLGs in the district and guide RRB, in tapping this potential. The chairman of the committee can be DDM, NABARD and members can be drawn from banks, government and NGOs**.** Further, experimental projects may be undertaken promoting partnerships between RRBs and matures NGOs / training institutions for facilitating strengthening of SHGs. This would help in enabling the RRBs to focus more on credit linkage to SHGs and shall be useful in strengthening loan recovery systems too.
The common grouse of Micro Finance Institutions (MFIs) is their inaccessibility to low cost funds. Some times, they borrow from banks at commercial rates for on-lending to Self Help Groups, obviously at higher rates. RRBs with high liquidity, instead of investing the funds in bonds and markets, can lend to MFIs with a stipulation that the funds borrowed must be utilized for on-lending as micro credit within the area of jurisdiction of the concerned RRB. To assure that such advances do not become NPA, it may be given a bank guarantee. Through this process, even the loss incurring RRBs may be able to improve the health of their credit portfolio and also improve the bottom line.

7.0 Kisan Credit Cards (KCCs)

NABARD had formulated a model Kisan Credit Card scheme in consultation with major banks and the banks were advised to introduce the scheme in their area of operation by RBI in August 1998. The KCC scheme aims at provision of adequate and timely credit to the farmers for their cultivation needs in a flexible and cost effective manner. The cumulative total of KCCs issued as on 31 March 2006 is reported to be 5.91 crore involving a bank credit of Rs.181992 crore. It may be noted that the volume of farm credit extended through the cards is not the volume of additional credit lent by banks. While there would be some increase in credit utilization through the new cards, there would also be the substitution of credit cards for the existing credit limits.

The regional disparities in the availability of KCCs and their utilization, however, are not adequately explained by the banks in their reports.

The group is of the view that KCCs have been instrumental in purveying credit to farmers in a timely and cost effective manner. There is a need to deepen this scheme as many of the small and marginal farmers, particularly women, are still do not have access to KCCs. KCCs should be issued to women speedily with joint pattas to house / agriculture land as collateral. In the absence of this, indemnity bonds / guarantees should be accepted from husband / male relatives and prominent local figures. For tribal areas, there is a need to develop innovative methods of collateral substitution i.e. recognition of community rights to land to overcome the difficulties encountered in mortgaging the land. The committee felt that a mini Kisan Credit Card with a loan limit upto Rs.25,000 can be introduced for small and marginal farmers and the progress for the same can be separately monitored.

8.0 Private initiative and innovations

One of the multinational companies engaged in agribusiness in India has made a successful innovation in fostering agricultural development through a scheme *called e-choupals. In the* 95th Annual Report of ITC Ltd, it is reported, " The ITC e-choupal leverages the power of the internet to empower the *small and marginal farmer* with a host of services related to know-how, best practices, timely and relevant weather information, transparent discovery of prices and much more. The digital infrastructure can also be used for channelising services related to credit, insurance, health, education and entertainment. It can also serve as a strong foundation for linking *small and marginal farmers* to futures markets to facilitate farmer risk management. The e-choupal is not just a village digital kiosk with a human interface. The access to e-choupals, within walking distance from the farm gate, is supplemented through physical infrastructure- the ITC Choupal Sagar- which functions as a hub for a cluster of villages within tractorable distance. This made-to-design hubs also serve as warehouses and as rural hype markets for a variety of goods."

This infrastructure project, it is disclosed, comprises about 6000 installations, covering 36,000 villages and serving over 3.5 million farmers. The company has a plan of creating a network of 2000 e-choupals and over 700 Choupal Sagars during the next 7-10 years. An investment of Rs.5000 crore is envisaged for extending this facility to 10,000 villages.

It is desirable to study the operational details of this programme and the impact it has made on the living conditions of farmers. Since the agri-business in which the FMCG giant is interested, is likely to include mostly cash crops, it is necessary to find out, whether e-choupals reach out to the small and marginal farmers in large numbers.

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Annexure – I

Terms of Reference of the Working Group

1. To undertake a critical review of the existing approach, strategies, priorities, institutional arrangements, on-going policies, access to resources (land including land rights, credit etc), gender concerns in re-settlement of PAPs and empowerment of women in agriculture.

2. To review the progress of schemes/measures for empowerment of women in agriculture and suggest continuance / dis-continuance / improvements in design / convergence of the on-going programmes and effective inter-sectoral integration during the XI Fiver Year Plan.

3. To review the recent initiative of gender budgeting and outcome budget for empowerment of women in agriculture and suggest measures, if any, for their future improvement.

4. To review and learn from the Non-Governmental Sector about their successful gender friendly innovations, approaches and strategies and to suggest ways and means to promote adoption of the same in Government sector.

5. To review and access the availability and utility of gender-disaggregated data on women in agriculture and suggest measures for effective generation of needed data.

6. To review and assess the role of and the present involvement of Panchayati Raj Institutions / Local Self Government Bodies and NGOs in the implementation of agricultural development programmes and suggest measures for making them more effective so as to augment of services to the farmers.

7. To identify areas in agriculture and allied areas, suggest mechanism for sharing resources / operations and work out modalities to up-scale successful experiences for public-private-partnership (PPP).

8. To consider the trends and performance of innovative micro-finance, problems faced by the farmers in accessing micro-finance and suggest measures to make micro-finance programmes more effective, enhancing their outreach.

9. To review the performance of the existing schemes and comment on their strength and utility.

Annexure – II

Composition of the Sub-Group on Innovative Finance and Microfinance

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2	Mrs. Sneh Lata Kumar, Executive Director, Rashtriya Mahila Kosh, Deptt. of Women and Child Dev., Shastri Bhawan, New Delhi. Tel.: 011 – 23354619, Fax: 011 – 23354621	Member
3	Dr. G Perumal, Former Director (Extension), TNAU, 19, Vivekananda Street, P.N.Pudur, Coimbatore – 641 041. Tel.: 0422 – 2243030	Member
4	Shri C V S K Sarma, Principal Secretary, Agriculture Department, Government of Andhra Pradesh, L Block, Floor 8, Secretariat, Hyderabad. Tel.: 040 – 23452269, Fax: 040 – 23457086	Member
5	The Secretary, Agriculture Department, Government of Uttaranchal, Dehradun – 248 001. Tel.: 0315 – 2652452, Fax: 0315 – 2652495	Member
6	Dr. R P Singh, Former Vice Chancellor, Maharana Pratap University of Agriculture and Technology, Udaipur, Rajasthan, B-5/5, Vinaykhand, Gomti Nagar, Lucknow – 226 010. Fax: 0522 – 2393657	Member
7	Dr. V V Sadamate, Advisor (Agriculture), Yojana Bhawan, Planning Commission, New Delhi.	Member
8	Prof Devnathan, Institute for Human Development, IAMR Building, 3rd Floor, IP Estate, Mahatma Gandhi Marg, New Delhi. Tele: 011-23358166 09810705500 (M). Email: ihd@vsnl.com.	Member
9	Mr. Varun Vidyarthi, Managing Director, Manovadaya, IIM Road, Post: Diguria, Lucknow – 226 020. Tel. / Fax: 0522 – 2734886, Mob.: 9839310461 Email: manavodaya@eth.net	Member

10	Shri S S Acharya Executive Director, NABARD, Bandra-Kurla Complex, Bandra (East), Mumbai – 400 051. Tel: 022 – 26530021, Fax: 022 – 26530022 Email: nabed3@bom5.vsnl.net.in	Member Secretary

Annexure - III

Major findings / recommendations of the studies on SHG Bank Linkage Programme

1. Study of SHGs and bank linkage In India - Dr Erhard W Kropp (Former Senior Economist, GTZ, Germany) & Dr B S Suran NABARD

The SHG-Banking pioneered and promoted by NABARD has emerged as a primary microFinance service mechanism for the unbanked poor in India. The multiple initiatives led by capacity building have made tremendous inroads into the conventional bankers mindset. They now view SHG-Banking as a new dimension of quality portfolio with very low risks and with marginal increase in operating costs. ***The dimension and flexibility in SHG-banking now practiced in India is unmatched in world's banking system.*** Being predominantly women focused, SHG-Banking is the first step towards feminisation of the (micro) banking portfolio of Indian banks. Stimulating self-help capacity of the poor does spark off the entrepreneurial enthusiasm, risk mitigation mechanisms in low-income households, it also serves as an entry-road to overcome poverty and addressing other crucial social concerns.

2. Role of SHPIs in promotion of SHGs by Professor Malcolm Harper, Former Professor, Cranfield School of Management

The objective of this study was to examine and compare the different ways in which Self Help Promotion Institutions (SHPIs) promote Self Help Groups (SHGs), in order to enhance the efficiency and quality of the SHG promotion process.
The following are the major findings in brief:

- The banks, particularly co-operatives, are likely in the medium term to be the main SHPIs. They should support, and eventually be replaced by, SHG members' own initiatives.
- The SHPI roles of SHG federations and of non-volunteer individuals should be examined.
- Incentive schemes for NGOs and individuals should be redesigned and tested in order to cover the full costs of the SHPI.

- o Training should include hands-on SHG record keeping, SHG promotion for lower grade bank staff and improved understanding of the importance of access vs. the cost of finance.
- o The management of the schemes to encourage SHG promotion should be experimentally delegated to banks, in order to avoid the problems caused by NABARD's thin district representation, and to take full advantage of the banks' greater field coverage.

3. Commercial Aspects of SHG Banking in India by Prof. Dr. Hans Dieter Seibel, University of Cologne, Germany & Harishkumar R. Dave

There are **two outstanding aspects** to NABARD's *Linking Banks and Self-Help Groups*: with an outreach to 500,000 SHGs and a population of 40m rural poor, ***it is the largest non-directed microsavings & microcredit programme in the developing world; and its bank lending rates – fluctuating at market rates around 7% in real terms – are among the lowest.*** Is it a commercial proposition for the 17,000 participating bank branches, and perhaps for another 20,000 who might join the program to reach a population of 100m by 2008?

The Study applied average cost analysis, attributing all costs duly to each product; and marginal cost analysis, in response to the advice of bank managers to ignore personnel costs of SHG banking because of existing idle capacities. **Main performance indicators** are non-performing loans, return on average assets, and operational self-sufficiency. This methodology was applied to seven units of three banks in October 2002. The results are indicative only.

- **o Non-performing loans** to SHGs were 0%, testifying to the effectiveness of group lending to the very poor. In contrast, consolidated NPL ratios ranged from 2.6% to 18%; and of Cash Credit (CC) and Agricultural Term Loans (ATL) up to 55% and 62%, respectively.

- **o Returns on average assets of SHG Banking** ranged from 1.4% to 7.5% by average and 4.6% to 11.8% by marginal cost analysis, compared to –1.7% to 2.3% consolidated. The **operational self-sufficiency** of SHG banking ranged from 110% to 165% by average and 142% to 286% by marginal cost analysis, compared to 86% to 145% consolidated. In contrast, ROA of Cash Credit varied from –10.2% to –0.5% and of ATL from –6.3% to 0.2%; OSS ratios from 54% to 102%. SHG Banking was found to be a robust financial product, performing well in healthy and distressed financial institutions.
- **o Self-reliance of SHGs** based on internal savings and retained earnings was found to be rapidly growing, exceeding in older groups the volume of bank refinance by an increasing margin. In addition SHGs deposit substantial amounts of savings voluntarily in banks as a reserve for bad debts.
- o In addition to direct effects on bank profits, SHG Banking has **indirect commercial effects** on banks in terms of improved overall vibrancy in banking activities. **Indirect benefits** at village level include the spreading of thrift and financial self-reliance and of a credit culture among villagers,

microentrepreneurial experience, growth of assets and incomes, the spreading of financial management skills, and the decline of private money lending. **Intangible social benefits** are reportedly many: self-confidence and empowerment of women in civic affairs and local politics, improved school enrolment and women's literacy, better family planning and health, improved sanitation, reduction of drinking and smoking among men, and a decline in adherence to local extremism.

- The future **sustainability of SHG Banking** hinges on five factors: (a) A sound self-supporting institutional framework is in place. (b) Despite exceptionally low interest rates, linkage banking was found to be viable and profit-making for all financial institutions and SHGs; however, many rural banks require restructuring. (c) SHGs have substantially increased their level of self-reliance and deposited reserves, while banks are constrained by high statutory liquidity requirements. (d) Given the low inflation rate, preservation of the value of resources is no major issue, except in distressed banks. (e) With continually increasing internal funds, effective supervision of SHGs through a delegated system, together with the enforcement of prudential norms in banks and cooperatives, emerges as a major challenge to the long-term sustainability of SHG banking and rural finance in India.

4. SHG Bank Linkage Programme for Rural Poor – An Impact Assessment by Dr. V.Puhazhendhi and K.C.Badatya, NABARD

The study is based on primary details collected from 115 members in 60 SHGs. The socio-economic conditions of the members were compared between pre and post SHG situations to quantify the impact. ***The study findings concluded that SHG Bank Linkage Programme has made significant contribution to social and economic improvement of the member households of SHGs.***

There was a significant increase in the asset structure, Mean annual savings, average loan per member, overall repayment percentage, average annual net income, Employment per sample households. Availing loans from moneylenders and other informal sources with higher interest rate was significantly reduced due to SHG intervention. There was remarkable improvement in social empowerment of SHG members in terms of self-confidence, involvement in decision-making, better communication, etc.

The present study attempts to assess the performance of micro finance channelised through SHG Bank Linkage programme implemented by NABARD since 1992 in Eastern areas (Orissa, Jharkhand and Chhattisgarh states) of the country. The study is based on primary details collected from 115 members in 60 SHGs. The socio-economic conditions of the members were compared between pre and post SHG situations to quantify the impact. The reference period of the study was 2001-02. The study findings concluded that SHG Bank Linkage Programme has made significant contribution to social and economic improvement of the member households of SHGs.

Major Findings

- Structure and conduct of SHGs especially with reference to size, homogeneity, conduct and attendance of meetings, record keeping, etc., was broadly in conformity with the guideline of the programme.

- The SC/ST and backward class constituted 83 per cent of the total sample and coverage of this social group has shown increasing trend during the recent years.

- While there was no change in asset structure in 52 per cent of the sample households, about 45 per cent of them registered increase in assets between pre and post SHG situations. The increase in value of assets that included livestock and consumer durable was from Rs. 4,498 to Rs. 5,827 registering an increase of 30 per cent after joining the group.

- Varied saving products that are suitable for the rural poor were made available for the SHG members that facilitated increased rate of saving among them. Mean annual savings were increased from Rs. 952 to Rs. 1,863 registering two fold increase.

- Institutional credit deepening and widening among the rural poor were achieved to a greater extent. The average loan per member during post SHG situation was Rs. 5,122, which was about 123 per cent more than the pre SHG situation. Availing loans from moneylenders and other informal sources with higher interest rate was significantly reduced due to SHG intervention. The average annual interest paid by the members from different sources was reduced from 81 per cent to 31 per cent.

- There was perceptible change in the loaning pattern between pre and post SHG situations. Consumption oriented loans were replaced by production oriented loans during post SHG situations which was mainly due to SHGs and training provided under the programme.

- Recovery performance of loans from members to SHGs worked out to 95 per cent where as it was 86.6 per cent from SHGs to banks. The overall repayment percentage improved from 86 per cent to 95 per cent between pre and post SHG situations with an perceptible increase in repayment of loans from banks by 22 percentage points.

- The average annual net income per sample households was increased to Rs. 15184, which was about 23 per cent more than the pre SHG situations. The incremental income was contributed mainly from farm activities (54%) followed by non-farm activities (36%).

- Employment per sample households increased by 34 per cent from 303 to 405 person days between pre and post-SHG situations.

- There was remarkable improvement in social empowerment of SHG members in terms of self-confidence, involvement in decision-making, better communication, etc.

- NGO promoted groups edge over BANK promoted groups on coverage of more weaker sections, spreading programme more in inaccessible areas, improvement in assets, savings, income and employment generations, capacity building and human resource development, etc. BANK promoted groups performed relatively more in institutional loan repayment. There is greater scope for BANK promoted groups for improving the conduct of SHGs and capacity building of its members.

- Sustainability of SHGs was well established through the better performance of older groups than the recently formed groups in terms of increased value of assets and saving rate, better access of institutional loans, higher rate of repayment of loans, elimination of informal sources and impressive social empowerment.

- For greater acceleration of rate of economic empowerment, future strategy must focus more and more on training and capacity building of members besides ensuring adequate linkage supports.

- SHGs role may further be enhanced through its involvement in developmental programmes implemented in the areas.

- While expanding the programme for wider coverage, efforts also need to be focused on strengthening the existing groups and institutional building such as federal structures.

5. Impact Of Self Help Groups (Group Processes) On The Social/Empowerment Status Of Women Members In Southern India - MYRADA

It was found from the Study that members in three year old groups perceive themselves as stronger on almost all the studied parameters, with the exception of a few parameters where the difference between the one year old and three year old groups is not very significant (except in the case of moderating group level conflicts, where the newer members express higher confidence levels).

Roles played by SHG Promoting NGOs

Regarding the processes adopted by the SHG Promoting NGOs to enhance the empowerment of women, there were individual variations in approach. Despite such variations, certain general trends could be observed, as detailed below :

<u>Problems faced by NGOs at the motivational stage</u> :

- Extreme poverty and continuous engagement in livelihood activities, putting a premium on the resources and time available to engage in group activities.
- Low levels of literacy; lack of experience in handling funds; uncertainty about the workability of SHGs.
- Resistance from male members of the family.
- Lack of awareness of Bank Officials about the SHG concept (regarding opening bank accounts in the names of un-registered groups, lending to groups, etc.).

<u>Motivational inputs to form groups</u> :

- Presenting the SHG as a vehicle to enable the economic development of the poor.
- Presenting the idea of savings as a means of building capital over which members have control.
- Sharing in local problems and helping to find solutions.
- Identifying and supporting certain entry point programmes that not only meet some local need but also serve to bring people together, besides building confidence in the NGO.
- Conducting exposure visits to other groups, technology demonstration camps, etc.
- Using issues of health, children's education, etc., as rallying points of people's interest.
- Through gaining the confidence of the local communities by approaching them via key opinion leaders.
- Through organising dissemination workshops to illustrate the idea of SHGs and how they have served to meet the credit needs as well as a variety of other developmental needs of the poor (including workshops for bankers).

<u>Processes adopted for empowerment</u> :

Each of the four NGOs had its own processes to strengthen groups and members. Variations were noticed both in the contents of communication with groups and in the sequencing of specific interventions. A Generalisation of the approach has been attempted below, that was noticed to underlie the work of all the NGOs, though the specific forms of expression and manifestations varied :

- Linking the concept of SHGs with savings, and using the pooled savings as the primary means of building group capital over which members had full control and which they could use to take loans amongst themselves.
- Orienting the groups on a regular basis on group dynamics, group management, book-keeping, building networks and linkages, etc. that could strengthen them as institutions.
- Augmenting the financial resources of the group through bank linkages.
- Enabling the groups to mobilise various other developmental programmes in favour of their members.
- Introducing discussions on health and hygiene, good dietary practices, legal awareness, and other such topics that could increase their knowledge and enable them to take appropriate actions as required in their own lives.
- Enabling the members to acquire literacy and numeracy skills.
- Enabling members to acquire livelihood-related technical skills, and providing need-based counselling in enterprise development.
- Supporting them to take up need-based community action programmes to strengthen solidarity as well as to enhance their profile in the eyes of the community.

6. The Role of SHGs in preventing Rural Emergencies' prepared by Kimberley Wilson and Marc D'Silva, Catholic Relief Services, India

Throughout India floods, cyclones, droughts, earthquakes, and landslides threaten the survival of rural households. Natural disasters quickly turn into emergencies for poor families because of their extreme physical and socio-economic vulnerability. Traditionally, conventional response by the relief services providers - government institutions, donors & local NGOs - focus on responding to an emergency as it happens. Shortcomings of this approach are a disaster becomes an emergency, responses often exclude women's priorities, local markets become depressed, logistics are uncoordinated, and, responses do not leverage local resources.

In 2002, CRS commissioned an independent review of both the relief approaches adopted by it during the 1999 super cyclone and the subsequent 2001 floods. ***The findings of the review revealed dramatic reduction in costs of relief effort using SHGs.*** Local costs for distributing inputs per 5000 families decreased by 60 per cent from Rs. 32,000 to Rs. 13,250 between the 1999 Super cyclone distributions and the 2001 Flood distributions. Besides reduction in relief cost, there was improvement in socio economic results.
Based on the recent experiences and lessons gained in emergency relief dispensation by CRS and its partners, CRS evolved 'The Self-Help Emergency Prevention

(SHEPherd) programme'. The programme aim is to prevent disasters from becoming emergencies by changing response from high relief inputs *after* a disaster to high process/planning *before* a disaster. **The SHEPherd approach sequentially engages two proven models: the 'self-help group bank linkage' model advanced by NABARD, and the 'community-based disaster preparedness' (CBDP) model. CRS has already secured $600,000 to begin this program in Eastern India effective October 2002. On average, every $1 invested in disaster preparedness saves $7 in disaster recovery costs.**

7. microFinance For Rural People - an impact evaluation by V. Puhazhendi and K. J. S. Satyasai, NABARD

Has the SHG bank linkage programme lightened the burden of life for the average member of an SHG in any way? Is the rural household any better, by gaining access to microFinance? A recent study by NABARD which covered 560 SHG member households from 223 SHGs spread over 11 States showed positive results. There have been perceptible and wholesome changes in the living standards of the SHG members, in terms of ownership of assets, increase in savings and borrowing capacity, income generating activities and in income levels. Some of the major findings of the study are presented here.

- Member households: landless agricultural labourers (31%); marginal farmers (23%); small farmers (29%)**;** and others (17%).
- Average value of assets (land, house, livestock and consumer durables etc.) per household increased by 13 % from Rs. 63,000 in pre-SHG stage to Rs. 71,000 in post-SHG stage. Land was the major asset with a share of 44% of the value of assets.
- About 62 per cent of the households reported increase by about 24.5% in assets from pre- to post-SHG situation.
- Housing conditions generally improved with a shift in the ownership from kuchha (mud walls, thatched roofs) to pucca (brick walls, tiled roofs) housing.
- Almost all of the members developed saving habit in the post-SHG situation as against only 23% of households who had this habit.
- Average annual savings per household registered over threefold increase from Rs. 460 to Rs. 1,444.
- The average borrowings/year/household increased from Rs. 4,282 to Rs. 8,341.
- The share of consumption loans declined from 50% to 25%. About 70% of loans taken in post-SHG situation were for income generating purposes.
- Annualised interest rates on loans from SHGs to members were in the 12% to 24 % range.
- Overall loan repayments improved from 84% to 94% between the two periods with an impressive improvement of 29 percentage points in the repayment of loans to banks.
- Average net income/household increased from Rs. 20,177 to Rs. 26,889, or by about 33%.
- About 43 per cent of the incremental income generated was from Non Farm Sector (NFS) activities followed by farm (28%) and off-farm (21%) activities.

- About 74 per cent of the sample members had income below Rs. 22,500 in pre-SHG situation. During the post-SHG period, the proportion came down to 57 per cent reflecting improvement in the incomes of about 17 per cent of the households.
- Employment increased by 18% from 318 mandays to 375 mandays per household between pre- and post-SHG situations.
- The involvement in the group significantly contributed in improving the self-confidence of the members. The feeling of self-worth and communication with others improved after association with the SHGs.

The members were relatively more assertive in confronting social evils and problem situations. As a result, there was a fall in the incidence of family violence

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