SHG-Bank Linkage Programme in India: An Appraisal of Trends and Issues

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I

INTRODUCTION

"*With the growing emergence of microfinance in India, increasingly jostling for institutional space, we need to ask ourselves if it will actually manage to… get 'credit' to the rural poor in a sustained manner. Or will microfinance turn out to be an interloper that will end up three decades later in the usual way: another wave of dud institutions that neither die nor heal?*" (Srivastava 2005)

In India, the delivery of microfinance services has taken a unique approach with active government participation. The SHG- bank linkage programme (henceforth SBLP) is carried out under the guidance of National Bank for Agriculture and Rural Development (NABARD) with an active participation of NGOs, state development institutions, commercial banks, regional rural banks, district rural development authorities (DRDAs) and local bodies like panchayati raj institutions (PRIs). This unique approach of financial service delivery to the rural poor runs parallel to independent microfinance initiatives by many NGO/MFIs.

Self Help Groups (SHGs) form the basic constituent unit of the SBLP. An SHG is a group of individuals with an average size of about fifteen members from a homogenous class- usually poor and mostly women- who pool their savings into a fund from which they can borrow. This is done through opening an account in commercial or regional rural banks. After some time, the bank begins to lend to these groups as a unit without any collateral, except for the accumulated savings deposited by the group in the bank account.

The SBLP is now being implemented in 31 States and Union Territories covering 583 districts of the country. As of March 2006, cumulatively, banks have lent Rs. 113.98 billion to 2,238,565 SHGs through 547 participating banks. About 32.98 million households have gained access to formal banking system through SHG- bank linkage programme. Nearly 90 percent of SHGs are women only groups with repayment rates of over 90 percent (Table 1).

II

DELIVERY MODELS

There are different models of credit linkage between an SHG and the bank. In Model I, SHGs are formed and extended credit by banks; in model II, SHGs are formed and nurtured by NGOs and other formal agencies (like DRDAs) but credit is extended by banks; in Model III, NGOs (and formal agencies like SHG Federations) in addition to forming SHGs, avail bulk loans from banks for on-lending to SHGs. At the aggregate level, the models account for 20, 74, and 6 percent of the number of SHGs formed, and 14, 81 and 5 percent of the cumulative amount disbursed, respectively, up to March 2006 (Table 2). Yet another model (IV) can be conceived of where the bank lends directly to individual members of an SHG upon recommendations of the group or NGO.

Table 1: SHG- Bank Linkage Program at a Glance, as on March (respective years)

Particulars	2001	2005	2006
No. of New SHGs linked during the Year	149,050	539,365	620,109
No. of SHGs provided with repeat bank loan	NA	258,092	344,502
No. of SHGs Linked (cumulative)	263,825	1,618,456	2,238,565
% of Women Groups among all SHGs	90	90	90
No. of Participating Banks	314	573	547
i. Commercial Banks	43	47	47
ii. Regional Rural Banks (RRBs)	177	196	*158
iii. District Central Cooperative Banks (DCCBs)	94	330	342
Bank Branches Participating	NA	41,082	44,362

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Particulars	2001	2005	2006
No. of States/ UTs where Program is Running	27	31	31
No. of Districts Covered	412	572	583
Total Bank Loan During the Year (in Rs. Billion)	2.88	29.94	44.99
Bank loan to the existing (old) SHGs During the year (in Rs. Billion)	NA	12.68	21.69
Bank Credit Disbursed , cumulative (in Rs. billion)	4.81	68.98	113.98
Refinance Support By NABARD, cumulative (in Rs. Billion)	4.01	30.92	41.60
No. of Households Assisted (in million), cumulative	4.5	24.25	32.98
Average Loan Per SHG (Rs.)	18,227 (new) NA (repeat)	32,012 (new) 49,114 (repeat)	37,582 (new) 62,949 (repeat)
Average Loan Per Member (Rs.)	1,072 (new) NA (repeat)	2,287 (new) 3,508 (repeat)	2,684 (new) 4,496 (repeat)

Notes: NA- Not Available; *Reduced figure due to merger of some RRBs.

Source: NABARD

It is very much possible for the linkage to follow an evolutionary process, moving from Model III to Model II to Model I, and finally to Model IV where an individual gets direct access to bank credit. But the adoption of a particular model would depend on the perception of the bank and the strength of SHGs and NGOs. Where the bank has first hand experience on the working of an SHG which is functioning satisfactorily and has rotated its savings pool two/three times, the bank may shift from Model II to Model I thus obviating the need for NGO intermediation. But most bankers are likely to prefer NGO intermediation in the initial stages after group formation and thus adopt Model II. A conservative banker may instead like to start with Model III relying on NGOs in entirety– for group formation, maintenance of regular operations and financial intermediation. But as a group builds up successful credit histories with the bank, the bank might even carry out individual lending to members apart from the usual group lending.

Table 2: Model-Wise Distribution of LBP (cumulative upto)

	March 2005		March 2006	
Model	**No. of SHG**	**Bank Loan** (Rs. Million)	**No. of SHG**	**Bank Loan** (Rs. Million)
Model I	343,371	101,26.2	449,438	16,367
	21.22	14.68	20.08	14.36
Model II	1,158,249	55,294	1,646,070	92,000
	71.57	80.15	73.53	80.72
Model III	116,836	3,565	143,057	5,608
	7.22	5.17	6.39	4.92
Total	1618456	68,985	2,238,565	113,975
	100	*100*	*100*	*100*

Note: Figures in italics are percentages. Compiled with figures from NABARD

III

PROCEDURAL ASPECTS OF THE MOST POPULAR APPROACH: MODEL II

The SHG-bank linkage programme is unique among other microfinance initiatives in being able to disentangle the task of financial intermediation and institution building. The public banking network carries out the task of financial intermediation while NGOs and formal agencies like DRDAs take on the task of institution building. This entails forming the group and then preparing the group to transact through banks. The NGO starts the process of group building by initiating a *modified* form of Rotating Savings and Credit Association (ROSCA).

In its *pure* form, ROSCA is a group of individuals contributing a pre-agreed amount to a savings pot in each period. The pot is allocated to the winner determined either randomly or by a bidding process. The ROSCA continues, with the winner excluded from any future draws but contributing the savings amount, and terminates after each member has received the pot once. Besley et al. (1993) discuss the advantages of and reasons behind sustainability of ROSCAs. One advantage is that if an individual desires to acquire an indivisible good, by joining the ROSCA, she can expect to attain it earlier than if she had chosen to save all by herself. A ROSCA gives each member access to all other members' savings periodically. Defaults in savings contribution is addressed through sequential allocation of the pot, peer monitoring and social sanction. But the obvious limitation of a pure form ROSCA is that the saving pot is only as deep as the pocket of its members. The

SHG- bank linkage programme improves on this pure form of ROSCA by linking the SHGs to formal financial institutions for external credit (Aniket 2005).

An SHG consists of 5 to 20 persons, usually from different families and mostly women. Often a group like this is given a name. Each group has a leader and a deputy leader elected by the group members. The members of the group decide among themselves the amount of savings deposit they have to make individually to the group account. The starting individual monthly deposit ranges anywhere between Rs 10 and Rs 100, depending on the ability of the members. On the basis of the resolutions adopted and signed by the members of the group, the manager of the local rural or commercial bank opens a savings bank account with the group name. The savings are collected by a certain date (often by the 10th of every month) and deposited in the bank account. The saving pot is allowed to accumulate for approximately six months during which there is a moratorium on borrowing from it. Borrowing from the group fund is sequential and the group itself decides the sequence in which members get loans. In the early stages, the sequential nature of borrowing is due to the limited accumulated savings the group has at its disposal. As impatient non-borrowers wait for a chance to borrow, they monitor and if need be, audit the current borrowers aggressively. Lending sequentially thus plays an important role in binding individuals within a group. This is more so because the non-borrower's savings are under threat if not used properly and not repaid in time by borrowers.

If the group is successfully able to manage internal group loans during the early stage, the NGO links the group to external sources of credit. These sources may either be a subsidized government lending program or credit from a commercial bank. NGO's remuneration from building the groups is tied to the repayment of external loans. Part of the interest payment made by the borrowers on the external credit goes to the NGO. This tying up of NGO remuneration with repayment of externally sourced loans gives the NGO an incentive to actively screen and monitor the groups. But the remuneration is often inadequate even to meet administrative expenses; as such, NGOs are more often than not driven by their dedication towards the goal of financial inclusion and empowerment.

Even after getting a loan, an individual SHG member continues saving some fixed amount in the group savings account. But SHGs usually discourage members who voluntarily contribute or save higher amounts with an SHG than the amount stipulated by the group. This is partly due to the added hassles of bookkeeping and the apprehension that those members might gain more influence in the decision making process within the group. But such concerns, though plausible, can undermine the objective of financial inclusion itself. The benefits of voluntary savings as a self-insurance measure, therefore, needs to be appreciated under the programme.

After external credit is made available to the group, the group as a whole is responsible for timely repayments as well as jointly liable in case of delay or default. The repayments due are deducted automatically from the group's savings deposited in the bank account. But this full and immediate joint liability can only be implemented if there are a certain number of non-borrowers at any given point of time. This is ensured by the sequenced nature of borrowing which the group itself decides. For any non-borrower, delinquent behavior by present borrowers jeopardizes not just her opportunity to borrow in future, but also her present accumulated savings in the group. Thus, the sequential nature of borrowing favorably influences high rate of group survival, even in the early stages. The participating banks are free to set and modify interest rates, taking into account local conditions. Chavan and Ramakumar (2005) found that cost of borrowing for SHG members across the country is in the range of 24 to 36 percent per annum. Most studies (Harper 2002; Puhazhendi and Badatya 2002) have come to similar conclusions.

SHGs use the pooled savings together with the external loan to provide loans to their members. The decision on who gets the loan is taken by the group itself and not by the bank or the NGO. Members request for loans during group meetings and issue the loans during the meeting or at ad-hoc meetings in case of an individual emergency requirement. Members keep tract of the end use of loans: inappropriate loan utilization and issues like non-repayment of loans are taken care of within the group. There is no monitoring of loan utilization by the bank staff, and in case of default by a group member, no legal actions are taken. The loan amount by the bank to the group is tied to the accumulated savings in the group account with the bank. The maximum loan amount is a multiple (4:1) of the total funds in the group account. This limit may be gradually reached starting from a lower (2:1 or 1:1) ratio.

The above discussion tries to bring forth the importance of maintaining the design features of SBLP; given the logical soundness and practical workability of Model II, the issue of long-term sustainability can be effectively addressed if banks, SHGs and NGOs adhere to these norms. This is not to undermine the importance of grassroots innovation which can improve upon existing features and may even successfully obviate the need for some[1].But given the fact that the SHG

[1] For a study on how ongoing innovations in program design and financial product development have shaped and evolved microfinance experience around the world, see Bera (2007).

movement is still young and bringing new members within its fold everyday, adhering to these features becomes an imperative. Various studies on 'quality' standards of SHGs from across the country (discussed in section VII) reinforces this viewpoint.

IV

AGENCY AND YEAR-WISE PERFORMANCE

Of all the SHGs credit linked up to March 2006, more than half were financed by commercial banks (53 percent) with RRB's and DCCB's share at 33 percent and 14 percent respectively. Of the cumulative amount disbursed, the share of commercial banks stood at 61 percent, while RRB's and DCCB's accounted for 29 and 10 percent respectively (Table 3).

Disaggregated analysis of commercial bank's operations reveal that out of 47 banks, only 10 banks together have a share of almost 80 percent in the cumulative number of SHGs linked till March 2006; similarly 40 RRBs have a combined share of 70 percent among all SHGs linked by 158 RRBs. The picture remains the same for DCCBs with the first 80 together having a 79 percent share in SHGs linked among all 342 DCCBs. This implies that around one-fourth of the participating banks (for each agency category) have credit linked more than three-fourth of all SHGs: a rather unequal performance within and among the agencies involved in SBLP, with disaggregated figures showing high numbers in credit linkage coming from star performers[2].

Table 3: Agency-wise Number of SHGs: Financed & Credit Disbursed

Period		**Commercial Banks**	**RRBs**	**Cooperatives**	**Total**
	Number of	47	158	342	547
During 2005-2006	No. of SHGs	344,567	176,178	99,364	620,109
	Bank Loan (Rs million)	28,284	12,226	4,481	44,991
Cumulative	No. of SHGs	1,188,040	740,024	310,501	2,238565
upto	% Share	*53*	*33*	*14*	*100*
March 2006	Bank Loan (Rs million)	69,874	33,221	10,879	113,975
	% Share	*61*	*29*	*10*	*100*

Compiled with figures from NABARD

Moreover, 44,362 branches of these 547 banks participated in the SBLP during 2005-06 out of a total number of about 57,858 branches of commercial banks (30,769), RRBs (14,489) and DCCBs (12,600)[3]. While 23 percent of all bank branches are yet to be engaged under the program, there are numerous branches having linked very few SHGs. Even if *some* of these non-participating branches start SHG operations and the participating ones set higher targets, the program will see further growth. Such numeric expansion, however, might impose severe quality and sustainability trade-offs- a reasonable apprehension we discuss towards the end of this paper (section VI).

During 2005-06, the number of new SHGs linked with banks stood at 620,109 as against 539,365 SHGs during the previous period- a growth rate of 15 percent; bank loan during the year also shot up to Rs. 44,991 million from Rs. 29,943 million in the previous period, registering a growth rate of 50 percent (Table 4). The pace of SHG formation and the subsequent linking with bank credit gained momentum from 1999-2000 onwards. The trend continued over the following years and the target set by NABARD of linking one million SHGs with credit by 2006-07 was met three years ahead of time.

Table 4: Year-Wise No. of SHGs & Credit Disbursed From Inception to 2005-06 (Rs Million)

	1992-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
No. of New SHGs credit linked during the year	32,995	81,780	149,050	197,653	255,882	361,731	539,365	620,109
% Increase over previous period		147.9	82.3	32.6	29.5	41.4	49.1	15.0
Bank Loan during the year	571	1,359	2,879	5,454	10,224	18,555	29,943	44,991
% Increase over previous period		*138.0*	*111.8*	*89.4*	*87.5*	*81.5*	*61.4*	*50.3*
Cumulative No. of SHGs credit linked	32,995	114,775	263,825	461,478	717,360	1,079,091	1,618,456	2,238,565
Cumulative Bank Loan	571	1,930	4,809	10,263	20,487	39,042	68,985	113,975

Compiled with figures from NABARD

[2] Few of these top performers are highlighted in the introduction to NABARD's annual progress report on SBLP. Among commercial banks are SBI credit linking the highest number of SHGs during 2005-06 (142,034), followed by Indian Bank (30,062) and Canara Bank (18,445). Similarly, Pragjyotish Goanlia Bank (RRB) in Assam linked 9,190 SHGs followed by Bolangir Anchalik Gramya Bank (7,278) in Orissa and Karnataka Vikas Gramin Bank (5,819). Among cooperatives, noted performers were Hoogly DCCB in West Bengal (4,115 SHGs), Chandrapur DCCB (4,027 SHGs) in Maharashtra, and South Canara (2,631 SHGs) in Karnataka.

[3] Figures for Commercial Bank branches and RRBs are as on March 2006; DCCB branches as on March 2005. Source: RBI and NABARD.

V

GOVERNMENT SUPPORT FOR FINANCING

Government support has come primarily through refinancing schemes made available to banks by NABARD and Small Industries Development Bank of India (SIDBI). During 2005-06, refinance support by NABARD was at Rs.10,677 million- a growth rate of 10 percent over the previous period- while cumulative refinance to banks reached Rs.41,597 million (Table 1). Apart from this, NABARD also provides direct loan fund support to NGOs, MFIs and SHG federations. In recent years, government development programs have also sought to target the poor through SHGs. Starting with the Rashtriya Mahila Kosh (RMK) and the Indira Mahila Yojana (IMY), the government has used the SHG approach in its anti-poverty programmes. Loans from government agencies like National Minorities Development Financial Corporation (NMDFC) are also available.

The most important of the government initiatives using the SHG approach is the Swarnajayanti Gram Swarojgar Yojana (SGSY) - a revamped version of the IRDP- launched in 1999. The goal of the programme is to enable the poor attain income generating assets. The programme is implemented through a hierarchy of committees at central, state, district, and block levels. Government officials at various levels, particularly the District Rural Development Agencies (DRDAs), managers from participating banks, NABARD, as well as NGOs together are implementing the programme. The actual disbursement of government funds is through DRDAs who would distribute the subsidy to the banks. The programme also takes in the NGOs as active participants in formation and nurturing of SHGs. Till December 2006, the Centre and States, sharing costs on 75:25 basis, had allocated Rs.16,443 crore, which has been utilized to assist 73.25 lakh self-employed belonging to 24.38 lakh SHGs (Economic Survey 2006-2007).

For the SHGs, SGSY is an excellent source of subsidized credit. If a group survives for six months, it is eligible for a revolving fund of Rs. 25,000 from a participating bank. Out of this Rs. 10,000 is in the form of subsidy and banks can charge interest only on the remaining amount. Six months after the receipt of this fund, the group is tested for their performance and preparedness to take up income generating activities. If they were successful in managing group operations and repayments, they would be eligible for loan-cum-subsidy for economic activity upto a maximum of Rs.10,000 per group member or Rs.1.25 lakhs per group, whichever is less. Incentives are also in place for NGOs for incubating and nurturing SHGs.

During the year 2005-06, NABARD has redesignated Micro-Finance Development Fund (MFDF) as Microfinance Development and Equity Fund (MFDEF) and increased the corpus from Rs.100 crore to Rs.200 crore. Out of this an amount of Rs.113.5 million was utilized during the year towards up-scaling of SBLP. NABARD also undertakes training and capacity building programmes for its partners and provides grant assistance for promotion of SHGs.

VI

SKEWED GEOGRAPHICAL DISTRIBUTION

The bank linkage programme remains concentrated in the Southern states of India with the region accounting for 54 percent of the SHGs linked and over 75 percent of the amount disbursed. In contrast, the north-eastern region accounts for a mere 2.8 percent of the SHGs and 1.5 percent of the credit disbursed. Even the densely populated and highly poor eastern region accounts for 17.6 percent of the SHGs linked and 8.2 percent of the credit disbursed (Table 5).

Table 5: Regional Distribution of SBLP (cumulative as on March 2006)

Region	**No. of SHG**	**Bank Loan** (Rs. Million)
Northern Region	133,097 *(5.9)*	3,986 *(3.5)*
North-Eastern Region	62,517 *(2.8)*	1,657 *(1.5)*
Eastern Region	394,351 *(17.6)*	9,354 *(8.2)*
Central Region	267,915 *(12.0)*	8,050 *(7.1)*
Western Region	166,254 *(7.4)*	5,251 *(4.6)*
Southern Region	1,214,431 *(54.3)*	85,677 *(75.2)*
Total	**2,238,565** *(100)*	**113,975** *(100)*

Note: Figures in parenthesis are percentage shares. Compiled with figures from NABARD

Although the program still remains biased towards the southern region, the latest figures are an improvement over the early years. NABARD's emphasis on scaling up the SHG-bank linkage programme in 13 priority states accounting for 70 percent of the country's rural poor has resulted in about five-fold increase in the number of SHGs credit linked during the period 2002-06. Significant increases have been witnessed in the economically backward states like Assam, Bihar, Jharkhand and

Orissa (Table 6). As a result, the share of the 13 priority states excluding all the southern states, in the total number of SHGs credit linked, increased from 31 percent as on March 2002 to 45 percent by March 2006.

Underlying causes for this skewed distribution include the general malaise in the economy of central, eastern and north-eastern states, as also the absence of quality NGOs that are willing to initiate microfinance programs in these states. Public investments in areas such as watershed development, small-scale irrigation, livestock up-gradation and forest regeneration would boost up overall economic growth in these regions[4]. These long-term lumpy public investments can also unlock the potential for enhancing the livelihoods of millions of poor people thereby increasing the resultant demand for credit. Complementary public investments in human capital such as primary education, nutrition[5] and primary healthcare facilities are as important for the poor to achieve their productive potential (Mahajan 2005). Although such investments are an end in itself, we cannot ignore the reality that the southern states with superior human development indicators have far surpassed the poorer states in terms of microfinance penetration and impact. After all, the effectiveness of any financial inclusion programme depends as much on the literacy, numeracy and productivity parameters of intended beneficiaries as on the availability of economic opportunities.

Table 6: Selected State-wise Cumulative Progress of SHGs Credit Linked with Banks, as on March, Respective Years

State	2002		2004		2005		2006	
	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
Assam	1,024	*0.22*	10,706	*0.99*	31,234	*1.93*	56,449	*2.52*
Bihar	3,957	*0.86*	16,246	*1.51*	28,015	*1.73*	46,221	*2.06*
Chattisgarh	3,763	*0.82*	9,796	*0.91*	18,569	*1.15*	31,291	*1.40*
Gujarat	9,496	*2.06*	15,974	*1.48*	24,712	*1.53*	34,160	*1.53*
Himachal Pradesh	5,069	*1.10*	13,228	*1.23*	17,798	*1.10*	22,920	*1.02*
Jharkhand	4,198	*0.91*	12,647	*1.17*	21,531	*1.33*	30,819	*1.38*
Maharashtra	19,619	*4.25*	38,535	*3.57*	71,146	*4.40*	131,470	*5.87*
Madhya Pradesh	7,981	*1.73*	27,095	*2.51*	45,105	*2.79*	57,125	*2.55*
Orissa	20,553	*4.45*	77,588	*7.19*	123,256	*7.62*	180,896	*8.08*
Rajasthan	12,564	*2.72*	33,846	*3.14*	60,006	*3.71*	98,171	*4.39*
Uttar Pradesh	33,114	*7.18*	79,210	*7.34*	119,648	*7.39*	161,911	*7.23*
Uttaranchal	3.323	*0.00*	10,908	*1.01*	14,043	*0.87*	17,588	*0.79*
West Bengal	17,143	*3.71*	51,685	*4.79*	92,698	*5.73*	136,251	*6.09*
Sub-Total	**141,804**	***30.73***	**397,464**	***36.83***	**667,761**	***41.26***	**1,005,272**	***44.91***
All India- Total	461,478	*100*	1,079,091	*100*	1,618,456	*100*	2,238,565	*100*

Compiled with figures from NABARD

From Table 2 it can be noted that out of 2,238,565 SHGs credit linked, only 20 percent have been formed, nurtured and financed by banks, whereas in 74 percent cases NGOs (and other formal agencies) have organized, formed, nurtured, and trained SHGs which were then financed by banks. In another 6 percent cases, not only have NGOs (and SHG federations) nurtured and trained SHGs but have also received bulk loans from banks for on-lending purposes. No wonder that the southern states with an enormous NGO base have outperformed other regions. A proposal for increasing the number of quality NGOs in the underserved states was made by the Tenth Five Year Plan Working Group on Poverty Alleviation Programs, which recommended that established NGOs be asked to set up branches in selected poor districts and they be funded for this on an assured though declining basis for the first three to five years. The experience of Rashtriya Gramin Vikas Nidhi and Rashtriya Mahila Kosh in supporting hundreds of small NGOs all over the eastern region is a welcome development that can be replicated. Another proposal has been to incubate MFIs in poorer districts under the guidance of established MFIs (Basu and Srivastava 2004; 2005).

VII

SOME CONCERNS

Despite the impressive performance of SBLP in terms of ‘numbers’, several issues require urgent attention from all

[4] A practical way to undertake these public projects with decentralized decision making is through the National Rural Employment Guarantee Act (NREGA). For a detailed analysis of the viability and procedural aspects of such an employment scheme, see Bhaduri (2005).

[5] An example of assisting the chronically poor through directed and subsidized intervention is given by the Income Generation for Vulnerable Group Development (IGVGD) programme of BRAC in Bangladesh. BRAC structures this programme around a food aid component providing eighteen months of food subsidies and half a year of skills training with the aim of developing new livelihoods for the chronically poor. Once the training is over, successful households graduate to BRAC’s regular microfinance programmes (Hashemi and Rosenberg 2006).

stakeholders in the movement. But the primary emphasis of the following discussion is on strengthening the programme at its present scale rather than the issue of up-scaling.

QUALITY AND SUSTAINABILITY

As was noted earlier, the target set by NABARD of linking one million SHGs with credit by 2006-07 was met three years ahead of time and is more than doubled by now. Despite this achievement, it is also felt that to ensure quality, the exponential growth of the programme needs to be contained (Basu and Srivastava 2004, 2005; Ghate 2006). Prabhu Ghate in his State of the Sector Report (2006) notes,

"*It would be ideal… to stay at the level of about half a million linkages in the next few years so that the programme can consolidate 'quality'… accompanied by an acceleration in underserved states.*"

An accepted indicator of group quality is whether book-keeping and accounting standards are followed by an SHG i.e. the quality of group records[6]. A recent study by EDA and APMAS (2006)[7], however, revealed that while 72 percent of members had no schooling whatsoever, in only 51 percent of the groups did more than half of the members had primary school education. Such a membership profile renders book keeping and accounting a challenge not only for record quality but also for accountability and financial transparency. The record quality, as reported by the study was assessed as being 'good' in only 15 percent of the groups, 'moderate' in 39 percent and 'weak' in 40 percent. Groups promoted by government agencies had the highest proportion of weak records (over half), and were half as likely as NGO or bank promoted groups to have good or moderate records. On the brighter side, the study found that the proportion of defunct and broken groups was only 7 percent- a low figure considering the fact that average group age was six years.

Another recent survey (APMAS and CMF 2006) of SBLP in Rajasthan found that only 30 percent of the 202 sample groups could meet the top quality standards laid down by the study. The performance of NGO promoted groups was better in terms of quality standards. Monthly meeting norms were not followed with regularity and only a handful of groups ever rotated leadership. The study highlights the importance of following the design features of SBLP (discussed in detail in section III) and introducing checks and balances on group functioning through a process of self-audit.

At the group level, the financial sustainability of the program depends crucially on the magnitude of overdues[8]. The EDA and APMAS (2006) study found that 24 percent of the borrowers had overdues, with 5 percent among them overdue by more than 12 months. Although the level of overdues within the group is likely to have a bearing on the overdues from the groups to banks, the relatively small size of the first loans has enabled most groups to make bullet repayments at the end of the period. Another APMAS survey (2005) in Andhra Pradesh found that loans outstanding to SHGs were only 74 percent of group savings deposited in banks. Hence there is a need to 'ensure that bank linkage is not just about SHG funds being lent to SHGs, as was noted by the study.

On the question of sustainability of the program, an important concern relates to the lack of clarity over who is to play the key role in promoting SHGs and ensuring their quality. In the early phase, this was done by grassroots NGOs. But recently different agencies are promoting SHGs, not only to meet targets but are also competing for space[9]. Moreover, SBLP has caught the attention of politicians as a way to gain political mileage. Many groups have been promoted by institutions lacking adequate skills or driven by short-term monetary incentives. Groups have also sprung up on an ad-hoc basis, only because they want a loan (Basu and Srivastava 2004, 2005)[10]. Hence, there is a need to reconsider the nature and intensity of SHG promotion- the necessary money to pay for promotional activities must not be considered as a one-shot input. Rather, it has to be more strategic and adaptive with long-term incentives in place (EDA and APMAS 2006).

In view of these apprehensions, confirmed by various studies, there is a need to slow down the exponential growth of SBLP and concentrate on various quality aspects. The emphasis should be on extending the programme to only those states which are presently underserved. Correspondingly, more action is required to instill acceptable book-keeping practices among SHGs by imparting training and devising viable incentives. There is also a need to conduct periodic surveys at the national level, designed to assess changing group quality. Such a periodic survey may as well reflect on the credit-deposit ratios under the SBLP and current loan outstanding figures (EDA and APMAS 2006; Ghate 2006).

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[6] On a cautious note, we also need to ask whether this is an imposition of the accepted financial standards on poor and often illiterate SHG members. Say for example, the book keeping for a normal bank account is done by banks for its clients, but poor and illiterate SHG members are expected to do their own book-keeping! Notwithstanding the experimentation with hired book-keepers (or computer munshi's as they are popularly known as in PRADAN promoted SHGs), further efforts in formulating innovative and simplified book-keeping practices are necessary.

[7] The study was carried out in two southern (AP and Karnataka) and two northern states (Orissa and Rajasthan). Overall, 214 SHGs from 108 villages in 9 districts were selected representing different agro-climatic and socio-economic conditions. The average age of an SHG in the overall sample was almost 6 years.

[8] A loan is considered to be overdue if repayment is due for more than 90 days.

[9] Surveys conducted by APMAS in 2006, right after the Andhra Pradesh crisis, revealed that coastal Andhra was near saturated with microfinance supply, with the government sponsored Velugu and MFIs competing for space.

[10] The SGSY program is a lucrative incentive for any SHG to obtain subsidized credit, and government agencies may promote SHGs only to meet quantity targets without paying attention to capacity building and training in financial literacy for SHG members.

INSUFFICIENT REPEAT LOANS

As of March 2005, 1,618,456 SHGs were credit linked and in the following period (2006), apart from 620,109 new SHGs being credit linked, only 344,502 already existing SHGs were provided with repeat loans (Table 8). This implies that only 21.3 percent of the already existing SHGs were provided repeat loans, and in the total credit disbursement during 2005-06, 48 percent were as repeat loans. A cause of serious concern is the fact that 78.7 percent of the existing (old) SHGs, which were credit linked earlier, did not get any repeat loans during 2005-06. This is a disturbing trend continuing for several years now, as can be discerned from Table 7. This observation forces us to raise some uncomfortable questions: Why are existing SHGs losing out on the disbursement front? How many among these are continuing operations (i.e. in the middle of a loan cycle *or* could not access external loans) and how many are defunct? Are we adding on more and more SHGs every year without paying adequate attention to the quality and sustainability of existing SHGs? This demands serious introspection- an immediate first step would be to gather information about existing SHGs (and those credit linked since the inception of the programme) to gauge the severity of the problem.

Table 7: Percentage of Existing (old) SHGs that did not receive any Loans, March, respective years

Items	2001	2002	2003	2004	2005	2006
Cumulative No. of SHGs Credit Linked	263,825	461,478	717,360	1,079,091	1,618,456	2,238,565
New SHGs Credit linked during the year	149,050	197,653	255,882	361,731	539,365	620,109
No. of Existing (old) SHGs Provided with Repeat Bank Loans	NA	41,413	102,391	171,669	258,092	344,502
% of Existing (old) SHGs that did not receive any Repeat Loans	-	84.3	77.8	76.1	76.1	78.7
Total Bank Loan During the year	2,879	5,455	10,223	18,555	29,942	44,991
Growth Rate	-	*89.5*	*87.4*	*81.5*	*61.4*	*50.3*
Repeat Loans During the year	NA	924	3,318	6,978	12,676	21,686
Growth Rate	-	-	*259.1*	*110.3*	*81.7*	*71.1*
Repeat Loans as a share of Total Bank Loan during the year	-	**16.9**	**32.5**	**37.6**	**42.3**	**48.2**

Compiled with data from NABARD; NA- Not Available

Although the growth rate in repeat loans has slowed down, it has been higher than the growth rate in total bank loans during any year, consistently since 2003; as a result, the share of repeat loans in total bank loan during the year increased from 17 percent in 2002 to 48 percent in 2006- a welcome trend nonetheless. The cause of concern, however, is that all repeat loans during any year are disbursed among only a quarter of the existing SHGs. However, the available data does not provide any break-up of repeat loan figures, in absence of which we do not know how the composition of those quarter of SHGs are changing i.e. whether the same groups are getting repeat loans over and over, or, if they are replaced by newer groups accessing second and third loans. Due to this limitation in available data, we also do not know whether repeat loans are progressive in nature.

DECLINING RURAL BANK BRANCHES

After the nationalization in 1969 of 14 largest commercial banks, the RBI launched an ambitious branch expansion programme to expand rural bank branch networks and equalize individual access to banks across regions and states. The 1:4 branch licensing policy introduced in 1977 required that a bank can obtain a license to open a branch in an already banked location if it opened branches in at least four unbanked locations. Furthermore, banks were not allowed to close a rural branch if it was the only one serving a given location. As a result, the number of rural bank branches increased from 10,856 in 1977 to 35,134 in 1991. This simultaneously improved the overall credit outstanding in rural areas (Table 8). Burgess and Pande (2005) provides robust evidence that this branch expansion into rural unbanked locations significantly reduced rural poverty, partially mediated through increased deposit mobilization and credit disbursement in rural areas. The findings suggest that RBI's licensing policy enabled the development of an extensive rural branch network allowing rural households to accumulate more capital and obtain loans for long-term productive investments. Another study by Binswanger and Khandker (1995) suggest that the rapid expansion of commercial banks in rural areas has had a substantially positive effect on rural non-farm employment and output. Overall, the supply led approach to rural credit also had a positive effect on agricultural wages in addition to reducing the dependence on moneylenders for credit and spurring fertilizer use and capital investment in agriculture.

In 1991, the branch licensing policy was revoked in line with recommendations of the Narasimhan Committee Report- marking an end to the era of social and development banking followed by India since 1969. Consequently, the distribution of bank branches has undergone a shift away from rural areas. This has simultaneously resulted in an absolute decline in the number of rural bank branches over the years following 1991 (Table 8).

To compensate for the contraction in rural banking network, the SBLP initiated by NABARD emerged as an alternative. But the progress made under the programme hinges on the fact that it capitalizes on the country's vast network of rural bank branches. Therefore, a (continuing) trend in retraction and absolute decline will have serious implications since bank branches act as prospective credit disbursal points under SBLP. This will not only affect the future expansion and long-term sustainability of SBLP, but more importantly, the overall credit outstanding in rural areas.

Table 8: Selected Indicators for all Scheduled Commercial Banks

Year	Number of BankOffices Rural(Number)	Credit Outstanding % to Total	Rural (in Rs.10 million)	% to Total
1969	1443	17.6	115	3.3
1977	10,856	40.3	1,105	7.2
1980	16,111	46.9	2,643	10.7
1990	34,867	58.2	17,352	14.2
1991	35,134	56.9	1,859,897	15.0
2001	32,640	48.3	5,443,125	10.1
2002	32,443	47.8	6,668,190	10.2
2005	30,790	43.8	NA	NA
2006	30,769	43.2	NA	NA

Source: Ramachandran and Swaminathan (2005) for figures up to 2002; RBI (2006a) for years 2005 and 2006; NA- Not Available

LACK OF VOLUNTARY SAVINGS AND INSURANCE SERVICES

Since SBLP is limited to credit and mandatory savings facilities, there is a need to expand the scope of financial services, especially voluntary savings and microinsurance. The imperative to develop insurance products for the poor is based on the understanding that informal mechanisms for coping with idiosyncratic risks (like death, disability and health emergencies) are imperfect. Moreover, region wide risks like drought and flood result in drastic income and consumption shocks for the poor. As of now, most of the insurance services are provided by independent MFIs (either in-house or partnering with formal insurers) outside the ambit of the linkage program. Moreover, voluntary savings are not encouraged in the program and members are stipulated to save a fixed sum every month into the group account. Even then, members are not allowed to draw upon those very savings in times of emergency. On the other hand, she is allowed to borrow from the group savings pool- member savings, as such, reduces to a premium for future access to credit! Given the importance of personal savings as a self-insurance option, savings bank account services can be made available to SHG members on a voluntary basis. The introduction of 'no-frills' account, discussed in the concluding section of this paper, is a welcome development in this respect.

VIII

CONCLUDING REMARKS

While there are no exact figures on the reach of SBLP among the poorest of the poor, the total outreach of the programme at 33 million households with only an estimated half of the members as poor[11], highlight the importance of channeling financial services through other possible routes as well.

Towards this direction, Reserve Bank of India (RBI 2006b) suggested scheduled commercial banks to use the services of NGOs, SHGs, MFIs and Civil Society Organizations (CSOs) as intermediaries in providing banking services under the 'Business Facilitator/ Correspondent' models. In an attempt to achieve the objective of financial inclusion, the RBI (2005) also advised all Regional Rural Banks (RRBs) to make available a basic banking 'no-frills' account. Such an account may require nil or very low minimum balance, thus making it accessible to vast sections of the population. To keep transaction costs low, banks may restrict the number of transactions per month, but have to make the rules known to the customer in advance. According to available information with the RBI, about 5 lakh no-frill accounts have been opened up to March 31, 2006, of which two-third are with the public sector and one-third with the private sector banks[12]. Under the 'business correspondent' model, a pilot project, aiming at making rural post offices into one-stop shops for dispensing loans to SHGs, is being implemented by the National Bank for Agriculture and Rural Development (NABARD) in two districts of Tamil Nadu[13]. According to the agreement, NABARD will provide a corpus of funds to post offices which will pass them on to SHGs after appraising their credit worthiness and any risk arising due to default in payment would be borne by NABARD itself. The growth of SBLP highlights the role of government in providing a skillful leadership and conducive legal and regulatory

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[11] EDA and APMAS (2006) found an estimated 51 percent of members in the sample to be poor in terms of the first two of four wealth ranking categories defined by the study. The share of 'borderline poor' stood at 32 percent, while 17 percent of the members were 'non-poor'. The lowest wealth category of 'very poor' constituted 15 percent of the members.

[12] From the Address by Dr. Rakesh Mohan, Deputy Governor, RBI, at the Annual Bankers' Conference 2006: 'Economic Growth, Financial Deepening and Financial Inclusion.'

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framework. NABARD's exemplary leadership in furthering the movement since its inception in 1992 demands special mention. To encourage banks to lend to SHGs, NABARD had made available subsidized refinancing and undertook capacity building and promotional initiatives. Moreover, banks were also allowed by the RBI to count SHG lending towards their priority sector obligations. But despite the commendable 'numeric' achievements of the linkage programme, the issues discussed here need to be addressed on a priority basis before we attempt any further up-scaling of the programme. After all, trading off 'quality' and longer term sustainability for 'numbers' may seriously undermine the actual purpose behind the SHG movement, namely that of financial inclusion and empowerment.

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