



NABARD & microFinance 2001-2002



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Ten years of
SHG-Bank Linkage
(1992-2002)





Self Help Groups

An SHG is a group of about 20 people from a homogeneous class, who come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritisation of needs, setting terms and conditions, and accounts keeping. This gradually builds financial discipline in all of them. They also learn to handle resources of a size that is much beyond individual capacities of any of them. The SHG members begin to appreciate that resources are limited and have a cost. Once the groups show this mature financial behaviour, banks are encouraged to make loans to the SHG in certain multiples of the accumulated savings of the SHG. **The bank loans are given without any collateral and at market interest rates.** The groups continue to decide the terms of loans to their own members. Since the group's own accumulated savings are part and parcel of the aggregate loans made by the groups to their members, **peer pressure ensures timely repayments.**

The Widening Horizon

Year 2001-02 marked a decade of Self Help Group-bank linkage programme in India. It was in 1992 that NABARD had circulated guidelines to banks for financing Self Help Groups (SHGs) under a Pilot Project that aimed at financing 500 SHGs across the country through the banking system. Although different banks financed about 600 SHGs by March 1993, banks continued to finance more and more SHGs in the coming years. This encouraged the Reserve Bank of India (RBI) in 1996 to include financing to SHGs as a mainstream activity of banks under their priority sector lending. The Government of India bestowed national priority to the programme through its recognition in the Union Budget 1999.

The banking system comprising public and private sector commercial banks, regional rural banks and cooperative banks has joined hands with several organisations in the formal and non-formal sectors to mainstream this informal delivery mechanism for providing financial services to a large number of poor. With 7.8 million poor households accessing credit through 17,085 branches of the formal banking system under this programme, it is already the world's largest microFinance programme in terms of outreach.

The social intermediation for forming and nurturing SHGs is today handled not only by a large number of NGOs but also by several community based organisations like farmers' clubs, local bodies, field level workers of governmental agencies and even bank staff.

SHG-Bank Linkage Programme Cumulative Progress (1992 to 2002)

Upto end March	No. of SHGs financed by banks	Bank Loans (Rs. million)	Refinance from NABARD (Rs. million)
1999	32,995	571	521
2000	114,775	1,930	1,501
2001	263,825	4,809	4,007
2002	461,478	10,263	7,965



HIGHLIGHTS

Physical Achievements

- Number of new SHGs financed by banks during 2001-02: 197,653
- Number of existing SHGs provided repeat finance by banks during 2001-02: 41,413
- Number of poor families accessing bank credit including repeat finance during 2001-02: 4 million
- Estimated number of poor people assisted during 2001-02: 20 million
- Cumulative number of SHGs financed by banks upto March 2002: 461,478 SHGs
- Number of poor families who have accessed bank credit upto March 2002: 7.8 million
- Estimated Number of poor people assisted upto March 2002: 39 million
- Percentage of SHGs comprising only women members: 90

Financial Results

- Bank loans disbursed to new SHGs during 2001-02: Rs. 4,530 million
- Repeat bank loans disbursed to existing SHGs during 2001-02: Rs. 924 million
- Increase in credit flow to SHGs over the previous year: 89%
- Cumulative bank loans disbursed to SHGs upto March 2002: more than Rs. 10 billion
- Average loan per SHG from banks: Rs. 22,240 i.e., US \$ 463¹
- On-time repayment of loans consistently remained over 95 percent for every bank participating in the programme

Partnerships

- Number of participating banks: 444
 - Commercial Banks: 44
 - Regional Rural Banks (RRBs): 191
 - Cooperatives: 209
- Number of participating NGOs and other agencies: 2,155

Geographical Spread

- Number of States & Union Territories: All
- Number of Districts: 488

Support from NABARD

Financial Support

- Refinance drawn by banks from NABARD during 2001-02: Rs. 3,958 million
- Cumulative refinance drawn by banks upto March 2002: Rs. 7,965 million
- Direct Loan Fund Support by NABARD to NGOs, mFIs, SHG Federations etc. upto March 2002: Rs. 104 million

Capacity Building Support

- 1,114 programmes for SHG members benefited 47 thousand members of SHGs
- 615 programmes for bankers covered 16,000 officials including Chairmen of RRBs
- 136 refresher and awareness programmes for CEOs and field functionaries of different NGOs benefited 4,500 functionaries.
- 136 programmes for 9,600 government officers including IAS officers
- Four residential and location specific programmes for 96 DDMs, DDOs, Nominee Directors on the Board of RRBs and related officers of NABARD
- 23 exposure visits to banks and institutions pioneering in microFinance initiatives for 290 bank and NGO officials

¹US \$ 1 = 48 Rupees

DETAILS

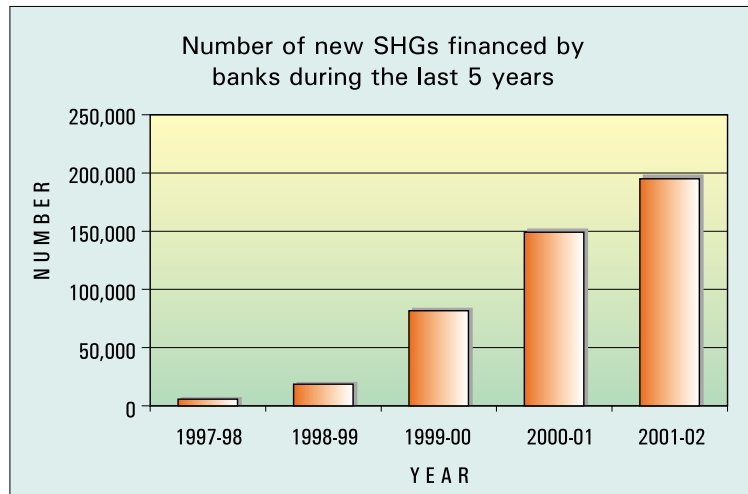
Through its microFinance programme, NABARD is committed to provide banking services to one hundred million poor through one million SHGs by 2008. The achievements of the Bank during 2001-02 reinforced this commitment. Bank loans were provided to 197,653 new SHGs during 2001-02. In addition, repeat finance was provided to 41,413 existing SHGs during the year. In all, the SHG-bank linkage programme benefited 4 million families, covering an estimated 20 million very poor people during 2001-02. Cumulatively, 461,478 SHGs were instrumental in reaching bank finance to 7.8 million poor families comprising an estimated 39 million very poor people.

Total bank loans disbursed to new SHGs during 2001-02 aggregated Rs. 4,530 million. In addition, repeat loans of Rs. 924 million were provided to 41,413 SHGs, which were financed in earlier years. There was a growth of 89 percent over the previous

year in terms of disbursement of loans to SHGs by banks. Banks claimed refinance aggregating Rs. 3,958 million during the year (Rs. 2,506 million during 2000-01). Cumulatively, bank loans aggregating more than Rs. 10 billion were disbursed to 461,478 SHGs with refinance support of Rs. 7,965 million upto March 2002.

Spread of SHG-bank Linkage

Many State Governments, banks and other agencies accorded high priority to the programme in their States and areas of operation, thereby increasing the absolute number of SHGs receiving bank credit in those States and Regions. States falling under this category were Andhra Pradesh (75,939 new SHGs financed during the year), followed by Tamil Nadu (29,943), Karnataka (18,413), Orissa (11,665), Uttar Pradesh (11,490), Maharashtra (9,151) and West Bengal (8,404). Some of the other States, which recorded significant increase in SHG linkage during the year, were Rajasthan (6,948) Kerala (5,134) and Madhya Pradesh (4,069).



Specific strategies were formulated by NABARD to meet the requirement for widening the network and deepening the penetration of the programme in States which required special attention. Promotional efforts were launched by NABARD through its Regional Offices in these States, participating agencies and other institutions including the government and non-governmental agencies. This enabled NABARD to widen its network of partnership beyond the NGO sector in formation and nurturing of SHGs in these States. The partners included RRBs, farmers' clubs, government organisations and development departments which have effectively taken up the role of promoting and nurturing SHGs.

In order to reduce Regional imbalance in SHG - bank linkage, NABARD devised Region specific strategies and interventions. Accordingly, special focus was given to the North Eastern Region (NER) and backward areas like Kalahandi-Bolangir-Koraput (KBK) Region in Orissa by encouraging collaboration with large number of small NGO - partners and microFinance agencies for enhancing the coverage of SHG-bank linkage.

In the North Eastern Region, 1,013 SHGs were provided with bank loans during the year, bringing the cumulative number of credit linked SHGs to 1,490 upto March 02. Similarly, the backward areas of KBK Region in Orissa received special attention from NABARD. During the year, 5,677 SHGs were provided with bank loans and were supported with refinance from NABARD, bringing the cumulative number of SHGs credit linked in the KBK Region to 9,869 upto March 02.

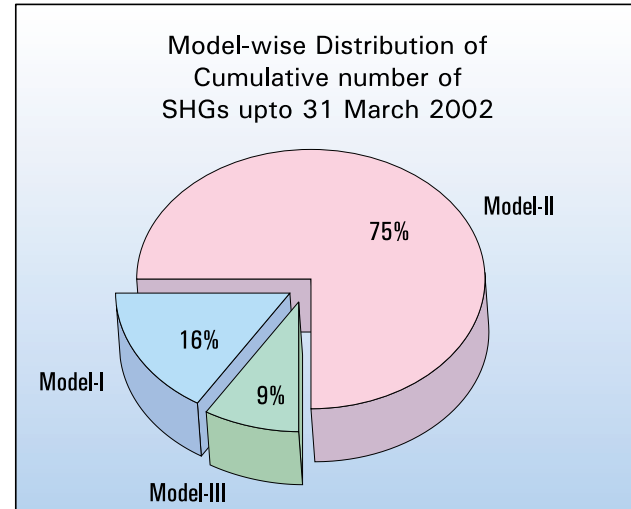
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The promotional efforts launched in the last two years have resulted in positive trends in many States where the programme had not grown significantly in earlier years. The positive trends in these States and Regions may be seen in the following Table.

Positive Trends in Cumulative Growth in SHG-bank Linkage

Region/State	1999	2000	2001	2002
NE Region	93	196	477	1,490
KBK Region	526	1,425	4,192	9,869
Orissa	2,018	4,068	8,888	20,553
Bihar*	496	1,910	4,592	8,155
Uttar Pradesh*	2,812	12,953	23,152	36,437
Rajasthan	710	1,941	5,616	12,564
Madhya Pradesh*	733	2,303	5,699	11,744
All India	32,995	114,775	263,825	461,478

* Undivided States



Different Models of Linkage

Three different models of credit linkage have evolved over time:

Model I: SHGs formed and financed by banks

In this model, banks themselves take up the work of forming and nurturing the groups, opening their savings accounts and providing them bank loans. Upto March 2002, 16% of the total number of SHGs financed were from this category. This showed an increase of 3 percent over the position upto March 01, reflecting an increased role of banks in promoting and nurturing SHGs.

Model II: SHGs formed by NGOs and formal agencies, but directly financed by banks

This model continues to have the major share, with 75% of the total number of SHGs financed upto March 02 falling under this category. Here, NGOs and formal agencies in the field of

microFinance act only as facilitators. They facilitate organising, forming and nurturing of groups, and train them in thrift and credit management. Banks give loans directly to these SHGs.

Model III: SHGs financed by banks using NGOs and other agencies as financial intermediaries

This is the model wherein the NGOs take on the additional role of financial intermediation. In areas where the formal banking system faces constraints, the NGOs are encouraged to approach a suitable bank for bulk loan assistance. This, in turn, is used by the NGO for on-lending to the SHGs. In areas where a very large number of SHGs have been financed by bank branches, intermediate agencies like federations of SHGs are coming up as links between bank branch and member SHGs. These federations are financed by banks, who, in turn, finance their member SHGs. Other agencies like NBFCs are also coming up to take up this role. The share of cumulative number of SHGs linked under this model upto March 02 continued to be relatively small at 9%, but in years to come, this is expected to become a major delivery mode.

Agency wise distribution of number of SHGs financed upto 31 March 2002

Rs. million

Agency	SHGs		Bank Loan	
	No.	%	Amount	%
Commercial Bank	274,247	54	6,009	58
RRBs	188,738	38	3,459	34
Cooperatives	39,906	8	795	8

Partner Agencies

BANKS

During the year 2001-02, 17,085 branches of 444 banks participated in the SHG-linkage programme. The broad category-wise number of these banks, total branches participated and their percentage share to the total achievements are indicated below.

Commercial Banks

The SHG-bank linkage became a part of business for all the 27 public sector banks and 17 private sector banks. NABARD's refinance support was available to all banks against their loans to SHGs. SBI credit-linked the highest number of SHGs (35,816) during 2001-02, followed by Andhra Bank (31,381) and Indian Bank (15,205). During the year, more banks registered impressive growth in SHG-bank linkage. These were State Bank of Hyderabad, Indian Overseas Bank, Syndicate Bank, Bank of Baroda, Bank of India and Union Bank of India. The private sector banks which significantly supported SHG financing were Vysya Bank (1,391) followed by the ICICI Bank (484). The bank-wise position of SHG-bank linkage is indicated at Statement IV.

Regional Rural Banks

The Regional Rural Banks (RRBs) financed SHGs in a very significant way during 2001-02. Out of total 196 RRBs in the country, 191 participated in the SHG-bank linkage programme (i.e. more than 97%). The cumulative achievement of RRBs as percentage to the total registered an impressive increase in terms of SHGs linked, bank loan disbursed and refinance availed from NABARD. During the year 2001-02, maximum number of SHGs

have been linked by Sri Visakha Gramin Bank in Andhra Pradesh (AP) followed by Pandiyan Grama Bank in Tamil Nadu and Nagarjuna Gramin Bank in AP. The other RRBs showing significant achievement were Koraput-Panchabati Gramya Bank and Rushikulya Gramya Bank in Orissa and Chandrapur-Gadchiroli RRB, Maharashtra. The State-wise and RRB-wise number of SHGs financed is indicated at Statement V.

Cooperatives

The number of partners for the SHG-bank linkage in the cooperative sector increased to 209, upto March 2002. The major contributors were Hooghly DCCB (4,953) and Bidar DCCB (3,233). The amendments made by many of the States in the Cooperative Societies Act have enabled the SHGs to become members of PACS and avail loans. State-wise and cooperative bank wise details of linkage of SHGs are furnished in Statement VI.

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Expendable Fund Support for Credit Delivery Innovations

NABARD continued its strategy to involve both formal and informal agencies in large numbers to enable them to take up promotion, nurturing and linkage of SHGs. These initiatives and activities are now funded through the microFinance Development Fund (mFDF) set up in NABARD in the year 2000-01. The following support was provided to its partners by NABARD during the year:

NGOs Promoting and Nurturing SHGs

NABARD encourages NGOs to take up the function of promotion and nurturing of SHGs as a corollary to their existing social sector functions. For this purpose, grant assistance for meeting the

additional costs of promoting and nurturing new SHGs, stationery and other infrastructure support to SHGs, limited staff or mobility support and sharing administrative expenses incurred on formation and nurturing of SHGs is provided to the NGOs by NABARD. The amount of cumulative grant support sanctioned for promotion and linkage of SHGs aggregated Rs. 67 million, covering 364 NGOs and 54,000 SHGs. The NGOs have utilised Rs. 28 million upto March 02.

RRBs Promoting and Nurturing SHGs

NABARD has been encouraging RRBs to take up promoting and nurturing SHGs through their own staff and has been providing limited financial assistance to them for the purpose since 1999. Upto March 2002, 52 RRBs in 16 States were sanctioned grant assistance of Rs. 13.5 million for promotion of 18,000 SHGs. Grant assistance aggregating Rs. 5 million was utilised till March 2002 by participating RRBs, resulting in formation of over 10,400 SHGs of which 5,600 have been provided with bank loans.

Farmers' Clubs Promoting and Nurturing SHGs

Farmers' Clubs sponsored by bank branches under the Vikas Volunteer Vahini (VVV) Programme of NABARD have now gained local acceptability. Some of them have demonstrated successfully their capacity to form and nurture SHGs. Under a package of assistance specially designed by NABARD to help them to promote and nurture SHGs, a budget of Rs. 6 million was approved during the year for promoting 5,650 SHGs through 565 VVV Clubs. Upto March 2002, the number of SHGs promoted by 346 VVV Clubs totalled 3,643. Many RRBs started using their branches which have farmers' clubs to promote and nurture SHGs on their own. A noteworthy initiative in this direction was taken by

the Prathama Gramin Bank, UP which at present is in collaboration with NABARD to promote over 5,000 SHGs through its Farmers' Clubs.

Individual Volunteers Promoting and Nurturing SHGs

To give a fillip to formation and nurturing of SHGs in backward States and districts where organised support was lacking, a pilot scheme was introduced for supporting voluntary initiatives of socially committed rural individuals in organising the rural poor into SHGs. The pilot scheme was operationalised through select RRBs and DCCBs in backward districts of four States, viz., U.P., M.P., Chhattisgarh and Orissa. Financial Assistance of Rs. 1.7 million was sanctioned under the pilot scheme, to promote and nurture 1,250 SHGs through 125 individual rural volunteers.

Capacity Building in Partner Institutions in microFinance

Training inputs are integral to partnerships in SHG-bank linkage at every level. In tune with the burgeoning needs of its partners, NABARD enlarged its technical and financial inputs in capacity building. Assistance was provided by NABARD to all categories of its partners comprising banks, NGOs, governments and others, through tailor-made and functional programmes. The following training interventions were supported during the year 2001-02:

- 1,114 programmes for SHG members benefited 47 thousand members of SHGs
- 615 programmes for bankers covered 16,000 officials including Chairmen of RRBs
- 136 refresher and awareness programmes for CEOs and field functionaries of different NGOs benefited 4,500 functionaries.

- 136 programmes for 9,600 government officers including IAS officers
- Four residential and location specific programmes for 96 DDMs, DDOs, Nominee Directors on the Board of RRBs and related officers of NABARD
- 23 exposure visits to banks and institutions pioneering in microFinance initiatives for 290 banks and NGO officials. In addition, special efforts were taken to enthuse cooperatives to take up the linkage programme through large number of training programmes, especially in States like West Bengal, Rajasthan, Karnataka, Orissa, Kerala, Gujarat, Maharashtra and Tamil Nadu. These efforts are viewed by NABARD as investments for larger growth of credit linkage of SHGs through the cooperative banking sector in the coming years.

Impact Study

A study by NABARD, which covered 560 SHG member households from 223 SHGs in 11 States showed many positive results on the impact of participation of rural poor in the SHGs. 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 in the Annexure.

Direct Loan Fund Support to mFIs for On-lending

Realising the need to help evolve an appropriate informal, legal and useful framework to work as an intermediate credit delivery agency at the grassroots level in the rural areas, NABARD selectively encourages NGOs, SHG Federations, Non-Banking Financial Companies (NBFCs) and Credit Unions to take up

financial intermediation. Lendable resources are provided to them on an experimental basis, to help them graduate to commercial borrowings. Through this mechanism, NABARD's assistance reaches a large number of smaller NGOs and other informal units, for building their financial intermediation capacity. These agencies on-lend to individuals or SHGs. Upto March 02, NABARD provided RFA to 28 agencies including FWWB, CFTS, SHARE, DHAN Foundation and RGVN (for the North Eastern Region and Orissa). Similarly, NABARD provided RFA to five federations of SHGs promoted by DHAN Foundation in Tamil Nadu. During the year, RFA of Rs. 10 million was sanctioned to 'Cashpor Financial and Technical Services (CFTS)' which provided microFinance services through small groups in the backward district of Mirzapur in U.P. Cumulatively, the aggregate sanction and disbursals of RFA stood at Rs. 154 million and Rs. 104 million respectively upto March 2002.

mF Convergence Forum

NABARD started a bi-monthly microFinance convergence forum in print and on its website during 2001-02, named '*Saving Grace*' in English and '*Akshaya Patra*' in Hindi. This serves as a newsletter for the partners of NABARD in microFinance to exchange useful news and best practices for mutual benefit. Periodic field studies were conducted by NABARD for collecting and sharing different practices adopted at the level of SHGs, NGOs and banks.

The Road Ahead

The corporate mission set by NABARD for reaching microFinance services to the very poor envisages coverage of one third of the rural poor of the country, i.e., a population of about 100 million rural poor through one million SHGs by the year 2007-08. The achievements of the Bank during 2001-02 reinforced this commitment. To maintain the positive trends, NABARD has

evolved a well-articulated strategy through state and national level consultations. The strategy comprises:

- i. Thrust on promotion of quality SHGs on a large scale, with special focus on comparatively backward States and Regions
- ii. Designing and funding suitable training and exposure programmes for all stakeholders
- iii. Providing promotional assistance to partners for promotion and nurturing of SHGs on generally "add-on" basis
- iv. Encouraging banks to operationalise proper rating of SHGs before financing
- v. Positioning financing to SHGs as a business proposition for the banks
- vi. Encouraging cooperatives to take up SHG financing as "cooperatives within cooperatives"
- vii. Widening the range of SHG promoting agencies by integrating SHG approach in social sector development programmes of the development agencies and the Panchayat Raj Institutions (PRIs)
- viii. Encouraging commercial borrowings by informal financial intermediaries like NGOs, mFIs, Federations of SHGs, etc., by providing start up lendable resources to them
- ix. Large-scale dissemination of the concept of Self Help Groups among the rural masses.



ANNEXURE

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 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: land-less agricultural labourers (31%); marginal farmers (23%); small farmers (29%); and others (17%).
- Average value of assets/household which included livestock and consumer durables etc., increased by 72% from Rs. 6,843 in pre-SHG stage to Rs. 11,793 in post-SHG stage.
- About 58 per cent of the households reported increase in assets.
- Housing conditions generally improved with a shift in the ownership from *kuchha* (mud walls, thatched roofs) to *pucca* (brick walls, tiled roofs) houses.
- Almost all 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 borrowing/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 per 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 man-days to 375 man-days 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.

SHG-bank Linkage - Highlights March 2000 to March 2002

(Rs. in Million)

Sl No.	Items	Cumulative upto		
		March 2000	March 2001	March 2002
1	No of new SHGs provided with bank loan during the year	81,780	149,050	197,653
2	No of SHGs provided with bank loan (cumulative)	114,775	263,825	461,478
3	% of women groups	85	90	90
4	No. of participating banks	266	314	444
	i Commercial Banks	40	43	44
	ii RRBs	165	177	191
	iii Co-operative Banks	61	94	209
5	No. of States/ UTs	24	27	30
6	No. of districts covered	362	412	488
7	No. of Partner Agencies	718	1,030	2,155
8	Bank Loan (cumulative)	1,930	4,809	10,263
9	Refinance (cumulative)	1,501	4,007	7,965
10	No. of families assisted (in million)	1.9	4.5	7.8
11	Average Loan/SHG (Rs)	16,814	18,227	22,240
12	Average Loan / Family (Rs)	1016	1072	1,316
13	Model-wise linkage (cumulative)			
	i SHGs formed and financed by banks	14%	13%	16%
	ii SHGs formed by formal agencies and NGOs but directly financed by banks	70%	76%	75%
	iii SHGs financed by banks through NGOs	16%	11%	9%