BANKING WITH THE POOR
- Self Help Group Approach in India.

by

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India has been fast developing, but the growth of the development is yet to reach many. Quite large proportions of country’s population still live below the poverty line and there is a continuous effort to lift them up. The problem of poverty and unemployment is the most degrading experience of human existence. Growth by itself does not end poverty, it is the manner in which we plan to grow that matters. Hence, a poverty alleviation program has been planned in such a way to meet the problem of poor people living below poverty line. Accordingly, various development programs have come into existence since last five decades to cater to the needs of several target groups in India both in rural and urban areas.

POVERTY REDUCTION THROUGH BANK FINANCE:

The eradication of poverty among masses is aimed either through implementation of wage employment or self-employment programs. The wage employment programs are implemented either by Central or State Governments which include Minimum Needs Program, National Rural Employment Program, Rural Landless Employment Generation Program etc. The self-employment schemes which are mostly institutional credit linked schemes are aimed at providing self-employment or for strengthening of productive capacity of the various target groups in rural and urban areas such as Integrated Rural Development Program, Self Employment for Educated unemployed Youth, Self Employment Program for Urban Poor, Development of Women and Child in Rural Areas, Training Youth for Self Employment, Scheduled Caste Action Program Scheduled Tribe Action program, Differential Rate of Interest Scheme etc. Inspite of implementation of such schemes throughout the country both by government and public sector banks during last two decades, the objectives with which these schemes were launched remained unaccomplished. On the other hand, the decline in the poverty ratio can be attributed to the combined result of the contemplated growth pattern and more effective implementation of certain poverty alleviation programs.
Broadly speaking, the important factors that are responsible for non-achievement of the objectives of poverty alleviation programs include ill-defined target groups, expansion of credit through subsidized lending programs, loan melas, loan write-offs, risk of defaults, high costs for monitoring the loan accounts etc. In the present scenario of deregulated interest rates to farm and non-farm sector through institutional sources, a client looks for timely provision of credit instead of subsidized credit. Also, there is need for a sustainable credit dispensing system to suit the poverty struck target groups in different socio-economic settings across the country.

**EMEGENCE OF SHG BANK LINKAGE MODEL:**

Several research studies carried out by National Bank for Agriculture and Rural Development (NABARD), India led to the evaluation of Self Help Group (SHG)-Bank Linkage Model as a cost-effective mechanism for providing financial services to the un-reached and unserved poor. In the year 1992 NABARD introduced SHG linkage scheme with commercial banks. These groups are lent by commercial banks directly or through NGOs. Besides SHG-Bank linkage program, a number of NGOs had started experimenting under Indian context or implementing various initiatives like replication of ‘Grameen’, networking with NGOs and financing through SHGs federations and cooperatives etc. This has paved a way for an orderly development of micro-finance (MF) sector and to adopt international best practices in the country.

A high powered TASK FORCE ON MICRO-FINANCE (MF), constituted by NABARD has suggested a working definition of micro-finance as “provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve living standards”. No specific limit for ‘small’ amount of financial services is envisaged. The emphasis of support under micro finance is on the poor in ‘pre-micro enterprise’ stage for building of their capacities to handle larger resources. The taskforce observed that 36% of the rural households are found to be outside the fold of institutional credit. Further, it was observed that “banking with the poor” seems possible through the following three approaches.

1. Conventional weaker section lending by banks
2. SHG-bank linkage programme and
3. Lending by banks and financial institutions to Micro Financial Institutions (MFIs) for on-lending to ground level groups or individuals

Among these approaches, now attention is focused on the issues of promotion and growth of MF through SHGs and other innovative credit delivery models. SHG financing is in implementation in various forms in several developing countries, which is emerging as an alternative choice for alleviating rural poverty in India.

As per the observations of high-powered task force constituted by the NABARD, the SHG-bank linkage may be one of the major ways of banking with the poor in the coming years. At least 25,000 bank branches, 4000 NGOs and 2000 federations of SHGs involving over 1,00,000 personal of these institutions would have to be associated for scaling up and bank linkage of one million SHGs. As at the end of March 2001 SHGs linked are to the tune of 2,63,825 of which 90% of SHGs are exclusive women groups and MF has reached to 4.5 million poor households.

CONSTRAINTS IN SHG LENDING:

Like any other poverty alleviation programs, SHG financing is also suffering from certain constraints in implementation. Therefore, appropriate attention need to be focused, on the following operational issues, confronting these SHGs, both institutional and non-institutional, in the initial stages of implementation itself.

A) Institutional Issues:

1. Institutional mission – commercial banks during last two decades aimed at target oriented approach to attain the statutory stipulations of Reserve bank of India and Govt. of India for alleviation of poverty. Hence, institutional mission is required for banking with the poor i.e., by linking, financing and capacity building of SHGs rather than targeted approach of financing through government sponsored self employment programs.
2. **Organizational structure** – due to reforms in banking industry and restructuring of banks, commercial banks are to integrate MF within a larger bank culture and structure to gear towards a high volume, small loan size business.

3. **Human resources** - The financial methodologies to reach poor and retain low-income clients who require small amounts of capital are need to be understood by most mid-level bank managers and not to consider as second class activity. Further, micro finance and SHG operations are labor intensive and require special training.

4. **Meeting the costs**: The banks are required to compete in open markets and cover operating-costs, risks and opportunity costs of capital in view of interest rate ceilings for small loans, targeted credit schemes.

5. **Monitoring**: Collaboration among banks, NGOs, government agencies should be effective and efficient, because the role of Government Agencies is waning away and there are inherent failures in the mechanism to direct, monitor and lead the groups towards common goal.

6. **Collateral**: Insistence of collateral securities for loans by banks and insistence of minimum balance for opening of Savings Bank Account are to be resolved in linking of SHGs.

7. **Small and marginal farmers** - As a consequence of directed or supervised credit programs and the declining volume of agricultural credit there is a ‘*shift*’. This ‘shift’ may be explained as a changing scenario from ‘farm credit’ to ‘micro finance’ and from ‘public sector banks’ to promotion of ‘non-governmental finance institutions’. And this ‘shift’ should not lead to negligence of the specific financial demand and requirements of small farmers for farm credit.

**B) Non Institutional Issues:**

1. SHGs **rating norms** are not followed. Groups are to be rated as per the laid down procedures and efforts are required to rectify their weak areas. Haste can lead to wrong selection of activities of beneficiaries.
2. Large number of **heterogeneous** women groups with regard to age and literacy. On the other hand, increasing number of **caste based homogenous** groups need to be discouraged.

3. Linking of **revolving fund** assistance – there is no uniformity of revolving fund assistance among groups by the sponsoring agency.

4. The **peer pressure that is lacking in majority of the groups** is to be ensured by discouraging equal sharing of both savings through internal lending among group members. The internal lending and bank finance should be for few members only either for consumption (for small amount) or for capacity building. The credit limits are to be assessed based on credit absorption by the group and proposed activity should be linked to the skills of the group members.

5. Due to **illiteracy** among group members they have to depend on writing the accounts by the literate person of the village, this is resulting in incomplete updating and factual projection of group activities.

6. **Counseling sessions** or training on procedures to be followed on savings, internal lending, capacity building and record maintenance is conspicuously lacking in most of the groups. Such activity is to be made mandatory at the linking stage.

**PROSPECTS:**

SHG financing is in implementation in various forms in several developing countries, which is emerging as an alternative choice for alleviating rural poverty in India. A study by NABARD, which covered 223 groups, spread over 11 states shown several encouraging and positive features. Among these, the average borrowing /year household increased from Rs. 4282/- to Rs. 8,341/- and the share of consumption loans declined from 50% to 25%. Also, about 70% of loans taken in post – SHG situation were for income generating purposes and average annual savings per household registered over threefold increase from Rs. 460 to Rs. 1,444/-.
There is a strong need to promote a sustainable credit dispensing system to suit the poverty struck target groups in India by focusing attention on the institutional and non-institutional issues in implementation of SHG Bank linkage model, which are signaling the threats ahead. The constraints affecting the positive impact of SHG Bank linkage model are need to be identified on an ongoing basis and appropriate remedial measures are to be initiated both at institutional and non-institutional level, then the SHG approach surely proves as a realistic alternative among poor to borrow money instead from informal market at an interest much higher than market rates. Moreover, the spirit of co-operation should be instilled in SHGs; instead, inducement will end up in failure, as the case with the co-operative societies in the country. Banking with the poor through SHG approach has to succeed in view of previous failures or partly success of several anti-poverty and self-employment programs. Further, it is also apparent that Indian economy can’t wait, without improving the economic conditions of poor.  Vis-a-vis banking with the poor is a profitable business opportunity for both the poor and the financial institutions in India. 

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