Financing of Self-Help Groups by Co-operative banks in Karnataka

1. Shivaprasad G
2. Dr. Anilkumar K.H

Acharya Bangalore B School, Department of MBA, Bangalore-91

Abstract

SHGs have varied origins, mostly as part of integrated development programmes run by NGOs with donor support. The major programme involving financial intermediation by SHGs is the SHG-bank Linkage Programme. This Programme was launched in 1992 by National Bank for Agriculture and Rural Development (NABARD), the apex bank for rural development in India. The outreach of SHG-bank linkage may seem impressive, but in the context of the magnitude of poverty in India and the flow of funds for poverty alleviation, it represents a very small intervention. Only about one-third of the SHG members are able to access loans out of external funds in the initial years. Apart from NABARD, about half a dozen other apex bodies or wholesalers provide loans to financial intermediaries for on-lending to SHGs. These include the Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh (RMK), Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC) and Friends of Women’s World Banking (FWWB). Donors and banks, including Rabobank, also provide grants and loans to microfinance institutions (MFIs) for on-lending to SHGs and federations of SHGs. This study attempts to review the spread of credit linkages between self-help groups (SHGs) and banks across credit delivery models adapted by the Short Term Credit Cooperatives (STCCS). It further examines the spread of credit linkages across different regions and parts of Karnataka. It also reviews the participation of regional rural banks, and cooperatives in the SHG-Bank Linkage Program across different part of Karnataka.

Key Words: SHG: Self Help Groups
Introduction

In the development paradigm, micro-finance has evolved as a need-based programme for empowerment and alleviation of poverty to the so far neglected target groups (women, poor, deprived etc.) and micro-finance has become one of the most effective interventions for economic empowerment of the poor. The experience across India and other countries has shown a robust potential of Microfinance to integrate with the development issues thereby significantly impacting the lives of poor.

Under the SHG-bank linkage program, NGOs and banks interact with the poor, especially women, to form small homogenous groups. These small groups are encouraged to meet frequently and collect small thrift amounts from their members and are taught simple accounting methods to enable them to maintain their accounts. Although individually these poor could never have enough savings to open a bank account, the pooled savings enable them to open a formal bank account in the name of the group. This is the first step in establishing links with the formal banking system. Groups then, meet often and use the pooled thrift to impart small loans to members for meeting their small emergent needs. This saves them from usurious debt traps and thus begins their empowerment through group dynamics, decision-making, and funds management. Gradually the pooled thrift grows and soon they are ready to receive external funds in multiples of their group savings. Bank loans enable the group members to undertake income generating activities.

The study is based on secondary data published by the NABARD in India.

Review of SHG-Bank Linkage Program in India

Review of Models In India, three types of SHG models have emerged:

1. **Bank-SHG-Members**: The bank itself acts as a self-help group promoting institution (SHPI).

2. **Bank-Facilitating Agency-SHG-Members**: Facilitating agencies like NGOs, government agencies, or other community-based organizations form groups.
3. **Bank-NGO-MFI-SHG-Members**: NGOs act both as facilitators and microfinance intermediaries. First they promote groups, nurture them, and train them, and then they approach banks for bulk loans for lending to the SHGs.

**Self Help Groups (SHGs) as borrowing units**

Self Help Groups (SHGs) form the basic constituent unit of the microfinance movement in India. An SHG is a group of a few individuals – usually poor and often women – who pool their savings into a fund from which they can borrow as and when necessary. Such a group is linked with a bank – a rural, co-operative or commercial bank – where they maintain a group account. Over time the bank begins to lend to the group as a unit, without collateral, relying on self-monitoring and peer pressure within the group for repayment of these loans. An SHG consists of five to twenty persons, usually all from different families. Often a group like this is given a name. Each such group has a leader and a deputy leader, elected by the group members. The members decide among themselves the amount of deposit they have to make individually to the group account. The starting monthly individual deposit level is usually low – Rs. 10 or Rs. 20 (about 20-40 US cents). For a group of size 10, this translates to Rs. 100 to 200 (about $2 to $ 4) of group savings per month. On the basis of the resolutions adopted and signed by all members of the group, the manager of a local rural or commercial bank opens a savings bank account. The savings are collected by a certain date (often the 10th of the month) from individual members and deposited in the bank account.

**Review of Literature**:

**Dr. Saghir Ahmad Ansari, (2013)**: SHG-Bank linkage programme has emerged as the biggest micro-finance programme in India enabling about 70 million poor households to gain access to micro-finance facilities from the formal banking system. However, SHGs formed and financed by banks have also increased their share in recent years from 13 percent in March 2001 to 20 percent by March 2010. This reflects that commercial banks are making sincere efforts to increasingly involve themselves directly with the local rural poor people in their socio-economic development. Recovery rate, under the SHG model, is 94 percent which indicates that poor people are ready to use credit facilities from institutional sources at market
rate of interest provided that it is available hassle-free and at the time it is needed. The overall NPAs of 1.36 percent till March 2007 were much lower than NPAs of 5 percent of all scheduled commercial banks. This clearly indicates that SHG-Bank Linkage programme is economically viable and sustainable.

A.Amarender Reddy and Dharm Pal Malik (2011) : As on 31 March 2009, there are more than 6.1 million saving-linked SHGs and more than 4.2 million credit-linked SHGs and thus, about 86 million poor households are covered under the programme. The SBLP targeted to reach 100 million of households by 2015. The paper tries to examine the spread of SBLP among geographies and poor and suggest ways to overcome regional and class differences in reach.

PSR Murthy (2011) : Self Help Groups should be facilitated to assess their strength against indicators that they would like to set for themselves. Attendance above 90% in 90% instances, Regularity of saving above 90%, Rotational leadership followed in every meeting, Can conduct meetings without Community Facilitators, Books maintained regularly without mistakes, Loans availed by all members every eight months, Loans paid back on time in 90% of cases, Less than 20% loans availed for consumption purposes, Low Cash-in-hand – less than 10% of capital in 90% instances, Loan to Saving ratio above 4, Interest earned to Saving ratio above 1:1.5, Group's capital increases by at least 150% every year, Goals set at regular 2 year periods, Action plans prepared in 6 month cycles to achieve goals 80% of planned activities are achieved on time, Regularly involved in Community and Social Action. Government and NGOs should look beyond credit and follow the 'credit with social development' approach. Policy implications and programme attributes are to be framed to achieve better results in reducing poverty and empowering women.

Pankaj Kumar and Ramesh Golait (2009) : This paper examines the outreach of Self Help Group (SHG)-Bank Linkage Programme (SBLP) in the backdrop of growing banking and socio-economic divide between regions in India. The ‘defining event’ in the build-up of financial architecture in India was the nationalization of major commercial banks. The aftermath of nationalization witnessed a remarkable spread of the banking system to the unbanked and under-banked rural areas. However, the dependence on informal sources of
credit has not decreased in rural areas. The problem accentuated as banks veered away from rural to urban India. The relative decline of commercial banking network in the rural areas runs contrary to the objective of financial inclusion and is a formidable challenge in the way of faster and more inclusive growth.

S S Sangwan (2008): The paper brings out that as on March 2006, the financial inclusion of adults above 19 years of age is 63 per cent in terms of saving accounts and 16 percent in terms of credit accounts. The multiple regression equations estimated with cross section data of States revealed that the branch density has positive and significant coefficient with the percentage of adults having saving as well as credit accounts. The coefficient of per capita income was also positive and significant in explaining percentage of adult having saving accounts, though; this coefficient was not significant with level of credit account.

Dr. Hans Dieter Seibel and Harishkumar R. Dave (2002): 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. Non-performing loans to SHGs were 0%, testifying to the effectiveness of group lending to the very poor. In contrast, consolidated Non Performing Loan (NPL) ratios ranged from 2.6% to 18%; and of Cash Credit (CC) and Agricultural Term Loans (ATL) up to 55% and 62%, respectively. 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%; Operational Self Sufficiency (OSS) ratios from 54% to 102%.

Findings

The Mission of the Apex bank is to promote, develop and sustain microfinance inclusion by providing effective support for credit as well as other microfinance products and services,
sound institutional network and enhanced capacity building through short-term credit cooperatives (STCCS) and it has proved it. The following are the some facts and figures of the bank from last five year.

Chart 1: Shows Domain Network Of The Apex Bank in Karnataka State.

The strength of STCCS lies in having a vast network of 21 DCC Banks at District Level, with more than 603 branches at Block, Taluk and Hobli level and more than 4700 PACS at Panchayat and Village level. Hence, the STCCS outreach is more effective than Panchayaths in the state.

Table no. 1: Progress of SHGs at glance for the last five years by STCCS, Karnataka

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
<th>Cu. Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of SHGs promoted</td>
<td>14,061</td>
<td>10,621</td>
<td>10,516</td>
<td>19,495</td>
<td>15,381</td>
<td>1,85,657</td>
</tr>
<tr>
<td>2. No. of Women SHGs</td>
<td>12,937</td>
<td>9,712</td>
<td>9,296</td>
<td>17,936</td>
<td>14,151</td>
<td>1,76,375</td>
</tr>
<tr>
<td>3. Savings of SHGs with Bank/PACS</td>
<td>222.71</td>
<td>264.29</td>
<td>312.05</td>
<td>340.93</td>
<td>371.61</td>
<td>371.61</td>
</tr>
<tr>
<td>4. No. of SHGs Credit Linked</td>
<td>36,768</td>
<td>30,517</td>
<td>24,023</td>
<td>34,053</td>
<td>35,146</td>
<td>2,70,516</td>
</tr>
<tr>
<td>5. Amount of Bank Finance to SHGs</td>
<td>251.30</td>
<td>227.58</td>
<td>187.57</td>
<td>410.01</td>
<td>474.40</td>
<td>2,037.18</td>
</tr>
<tr>
<td>6. Average Loan per SHG</td>
<td>68,349</td>
<td>74,581</td>
<td>94,769</td>
<td>1,20,403</td>
<td>1,34,894</td>
<td>-</td>
</tr>
<tr>
<td>7. Repayment of Loan by SHGs</td>
<td>95.61%</td>
<td>94.10%</td>
<td>95.74%</td>
<td>94.61%</td>
<td>94.69%</td>
<td>94.69%</td>
</tr>
</tbody>
</table>
8. STCCS share in Micro Finance

<table>
<thead>
<tr>
<th>Year</th>
<th>15%</th>
<th>19%</th>
<th>23%</th>
<th>28%</th>
<th>30%*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008-09</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010-11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: AMFIS, Karnataka

Chart 2: Shows Number of SHG’S promoted by STCCS, Karnataka

Source: AMFIS, Karnataka
Chart 3: Shows Repayment of Loan by SHG

```
<table>
<thead>
<tr>
<th>Year</th>
<th>Repayment of Loan by SHGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>96.00%</td>
</tr>
<tr>
<td>2008-09</td>
<td>95.50%</td>
</tr>
<tr>
<td>2009-10</td>
<td>95.00%</td>
</tr>
<tr>
<td>2010-11</td>
<td>94.50%</td>
</tr>
<tr>
<td>2011-12</td>
<td>94.00%</td>
</tr>
</tbody>
</table>
```

Source: AMFIS, Karnataka

Chart 4: Shows Amount of Bank Finance to SHG’S By STCCS, Karnataka

```
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of Bank Finance to SHGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>200</td>
</tr>
<tr>
<td>2008-09</td>
<td>250</td>
</tr>
<tr>
<td>2009-10</td>
<td>200</td>
</tr>
<tr>
<td>2010-11</td>
<td>400</td>
</tr>
<tr>
<td>2011-12</td>
<td>500</td>
</tr>
</tbody>
</table>
```

Source: AMFIS, Karnataka
The above table shows that, the progress of SHG’s in last five years in Karnataka State. From the table it is clear that every year Co-operative bank has increased the credit facility to the SHG’s. In 2007-08 Bank has financed Rs. 251.30 Crores but as per the recent statement of the Bank it has sanctioned Rs. 2037.18 Crores in 2011-12, which is almost ten times compare to 2007-08. This shows that Karnataka Cooperative bank is supporting for the SHG’s growth in the State.

Numbers of SHG are dramatically increased in the State. It was 14,061 Self-help Groups in 2007-08 and it was increased to 19,495 in year 2010-11. But bank has promoted only 15,381 Self-help groups in 2011-12, which is less compare to the previews year that is 2010-11.

One good thing with financing to Self-help group is there will be very less percentage of defaults. This we can notice in the above table. Bank has experienced recovery of more than 95% of the loan. Self – help groups are very prompt in repayment of the loan.

Average Loan per Self-help group are also increased from 68,349 to 1,34,894 during 2007 to 2012. And the initiative of the short term credit cooperatives(STCCS)financing the Micro finance has been increased to 30%. This shows bank has understood the importance of micro finance in the Karnataka State.

**Future Prospective**

In view of benefits reaped by rural poor families, Micro Finance is becoming very popular and Self Help Groups and Joint Liability Groups (SHGs&JLGs) have become common vehicle of integrated development process of rural poor households. Therefore, short term credit cooperatives(STCCS) goal is to promote more number of Self Help Groups and Joint Liability Groups and through those vehicles lend effective and sufficient need based Micro Credit to the rural poor and women in particular.

**Physical and Financial Target up to 2015**

Formation of New SHGs : 1,25,000
Formation of New JLGs : 50,000
Bank Linkage of SHGs / JLGs (Nos.) : Over 3 Lakhs
Bank Finance to SHGs / JLGs (Amt.) : Rs. 4,500 crores
Conclusion

The strength of STCCS lies in having a vast network of 21 DCC Banks at District Level, with more than 603 branches at Block, Taluk and Hobli level and more than 4700 PACS at Panchayat and Village level. Hence, the STCCS outreach is more effective than Panchayaths in the state. Co-operative bank has increased the credit facility to the SHG’s. In 2007-08 Bank has financed Rs. 251.30 Crores but as per the recent statement of the Bank it has sanctioned Rs. 2037.18 Crores in 2011-12, which is almost ten times compare to 2007-08. This shows that Karnataka Cooperative bank is supporting for the SHG’s growth in the State. Numbers of SHG are dramatically increased in the State. It was 14,061 Self-help Groups in 2007-08 and it was increased to 19,495 in year 2010-11. But bank has promoted only 15,381 Self-help groups in 2011-12, which is less compare to the previews year that is 2010-11. Bank targets to finance at least 3 lakhs self-help groups by 2015.

Bibliography

5. NABARD Annual Report – 2011-2012
National Seminar on Contemporary Challenges for Indian Agriculture and Rural Development, January 2004. UAS, Dharwad.


11. Y M NiranjanBabu & Ashis Kumar Sahu A Case of ShriKshetraDharmasthala Rural Development Project linking Microfinance with Livelihoods.