Chapter 16
Self Help Groups:
Bank Linkage Model in India

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ABSTRACT

The chapter is based on the Self Help Group-Bank linkage Programme in India. The objective of the chapter is to assess the SHGs access to credit under SHG-Bank Linkage Programme, to know the progress of SHG-Bank Linkage Programme in India and to evaluate the impact of SHG-Bank Linkage Programme in India. Finally the chapter ends with suggestions to improve self help group-bank linkage programme and concludes that SHG-Bank Linkage Programme has provided a more favorable environment for enhancing India’s potential for greater equitable growth with empowerment while considering the positive signs in their performance.

BACKGROUND

Banking Industry in India has made tremendous growth in the past few decades, but despite its improvements there are concerns that banks have not been able to reach the vast unbanked population of the country. To convert the unbanked population into banked population is a matter of great concern, or in other words we can say that to ensure financial inclusion of the poor and the underprivileged section and to find the out the causes of financial exclusion is the area of great concern as well.

In the light of the above concern, National Bank for Agriculture and Rural Development (NABARD) initiated systems and policies that would help in fulfilling the requirement and needs of the poor. Mr. A. Ramanathan emphasises on improving the access of the rural poor to an integrated microfinance services covering both savings and credit rather than providing just micro credit facilities. As a wide network of bank branches already existed, the strategy focus was not on creating alternate organizations, but on finding ways and means to improve the access and efficiency of the poor to the existing banking network, through design of new products and delivery mechanisms. So, to resolve the problem, banks found a solution that could be used by them for increasing the access of poor to reach the banks and that is the Self Help Group- Bank Linkage Model.

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NABARD in the year 1992 in consultation with Reserve Bank of India, Commercial Banks and NGOs launched a pilot project for linking SHGs with Banks. Reserve bank of India had given directions to commercial banks to extend financial support to the SHGs as per NABARD guidelines. The project was further linked to Regional Rural Banks and Cooperatives.

In February 1992, NABARD promoted 500 SHGs with the pilot project programme. SHGs are basically originated by Prof. Mohammad Yunus, economist of Chittigong University of Bangladesh in the year 1975 to provide microfinance to rural women.

The SHGs in India were formed by Mysore Resettlement and Development Agency (MYRADA), a NGO in 1985 due to breakdown of the large cooperatives organized by MYRADA. By 1986–87, there were nearly 300 SHGs in MYRADA’s projects. MYRADA then approached NABARD for an action research project on self-help groups which funded the research. Within the same timeline, Asian and Pacific Regional Agricultural Credit Association (APRACA) weighed options and agreed on further action for effectively increasing credit access for the poor. In India, NABARD and a member of APRACA, carried out an elaborate study which gave useful insights into the dynamics of group organization, saving potential and repayment ethics of the poor. Encouraged by the results of the study and action research project of MYRADA, NABARD then launched a pilot project linking SHGs with Banks.

INTRODUCTION

SHG-Bank Linkage Programme is considered as a major strategy for providing financial services to the poor. It has its inception in 1990s and has made considerable and rapid strides exhibiting democratic functioning and group dynamism. It gathered momentum in the country during 1999-2000, as the credit linked during this period was more than twice the cumulative performance of the bank in credit linking of SHGs as on 31st March 1999.

The credit for such progress of Bank Linkage Programme in India is due to the active participation of NGOs, RBI, Commercial Banks, RRBs, Cooperative Banks, SIDBI, Private Banks, etc.

The National Bank continued to provide 100 per cent refinance assistance to banks for financing SHGs. The journey so far traversed by the Self Help Group – Bank Linkage Programme (SHG-BLP) crossed many milestones – from linking a pilot of 500 SHGs of rural poor two decades ago to cross 8 million groups a year ago. (https://www.nabard.org/english/shg_2.aspx)

Similarly from a total savings corpus of a few thousands of Indian Rupees in the early years to a whopping Rs. 27,000 crore today, from a few crore of bank credit to a credit outstanding of Rs. 40,000 crore and disbursements touching Rs. 20,000 crore during 2012-13. The geographical spread of the movement has also been quite impressive - from an essentially Andhra Pradesh – Karnataka phenomenon in the beginning now spreading to even the most remote corners of India. Over 95 million poor rural households are now part of this world’s largest micro Credit initiative (Table 1).

The main objective of the programme has been financial inclusion by extending outreach to the poor households making available credit services at their doorstep with easy and self-managed assess to formal financial services on a sustainable basis and in a cost-effective manner. The SHG-Bank Linkage Programme was given a renewed thrust with the launch of SHG-2. The focus of SHG-2 would be on voluntary savings, cash credit as a preferred mode of lending, scope for multiple borrowings by SHG members in keeping with repaying capacity, avenues to meet higher credit requirements for livelihood.
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