

Promoting Micro Finance in India through Linking SHGs with Bank Credit

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Abstract

Self Help Group (SHG) is a concept emerged in the direction of helping rural poor forming groups so that, they will improve their living conditions through voluntary participation in thrift and credit. The core objective is Flexibility, Transparency and Autonomy with Sensitiveness and Responsiveness of the participants. Now-a-days, lending by banks through SHGs is increasing due to cover all eligible entities in the fold of formal system. Therefore, this paper mainly deals with various aspects of linking SHGs with bank credit. Accordingly, formation and promotion of SHGs by NGOs/SHPs, activities of self-help groups, selection of good SHGs for finance, sanction of credit facility to SHG, and repayment of loan by SHG have been covered in the paper.

Key Words: Bank Credit, Credit Facility, Micro Finance, Repayment of Loan, Self Help Group.

Introduction

Self Help Group (SHG) is a small, homogenous affinity group of rural poor (10-20) comprising agricultural labour, small and marginal farmers, and micro entrepreneurs who have voluntarily come forward to form into a group. It can be a formal or informal group. Members of SHG save and contribute to a common fund, from which small loans are lent to the needy members as per the decision of the group.

The concept underlines the principle of Thrift (by way of compulsory savings) Credit and Self Help. Rural poor have the potential to save small amount and have the inherent trait to help themselves through mutual trust and active participation.

Formation and Promotion of SHGs by NGOs/SHPs

As the target group under SHGs are rural poor, illiterate and not able to understand the concept, the role of Non-Government Organizations (NGOs) and Self Help Group Promotion Institutions (SHPs) is crucial in formation and development of SHGs in the villages.

Concerted efforts are needed by promoting agency to bring people together by building confidence among them and making them understand and accept the objectives of the scheme. The role of promoting agency is important in bringing cohesiveness in the group and orienting group members towards group action. In our country, groups are formed by NGOs/SHPIs/Kisan Clubs/Government agencies and Banks. The evolution process for the group to emerge as a strong and vibrant entity would take at least 6-12 months.

Stages of Group Development

Forming and storming stage (0-3 months)

During this period, people come, sit with suspicion, fear and anxiety. They have high expectations and attendance to meetings is also not regular. They depend a lot on the facilitator and raise several doubts. There will be conflicts between individual and group interests. Conflicts among members is also seen. During this period, membership gets stabilized, natural leadership start emerging, norms and procedures are established, members start availing small loans and develop ownership feeling of the group.

Norming stage (3-4 months)

Members develop mutual trust, group becomes cohesive and peer pressure applied and sustained. Members show concern about the task, performance and start assuming more group responsibilities.

Functioning and developing stage (6-12 months and above)

Group starts performing various group functions that benefit the members. Members' participation is visible with high attendance. They start contributing responsibilities and joint ventures. Capacity building is contributing through interactions with outsiders and group impact is felt by all members. At this stage, the group members will not only think about their welfare but also involve in social and cultural activities in the area. A perceptible change in the living style of the members and their families is noticed after this stage.

Characteristics of Self Help Groups

Characteristics of Self Help Groups include

- Transparency in operations.
- Resolving conflicts through collective leadership and mutual discussions.
- Autonomous, Non-political and no outside influence.

- Improving base funds by Thrift, Internal Lending and mobilizing external funds like loans/grants/donations etc.
- Credit decision as per consensus in group meetings and credit delivery on the spot.
- Mutual trust and confidence & loans to members without collateral.
- Recovery through Peer Pressure.
- Democratic financial management system.
- Capacity building among members to interact with outsiders without fear or favour.
- Small, timely and need based credit delivery at the door step.
- Repeat loaning with impressive recovery.
- Involvement in social and cultural activities in the villages.

Selection of Good SHGs for Finance

SHGs eligible for credit linkage should be graded and selected for finance keeping in mind the undermentioned conditions:

- ◆ The SHG should have been in active existence and functional at least for a period of six months having satisfactorily generated internal savings and met credit needs of their members. The group may or may not be registered.
- ◆ The group should be conducting group meetings regularly and undertaking savings and credit operations from its own sources.
- ◆ The group should be working in a democratic manner and all the members should feel that they have a say in the matters of the group. The group should be maintaining proper accounts/records and the members must be aware of the financial condition of the group funds.
- ◆ The branch should be convinced that the group has not come into existence for the sake of participation in the project and availing benefits there under. Genuine need to help each other and working together should be felt by the members.
- ◆ The members of SHG should preferably have homogenous background and interest. Involvement of NGO/SHPI if any, should be evident and the agency should be helping the SHG by way of training the members for proper functioning of the group.

- ◆ A few members of the SHG or their family members might have taken loans directly from the Bank/other Institutions before forming into group and defaulted. This should not ordinarily come in the way of financing SHGs per se by Banks, provided the SHG itself is not in default to the Bank. However, the SHG may not finance the defaulting member from Bank loan.
- ◆ There should not be any interference from local authorities. The office bearers must be elected/nominated from the members of the group only.
- ◆ The members in a group should preferably be between 10 and 20 to avoid registration as per section 11(2) of the Companies Act.
- ◆ Service area restrictions are not applicable for financing SHGs.
- ◆ Savings Bank/loan account should be opened in the name of SHG only.
- ◆ It should be ensured by the financing bank that the group should not have any representative of NGO/Government Department or any salaried employee as a member.

Development of Base Funds

The base fund/corpus is developed in Self Help Groups by pooling resources like:

- Savings from members.
- Fines and penalties.
- Donations from charitable Institutions/grants in aid.
- Interest earnings from internal lending.
- Loan recoveries from members.
- Income from common assets of the group.

Linking of SHGs to Banks

The following six steps are involved in the process of linkage of a SHG to Bank:

- Opening of savings Bank Account
- Internal lending by the SHG
- Assessment of the SHG
- Checklist for assessment of SHG
- Sanction of credit to the SHG
- Repayment of loans by the SHG

Opening of SB Account for SHG

SB A/c in the name of an SHG can be opened after obtaining from the group the following documents:

- ✦ **Resolution from the SHG:** The SHG has to pass a resolution in the group meeting, signed by all members, indicating their decision to open SB A/c with the bank. This resolution should be filed with the bank.
- ✦ **Authorization from the SHG:** The SHG should authorize at least three members, any two of whom are to jointly operate upon their account. The resolution along with the filled in application form duly introduced by the promoter may be filed with the bank branch.
- ✦ **Copy of the rules and regulations of the SHG:** This is not a must. If the group has not formulated any such rules or regulations, loans can be sanctioned without them. A savings bank account passbook may be issued to the SHG. This should be in the name of the SHG and not in the name of any individual(s).

Conduct of internal lending by SHG

- ◆ After saving for a minimum period of 2 to 3 months, the common savings fund should be used by the SHG for lending to its own members.
- ◆ The purpose, terms and conditions for lending to its members, rate of interest etc. may be decided by the group through discussions during its meetings (RBI and NABARD have permitted the members to decide on these aspects). The interest is usually kept at 2 or 3 Rupees per hundred Rupees per month. Please remember that interest per month is better understood in villages, than annual interest.
- ◆ Simple and clear books of account of savings and lending should be kept by the SHG.

Assessment of SHG

Branches need to know whether the SHG has been functioning well. The checklist given herein after will help us to assess each SHG in a simple, but effective manner.

Sl. No.	Factors to be Checked	Very good	Good	Unsatisfactory
1	Group size	15 to 20	10 to 15	Less than 10
2	Types of members	Only very poor member	2 or 3 not very poor members	Many not poor members
3	Number of things	Four meeting in a month	Two meeting in a month	Less than two meeting in a month
4	Timing of meetings	Night or after 6 p.m.	Morning between 7 and 9 a.m.	Other timings
5	Attendance of members	More than 90%	70 to 90%	Less than 70%
6	Participation of members	Very high level of participation	Medium level of participation	Low level of participation
7	Saving collection within the group	Four times a month	Three times a month	Less than three times a month
8	Amount to be saved	Fixed amount	Varying amount
9	Interest on internal loan	Depending upon the purpose	2 or 3 rupees per hundred per month	More than 3 rupees per hundred per month
10	Utilization of savings amount by	Fully used for loaning to members	Partly used for loaning	Poor utilization
11	Loan recoveries	More than 90%	70 to 90%	Less than 70%
12	Maintenance of books	All books are regularly maintained and updated	Most important registers (minutes, saving, loans etc.) are updated	Irregular in maintaining and updating books
13	Accumulated saving	More than Rs. 5,000	Rs. 3,000 to 5,000	Less than Rs. 3,000
14	Knowledge of the rules of the SHG	Known to all	Many members know the rules. Some have little knowledge of it.	Most of the members do not know the rules
15	Education level	More than 30% of members can read and write	20 to 30% members can read and write	Less than 20 members know to read and write
16	Knowledge of Govt. programs	All are aware of Govt. programs	Many members know about Govt. programs	Most of the members do not know about the Govt. programs.

In a practical manner, SHGs with 12 to 16 "very good" factors may be granted loans immediately; SHGs with 10 to 12 "very good" factors - may be given 3 to 6 months' time to improve, before loan is given; SHGs with rating of less than 10 "very good" factors need not be considered for loan.

Points to be remembered while selecting economic activities:

1. Any income generating programme for SHG, should be based on traditional knowledge/skills and aspirations of the group members.
2. Traditional handloom and handicraft and existing artisan activities in a locality may be more successful than taking up altogether new activities.
3. The groups may be encouraged to adhere to the quality norms and diversify their product range.
4. The raw material required for the selected activity should be available locally or can be transported to the work site at a low cost.
5. Those activities should be chosen which require modest investment to begin with.
6. Simple and labour saving technologies may be introduced to facilitate SHGs work. For instance, if an SHG is engaged in rope making activity, the arduous task of beating the fibre manually may be substituted with some easy to use mechanical devices.
7. Selected activities should be such that these can be pursued at home or at the village. Moreover, existing workload and availability of time must be considered carefully. There is no need to move into factory type production.
8. Persons working in isolation due to certain social and cultural factors should be encouraged to form organizations like SHGs and helped to take up economic activities so as to realize the value of their labour at non-exploitative rates.
9. The selected activities should be as far as possible, be such which are of short gestation period and can provide immediate and perennial income. However, when high wages are available during sowing or harvesting season, the members of the group should be allowed to decide on their priorities.
10. Training and other technical inputs should be easily available for the selected activities. However, if needed, training and skill development for members should be designed to facilitate the work already undertaken by them making it more productive and profitable.

11. When the activity selected is non-traditional in nature, it may be difficult to find a local market for the products. In such circumstances it may be necessary to localize such activities by way of increasing the number of groups carrying out such non-traditional activities in the same area so that the total production in a given area can be increased. This will help in finding the market for the products.
12. Programmes designed for members should be based on the concept of self-help and sustainability. The dependency syndrome i.e. awaiting governmental or other assistance for everything will make all these programmes short-lived and eventually dormant.
13. While planning the activities, care should be taken to meet the infrastructural requirements such as work sheds and godowns etc.
14. Child care should be planned along with group formation. Members of the group can take turns in looking after children. Even child care can be taken up by one member of the group as an activity.

Sanction of Credit Facility to SHG

There are two methods of lending to SHG viz.

Direct lending to SHGs: After satisfying about the functioning of the groups, branch may sanction loan directly in the name of the SHG (not in the name of individual members), which in turn will lend internally to its members.

Indirect lending to SHGs through NGOs/SHPIs: If branch is not fully confident of lending to SHG directly, or where the SHG for various reasons, is not interested in taking loans from the Bank, the branch can extend credit facilities to the NGO/SHPI for on lending to SHGs promoted by them. Where bulk financing to NGO is resorted to, the branch should closely observe the working of SHGs by attending to their meetings etc., so that branch may develop necessary confidence in the SHGs for linking them directly at the end of bulk financing arrangement with NGO/SHPI. Branch should also verify the track record and financial position of NGOs/SHPI before extending such bulk finance.

Quantum of loan

The amount of loan to the SHG can be to the tune of 1 to 4 times of its savings. Bank can consider higher ratio, if it is satisfied about the SHG's health.

The savings of the group consists of

- ◆ The group's balance in the SB A/c,
- ◆ Amount held as cash with the authorized persons,
- ◆ Amount internally lent amongst the members,
- ◆ Amount received as interest on the loans,
- ◆ Any other contributions received by the group like grants, donation, etc.

Purpose of loan

Sanction of loans to SHGs by banks is based on the quantum of savings mobilized by the SHGs, but not for any specific purpose unlike in case of other schematic lending. Loan may be granted by the SHG for various purposes to its members. The bank does not decide the purpose for which the SHG gives loans to its members. The purpose can be emergency needs like illness in the family, marriage, etc. or buying of assets for income generation. The group will discuss and decide about the purpose for which loans are to be given to its individual members by the SHG. Loans to SHGs for group enterprises should be discouraged in initial stages.

Assessment of credit

SHG should prepare a credit plan for its members. Aggregate of this credit plan has to be submitted to the branch, on the basis of which, the branch will assess the credit requirement of the group.

Repayment

The SHG makes the repayment to the bank. The group is collectively responsible for the repayment of the loan. A repayment schedules is drawn up with the SHG, and the loan is to be repaid regularly. Small and frequent instalments will be better than large instalments covering a long period:

The group using their collective authority discourages defaults. Every member is made to realize that the money belongs not only to him, but also to the other members of the Group. The group members are collectively responsible for the repayment of loans to the bank. It has been experience of bankers who lend to SHGs that the repayments from SHGs are far better when compared to individual accounts.

Security

RBI/NABARD rules stipulate that no collateral security should be taken from SHGs. Collateral security is not necessary for the loans sanctioned to SHGs because of the following reasons:

- The members of SHGs know that the bank loan is their own money like savings.
- They are aware that they are jointly responsible for the repayment.
- Therefore, they exert moral pressure on the borrowing members for repayment.
- Because of this, the bank gets a much better repayment from the SHG.

Bank cannot hold the SB A/c balance of the SHG as a security as this will prevent the SHG from lending from its internal savings.

Documentation for Direct finance to SHG

1. Inter se Agreement to be executed by all the members of the Self Help Group. This is an agreement by the members with the bank, authorizing a minimum of three members to operate the group's account with the bank to be stamped as General Power of Attorney.
2. Application to be submitted by SHG to bank branch while applying for loan assistance. This includes details of the purposes for which the SHG gives loan to its members to be stamped as Indemnity.
3. Articles of Agreement for use by the bank while financing SHGs. This contains the duly stamped agreement between the bank and the SHG wherein both the parties agree to abide the terms and condition set thereon to be stamped as an Agreement.
4. Sponsorship letter from NGO/SHPI if sponsored by them.

The loan amount should not be handed over to the single representative of the group. Credit delivery to a group should always be in the presence of several office bearers of SHG and selected members. At least one of them should be a borrower so as to safeguard/prevent possibility of misappropriation of funds by the office bearers.

Advantages of SHG Credit Linkage Programme:***To Banks***

- ◆ Wider coverage
- ◆ Less desk work to field staff
- ◆ Low transaction cost to bank
- ◆ High recovery and no NPAS
- ◆ Externalization of credit function
- ◆ Goodwill creation and image building in villages for the Bank
- ◆ Meeting social objective
- ◆ Profitability.

To SHG Members

- ◆ Credit delivery (small, timely and need based) at the door step
- ◆ Flexible norms in credit dispensation
- ◆ Promotion of mutual trust and co-operation among members
- ◆ Development of thrift habit among poor
- ◆ Financial and social empowerment of members
- ◆ Employment generation in villages
- ◆ Confidence building among rural poor
- ◆ Improvement in standard of living
- ◆ Entrepreneurship development among SHG members
- ◆ Asset creation
- ◆ Loans without security and formalities
- ◆ Convenient loan repayment schedule.

What Makes the Micro Finance Different?

Micro finance has distinct place as it is

- ◆ Targeting poorest among poor,
- ◆ Organizing poor into group mode,
- ◆ Stimulating thrift habit among poor,
- ◆ Participation of rural poor in neighbourhood lending process,
- ◆ Loans without collateral,
- ◆ Quick disbursement of small and short term loans,
- ◆ Market related interest rates,

- ◆ Default management through peer and moral pressure,
- ◆ Transparent methods of operations coupled with clarity, defined responsibility and accountability of fund managers,
- ◆ Provision of package of financial and non-financial services for rural poor,
- ◆ Repeat loaning for impressive credit history etc.

Summing-up

Self Help Group is a concept emerged in the direction of helping rural poor forming groups so that, they will improve their living conditions through voluntary participation in thrift and credit. As the target group under SHG are rural poor, illiterate and not able to understand the concept, the role of Non-Government Organizations (NGOs) and Self Help Group Promotion Institutions (SHPIs) is crucial in formation and development of SHGs in the villages. Problems in rural lending like poor recovery, wilful default, high transaction cost, diversion of funds, heavy desk work to field staff and difficulties in supervision and follow-up by Banks can be reduced to a large extent by financing SHGs. Sanction of loans to SHGs by banks is based on the quantum of savings mobilized by the SHGs, but not for any specific purpose unlike in case of other schematic lending. Loan may be granted by the SHG for various purposes to its members. The bank does not decide the purpose for which the SHG gives loans to its members. Self Help Groups are graduating into Village level organizations and SHG federations.

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