

# Self Help Group (SHG) - Bank Linkage System in Microfinance

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**Abstract:** *Self Help Groups are small Group of members, who saves the amount on regular bases and avail loans from banks on the same. Providing microfinance through Self Help Groups has been one of the major policy of Reservation of India since 1996. Self Help Group Bank linkage Programme is considered as a pilot project , introduced by NABARD, which has been successfully accepted. Financial institute like Commercial Banks, Private sector, Cooperative banks, Regional Rural Banks are involved in providing micro finance service. This objective of the paper is to evaluate the process of Self Help Group Bank Linkage model .*

**Keywords -** *Self Help Groups (SHGs), SHG-Bank Linkage Programme (SBLP), Microfinance, Commercial Banks .*

## I. INTRODUCTION

Mohammad Yunus, popularly known as “Father of Micro-Credit System”, started a research project in Bangladesh in 1979 and came out with the idea of micro-credit that resulted in the establishment of Grameen Bank in 1983. This innovative research has touch very part of the Globe. The savings mobilized by the Self-Help Groups are not sufficient to meet the credit requirements of members especially for undertaking productive activities. Thus, it is necessary for SHGs to supplement their resources by availing loans. In order to assess the efficacy of SHGs as an effective instrument of credit delivery, the National Bank for Agriculture and Rural Development NABARD, in consultation with the Reserve Bank of India, commercial banks and NGOs, launched a pilot project in 1991-92 for linking SHGs with banks.

## II. SELF HELP GROUP CONCEPT

SHG is a group formed by the community women, which has specific number of members like 15 or 20. In such a group the poorest women would come together for emergency, disaster, social reasons, economic support to each other have ease of conversation, social interaction and economic interaction.

Self-Help Group (SHG) is a small voluntary association of poor people, preferably from the same socio-economic background. They come together for the purpose of solving their common problems through self-help and mutual help. The SHG promotes small savings among its members. The savings are kept with a bank. This common fund is in the

name of the SHG. Usually, the number of members in one SHG does not exceed twenty.

**Self Help Group Bank Linkage Program (SBLP) :** The SHG-Bank Linkage Programme initiated by NABARD, in active collaboration with NGOs, aimed at enhancing the coverage of rural poor under institutional credit thereby focusing on poverty alleviation and empowerment .

## III. SHG –BANK LINKAGE SCHEME CAME UP WITH THE OBJECTIVES

- To Develop mutual faith between the rural people and the banks.
- Expand credit flow to the rural poor with less transaction costs.
- Combine flexibility, sensitivity and responses of the informal credit system with the strength of technical and administration capabilities and the financial resources of formal financial institutions.

## IV. NABARD

NABARD was established on the recommendations of B.S Committee, (by Act 61, 1981 of Parliament) on 12 July 1982 to implement the National Bank for Agriculture and Rural Development Act 1981. It is one of the premier agencies providing developmental credit in rural areas. NABARD is India's specialised bank for Agriculture and Rural Development in India. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, banks and NGOs. International associates of NABARD include World Bank-affiliated organizations and global developmental agencies working in the field of agriculture and rural development. These organizations help NABARD by advising and giving monetary aid for the upliftment of the people in the rural areas and optimizing the agricultural process. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, banks and NGOs. NABARD is also known for its 'SHG Bank Linkage Programme' which encourages India's banks to lend to self-help groups (SHGs). Largely because SHGs are composed mainly of poor women, this has evolved into an important Indian tool for microfinance.

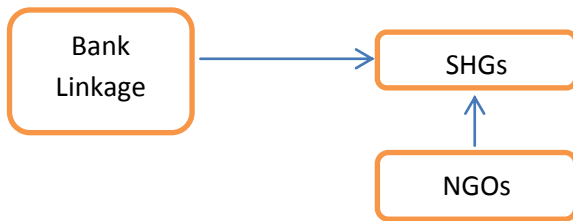
## V. MODELS OF SHG-BANK LINKAGE PROGRAMME

This was coupled with a commitment by NABARD to provide refinance and promotional support to banks for the

SHG - Bank Linkage Programme. For linking SHGs to the banks there are 3 models presently working in India.

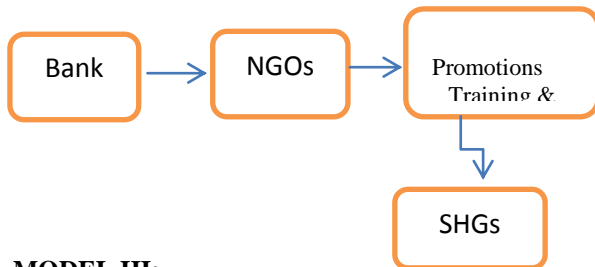
**MODEL I: SHGS FORMED AND FINANCED BY BANK:**

In this model the bank itself works as Self help promoting Institute, by forming and nurturing the SHGs group from opening their saving account till providing the loans. The credit is generally made available to groups and members to be financed are identified by the group itself which takes the responsibility of loan repayment.



**MODEL II: SHGS FORMED BY NGOS AND FORMAL ORGANISATIONS, BUT DIRECTLY FINANCED BY THE BANKS:**

In this Model NGOs and other agencies act as a facilitators. They form and nurture the group, promote, train them in credit management. The members to whom the loan is to be given are identified by the group itself. The credit is given to an individual.



**MODEL III:**

In this model the NGO's role is only to create a group and stabilize, where in the banks the sole responsibility for promoting developing and financing the SHG. But this model is not an encouraging one. Only few of the SHGs follow this model.



**Progress of SHG - Bank Linkage Programme in India Table No:1.1**

**Overall Progress under SHG-Bank Linkage Programme in India (2006-2013)**

(Amount in crore)

S. No	Year	Saving with Bank		Loan distributed to SHGs		Loan Outstanding against SHGs	
		Amount	Growth %	Amount	Growth %	Amount	Growth %
1	2006-07	3512	-	6570	-	12366	-
2	2007-08	3785	7.8	8849	34.7	17000	37.5
3	2008-09	5546	46.5	12254	38.5	22680	33.4
4	2009-2010	6199	11.8	14453	17.9	28038	23.6
5	2010-2011	7016	13.2	14548	0.7	32221	11.4
6	2011-2012	6551	-6.6	16534	13.7	36340	16.4
7	2012-2013	8217	25.4	20585	24.5	39375	8.4

Source: Status of Micro finance in India from 2006-07 to 2012-13, A NABARD Publication.

Table No:1.1 clearly shows the progress of SHG bank linkage programme in India. The saving amount with the bank was 3512crore in the year 2006-07 and 8217crore in the year 2012-13. The growth rate switched from 7.8% in the year 2007-08 to 25.4% in the year 2012-2013. Loan distributed to SHGs in 2006-07 was 6570 crore and 20585crore in 2012-13. The loan distributed to SHG growth rate varied from 34.7% in 2007-08 to 24.5% in 2012-13. Loan outstanding against SHG amounted 12366crore in 2006-07 to 39375 crore. Loan outstanding against SHG Growth rate varied from 37.5% in 2007-08 to 8.4% in 2012-13.

**Refinance Support to Banks:**

The loans issued to SHGs by banks and NABARD refinance to banks in detail is shown in table No1.2. NABARD has been extending 100 per cent refinancing to bank for their lending to SHGs since the SHG-bank linkage programme was launched.

**TABLE No 1.2**

**Loans Issued to SHGs by Banks and NABARD Refinance to Banks**

(Rs.in cores)

S.No	Year	Loans to SHG by Banks	NABARD refinance to Banks	Growth%
1	2006-07	1292.86	1292.86.	-
2	2007-08	1615.50	1615.50	25.0
3	2008-09	12253.51	2620.03	62.2
4	2009-2010	14453.30	3173.56	21.1
5	2010-2011	14547.73	2545.56	-19.8
6	2011-2012	16534.77	3072.59	20.7
7	2012-2013	20585.36	3916.64	27.5

Source: Status of Micro finance in India 2006-07 to 2012-2013, A NABARD Publication.

Table No 1.2 shows the Loans Issued to SHGs by Banks and NABARD Refinance to Banks in India. Loans given to SHG by Banks increased from 1292.86 crore in 2006-07 and 20585.36 crore in 2012-13. NABARD refinance to banks showed an increased from 1292.86 crore in 2006-07 to 3916.64 crore in 2012-13.

**Progress under Microfinance - Bank Loans disbursed to SHGs**

**Table No1.3**

Agency-wise position during 2012-13

(Rs.In Lakhs)

S. No	Name of Agency	Loans disbursed to SHGs by Banks during the year		Out of Total Under SGSY		Out of Total -Exclusive Women SHGs	
		No. of SHGs	Loans disbursed	No. of SHGs	Loans disbursed	No. of SHGs	Loans disbursed
1	Commercial Banks	73557	1338500.7	88594	107261.4	633234	1148398.30
2	Regional rural Banks	312010	562652.22	58890	73536.00	273835	519987.39
3	Cooperative	172234	157383.5	33688	39949.76	130333	117045.39

bank							
Total	1219821	2058536.44	181172	220747.16	1037402	1785431.03	

Sources: Status of Micro finance in India 2012-2013.

Table No 1.3 shows the agency wise distribution of loans for the year 2012-13. Commercial banks reported 1338500.7 crore, regional bank reported 562652.22 crore, cooperative bank reported 157383.5 crore

**VI. CONCLUSION**

With the help of this programme ,RBI, NABARD have tried to improve the relationship between the poor and the bankers , with the help of NGOs. SBLP has proved to be an essential tool for poverty alleviation and liberation of poor. Thus NGO have become an essential part of linking the SHG with the bank to facilitate them to improve their living standards and develop the economic and social factor.

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