

**SHG Bank Linkages in North West India**  
**Experiences and Challenges in Financial Access and Poverty Alleviation**

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## Executive Summary

Microfinance has evolved as an accepted institutional framework to provide financial services to the poor in the developing countries and Self Help Groups (SHGs) are considered as the vehicle for advancement of micro-credit to them. The "credit-plus approach" of microfinance through SHG not only provides small, timely and easy loan to the poor without any collateral but also inculcates saving behaviour amongst them. The microfinance movement through SHG has been also considered as an effective development tool to enabling SHG members to graduate to microenterprises and in turn, to tackle poverty. Against this theoretical backup, the present study assesses the performance of SBLP and its impact on poverty.

In this context, the present study deals with SHGs and its members. It reviews the performance of SHGs on various issues including their saving and credit mobilization, linkage with banks, leadership issues, monitoring processes, book keepings and group training; and perspective of micro-enterprise development. In the process we look at who are the women who join SHGs, factors for joining the groups, economic background of these women, asset structure of the households they belong to, educational background of members, their occupational structure, income sources of their households, SHG participation in terms of meetings, attendance, saving and inter-lending behaviour, sources, purpose and usage of loans, type of IGAs involvement, repeat loans, contribution of SHGs in households and impact on households especially on poverty. What could be the higher levels of undertaking of micro- enterprises or livelihood activities? The study was conducted by drawing samples from four states including Gujarat, Rajasthan, Himachal Pradesh and Madhya Pradesh. It covers 1000 member households with 250 from each state and five members from each SHG.

The limited literature argues for an integrated approach by promoters in a group formation. The focus has to be on savings, credit and income generation activity of the poor, especially the poorest. Social skills should be developed among the poor like peer monitoring, leadership solidarity, and business- acumen and so on. Most promoters do not follow group formation theory. It is top down approach; poor need finance so form groups. Targets are set. Sustainability is an issue. There are regional differentiations. Interest rate is an issue. The studies do not throw light on why a particular interest is charged. Group members are not made self-sufficient in management; reliance on promoters continues in one form or the other. This is dependency syndrome. Products do not suit all clients.

Promoters lack vision on micro-enterprises. Though micro-finance proponents argue that collateral is not required, banks often use savings as collateral. It is thus the nature of collaterals just changes. It is also brought out that there is no alternative to formal banking inclusion. The argument that poor borrow at high interest rate from moneylender does not mean that they should pay 16-30 percent interest rate on small loans extended by Microfinance Institutions. Here the issue is social justice versus business in micro-lending. The issue also is does an asset given on loan to women become her personal asset; not in poor households- it is becomes a family asset.

The practice of microfinance at the moment is basically confined to two aspects such as lending and repayment. There is hardly any follow-up between credit advancement and repayment. Because of this, microfinance programme is unable to graduate to micro- enterprises.

Articulation of poverty is multi dimensional, which add deprivation to individual and households at different levels. Therefore, the SHG movement primarily centered on delivery of credit is most unlikely to respond to poverty eradication fully unless it is accompanied by a simultaneous development of skills, managerial capacities and micro-enterprises.

Broad group-wise some of the salient findings that emerge from the analysis are presented below.

#### **A. Composition and Functioning of the Group**

The functioning the group and its stability has been assed through a set a variables like nature of group composition, kind of rules and regulation for running the group, practice of update rules, regularity in meeting, attendance in meeting, selection of group leaders, practice of rotating leadership, regularity of savings, revision of mandatory savings, fixation of rate of interest, decision on who is to be given loan, keeping emergency funds, record/book keeping and level of maintenance of records.

- The bulk of the SHGs i.e., around 74.5 per cent of the SHGs are at least 5 years old. On an average, the average size of the group was 14.5 and around 75 per cent SHGs had more than 10 members.
- Distribution of SHGs by caste composition indicates that 59 per cent of the group had members from the same community and the remaining 41 per cent groups had members from different castes.
- A mixed caste structure in the SHG was prominent in Himachal Pradesh (60% groups) followed by Rajasthan, Madhya Pradesh and Gujarat. In other words, except Himachal Pradesh, relatively higher percent of SHGs in other states are having members from the same caste.
- It seems caste play an important role in defining group's homogeneity.
- Distribution of SHGs by economic status of members reveals that 18 per cent of the sample SHGs had no members from PBL category. Apparently, about 31.5 percent of such SHGs have the bulk of their membership drawn from non-poor families. Of the total members in our sample SHGs across states, only 40 percent were BPL. This indicates that microfinance is concentrating more on APL families.
- There is no evidence of election for leaders in any these SHG in our sample states. In about 88 per cent of SHGs, leaders were nominated by SHG members themselves. Only in 12 cases, either SHPI or NGO/Bank staffs nominated the group leaders.
- Of the total sample SHGs, 88 per cent of them had written rules and regulation and only 57 per cent of the groups had revealed updating their rules and regulation.
- It is observed that groups having written rules and regulation are more prone to update compared to groups having oral rules and regulations.
- The practice of monthly meeting (86.5% groups) was quite common across the SHGs in all the sample states and about 77 per cent groups reported of conducting meeting regularly. However, only about in 60.5 per cent SHGs, more than 75 per cent of members were attending group meeting regularly.
- It is observed that in bout 52.5 groups, the book of accounts and individual passbooks are maintained by insider i.e., group representative (49.5%) and literate members (3 %), whereas for the remaining group it was maintained by the outsiders consisting of

representative of SHPI/NGO/Government agencies and/or person employed by the SHG.

- It was found that that 68 percent of SHGs had regular, accurate and update financial accounts (saving register, loan register, bank accounts, and individual passbook).
- The level of maintenance of book of accounts and individual passbook is noticed regular, accurate & updates to a significant extent when these records are being managed by the outsider (including representative of SHPI/NGO/Govt. agency, any person employed by the SHG and Member/Leader's relative) compared to insider including group representative and a literate member.
- Based on the 13 indicators (as mentioned above), of the 200 SHGs, 27 percent of the groups are found to be strong and stable. A majority of the groups (62.5%) are found to be moderately stable. 10.5 percent groups are found to be poor.

## **B. Savings Behaviour**

In most of the groups though a combination of poor and non-poor members were there, the amount of compulsory saving was the same for all members. In fact, there was no provision to save more simply because of unequal savings capacity. Depending on the savings capacity, the amount of monthly contribution is generally decided by the group members themselves. The saving amount varies between Rs.25 to Rs.100 per month.

- It was observed that more than 75 percent of members contribute regularly savings in case of 77.5 per cent SHGs and in most of the cases they deposit in the group meeting.
- Evidently, 56.5 percent SHGs had revised compulsory saving per member since their formation. The average number of times revised compulsory savings was 0.95 times.
- The distribution of internal funds reveals that overall 45.5 percent SHGs had more than Rs.50000 internal funds, for another 28 percent SHGs this was within the range of Rs.25000-50000. Only 26.5 percent SHGs had the internal funds up to Rs.25000.
- In the case of Rajasthan, around 82 percent of SHGs had more than Rs.50000 internal funds. For other states, this figure was between 32 and 36 percent.
- The average amount of loanable funds (savings plus interest and other income) per SHG varies between Rs.44,659 and Rs. 128,012 across the states with an average figure of Rs.66,570. Similarly, the average saving as percent to average loanable funds varies between 62.04 percent and 88.97 percent across the sample states. Other things remaining the same, the ratio between savings and interest and other income is highest in Rajasthan, while the same is lowest in Madhya Pradesh. It implies that SHGs from the former states, on an average generate more amounts of loanable funds through interest and other sources of income compared to other sample states.
- It was observed that whenever the amount of internal funds (i.e. total funds in the group) of the SHG has risen, the compulsory savings as per cent to internal funds of the group has declined. This implies that as the amount of internal funds increases, the frequency as well as amount of internal lending too increases.

## **C. Bank linkages and Internal lending**

- Lending to the poor is considered to be costly and risky because of their low savings propensities and inability to provide collateral. SHGs, however, can target the poor better since the joint liability compels these group to be small and homogeneous, so that

members have incentives to participate in selection, monitoring and ensuring the repayment of loans. Having all these characteristics, it is observed that repeat loan to a SHG is hardly seen. Even, most of the well functioning groups have not obtained loan for more than once.

- The average number of times raised loan from Bank/MFI per SHG since starting the group stands at 2.11. SHGs from Himachal Pradesh have obtained relatively higher number of times loan from Bank/MFI against SHGs from other states. This figure was lowest in case of Rajasthan.
- The average amount of loan obtained each time by a SHG stands at Rs.69976. This figure was the lowest in Madhya Pradesh (Rs. 22229).
- Evidently, on an average, the amount of loan obtained each time by a SHG move in an opposite direction with respect to its extent of stability. For instance, the average amount of loan obtained each time by A (strong and stable) category groups was the highest (Rs.73631) followed by B (Moderately stable) category groups (Rs.73153) and C (Weak) category groups (Rs.26933).
- However, the average times of raised loan by A, B and C category groups stand at 1.91, 2.30 and 1.43 times respectively. It is likely more percent of A category groups may not be asking for loan to banks as they have enough funds (saving + interest income). Because of this, the average number of times loan raised is less in A category groups compared to B category groups. But, for C category group bankers may be rationing loan. Thus, for A category group we can say that there is demand constraint (less demand for loan) and for C category SHGs there is supply constraints (even if they ask for loan).
- Only in few cases, where either the group representative is having some connection with bankers or through the SHPI, the group have obtained loan more than one time. We are said that most of the groups tried for second loan but they are denied by bankers by saying no such scheme to extend credit to SHG at present except through SGSY scheme.
- Few well functioning SHGs from Rajasthan, Himachal Pradesh and Madhya Pradesh even reported that in spite of visiting banks for several time with detailed loan documents and other records, their cases are still pending. Because of this, all most all the SHGs have started generating greater amount of loanable funds through regular contribution. Out of 200 SHGs, around 20 percent of them are of the view that they can manage to meet their consumption and short-term credit (to purchase seeds, fertilizer and other farm requirements) needs through internal loan. Around 5 percent SHGs are even reported that they need no more external funds to meet their loan requirements.
- It is also observed that around 75 percent SHGs are in a position to provide a loan of amount Rs.2000 to its member at any point of time from internal funds.
- As most of the SHGs are not obtaining loan from the bank any more, and since the amount of loan from internal funds was small, it did not provide the opportunity to undertake an activity which would bring the household out of poverty.
- Three major patterns have been observed in inter loaning system. First, disbursing of loan as and when demand made by the member borrower. In such pattern, the group maintains the credit limit depending upon the availability funds and likely demand of loans by other members. Second, disbursing of loan on circular basis. Here, the group normally fix the loan amount and disburse to member one after another still the circle is over and they decide the loanee by consensus. Third, disbursing equal amount of loan to

all members. Here, the group first decide the loan amount depending on the availability of funds and distribute to its members equally. It is observed that because of internal loaning system, the SHG members as well as their household depending on informal credit market has reduced significantly.

- Marginalized communities are discriminated more under the microfinance program.

#### **D. Repayment pattern**

The repayment pattern of loan varies across groups and regions. However, most of the groups follow either 5 or 10 equal installments at reducing rate of interest for the repayment of the loan. Few SHGs have even fixed the repayment period. In such cases, the member borrowers can repay the loan with one or two installments within the stipulated time period. This kind of repayment pattern was mainly observed in the region where households primarily depending on agriculture or work as agricultural labour.

#### **E. IGAs and Poverty alleviation**

Some of the outstanding issues in the credit operations of the micro-finance programme are the following.

- i. The purpose-wise distribution of loan amounts indicates that the micro-finance programmes give emphasis on either consumption or income generation. However, a good balance between these two is often lacking.
- ii. As the loans provided for income generation were often small, members were unable to undertake viable income generation activities and earn good income.
- iii. These programmes concentrate almost entirely on women. The social conditions come in the way women undertaking non-farm activities in general and income generating activities in particular.
- iv. Lack of skills obstructs women in undertaking non-farm activities. Lack of appropriate training facilities also adversely affects their entrepreneur capacity.
- v. Most of the villages are small and depend on large villages and towns for marketing their produce and purchase of essentials. The possibility of starting small business, trade and services in such villages are, therefore, limited. As there were few opportunities other than agriculture, members, especially women, found it difficult to formulate viable proposal on non-farm activities.
- vi. There is paucity of funds for undertaking 'credit plus' activities such as training in skills, marketing, etc., as either the formal banks or the funding agencies do not often provide funds for these activities. The funding agencies only provide funds for on-lending to the target group, and their support does not often include capacity building component. As a result, the loan obtained through the SHG can meet mostly either the household consumption need or short-term production activities like financing crop production.

Nevertheless, the survey of members of SHGs reveals that most are happy with SHG movement. Immediate needs for funds are fulfilled though interest rates charged are high, but no one complained. Not all have set up micro-enterprises and milk based activity is more prominent as market channels are developed. Education level of most members is below primary or no education. Main occupations of members include animal husbandry, NREGA, housewife, agricultural wage labour. Income sources of the households are agriculture, dairy, salaried jobs and non-agricultural wage labour. The average annual income is relatively high across states; Rs.97398. This means households are not relatively poor.

There are very few unmarried, divorced and separated category members. It appears that poorest of poor are left out- scheduled caste from micro-finance movement as is evident from our sample households. It is revealed that 59.3 percent members presently put their households as non-poor. The average age of members in the sample is 39.7 years. The sample average family size is 5.2. Not all households have agricultural land. There are 735 households owning land (735%) with average holding of 1.53 acres. 48.9 percent live in pucca house while 33.3 percent reside in semi-pucca house and the remaining live in kutchra house. Most own the house they live in across states and also have electricity. It is only in Rajasthan that 14.8 percent households do not have electricity in their houses.

Respondents have cited a variety of reasons. The most important one is for saving and credit (36%), followed by to get loan in need/ emergency easily at low interest rate (23.55%), only saving (14.8%) and influenced by SHPI/ other SHG members (9.1%). 90 percent members reported regular meetings of groups, though the lowest proportion is from Madhya Pradesh (81%). A higher percentage of members from Madhya Pradesh and Rajasthan reported meetings happening occasionally. The causes of poor attendance in group meetings include engagement in wage labour and opportunity cost is high of attending the meetings and most members are from Madhya Pradesh. Poor health is another reason.

Savings contribution to group varies from a low of Rs.10 to Rs.200. Most members contribute Rs.50 or Rs.100. 88 percent members characterize their savings as regular and this percentage varies between 67.2 percent in Madhya Pradesh and 98 percent in Gujarat. The main cause of poor savings habit is low income and majority from Madhya Pradesh cited it. Only 4 percent contribute more than scheduled compulsory savings and most are from Madhya Pradesh (38) and 2 from Rajasthan. Inter- loaning is high. There are cases who have borrowed 15 times. Thus repeat loan is common. The interest rates vary between zero interest rate to 30 percent. However, majority of members have obtained loan at 24 percent followed by 12 percent and 18 percent. The main purposes of borrowing are: consumption (26.72%) followed by farm activities (14.59%), medical exigencies (11.32%), house repair (10.74%) and income generating activity (IGA- 9.92%). Members have recurring deposits, fixed deposits and regular savings account. Some also have voluntary deposits with SHG too.

It is found that only 20.3 percent members have taken loan for income generating activities. This percentage varies between 13.6 percent in Madhya Pradesh and 26.8 percent in Himachal Pradesh. Dairy (buffalo rearing) tops the list of IGAs. This activity has daily cash flow which is suitable for poverty reduction if all other factors are provided for like fodder, marketing channels etc. It is found that familiarity with work is the most important reason cited in all states except Madhya Pradesh. It is followed by demand for product/ service exists. The other

reasons cited are easy availability of raw material, limited capital required, can manage with household chores, caste based occupation, and loan was given for the particularly activity only. It is the husband who helps in marketing (78 cases) and it is more so in all states except Madhya Pradesh. In 57 cases member herself does the marketing. And son contributes in 25 cases. This reflects on poor gender empowerment.

Finally, it may be stated that SHG movement financing has reduced dependency on moneylenders, enhanced financial inclusion. Many households have been able to buy durable assets in the past three to four year in terms of TV, washing machine, cows, buffaloes, farm equipment and so on. This means that poverty reduction took place. Besides, the present income is far greater than even the incomes reported in NSSO 59<sup>th</sup> round on farmers for farmers. The survey also shows that if little better off individuals are provided low interest finance then, greater chances are there for them to come out of poverty situation. However, these households also show that existing asset based is important as most households had land and other assets to rely up on. Repayment is a problem in a sense that money for repayment is taken from other sources and also new loans used to repay the existing loans.

How SHPIs work? All have different modes. Some are forming SHGs only as a project, if they get outside funding and thus there is no symbiotic relation between the promoter and SHGs. Some have adopted federation system to pass on the responsibility to members. It appears that the common member is never consulted. All decided by the promoter as to what is good for poor. Entry points are different for forming SHGs and so is the origin point. For instance in some cases, drought led them to organize poor in groups and in others moneylenders role led them to form groups. It also appears that SHPIs have not built capacities of the poor even where federation system is in place. There are large over heads and thus high transaction costs. This leads to high interest rates. In this situation the processes followed by promoters does not really help in poor getting out of poverty situation. In some cases we have found that loan procedures are also not simple. It moves up and down the line. There is also difference in approaches of large and small promoters. This also means that promoters keep tight hold on groups and do not allow outsiders to interact with members of the groups. In some cases penalty system for default is heavy and does not solve the problem as to why the default occurs.

Finally, there is a dire need for exclusive models/ products for very poor households. NGOs also exclude such households. For micro-enterprises, credit plus is required. This study finds that dairy is the most sought after activity as there are linkages existing already and there is demand for milk. Marketing channels are important. Micro-entrepreneurs are not willing to take risk as cost is unbearable. Scale is also important. So any intervention has to take into consideration for promoting IGAs to reduce poverty.