

**SHPI-Bank Consultation Meet
Taking SHG Bank Linkage to the Next Level
3rd May, 2013, Patna**

**Organized by:
ACCESS ASSIST**

Summary Paper

SAMRIDHI (Poorest State Inclusive Growth Programme) is being implemented by SIDBI with support from the Govt. of UK's Department for International Development (DFID) to enhance the income and employment opportunities of poor households in underserved states in India. The purpose of the program is to improve income and reduce vulnerability of poor people and small producers by expanding their access to finance and markets. The program, inter-alia, aims to reach out to 10 million credit clients during the period of 7 years in the four states of Uttar Pradesh, Bihar, Madhya Pradesh and Orissa by way of capacity building of MFIs, facilitating technology led models, product development and roll-out, setting up risk funds, etc.

ACCESS-ASSIST, a specialised affiliate of ACCESS Development Services for Financial Inclusion, is the consortium partner for SAMRIDHI and has been assigned the task of implementing the critical policy and enabling environment component under the programme.

One of the identified priorities within SAMRIDHI policy mandate is to undertake initiatives leading to enhance flow of funds from banks for microfinance, both in the MFI and the SHG channels. Towards this, ACCESS-ASSIST is organizing State level SHPI Banker Consultation meets, that are intended to provide a platform for a constructive and forward looking discussion between banks and SHPIs for overcoming some barriers to SHG-bank lending in the state.

The second such consultation was organized in Bihar in partnership with NABARD State Regional Office at Hotel Gargee Grand, Patna on May 3rd, 2013. This paper presents a summary of the issues and recommendations that emerged from the half day discussions. ACCESS-ASSIST as part of the policy mandate will follow-up on some of the key recommendations with respective agencies to influence action and change.

1. Context and Objectives

The SHG bank linkage program of NABARD completed 20 years in 2012, since the pilot project of promotion and linkage of 500 SHGs conducted in 1992. While NABARD's objective of promoting the SHG Linkage Program was primarily to provide access for rural poor households to mainstream financial infrastructure of banks, the model has since been promoted by both government and non-government agencies to deliver women focused social and economic development programmes, giving a further push to the growth of the SHG model. The total number of SHGs reported is 8 million with loan portfolio outstanding of INR 36,340 crore on 31st March 2012. However, it is evident that this growth is not representative of the entire country with the southern region still accounting for 54% of the total SHGs in the country. Bihar is one of

the states that particularly lags in terms of outreach of SHG linkage model, which is starker considering the high poverty levels in the state. The table below provides a summary of the **status of Bihar** and other SAMRIDHI states in SHG Bank linkage.

As on 31st March, 2012¹

Parameter	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	National Figure
Total Population(lakh) ²	1038.04	725.97	419.47	1995.81	12101.93
Total Rural Population (lakh) ³	920.75	525.37	349.51	1551.11	8330.87
Poverty ratio for rural area ⁴	55.3%	42%	39.2%	39.4%	33.8%
Potential Rural households to be covered (Lakh)	73.51	62.09	51.11	138.19	-
Rural households covered *(SHG: savings linked) (Lakh)	39.66	21.27	70.2	61.25	1034.8
Districts with low coverage of SHGs	37of 38	37of 50	3 of 30	70of 75	-
Number of SHGs (with bank accounts)	305,113	163,588	540,029	471,184	7,960,349
Loan issued to No. of SHGs(lakhs)	0.39	0.09	0.50	0.34	11.48
Average savings/SHG (Rs)	4,602	6,864	6,692	7,815	8,230
Average credit disbursed/SHG (Rs)	101,580	109,064	108,562	129,115 ²	144,046
Loan outstanding (crore)	1040.71	414.08	1653.39	2031.77	36340
NPA as %age to Loan O/S (NPA against Bank loan to SHGs)	6.18%	22.45%	11.865	12.51%	6.09%

* No. of SHGs x 13 members / SHG

Only 54% of the potential households are covered under SHG bank linkage in Bihar with all but one district with low coverage. It is therefore clear that much needs to be done to support promotion of good quality SHGs and their linkage with banks in the state.

While banks are consistently blamed for not taking adequate interest in lending to groups and not considering SHG lending as a value proposition, it is a fact that there are issues on demand side regarding quality of SHGs, monitoring and management of groups by SHPIs and so on. Banks have been viewing SHG bank lending not as a business proposition but as poverty alleviation program. This consultation aimed at moving ahead on the discussion on issues and

¹Source: NABARD: Status of Microfinance in India 2011-12

^{2&3} Census 2011

⁴ Poverty ratio 2009-10

challenges, to soliciting practical suggestions for overcoming some of the challenges, such that bank lending to Self Help Groups can improve in the state.

The objectives of the consultation meet were:

- Present the status and strategies of SHG bank linkage and related programmes in the state
- Facilitate discussion and convergent action among the concerned stakeholders towards enhancing bank lending to SHGs
- Seek feedback on possible sustainable models for SHPIs to continue to support SHGs in the long term

1. Participants

The consultation meet was well attended by stakeholders associated with SHG-Bank Linkage model including senior officials from Banks, representatives from SHPIs, apex development finance institutions including NABARD and SIDBI, Funding organisations, technical resource agencies.

2. Opening Remarks and Presentations by Key Speakers:

The opening presentations and remarks made by key speakers provided a background on the present status of SHG Bank linkage programme in the state, and highlighted some innovative programmes as well as issues and challenges that still exist.

According to Tendulkar Committee, 55% of population in rural Bihar is poor. This can be extended to assume that the financially excluded population will be about 80%. Looking at this challenge, there was a consensus on the potential of SHG as a platform for holistic development including holistic financial inclusion (savings, credit, insurance and pension services), social and political empowerment of women and access to entitlements through convergence with government schemes and setting up micro-enterprises. Programmes such as IFAD funded Priyadarshini being implemented by NABARD and Jeevika being implemented by Bihar Rural Livelihoods Promotion Society (BRLPS) aim at using the SHG model for providing access to all financial services. However, bank linkage of groups for credit is still the most important aspect of the program, and this needs support and cooperation of banks across the state.

The highlights from Opening presentations and remarks are provided below:

i. SHG Bank Linkage in Bihar: Status and Challenges, Mr. D V Deshpande, CGM, NABARD, Bihar Regional Office - Presentation

CGM, NABARD shared the progress made by Bank-SHG linkage program in Bihar. The current status of SHG Bank linkage program and the existing potential was shared . The loan provided to the SHGs over the years by Banks in Bihar is given below:

Year	Achievement during the Year	Cumulative Achievement
2006-07	26118	72339

2007-08	19669	92008
2008-09	18502	110510
2009-10	23997	134507
2011-12	26055	160562
2012-13	20684 (upto 31.12.2012)	181336 (upto 31.12.2012)

The challenges identified in Bank-SHG linkage which have hindered the progress of the program in the state were:

- SHG movement is still in the primary stage
- Illiteracy and lack of awareness
- Low banking penetration
- Weak Infrastructure in the district affecting outreach and capacity building efforts
- Conservative attitude of bankers - reasons manifold
- Lack of quality/ capable SHPI partners

NABARD has made significant efforts and progress sustain the SHG-Bank linkage movement. Upto March 2013, 356 SHPI Projects were sanctioned which benefitted 49580 SHGs and financial assistance of about Rs. 2900 lakh was provided. 430 Training & Sensitization Programmes were conducted to cover Bankers, NGOs, Govt. officials, SHG members, etc to build their capacities and orient them towards rural business. No. of JLGs formed and credit linked across the state so far has been about 30000 with support from NABARD.

The future strategy identified by NABARD for better implementation of Bank-SHG linkage program in Bihar is:

- Broadening the SHPI base - roping in RRBs, DCCBs , FCs, & VWCs as SHPI
- Sensitisation of bankers through Exposure Visits
- Coordination with other stakeholders
- Putting in place a vibrant MIS by SLBC/ GoB
- Monitoring, review by SLBC/ DLCC/ BLBC
- Emphasis in low density districts
- Encourage banks for exclusive branches for SHGs- microstate branch
- Activity Based Groups of local activities - handloom, handicraft, paintings, fruit processing
- Creating alternate livelihoods options through stakeholders

- Collaboration with other stakeholders for capacity building and sensitisation program
- Requesting the Govt. of Bihar for a greater role
- Felicitating the works of stakeholders - Awards
- Specific studies to find out inhibiting factors

ii. SHG Bank linkage in Bihar: Prospects and Way forward, Mr. N B Dattatreya, AGM, RBI Regional Office - Remarks

- There is a gap in potential for SHG promotion and Bank linkage in Bihar as compared with the potential
- A RBI study on status and effectiveness of SHGs promoted within SGSY indicated following issues:
 - Significant delays in loans to SHGs from banks
 - Lack of coordination among government agencies and banks
 - Revolving Loan Fund was inadequate to support self employment needs of the women
 - Groups formed with motivation of receiving programme subsidy and therefore not sustainable
 - Low outreach in remote and inaccessible areas
- It is important to change the mindset of bankers through investments on dissemination of success stories and extensive banker sensitization and exposures
- Paperwork related to SHG Bank linkage should be rationalised.

iii. Potential for SHG Bank linkage in Financial inclusion and Women's empowerment, Ms Bandana Preyashi, Managing Director ICDS and Project Director, WDC, Bihar - Remarks

- SHG movement has high prospects for women development however its full potential in form of social capital has not been achieved so far.
- Credit linkages of SHGs and amount of credit provided are not adequate
- Attitude of bankers towards SHG lending is still not positive; bankers should look at lending to SHGs as an opportunity of giving back to the society in addition to the business value
- At the same time, promoters of SHGs should recognise that banks need confidence regarding repayment of loans, and should work on SHG quality and monitoring of loan repayments
- The Social capital developed through SHGs has withered due to low investments in building their capacities
- Approach of 'Bank Mitra' being followed under Jeevika is promising and could be more widely adopted for Financial inclusion
- The SHG programme needs to be taken ahead in a "Mission Mode" going forward.

iv. Successes and challenges of Priyadarshini Programme, Mr. SharadJha, DGM, NABARD - Presentation

- The Government of India (GOI), with the support of the International Fund for Agricultural Development (IFAD) is implementing Women's Empowerment and Livelihoods Programme (Priyadarshini Programme) in Madhubani and Sitamarhi districts (2 blocks

each). The program started from 4th December 2009 and the program completion date is December, 2017.

- The Programme aims at the holistic empowerment of 40500 rural poor women and adolescent girls supported by sustainable and improved livelihoods
- SHGs is the basic platform from which enterprise activities shall develop
- Producer Groups of aspiring entrepreneurs with similar sub-sector interests to be formed from mature SHGs.
- In the Implementation Phase for the First three years, programme concentrates on capacity building activities for the SHGs, other CBOs, support organisations & pilot demonstrations of various economic opportunities
- In the Consolidation phase i.e. Fourth to eighth year, program concentrates on enterprise promotion and development
- Some of the significant progress made by the program so far- 8 CSCs each opened in both the districts, 2470 SHGs formed, 271 SHGs credit linked, 152 lakh savings mobilized from the SHGs and total Bank loan of Rs 137 Lakh given to the SHGs.

v. Banker's Experience: Mr. Ramavtar, DGM, Canara Bank - Remarks

Canara Bank is unique in having a strategic rural focus in setting up branches and has been supporting SHGs, NGOs and government programmes such as Jeevika. Towards supporting SHGs and Financial inclusion, the Bank:

- Has been supporting training of groups through its R-SETI
- Reaches out to underserved areas through 13 Financial Inclusion braches and 23 Ultra small branches
- Has set up specialised Microfinance branches in the state to cater to SHG lending. The Bank provides unique facility of Overdraft facility in savings account to SHGs
- And, is now planning to add other services such as micro-insurance and micro-pension to provide comprehensive financial inclusion

vi. Jeevika experience of SHG Bank linkage and Financial Inclusion, ,Mr. Mukesh Saran, Jeevika - Presentation

Jeevika shared its experience of establishing formal association with various banks for SHG bank linkage through a strategic approach. The two main issues identified by the team through initial interactions with banks were (1) lack of reliable bank friendly books of accounts of SHG level and (2) absence of push from banks' management for performance on SHG linkage.

Jeevika followed the following strategy to address these issues:

Supply Side efforts

- Preparation of Standardized Books of Records: Inclusion of Case studies methodology and ensuring uniformity in training module.
- Rolling of Uniform Books of Records supported with MIS
- Negotiations and Strategic MoUs with 4 Commercial Banks and 3 RRBs
- Exposure visits for Bank Officials
- Exposure visits both internal and external
- Bank Mitrasto help poor clients in banking transactions
- Close follow up with Banks & sharing of report regularly

Policy Level Efforts

- Inclusion of BRLPS as member of SLBC, DLCC and BLBC
- Formation of a Dedicated Steering committee of SLBC on “ SHG Financing and Financial Inclusion”
- Getting approval from Steering Committee of SLBC to make 1st dose of SHG financing at minimum of Rs 50,000 and 2nd dose of financing at Rs.1, 50,000.
- Approval of Bank Mitra Policy from steering committee
- Taking support of seasoned retired Banking Personnel as Micro Finance Consultants
- Mandate passed from steering committee to make Block and District level managers belonging to BRLPS eligible to authenticate residential/ identity proof for poor women

As a result of the above, the process of opening of bank accounts of group and disbursement of loans to groups is now smooth in all Jeevika project areas.

Key Issues for Way Forward:

The following aspects and issues were highlighted as significant by the Key speakers for future prospects of SHG bank linkage:

- Banks to view SHG lending as sustainable business proposition; Sensitization of and engagement with bankers at all levels; Banks need confidence regarding repayment of loans
- Encouraging banks for exclusive branches for SHGs/financial inclusion
- Banks should innovate to provide performance linked incentives to SHGs to encourage culture of repayment as well as loan uptake
- Availability of reliable data disaggregated by districts and banks through a vibrant MIS
- Creating alternate/additional livelihoods options for SHG members
- Recognizing and awarding good work of organizations in this area
- Studies to identify specific problems restricting growth and quality of groups in the state
- Emphasis for SHG formation in low intensity districts
- Potential negative impact of subsidy on group dynamics and sustainability
- Reduce paperwork required for SHG bank loans
- Effective and efficient models to deliver insurance services to SHG members, including potential for partnerships from stakeholders for scaling up of insurance in Jeevika groups

3. Summary of discussions

The second part of the consultation was conducted through Small-group discussions on four topics emerging out of the issues highlighted earlier. The summary of these thematic discussions is provided below:

4.1 What will make SHG lending a business proposition for Banks?

- a. Banks now appreciate the importance of SHG lending for the poor members and also recognize its business value.

- b. Systems such as SHG accounting and auditing and ICT based MIS at bank and SHPI level to track performance of SHGs.
- c. Infrastructure support and capacity building for bank branches including allocation of additional staff
- d. Delinking subsidy from SHG operations will help SHGs retain their credit and savings discipline
- e. Livelihood activities by SHGs needs to be more heterogeneous with proper handholding and business development support from SHPI/ other agencies. Currently it has been observed that several SHG tend to do similar livelihood activities thus facing challenge of marketing end produce making it riskier for banks to lend.

4.2 How can SHPIs build capacities and monitor and nurture groups in the long run (after NABARD support for SHG promotion ends)

- a. SHPIs should be able to charge SHGs a fee for the services rendered to be sustainable.
- b. SHPIs should also receive commission/service charge from banks for loan repayment by SHGs (similar to the Department of Financial Services, Government of India scheme for LWE and Backward districts)
- c. Timely circulation of new instructions and guidelines among SHPIs and Banks.
- d. Standard SHPI rating will help Banks identify good SHPIs while lending to them. This will also develop inter-SHPI competition to perform better on SHG quality

4.3 What more can NABARD do to meet challenges/ issues in SHG promotion and linkages.

SHPI capacity and institution building

- a. Evaluate capacity of each SHPI and its approach in program implementation and field monitoring
- b. Conduct a gap analysis and come out with key recommendations for improvement of SHPIs. This should lead to documentation of a clear roadmap for forming SHGs with role and quality specifications for SHPIs Training on KYC for SHPI staff is important
- c. NABARD needs to be more “friendly” with SHPIs in their approach

Bank sensitization and policy

- d. Sensitizing commercial Bank staff is important and NABARD needs to take this up seriously. This should include sensitization visit of Bankers to SHG and rural business.
- e. Develop ready to refer kits for bankers on SHG formation, grading and lending
- f. Needs timely sharing of circulars their applications and regular refreshers for all the circulars issued.
- g. Policy advocacy with banks for making branch level changes to support SHG linkage and Financial inclusion such as specification of a dedicated day for SHG and Financial inclusion at branches or a dedicated person in branch

Sector development

- h. Investments in making SHG-bank transactions more efficient (an ongoing pilot by NABARD is on using BCs for SHG transactions)
- i. Documentation and dissemination of best practices

- j. Financial literacy is important to support financial inclusion and should be taken up in a large scale

4.4 What are the ways for convergence for other SHG linkage programmes/ efforts with Jeevika?

- a. It was felt by the stakeholders that multiple state level organizations should exist in the state and the entire mandate for SHG promotion and linkage should not rest in one organization such as Jeevika.
- b. Other programmes and organizations should incorporate learning from Jeevika model such as book keeping, insurance etc
- c. NRLM will soon release partnership guidelines which will provide mechanisms for other stakeholders to work with Jeevika
- d. Currently Jeevika has strategically agreed to leave out areas where any other agency/program is following saturation approach such as Priyadarshini program.
- e. Roll out of Insurance services is an area in which Jeevika is looking for stakeholders to partner with

4. Conclusion

While the challenge of financial inclusion challenge in the state is huge, different institutions have varied capacity to serve different target segments. The common issue among the key players in the inclusion arena is capacity building, quality of information available and quality assurance of institutions. There is an urgent need to actively seek areas of co-operation to augment and complement efforts towards achieving total financial inclusion. The SHG Bank Linkage programme has a significant role and potential towards contributing to the inclusion challenge. However, this needs strategic investments in institution and systems building as well as development of a revenue based model for long term support and monitoring of SHGs