

Role of Self Help Group (SHG) Bank Linkage Programme in Financial Inclusion: Study on PACS in West Bengal

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Abstract

Financial inclusion means providing financial services and products to the poor and vulnerable sections of the society at an affordable cost. Microfinance through Self Help Groups (SHGs) has become an important vehicle to meet the savings and credit needs of the poor, especially women in rural areas. The Self-Help Groups (SHGs) represent a non-institutional channel of microfinance. The Self-Help Group (SHG)-Bank linkage model is a crucial channel where commercial banks lend directly to SHGs formed explicitly for this purpose. This serves as a meaningful link between commercial banks and the SHGs. The microfinance services provided through SHG - bank linkage has so far been the most successful initiative in financial inclusion.

More than 90% members of SHGs are women and most of them are poor and asset less. The SHG movement has begun to support financially to the women, who are not getting formal banking facilities at an affordable cost. One of the distinctive features of the SHG - Bank Linkage Programme has been very high and on-time recovery. SHGs and micro enterprises are playing significant role in the self-employment by raising the level of income and standard of living rural people. Ensuring collection of small savings and disbursement of credit through SHGs are done by PACS successfully.

Keywords: SHG, Women Empowerment, Bank Linkage, PACS.

Introduction

Financial inclusion broadly means the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. Since late nineties, the sophisticated and competitive financial services enable access to a wide range of financial products and opportunities to meet emerging credit needs. The coverage under financial inclusion is assessed in terms percentage of adults, having bank accounts. The bank accounts may be all types of deposit and credit accounts but generally only the saving accounts have been considered more realistic measure.

The Self-Help Groups (SHGs) represent an informal channel of microfinance. An SHG is formed by the persons having similar social and economic background, voluntarily forming a cohesive group. The members agree to save small amounts regularly by collecting their savings into a common fund and they meet their emergency needs from the common fund.

The group has a leader and the members use collective wisdom to ensure proper use of credit and timely repayment thereof, a method recognized as an effective substitute for collaterals. SHGs are proving to be the most effective instruments for financial inclusion. The objectives of the SHG program are to alleviate poverty, increase sustainability, reduce vulnerability, improve capacity building and help the weaker sections build assets, increased education, better standard of living, reduced child mortality and child labour, emancipation cum empowerment of women, and communal cum religious harmony are value adding benefits to the country.

Objectives of the Study

1. To study the progress of SHG-Bank linkage programme in financial inclusion of the vulnerable section of the society

- To assess the Primary Agricultural Co-operative Credit Societies (PACS) role in financial inclusion specially in West Bengal.

Sources of Data

The data used are secondary data. The data collected on number of SHGs in different years, number of bank linkages, amount of savings and credit disbursement in different years, Number of SHGs via PACS in different districts of West Bengal and respective savings and loans.

The main sources of data are annual report of NABARD, Co-Operative Societies, RBI Bulletins etc.

Findings of the study

In 1991, Self-Help Groups rose to prominence with NABARD promoting SHGs on a large scale and RBI allowing them to open a savings account and have since, seen tremendous expansion. As of 31st March 2011, there are 74 lakh SHGs covering over 10 crore households saving with the formal banking system under the SHG-Bank Linkage Programme (SBLP). Women played a prominent role in setting up and managing SHGs. Currently, over 90% of all the SHGs in India comprise of women. SHGs are perceived as a platform for empowering women through financial inclusion and social development. The Government, NGOs and international agencies seek to leverage this existing infrastructure and strong participation of women to ensure that the public programs reach the targeted beneficiaries. To promote this vision, programs such as Aajeevika - National Rural Livelihoods Mission (NRLM) have been launched which envision SHGs to be an effective tool in poverty reduction and livelihoods generation.

SHG -Bank Linkage Programme-Origin The main aim of the SHG- Bank Linkage Programme is to tap the potential of the SHG concept to bring banking services to the door steps of the poor, especially the women who have been neglected by the formal financial agencies in the past (NABARD-2002a). Through the Linkage Programme, NABARD would like to realise the vision of empowering the rural poor by improving their access for the formal credit system in a cost effective and sustainable manner.

Under the SHG-Bank Linkage Programme, the SHGs are linked with the banks and the members can avail financial assistance at a low rate of interest without any collateral security; which helps the poor to get funds for various purposes including the setting up of Micro Enterprises. The linking bank verifies the efficiency and effectiveness of the NHGs on the basis of verifiable and easily identifiable parameters

Criteria for Linking Banks under SHG-Bank Linkage Programme.

- Members preferably have homogeneous background.
- Age of the group
- Weekly group meetings
- Attendance of members
- Proper recording of discussions in minute's book.
- Participation in group discussion
- Savings (frequency)
- Savings and loan receiving

- Style of function and group decisions
- Loan repayment position.
- Interest on loans
- Sanction and disbursement of loans.
- Recovery of loans
- Maintenance of proper accounts.
- Knowledge about the bye-laws by members.

Advantages to Banks

- Mobilisation of small savings.
- The problem of dealing efficiently and economically with a large number of small borrowers is overcome through Self Help Groups.
- As the task of assessing individual credit needs, sanctioning, supervising credit and monitoring repayment are externalized, the transaction cost considerably reduced and,
- Assured and timely repayment because of group supervision, which leads to faster recycling of funds.

Advantages to SHGs

- Provide door-step saving and credit facility for the poor.
- They enjoy total autonomy in thrift and credit management.
- Access to larger amount of funds.
- Strive for gradual improvement in the economic status of each member.
- Promoting SHG members as well as quality micro enterprises.
- Leading to empowerment of the poor.

Advantages to NGOs

- Recognition as socio economic change agents and
- Emergence as bridge between poor and the banks.

Models of Linkage

Three distinct linkage models of SHG-Bank Linkage are currently being followed in India.

Model I

SHGs formed and financed by banks. In this model, banks themselves take up the work of forming and nurturing the groups, opening their savings accounts and providing them bank loans. Up to March 2007, 19 per cent of the total numbers of SHGs financed were in this category.

Model II

SHGs formed by formal agencies other than Banks, NGOs and others but directly financed by Banks. This model continues to have a lion share with 74 per cent of SHGs financed upto March 2007 falling under this category. Here, NGOs and formal agencies in the field of Micro Finance act only as facilitators. They facilitate organizing forming and nurturing of groups and train them in thrift and credit management. Banks give loans directly to these SHGs. Model

Model III

SHGs financed by Banks using NGOs and other agencies as financial intermediaries. This is the model where in the NGOs take on the additional role of financial intermediaries. In areas where the formal banking system faces constraints, the NGOs are encouraged to approach a suitable bank for bulk loan assistance. This in turn is used by the NGOs for

lending to the SHGs. In areas where a large number of SHGs have been financed by bank branches, intermediate agencies like federations of SHGs act as link between Banks and member SHGs. These federations are financed by banks, which in turn, finance their member SHGs. The share of cumulative number of SHGs linked under this model up to March 2007 continued to be relatively small at 8 per cent (NABARD 2005).

Self-Help Groups as extended arms of the Primary Agricultural Co-operative Credit Societies (PACS)

In West Bengal, Self-Help Groups are recognized as Co-operatives within a Co-operative. In SHGs 15-20 persons having same economic condition, belonging to the same locality and democratic control of the group; on the other hand in Co-operatives, open and voluntary membership, democratic control of members, participation of members in economic activities of the Group, autonomy and independence, education, training and information, cooperation amongst different groups and concern for the community — all the seven Co-operative Principles do exist in these Groups. Since these are un-registered informal groups, and the PACS' cannot finance non-member units, the State Government, in exercise of the power conferred upon it u/S. 69(1)(d) of the West Bengal Co-operative Societies Act, 1983, permitted the PACS' to enroll Self-Help Groups as members of the PACS. As per Khusro Committee's recommendation PACS business activities should have two prongs — individual members and Self-Help Groups. Later on NABARD-sponsored SHG programme acted as a booster and the Self-Help Groups in the Co-operative Sector in West Bengal assumed the shape of a movement in the State. The central Co-operative Banks act as the facilitators and the State Co-operative Bank as the coordinator.

The following roles are now played by the Self-Help Groups in West Bengal:-

Economic Activities for Self-Sustenance

SHG promotes collection of regular savings from the members and depositing of the same with the PACS, determination of the fund requirements of

the members, selection of loanee according to the priority needs of loans of the group, sponsoring of the loan proposals to the PACS, disbursement of loans amongst the members concerned, collection of the periodical installment of loan (principal + interest) along with periodical savings from the members and depositing of the same with the PACS, keeping of accounts and records. The economic activities undertaken by the SHGs include agricultural activities (paddy cultivation or fishery on oral lease of land or water-area, backyard poultry, duckery, piggery, goatery), agricultural processing and marketing (marketing of packaged indigenous rice, cashew nuts, spice powders, jam, jelly, pickles, lentil cakes or badi/naksha-badi, paddy-to-rice, paddy-to-perched rice / muri etc.), cottage industries (cane and bamboo works, sewing and tailoring, embroidery, jari-work, dokra/ brass metal art-work, door mat making, jute bag and soft toy making etc.), agricultural input production (vermicompost and bio-fertilisers, nursery), hawking / vending of agricultural produces, garments, grocery etc. Loans are also provided for consumptive purposes like medical treatment, marriage or like social function, children's education etc.

Social Activities

The SHG group beside economic support to the members also protect the members in different social evils like torture on wives by their husbands, wastage of hard-earned money in liquor shop, unhygienic sanitary system leading to diseases, illiteracy, dowry system etc., hospitalization of the ailing member, participation in immunization and social forestry programmes.

Self Help Groups Formed By The Pacs As On 31.03.2009

As per information available from the ranges, the total no of SHGs formed by the PACS as on 31.03.09 was 1.58 lakh. The total no of members of the SHGs was 12.80 lakh, of which 11.52 lakh were female members. The total amount of deposit raised by them as on 31.03.09 was Rs 116.64 lakh and the total amount of loan issued was Rs 265.97 lakh. The Range-wise position is shown in the following table:-

Particulars of Self-Help Groups Formed By The Pacs As On 31.03.2009 (Rs In Lakh)									
Sl. No.	Name of The Range	Total No of Shg Formed	No of Member of Shg	of Which Female Member	Total Deposit Raised	Total Loan Disbursed	No of Shg Obtained Credit Facility	% of Recovery	No of Shg Started Economic Activities
1	Bankura	12655	113459	109848	959.38	3379.18	9484	91	9484
2	Birbhum	1836	16150	13259	252.46	352	1101	96	
3	Burdwan-I	7770	56708	43168	398.86	186.35	4023	89	4651
4	Burd-li	7068	56110	43020	442.36	867.1	3958	92	3405
5	Burdwan-ii	364	2646	1830	24.4	26.71	284	85	NR
6	Coochbehar	6992	62509	57000	357.08	489.81	6434	97	NR
7	Dk Dinajpur	2584	23502	22542	242.36	671.55	1669	74	NR
8	Darjeeling	618	5605	5006	56.97	45.08	328	78	NR
9	Hooghly	29855	196262	195012	1875.74	7760.45	27215	99	NR
10	Howrah	5364	29145	26321	437.34	861.52	2409	98.28	NR
11	Jalpaiguri	2378	23374	22719	219.54	353.79	2124	33.69	NR
12	Malda	12341	115487	101883	916.49	2130.17	9775	98.13	NR
13	Murshidabad	12095	100301	90887	1529.93	4540.22	9388	92	NR
14	North 24-Pgs	2302	22540	8702	185.97	97.04	852	40	NR

15	Nadia	14156	127943	115384	1067.53	767.29	7703	97.28	NR
16	Pashim Medinipur	4825	43644	33798	392.48	363.62	2982	83.16	NR
17	Purba Medinipur-I	5670	44540	38621	420.65	864.92	3396	95.55	3396
18	Purba Medinipur-II	12549	98846	91724	954.03	582.78	6767	91	6767
19	Purulia	2945	30768	29232	142.09	179.79	693	87	NR
20	South 24-Pgs	5123	40849	38558	278.99	723.66	4618	97.72	NR
21	Uttar Dinajpur	8846	70126	63654	509.86	1354.18	6851	63	NR
	Total	158336	1280514	1152168	11664.51	26597.21	112054		27703

Conclusion

The micro-credit support extended to the self help groups together with other extension support such as skill upgradation, enhancing entrepreneurial abilities along with providing necessary infrastructures and marketing support helps the SHGs to cross the barriers that keep them below the poverty line. The table below is an illustrative list of the various types of activities taken up by the SHGs, who have passed Grade I level formed Under SGSY in the State.

Support of professional bodies are being taken for upgrading skills of the SHGs for improving quality of the products as well as to meet the tastes of the people. A tie-up has been made with the National Institute of Fashion technology (NIFT) for training selected SHGs engaged in manufacturing of certain products like Kantha Steech Sarees, handicrafts, leather goods etc.

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