

## **PROGRESS OF SHG BANK LINKAGE IN INDIA-2005-06**

### **INTRODUCTION.**

NABARD has been playing a leading role in the microfinance programme for two decades now. It has been catalysing the banking system in the country to join hands progressively with informal delivery channels to give SHG-Bank Linkage the necessary momentum. During the current year too, it has continued to nurture healthy expansion of the programme by providing umbrella support to its stakeholders.

During 2005-06, these efforts have resulted in credit linkage of 620,109 new SHGs with mainstream banks as against 539,365 SHGs during 2004-05 thus registering 15% growth over the previous year. The cumulative number of credit linked SHGs increased from 16,18,456 as on 31 March 2005 to 22,38,565 as on 31 March 2006. The active participation of women (90%), and timely loan repayment (over 90%) continue to be the prominent features of the programme. Proactive measures such as enlisting partnerships, capacity building of partner agencies, documentation and dissemination of best practices etc., served to expand the programme. The year witnessed an all round growth in the SHG-Bank Linkage programme in many non-southern states. The programme thus enabled an estimated 32.98 million poor households in the country gain access to microfinance from the formal banking system .

NABARD has been instrumental in facilitating the formation and nurturing of SHGs, involving all possible partners in the arena. Realizing the task involved in group formation which is process oriented, NABARD has been encouraging involved voluntary agencies, bankers, socially spirited individuals, other formal and informal entities and also government functionaries to promote and nurture such groups. The focus was on building capacities of the partners and providing assistance in meeting the incremental costs of nurturing of SHGs. Under NABARD's capacity building programmes for its partners, 283,825 participants were trained and field visits for 7221 bank officials were arranged during the year. NABARD also extended extensive support for arranging and conducting awareness creation and capacity building programmes for the SHG members in association with identified resource NGOs. During the year, a total grant assistance of Rs. 81.25 million was sanctioned to 337 NGOs, 15 co-operative banks, 8 RRBs and 415 Individual Rural Volunteers (IRVs) through 9 banks to promote 38,317 SHGs, the cumulative assistance sanctioned being Rs.334.60 million for promotion of 249,350 groups.

On an experimental basis, Revolving Fund Assistance (RFA) to select NGOs and micro Finance Institutions (mFIs) is provided by NABARD. So far, RFA of Rs. 273.20 million has been sanctioned to 32 agencies and Rs. 215.28 million has been released against which Rs. 92.49 million is outstanding as on 31 March 2006.

NABARD's emphasis on scaling-up the SHG-Bank Linkage programme in 13 priority states that account for 70 per cent of the country's rural poor has resulted in seven fold increase in the number of SHGs credit linked during the period 2003-06. As a result, the share of states other than the southern states increased from 28 % as on 31 March 2002 to 46 % as on 31 March 2006.

During the year, NABARD has redesignated Micro-Finance Development Fund (MFDF) as Micro-Finance Development and Equity Fund (MFDEF) and enhanced the fund size from

Rs. 100 crore to Rs. 200 crore. An amount of Rs. 113.50 million from MFDEF was utilized during the year towards up-scaling of SHG –Bank Linkage Programme.

NABARD's collaboration with external agencies like SDC and GTZ for supporting and strengthening the programme continued during the year.

***This report seeks to place before its readers the details of support provided by NABARD under the SHG-Bank Linkage Programme and to microfinance institutions (MFIs) during 2005-06.***

### **Self Help Group – A Concept**

A Self Help Group (SHG) has an average size of about 15 people from a homogeneous class. They come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritisation of needs, setting terms and conditions, and accounts keeping. This gradually builds financial discipline in all of them. They also learn to handle resources of a size that is much beyond individual capacities of any of them. The SHG members begin to appreciate the fact that resources are limited and have a cost. Once the groups show this mature financial behavior, banks are encouraged to make loans to the SHG in certain multiples of the accumulated savings of the SHG. The bank loans are given against group dynamics without any collateral and at market interest rates. The groups continue to decide the terms of loans to their own members. Since the groups' own accumulated savings are part and parcel of the aggregate loans made by the groups to their members, peer pressure ensures timely repayments. Apart from financial help at the time of need, the group provides social security to its members.

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## SHG - Bank Linkage 2005-2006

### HIGHLIGHTS

#### 1. *Physical achievements*

Number of new SHGs formed during 2005-06	: 781,958
Number of new SHGs financed by banks during 2005-06	: 620,109
Number of existing SHGs provided repeat finance by banks during 2005-06	: 344,502
Number of poor families accessing bank credit including repeat finance during 2005-06	:13.50 million.
Estimated number of poor people covered during 2005-06	:67.50 million.
Cumulative No. of SHGs financed by banks upto March 2006	: 2,238,565
Number of poor families who have accessed bank credit upto March 2006	:32.98 million
Estimated No. of poor people assisted upto March 2006	:164.90 million
Number of SHGs comprising only women members	: over 90 %

## **2. Credit Flow to SHGs**

Bank loan disbursed to new SHGs during 2005-06	: Rs. 23,305 million
Repeat loans disbursed by banks to existing SHGs during 2005-06	: Rs. 21,686 million
Increase in credit flow to SHGs over the previous year	: 50 %
Cumulative bank loans disbursed to SHGs upto March 2006	: Rs.114 billion

## **3. Partnerships**

Number of participating banks	: 547
Commercial Banks	: 47
Regional Rural Banks (RRBs)	: 158
Cooperatives	: 342
Number of bank branches lending to SHGs	: 44,362
Number of participating NGO and other agencies	: 4,896

## **4. Geographical Spread**

Number of States & Union Territories	: 31
Number of Districts	: 583

## **5. Support from NABARD**

### **5.1 Capacity Building of Partner Institutions**

No. of Programme conducted during 2005-06	: 5,014
No. of participants trained during 2005-06	: 283,825
Cumulative number of participants trained upto March 2006	: 1,299,423
Cumulative fund support upto March 2006	:Rs. 213.66 million

### **5.2 Grant Assistance to SHPIs for Promotion of SHGs**

Grant Assistance sanctioned to Self Help Promoting Institutions (SHPIs) during 2005-06	: Rs. 81.25 million
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Cumulative Grant Assistance sanctioned to SHPIs  
upto March 2006 : Rs. 334.60 million

#### **5.4 Revolving Fund Assistance (RFA) to MFIs**

Number of MFIs provided with RFA : 32

RFA provided to MFIs during 2005-06 : Rs. 37.00 million

Cumulative RFA to MFIs upto March 2006 : Rs. 215.28 million

#### **5.5 Refinance Support**

Refinance drawn by banks from NABARD  
during 2005-06 : Rs. 10677 million.

Cumulative refinance drawn by banks  
upto March 2006 : Rs. 41597 million.

## SHG - Bank Linkage 2005-2006

### DETAILS

The performance of banks in linking self-help groups (SHGs) to the banking system scaled further heights during the year. The banks financed 620,109 new SHGs during 2005-06 (539,365 SHGs during 2004-05). The cumulative number of SHGs credit linked with banks increased to 2,238,565 as on 31 March 2006 covering more than 32.98 million poor households as against 1,618,456 SHGs covering 24.3 million poor households as on 31 March 2005.

Total bank loans disbursed to SHGs during the year aggregated Rs. 44,990.86 million (including repeat loans of Rs. 21,686.32 million provided to existing SHGs already financed in earlier years) as compared to Rs. 29,942.52 million disbursed during the previous year, registering a growth of 50.3% over the previous year. The refinance drawn by banks from NABARD stood at Rs. 10,677 million during 2005-06. The cumulative progress in financing SHGs from 1992 onwards, in physical and financial terms is given in Table 1.

Table : 1

### SHG-Bank Linkage- Cumulative Progress (1992-2006)

Upto end March	SHGs financed	Bank Loan (Rs. million)
1992-99	32,995	571
1999-00	114,775	1,930
2000-01	263,825	4,809
2001-02	461,478	10,263
2002-03	717,360	20,487
2003-04	1,079,091	39,042
2004-05	1,618,456	68,985
2005-06	22,38,565	113,975

As may be seen from Table – 1, the bank loans aggregating Rs.113,975 million were disbursed to 2,238,565 SHGs with refinance support of Rs. 41,597 million from NABARD, upto 31 March 2006. Around 90 per cent of the SHGs linked were exclusive women SHGs. Various studies revealed that the on-time repayment of SHG loans to banks was over 90 per cent.

### Regional Spread of SHG-bank Linkage

The year witnessed a perceptible increase of SHG-Bank Linkage across all the regions as indicated in Table 2.

**Table : 2*****Positive Trends in Cumulative Growth in SHGs Linked to Banks***

<b>Region</b>	<b>March 2001</b>	<b>March 2002</b>	<b>March 2003</b>	<b>March 2004</b>	<b>March 2005</b>	<b>March 2006</b>
Northern Region	9,012	19,321	34,923	52,396	86,018	133,097
North Eastern Region	477	1,490	4,069	12,278	34,238	62,517
Eastern Region	22,252	45,892	90,893	158,237	265,628	394,351
Central Region	28,851	48,181	81,583	127,009	197,365	267,915
Western region	15,543	29,318	42,180	54,815	96,266	166,254
Southern Region	187,690	317,276	463,712	674,356	938,941	1,214,431
<b>All India</b>	<b>263,825</b>	<b>461,478</b>	<b>717,360</b>	<b>1,079,091</b>	<b>1,618,456</b>	<b>2,238,565</b>

The positive growth of SHG-Bank Linkage in some of the regions indicated in Table 2 was facilitated by the State/ region specific strategies developed by NABARD in consultation with its Regional Offices at the State level, banks, NGOs and the State governments. Promotional efforts were launched in these States by NABARD through its Regional Offices, participating agencies and other institutions including the government and non-governmental agencies. NABARD took specific steps to identify district-level bottlenecks in upscaling SHG-Bank Linkage in the States of Bihar, Uttar Pradesh, Rajasthan, Assam, Madhya Pradesh, West Bengal and Orissa by conducting Goal Oriented Project Planning (GOPP) programmes for the district officers of NABARD in those States. This enabled NABARD to widen its network of partnership beyond the NGO sector for formation and nurturing of SHGs in these States.

***Different Models of Linkage***

The three models of credit linkage of SHGs with banks showed the following trend as on 31 March 2006 :

***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. Upto March 2006, 20% of the total number of SHGs financed were from this category. This showed an increase of 61.63 per cent in bank loan to SHGs over the position as on March 05, reflecting an increased role of banks in promoting and nurturing SHGs.

***Model II : SHGs formed by formal agencies other than banks, NGOs and others, but directly financed by banks***

This model continues to have the major share, with 74 % of the total number of SHGs financed upto 31 March 2006 falling under this category. Here, NGOs and formal agencies in the field of microfinance act only as facilitators. They facilitate organising, forming and nurturing of groups, and train them in thrift and credit management. Banks give loans directly to these SHGs.

***Model III: SHGs financed by banks using NGOs and other agencies as financial intermediaries***

This is the model wherein the NGOs take on the additional role of financial intermediation. 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 NGO for onlending to the SHGs. In areas where a very large number of SHGs have been financed by bank branches, intermediate agencies like Federations of SHGs are coming up as links between bank branch and member SHGs. These Federations are financed by banks, who, in turn, finance their member SHGs. The share of cumulative number of SHGs linked under this model upto March 06 continued to be relatively small at 6 per cent.

### ***Training and Capacity building***

NABARD continued to organize / sponsor training programmes and exposure visits for the benefit of officials of banks, NGOs, SHGs and government agencies to enhance their effectiveness in the field of microfinance. Training supplements and material were supplied to banks and other agencies. Best practices and innovations of partner agencies were widely circulated among government, banks and NGOs. During the year 2005-06, fund support of Rs. 58.52 million was provided for capacity building, exposure and awareness building. The cumulative fund support as on 31 March 2006 stood at Rs. 213.66 million. During the year, the 5,014 training programmes covering 283,825 participants as per the details furnished below :

- ◆ In all 3,213 awareness creation and capacity building programmes were organised for SHG members in association with identified resource NGOs, covering 2,09,945 participants to inculcate skills for managing thrift and credit;
- ◆ 259 Awareness-cum-refresher programmes were conducted for NGOs, including CEOs in which 4,339 participants were imparted training;
- ◆ 8 trainers' training programmes were organised for 237 faculty members of training institutions of various commercial banks.
- ◆ 664 Training programmes were conducted for bankers covering 30,029 officials of commercial banks, co-operative banks and RRBs;
- ◆ 48 exposure visits to banks and institutions pioneering in mF initiatives were arranged in which 1201 bank officials/NGOs participated.
- ◆ To involve more bank officials in the SHG-bank linkage programme, 303 field visits to nearby SHGs for Block Level Bankers' Committee (BLBC) members were conducted covering 7221 officials.
- ◆ 241 programmes on mF were organised at different training establishments which covered 8,331 government officials ;
- ◆ 33 programmes for the elected members of Panchayati Raj Institutions (PRIs) were conducted, covering 1106 participants to create awareness among them about the mF initiatives ;
- ◆ 4 training-cum-exposure visits for new DDMs/DDOs were organised.
- ◆ 2 exclusive workshop was organized for senior IAS officers through LBSNAA, Mussoorie.
- ◆ 76 meets and seminars on microfinance were organized at various centers.

**Micro Enterprise Development Programme (MEDP)  
for skill Development :**

Graduation of SHG members to take up micro-enterprises requires provision of intensive training and handholding on various aspects including understanding market, potential mapping, fine-tuning of skills and entrepreneurial abilities. During 2005-06, a focussed and location specific micro-enterprise development programme (MEDP) on skill upgradation and development for sustainable livelihoods for members of matured SHGs was launched. The MEDP aims at facilitating quick inputs to members of matured SHGs on technical skills, micro entrepreneurial skills and on issues relating to marketing of their products.

***Grant Support to Partner Agencies for Promotion and Nurturing of SHGs***

NABARD has been instrumental in the formation and nurturing of quality SHGs by means of promotional grant support to NGOs, RRBs, DCCBs, Farmers' Clubs and individual volunteers and developing capacity building of various partners, which has brought about excellent results in the promotion and credit linkage of SHGs. Further, increasing number of partner institutions functioning as Self-Help Promoting Institutions (SHPIs) over the years resulted in the expansion of the programme throughout the country. The financial support provided by NABARD to its partner institutions and their progress in SHG promotion / linkage is indicated in Table - 3.

**Table : 3**

<b>Grant Assistance Extended to various Partners in SHG-Bank Linkage Programme</b>									
<b>Agency</b>	<b>Sanctions during the Year</b>			<b>Cumulative Sanctions</b>			<b>Cumulative Progress</b>		
	<b>No.</b>	<b>Amount</b>	<b>No. of SHGs</b>	<b>No.</b>	<b>Amount</b>	<b>No. of SHGs</b>	<b>Amount released</b>	<b>SHG formed</b>	<b>SHGs linked</b>
Co-operatives	15	8.61	6,700	69	31.64	34,810	7.63	27,547	11,258
RRBs	8	2.84	2,255	109	33.39	41,190	13.77	48,281	29,783
NGOs	337	62.70	25,087	1,515	256.50	164,550	124.96	128,553	80,511
Farmers' Clubs	--	--	--	--	--	--	5.48	12,659	6,509
IRVs	415	7.10	4,275	757	13.07	8,800	1.27	2,020	701
<b>Total</b>	<b>775</b>	<b>81.25</b>	<b>38,317</b>	<b>2,450</b>	<b>334.60</b>	<b>2,49,350</b>	<b>153.11</b>	<b>219,060</b>	<b>1,28,762</b>

**A. Support to Regional Rural Banks (RRBs)**

The local character and regional spread of RRBs give them an advantage in providing promotional and nurturing support to SHGs. Therefore, NABARD has been encouraging RRBs for this purpose from 1999 onwards. During the year 8 RRBs in 6 States were sanctioned grant assistance of Rs. 2.84 million for promotion and linkage of 2,255 SHGs, taking the cumulative total of grant sanctioned to Rs. 33.39 million for 109 RRBs in 21 States for promotion and linkage of 41,190 SHGs. Out of this, grant assistance aggregating Rs. 13.77 million was availed by banks, which resulted in promotion of 48,281 SHGs, of which 29,783 were provided with bank loans.

**B. Support to Cooperative Banks**

NABARD has been supporting capacity building, exposure and awareness creation initiatives among the co-operatives to mainstream SHG-Bank Linkage in the co-operative banking sector. During the year, 15 DCCBs in 5 States have been sanctioned grant assistance of Rs. 8.61 million for promotion and linkage of 6,700 SHGs, taking the cumulative total grant assistance to Rs. 31.64 million for 69 DCCBs for promotion and linkage of 34,810 SHGs. Out of this grant assistance, an amount of Rs. 7.63 million has been released which resulted in promotion of 27,547 SHGs and linkage of 11,258 SHGs.

### ***C. Support to Non-Governmental Organisations (NGO)***

Recognizing the core competence of the non-governmental agencies in formation and nurturing of good quality SHGs, NABARD continued to involve an increasing number of NGO partners to take up the function of Self Help Promoting Institutions (SHPIs). The NGOs, which act as SHPIs as an add-on function, were provided with supplementary assistance in the form of promotional grant and infrastructural support.

During the year, promotional grants aggregating Rs. 62.70 million were sanctioned to 337 NGOs for promotion and credit linkage of 25,087 SHGs as against Rs. 42.66 million sanctioned to 317 NGOs for promotion and linkage of 24,234 SHGs during the previous year. The amount of cumulative grant support of Rs. 256.50 million has been sanctioned to 1,515 NGOs for promotion and linkage 164,550 SHGs. As against this, a cumulative grant of Rs 124.96 million was, so far, drawn by the NGOs, which resulted in promotion of 128,104 SHGs and credit linkage of 80,511 SHGs.

### ***D. Support to Farmers' Clubs***

The Farmers' Clubs, promoted by banks under the Farmers' Club Programme of NABARD enjoy local acceptability and good will by being informal ambassadors of the village to the banking system. Cumulatively, as on 31 March 2006, the Farmers' Clubs promoted 12,659 SHGs, of which 6,509 have been credit linked.

### ***E. Support to Independent Rural Volunteers (IRVs)***

Based on the feedback received in respect of a pilot scheme for encouraging socially committed Individual Rural Volunteers (IRVs) in organizing the rural poor into SHGs, it was decided to extend the scheme to 13 States which account for bulk of the rural poor. During the year, financial assistance of Rs. 7.10 million was sanctioned to 9 RRBs for promotion of 4,275 SHGs through 415 volunteers. As on March 2006, the progress under the Pilot scheme has been good. Total 124 IRVs have been actually associated who have promoted 2020 SHGs out of which 701 are credit linked. A grant assistance of Rs. 1.27 million has been released.

### ***Revolving Fund Assistance MFIs***

NABARD provides loan funds in the form of Revolving Fund Assistance (RFA) on a very selective basis to MFIs. The RFA provided to these agencies is necessarily to be used for on-lending to SHGs or individuals and the amount is to be repaid along with the service charge within a stipulated period of 5 to 6 years. This enables them to build a 'credit history', which would help them in future, while trying to access credit facilities through the regular banking channels. Cumulatively, RFA of 273.20 million was sanctioned to 32 agencies and Rs. 215.28 million has been released against which Rs. 92.49 million stands outstanding covering 11 MFIs.

### Initiatives in Specific Regions

The Regions which suffer from inadequate development due to inherent lack of institutional framework, non-availability of good infrastructure and the poor presence of non government development agencies continued to receive special attention from NABARD. A series of initiatives were taken for propagating microfinance in the less developed KBK Region in Orissa and the North Eastern Region.

#### A. KBK Region of Orissa

The Kalahandi- Bolangir- Koraput (KBK) Region in Orissa continued to receive thrust in microfinance from NABARD. During the year 18,574 SHGs were provided with bank loan, bringing the cumulative number of groups credit linked to 64,550. 3 New NGOs were sanctioned promotional grant assistance of Rs. 0.83 million for promotion and linkage of 350 SHGs in the region, taking the cumulative grant assistance sanctioned to Rs. 6.86 million to 40 NGOs for promotion and linkage of 2282 SHGs. Besides, under the scheme of associating individual rural volunteers for SHG promotion and linkage, Kalahandi Anchalik Gramin Bank was sanctioned a grant assistance of Rs. 0.39 million for promotion of 500 SHGs through 30 rural volunteers over a period of two years in Kalahandi , Nuapara, Kandhamal and Boudh districts of Orissa.

#### B. North Eastern Region (NER)

During the year, 28,279 SHGs were provided with Rs. 637.40 million as loans by banks in the NER. As on 31 March 2006, the cumulative number of SHGs credit linked in the NER rose to 62,517 with bank loan of Rs.1657.00 million disbursed to them. Grant assistance aggregating Rs. 5.65 million was sanctioned to 23 NGOs during the year, taking the cumulative amount of grant assistance sanctioned to Rs. 12.28 million to NGOs for promotion and linkage of 6,226 SHGs in the region. As against this, grant amount of Rs 4.98 million was released so far, resulting into promotion of 6,732 SHGs. In order to ensure that needy SHGs are not deprived of loan funds due to poor banking infrastructure in the NER, RFA of Rs. 65.89 million was sanctioned to 6 NGOs for lending to groups or individuals. An amount of Rs. 18.31 million has so far been released to the NGOs. Further, 6 RRBs in the region have been sanctioned grant support of Rs. 1.63 million to function as SHPIs.

### Partner Agencies

#### BANKS

During the year 2005-06, 44,362 branches of 547 banks participated in the SHG-Bank Linkage programme. Agency-wise number of SHGs financed are presented in Table : 4.

Table : 4

#### Agency wise number of SHGs financed

(Amount Rupees million)

Agency	During 2005-06				Cumulative upto 31 March 2006			
	SHGs		Bank Loan		SHGs		Bank Loan	
	No.	%	Amount	%	No.	%	Amount	%
<b>CBs.</b>	344,567	55.6	28,284	62.87	1,188,040	53.07	6,987.45	61.31
<b>RRBs.</b>	176,178	28.4	12,226	27.17	740,024	33.06	3,322.15	29.15
<b>Cooperatives</b>	99,364	16.0	4,481	9.96	310,501	13.87	1,087.95	9.55
<b>Total</b>	620,109	100.0	44,991	100	2,238,565	100	11,397.55	100

The broad category-wise number of these banks, total branches participated and their percentage to the total achievements is presented below:

#### ***Commercial Banks***

The SHG-Bank Linkage became a part of business for all the 27 public sector banks and 20 private sector banks. SBI credit-linked the highest number of SHGs (142,034) during 2005-06, followed by Indian Bank (30,632) and Canara Bank (18,445). During the year, many more banks registered impressive growth in SHG-Bank Linkage. These were Indian Overseas Bank, Punjab National Bank, Andhra Bank, Bank of India, Bank of Baroda. The private sector banks which significantly supported SHG financing were ICICI Bank Ltd (6,746), Dhanalaxmi Bank (1,201) followed by the Lord Krishna Bank (1,181). The bank-wise position of SHG- Bank Linkage is indicated at **Statement IV**.

#### ***Regional Rural Banks***

The Regional Rural Banks (RRBs) financed SHGs in a very significant way during 2005-06. All the 158 RRBs in the country participated in the SHG- Bank Linkage programme. During the year 2005-06, maximum number of SHGs have been linked by Pragjyotish Goanlia Bank in Assam (9,190 SHGs) followed by Bolangir Anchlik Gramya Bank (7,278 SHGs) in Orissa and Karnataka Vikas Gramin Bank (5,819 SHGs) in Karnataka. The other RRBs showing significant achievement were Pandian Gramin Bank in Tamil Nadu, Nagarjun Gramin Bank, Sri Rayalseema Gramin Bank and Shri Vishakha Gramin Bank in Andhra Pradesh, Kalahandi Anchalik Gramya Bank in Orissa and Pragati Gramin Bank in Karnataka. The State-wise and RRB-wise number of SHGs financed is indicated at **Statement V**.

#### ***Cooperatives***

Cooperative Banks, though comparatively late starters, have begun making forays into the mF sector on a large scale. The amendments made by many of the States in their respective Co- operative Societies Acts enabled Co- operative banks to take up the activity of promotion and nurturing of SHGs. Influenced by the pioneering performance of District Central Cooperative Banks (DCCBs) like Hoogly (West Bengal), Chandrapur (Maharashtra) and South Canara (Karnataka ) in the SHG-Bank Linkage programme, many other DCCBs also evinced keen interest in SHG – Bank Linkage Programme.

The number of partners for the SHG-Bank Linkage in the cooperative banking sector increased to 340 upto March 2006. During the year, maximum number of SHGs have been linked by Kolhapur (4,229 ) in Maharashtra followed by Hooghly DCCB (4,115 SHGs) in West Bengal, Chandrapur DCCB (4,027 SHGs) in Maharashtra and Mursheedabad DCCB (3,944 SHGs) in West Bengal. The other DCCBs showing significant achievement cumulatively were Hassan DCCB and South Canara DCCB in Karnataka, Thiruchirapalli DCCB in Tamil Nadu , Thrissur DCCB in Kerala, Sangli DCCB in Maharashtra. State-wise and cooperative bank wise details of SHGs financed are furnished in **Statement VI**.

#### **Study on comparative performance of SHG – Bank Linkage Programme vis-à-vis other priority sector portfolio**

At the behest of Parliamentary Standing Committee, a study on the comparative performance of SHG – Bank Linkage Programme vis-à-vis other priority sector was undertaken during the year. The findings are based on the data received from 27 commercial banks, 192 RRBs and 114 cooperative banks. Some of the major observations of the desk Study are as under :

- i. 1.4 million SHGs of the 2.03 million cumulative SHGs as on 31 March 2005 were current borrowers of the banking system with loan outstanding of Rs. 42 billion.
- ii. For the commercial banks as a whole, the share of the SHG portfolio was 0.88% of the priority sector portfolio and 0.36 % of the overall loans and advances. The share of SHG business of the RRBs was close to 6% in the overall business and 8% of their priority sector portfolio. For the cooperatives, the share of the SHG portfolio was 1.33% of the priority sector and 0.81% of their overall loans and advances outstanding.
- iii. The number of SHGs having outstanding savings accounts with the banking system were 2,630,510 with an outstanding savings balance of Rs. 23.9 billion as on 31 March 2006.
- iv. The overall portfolio at risk (NPA) of the Programme was 1.36% which was very commendable for a programme that was 13 years old and growing at a fast pace. The NPAs under the SHG Portfolio of the Commercial banks was at a level as low as 0.93% as against an overall NPA ratio of 2.65% for their normal lending activities. The NPAs under the SHG Portfolio of the RRBs was 2.32% as against an overall NPA ratio of 8.70% for their normal lending activities. The NPAs under the SHG Portfolio of the Cooperative Banks was 2.14% as against an overall NPA ratio of 18.84% for their normal lending activities. 41,630 (i.e. 76%) rural branches lend to SHGs.

### **Innovative projects**

NABARD has launched a few pilot projects to assess the suitability of various innovative initiatives in the Indian milieu and also enhance the sustainability of microfinance activities.

#### **1. Grain Banks and SHGs**

To explore the possibilities of monetising the savings-in-kind in the form of grains, a pilot Project was implemented in 17 tribal villages of Kerpai & Nakrundi Gram Panchayats of Thuamul Rampur block of Kalahandi district in Orissa. Members of SHGs can save both in cash and kind depending on the convenience. Loans also can be provided either in cash or in the form of grains. Participating bank (in this case an RRB) to consider the grain stock also to arrive at the loan eligibility of the SHGs.

Three grain banks have been established in Silet, Sikerguda and Maltipadar tribal villages in two blocks of Kalahandi district, Orissa. 29 SHGs are participating. Grant assistance of Rs 0.38 million was sanctioned for the project. So far, 29 SHGs have saved upto Rs.72, 350 and 2,580 kg in cash and kind, respectively. The project enabled the poor to save in kind, raise resources against such savings and provide access to self-managed, participative food security systems.

Encouraged by the successful establishment and maintenance of the Grain Banks by SHGs formed by tribal communities, NABARD sanctioned another project in the predominantly tribal areas of Chhattisgarh state involving a grant assistance of Rs. 0.24 million for construction and establishment of 5 grain banks each in Mylibeda and Merkatola villages of Bastar and Kanker districts involving SHGs. As at the end of March 2006, 29 SHGs have been formed under the project and have been provided training on running the grain

banks. One exposure visit to grain banks in Kalahandi district was organised for the members of SHG. So far Rs 47,500 has been released under the project.

## **2. Project on Processor Cards**

With a view to reducing paper work, saving time and maintaining upto date records, a Pilot project was launched for providing processor cards to active clients like KCC holders and SHGs as also automation of bookkeeping of groups. NABARD has extended grant assistance to 2 Regional Rural Banks under this project. It is expected to test the acceptability and adaptability of IT in rural areas, as also address MIS needs in rural banks. It is being implemented in 5 branches of Sri Visakha Grameena Bank in Andhra Pradesh and has gone on line in two branches. Processor cards for SHGs are being customised by the technology provider. The field staffs of the concerned branches and DRDA functionaries were trained in the operation of computers for recording transactions of SHGs. The project has also been extended to cover five branches of Krishna Grameena Bank, Gulbarga, Karnataka. Grant of Rs.3.5 million has been sanctioned of which Rs.1.91 million has been released.

## **3. Project on 'e-Grama'**

NABARD has part funded establishment of 13 Village Information Centres (e-grama centres) through an NGO in Davanagare district of Karnataka to help SHGs / villages to have access to Information Communication Technology. These e-grama centres make available information on areas like weather conditions, crop inputs, product prices, land records etc. Besides this, add-on services like bookkeeping of SHGs, DTP, scanning, etc., are also being provided. The NGO has facilitated setting up 50 centres (including 13 with NABARD's assistance). Commercial banks and RRB are extending necessary credit support to entrepreneurs. Grant assistance of Rs 0.21 million has been released by NABARD during the year.

## **4. Joint Liability Groups**

The project on Joint Liability Groups (JLGs), initiated during 2004-05 is being implemented through 10 RRBs and 1 PCARDB located in eight states viz-Maharashtra, West Bengal, Tamil Nadu, Madhya Pradesh, Bihar, Karnataka, Kerala & Assam by adopting a flexible approach and giving the partner banks enough freedom to implement the project, keeping the ground realities and context in perspective. During the year the participating banks provided credit support of Rs. 79.30 million to 565 groups. Cumulatively 850 JLGs have been extended bank finance aggregating Rs 124.00 million.

NABARD undertook a sample study in three states, viz., Kerala, Maharashtra and West Bengal to assess the progress made in implementation of the JLG project and the results have corroborated the projects initial assumption that financing JLGs could emerge as an effective mechanism for purveying credit to small traders, small / marginal and tenant farmers who cannot offer physical collaterals to avail loans from banks.

On successful completion of pilot project, the JLG scheme has been extended to other areas in the country. NABARD prepared the guidelines for implementing the JLG scheme and as advised by RBI, Indian Banks' Association (IBA) has already issued the guidelines to all banks.

## **5. Financing Rythu Mithra Groups**

Rythu Mithra Groups (RMGs) consists of about 15 members who are like minded and belong to small farmer, marginal farmer and tenant farmer categories. Since 2003,

Government of Andhra Pradesh has been promoting such groups in the state to bring about a holistic development of farmers through collective action. RMGs are expected to serve as a conduit for its members for technology transfer, facilitate access to market information and assist in carrying out activities like soil testing, training, health camps, assess input requirements, etc. A pilot project for financing RMGs by banks was launched in 13 districts during 2004-05. Encouraged by the success, the project was extended to all the districts of the states. During the year 12468 RMGs have been extended loan amount of Rs.1317.70 million by 20 commercial banks, 16 RRBs and 9 DCCBs participating in the project. A study of 67 groups in three districts was conducted to assess the functioning of RMGs.

#### **6. Setting-up of Computer Munshi**

Proper bookkeeping in SHGs is one of the gray areas owing to the illiteracy among the group members. NABARD sanctioned financial assistance of Rs 0.61 million to PRADAN - an NGO to develop system & local resources to address the issue. It involves training skilled local youth in computer operations and specially designed software to maintain SHG accounts. The project is being implemented in 4 districts (9 units) in Jharkhand and 1 district (1 unit) in Orissa. So far, 10 youths have been trained and their services are being availed of by 1220 SHGs in these states. Grant assistance of Rs 0.49 million has so far been released under the project.

#### **7. Social Security System for SHG Members**

Another innovative project which has been approved by NABARD entails creation of community based social security system for members of SHGs in rural areas for improving their livelihood and securing them from uncertainties of life. The project components include provision of a package of health insurance, life insurance etc for SHG households by paying premium generated through discounts offered by service providers like grocery shop, cloth merchant etc in the project area for SHG members in rural areas. It is being implemented through an NGO-Organization for Awareness of Integrated Social Security (OASIS) in two villages covering 500 poor households from Betul district of Madhya Pradesh state, involving a grant assistance of Rs. 0.80 million. Self Employed Groups (SEGs) from SHGs would be formed by the NGO to provide various services involving selling of products at a discount.

#### **8. Micro-Enterprise Promotion by SHGs**

NABARD has initiated a pilot project for promotion of micro-enterprises by members of matured SHGs in 9 select districts across the country, viz., Ajmer (Rajasthan), Chandrapur (Maharashtra), Kangra (Himachal Pradesh), Madurai (Tamil Nadu), Mysore (Karnataka), 24 North Parganas (West Bengal), Panchmahal (Gujarat), Puri (Orissa) and Rae-Bareilly (Uttar Pradesh), in association with Marketing And Research Team (MART) as the technical partner. The project will adopt the 3M Model approach (See Box) developed by the MART wherein identified NGOs act as Micro-Enterprise Promotion Agencies (MEPA) and assist members of matured SHGs to take up income generating activities on a sustainable basis. Survey of villages and SHGs by NGOs has been undertaken and micro Business Development Plans have been prepared for each district wherein potential activities have been mapped for the benefit of SHGs / members of SHGs, who would set-up their microenterprises based on these activities.

#### **Support to MFI**

NABARD has initiated various steps for linking MFIs with banks.

**Rating of MFIs** - With a view to promoting flow of commercial loans from banks to MFIs, a scheme was launched by NABARD during 2005-06 to provide financial support to banks towards rating of MFIs by CRISIL. This scheme has since been revised to be operational upto 31 March 2008 and banks can now avail the services of other credit rating agencies viz., M-CRIL, ICRA, CARE & Planet Finance including CRISIL. Further the quantum of assistance has been increased to 80% of the cost upto a maximum of Rs.80,000/-. This scheme would help MFIs in accessing commercial loans from banks.

**Capital / Equity Support to MFIs** - In view of the announcements made by the Hon'ble Finance Minister in his Union Budget 2005-06, a scheme called "Capital / Equity Support to MFIs from MFDEF" has been announced under which Capital/ equity support to various types of MFIs would be provided by NABARD to enable them to leverage capital / equity for accessing commercial and other funds from banks. This would help MFIs in providing financial services at an affordable cost to the poor.

### **Collaboration with external agencies**

2.70 The NABARD- GTZ Linkage Banking Programme came to an end on 31 December 2004 and implementation agreement between GTZ and NABARD on a new project "Rural Finance Programme" was signed on 31 January 2006. The project period is upto 31 December 2007. The programme has two components and one of the components is "Linking savings and credit SHGs to Banks". The objective of this component is that the quality and viability of financial services under SHG Linkage Banking are improved.

Under the programme, (i) a study is being undertaken to assess the transaction cost of various agencies such as Commercial Banks, RRBs, Coop. Banks and MFIs in purveying microfinance through SHGs or other types of groups (ii) Training modules have been developed to sensitize bank branch managers and SHG members for monitoring groups through early warning system so that the risks in lending can be minimized. The training modules have been circulated to the leading training institutions involved in microfinance.

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## **List of abbreviations**

ADB:	Asian Development Bank
BIRD:	Bankers Institute of Rural Development
BLBC:	Block level Bankers Committee
CBs:	Commercial Banks
CEOs:	Chief Executive Officers
CFTS:	Cashpor Financial and Technical Services
DDM/s:	: District Development Manager/s
DDO/s :	District Development Officer/s
DCCB/s:	District Central Cooperative Bank/s
GB/s:	Gramin(Gramya) Bank/s
FWWB:	Friends of Women's World Banking
GoI:	Government of India
GTZ:	Deutsche Gesellschaft fur Technische Zusammenarbeit (German Agency for Technical Collaboration)
IAS:	Indian Administrative Service
IFAD:	International Fund for Agricultural Development
KBK:	Kalahandi-Koraput-Bolangir
KGB:	Kshetriya Gramin(Gramya) Bank
MF:	micro Finance
MFIs:	micro Finance Institutions
MFDEF:	micro Finance Equity Development Fund
NABARD :	National Bank for Agriculture and Rural Development
NBFC/s:	Non Banking Financial Company/ies
NER:	North Eastern Region
NGO:	Non Governmental Organisation
NPA:	Non Performing Assets
PACS/s:	Primary Agricultural Cooperative Society
PRI/s:	Panchyati Raj Institutions
RFA:	Revolving Fund Assistance
RRB/s:	Regional Rural Bank/s
RBI:	Reserve Bank of India
SAHARDA:	Sahakara Rural Development Academy
SDC:	Swiss Agency for Development Cooperation
SLRCCDI:	State Level Review and Coordination Committee on Credit Delivery Innovations
SHG/s:	Self Help Groups
SHPI/s:	Self Help Promoting Institution/s
SUCBs:	Scheduled Urban Cooperative Banks
UT/s:	Union Territory/ies
FC/s:	Farmers' Club