



# Improving Quality & Sustainability of SHG BANK LINKAGE PROGRAMME : Lessons from Karnataka

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## INTRODUCTION

Even though Indian banking sector has grown enormously, the poor of the nation remain excluded from the banking network. According to official estimates, about 50% of Indian population was not financially included even in the recent past. This has prodded the RBI to launch the massive financial inclusion drive. Despite such a drive, formal financial assistance on a sustainable basis seems to have bypassed the poor—both in rural as well as in urban areas, not so much due to lack of funds but due to systemic failures. Given this situation, an institution designed to address the issue of savings and loan related products for neglected segments is the need of the hour. To this end, the micro-finance model characterized by a joint liability system and devolved through self help groups needs to be vigorously promoted. This is in order to ensure that the formal banking system reach the poor and financially excluded.

Backed by NABARD the self-help group-bank linkage programme (SBLP) initiated about 15 years ago has grown over time though at varied pace in different regions of the country. The nature of problems and issues faced by a 'developed' state could be quite different from those faced by a state where the programme is not adequately developed. The scope for action in a state where the programme is not fully developed is quite obvious; lessons could also be learnt from the states where the programme has been successfully developed and substantial benefits flowed to the targeted groups. However, if the programme has to be further scaled up, what problems it might run into eventually, needs to be ascertained. Karnataka, where the programme is comparatively well developed is one of the first states to initiate self help group activities. Development of self help group bank linkage programme (SBLP) in the state is far ahead of most other states in India in terms of the number of groups formed as well as loans disbursed. However, in spite of its remarkable overall achievements, there are some regions in the state that still need special attention.

Hence based on this specific focus on Karnataka, this policy brief examines the exact status and impact of the linkage programme with an aim to explore its future potential in Karnataka and India at large. The important questions that the study addresses are: Is the programme sustainable, or would the groups formed need the assistance of the promoting institutions indefinitely? If so, how can we address these problems on the policy front? Do the groups still find the benefits of the programme significant enough to continue with it? Alternatively, will

the pure micro finance provided to these segments through micro finance institutions (MFIs) suffice?'

## KEY FINDINGS

### • Achievements of the Programme:

SBLP has significant regional variations. Andhra Pradesh alone has accounted for 31 % of the SHG linkages for bank loans during 2010-11. Around 61% of the SHGs that availed bank loans during 2010-11 has been accounted for by the 4 southern states viz., Andhra Pradesh, Tamil Nadu, Kerala and Karnataka.

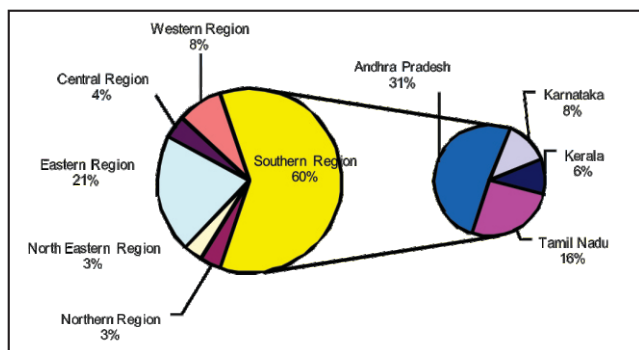
The growth of SHGs at the national level has been impressive (in terms of number of groups as well as loans disbursed), even though certain state level variations can be observed. In particular, bank loans aggregating Rs. 680.71 crores were disbursed to 8964626 SHGs (cumulative up to 2010-11 from 1992-93). The average loan per SHG in 2010-11 was Rs 1,21,623 (Rs 11,765 in 1992-93), and disbursement per family was Rs 8687 (Rs 692 in 1992-93).

Region wise analysis shows that during 2010-11, number of families that availed bank loans through SHG programme was around 6 lakhs in the northern region of the country, and about 6 lakhs in the north eastern region. For eastern region, this figure is as high as 35 lakhs. Families benefited in the central and western regions are respectively 7 lakhs and 13 lakhs. The southern region is at the top place in India since as high as 102 lakh families have benefited from this programme in this region during 2010-11 (see Fig.1).

In the state of Karnataka, as of 2006-07, about 4 lakh SHGs were promoted with Dakshin Kanada leading the way. Mysore and Tumkur districts follow Dakshin Kanada. The district of Bagalkote is one of the poor performing districts in this regard, having promoted only about 7000 SHGs.



Figure 1: Regional Disparity in SBLP: 2010-11



• **Inclusiveness and Functioning:**

Analysis of primary data collected through the survey shows that the number of SHG members in the sample districts varies between 15 and 20. SBLP has benefited the backward castes significantly as evidenced by the fact that substantial sample observations belonged to SC or OBC category.

In the sample, 50% of members do not own land and the 40% are small and marginal farmers. Thus one can observe that poorer sections of the society have benefited significantly from this programme in Karnataka.

As far as functioning of the groups is concerned, drop-out rate of members is not very high (about 15%). However, a more or less equal number of new members are found to have joined the groups. Thus drop outs do not seem to affect the performance of a group as new members join without any lapse of time. Amongst the three districts considered herein, the percentage of drop outs is the highest in Bagalkote (18%).

Meetings of self-help groups are held regularly; however frequency of meetings is lower in Mysore, possibly due to higher opportunity cost of time. Almost all members interact in the meetings and decisions are taken collectively. Elite capture of the proceedings appears to be almost nil.

With regard to book keeping, capacity building needs to take place. Due to the inability to do proper book-keeping, over 50% of the groups do not rotate the representatives. In Bagalkote district alone, 80% of the groups in the sample do not rotate their representatives as no other member except the existing representative has the ability to carry out necessary tasks such as book writing. This percentage is half as much in other districts which clearly shows the difference between relatively advanced versus backward districts. Thus regional differences between forward and backward districts are pronounced in spheres like skill development and efficient functioning.

Self help groups continue to depend on the self help group promoting institutions (SHPI) for a long time. More than 80% of the groups have reported to be still dependent on SHPIs even after 3 years of operation. However, the number of visits of SHPIs appears to decrease over time as the groups get older.

SHPIs, either sponsored by government or NGOs -generally provides training in income generating purposes while those sponsored by banks seldom impart such training, but confine their activities to other areas. However, training both by government and NGO sponsored SHPIs have been found to be inadequate and at times inappropriate.



• **Financial Aspects**

One of the important objectives of the SBLP programme is to develop savings habit amongst the members. Private micro finance institutions seldom do this; instead barring a few they often confine themselves to providing credit only. With regard to savings, interestingly there is a noticeable shift in the saving pattern of members currently as compared to the time they joined the scheme. For example, a pattern of more number of groups moving towards increased level of savings over time has been observed. However, regional differences are pronounced in this aspect too; for example, while increased level of savings is seen in both Mysore and Tumkur districts, in Bagalkot district, the pattern and size of savings have not changed much over time.

With regards to loan to savings ratio, nearly 57% of the SHGs are found to have availed loan amount less than three times their savings. The quantum of loan for another quarter of the SHGs was anywhere between three to five times their savings. In contrast, only -5% of the SHGs have obtained loans that are over ten times their savings and these SHGs are found mostly in developed districts.

However, savings being small, the total loan amount when divided amongst 15 to 20 members would be insufficient in most cases. A fall out of this is that the groups are not able to take full advantage of the income generating activities sought to be taken up with the loan amount. Absence of any group based activity is found to be the root cause of this problem. Inadequate funds also make the members prone to borrow from other sources. Exploitative micro finance institutions flourish by taking advantage of this funding gap. At the same time, there are also MFIs operating in the state with an aim to benefit the poor.

One important objective of this study is to compute the effective interest rate by estimating opportunity costs and other transactions costs, and adding them to the prevailing (actual) interest rate of the banks. The study has revealed that the effective interest rate is around 3% above the actual rate.

A comparison with the interest rate of the private money lenders in Bagalkot district reveals the following: Around 67% of the households pay a rate of interest of 60% per annum (i.e., 5% per month) for their borrowings from the private money lenders (Table 1).

Table 1: Information on Rate of Interest Charged by Private Money Lenders

Rate of Interest per Month (%)	% of Households in Bagalkot
1.5	11
3	22
5	67
Total	100.00

Thus the effective rate of interest from banks (at a maximum level of 15%) is much lower compared to the rate charged by private money lenders.

Further, the impact on rate of interest charged by the money lenders due to development of SBLP seems to be negligible.

The prevalence of micro finance institutions (MFI) appears to have some negative effect on groups, but till now, the effects have not been substantial on SBLP. But pure micro finance institutions have the potential to break the SHGs.

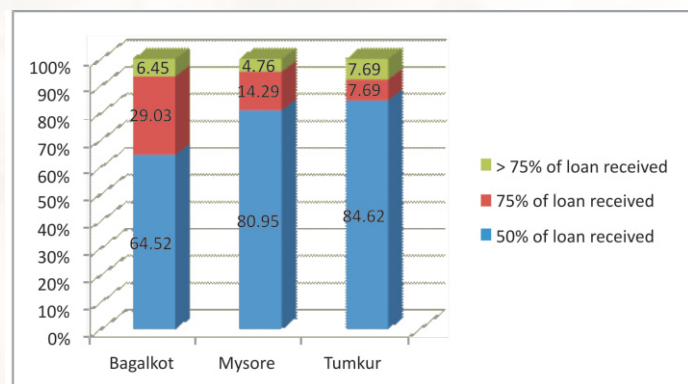
Repayment of loan appears to be satisfactory, as at the end of the loan period almost all members repay loan. Indeed most members have been found to repay loan on a regular basis in economically advanced Mysore and Tumkur districts. Only in Bagalkot there has been some lag in repayment (Table 2).

Table 2 Average Percentages of Members that Repay loan

Name of the District	Percentage of Members Repay Regularly every Month	Percentages of Members Repay at the end of the Term	Percentage of Members in each Group that Fully Repay at the end of the Term of the Loan
Bagalkot	58.70	23.67	82.37
Mysore	82.32	17.68	100
Tumkur	94.13	5.87	100

From the experience of individual members it is clear that SBLP has helped rural women to enhance their income through income generating activities. Another important contribution is the inculcation of savings habit. However, reported by over 80% of the respondent members, possibilities to enhance income further remains untapped due to inadequate provision of loan. In particular, in the district of Bagalkot over 64% of the respondent groups reported having received only 50% of the loan amount requisitioned (Fig.2).

Fig 2: District-wise percentage of respondents classified according to loan received to loan demand ratio.



When the loan amount is inadequate to meet the intended purpose, borrowers are forced to depend on MFIs and private lenders, which in turn increases their loan burden and indirectly hamper the functioning of SBLP.

Inadequate loan also limits the possibility of optimal income generation. Conversely, if adequate loan is provided, income can increase even further. For example, in Tumkur district, the monthly income increase due to SHG loan was around Rs. 1852. However, as per estimate an additional income of Rs 1500 could have been earned by the group members if adequate loan had been given.

• **Social Benefit:**

In addition to economic benefits, a number of social benefits are found to have accrued to the members. For example, being empowered to come out of the confines of home and interact confidently with Government and Bank officials are considered major achievements by rural women. Within rural families,, SHG participation has indeed helped the women-folk to involve in household decision making process. Today about 15% of the members take a meaningful roles in household level decisions-making process against the minimal role they used play in the past, while another 37% are consulted by their husbands while taking household decisions. However, in about 40% of households, household

decisions are still taken unilaterally by husbands. Concerted efforts are required to remedy this situation and ensure that collaborative household decision making becomes a norm rather than an exception.

**POLICY RECOMMENDATIONS**

• **Special attention to less developed regions**

Though the SBL programme is currently well functioning in Karnataka, regional variations continue to exist. Some of the districts that need special attention are: Kolar, Hassan and Koppal. These districts being backward in other respects also, call for special attention. Group formation should be initiated through the anganwadi in charges and/or dedicated NGOs functioning in the regions. It must be borne in mind that these groups will need much more hand holding than the SHGs in developed regions. Therefore, a regular programme comprising of hand-holding on a continued basis needs to be put in place, in the absence of which death rate could be as high as birth rate. In other words, formation as well as nurturing should be planned well in advance for the success of the programme in the less developed regions.

• **Increasing sustainability of groups through consolidated funds and income generating activities**

In the long run, for the group members to derive continuous utility from SBLP, is essential to incorporate certain group-based economic activities. Our interactions with most groups have revealed that when the groups are able to generate funds to some extent either through their own savings or loan, they divide it amongst themselves and utilize it as per individual needs, which eventually weaken the bonding between the members and raise a question mark about the long term sustainability of the group. The divided loan amount being small, no substantial income generating activity becomes feasible. When groups do not receive subsidized or easy loan they get frustrated since the intended purpose of forming groups is to get credit. Instead if the funds are consolidated and invested in income generating activities, the long term sustainability is likely to be enhanced.

Division of loan takes place even when the members receive SGSY and other scheme based loans, which are generally obtained on the basis of a planned project proposal. Developing a shelf of group based income generating activities is essential to sustain groups and therefore special attention needs to be given to this aspect, together with group formation.

• **Provide localized and need-based training**

Indeed, currently some amount of training intended to improve the functioning of the groups as well as to aid the members to adopt appropriate income generating activities are being provided, but the training programme has several deficiencies that need to be rectified for the eventual success of the programme.

➤ First, training is given only to a few selected members of the group and in the merit-based selection process, only the more efficient members get trained. Members in the lower ability strata remain untrained in matters such as book keeping and handling of accounts. It needs to be recognized that not all members are equally endowed, and some members need training for a longer duration and more of hand holding. Thus training on book keeping etc. needs to be given in batches which can be organized on the basis of the knowledge-base of the members at the time of induction. Often members are required to leave their homes and stay outstation for training purpose. This is not feasible for many members for obvious reasons; therefore, localized training is necessary for expected outcomes.

- Training given for income generating activities often does not match with the needs of the members. A notable example is the case of dairy development training imparted to members who do not have sufficient land for dairying. Training imparted is seldom need based, but quite often pre-determined by the planners/trainers and hence its impact is negligible. Trainings for income generating activities usually comprises of routine tasks such as *appala* or *pickle* making. Our survey has revealed that the members often do not find it profitable to take up the activities for which they have received training; additionally, marketing of produced goods would be a major challenge for many. More importantly, innovative activities are not included in the training schedule. Thus current market needs as well as the practical aspects of starting a business with the given training need to be factored in before providing training to the SHG members. What is required is a more innovative and practical approach to the whole question to see that the training imparted at sufficient cost is not a sheer waste of resources.
- Given the fact that marketing is a major challenge in all such income generating activities, it is imperative to identify activities that have established market potential/linkage. One such activity is leaf-plate making for which large traders supply the required machinery and also establish purchasing tie ups.
- While designing training modules for income generating activities, it is necessary to factor in regional dimensions as well. Currently,

authorities seldom take this aspect into consideration Groups formed in sub-urban regions, for example, are eager to get technology related training like in information technology, etc. and it is therefore essential to include such topics in the training module to make the programme attractive to the members.

- **Shift focus from subsidy to self-sustainability**

Study of the non performing groups reveals that confusion over loan waiver scheme and inability to get their loans waived have quite often led to disintegration of groups. Similarly inability to obtain SGSY loan has also caused some groups to disintegrate. Therefore, there should be conscious efforts to shift the focus from subsidy to self sustainability.

There is urgent need to change the mindset of all stake-holders, particularly group-members; rather than seeking subsidized loan and subsidized rate of interest by participation in SBLP, group activities should lead to capacity-building so that members are enabled to repay loan from their income. This is not to deny the fact that income enhancement has indeed taken place due to the savings and credit facility availed in groups. However, such possibilities can be improved manifolds by concerted efforts. If adequate credit is not forthcoming from group efforts, there is every likelihood of group members going back to private lenders for credit in the days to come, which would defeat the very objective of the whole project.

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<sup>1</sup>Within Karnataka, the study examines three representative districts, viz., Mysore (well developed), Tumkur (medium level performance) and Bagalokot (less developed). By taking up a field survey for the groups and individual members, we try to explore some of the issues critically related to the quality and sustainability of SBLP. For further details see: Meenakshi Rajeev, B P Vani and Veerashekhara (2012): Quality and Sustainability of SHGs in Karnataka, ISEC Project Report CESP/95



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