

SHG – Bank Linkage Challenges and issues

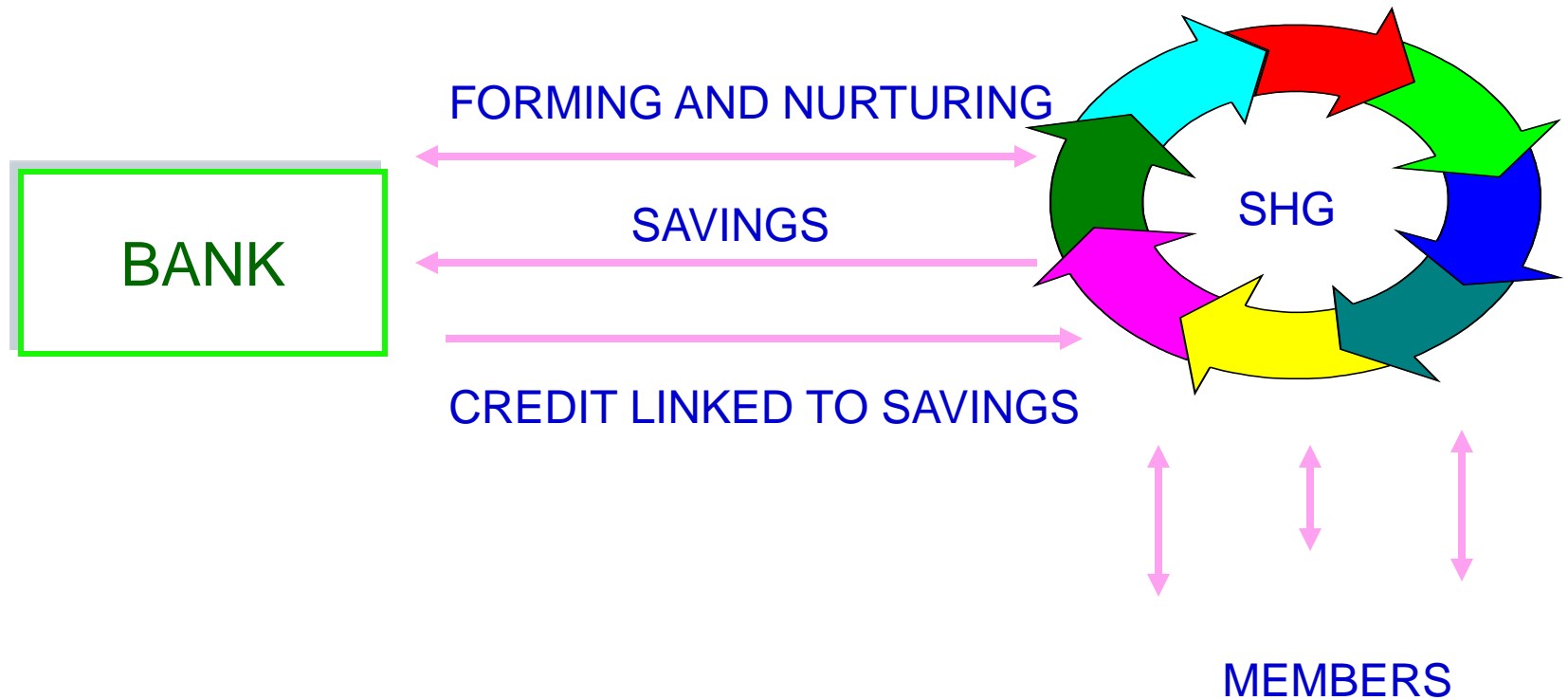
Concept of Joint Liability Group



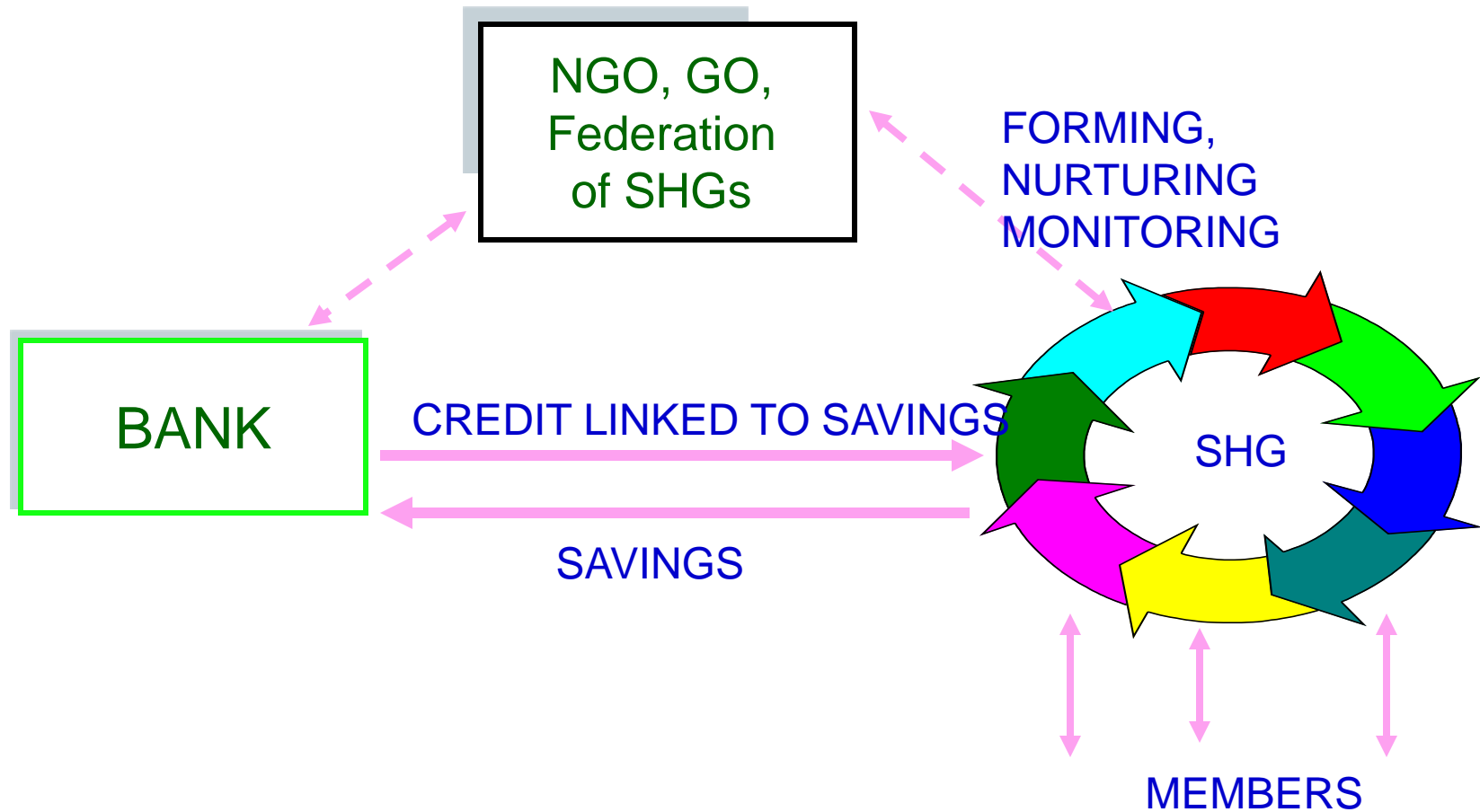
SHG - A Socio-financial product



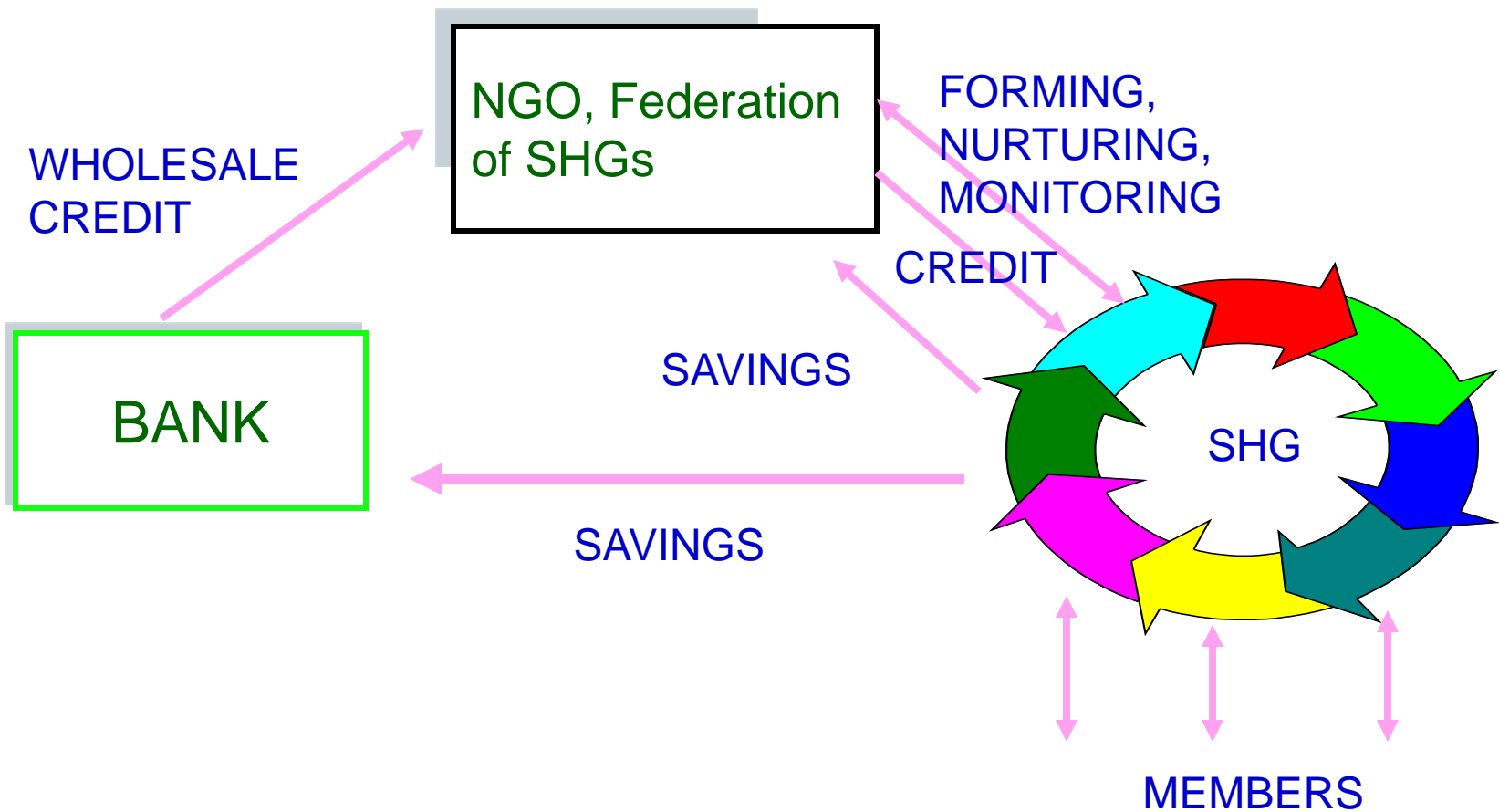
SHG BANK LINKAGE MODEL - I



SHG BANK LINKAGE MODEL - II



SHG BANK LINKAGE MODEL - III



Status of SHG-BLP

Particulars	All India (Mar'13)	SGSY (Mar'13)
Total No of SHGs (Lakh)	73.18	20.47
Savings by SHGs (Rs. Cr.)	8217.25	1821.65
SHGs having loans outstanding (Lakh)	44.51	11.93
Bank loan outstanding (Rs. Cr.)	39375.30	8597.09
SHGs credit linked during the year (Lakh)	12.20	1.81
Loan disbursed during the year (Rs. Cr.)	20585.36	2207.47





Collective Turmeric Farming

Vegetable Vending

Shobha Ramdas Avari (Atta Chakki)

Anita Prabhu Shah (Beauty Parlour/Cloth Business)

Telephone booth / Kirana shop

Kavita Borkar (Stone Quarry)

Magan Bachat Gat, Wardha (Masala Unit)

Artistic / utility items



Background Issues/Challenges

- Inadequate outreach in many regions,
- Delays in opening of SHG accounts and disbursement of loans,
- Impounding of savings by banks as collateral,
- No repeat loans even when the first loans were repaid promptly,
- Limited banker interface and monitoring
- Management Information System.



Issues/Challenges contd....

- Capacity building at all levels
- Challenges with regard to SGSY/NRLM linkage
- Quality of SHG lending and its consequences
- Loan size, indirect competition with the MFIs
- Multiple membership and borrowings by SHG members within and outside SHGs and
- Perpetual dependence on NGOs



Product level changes

- Allowing voluntary savings
- Sanction of a CC / OD system of lending for SHGs for a longer operational tenure
- Servicing of interest at monthly rests
- Every drawal to be repaid in 12 months
- Repeat cycles of CC to SHGs with larger credit beyond a multiple of four times of SHG's corpus based on performance review



Product level changes contd...

- For SHGs supported with a few cycles of credit: Different type of credit accommodation like term loan in addition to the cash credit limit
- Enabling JLGs within SHGs
- Banks to encourage such enterprise / livelihood based JLGs as separate entity
- Banks may use financial and other support extended by NABARD for this purpose



Improving Risk Mitigation Systems

- Self-rating tools by SHGs
- Conduct of audits at SHG level
- Audit may be informal in nature, but be made compulsory for credit expansion beyond the normal limit of four times of the savings of SHGs.
- SHG-level Business Facilitators (Auditors) from amongst active SHG members or NGOs or other agencies, which promote SHGs, or existing BCs of the bank could be sourced to enable the audit process in SHGs



Building second tier institutions

- Sustained hand holding by SHPIs to ensure SHG's sustainability.
- Active members of SHGs and NGOs or other entities may be engaged by banks to:
 - serve as BFs for monitoring the functioning of SHGs and take corrective action
 - facilitate financial literacy, help SHG members' to open individual savings accounts, guide and improve existing livelihoods



Strengthening the monitoring mechanism

- SHG/JLG financing to find an appropriate place in the bank's corporate and strategic plans.
- Financing banks should also strengthen their monitoring of SHGs and capture SHG data through their CBS platforms.
- Banks to address training requirements through their training establishments.



Future Road Map

- Policy for promotion of SHGs and federation linking both together.
- Promotion of micro enterprises among SHG members
- Long-term assistance for Federations to emerge as sustainable self-managed institutions.
- Financial inclusion agenda of the govt. to be merged with S-BLP.
- Investment in technology and strong MIS for SHGs required, with financial education as a pre-requisite.
- Need to build the capabilities of SHPAs.



Future Road Map contd....

- Region-specific policies for SBLP are required according to the geographical context.
- Large scale investment required to build human and social capital.
- BC model be adjusted to be viable and adaptable throughout the country and customized to the needs of the clients.
- PACS could emerge as an important institutional arrangement for bank linkage following their success in West Bengal.
- Indian Postal Service can be involved in provision of financial services to SHGs lending.
- Mobile banking could be promoted for servicing remote and inaccessible villages.



Financing of Activity Based Groups (ABGs) and Joint Liability Groupos (JLGs)



JLG or ABG?

- JLG : An informal group of 5 to 10 farmers (small land holders, tenant farmers, oral lessees etc.) growing same types of crops with similar scale of production.
- ABG : An informal group of 5 to 10 entrepreneurs undertaking identical activities under NFS with similar scale of production.



Objectives of JLG/ABG

- To augment flow of credit to mid-segment farmers/entrepreneurs
- To extend collateral free loans.
- To build mutual trust and confidence between banks and such clientèle.
- Ensuring financial inclusion.



JLG/ABG Models

➤ Model 'A'

- Separate individual loans from bank.
- Inter-se document by all members.
- Individual's credit requirement to be assessed by bank.

➤ Model 'B'

- Group financing : combined credit requirement.
- Inter-se document by all members.
- Individual's credit requirement to be assessed by group.



Criteria for selection of members

- Similar socio-economic status & background.
- Carrying out same type of farming or NFS activity at similar scale.
- Like minded and close neighbourhood people.
- Acquaintance & trust with one another.



Status of JLG-BLP

Particulars	All India (Mar'13)
Total No of JLGs (m)	0.529
JLGs having loans outstanding (m)	4.451
Bank loan outstanding to JLGs (Rs. bn.)	46.8333
JLGs credit linked during the year (m)	0.197
Loan disbursed during the year to JLGs (Rs. bn.)	18.3764



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- Financing banks should also strengthen their monitoring of SHGs and capture SHG data through their CBS platforms.
- Banks to address training requirements through their training establishments.
- NABARD would support and organise Bank specific programmes



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Thank You

