SHG-Bank Linkage Program in India

An Overview

by Hema Bansal

Abstract: The formal financial institutions in India have ventured into microfinance in a massive way by adopting the SHG-Bank Linkage Program model. The present paper makes an attempt to review the performance of the program in different states of India and across three major institutions—commercial banks, cooperatives, and the regional rural banks. The study also presents vital information about the leading NGOs with major credit linkages in Indian states.

This study attempts to review the spread of credit linkages between self-help groups (SHGs) and banks across credit delivery models adapted by the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD). It further examines the spread of credit linkages across different regions and states of India. It also reviews the participation of commercial banks, regional rural banks, and cooperatives in the SHG-Bank Linkage Program across different states in India.

The analytical section of the paper is divided in five parts. The first section reviews the spread of self-help group linkages to banks across three different models that have been adopted by the National Bank to route credit to SHGs. The second section assesses the coverage of SHG linkages for three years from 1997–98 to 1999–2000 and reviews their spread across regions. The third section studies the distribution of SHGs across states and union territories of India. It also uses correlations to understand the relationship between poverty, human development, and the spread of NGOs in Indian states. The fourth section studies the state-by-state participation of commercial banks, regional rural banks, and cooperatives and provides a brief backdrop of these institutions. The fifth section identifies the non-government organizations/self-help promoting institutions with maximum SHG credit linkages and presents some preliminary information about these organizations.

The study is based on secondary data published by the NABARD in India. Out of the 114,775 SHGs credit linked to banks, 94,645 were refinanced by NABARD and accounted for 83% of the total SHGs linked from the inception of the program until March 2000. As the data for all the SHGs credit linked to banks was not available, we have based our study on SHGs refinanced by NABARD. Considering that they formed 83% of the total SHGs credit linked, it is assumed that results derived from the analysis are likely to hold true for all SHGs. By 2000, the SHG-bank linkage program had established linkages in the states of Himachal Pradesh, Rajasthan, Haryana, Punjab, Jammu and Kashmir, Assam, Meghalaya, Tripura, Sikkim, Manipur, Orissa, Bihar, West Bengal, Madhya Pradesh, Uttar Pradesh, Gujarat, Maharashtra, Goa, Andhra Pradesh Karnataka, Kerala, and Tamil Nadu, the Union Territory of Andaman and Nicobar Islands, and the Union Territory of Pondichery; hence the analysis is limited to these areas.

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The Background

Out of around one billion people in India, 26% are poor (National Statistical Sample Organization, 2000). At the bottom the poor need credit for small productive assets, working capital, housing, illness, and emergencies. The demand for credit here is not only large but heterogeneous as well. Till the 1990s the rural financial system in India was predominantly supply driven with the state playing a major role in improving the access to financial services by the poor. While state intervention considerably improved the outreach of the banking system and expanded rural credit, it also allowed rent seeking tendencies and credit indiscipline to grow (Nanda, 2000). By the late 1980s, the rural financial system had virtually collapsed amid heavy regulations, distraught market conditions, dual lines of control, and mounting arrears. The beginning of 1990 saw India face one of its worst balance of payment crises. In 1991, under the initiative of the International Monetary Fund, India undertook a liberalization of its economy. Liberalization had an important bearing on the financial sector; banks, which had turned weak, were confronted with the challenge of making themselves profitable while maintaining their prudential requirements and competing with private and foreign banks in a new liberalized milieu.

At this time, the rural credit system needed a fresh approach that could induce rationalization of the processes, policy, and regulations and consequently increase returns. Around this time, Asian countries like Bangladesh, Indonesia, Sri Lanka, and Thailand and Latin American countries like Bolivia, Cambodia, and Chile were effectively adopting the new microfinance approach. One of the reasons for the universal popularity of the approach was the extraordinary repayment rate of 95% and more. The extraordinary repayment rates of the microfinance institutions (MFIs) provided the required "leverage" for transforming poverty alleviation exercises into business opportunities.

In India, the adaptation of the new microfinance approach by rural financial institutions assumed the form of the "Self-Help Group–Bank Linkage Program." After an initial pilot study the RBI set up a working group on non-governmental organizations (NGOs) and SHGs. The working group made recommendations for internalization of the SHG concept as a potential intervention tool in the area of banking with the poor. The RBI was quick to accept the recommendations and advised the banks to consider mainstreaming lending to SHGs as part of their rural credit operations.

The SHG-bank linkage program is gaining increasing acceptance amongst NGO community and bankers. The NABARD envisions covering one third of the rural population in India by establishing one million SHGs. The government of India has already made announcements for linking 200,000 SHGs by year 2002–03. The task force on microfinance sees the SHG-bank linkage program emerging as a major way of banking with the poor in coming years. It is estimated that at least 25,000 bank branches, 4000 NGOs, and 2000 federations of SHGs involving 0.10 million personnel of these institutions will be involved in scaling up microfinance to this magnitude.

Under the SHG-bank linkage program, NGOs and banks interact with the poor, especially women, to form small homogenous groups. These small groups are encouraged to meet frequently and collect small thrift amounts from their members and are taught simple accounting methods to enable them to maintain their accounts. Although individually these poor could never have enough savings to open a bank account, the pooled savings enable them to open a formal bank account in the name of the group. This is the first step in establishing links with the formal banking system. Groups then, meet often and use the pooled thrift to impart small loans to members for meeting their small emergent needs. This saves them from usurious debt traps and thus begins their empowerment through group dynamics, decision-making, and funds management. Gradually the pooled thrift grows and soon they are ready to receive external funds in multiples of their group savings. Bank loans enable the group members to undertake income-generating activities.

There are several advantages of the group lending setup. For one, rather than a bank, borrowers themselves undertake the task of credit evaluation; this creates a peer screening effect and reduces the transaction costs as community members have much better information than banks (Andersen and Nina, 1998). Two, there is the peer monitoring effect that induces group members to use their loans in productive ways; Stiglitz (1990), Varain (1990), and Banerjee and Newman (1994) have developed models that illustrate the working of the peer monitoring effect. Three, the desire to preserve valuable social ties induces borrowers to spend extra effort if necessary to secure timely payments. Social ties are valuable because they allow members to borrow in the future and provide business connections. Moreover, a very important feature of group lending is the collateral effect. Bank's losses incurred due to unsuccessful projects are generally reduced as successful entrepreneurs within each group cover part of their losses (Andersen and Nina, 1998).

Through the SHG-bank linkage program the RBI and NABARD have tried to promote relationship banking, i.e., improving the existing relationship between the poor and bankers with the social intermediation of NGOs. The Indian model is predominantly a "Linkage Model," which draws upon the strengths of various partners: NGOs, who are best in mobilizing the poor and building their capacities, and bankers, whose financial strength is financing. As compared to other countries where parallel model of lending to the poor is predominant, the Indian linkage model tries to use the existing formal financial network to increase the outreach to the poor, while ensuring the necessary flexibility of operations for both bankers and the poor. Various credit delivery innovations such as Grameen Bank Replications, NGO networking, credit unions, and SHG federations have been encouraged by

NABARD for increasing the outreach. It has also instituted a Micro Credit Innovations Department for planning, propagating, and facilitating the microfinance movement.

Given the network of institutional structures supporting the microfinance movement, the SHG-bank linkage program has been increasing its outreach substantially. Together the commercial banks, cooperatives, and regional rural banks had succeeded in linking 114,775 SHGs by March 2000. With an average size of 20 members per group, the program had reached over 2.2 million households. A large majority (85%) of the SHGs linked to banks were essentially women's groups. The new microfinance approach has benefited women largely and has emerged prominently as a women's program in rural India.

Review of SHG-Bank Linkage Program in India

Review of Models

In India, three types of SHG models have emerged:

1. Bank-SHG-Members: The bank itself acts as a self-help group promoting institution (SHPI).
2. Bank-Facilitating Agency-SHG-Members: Facilitating agencies like NGOs, government agencies, or other community-based organizations form groups.
3. Bank-NGO-MFI-SHG-Members: NGOs act both as facilitators and microfinance intermediaries. First they promote groups, nurture them, and train them, and then they approach banks for bulk loans for lending to the SHGs.

Table 1. Models of SHG Linkages

	SHGs		Bank Loans	
Model	Number of linkages	Percentage of total	Amount (Rs in millions)	Percentage of total
1	13561	14	339.79	18
2	65636	70	1339.95	69
3	15448	16	250.10	13

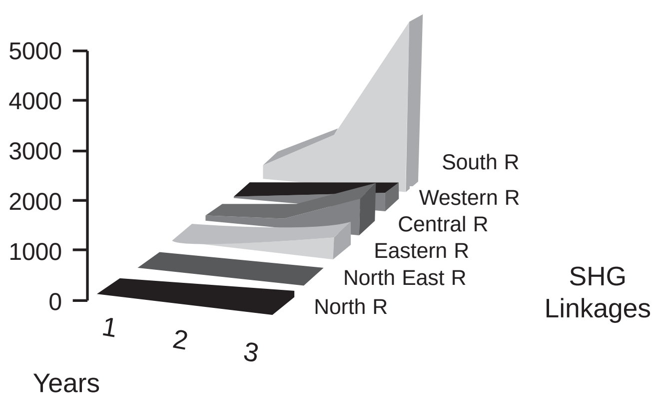
The second model, where SHGs were formed and nurtured by the NGOs, was more popular among the bankers. Banks opened saving accounts and then provided credit directly to the SHGs, while NGOs acted as facilitators. This approach has been widely accepted by the practitioners partly because of the large scale participation of state government through development agencies like the District Rural Development Agency (DRDA), District Women Development Agency (DWDA), and some of the centrally sponsored social sector missions, and also because of special initiatives of NABARD.

Sixteen percent of the SHGs were credit linked under the third model where NGOs acted as facilitators as well as microfinance intermediaries. Under this model, NGOs formed SHG federations and then facilitated them to assume the role of MFIs. This model is expected to gain wider recognition with smaller banks venturing into large scale financing of SHGs. Under the first model SHG linkages were facilitated through NABARD's policy of converting regional rural banks (RRBs) into self-help promoting institutions (SHPIs).

Review by Region (1997–98 to 1999–00)

The SHG-bank linkage program has been operating in India since 1992–93 but has gained momentum only since 1997–98.

Figure 1. SHG Linkages by Region (1997–98 to 1999–00)



Out of the total SHGs credit linked by banks up to March, 2000, 90% were linked only during last three years. The SHG linkage program seems to have picked up since the Global Microcredit Summit held in Washington D.C. in 1997.

Right from the inception, the program has been a major success in South India. Its share in the SHG coverage had risen from 60% to 68% from 1997–98 to 1999–00. The number of SHGs credit linked in the central region had increased due to a sharp rise in credit linkages in Uttar Pradesh. In the eastern and the western regions, the number of SHG links had increased, but these regions' share of the total linkages had decreased. In the north and the northeastern regions, the linkage program had not gained much acceptability.

Table 2. Distribution of SHG Credit Links by State

States	Population distribution	Population below poverty line	SHG linkages
Andhra Pradesh	7.90	15.77	42.26
Uttar Pradesh	16.4	31.15	11.29
Tamil Nadu	6.60	21.12	12.10
Karnataka	5.30	20.04	9.24
Kerala	3.40	12.72	4.84
Maharashta	9.30	25.02	4.32
Orissa	3.74	42.50	3.54
West Bengal	8.04	27.02	2.96
Gujarat	4.88	14.07	2.62
Madhya Pradesh	7.80	37.43	2.01
Rajasthan	5.19	15.28	1.69
Bihar	10.20	42.60	1.66
Rest of States/UT	9.58	17.39	1.47

Notes: The figures are in percentiles. The rest of the states and union territories (UT) include Hamachal Pradesh, Haryana, Punjab, Jammu & Kashmir, Assam, Meghalaya, Tripura, Sikkim, Manipur, UT of Andaman and Nicobar Islands, Goa, and UT of Pondichery.

Analysis by State

During the past few years, India has tried several credit models to alleviate poverty, some of which were formulated without considering spatial dimensions. Land is a factor that is far more complex with its sociocultural factors and typology that creates imbalances in the market and the socioeconomic growth of the people. Of the aspects that affect the success of the program, very important are its suitability and adaptability among practitioners as well as the poor living in that region.

The program since its initiation has shown severe spatial preferences. It has been predominant in certain states, namely, Andhra Pradesh, Uttar Pradesh, Tamil Nadu, and Karnataka. These four states accounted for two-thirds of the SHG credit linkages, with Andhra Pradesh alone accounting for 40%. Of these four states, only Uttar Pradesh had a higher poverty ratio (31.15%) than the national average of 26.1%. Some of the factors identified for the outstanding performance of Andhra Pradesh in the SHG-bank linkage program were the following: (a) Forty percent of the SHGs that were credit linked under Development of Women and Children in Rural Areas (DWCRA) were concentrated in Andhra Pradesh alone. (b) 2700 groups were promoted in that state under a special project sponsored by United Nations Development Program called South Asia Poverty Alleviation Program. (c) The credit movement in the south led to the evolution of community based development finance institutions, which were composed of SHGs promoted by NGOs or by district rural development agencies. (d) District collectors, NABARD district development managers, and lead bank managers profoundly supported the SHG-bank linkage program in the state. (e) Leading NGOs in the microfinance sector in India, like Mysore Resettlement and Development Agency (MYRADA), Society for Helping Awaking Rural Poor through Education (SHARE) and Bharatiya Samruddhi Investments Consulting Services Ltd. (BASIX), were also working in Andhra Pradesh.

Uttar Pradesh is one of the densely populated states with a high incidence of poverty. Among all the states of India, the Human Development Index is lowest in Uttar Pradesh. Credit links here were facilitated by Uttar Pradesh Land Development Corporation, which is implementing a World Bank–aided Land Development Program with the component of organizing the rural poor as SHGs. CASPOR Ltd. and the Grameen Project of Oriental Bank of Commerce have also supported a number of SHG credit links in Uttar Pradesh. The other two states, Karnataka and Tamil Nadu, in south India were supported by large sized NGOs like MYRADA and SHARE. As these NGOs had greater creditability it enabled them to leverage bank finance easily. Moreover, as the microfinance movement had "originated" in South India, the awareness and acceptability of the program was relatively higher. Kerala, Maharashtra, Orissa, West Bengal, Gujarat, Madhya Pradesh, Rajasthan, and Bihar together had 23.6% of SHG linkages while the remaining states and union territories had only 1.47%.

Rajasthan, Meghalaya, Orissa, Bihar, West Bengal, Madhya Pradesh, and Gujarat have been identified by NABARD for having higher potential of increasing SHG outreach. In general the lower credit linkages in some of these states can be explained by a lack of concentrated efforts by banks; the inability of banks to identify NGOs with savings and credit groups; a lack of motivation among bankers; a lack of large sized NGOs with previous background working with SHGs; and the unsuitability of the approach to the region.

One of the questions that arose after reviewing the spread of SHGs in different states was, did the spread of SHG credit linkages across India have a systematic approach? To investigate this, we have calculated the coefficient of correlation of the number of SHGs credit linked with the population, Human Development Index (HDI), incidence of poverty, and spread of NGOs across Indian states. As the HDI was not available for the union territories of Andaman and Nicobar Islands and Pondichery, they have not been included in correlations.

Table 3. Correlation Results

Correlation	Coefficient of Correlation
State Population	0.46
Incidence of poverty of	
All states	-0.01167
States with poverty below national average	-0.505
States with poverty above national average	-0.089
Number of NGOs in the State*	0.39
State HDI**	-0.06478

Notes: Poverty results exclude Andhra Pradesh because it was identified as outlier.

* Number of NGOs involved in establishing SH linkages during 1999–2000.

** Source for HDI figures NCAER (1994).

The results indicated that at macro level, there seemed to be no correlation between the spread of SHGs and the poverty and HDI of Indian states. However, further analysis suggests that states that were better off (had a lower incidence of poverty than the national average of 26.1%) had a better spread of SHGs. Besides one of the significant finding was that the SHG-bank linkage program seems to be following the presence of NGOs in various states rather than deprivation and poverty.

Analysis of Banks

The NABARD, Small Industrial Development Bank of India, Housing Urban Development Corporation, and Rastriya Mahila Kosh are some of the institutions that operate as the wholesale financers of microfinance. As "bulk financiers," they leverage funds from the government, market, donors, and lenders for lending to its partners and NGOs.

Reserve Bank of India and the government lend support to the SHG-bank linkage program through policy formulation and regulation while the NABARD acts as a facilitator and a refinancing agency. The program at the grass root level is

Table 4. Cumulative Distribution to SHGs by Type of Bank

Banks	SHG-Bank linkages Number	Percentage of total	Total loan (Rs in millions)	Average loan per group (Rs in millions)
Commercial Banks	51,619	55	1278.33	24,765
RRBs	38,998	41	574.59	14,736
Cooperative Banks	4,028	4	76.90	19,091
Total	94,645	100	1929.82	20,390

Data as of 31 March 2000.

executed through a network of commercial banks, regional rural bank (RRBs), district central cooperative banks (DCCBs), and primary agricultural credit societies (PACS). The program has been gradually gathering momentum. A review of the SHG credit linkages by these institutions indicated that commercial banks had established the maximum linkages. The RRBs had a sizable coverage but the performance of cooperatives in the program was minimal. The average loan per SHG also followed a similar pattern.

Commercial Banks: From the 1950s through 1970s, the financial system in many developing countries was predominantly composed of state-owned banks and branches of foreign owned commercial banks that provided short term commercial and trade credit. The state-owned banks also promoted economic development priorities through a network of financial institutions such as agricultural, development, and export banks (World Bank, 1989; Gonzalez-Vega & Graham, 1995). The Indian banking system was also organized on a similar basis. The process of institutionalizing rural credit by commercial banks[1] began with the nationalization of 14 private banks in 1969. Nationalization of banks led to "socialization" of Indian banks with interest rate regulations, branch expansion, and supply-driven, target-oriented programs under priority sector lending.

The spread of banking had a dual effect. On one hand, it provided a safe haven for savings and reduced the power of moneylenders. But, on the other hand, directed credit had little impact on growth and was a poor substitute for the physical inputs that were needed for growth (Binswanger & Khandekar, 1995). Even programs like the Integrated Rural Development Program were plagued by arrears and seemed to have only limited impact on the borrowers (World Bank, 1988). The government's treatment of banks' funds as a substitute for public spending along with their civil service attitude affected the incentives to sound lending and weakened banks substantially. Narsimham Committees I and II engraved the roadmap for revival and growth of the financial sector, while the Gupta Committee provided an impetus to rural credit through commercial banks.

Commercial banks have been found to be more suitable for microfinance because they are regulated and fulfill the conditions of ownership, financial disclosure, and capital adequacy and they have the necessary physical and financial infrastructure, including a large network of branches, and well-established internal control and accounting systems. A review of the experiences of commercial banks successfully operating with microfinance showed that Bank Rakhayat Indonesia and Banco del Desarrallo in Chile, etc., had fully independent microenterprise retail centers affiliated to the banks that adopted appropriate lending methodologies. Initial cross subsidization was a normal phenomenon and was evident in banks like the National Bank for Development Egypt, Centenary Bank in Uganda, Family Finance Building Society in Kenya, and some banks in South Africa and Peru. Micro and small loan interest rates varied between 30% and 60% and were kept substantially higher for covering the cost of microfinance. Banks adopted different lending strategies; for example, Banco Wiese in Peru worked directly through NGOs to disburse micro loans to groups, while some commercial banks in developing countries began initially with group lending but finally concentrated on an individual loan methodology. Others like BancoSol and Scotia Enterprise provided both individual and group loans. In India, rural branches of commercial banks undertake both regular banking operations as well microfinance. Regular bank employees who may not necessarily belong to the area and are also transferable undertake provision of credit to SHGs.

A study of the participation of commercial banks in SHG financing revealed that they were regularly involved in SHG financing since 1996–97 up to 2000 and had established 51,619 SHG credit linkages. The State Bank of India (SBI) had the

Table 5. SHG-Bank Linkages of Commercial Banks in India

States	Percentage of population below poverty line	SHG linkages	Average loan by a SHG (Rs)	Average loan per household (Rs)
Himachal Pradesh	7.63	257	27,393	1,369
Rajasthan	15.28	656	43,704	2,185
Jammu & Kashmir	3.48	50	9,000	450
Sikkim	36.55	01	10,000	500
Manipur	28.54	05	40,000	2,000
Gujarat	14.07	1,824	14,035	701
Maharashtra	25.02	3,611	21,080	1,054
Goa	4.40	19	48,947	2,447
Andhra Pradesh	15.77	24,451	25,521	1,276
Kerela	12.72	2,682	22,200	1,110
Tamil Nadu	21.12	8,659	30,964	1,548
Bihar	42.60	420	3,859	193

Data cummulative as of 2000

maximum coverage, followed by Andhra Bank and the State Bank of Hyderabad. Besides these banks, the Canara Bank, Bank of Baroda, Indian Bank, Indian Overseas Bank, and the Syndicate Bank also had significant credit links. Among the private sector banks, Vysya Bank had the maximum credit linkages; however the overall involvement of private sector banks in the SHG-bank linkage program was marginal.

The commercial banks were predominant, with the highest credit links in 12 states of India. Out of these, nine states had lower poverty ratios than the national average. States like Andhra Pradesh, Tamil Nadu, and Maharashtra had the maximum credit linkages, while in Goa, Sikkim, and Manipur, where the SHG linkage program was relatively weak, commercial banks were found to be the sole financers.

The average loan per SHG (as well as for the household) varied across different states. Average loan size was lowest in Bihar, where 42% of the population lived in abject poverty. In Jammu and Kashmir, Sikkim, and Gujarat average loan size was lower than Rs 1000, while in Goa and Maharashtra it was relatively higher at Rs. 2447 and Rs. 2185 respectively. Under the program the loan amount is determined on the basis of savings. SHGs with higher magnitude of poverty have lower propensity to save and hence the loans imparted to the SHGs were also smaller. The small size of loans in states with higher incidence of poverty indicates an inverse relationship between poverty and loan size.

Regional Rural Banks: The regional rural banks[2] (RRBs) were established in 1975 to support the rural lending operations of commercial banks. In their quest to increase their outreach through subsidized lending the RRBs were bestowed with the title of "White Elephants" because of their severe non-performing assets and viability problem. To date a number of committees have been appointed (Agricultural Credit Review Committee 1989, M. Narsimham 1991, Bhandari Committee 1994) to suggest ways and means to make these banks economically viable. Based on the recommendations of the Narsimham and Bhandari Committees, RRBs were provided greater autonomy for expansion and diversification of loan portfolio by allowing nontarget and nonpriority sector lending, rural housing sector finance, widening of avenues of profitable investment, reallocation of loss making branches, and opening extension counters and deregulation of interest rates. The RRBs were also supported with a fresh infusion of capital from NABARD and RBI. As a result, RRBs gradually started showing signs of improvement in their performance. The creditable turnaround was possible due to a series of measures including increased employee participation, systematic customer contact, and the introduction of new products suited to the rural markets, like Farmers Credit Card and occupational loans.

The RRBs also responded well to NABARD's initiative for extending their outreach to SHGs. Forty one percent of the SHG linkages were established through the participation of 84% of the RRBs. As one-third of the RRBs were operating in southern India, the RRBs had maximum linkages here. Manjira

Table 6. SHG-Bank Linkages of Regional Rural Banks in India

States	Percentage of population below poverty line	SHG linkages	Average loan by a SHG (Rs)	Average loan per household (Rs)
Haryana	8.74	99	48,182	2,409
Assam	36.09	46	11,521	516
Meghalaya	33.87	117	22,991	1,149
Tripura	34.44	3	26,667	2,333
Orissa	37.15	2,405	9,650	482
Madhya Pradesh	37.43	1,417	13,529	676
Uttar Pradesh	31.15	8,755	5,875	293
Karnataka	20.00	4,120	24,277	1,213

Data cummulative as of 2000.

Grameen Bank in Andhra Pradesh had maximum linkages with 2713 SHGs, followed by Pandyan Grameen Bank (2177) in Tamil Nadu and North Malabar Grameen Bank in Kerala (1266).

The RRBs were predominant in eight states of India. Out of 38998 SHGs that were credit linked, almost half were in Karnataka and Uttar Pradesh. In Uttar Pradesh most SHGs were credit linked through the Kanpur Regional Rural Bank while in Karnataka, the Cauvery Gramin Bank was predominant. Unlike in the case of commercial banks, the poverty ratio was higher in the majority of the states where RRBs were the major financers. The average loan per household was highest (Rs 2409) in Haryana and lowest (Rs 293) in Uttar Pradesh, signifying that the poorest of the poor were imparted credit. The average loan amount per household was below Rs. 1000 in Orissa, Assam, and Madhya Pradesh, where poverty ratios were relatively higher. In Orissa, the Kalahandi Anchalik Gramin Bank had maximum linkages.

Regional rural banks acting as SHPIs were more successful in expanding their outreach. As a part of an ongoing search for sustainable institutional mechanism for widening the outreach of financial services to the poor, an experiment was launched in 1994 to test the feasibility of RRBs working as SHPI. After an initial experiment with Cauvery Grameena Bank, 10 more RRBs were encouraged to operate as SHPIs under the guidance and monitoring of its sponsor bank, participating bank, and the NABARD.

Cooperative Banks: The cooperative credit system[3] is an umbrella network consisting of state cooperative banks (SCBs) at the apex level, district central cooperative banks (DCCBs) at the intermediate level, and primary agricultural societies (PACS) at the grassroot level. Every fourth cooperative in India is a primary credit society. PACS are grassroot level organizations that raise capital, collect deposits, grant loans, and encourage various income augmenting activities such as horticulture, animal husbandry, bee keeping, and cottage industry.

DCCBs, on the other hand, organize credit to PACS, carry out banking business, and sanction, monitor, and control the implementation of policies.

Cooperative banks have long grappled with operational problems, as they are both state sponsored and patronized, which negates democratic management. The basic principle of cooperative banking, namely, reliance on resources mobilized locally and lesser dependence on higher credit institutions, has historically been absent from the Indian system (Kamarker, 1999). High arrears, interest rate ceilings, high priority sector lending targets, and duality of control between the state governments on one hand and the Reserve Bank/NABARD on the other have adversely affected the working of cooperative banks and added to their dubious state.

In view of this, the central government constituted a special task force in April 1999 to study the functioning of rural cooperative credit institutions. The task force made suggestions for: strengthening the resource base of cooperative banks; reducing government control and making them member driven; bringing bank related functions exclusively under the purview of Banking Regulation Act of 1949; evolving strong managerial and personnel systems; diversifying their business products to consumer loans, consortium financing,

Table 7. SHG-Bank Linkages of Cooperative Banks in India

States	Percentage of population below poverty line	SHG linkages	Average loan by a SHG (Rs)	Average loan per household (Rs)
Punjab	6.16	20	52,500	2,625
West Bengal	27.02	1,761	7,938	396
Andaman & Nicobar Islands	20.99	23	28,696	1,434

Data cummulative as of 2000.

and financing of the service sector; distributing insurance products; revising interest rates on loans; and setting up a cooperative rehabilitation and development fund at NABARD at the national level and a mutual assistance fund at the state level. The committee also emphasized the imposition of prudential requirements and a regularized audit of cooperative institutions.

The coverage of cooperative banks in the SHG-bank linkage program was minimal. Only 26 PACS had joined the program; the Hoogly DCCB in West Bengal had maximum linkages (1,311), followed by Bidar in Karnataka (827) and Krishna in Andhra Pradesh (827). Some of the reasons identified for the lower participation of cooperatives were slow reforms, a lack of proper infrastructure, especially training centers, and a lack of specialized staff to pursue microfinance. Furthermore, laws in some states do not allow cooperatives to lend to SHGs. A state-by-state analysis revealed that a majority of the SHGs financed by the cooperatives were concentrated in Punjab, West Bengal, and Andaman and Nicobar Islands

In West Bengal the average loan size was minimal (Rs. 396 per household/member), while in Punjab it was Rs. 2625. Punjab is a relatively prosperous state with a lower incidence of poverty. The credit linkages established by DCCBs were more than those by PACS, since PACS by constitution so far have not been allowed to lend to SHGs. The process of amendments to allow PACS to lend to SHGs has already begun the pace of reforms, and together with other legal amendments will have a substantial bearing on the participation of PACS in the bank linkage program.

NGOs and SHG Credit Linkages: State-by-State

Non-governmental organizations were pioneer innovators of the microfinance approach. With the inception of Grameen Bank in Bangladesh, the notion that a real difference could be made for the poor through microcredit and that the money could be paid back as well gained wider acceptability among the NGO community. Subtly, involuntarily, a shift began to occur and credit started to become something to be offered to people rather than to enterprises. Emphasis on business enterprises began to slip as less and less sophisticated entities became substitutes for viable enterprises. NGOs began lending for consumption purposes and, as further evidence gathered suggesting poor women's creditworthiness in terms of their better repayment capacities, NGOs also started lending to these women. With time they underwent transformation and a variant typology of institutions emerged.

Tom Ditchler (1999) has classified these NGOs into five categories: (1) single method replication networks, i.e., NGOs which are linked to an international NGO family or international network that focuses on microfinance using particular methodology (ACCION, Family of Grameen Replicates); (2) multipurpose international NGOs which also have microfinance (CARE, Save the Children); (3) multipurpose national NGOs which also have microfinance components but are not part of any formal "family," though they may have informal linkages (CARD in Philippines, MYRADA and SEWA in India); (4) microfinance dedicated national NGOs which came into being solely as microfinance organizations, were spun off from international NGOs, or were helped to become significant through international donor support (PRADAN in India, K-REP in Kenya); (5) national, localized, and sometimes community-based (membership) NGOs, generally very small with few if any linkages to other organizations—there are tens of thousands of these registered and their number is growing.

Based on the success of new MFIs, India has ventured into official collaboration between NGOs, financial institutions, and the government of India. Collaboration between these organizations has been an outcome of greater emphases on a community approach to development through participatory method. Moreover, the need to be cost effective and sustainable while reaching the poorest was also an important factor in the collaboration of formal structures and NGOs.

Ved Arya (1999) has outlined various forms of relationships between the NGOs and the government, namely, schematic, dyadic, catalytic/confrontational, and institutional. In a schematic relationship, the NGO and the government assume the role of a benefactor and beneficiary; here the NGOs are merely treated as little more than subcontractors. Dyadic relations develop in order to execute a mutually agreed project; here the NGO is in a relatively prominent position; the government strikes a relationship with a single NGO because of confidence in its capability. Catalytic roles and relationships exist where the government and NGOs work with each other to enhance the benefits to the third stakeholder the disadvantaged community; this relationship is open ended and can witness certain flip-flop behavior. Institutional relationships are attempted where a program adopts a radically different approach, such as those emphasizing process rather than targets; the SHG-bank linkage program falls into this category.

The present section makes an attempt to review the credit linkages established by NGOs with banks for March 1999–2000. As against 550 NGOs during 1998–99, 718 NGOs were involved in the SHG-bank linkage program in the year 1999–2000. The number of NGOs participating in the program had increased by 30 percent over the previous year. The majority of the NGO linkages were concentrated in South India, and the NGOs were mainly functioning as facilitators or as financial intermediaries. Table 8 presents information about NGOs with major SHG credit links in Indian states.

The Women's Voluntary Organization in Manipur, the National Union of Cooperatives in India in Sikkim and in Andaman and Nicobar Islands, and Boso Reach Out in Meghalaya emerged as leading NGOs, with more than 80% of the SHG credit links. Chinmaya Tapovan Trust, Professional Assistance for Development Action (PRADAN), ACIL-Navasarjan Rural Development Foundation (ANARDE), Maharashtra Arthik Vikas Mahamandal (MAVIM), District Rural Development Agencies (DRDA), and District Women

Table 8. NGOs with Maximum SHG Credit Links by States

State	Name of SHPI/NGO	Percentage of SHG coverage
Haryana	Chinmaya Topovan Trust	73.5
Rajasthan	DWDA	11.4
Assam	Deshbandhu Club	42.8
Manipur	Women's Voluntary Organization	100
Meghalaya	Bosco Reach Out	95.5
Sikkim	NUCI	100
Bihar	PRADAN	56.7
Orissa	PREM	17.4
West Bengal	SHIS	30
Andaman & Nicobar Islands	NUCI	84.4
Madhya Pradesh	Devas Dhar Jambua	47.5
Uttar Pradesh	Sarvodaya Ashram	41
Gujarat	ANARDE	70.6
Goa	NCUI	94.7
Maharashtra	MAVIM	66
Andhra Pradesh	DRDAs	67
Karnataka	SKDRDP	41.1
Kerala	CDS	21.3
Tamil Nadu	LEAD	9.4

Development Agency (DWDA) predominated in Haryana, Bihar, Gujarat, Maharashtra, Andhra Pradesh, and Rajasthan respectively, with more than 50% of credit linkages. The League for Education and Development (LEAD) in Tamil Nadu, the Community Development Society (CDS) in Kerala, Sarvodaya Ashram in Uttar Pradesh, Dewas Dhar Jambhua in Madhya Pradesh, the People's Rural Education Movement (PREM) in Orissa, and Deshbandhu and Southern Health Improvement Samiti/Kashinagar Vivekanand Kendra (SHIS) in

West Bengal were the other NGOs with maximum SHG credit linkages.

The state government functionaries operating as SHPIs were predominant in Andhra Pradesh and Rajasthan. The Swarnajayanti Grameen Swarozgar Yojana (SGSY) program launched by the government of India has been routing credit to SHGs through the DRDA/DWDAs with the active involvement of banks and NGOs. The scheme provides capital as well as interest subsidies to the SHGs. Bosco Reach Out works with the government for implementation of the SGRY in Meghalaya and also imparts training for management and organization of SHGs in Meghalaya.

The NUCI was the main facilitator in Sikkim and Andaman and Nicobar Islands while Peoples Rural Education Movement (PREM) promoted, facilitated, and provided sustainable livelihood to the tribal population in Orissa. Another NGO, ANARDE Foundation, started its activities in Gujarat in 1979 with the adoption of five villages. Today it covers 8,675 villages and renders over US$ 110 million assistance. LEAD, in Tamil Nadu, was formed in 1987 with the aim of organizing women around issues of alcoholism, bonded labor, and destitution. It gradually moved on to microfinance, and today LEAD's microfinance program has gained predominance over its development programs. MAVIM in Maharashtra has played a major role in promoting SHGs under the Maharashtra Rural Credit Project of IFAD. By the end of March 2,000, the project had promoted around 5,000 SHGs, reaching approximately 80,000 rural women (MRCP, India).

Sri Kshetra Dharmasthala Rural Development Project (SKDRDP) in Karnataka was initiated to rejuvenate villages and restore village life by strengthening its natural, social, and economic roots. The NGO adopted a "Pragati Bandhu" concept which not only focused on SHGs but also on sharing labor for developing the area through community work. Southern Health Improvement Samiti (SHIS) in West Bengal began working with health but later on diversified its activities to support the Women's Empowerment Program. Under the program women were organized into SHGs to increase their credit accessibility and improve health. Community Development Society (CDS, Allepy) in Kerala is a successful model of women in development and has been replicated in 57 towns and one entire district in Kerala State. In 1993, 10,304 women from poor families with the support of UNICEF, the federal government, and the state government had organized themselves into a community development society. The NGO supported a wide range of activities from income-generating schemes for women, thrift, and shelter upgrading to housing, childcare, and sanitation programs. CDS has gained recognition and legitimization from the government through official approval of CDS bylaws.

With a view to facilitate entry of new NGO partners, NABARD has developed the concept of "Resource NGOs." NGOs with long standing experience and adequate skill and capacity in microfinance act as resource centers to provide training and guidance to other NGOs to enable them to take up SHG promotion; Chinmaya Tapovan Trust in Haryana is one such NGO. PRADAN, established in 1983, is India's leading NGO in microfinance: it works in Bihar, Karnataka, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal. The NGO supports agricultural activities like wasteland development, and improved upland cultivation, and it also supports women's groups for savings, credit, and income generation.

The level of participation of the majority of NGOs in the SHG-bank linkage program was limited. A large majority of the NGOs participating in the program had less than 100 SHGs credit linked, while only a few had 250 SHGs.

Conclusions and Observations

Microfinance has emerged as a vital approach to meet the heterogeneous needs of the poor. In India, microfinance in the formal sector has assumed the form of SHG-bank linkage program. Through this program, the Reserve Bank of India and NABARD have tried to promote relationship banking, i.e., "Improving the existing relationship between the poor and the bankers with the social intermediation of the NGOs." The SHG-bank linkage program in India is rapidly expanding its outreach under the pioneering initiative of NABARD, the monitoring and supervision of RBI, and the promotional policies of the government of India. At the grassroot level the program is being implemented by the commercial banks, cooperatives, and regional rural banks, with government agencies like DRDA/DWDA acting as facilitators. As of March 2000, 114,775 SHGs were credit linked, with the majority of them being fostered in the years since the Global Micro Credit Summit in Washington. With an average membership of twenty members per SHG, the program has catered to 2.295 million poor households.

With coverage of two-thirds of SHG credit linkages, the linkage program was predominant in the Andhra Pradesh, Tamil Nadu, Karnataka, and Uttar Pradesh states of India. Further, among these four states the program was heavily concentrated in Andhra Pradesh, where 40% of credit linkages were established. The acceptability of the program was relatively higher in southern India, because the savings and the credit movement was launched here. Some of the other contributory factors were large coverage of DWACRA groups and the operation of Swarna Jayanti Swarojgar Yojna Program and the presence of leading MFIs. Kerala, Maharashtra, Orissa, West Bengal, Gujarat, Madhya Pradesh, Rajasthan, and Bihar together had 23.6% SHG linkages, while the remaining states and union territories had only 1.47% SHG credit linkages. Northeastern India and Jammu and Kashmir need special attention and action plans because of the complexities prevalent in the regional, political, economical, and human conditions. In Haryana and Punjab the pro poor program had few takers. The major reasons identified for the spatial coverage of the program in some states were a lack of concentrated efforts by bankers; the absence of large sized NGOs operating as MFIs;

few international development projects with focus on income generation; and a lack of initiatives to dovetail existing government programs with the bank linkage program.

Out of the three major lending rural institutions involved in retailing, the commercial banks and RRBs were more forthcoming in lending to SHGs. Commercial banks were predominant in relatively better off states, where poverty incidences were lower, while RRBs were more dominant in poorer states and were more successful while acting as SHPIs. The global experiences of commercial banks dealing with microfinance suggest the need for the restructuring of branches, environment, attitudes, and their regulatory norms. The cooperatives in India have yet not ventured into SHG financing in a full-fledged manner. Despite the large presence of PACS, the majority of the linkages were forged by the DCCBs. Laws in some states in India still do not allow PACS to lend to SHGs. With legal reforms on the way, the cooperatives are expected expand their outreach to SHGs. However, the pace of reforms will have a substantial bearing on the involvement of cooperatives. The loan amount deployed to the SHG is dependent on the savings mobilized by the groups. In states with a high incidence of poverty, the average loan amount was smaller, while it was relatively higher in better off states. Initial loans to the poor can merely act as a catalyst to instigate a process, but to make a significant change, the MFIs would need to impart repeat loans.

During the year 1999–2000, 718 NGOs participated in the SHG-bank linkage program; the number of NGOs increased by 30% over the previous year. Out of the NGOs and SHPIs predominating in different states of India, the majority were DRDAs/DWDAs acting as government agencies or SHGs supported by international organizations. NGOs with the back-up support of external agencies were relatively more successful in establishing credit linkages. In brief the SHG-bank linkage program has succeeded in reaching around 2.2 million poor households with major coverage of women. This has been an outstanding achievement, albeit one with severe spatial imbalance.

Notes

The exchange rate of rupees into dollar for the year 1997–98 was Rs. 37.165, in year 1998–99 it was Rs. 42.333, and in 1999–2000 it was Rs. 43.333.

1. In September 2000, the number of commercial banks was 297, of which 196 were RRBs. The commercial banks had 32632 rural, 14431 semiurban, 10244 urban, and 8428 metropolitan offices. The per office population was 15000. Commercial banks are governed by the Banking Regulation Act of 1949 and interest rates up to Rs. 0.2 million were regulated by RBI.

2. As of March 2000 almost 54% of the advances were provided to the non-agricultural sector while agricultural advances constituted 46.3%. Out of 193 RRBs, 160 were recorded as profit making. The operating profits to total assets had increased because of increase in interest income and the decline in the intermediation ratio. The share of NPAs had also declined to 27.9% from 32.8% at the end of 1999.

3. At the end of March 2000, almost every village in India had a PACS. The total number of PACS operating were 91,110 with an average membership of 995 and an average deposit of Rs 325007. The share of deposits to advances of PACS was 26.9%. There were 361 DCCBs operating with a membership of Rs 1570 million with deposit to advances ratio of 62.2%.

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Acronyms

ANARDE	ACIL-Navasarjan Rural Development Foundation
BASIX	Bharatiya Samruddhi Investments Consulting Services Ltd.
CARD	Centre for Agriculture and Rural Development
CASPOR Ltd	CASHPOR Financial and Technical Services Pvt. Ltd
CDS	Community Development Society
DCCBs	District Central Cooperative Banks
DRDA	District Rural Development Agency
DWDA	District Women Development Agency
DWCRA	Development of Women and Children in Rural Areas
HDI	Human Development Index
IFAD	International Fund for Agriculture Development

K-REP	Kenya Republic and Rural Enterprise Program
LEAD	League for Education and Development
MAVIM	Maharashtra Arthik Vikas Mahamandal
MFIs	Microfinance institutions
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture and Rural Development
NGO	Non Governmental Organizations
NUCI	National Union of Cooperatives in India
PACS	Primary Agricultural Credit Societies
PRADAN	Professional Assistance For Development Action
PREM	Peoples Rural Education Movement
RBI	Reserve Bank of India
RRBs	Regional Rural Banks
SHPI	Self Help Group Promoting Institution
SHARE	Society for Helping Awaking Rural Poor through Education
SHGs	Self Help Groups
SCBs	State Cooperative Banks
SHIS	Southern Health Improvement Samiti
SEWA	Self-Employed Women's Association
SHARE	Society for Helping Awakening Rural Poor through Education
SKDRDP	Sri Kshetra Dharmasthala Rural Development Project
SGSY	Swarnajayanti Grameen Swarozgar Yojana