SHG-Bank Linkage: A Success Story
Access to adequate and timely credit at affordable rates is critical for the rural poor to alleviate high cost debt and invest in livelihood opportunities. Despite the Government of India’s (GOI’s) best efforts, financial inclusion of the rural poor has been beset with multiple challenges. Lack of adequate banking infrastructure and human resources in rural areas, unplanned expansion leading to unviable bank branches and low levels of financial literacy amongst the rural populace have been some of the key challenges.

The most vulnerable communities, who often had no formal credit history or ability to provide collateral, have often been the worst affected. Inability to access loans from banks meant that the poorest had to resort to moneylenders for loans at usurious rates of interest that invariably led them into a toxic debt trap.

In this context, the SHG-Bank Linkage programme that synthesizes ‘formal financial systems’ (in terms of a formal institution providing credit) with the ‘informal sector’ (comprising of rural poor with no formal credit history - exclusively women in case of DAY-NRLM), has emerged as a preferred vehicle for providing financial services to the hitherto unbanked poor.

The SHG-Bank Linkage Programme (SBLP) was initiated as an action research by the National Bank for Agriculture and Rural Development (NABARD) in 1989 and was subsequently crystallized into a pilot project in 1992.

### Phase 1 (1990-2005)
- NABARD acted as the catalyst for the SHG-Bank Linkage programme
- RBI circular allowing banks to lend to SHGs
- However, lending was primarily subsidy driven

### Phase 2 (2006-2012)
- Strategic shift away from targeting individuals to group oriented lending approach (e.g. Integrated Rural Development Program to Swarnajayanti Gram Swarozgar Yojana)
- Quantum jump in direct lending - SHG centric model firmly established in southern states
- However, growth was adversely affected due to the high rates of NPA under SGSY and the Andhra Pradesh ordinance

### Phase 3 (2012-TILL DATE)
- Launch of DAY-NRLM
- Dedicated architecture with professional manpower support established from the block level up to the national level
- Removal of capital subsidy and introduction of interest subsidy
- Substantial growth in disbursement of credit. Poorer States such as Bihar, Chhattisgarh, Madhya Pradesh etc. have shown impressive growth

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RBI Master Circular (1st July 2019)
Intervention

Since the design of DAY-NRLM made major departures from the existing poverty reduction programs, the Government of India sought to establish a “proof of concept” in high poverty areas before scaling it to all States and Union Territories. In this context, the GOI sought credit from the International Development Association (IDA) to implement the National Rural Livelihood Project (NRLP), under DAY-NRLM.

Between July 2011 and June 2018, the NRLP helped set up implementation systems, demonstrated social mobilization/capacity building and provided initial capitalization and facilitated credit linkage of community institutions across the country with the formal banking sector, largely the Public Sector Banks. By the end of the project, NRLP had mobilized more than 7.5 million rural poor women into 650,000 Self Help Groups, 41000 Village Organizations and nearly 2500 Cluster Level federations.

DAY-NRLM has been able to mobilize over 60 million women into over 6 million SHGs. The SHGs have successfully leveraged approximately INR 2,870 billion (USD 41 billion) as loans from banks since 2013-14.

NRLM has been able to achieve these results by leveraging the experiences of states such as Andhra Pradesh (AP), Telangana, Tamil Nadu (TN) and Bihar in promoting SHG-Bank Linkage and instituting critical demand and supply side interventions. Some of these strategies are mentioned below.

Generating resources in perpetuity

DAY-NRLM has made a departure from the erstwhile Swarnajayanti Gram Swarozgar Yojana (SGSY) by abolishing the concept of capital subsidy to both groups and individuals. Instead, DAY-NRLM provides capitalization support to institutions of the poor (SHGs and CLFs) as grants, which are then passed on to the SHG member as loans to be repaid with interest by the members. This on-lending – repayment – on-lending cycle ultimately leads to an increase in the corpus of these institutions, creating “resources in perpetuity” for the village community. This strengthens their institutional and financial management capacity, creating a culture of timely repayments and help build a track record to attract mainstream bank finance.

These grants include a Revolving Fund (RF) of up to INR 15,000 per SHG as corpus that serves the members’ credit needs as well as acts as catalytic capital to leverage repeat bank finance. The project also provides a Community Investment Fund (CIF) of up to INR 25,000 per SHG at the Cluster Level Federation (CLF) to meet the credit needs of the members through SHGs and Village Organizations (VOs),
and to serve as working capital for collective activities at various levels. Cumulatively, the community institutions under DAY-NRLM have been provided about INR 102 billion as capitalization support (approx. USD 1.5 billion).

The Reserve Bank of India issues annual “master circulars” that lays down the ground rules for the Banks to extend credit to the women SHGs under DAY-NRLM. The extant Master Circular, requires the banks to extend credit of at least Rs.1,00,000 (~1400USD) or 6-8 times their corpus amount to SHGs as their first bank-linkage. This amount is increased for subsequent linkages.

**Simplification of procedures and application formats**

The sheer number of banks involved in lending to SHGs meant that there were enormous variations in application procedures and forms for opening a savings account or a loan account. DAY-NRLM consistently engaged with the Reserve Bank of India (RBI), Indian Banks Association (IBA), NABARD and scheduled commercial banks to resolve these discrepancies. This led to the RBI issuing a detailed master circular with specific directions on procedures, loan eligibility and terms for credit to SHGs by banks, and the IBA standardizing the saving bank account and loan application forms across banks.

**Supporting banks in conducting their business**

Leveraging the experience of states like Andhra Pradesh and Bihar, DAY-NRLM has placed a trained Community Resource Person (CRP), called Bank Mitra, within bank branches to facilitate non-cash transactions such as filling application forms, following up on repayments etc. This strategy helps in reducing the workload on the bank branch officials and inspires confidence in SHG members who are unfamiliar with the formal banking system. As of March 2020, about 21,000 Bank Sakhis support SHGs to engage with their lending partners while also ensuring that the bank portfolio remains healthy.

**SUCCESS STORIES**

‘A journey of thousand miles begins with a single step’, says Ragini, a resident of Tajpur block of Samastipur District in Bihar about her journey as an SHG member. It was Ragini’s unwavering determination that saw her become a graduate as well as earn a diploma in a computer course.

Her impressive qualifications led to her being selected as a bank mitra in a UCO Bank branch in 2014. With her support, the Bank Branch managed to disburse bank credit to the tune of INR 22.4 million (USD 320,000) to 210 SHGs in FY 18-19.

As part of her responsibilities, she educates SHG members on various financial products and follows up with the groups to ensure timely repayment. The fact that the NRLM-Bank Linkage portal indicates zero NPAs for her bank branch is a testament to her commitment and competence.
She has also helped Uttar Bihar Gramin Bank (UBGB) in setting up a Customer Service Point (CSP). Today, her dual role of being a bank mitra and managing a CSP has enabled her to earn INR 10,000/- month.

“In the time I have been working as bank mitra at UCO bank, I have helped more than 1000 women open personal accounts and facilitated enrolment of more than 500 women in the Atal Pension Yojana (APY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)” says Ragini.

She has also worked towards financial inclusion of the rural poor by opening members’ savings account and facilitating insurance.

**Instituting Community Based Recovery Management (CBRM) System**

Initially, the Mission faced immense challenges in convincing banks to lend to the SHGs, particularly in the poorer Northern States. One of the main reasons behind the Banks’ reluctance to sanction fresh loans to SHGs was due to the high rates of NPAs in the SHG-loan portfolio.

In order to address this issue, DAY-NRLM institutionalized Community Based Repayment Mechanisms (CBRMs) at branches involved in financing SHGs to monitor and ensure timely repayment of loans by SHGs. As on June 2019, CBRMs are functional as of March 2020, 28,000 rural branches. This strategy has been largely successful in cleaning up the existing loan portfolio in addition to facilitating regular repayments of new loans.

**Promoting financial literacy**

The success of any financial inclusion program relies heavily on the beneficiaries understanding the nuances of the products and services offered to them. Since DAY-NRLM works with rural poor women who are largely illiterate or semi-literate, it is critical that capacity building steps are taken to prepare them for financial inclusion. In this context, DAY NRLM has initiated a comprehensive financial literacy program in partnerships with Rural Self Employment Training Institutes (RSETI) and banks.

As of March 2020, more than 18,000 Financial Literacy Community Resource Persons (FL-CRPs) have been trained to conduct village level financial literacy camps. Over 960,000 SHGs and nearly 7 million SHG members have received financial literacy training.
In the remote village of Gadchiroli, a naxal-affected district in Maharashtra, Ms. Lineshwari Devendra Mandhwa, is yet another community hero working under the aegis of DAY-NRLM. **26 year-old Lineshwari** has been working as a FL-CRP for one year with the aim of creating demand and facilitating access of financial services in rural areas.

She has provided financial literacy training to **96 SHGs in 11 villages**

In her training sessions, she educates these groups on transactions through individual savings accounts, term and CC bank loans, insurance, pensions and digital finance.

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**Instituting transparency and accountability**

The multiplicity of banks and bank branches involved in financing SHGs invariably meant that there was a lack of coordination in reporting the progress by individual districts/blocks etc. In order to mitigate this problem, the DAY-NRLM, on the recommendations of the Usha Thorat committee, has developed the NRLM-Bank Linkage portal, which captures the information directly from the banks’ Core Banking System (CBS).

Since all the Public Sector Banks (PSB), Regional Rural Banks (RRBs) and leading private sector banks share data on the bank linkage portal, a wealth of data (down to the bank branch level) is being captured on critical indicators such as loans disbursed, loan amount overdue, loans outstanding, portfolio at risk and NPAs. Access to this data has ensured transparency and facilitated decision-making.

Details of 26.1 million SHG members’ individual-bank accounts and 20.3 million Aadhar-seeded accounts have been captured by the DAY-NRLM database. While SRLMs have been tracking households and member-level SHG transactions for many years using a paper-based MIS format, some states like Andhra Pradesh, Rajasthan and Jharkhand have established their own digital, tablet-based MIS systems to improve accountability and encourage better monitoring. Leveraging the experiences of these SRLMs, DAY-NRLM has designed and deployed a National transaction-based MIS.

As of March 2020, 26 states implemented the SHG-transaction module in 2084 intensive blocks. Nearly 6.79 lakh SHGs across these blocks have been brought on board the transaction system.

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Thanks to her efforts **30 SHGs** gained access to bank credit

**109 households** are being covered under accidental insurance

**70 households** registered in the PMSYM pension scheme.
Enabling access to life and health insurance

Health shocks and/or death of an earning member are among the major reasons that push households into a poverty trap. These tragic episodes lead poor households to exhaust their savings and compel them to borrow loans at onerous rates of interest. The DAY-NRLM has adopted a two pronged strategy to address such incidents:

(i) developed a special loan product within the amount allocated for community investment support viz. a Vulnerability Reduction Fund; and
(ii) facilitated access of SHG member households to insurance and pension schemes to SHG member households.

Advocacy with the RBI, DFS and IBA and interventions at the field level have resulted in exemplary growth in the SHG-Bank linkage portfolio. The number of SHGs with outstanding bank loans stands at nearly 5 million today, implying that the SHG-Bank Linkage program has brought formal banking services to over 50 million women.

Massive growth in the SHG-loan portfolio

The efforts of DAY-NRLM have led to an exponential growth in the disbursement of bank credit. The amount of loans disbursed by banks has almost doubled in the last five years. Importantly, this growth has been driven by states that hitherto lagged behind in financial inclusion. The eleven poorest states, which had a share of just 10.3% of total loan disbursed in FY 2013-14, account for about 24% in FY 2018-19 (Mar’19).

As of June 2019, more than 12.6 million SHG members have been covered under life and accident insurance schemes floated by GoI and concerted efforts to enroll many more SHG members under life, accident and health insurance are ongoing.

1. Assam, Bihar, Chhattisgarh, Gujarat, Jharkhand, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, Uttar Pradesh, West Bengal.
Key Lessons and the Way Forward

The DAY-NRLM experience of promoting financial inclusion using a platform provided by community institutions holds valuable lessons for decision makers and practitioners. Learning from the experiences of other state programs, the approach of promoting collective access to finance provides perspective on overcoming the challenges of a weak banking infrastructure.

The key focus areas of financial inclusion under the project are to

a) build financial literacy and financial management capacity;

b) institutionalize a culture of regular savings, internal lending and regular repayment within the SHGs;

c) enable access to financial services from public and private sector banks; and

d) build a cadre of community resource persons to help promote financial inclusion of rural poor women.

The project provided investment grants that serve as seed capital for SHGs and help in establishing a culture of regular inter-lending, repayment and book keeping, thereby reducing reliance on extortionist money lending traditions. The due diligence and system-strengthening measures instituted by the program has helped SHG members in accessing institutional finance from banks based on credit and repayment history built under the project.

The success and replicability of the SHG-Bank Linkage Programme is contingent on certain prerequisites including sufficient penetration of banking infrastructure, an enabling policy environment that recognizes SHG women (rural poor women) as bankable clients and a differentiated lending rates by banks as an incentive to move away from agents in the informal economy. The quality of these community-based institutions (including SHGs) has a direct bearing on the institutionalization of systems, norms and procedures, which is critical to the success of any bank-linkage program.

Under the DAY-NRLM, efforts were made to bridge the gap between the rural poor and the formal financial system by engaging with the community to address cultural issues as well as instill confidence in SHG members. A key strategy was investing heavily in engaging CRPs as frontline workers for implementing the programme. These “community heroes” received extensive training and were able to understand and address constraints and requirements of fellow women better than any staff/line department functionary possible could.

Similarly, deploying SHG members as frontline workers to facilitate implementation of other financial inclusion interventions such Bank Mitra (non-cash transactions at the bank branch), BC Sakhi (last mile delivery of financial services), Bima Sakhi (Insurance) and FL-CRPs (training of SHG members on financial literacy) have helped in connecting with SHG members as well as the rapid scale-up of the initiative.

With an increased focus on improving household incomes through economic initiatives in farm and non-farm sectors and enabling larger value loans (beyond SHG bank linkage) for Nano and Micro enterprises (NME) and producer collectives under the next phase of rural livelihoods projects, there is a need to move from financial inclusion to financial deepening. The need for such customized financing products has also emerged in the process of developing both national projects like the National Rural Economic Transformation Project (NRETP) and state specific projects such as Bihar Transformative Development Project (BTDP), Jharkhand Opportunities for Harnessing Rural Growth Project (JOHAR) and Tamil Nadu Rural Transformation Project (TNRTP).

NRETP envisages that nearly 64,000 women-led/women owned enterprises will have access to funds from financial institutions. The project aims at enabling access to 500,000 SHG member households in accessing digital financial services and allied services by 2023-24.

Over the above-mentioned targets, NRLM has set itself an ambitious target of leveraging bank credit to the tune INR 3 lakh crore (USD 42 billion), deploying SHG members as Banking Correspondents for door step delivery of financial services in about 2 lakh Gram Panchayats (about 80% of total Gram Panchayats in the country) and covering 40 million SHG members under life and accidental insurance schemes.

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This note is part of the South Asia Agriculture and Rural Growth Discussion Note Series, that seeks to disseminate operational learnings and implementation experiences from World Bank financed rural, agriculture and food systems programs in South Asia.

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