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ORIGINAL ARTICLE

# MICROFINANCE GAME : BANK'S DILEMMA - A STUDY OF UNDERPRIVILEGED SELF HELP GROUPS (SHGS) IN LATUR DISTRICT OF MAHARASHTRA STATE, INDIA

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**Abstract:**

*Microfinance milieu in India comprises of State institutions, which play instrumental role in creating, promoting and financing Self Help Groups (SHGs). SHGs further play a pivotal role in providing microfinance to their members at cutting-edge level. This service delivery of "institutionalised co-microfinance" works in a rather complex and asymmetrical manner, as has come out of research of these relationships in Latur district of Maharashtra State of India.*

*The women SHGs are dependent upon the banking infrastructure while seeking access to bank credit. This relationship is organically mutated by institutional philosophy, systemic red-tape, corruption and political drive. Role of banking sector becomes critical to the tipping point in these circumstances, primarily due to its vulnerable overall situation. Most of the banking institutions in India inherit the legacy of chronic mistrust towards the borrowers, even the bona fide ones, due to arrears of previous credit disbursals in various schemes. Banks apply the same approach towards SHG credit delivery. In this entire process, the SHGs sometimes accuse the banks of being discriminatory and casteist, in assessing the credit-worthiness of such SHGs. Banks are often accused of being 'not enough sensitive` towards the genuine credit needs of SHG borrowers. The role of bank branch manager becomes highly crucial in this scenario.*

*But, all said and done, microfinance business in rural India has become a highly profitable one, attracting more and more players. This paper goes on to suggest that relationship between financial institutions and SHGs using the financial services requires further enquiry into the dynamics which lend substantial criticality to banks in this area.*

**KEYWORDS:**

Self help groups (SHGs), microcredit, banking infrastructure, financial institutions, bureaucracy, microfinance, criticality, vulnerability, credit-worthiness, Swarnjayanti Gram Swarojgar Yojana (SGSY), NGO coordinators, sponsoring NGOs, National Bank for Agriculture and Rural Development (NABARD).

## INTRODUCTION

The financial services market for rural and urban poor of developing countries is rapidly expanding both in quantitative and qualitative terms. This has been possible due to innovative lending strategies resulting in reduced transaction costs. The pivot of these strategies is to create organic financial linkages between formal credit institutions and various semi-formal financial service providers, also between semi-formal financial service providers and informal community groups of poor (SHGs) (Pagura and Kirsten, 2006). These SHGS provide micro-credit for neighbourhood poor by means of intra-group loans, thus acting as micro-banks (Harper, 2002).

In 1999, Government of India introduced its flagship anti-poverty program - the Swarnjayanti Gram Swarozgar Yojana (SGSY), which involved regular banking channels to deliver credit-cum-subsidy assistance to SHGs, below the official poverty line to promote self employment activities (SGSY guidelines 1999). Banking institutions play a key role in this SHG based microfinance milieu in India, by promoting and financing SHGs proactively. The present study on this interrelationship between banks and SHGs reveals that it is a positive interaction. But, SHGs seeking bank credit have to face the rules and procedures of the banks, sometimes resulting in conflict and tension in this otherwise positive interaction.

In the present paper, the endeavour is to show how the position of banks becomes critical while delivering microcredit services to SHGs. The understandings are drawn from interviews with the SHG coordinators, SHG members and bank officials and staff, actively involved in microfinance activities in Latur district of Maharashtra State. The field work included 36 SHGs and 7 bank branches in 4 villages of Latur, with the period of study spanning between August 2013 to March 2014. All 36 SHGs of this study ranged from two to five years in age. The banks include the District Central Co-operative Bank (DCCB), Regional Rural Bank (RRB) and Nationalised Banks. The logic behind selecting those SHGs, which have completed at least two years of age, was to ensure that they had a minimum basic experience of SHG functioning. All groups were exclusive women SHGs and of the 36, 20 comprised entirely of SC members, 10 of OBC members and 6 were mixed of SC and OBC members. The number of members per SHG ranged from 12 to 15. (A note on the 4 villages and methodology adopted for the study is given as Annex I).

**The microfinance game : bank's dilemma**

While extending credit to the SHGs, banks face a major dilemma. On one hand, they want to expand their reach and catchment in lucrative rural money market and on the other hand, they have an inherent tendency to make fresh loans contingent on SHGs repaying any earlier loan outstandings, even if some of these earlier loans might have been availed of in individual capacity (Kropp and Suran, 2002). Further, the banks religiously follow the tedious procedure in which SHGs wishing to avail loan are asked to obtain no-objection certificates from all banks in the area. This no-objection certificate is usually refused in cases wherein even one member of the SHG or any relative (husband, son or in-laws etc.) of any SHG member has availed any kind of loan from any bank and has failed to repay it resulting in default of payment. But, due to such watertight scrutiny, banks always face a serious risk of missing their annual targets for credit disbursal, affecting their overall performance.

Sh. Govind *, who is employed in the microcredit section of a leading public sector bank having a rural branch in one of the villages under study, illustrates how the banks put loan recovery pressure on SHGs. There was a woman member of one of the SHGs, whose husband had availed a loan of Rs. 3,000 from the bank to buy cows, under one of the credit-linked schemes. This amount had grown to Rs. 12,000 (with interest) over the years. Due to non-profitable venture, the husband stopped repaying the loan. Now, when the SHG approached the bank for loan, the bank pointed out that husband of one of the SHG members was already a defaulter of the bank; hence the bank would not sanction any new loan for the SHG. The sponsoring NGO also sided with the bank. Ultimately, the SHG decided to drop off that member from the group and only than the bank approved the loan.

Banks do not approve fresh loans even if one of the SHG members happens to be merely a co-guarantor for a previous bad loan. Thus in many cases, the defaulter is made to quit the group and the banks fail to achieve their loan targets, resulting in lose-lose situation for both. This process of creating 'bank-induced dropouts' drive women and women SHGs out of micro-credit ambit. Even the SGSY guidelines refer to 'wilful' and 'non-wilful' defaulters. SGSY financing is sanctioned only after excluding wilful defaulters from the group (RBI 2005). Banks may refuse a new bank loan to a defaulting member, resulting in refusal for the entire SHG (NABARD 1996) .

(* name changed)

These pressure tactics from the banks result in conflicts between SHGs and banks leading to loss of solidarity and cohesion in their interrelation. Bank policies in this regards are perceived by the SHGs as biased and unfair, this leads to overall negativity being spread about the bank, resulting in loss of overall business. Also sometimes, the SHGs tend to misguide and misinform the banks about the defaulting members in order to avail group credit. Thus, the banks allege deception on part of such SHGs. Also, the banks face chances of SHGs colluding with other banks in obtaining the no-objection certificates, in spite of having outstanding loans in these banks. Sometimes, the banks are also accused of manipulating the SHG co-ordinators, for some consideration, to involve them in recovery of old bad loans from the rural borrowers (Srinivasan, 2000).

**Bank's perspective: SHGs as bona fide clients or defaulters-in-waiting**

The bad loans impart a skewed vision to the bank towards SHGs. Though the SGSY guidelines expressly prohibit the banks from demanding any collateral from the SHGs for loan sanctioning (SGSY guidelines, 1999), yet there have been a few cases wherein the banks have forced upon the SHGs to fix a percentage of the loan as collateral. This is because the banks view SHGs as potential defaulters-in-waiting. In one of the villages under study, the bank demanded fixed deposit to the tune of 30% of the loan amount. This puts the SHGs in a typical unprofitable position because the banks pay only 8.5% return on FDs but charge around 12% for the loan sanctioned to SHGs. This makes the SHGs unequal partners vis-à-vis the banks in overall situation.

SHGs' credit history and internal repayment record become the bank's sole criteria of approving or rejecting fresh loan demands, even though the banks are under high pressure to meet credit disbursal targets. The SHGs try to retaliate by fudging their account books prior to the bank supervision, most of the times, in connivance with the sponsoring NGOs (Dasgupta, 2001). This leaves the banks in a fix. The SHGs blame them for being inhumane and failing to understand their poverty. Caste discrimination is also one of the usual allegations against the banks. The routine bank supervision is labelled as 'undue interference in internal affairs of SHGs'.

**BANK LOANS: THE REPAYMENT SAGA**

In the study villages, all SHGs were found to have a good repayment record on bank loans. In many cases, the loan was fully repaid, well before the stipulated deadline. It was found that these SHGs were receiving continuous guidance from the service bank branches. The basic repayment strategy adopted by the SHGs successfully was by setting a single monthly instalment per member. By disciplined repayments, few SHGs were able to get second loan sanctioned within 3 year. In these cases, banks were also happy and treated such SHGs as high value clients, irrespective of their caste structure. The SHG coordinators also, under support and guidance from the banks, emphasised the urgency of repayment by the SHGs to avoid default. In one of the SHGs under study, each SHG member and her husband were made to sign the loan agreement as co-borrowers, making it a rather safe trade for the bank. In another SHG, there was a daily fine for delayed repayment imposed upon the members, in case they failed to repay monthly instalment on time. In one of the villages under study, the bank manager agreed to the fact that internal group pressure within the SHG, rather than external pressure exerted by the bank on SHG, was much more effective in avoiding loan repayment default.

The bank, being the financier as well as the banker for the SHG, sometimes transferred money from SHG's regular savings account to the bank loan account in case of repayment delay. In another case, the bank simply froze the SHG savings account till the group repaid its due instalment. Thus, the banks do use this dual role of theirs to advantage.

**The mutual (mis) trust**

In the microfinance game, banks and SHGs come across many opportunities to understand mutual constraints and perspectives, still, mutual trust is conspicuous by its absence. Banks always maintain that they charge interest as per RBI and NABARD guidelines. As per existing RBI directives, interest rates on 'priority-sector' lending (which includes credit linked schemes like SGSY) cannot exceed the prime lending rate of the bank (PLR varying between 10% to 12.5%) (Weekly statistical supplement of RBI). But this is also true that SHGs are not aware of the PLR, so, they suspect the banks of overcharging them. Further, most of the SHGs also want clarification whether the bank charges interest on declining balance basis. From the bank's side, all the bank branches in villages under study clarified that they always charged interest on diminishing balance basis, which is a banking norm. In one of the villages, bank manager told how the SHG members looked upon him in suspicion, when he demanded service charges towards insurance cost of the goats, again as per the banking norms. One of the SHGs expressed its view about the 'extortion' by the banks as hidden service charges.

It is very hard to conclude that the bank withholds information or lacks transparency. It would be equally incumbent on the SHGs to get a feel of the banking norms and procedures. But, banks must proactively disclose all the information that SHGs want so that these SHGs do not feel exploited and succumbing to whims of the banks.

**CONCLUSION**

The present study has tried to highlight the multifarious pressures the banks face while extending microcredit to the SHGs. The microfinance interrelation of the bank and the SHGs is affected by a multitude of internal and external players. 'Bank-induced dropouts' and 'good bank' are the two extremes of this interrelationship spectrum of banks and SHGs. Banks' fear of potential bad debts is sometimes neutralised by disciplined timely loan repayment by the SHGs. When we discuss the issue of promoting SHG-banking, we must factor in the concerns and pressures of both the banks and the SHGs to understand the interaction dynamics of the two. Banks have reached an increasingly critical stage in the microfinance milieu due to their vulnerability to cost-recovery, portfolio quality, profitability and overall performance (Micro Credit Innovations Department, NABARD 2002b).

Another factor which has acted as a catalyst in the criticality of bank-SHG interrelation is the overburdened bank staff, who become irritable because they struggle to operate rural branches. Most of the rural branches operate on a skeletal staff of one manager and one clerk.

The paper demonstrates, in several instances, that banks always do not manipulate SHGs and that SHGs deploy tact, strategy and skill, sometimes even deception and subterfuge to manipulate the banks to obtain loans. Finally, the paper reiterates, that empowerment of SHGs is not automatic in SHG-banking, it is part of the larger credit-linked scheme under which microfinance is delivered (Joshi and Moore, 2004). Banks operate in a matrix of institutional relationships while dealing with poverty alleviation and credit-linked schemes. Thus, the paper hopefully provides a more nuanced understanding of how and under what conditions rural bank branches participate in microcredit programs and SHG-banking.

**ANNEX : 1**

**Villages' description**

The 36 SHGs and 7 bank branches were located in 4 villages, having diverse livelihood profiles.

**Village A :**

Village A is more economically backward of all the 4 study villages. Approximately one third working population of the village is dependent on the brick kilns for livelihood. Another one third population falls in the category of marginal land holdings (less than 2 acres of holding size). SC and OBC population are represented as around 15% each (of the total population). The poorest of SC and OBC women commonly work as domestic helps in houses of affluent upper caste families in the village. The village has only one bank branch of District Central Co-operative Bank (DCCB).

**Village B :**

Village B is more of an agricultural village, wherein its two third working population is engaged in agriculture. The SC and OBC population nears 25% of total population. This village has 2 bank branches - one each of DCCB and Maharashtra Gramin Bank (MGB -a Regional Rural Bank).

**Village C :**

Village C is the largest in terms of population and is situated close to the industrial area of nearly city. Majority of working population is engaged as industrial labour. The SC and OBC population makes up to 30% of total population. This village has one branch of MGB (RRB) and one branch of State Bank of Hyderabad (SBH), a nationalized bank.

**Village D :**

Village D has most of its working population employed in grape orchards. The SC and OBC population is around 35% of total population. This village has one branch of DCCB and one branch of SBH.

**Table 1 : SHGs' description by caste and village**

| Sr. No. | Caste | Village A | Village B | Village C | Village D | Total |
|---|---|---|---|---|---|---|
| 1 | **SC** | 4 | 5 | 5 | 6 | 20 |
| 2 | **OBC** | 3 | 2 | 4 | 1 | 10 |
| 3 | **Mixed (SC+OBC)** | 3 | 1 | 2 | - | 6 |
| 4 | **Total** | 10 | 8 | 11 | 7 | 36 |


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