



Policy Brief **15**

Micro Finance Series

Translating Practice into Policy and Practice Change

Cash Credit to Self Help Groups



Executive Summary

Financial Inclusion has emerged as an important strategy for advancing inclusive growth. Access to financial services particularly the excluded segments of poor and low income households creates and expands opportunities for enhancing and advancing livelihoods. SHG Bank linkage has emerged as a dominant model to link the excluded particularly women, small and marginal farmers to the banking system. The linkage with the banking system is very important from the perspective of affordability as no other formal Financial Institution can match banks in terms of affordability.

Launched as a pilot project, as a follow through of the successful International Fund for Agricultural Development (IFAD) assisted women development project in Tamil Nadu, linking just 500 Self Help Groups (SHGs) with the banks in 1991-92, the SHG Bank linkage programme has gained momentum over the years and as of March, 2013 there are 8 million

SHGs in the country covering over 100 million households with the accumulated savings of 8000 Crores. About 5 million SHGs have been able to access bank credit, with an outstanding of over 32,000 Crores. This is an impressive growth in terms of physical and financial coverage and has amply demonstrated that the SHG Bank linkage is the most effective model for Financial Inclusion.

Notwithstanding its growth and acceptance in the formal banking system as a successful credit delivery model, SHG Bank linkage programme could deliver, on an average, per member, loan of about Rs 6000 only which is, by any standard, not adequate for the poor households to pursue any livelihood economic activity. This is mainly due to

- ✍ inadequate need based credit limits (inadequacy);
- ✍ delay in sanction of repeat loans even after closing the earlier loans (delay)