SHG BANKING: A FINANCIAL TECHNOLOGY FOR VERY POOR MICROENTREPRENEURS

NABARD's program of promoting local financial intermediaries owned and managed by the rural poor in India[1]

by

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- Abstract -

Reaching 100 million of India's rural poor with savings and credit by 2008 - this is NABARD's goal through its SHG banking program, leveraging the strength of the formal banking system and the flexibility of informal self-help groups (SHGs) in providing adequate financial services to very poor rural microentrepereneurs. Through NGOs, government agencies and banks, vast numbers of self-help groups have been established in recent years: as self-reliant autonomous local financial intermediaries. 85% of the members are **women**; in India, they have proven to be the better savers, borrowers and investors. Most of them are from the lowest castes and other disadvantaged groups. The SHGs mobilize their own savings, transform them into loans to members and plow their earnings from interest income back into equity. On that basis, SHGs and banks enter into commercial relations of mutual benefit, with low bank and client transaction costs and low risks. In the absence of interest rate restrictions and with repayment rates >99%, SHG banking is highly profitable – a message that has convinced hesitant bank managers in increasing numbers. SHGs are now forming local networks with their own cooperative financial institutions. The program has turned into a social movement, with high expansion rates in recent years. Fuelled by **competence and enthusiasm** at all stakeholder levels, it expands rapidly throughout India, including marginal and tribal areas. It is probably the **world's largest and most successful microfinance program for the rural poor** – outstanding in its emphasis on self-reliance and local autonomy. Here are some **outreach and performance figures** (Dec. 2000):

- 364,000 SHGs established as autonomous financial intermediaries;
- 5.8 million SHG members
- 30 million rural poor covered as household members
- 194,500 SHGs credit-linked to banks
- 380 banks and 8000 bank branches involved as bank partners
- Non-performing bank loans to SHGs: 0%
- 750 NGOs and numerous GOs involved as social mobilizers and facilitators.

NABARD is now facing the combined challenges of how to disseminate the approach throughout India and the region; and how to continue financing the incremental costs of technical and financial assistance to the participating agencies. This calls for a coordinated donor effort: with the objective of strengthening and mainstreaming the program in India and disseminating it throughout the Asia region.

1. Self-help groups (SHGs) as local financial intermediaries owned and managed by the poor

NABARD's role in rural finance: In 1982, the Indian Government and Reserve Bank of India established the National Bank for Agriculture and Rural Development (NABARD) as an apex development bank with the mandate of agricultural and rural development. NABARD provides liquidity to most of the 142,000 primary rural financial institutions (RFIs) under its supervision. On average, there is one RFI for every four villages. With 412m deposit accounts, their overall saver outreach might exceed 300m; their borrower outreach is 72 million (*Table 1*).

Table 1: Rural financial institutions under the supervision of NABARD (March 2000)

	Cooperative financial institutions[2]			Regional Rural Banks	Public sector commercial banks[3]	Total
	Primaries	District banks	Coop. banks			
No. of institutions No. of units/branches:	 92,000	367	19+745 1,158+689	196 14,500	 33,000	 142,000
No. of deposit accounts	101m*)	15m**)	13m	48m	235m	412m
No. of borrowers	44.1m	-[4]	-[6]	11.4m	16.3m	71.8
Deposit balance: In billion Rs. In billion USD	 n.a. n.a.	 533.1 11.6	 294.7 6.4	 322.0 7.0	 8,133.4 177	
Loans outstanding: In billion Rs. In billion USD	 135.9 3.0	 432.1 9.4	 241.1 5.2	 131.8 2.9	 461.9 10.0	
Non-performing assets in % of loans outstanding	n.a.	16.8%	19.2%	22%	14%	

*) Number of members **) Estimate

Poverty in India: 63% of India's population of 1.08 billion lives in rural areas. The incidence of poverty has declined in India from 55% in the mid-1970s to 36% (rural areas: 37%) in 2000, with the absolute number of poor constantly around 320 million.

Access of the poor to financial services: Most of the poor – particularly those in marginal areas – have remained outside the fold of the formal financial system. Opportunities for depositing their small savings and access to loans for emergencies and microinvestments were identified among their most urgent needs. NABARD has taken on the responsibility for their plight.

SHGs - financial intermediaries owned by the poor: In order to test the feasibility of sustainable access to financial services by the rural poor through SHGs – among them the very poor in scheduled castes, tribal and marginal areas -, NABARD conducted an action research program from 1992 to 1996. This was inspired by positive experiences with SHGs, among them the Tamil Nadu project with IFAD and the linkage banking approach promoted by APRACA and GTZ in Indonesia and elsewhere.

[2] Cooperative primary societies and cooperative district banks mobilize deposits from members and the general public and provide short-term loans. The so-called cooperative banks provide long-term loans for investments in agriculture and the rural non-farm sector and depend on NABARD for most of their loanable funds. They do mobilize deposits from the public, with the exception of Cooperative Land Development Banks.
[3] Rural and peri-urban branches only; agricultural loans only. 14% of the deposits of the public commercial banks and 11.8% of their net bank credit are rural and agricultural.
[4] The number of individual borrowers is negligible.

These groups do not start with credit. They start as savers groups, with regular weekly or fortnightly savings targets. Each member of the group has to save a small amount (approximately $0.25 to $1.- per month). The savings are deposited in a meeting on an appointed time every week, and the collected savings are lent to members, with the decision on who gets the loan being taken by the group. The entire transaction is recorded in the books; in many groups savings are also entered in individual passbooks. Some groups pay interest on savings, others pay dividends; but most groups have retained their earnings as part of their capital. An account is opened with a mainline bank to deposit any surplus savings. After some six months, the bank where the savings were deposited examines the performance of the group and issues loans to the group.

A two-pronged approach: NABARD has chosen a two-pronged approach, combining the principles of self-help and self-reliance with access to external human and financial resources:

(a) Establishing informal self-help groups (SHGs) of the poorest of the rural poor with up to 20 members as local financial intermediaries: mobilizing their own savings, transforming these into loans to members, and financing their growth in the initial stage through both savings mobilization and retained earnings from interest rate income. The SHGs are not yet mature enough to accept voluntary withdrawable savings.
(b) Providing access, first to facilitating agencies and, once an SHG has proven its organizational and financial viability, to bank refinance.

Targeting the poorest: NABARD makes a conscious effort of targeting the poorest of the rural poor. The face of poverty is too variegated in India for a standardized method such as the housing index. It therefore leaves the identification of the poor to its cooperating local partners and the people themselves. In Bharati's case, the quality of the walls of her house is irrelevant :

> *"There was nothing at home to feed my children with. Ï sent them off to a neighboring homestead, where at least they could eat twice a day. But they had to work hard for it." This is how Bharati in Ramnagar, Midnapore District, West Bengal describes how, three years ago, her two children ended up in indentured labor – one of the worst forms of poverty. Then she joined an SHG promoted by Ramnagar Unnayan Sanstha, a local NGO. Bharati started to save one Rupie a day ($0.02) and received small loans, first from the group's own resources and than augmented by bank refinancing. She became a microentrepreneur, producing and selling paper packets. With the earnings, she eventually bought her son and daugher back. "My children go to school now," says Bharati.*

Jai Santoshi Maa is a start-up SHG less than 6 months old (*27.8.2000) at the time of visit. The 12 women-members, all from the lowest caste, agreed on monthly contributions of $1.10 each, totalling $13 p.m. At the time of our visit (*5.2.2001*) total deposits amounted to $80. From this fund, the group provided loans of $4 to $11. Four of the members present during our visit had received loans: $5 to buy cattle feed; $11 for fodder harvesting, hiring 10 people for one day at a daily wage rate of $1.10; $4 for molasses as cow feed; $6.50 for blacksmithing, buying raw iron to produce axes and sickles; $9 for a grocery shop. Loan periods are up to 5 months, with monthly instalments. Interest rates are 2% p.m., compared to 5% charged by moneylenders. All payments are on time. The women foresee investments in the range of $100-$200, mainly in buffalo rearing for dairy farming, once the group receives a bank loan. They prefer periods of one year for smaller, and two years for larger, loans, with monthly installments.

Women's role: 85% of the SHG members are women. Both women and men agree that women are better savers and more conscientous borrowers. Women point out that men are busy with other things; many leave the village to work outside. Men say the household income has increased and continues to do so; they consider forming their own groups, but are not sure how reliable they are.

Savings first has sent out a strong signal: that SHGs are self-reliant organizations based on the self-help of their members. The SHGs started their life with savings as the initial source of loanable funds – proving beyond doubt that the rural poor can save, and want to save. By transforming their savings immediately into interest-bearing loans, the SHGs augmented their resources with retained earnings. At near-zero operational costs and loan losses, both their resources and the average size of loans to members have grown quickly. Once the reliability of the poor as savers and borrowers and the pace of growth of SHG assets were proven through the books of the SHGs, banks gained confidence and started lending to the groups. This in turn allowed the groups to further increase their income and the volume of lending to members.

Institutional autonomy and flexibility of terms: Loan sizes and periods are according to demand and creditworthiness as established by the group; they are no right of any member, nor are they standardized. The SHGs are autonomous in all their decisions, including the determination of interest rates. In the same vein, banks are free to participate and select SHGs as clients. Since the interest rate deregulation of 26 June 1999 by NABARD[5], banks are also autonomous in setting their lending rates as well as other terms and conditions of financial contracts. With zero loan losses, the SHG linkage program – in contrast to other programs with high rates of non-performing assets – has been profitable to banks: far in excess of its share of their portfolio.

SHGs as agents of development: To the members, their SHG is first of all a financial institution. At the same time, it is an organization for mutual aid, which may pertain to all spheres of life:

(a) Emergency assistance and social welfare
(b) Social development, eg: alphabetization, prevention of child marriage, prevention of bonded child marriage, sending all children to school, child care, nutrition, family planning, prohibition
(c) Rural and agricultural development, eg: water conservation, irrigation
(d) Promotion of income-generating activities, eg: marble handicrafts, chair-making, vegetable vending

Some of these initiatives are directly supported by the NGOs involved in the establishment and guidance of the groups. In other cases, efforts are made to mobilize the services of governmental and non-governmental agencies specialized on such activities. The initiative to promote such non-financial activities comes from the groups themselves and not from outside. Care has to be taken that GOs and NGOs do not *use* the groups for their own, albeit well-intended, purposes. On the whole, **business development services** are uncoordinated; they could grow into a major program component.

Progress report: National implementation started in 1996 and expanded rapidly since 1998. By the end of 2000:

- 364,000 SHGs with a booming internal savings and credit business had been established,
- 5.82 million of the rural poor were owners of these SHGs and saved regularly;
- 85% of the member-owners were women
- 5.53 million were borrowers
- 30 million benefited indirectly as household members
- 194,000 SHGs were linked to banks for refinancing (***Table 2***).

[5] Authorized by the Reserve Bank of India, 24 April 1999.

Table 2: NABARD's SHG banking program (Dec. 31, 2000)[6]

1. No. of SHGs with internal savings & credit activities:	364,000
No. of members/savers	5.82 million
No. of borrowers	5.53 million
Percentage of women members	85%
Population covered	30 million
2. Projection for 2008:	
No. of SHGs	1 million
No. of members	20 million
Population covered	100 million
3. SHG savings balances and equity:	
Average savings balance per SHG	$152
Total consolidated savings balance	$55m
Equity including retained earnings	$16m
4. SHG loans to members:	
Average size of loans to members	$22
Total consolidated loans outstanding:	
March 2000	$42m
December 2000 estimate	$128m
5. Bank refinance:	
Total no. of SHGs with bank loans	194,500
Total loans outstanding to SHGs:	
March 2000	$32m
December 2000 estimate	$63m
6. Repayment performance:	
On-time repayment rate within groups	>95%
On-time repayment rate of bank loans to SHGs	>99%
Gross non-performing assets (NPA) as % of loans	0%
7. (Average) interest rates on loans:[7]	
NABARD to banks (as of 1 July 1999)	7.0%
Banks to NGOs/MCOs	Free (~10.5%)
Banks to SHGs	Free (~12.0%)
NGOs/MCOs to SHGs	Free (~12.0%
SHGs to members from bank/NGO resources	Free (~18%)
SHGs to members from own resources	Free (~24%)
8. Networking and apexing:	N.a.
No. of SHG federations	
No. of financial cooperatives (MACS) of federations	
No. of village organizations of SHGs	
9. Partner organizations:	318 banks with 8,000 branches 750 NGOs … government organizations
10.. Outreach:	
No. (and %) of states	24 + 2 Union territories (near-100%)
No. (and %) of districts	382 (70%)
11. NABARD's services to the movement at national, state and district levels:	Advocacy and policy dialogue Product development & marketing Capacity building in partner organizations Bank refinancing

Exchange rate: US$ 1 = Rs. 46.

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[6]Preliminary figures; final data for fiscal year April 2000 to March 2001 are expected in June 2001.

[7] Before the interest rate deregulation of June 1999, lending rates of banks to NGOs/MCOs were set at 10.5%; and rates of banks to SHGs or NGOs/MCOs to SHGs at 12.0%. As its lending rate to banks is concessional, NABARD has asked banks and MCOs to charge "reasonable rates of interest."

2. Banks, NGOs and GOs as facilitating agencies

NABARD's role in SHG banking: At national level, NABARD has established a central unit which regularly reports to the Chairman of the bank: the Micro Credit Innovations Department (nabmcid@bom5.vsnl.net.in; www.nabard.org) with a staff of 16 and support units in the various states. NABARD has designed the program; it coordinates and monitors its implementation; and it trains governmental and nongovernmental agencies (GOs, NGOs) as facilitators. It has funded both the technical assistance to facilitators and the credit lines to participating banks.

Implementing agencies: NGOs act as social mobilizers, facilitators and trainers; banks as refinancing agencies and, in 14% of the cases, also as facilitators and trainers. The program is implemented by:

- 750 NGOs as SHG facilitators involved in the establishment and maintenance of the groups
- 318 banks with 8,000 branches as refinancing agencies and, increasingly, as facilitators
- government organizations at state and district levels, involving staff up to the highest administrative ranks.

Competence and enthusiasm as a driving force: Since the success of the experiment became known, enthusiasm has spread fast among banks, NGOs and government agencies as facilitators. Through their training and advisory inputs, NABARD staff have added competence to enthusiasm among all participating agencies at national, state, district level, village and SHG level. It is this combination of *competence with enthusiasm* which has been the driving force behind the program's spectacular success, turning an experiment into a program and a program into a movement.

SHG institution-building – at what cost? Ajmer Adult Education Association has been working in Ajmer District villages since 1970: one of 750 NGOs working with NABARD as SHG banking facilitators. From June 1999 to October 2000, it built 234 SHGs - at an incremental cost of $2280 covered by NABARD; this is $10 per SHG – less than $1 per member. Monthly maintenance costs are $2 per SHG. Throughout India, NABARD's start-up cost constributions are in the range of $1 to $3 per SHG member.

SHG banking is profitable to banks: Bhilwara-Ajmer Kshetriya Gramin Bank is a regional rural bank (RRB) with a network of 53 branches in Bhilwara and Ajmer districts. Its 203 employes provide financial services to 817 villages. Since January 1997, it has built up business relations with 311 SHGs; total disbursements up to Jan. 2001 amount to $150,000. Its branch in the village of Kucheel (Ajmer) has 1350 deposit accounts and 723 credit accounts, among them 45 SHG accounts. Total deposits amount to $301,000; total loans outstanding to $316,000 (with 76% in the priority sector). Profits in 2000 amounted to $761. Unlike commercial and other priority sector loans, SHG loans have a 100% on-time repayment performance. They also have a higher financial margin: 4.5% instead of 4.0%. The effect is astounding:

SHGs loans account for only 6.3% of the branch's portfolio, but 60% of its profits.

The semi-urban RRB branch of Khailand has a different story to tell. Loans to 7 SHGs constitute only 0.5% of its portfolio of $0.51m. The branch suffers from excess liquidity, not a credit crunch. With a recovery rate of 100% and excess liquidity of $0.8m, the branch is motivated in expanding its SHG business; but it should *use its own resources rather than drawing on NABARD liquidity*.

Bank of Baroda is the lead bank among four commercial banks with 20 branches lending to 180 SFGs in Ajmer District. There a several reasons for their involvement in SFG refinancing: the dedication of NABARD and the Collector (ie, the head of district government); the limited opportunities of rural branches and the opportunity of lending to SHGs at low additional costs; the 100% recovery rate. Once convinced of the profitability of the business with SHGs, banks would also lend from their own resources, at a somewhat higher rate. The bank coordinator suggests to involve bank staff from the very beginning of starting SHGs; and to arrange for more exposure opportunities for senior bank management.

In **Andhra Pradesh**, SHG banking started in 1991. Government organizations have played a dominant role as facilitators (85% of SHGs) and contributed to the rapid expansion of the movement during the last two years. Of the 51,619 SHGs established by March 2000, 99.9% were women's groups. Women are the better money managers, who have taken the full burden of agricultural finance upon themselves. There is now talk of establishing men's groups and distributing burden more equitabley between the sexes. At a meeting in Hyderabad, 15 bankers agreed that SHG banking is "the best source of banking. Kakatya Grameena Bank is one of the participatig banks, with 40 branches involved. 5000 SHGs are savings-linked, 2500 are credit-linked. Due to SHG banking, staff productivity has doubled, reported the chairman, himself an SHG banking expert who has participated in four training programs. On-time repayment rates are 98%-100%. 70% of the loans are for agriculture, 10% for non-agricultural investments, 20% for consumption. One successfactor has been, in the eyes of a Bank of India manager, that *banking habits have been inculcated in the SHGs before borrowing from the banks.*

3. Institutional upgrading and mainstreaming

Institutional upgrading: Once groups are well-established, three interrelated processes of institutional upgrading take place, establishing:

- *federations of SHGs*, which comprise hundreds of SHGs in several villages;
- *village organizations*, comprising the SHGs in a village;
- *financial cooperatives (Mutually Aided Cooperative Societies - MACS)* as non-bank financial institutions at federation level.

Cooperatives of the people (MACS) – an instrument for mainstreaming SHG banking: As in many other countries, cooperatives have fallen into disrepute in India. "Many of the cooperatives which were registered under the 1964 Act came into existence, not of their own volition, but as a result of government policy and intervention. They, therefore, had government aid and not mutual aid as their foundation."[8] Starting with the Mutually Aided Cooperative Societies (MACS) Act of 1995 in Andhra Pradesh,[9] the states of India have now started to pass new legislation:

> *"An Act to provide for the voluntary formation of cooperative societies as accountable, competitive, self-reliant business enterprises, based on thrift, self-help and mutual aid and owned, managed and controlled by members for their economic and social betterment" (ib.).*

By the end of 2000, more than 3000 MACS had been formed in Andhra Pradesh. This new legislation provides a legal basis for the establishment of financial cooperatives by federations of SHGs: the kingsway of mainstreaming SHG banking. In Andhra Pradesh, MACS are now applying for bank loans to refinance their member-SHGs. This marks the beginning of a process towards a self-help movement with its own financial apex structure.

Sneha Mahila MACS is a cooperative, established in January 2000, in Medchal Mandal (Andhra Pradesh), where SHGs have come into existence since 1996, with member savings of Rp 1 ($0.02) per day. The Sneha MACS has 240 SHG members, which in turn have 2992 individual members. The MACS lends to SHGs at 18%; SHGs lend to members at 24%. Financial reporting does not seem to be standardized. Its share capital is $20,000; membership fees and deposits amount to $2,500; external funds to $93,000. Interest income as of end-January 2001 was $4800. With loans outstanding of

[8] Andhra Pradesh Mutually Aided Cooperative Societies Act 1995. Cooperative Development Foundation, Hyderabad, June 1999, p. 1.
[9] In some states, the new cooperatives are called Mutually Aided Cooperative Thrift Societies (MACTS), which may be further differentiated into Women's Thrift Societies (WTC) and Men's Thrift Societies (MTC).

$40,000 from 94 SHGs (and a repayment rate of 100%), the lending business of the young institution has not kept pace with resource mobilization, resulting in a vast amount of excess liquidity.

4. Issues and recommendations

(1) Sustainability of SHGs:

SHGs are established as local financial intermediaries with their own internal savings and credit business and access to bank refinancing. Sustainability will require:

(a) Effective implementation of the newly-won complete freedom from interest rate restrictions (a major success of NABARD's policy dialogue with Reserve Bank of India)
(b) Continual encouragement to SHGs towards self-reliance and growth through retained earnings from interest income and savings mobilization, including eventually voluntary withdrawable savings and pygmy savings collected at doorsteps
(c) Safekeeping of internal funds of increasing magnitude
(d) registration of SHGs as legal entities or as part of larger legal entities such as SHG federations or financial cooperatives
(e) auditing and supervision of SHGs by auditing services of SHG federations or banks
(f) legal registration of SHG federations and their financial service subsidiaries (eg, as financial cooperatives, *MACS*);
(g) an integrated accounting and reporting system for SHGs and federations, serving at the same time as the basis for NABARD's monitoring system
(h) auditing and supervision of SHG federations and MACS by an appropriate financial authority (as part of a delegated system of regulation and supervision)
(i) a solution to the collateral problem of larger-size loans by SHGs and banks to women who are not legal holders of family property
(j) a solution to the collateral problem of SHG federations and MACs when refinanced by banks, eg, through a credit guarantee arrangement

(2) Commercial viability of bank refinance:

(a) Disseminate SHG banking as each participating bank's own product
(b) Encourage banks to calculate the profit & loss of SHG banking as a separate product
(c) Encourage banks to use their own resources, descreasing NABARD's share gradually
(d) Encourage banks to pay a margin to NGO facilitators as incentive (rather than a fee)
(e) Provide direct access to bank loans for SHG members with higher loan demands
(f) Convert branches into profit centers, pay staff performance incentives
(g) phase out ill-performing priority lending programs.

(3) Policy dialogue:

(a) Encourage MACS legislation (ie, the revision of cooperative law) in all states, following the example of Andhra Pradesh
(b) Clarify the collateral issue in bank loans to SHGs, SHG federations and MACS
(c) Provide a legal framework for the conversion of bank branches into profit centers and the introduction of performance incentives to staff
(d) Phase out interest rate subsidies (*cheap money*) and reduce or phase out ill-performing priority lending programs (*easy money*)
(e) Abolish existing interest rate restrictions on small loans

(4) Growth and dissemination strategies:

With 364,000 SHGs established within a short period of time, there is a real chance of expanding the outreach of the program to one million SHGs and 100 million household members by 2008; of deepening the quantity and quality of financial services; and of disseminating the approach throughout India and the region.

(a) Self-multiplication of SHGs:

Women encouraging their husbands to form separate groups
SHG members encouraging neighbors to form new groups
SHG staff as facilitators providing skill inputs to new groups (incentive payments?)
Promote *village organizations* of SHGs

(b) Growth of SHGs:

Allow groups to grow beyond the legal limit of 20 (providing at the same time an appropriate legal status option)

(c) Deepening of financial services:

Voluntary withdrawable savings
Doorstep collection services
Life insurance as part of a loan protection scheme
Liquidity exchange among SHGs through federations, MACS, banks

(d) National dissemination of SHG banking program:

Standardize annual reporting of SHG banking program, including:
- All SHGs existing as local financial intermediaries
- SHGs savings-linked to banks
- SHGs refinanced (*credit-linked to*) by banks
- Village organizations
- Federations
- MACS/MACTS
- Report current, not cumulative, figures: savings balances, loans outstanding, active groups
- Include estimates of internal SHG savings balances and loans outstanding

Include basic data on SHG banking program in Reserve Bank of India reports
Package the SHG banking technology for various target clienteles: bankers associations, professional organizations, NGO associations, government agencies, donor agencies, SHG federations, SHGs
Disseminate through website, distance learning, training of trainers, national exposure program, press campaign
Provide MIS to SHG federations, MACS

(e) Regional/international dissemination:

Prepare technical papers for IFAD Rural Finance Working Papers, Journal of Microfinance, Journal of Developmental Entrepreneurship, Cooperation + Development, CGAP Website
Provide video films, slides, fotos on SHG banking experience
Present and distribute papers at international meetings (New Development Finance Seminar Frankfurt, Microcredict Summit, SACRED/RACA meetings
Disseminate information through internet sites and networks, eg, *Development Finance Network*, *PlanetFinance*
Provide case studies of selected MACS with financial performance indicators, with annual updates
Disseminate calculations of the costs of establishing and maintaining SHGs
Provide profit & loss calculations of the SHG banking product of selected bank branches
List MACS/MACTS as MFIs, and provide performance data to CGAP.

5. Disseminating SHG banking: the role of donors

(1) Planning the expansion of SHG banking in India

The pilot testing and national implementation of the SHG banking program in India has so far mainly relied on domestic human and institutional resources mobilized by NABARD. These have been supplemented by financial assistance from Swiss Development Cooperation (SDC) and technical assistance from German Agency for Technical Cooperation (GTZ). NABARD has sufficient funding for liquidity to banks and for facilitating agencies until 2002. Beyond that date, the expansion of financial and technical services to cover 100 million of the rural poor in India and the dissemination of the program throughout the region require a massive donor input. For the period 2002-2008, the following resources are required:

(a) Loans of $550 million *to provide liquidity to banks for refinancing SHGs:*
Average loans to SHGs in the first cycle are expected to go up from the present level of Rs20,000 ($435) to Rs53,500 ($1,160 at the present exchange rate). As the groups mature and enter the second and higher cycles, additional credit per SHG is expected to increase from Rs120,000 in 2002-03 to Rs243,000 in 2007-08. Overall annual disbursements by NABARD to participating banks are expected to increase from $43 million during the fiscal year 2000-2001 to $938 during 2007-2008. The net loanable fund requirement of NABARD during 2002-2008 is estimated at $1.5 billion. NABARD seeks an external long-term line of credit of $550 million, to be negotiated at a rate of 6%, repayable over a period of 12 years, with a grace period of 6 years.

(b) Grants of $104 million *for institution-building:*
Support is required for social intermediation, ie, the promotion of SHGs; institution-building of NGOs, MFIs, CBO and facilitating agencies; microfinance training for NABARD staff; the establishment of a system of prudential regulation, effective supervision and credit rating; pilot initiatives; and action research, studies and publications.

(2) SHG banking with the very poor in rural India and Asia: strategies and opportunities for donors

With its SHG banking program, NABARD has reached vast numbers of very poor rural women in India on an unprecedented scale. The foundations have been laid for women's empowerment, institutional sustainability, flexibility in program design, continual expansion, and the dissemination of knowledge about SHG banking on a regional scale. Donors now the opportunity of directly contributing to what is becoming **the world's largest program of effective rural poverty alleviation through financial and non-financial services.** Business development services are a potentially major, but as yet uncoordinated component. The potential outreach of rural and agricultural banks in the region through SHG banking is in the hundreds of millions: a big step towards the goals set by United Nations agencies and the Microcredit Summit Campaign. **Three options** are open to donors:

(a) a loan to NABARD for supporting the financial and technical components of the SHG program;
(b) national-level grant support for the establishment of a donor consortium to coordinate the required loan and grant assistance for SHG banking in India;
(c) regional-level grant support for packaging and disseminating the SHG banking product throughout India and the region.

The three options are interrelated: a loan to NABARD requires close donor coordination; and the required massive loan and grant assistance by a consortium of donors would greatly benefit from an institutionalized systematic approach to packaging and disseminating the SHG banking product throughout the region. A *Technical Assistance Grant* (*c)* may therefore not only be a cost-effective instrument for spreading SHG banking; but also the most appropriate preparation for (*a*) and (*b*).

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