Rural Financial Institutions Programme (RFIP)

Self Help Group Bank Linkage Programme (SHG BLP) – A Business Model for Banks?
Documentation and Analysis of Existing Approaches and Concepts

1. Background:

The original concept of linking banks and self-help groups (SHGs) was primarily a financial inclusion approach: financially excluded households were expected to get financially included through a group as an intermediary. This was closely linked to, or being seen as the result of, two other approaches: "downscaling" banks to local conditions and the needs of SHG members, and "upscaling" SHGs as financial intermediaries. It was seen as a gradual savings-based approach that combined the viability of banking services with the self-reliance of financial SHGs and the growing financial capacity of SHG members by using financial services, including credit. It acknowledged the fungibility of money, the limited and slowly growing credit absorption capacity of clients, the need for prudential banking practices, and the need for reducing transaction costs on both sides the banks and the clients. Its ultimate objective was to transform the project approach into independent, locally adjusted and sustainable banking services. The focus of support from outside was on capacity development of both banks and SHGs rather than on refinancing of the bank credit.

The SHG-Bank Linkage Programme (SHG BLP) in India has been referred to as the largest microfinance programme worldwide. Indeed, its outreach to more than 90 million members (mainly women) of 7.3 million SHGs and to about 50 million borrowers in 4.5 million of these SHGs has been impressive. In the earlier period when banks' liquidity was low, 100% refinance proved an incentive to lend under SBLP. In the more recent years, the high pressure for complying to statutory obligations has resulted in SHG lending to become one of the mechanisms for priority sector lending compliance. By now the SHG-Bank Linkage has majorly transformed into a programme driven by Government rather than by banks. It is suggested that many banks are implementing it due to the regulatory and political pressure and regulations, but not as a sustainable banking business model. Subsizided Government programmes and political use of SHGs as an intermediary to reach out to many poor households have contributed their parts. In the last years , a rising NPA portfolio among SHG loans is further diminishing the bankers interested in banking SHGs.

Many bankers see the SHG-Bank Linkage as a welfare and social responsibility approach by the Government channeled through banks, rather than a sustainable, long-term business relationship for them with low-income clients. This leads to a range of challenges SHG members are facing:

- Willingness of bankers to serve SHG members (including attitude and cooperation of bankers as well as time/space for SHG members in banking facility)
- Lack of information regarding different financial products / services / schemes available for SHGs

- Gap in provision of second loan after repayment of first etc.

Nevertheless, there are a few committed and enganged banks who do see the long-term potential of sustainably engaging with SHGs and their members and building a financial relationship with them. These banks have included SHG BLP into their business model and are showing tremendous success (e.g some branches have recently focused more on banking relations with SHGs and by this have been able to turn over their operations into profit centres).

This study aims at identifying and documenting these case studies and make learnings from experiences available for replication.

2. Description of Assignment and Objectives:

The objective of this study is to identify viable business models towards integrating SHGs into the corporate strategy of banks. These different business models by banks towards SHG BLP will be documented and analysed. This study would include interaction and involvement with/of bank's corporate offices, zonal offices with strong focus on the SHG BLP function and performance at bank branch level.

This assignment has the following objectives:

- Prepare overview of SHG BLP from bankers perspective: who is doing what, which bank is following which model (brief desk review needed for deciding on case studies)
- Six indepth case studies (cases to be decided jointly between stakeholders: GIZ, NABARD, consultant)
- Comprehensive report including all case studies plus leaner report for publishing
- Presentation of results to stakeholders
- Improve and finalize the report based on the feedback provided by during the stakeholders workshop

3. Approach:

Selected case studies should present a good mix of various financial institutions (FIs) in India involved in SHG BLP like - commercial banks both Public and Private, Cooperatives, Regional Rural Banks.

The detailed report would include the details on followings –

- Detailed documentation of business model of the selected financial institutions (including strategic approach, implementation processes, financial model and implications)
- In depth analysis of the financial model from bankers perspective (costs, investments, returns, point event, etc.)

- Feedback and Satisfaction of bank and clients (and intermediary like SHPI if relevant)

4. Process of Study:

- First review, pre selection of potential financial instituions and case studies (July 2014)
- Discussion with GIZ, Access, NABARD on deciding on the case studies (Early August 2014)
- Prepare 6 case studies (at least 3 need to be private sector banks) (Mid October 2014)
- Draft report to be presented at a workshop/roundtable with NABARD, Access, GIZ and selected experts/ banks (mid November) – include discussion points and prepare final report
- Final report to be discussed and presented during Inclusive Finance Summit in early December

5. Key Research Questions:

- **Strategy:** What is the motiviation for the bank to engange in SHG BLP? Does the bank see it as a business model or social activity or a compulsion from government? Is it a strategy by the bank (followed by all branches) or banch specific? Who is the key driver for the strategy (branch manager/ FI & MF department/ Social Business)? Has the strategy changed over the last years (why, how)?
- **Mode of Delivery:** Is the bank working with an SHPI (federation, NGO, other)? Who is responsible for promotion, monitoring or SHGs and quality control? Who is paying for promotion/ monitoring/ quality control of SHGs? Is the bank lending directly to SHGs or bulk lending through NGOs/federation? Is the bank opening special branches / desks for SHG or is handled by the mainstream branches/operations? Is there a special training for branch managers and officeres who deal with SHG?
- **Implementation Processes:** How are implementation process structured and organized? What are the detailed processes involving all partners in the delivery chain (including group promotion, formation, training, due diligence/grading, bank linkage, monitoring, MIS, tracking and reporting, risk management, quality control)? How is bank staff involved? What are the services/products being offered to the SHGs?
- **Costs and Revenue:** What are the delivery costs and revenue/income structure for the bank (per product/service)? Who is bearing the costs/Is the model cost covering? Which costs are being delivered by other parties (NABARD, NGO, government, federation, etc.) but influence the business model? Detailed splitup of revenue and cost structure of bank including break even point calculations,

gaps in the financial model and scenarios for improving of business model for banks.

- **Performance of SHG portfolio –** What has been the SHG portfolio of the bank in recent years? How has it developed (Growth in Number of bank linked SHGs, loan amount, repeat loans to SHGs, repayment performance and defaults, etc – per product/service)? How is the graduation to JLG and indicual customers developing / supported by bank (strategy and growth development)? Regional differences if applicable; gender-specific data if applicable; role of subsidies and subventions; drop-out rates of SHG members; data on multi-membership/borrowing?

- **Convergence between SHG BLP and FI:** Is there any convergence between SHG BLP and reaching FI targets (eg. leveraging on SHG networks to reach targets, common efforts in same location)? What is the role of BCs in working with SHGs (members)? What is the role of technology (for group book keeping, for delivering of financial services)?

- **Priority Sector Lending:** What is the contribution of SHG lending to overall priority sector lending targets of the bank? Is SHG BLP an instrument used to reach priority sector targets?

- **Key challenges:** What are the key challenges in SHG BLP from the banks perspective (upscaling, motiviation of staff, banks policy/strategy, cooperation with SHPI, capacity gaps on level of SHG members, etc.)? What are shortcomings on policy and operational level? Impact of subsidy on SHG lending?

- **Expectations from Government:** If the Bank were to expand on this strategy, what might be the expectations from the government (to not make it look like a welfare approach) or from NABARD towards strengthening the eco system? Are their any incentive packages that can be introduced for more banks to get attracted to SHG lending?

6. Key Deliverables:

I. Pre selection of case studies (including reasons/criteria of why these banks have been selected)

II. In-depth case studies and detailed report for all 6 financial instituions

III. Lean report (max 20 pages) which does not include any confidential data/information and which can be published and widely distributed

7. Conditions of the Assignments

- **Duration:** Assignment duration is of **4 months**

- **Reporting:** During the assignment, agency/ consultant will be required to maintain continuous reporting with GIZ.Reporting will be on monthly basis and reports should be submitted to GIZ..

  During the assignment, consultant will adhere to following reporting schedule.

  - An Inception Report within 15 days of start of the assignment , setting out the detailed 4 months work plan to achieve the defined objectives of the contract
  - The consultant shall describe the month-wise activities, human resource involved in particular activities, and deliverables per indicator
  - Monthly progress report

- **Other Terms & Conditions**

  The end-deliverable and the achievement of final milestone should be approved by GIZand NABARD as conditions for release of final payment. All the work/reports undertaken/developed/prepared under this assignment will be the property of GIZ NABARD RFIP Programme and cannot be used, published, copied or otherwise disseminated without prior written approval.

  Feedback will be communicated to the consultant continuously at the end of several activities carried during all phases. Where necessary, consultant shall make appropriate changes to improve the deliverables and address this feedback. On the completion of the assignment and its acceptance by GIZ and NABARD, written confirmation shall be provided to the consultant which will trigger the relevant milestone payment. No payment will be processed without the acceptance of deliverables.

Activities and Expertdays (Aggregated)			
S.No.	**Activity**	**(Expertdays) Senior**	**(Expertdays) Mid Level**
1	Secondary research and selection of case studies	15	15
2	6 detailed case studies, data collection & analysis	20	40
3	Report preparation – detailed report & short report	10	40
4	Presentation of findings & finalization of documents	5	10

8. Eligibility criteria and Expertise /skill sets required:

- Demonstrated excellent expertise in Financial Analysis and Modelling with financial institutions in India
- Excellent banking knowledge (strategy and operations) and strong presence in the banking sector in India
- Expertise in Business Planning / Modelling and have carried out similar type of assignments in the past
- Good knowledge about Self Help Group Bank Linkage Programme in India
- Good overview of Indian Banking System (including FI, Priority Sector Lending, subventions/subsidies etc.)
- Strong Analytical skills and excellent report writing and communications skills
- Documented experience of team members expertise in similar related projects/assignments would be an advantage.