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Bank Linkage and Interest Subsidy

ABSTRACT

The Kudumbashree Neighbourhood Groups are one of the world renowned models in organising the poor people and the marginalized to come together to solve their individual problem. Neighbourhood Groups-Bank Linkage Programme is emerging as a cost effective mechanism for providing financial services to the poor which has been successful not only in meeting financial needs of them but also strengthen collective self help capacities of the poor, leading to their empowerment. Poverty is a significant issue in India, despite having one of the fastest-growing economies in the world, and a sizable consumer economy. According to the World Bank Statistics, the world had 872.3 million people below the new poverty line, of which 179.6 million people lived in India. In other words, India with 17.5% of total world's population, had 20.6% share of world's poorest in 2011. Rate of poverty in Kerala is low compared to other Indian States and the all India figures. According to the official figures, absolute poverty rate in Kerala is lower than 12 per cent in 2011-12 and has shown a sharp reduction over the last forty years. Yet there are wide district-wise disparities, as per Indic estimates. Ten of the 14 districts report less than 10% poverty rate and, yet, Wayanad district poverty estimates stand at more than 30%. Palakkad, Kasargod and Idukki are the other districts with double-digit poverty rates. Though absolute poverty is diminishing it is alarming to note that the unemployment rate is very high in Kerala.

Like every state Women Neighbourhood Groups-NHGs (known as Self Help Group everywhere) proved to be one of the best model that provides the opportunity to save regularly, access formal savings institutions and participate in the management of these savings. They save regularly, have their own bank accounts and make deposits into these accounts. SHG is having a good impact on members, in their ability to save their hard earned money.

With Multi pronged benefits, NHGs improves women's access to credit. The financial mobility due to participation in the SHG has led to an improvement in the quality of life. Overall, many families were able to address their basic needs better than before. Access to credit from the bank in affordable interest became greatest boon for the poor women. Hence linking Neighbourhood Group with the banks became a prerequisite in Financial Inclusion. The two key step involved in bank linkages are opening bank account and facilitating credit linkages. Now the SHG Microfinance considered as the largest community based microfinance programme in terms of outreach in the world and many other countries are keen to replicate this model. This is also recognized as a part of priority sector lending and normal banking business by the Reserve Bank of India. Kudumbashree being one of the pioneers in establishing successful SHGs (Kudumbashree SHGs are called as NHGs) have promoted bank linkage since the inception. This model became successful that at a certain extent poor could access finance and could meet their immediate needs.

Considering Bank linkage program as an effective tool in transforming lives of the poor, Government of Kerala has decided to try out the next step ie subsidizing interest rate so that poor could access credit at affordable interest. The first interest subsidy scheme was launched in the year 2010. But could not produce the desired results. Many factors like base rate regime, non-participation by major banks have negatively affected the field level implementation & absorption of the scheme. Hence in the year 2013 the new Back ended Interest subsidy scheme was launched. This effected NHGs to avail bank loan maximum of Rs.1lakh at the interest rate of 7%. During the same time National Rural Livelihood Mission has also selected Kudumbashree as the Nodal Agency in Kerala and financial inclusion was one of the thrust areas. NRLM focusing on bank linkage program as the core area has launched two Interest subvention schemes. One for category one district (4 out of selected 250 Districts are from Kerala) through this NHGs could receive bank loans at 4% For category II districts, comprising of districts other than the above 250 districts, all women S.H.Gs under DAY- NRLM will be eligible for interest subvention to avail the loan facility at an interest rate of 7%. Later in the year

2016-17 Government of Kerala has brought a path breaking step by announcing 4% interest subsidy scheme through which all Kudumbashree Neighbourhood Groups are eligible to avail a loan upto Rs. 3lakhs at a interest rate of only for. This has brought a paradigm shift in Bank linkage Program. About 15000 NHGs those who were hesitant to take Bank loan at least once in their life time have taken loan after introducing this scheme. Moreover, average number of NHGs availed bank loans were about 40000 to 45000 was increased up to 65000. Average loan size is also could increase from 3 lakhs to 4 lakhs . Other indicators are yet to probe. However it is of no doubt that the change brought in Microfinance sector by the advent of 4% interest subsidy scheme was not negligible.

HISTORY

Kudumbashree with its core mission to wipeout absolute poverty through women empowerment has indeed touched many lives through its integrated, comprehensive approach. Thousands of the poor and the marginalized population are building their lives, their families and their society through these neighborhood groups.

The financial empowerment of women in Kerala through the focused initiative of Kudumbashree has gone long way drawing even International recognition. Since inception Microfinance has been the basic thrust of Kudumbashree to address poverty. It has been proved without doubt that microfinance is the effective tool for development and contributed to the women and economic development of the society to a great extent. Kudumbashree plays a vital role in enhancing the financial status of the less privileged women in the State through its thrift and credit program . The small regular savings of neighborhood groups are pooled together and given out as internal loan to the most deserving member of the group. These loans acted as a leveler to address the immediate financial shocks of the group members.

The function of thrift and credit is the core activity of the Kudumbashree neighbourhood group (NHG), and forms the basis of the weekly meetings of the NHG. The amount of loan and the priority of disbursement are decided by the NHG. The repayment is collected weekly during routine NHG meetings. The total thrift collected by NHGs in the state comes to Rs. 4008 Crore and the internal loans generated are to the tune of Rs. 16,252.42 Crore . Details are reported in the monthly meetings by the CDS. Kudumbashree NHGs could avail Rs. 94008 cr through bank linkage program so far .

In order to promote Bank linkage program Kudumbashree introduced Interest subsidy scheme in the year 2009 where through an agreement with certain banks Kudumbashree made its NHGs to avail loan at the interest rate of 9% .But this scheme could not produce the desired results. Many factors like base rate regime. non-participation by major banks have negatively affected the field level implementation & absorption of the scheme. Hence in the year 2013 the new Back ended Interest subsidy scheme was launched . This effected NHGs to avail bank loan maximum of Rs.1lakh at the interest rate of 7%. During the same time National Rural Livelihood Mission has also selected Kudumbashree as the Nodal Agency in Kerala and financial inclusion was one of the thrust areas. NRLM focusing on bank linkage program as the core area has launched two Interest subvention schemes.

Interest subvention scheme for under NRLM

Salient features

- All women SHGs will be eligible for interest

subvention on credit up to Rs. 3 lakh at 7% per annum.

- SHG availing capital subsidy under SGSY in their existing credit outstanding will not be eligible for benefit under this scheme.

- The Commercial Banks will lend to all the women SHGs in Rural areas at the rate of 7% in the 250 districts

- All Commercial Banks will be subvented to the extent of difference between the Weighted Average Interest Charged (WAIC as specified by Department of Financial Services, Ministry of Finance)and 7% subject to the maximum limit of 5.5% .

- This subvention will be available to all the Banks on the condition that they make SHG credit available at 7% p.a. in the 250 districts. iv. Further, the SHGs will be provided with an additional 3% subvention on the prompt repayment of loans. For the purpose of Interest Subvention of additional 3% on prompt repayment.

II. Interest subvention scheme for Category II Districts (Other than 250 districts).

For category II districts, comprising of districts other than the above 250 districts, all women S.H.Gs under DAY- NRLM will be eligible for interest subvention to avail the loan facility at an interest rate of 7%. The funding for this subvention will be provided to the State Rural Livelihood Missions (S.R.L.Ms) from the allocation for DAY- NRLM. In the Category II districts, Banks will charge the SHGs as per their respective lending norms and the difference between the lending rates and 7% subject to a maximum limit of 5.5% for the FY16-17 will be subvented in the loan accounts of the SHGs by the SRLM. Interest Subvention scheme Under National Urban Livelihood Mission

While NRLM works with rural population the service area of NULM is limited to Urban areas . It is very interesting to note that Kudumashree is the nodal agency for both NRLM and NULM. Thus Interest subsidy scheme applicable under

For all loans under this component, on timely repayment of loan, Interest subsidy, over and above 7% rate of interest will be available on a bank loan for setting up of individual or group enterprises. The difference between 7% p.a. and the prevailing rate of interest will be provided to banks under NULM. Interest subsidy will be given only in case of timely repayment of loan. An additional 3 percent interest subvention will be provided to all Women SHGs (WSHG) who repay their loan in time.

DECLARING LOAN AT 4% FOR KUDUMBASHREE NEIGHBORHOOD GROUPS

The honorable Finance Minister, Government of Kera-

la in his budget speech for 2016-17 announced that the Government has decided to ensure that Kudumbashree members receive bank loan at 4% and to enable this an amount of Rs.50cr was set aside.

RATIONALE

The Statistics shows that through economic activities especially bank linkage program of women neighborhood groups have showcased their organizational skills and collective power. The tremendous impacts of social status of women becoming breadwinners of their households are also the outcome of this collective program. Hence it is of no doubt that providing affordable credit to women NHGs would not only improve their socio economic status but also the conditions of their families.

4% INTEREST SUBSIDY SCHEME

It was path breaking decisions from the Government of Kerala to provide interest subsidy for the bank loans availed by Kudumbashree Neighborhood groups so that they will be able to avail loan at 4% interest rate. In order to execute this a interest subsidy scheme was launched Salient features

Sl no	District	No. Of NHGs Linked
1	TVM	996
2	KLM	1416
3	PTA	902
4	ALP	1958
5	KTM	712
6	IDK	646
7	EKM	778
8	TSR	1890
9	PKD	1558
10	MLP	1091
11	KKD	2020
12	WYD	1200
13	KNR	425
14	KSD	124

high Human Index Development and to achieve this contribution of women is not negligible. Through their integrity, honesty and ability to inspire others have made them chosen ones to deliver many government development activities. Hence the decision to provide affordable credit to them is indeed a positive move

1. Interest subsidy was front ended : As soon as a NHG avail the loan from a bank they can submit claim for interest subsidy with concerned CDS . CDS can submit that claim to District Mission on a Quarterly basis. As per the fund availability eligible subsidy amount will be credited to the savings bank account of NHGs.

2. All Kudumbashree NHGs will be eligible for interest subvention on credit up to Rs. 3 lakh

3. Upper cap for the interest rate was 12.5% ie. Maximum limit of interest subsidy was limited to 8.5%.

THE IMPACT

As soon as Government has declared Bank loan at 4%, Kudumbashree has come up with new circular for Interest Subsidy and sensitized district mission about the same. Financial Literacy campaign of the 2016-17 and 17-18 focused mainly on unlinked NHGs (The Neighborhood Groups that have not availed Bank loan yet) and about 16000 unlinked NHGs have taken bank loans during this time.

District-wise details of No. of NHGs linked for the first

The number of NHGs availing Bank loans were increased from 45000 to 62000.

The average loan size also has increased from 3 lakhs to about 3.8 lakhs

One of the major take away of this scheme is that this could reach to more than 18 lakhs population covering 1.2lakhs NHGs.

After the advent of this scheme Kudumbashree has disbursed Rs. 77cr as interest subsidy which itself is more than the sum of the amount given as interest subsidy till 2016.

CONCLUSION

It is of no doubt that the Microfinance activities of Kudumbashree Neighbourhood Groups have impacted the lives of poor at a greater extent. They have proved without doubt that they are bankable with a repayment rate of 99%. In spite of having higher unemployment rate and lack of conducive environment to run industries, Kerala is considered as an economic miracle with