



## SHGs-Bank Linkage Programme Vis-À-Vis Cost Of Credit

**Key words :** Self Help Groups, Cost of Credit

The formal credit structure does not recognize the needs that are emergent. Unless a person's emergent needs are met, he would not undertake productive effort Bakshoum (1989). Even loans given for productive purposes would end up meeting the consumption needs. If a system exists to take care of consumption credit needs, it would provide a welcome relief. This is the very specific feature of Self Help Groups (SHGs), more so in initial period. Even where limited access to credit is possible, the borrower incur costs which are substantial. Borrowings through group mean a low transaction cost option (Co-operative Development Foundation 1992). Studies conducted by NABARD have indicated that borrower significantly reduces their transaction costs if they access credit through SHGs. With this background an attempt is made to workout cost of credit in the direct bank transactions and SHG-bank linkage programme.

Chittoor district was purposively selected for the present study as there were 10,238 SHGs in successful operation. The list of mandals along with corresponding number of self help groups was prepared. One mandal with maximum number of self help groups was identified and selected purposively. The mandal that was selected was Renigunta. The list of SHGs which were successfully operating and having linkage with the commercial banks in Renigunta mandal was obtained from Velugu project. Of the 492 SHGs, 20 SHGs which have atleast completed three years of working were selected at random. The list of the SHG-members along with the activities in which they were involved was prepared. Out of 11 activities, six activities were found to be followed by the majority of members. The activities were rearing of buffaloes and cows, milk business, petty business, fruit business and vegetable business. The list of members by activity was prepared and 10 members from each activity were randomly selected. Thus the total sample for the study was 20 SHGs and 60 members. The required data were collected by survey method for the period 2001-2002.

Even where limited access to credit is possible the borrower incurs costs, which are

substantial. The number of visits made to the bank carry transport and incidental costs apart from wages lost during the time spent on such visits. The documentation for loans involves completion of a number of formalities which again add to the borrower's costs. Again unexplained expenditure adds to the borrower's costs and his misery. If there could be a channel through which one could access credit with out incurring such costs, the borrower would willingly opt for it. Self-help groups meant a low transaction cost for the members. The costs for transactions in allocation, monitoring of use and recovery, are all reduced in SHGs due to close proximity and familiarity of the members. The procedures are simple with minimum paper work and mainly at the doorsteps of the beneficiaries. The particulars of cost of credit in bank-SHG linkage are presented in Table-1 simultaneously, if the borrower were to approach the bank directly the relevant cost spread of loan is also presented in Table-2. This comparison was made to assess where exactly the things stand regarding cost of credit.

### **Cost of Credit in Bank-SHG Linkage**

In the group borrowings, group leader undertakes the responsibility of visiting the banks in credit transactions. The leader contacts the bank authorities and fulfills the necessary formalities. On the perusal of the bank particulars in Table-1 it can be seen that the expenditure needed to be incurred was towards photographs, passbook, deposit and incidental expenditure. Total acquisition charges came to Rs. 35 i.e., this infact was the incidental expenditure. Normally the bankers took up this activity during non-banking hours, as a result of which the transactions were completed promptly. At the most the leaders made two trips to the banks for getting loans. The time taken by the bankers was 7 to 10 days to clear the loan application of SHGs after they were received. The deposit with pass book was not considered under cost of credit as interest was accrued on that amount. The expenditure towards photographs was not included as these would serve a number of years in the loan

Table 1. Cost of credit for an amount of Rs. 99,000 (SHG – bank linkage)

S.No	Particulars	Bank to SHG		SHG to members	
		Expenses incurred (Rs.)	Percentage to total cost of credit	Expenses incurred (Rs.)	Percentage to total cost of credit
1	Application form	—	—	—	—
2	Stamps	—	—	1.00	—
3	Photographs (for group leader)	30.00*	—	—	—
4	Pass book with deposit	100.00*	—	—	—
5	Documentation expenditure	—	—	—	—
6	Incidental expenditure	35.00(0.04)	0.36	—	—
7	Total acquisition costs (Excluding items 3 and 4)	35.00(0.04)	0.36	1.00	—
8	Rate of interest (%)	11.00	99.64	11.00	11.00
9	Total cost of credit (%)	11.04	100.00	11.00	100.00

\* Items excluded under acquisition costs, as pass book deposit carries interest and photographs are valid for a number of years.

(Figures in parentheses indicate expenses incurred in percentage to credit.)

Table 2. Cost of credit for an amount of Rs. 99,000 (Direct borrowing by the members from the bank)

S.No	Particulars	Expenses incurred (Rs)	Percentage to total cost of credit
1	Application form	—	—
2	Stamps	100.00(0.10)	0.86
3	Photographs	30.00	—
4	Passbook and deposit	100.00*	—
5	Legal opinion (Loss of interest on the amount)	120.00 (0.13)	1.12
6	Encumbrance certificate (Loss of interest on the amount paid)	9.00 (0.009)	0.08
7	Processing charges	100.00(0.100)	0.86
8	Inspection charges	200.00(0.20)	1.71
9	Incidental expenditure	150.00 (0.15)	1.28
10	Total acquisition costs (Excluding items 3 and 4)	679.00 (0.69)	5.91
11	Rate of interest (%)	11.00	94.09
12	Total cost of credit (%)	11.69	100.00

\* Items excluded under acquisition costs, as pass book deposit carries interest and photographs are valid for a number of years.

(Figures in parentheses denote expenses incurred in percentage to credit.)

transaction, unless the group leaders were changed. There was no expenditure towards stamp duty and documentation. These charges were exempted under SHG transactions. Total acquisition charges when converted in terms of interest stood at just at 0.04 per cent. The acquisition costs constituted 0.30 per cent of total cost of credit and the rest being actual interest paid to the lending institution. The total cost of credit worked out to be 11.04 per cent. This amply demonstrated that SHGs were obtaining loan almost without any additional costs.

#### **Cost of credit at the member's level in SHG**

A look at the transactions between the SHG and members revealed a very encouraging situation (Table 1). No formalities whatsoever were required except Re.1 revenue stamp in the transactions. In the total cost of credit, rate of interest formed 100 per cent. It is exactly what one can not ask for more than this. It is just like credit being available at the doorsteps of the members.

#### **Cost of credit in direct borrowing by the members**

Alongside the above situation, the situation in which if the borrowers were to contact the bank for their credit requirements (Rs.99, 000) directly, was also examined and detailed in Table 2. It can be seen that inspection charges constituted 0.20 per cent in terms of interest. This was found to be the highest component in acquisition costs. The bank collected Rs.200 for the loan amount of above Rs.5, 000 and below Rs. 2, 00,000 towards inspection charges.

Incidental expenditure formed 0.15 per cent in terms interest. The borrowers had to make a couple of trips to the bank till the loan was sanctioned. Next item was amount towards legal

opinion. In the direct bank transactions, the borrowers requiring a loan amount of more than Rs. 25,000 were expected to pay Rs. 2,000 towards legal opinion. These charges were incurred while availing loan for the first time. Therefore in this study opportunity cost lost on legal charges was computed and included under acquisition costs. Processing charges and stamps constituted 0.10 per cent apiece in terms of interest. The bank collected Rs. 100 towards loan processing charges for the loan amount ranging from Rs. 25,000 to Rs. 1, 00,000. Similarly stamps worth Rs. 100 is to be executed for the loan amount of Rs.50, 000 and above by the loanees. Loss of interest on charges towards encumbrance certificate came to a negligible 0.009 per cent in terms of interest.

In all total acquisition cost formed 0.69 per cent in terms of interest and constituted 5.91 per cent of total cost of credit. The total cost of credit worked out to 11.69 per cent.

This analysis highlights that the cost of credit no doubt was low in commercial banks transactions with the borrowers directly. But it was still less when SHGs were involved in the loan transactions. Particularly, the borrowers had no problems whatsoever and they were very pleased in this respect, as the credit was available at their door steps with out any paper work and time loss.

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