

## Success of bank linkage and interest subsidy scheme of Kudumbashree

### Introduction:

The Kudumbashree Neighbourhood Groups (NHGs) (widely known as SHGs) are one of the world renowned models in organizing the poor people and the marginalized to come together to solve their individual problems. Neighbourhood Groups-Bank Linkage Programme is emerging as a cost effective mechanism for providing financial services to the poor, which has been successful in meeting their financial needs and strengthening collective self-help capacities of the poor, leading to their empowerment.

### Background:

Kudumbashree is one of the pioneers in establishing successful SHGs by promoting bank linkage since its inception. The two-step to build bank linkages are opening a bank account and facilitating credit linkages. The first interest subsidy scheme was launched in 2010 but could not produce the desired results. Factors such as the base rate regime adopted influenced its negative performance. Non-participation by major banks have negatively affected field level implementation and absorption of the scheme. Hence, in 2013 the new 'Back ended Interest subsidy scheme' was launched. This allowed NHGs to avail bank loan at a maximum of Rs.1 lakh at the interest rate of 7 percent. During the same time National Rural Livelihood Mission also selected Kudumbashree as the Nodal Agency in Kerala and financial inclusion was one of the thrust areas.

### Details of the Intervention:

The Hon'ble Finance Minister, Government of Kerala in his budget speech for 2016-17 announced that the Government had decided to ensure that Kudumbashree members receive bank loan at 4 percent and to enable this an amount of Rs. 50 crore was set aside. The decision from the Government of Kerala was to provide interest subsidy for the bank loans availed by Kudumbashree Neighbourhood groups so that they will be able to avail loan at 4 percent interest rate. In order to execute this an interest subsidy scheme was launched. Its salient features were:

- 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 (CLF everywhere). CDS can submit that claim to District Mission on a Quarterly basis. As per the fund availability eligible subsidy amount was credited to the savings bank account of NHGs.
- All Kudumbashree NHGs were eligible for interest subvention on credit up to Rs. 3 lakh
- Upper cap for the interest rate was 12.5 percent i.e. maximum limit of interest subsidy was limited to 8.5 percent.

### Impact:

As soon as the Government declared bank loans at 4 percent rates, Kudumbashree came up with new circular for Interest Subsidy and sensitized District Missions 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 16,000 unlinked NHGs have taken bank loans during this time. The number of NHGs availing Bank loans were increased from 45,000 to 62,000. The average loan size also increased from 3 lakhs to about 3.8 lakhs. One of the major take away of this scheme was that this could reach more than 18 lakhs population covering 1.2 lakh 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.

*Source: Jiji R. S. (2018). Bank Linkage and Interest Subsidy. Kudumbashree Writeshop. Retrieved at [https://www.kudumbashree.org/storage/files/qldpx\\_jiji%202.pdf](https://www.kudumbashree.org/storage/files/qldpx_jiji%202.pdf). Accessed on 13/10/2020.*