

Dungarpur Project

A path that commercial banks may follow

Availability of financial services especially of credit services to poor is one of the major ingredients for poverty alleviation and for inclusive growth. Banks are yet to reach out to poor in large numbers and as a result 'poor' mainly depend on informal sources like moneylenders where they take credit at usurious rates.

Self Help Groups (SHGs) have reasonably offered the solution to banks to reach out to poor. But unfortunately, in many banks, the understanding of SHGs is limited to only government schemes like SGSY. However, the concept of SHGs is beyond any government scheme. It is based on 'self help' and purely SHGs as peoples' initiative to address their own matters (including financial services) through 'Self Help'.

The SHG-Bank linkage in Rajasthan has not grown to the extent it should have been. Approx. 125-140 crores of credit is going annually through SHGs in state. This is less than 1% of total annual credit need of poor in the state. One of the main reasons for low credit from banks to SHGs (even though the repayment rate of SHGs to banks is reported at more than 95%, and might be the best among all portfolios of the banks) is the lack of confidence of bank managers on SHG movement.

Bank of Baroda, the lead bank in Rajasthan, under the able leadership of its earlier CMD Dr. Anil Khandelwal, took up a special project called '**Dungarpur Project**' to pilot the bank's involvement in integrated development of poor area in collaboration with **PEDO** (a local voluntary agency) and **Centre for microFinance- CmF** (a specialized agency working for strengthening microFinance and SHG movement in Rajasthan). The pilot is mainly to demonstrate that banking as a business, can be done on larger scale with poor people through SHGs. Also banks, state government and voluntary agency can collaborate and have synergetic effect on development of poor.

What has been done under Dungarpur Project?

Credit through Self Help Groups (SHGs)

Under this project, Bank of Baroda and its regional rural bank advanced a total credit of Rs. 220 million through SHGs in two years. The repayment from SHGs to Bank is on time. The **annual gross revenue to bank from this operation is around Rs. 22 million**. There are evidences that the profitability of a few bank branches has improved considerably from SHG-Bank linkage.



Is there significant impact of the project on lives of poor?

CmF along with PEDO conducted a quick assessment of the impact of the project.

- Total 2023 SHG members used bank credit (Rs. 61.9 million) to **buy milch animals** and PEDO arranged the marketing of milk to local dairies. The increase in the household income from this is to the tune of Rs. 9500/- pa.
- Total 3268 SHG members used the credit (Rs. 50.8 million) to **grow high value crops** like ginger, chilli and turmeric. These families have got additional income of Rs 9940/- pa.
- 3992 SHG members used the credit (Rs. 64.5 million) to **grow vegetables** on their marginal plots of lands (they used the credit to buy seeds, fertilizers, irrigation equipments etc.). They earned additional income of Rs. 13,000/- pa.
- 1502 artisans (SHG members) used the credit (Rs. 41.3 million) to **buy raw material, improved instruments** etc. and they have earned additional income of Rs. 1,500 - 2,000/- pm.

How it happened?

The key to this success is the collaboration of bank with local NGO- Peoples Education and Development Organisation (PEDO) in Dungarpur and Centre for microFinance (CmF) which has put a spearhead team in Dungarpur to assist the project. PEDO has formed good quality groups, facilitated the groups to link with bank and CmF team oriented bank managers on microFinance and facilitated this collaboration.

Bank's support for formation and nurturing of New SHGs

Bank is supporting formation and nurturing of 300 new SHGs in Dungarpur. Banks will invest Rs. 1.5 million (Rs. 5000/ SHG) to form these SHGs. Centre for microFinance is coordinating and monitoring this work. PEDO has formed the groups. Total savings of the groups is Rs. 27.3 lakhs within 1.5 years and the entire amount is being revolved among members as credit to meet their small credit needs. Additionally these SHGs have taken loan of Rs. 53.40 lakh in one year from Bank of Baroda/ its RRB. So far BoB has invested Rs. 4 lakh on this and the loan itself will generate gross revenue of more than 5 lakhs from the interest.

Conclusion: The commercial banks can not reach out to poor in their present form. Only way out is that they can increase their credit portfolio to SHGs. Dungarpur project demonstrates the scale and profitability of SHG credit for a bank. Secondly banks should invest in creation of new SHGs and link it with credit targets. A unit of 300 SHGs in two years will cost them Rs. 15 lakhs and generate a credit portfolio of Rs. 150 lakhs per year, earning gross annual revenue of Rs. 15 lakhs.