

Microfinance in India: Progress under SHG-Bank Linkage Model

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Abstract: A large population of India, mainly those belonging to the low-income group is still excluded from the formal banking system. For including larger part of marginalized section to the formal financial services. SHG-BLP model was launched. SHG -Bank Linkage Programme (SHG-BLP) is the largest microfinance programme not only in India but in world because of its size and the population it reaches. Since decades the SBLP model remains the most widely used model of micro finance in India. NABARD (1997) defines SHGs as “small, economically homogenous affinity groups of rural poor, voluntarily formed to save and mutually contribute to a common fund to be lent to its members as per the group members’ decision”. In the present study, the success of SHG-Bank Linkage model is discussed. For that, secondary data of NABARD reports (status of microfinance reports 2006-07 to 2016-2017) has been analyzed. It includes the savings of SHGs, loan disbursed and loan outstanding against the SHGs. Several studies related to the progress of SHG-BLP are also considered. Key-points from the seminars and conferences organized by BIRD (Bankers Institute of Rural Development) are also taken into consideration.

Keywords: SHG-Bank Linkage Programme, NABARD, Rural, Marginalized etc.

1. INTRODUCTION:

In India, National Bank for Agriculture and Rural Development (NABARD) initiated the microfinance programme in 1992, in order to extend formal banking and financial services to the unreached rural poor by adopting an alternate credit delivery mechanism. NABARD is the key agency for promoting Self-Help Group-Bank Linkage Programme in India, plays an important role in extending this programme through formal banks in all regions of India. Many studies showed that this programme proved helpful in reducing poverty to some extent, it also helped in the financial inclusion of the vulnerable and poor section of the society. Over the past decades, subsidized rural banking in India, despite its large network of rural bank branches has failed to reach the poorer sections of the society. By the early 1980s, the All India Debt and Investment Survey (Government of India, 1981) showed that the share of non-institutional agencies (informal lenders) in outstanding cash dues of the rural households was 38%. The main limiting factor in reaching formal finance to this group was the high transaction costs and lack of appropriate credit and saving products. A study conducted by NABARD in the mid-eighties revealed that financial services required by poor households are: safe-keeping of small surpluses in the form of thrift; access to consumption loans to meet emergency needs and financial services and products that did not require collateral (MYRADA, 2002). The Self Help Group Bank Linkage model evolved from the pioneering efforts of NABARD 500 groups in the early 1990s.

Since most of the SHGs are linked to formal banks for their deposit and loan mobilization, it is a researchable issue, as to whether the informal micro finance intervention through SHGs has had any impact on the deposit and credit accounts in the formal banks. Self Help group (SHG) is a self-governed, peer-controlled small and informal association of the poor, usually from socio-economically homogeneous families who are organized around savings and credit activities. Funds for credit activities are coming through regular savings deposited by all of its members on a weekly or fortnightly basis. In the meetings they discuss common village problems and plan solution, share information; make efforts to improve their health and literacy skills.

NABARD (2005) explains that the Self Help Group is a group with “an average size of about 12-15 people from a homogenous class. They come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritization of needs, setting terms and conditions and accounts keeping. This gradually builds financial discipline in all of them. They also learn to handle resources of a size that is much beyond the individual capacities of any of them. The SHG members begin to appreciate that resources are limited and have a cost. Once the groups show this mature financial behavior, banks are encouraged to make loans to the SHG in certain multiples of the accumulated savings of the SHG. The bank loans are given without any collateral and at market interest rates. The groups continue to decide the terms of loans to their own members. Since the groups’ own accumulated savings are part and parcel of the aggregate loans made by the groups to their members, peer pressure ensures timely repayments.” The SHG bank linkage programme links a SHG group to banks, where the banks provide a loan to a mature group. The group places its savings in the group deposit account in the bank (at about 12% per annum), using its group savings and group guarantee as a collateral.

NABARD provides subsidized refinancing support to banks to encourage such lending. However, the demand for such refinancing support to banks has fallen, as SHG lending is more profitable and has lower default rates (less than 1% as compared to 11-12% of their regular portfolios) (Bose and Srivastava, 2005). The Nabard SHG- Bank linkage programme has achieved only 1.4% of the potential demand, reaching out to seven million households with an average credit of Rs. 2,000 a household, as against the need to reach 100 million with Rs. 10,000 per household. The microfinance institutions (MFIs) on the other hand, have been able to meet only 0.25% of the demand (Mahajan, 2002). India has 37% of the world's population earning less than \$1 a day, of which 60% are women (Human Development Report, 2003). The Government of India, National Policy for the Empowerment of Women (2001), declared various measures aimed towards achieving greater equality between men and women. The government's poverty alleviation programmes such as Swarnajayanti Grama Swarajgar Yojna (SGSY) and the Rashtriya Mahila Kosh implement their programmes through microfinance interventions of NABARD's Self Help Group-Bank linkage programme.

Socio-Economic Impact of the SHG-Bank Linkage Programme

- It has reduced the incidence of poverty through increase in income, enabled the poor to build assets and thereby reduce their vulnerability.
- It has empowered women by enhancing their contribution to household income, increasing the value of their assets and generally by giving them better control over family decisions that affect lives.
- It has contributed to a reduced dependency on informal money lenders and other non-institutional sources.
- It has facilitated significant research into the provision of financial services for the poor and helped in building 'capacity' at the SHG level.
- Finally it has offered space for different stakeholders to innovate, learn and replicate. As a result, some NGOs have added micro-insurance products to their portfolios, a couple of federations have experimented with undertaking livelihood activities and grain banks have been successfully built into the SHG model in the eastern region. SHGs in some areas have employed local accountants for keeping their books and IT applications are now being explored by almost all for better MIS, accounting and internal controls.

A study by National Bank for Agriculture and Rural Development (NABARD), which covered 560 SHG member households from 223 SHGs across 11 states, showed many positive results on the impact of participation of rural poor in the SHGs. It shows that there have been perceptible and wholesome changes in the living standards of SHG members in terms of ownership of assets, borrowing capacities, income generating activities, income levels and increases in savings. It traces out that almost all members developed savings habits in the post-SHG situation as against only 23 per cent of households who had this habit earlier. It indicates that the average annual saving per household registered an increase over three fold [NABARD 2002].

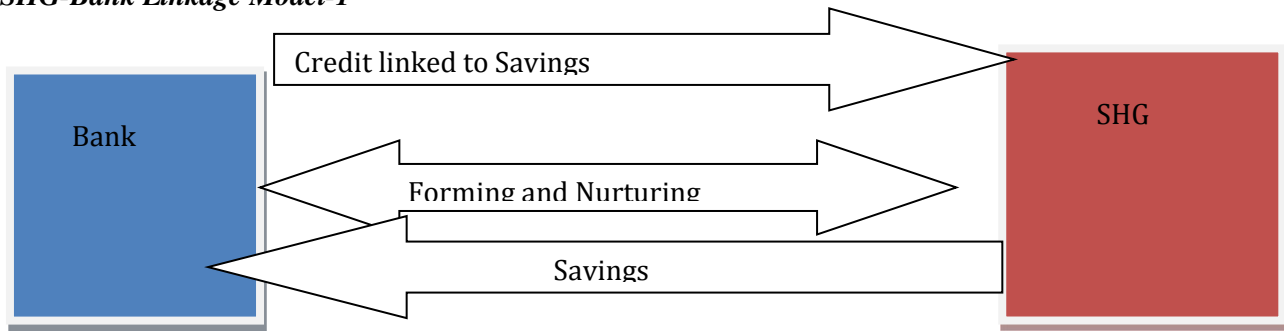
Self-help groups (SHGs) play today a major role in poverty alleviation in rural India. A growing number of poor people (mostly women) in various parts of India are members of SHGs and actively engage in savings (in actual term Thrift) and credit (S/C), as well as in other activities (income generation, natural resources management, literacy, child care and nutrition, etc.). The saving-credit focus in the SHG is the most prominent element and offers a chance to create some control over capital. The SHG system has proven to be very relevant and effective in offering women the possibility to break gradually away from exploitation and isolation. Almost all major donor agencies support SHGs in India in one way or another and many success stories are available, describing how membership in a SHG changed the life of a particular individual or group for the better.

2. SHG-Bank Linkage Model:

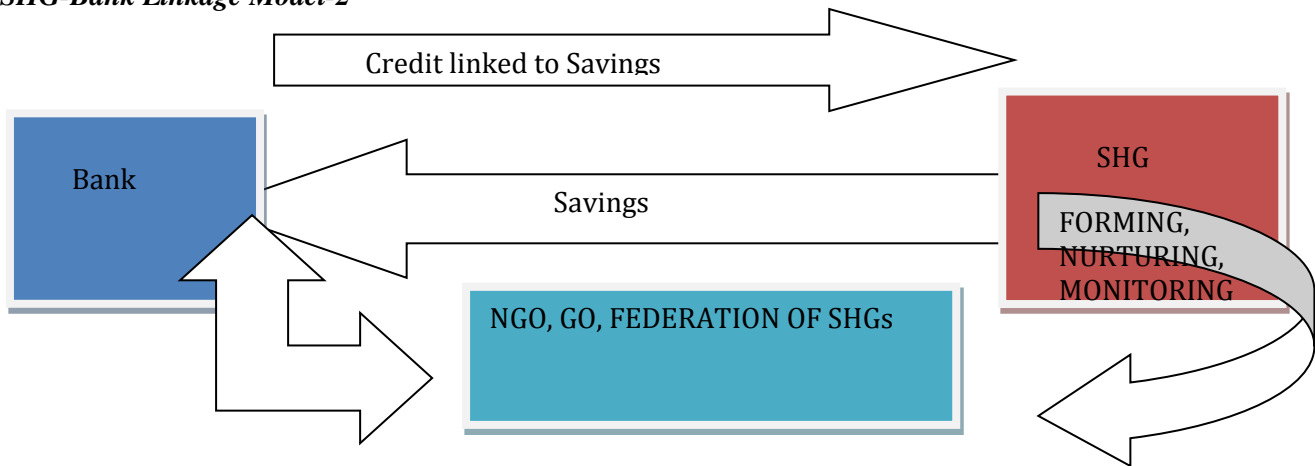
Among the formal institutions, next to NABARD, banks play a major role as SHGs promotion institutions in India. For several years, since the nationalization of the commercial banks, there has been a commitment at the highest policy levels, towards improving access to financial services for the poor. Several policy measures have also been in force to ensure this, such as the allocation of committed bank funds to small loans (priority sector banking), subsidized interest rates (ranging from 4% to 10%) for micro loans, and the opening of small rural bank branches. Hence, the mainstream banking system in India has always been involved in microfinance as a special area of their operation. At the operational level, this policy commitment has been implemented usually by linking bank credit to a targeted program of the government of India. The Integrated Rural Development Program (IRDP) was a typical example. A further institutional focus was given to rural lending through small loans by establishing the regional rural banks in 1975. The SHG linkage program is located in this national policy and institutional context, where there is a vast network of primary lending institutions to deliver microfinance on the one hand, and an apex national level institution, NABARD, to provide policy support and refinance on the other.

There are at least three different SHG-Bank linkage models operational in India. For details please see the diagrams.

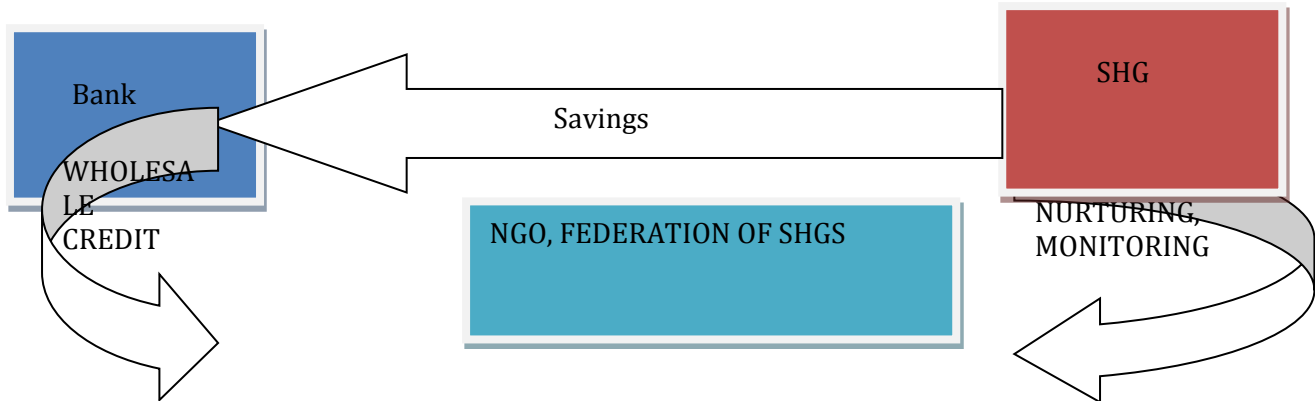
SHG-Bank Linkage Model-1



SHG-Bank Linkage Model-2



SHG-Bank Linkage Model-3



3. Success of SHGs in India:

The working group (RBI, 1996) has commented thus on the progress of SHGs in India:

- SHGs helped to generate and collect small thrift amounts from a cross section of people hitherto considered incapable of saving. The essential difference between thrift and savings was that while thrift was generated out of deferred consumption, the savings were generated out of surplus.
- SHGs have facilitated the rural poor in fulfilling their credit requirements, both for emergent consumption needs as well as for small production requirements.
- SHGs have been able to meet successfully the credit requirements of the rural poor as per their choice, unlike in the case of borrowing under other programs of formal credit institutions.
- The high recovery rates of the SHGs are in sharp contrast to the poor recovery performance of banks in respect of various activities under rural credit. Since credit/finance was seen as management of the participants' own funds and enterprises, a feeling of ownership and responsibility was generated.
- The entire cycle of assessing need, disbursement, recovery, monitoring, and supervision shifted closer to the scene of action under SHGs, and therefore the transaction cost of the loans was relatively less.

Table-1: Progress under SHG-Bank Linkage Programme since 2006-07
(SHGs in Lakhs/Loan amount in Crores)

Year		SHG Savings with Banks as on 31 March	Loans Disbursed to SHGs during the year	Loans Outstanding against SHGs as on 31 March
2006-07	No of SHG's Linked	41.61	11.06	28.95
	Amount	3512.71	6570.39	12366.49
2007-08	No of SHG's Linked	50.10 (20.40%)	12.28 (11.0%)	36.26 (25.3%)
	Amount	3785.39 (7.76%)	8849.26 (34.7%)	16999.91 (37.5%)
2008-09	No of SHG's Linked	61.21 (22.2%)	16.10 (31.1%)	42.24 (16.5%)
	Amount	5545.62 (46.5)	12253.51 (38.5%)	22679.84 (33.4%)
2009-10	No of SHG's Linked	69.53 (13.6%)	15.87 (-1.4%)	48.51 (14.8%)
	Amount	6198.71 (11.8%)	14453.3 (17.9%)	28038.28 (23.6%)
2010-11	No of SHG's Linked	74.62 (7.3%)	11.96 (-24.6%)	47.87 (-1.3%)
	Amount	7016.30 (13.2%)	14547.73 (0.01%)	31221.17 (11.4%)
2011-12	No of SHG's Linked	79.60 (6.7%)	11.48 (-4%)	43.54 (-9.0%)
	Amount	6551.41 (-6.7%)	16534.77 (13.7%)	36340.00 (16.4%)
2012-13	No of SHG's Linked	73.18 (-8.1%)	12.20 (6.3%)	44.51 (2.2%)
	Amount	8217.25 (25.4%)	20585.36 (24.5%)	39375.30 (8.4%)
2013-14	No of SHG's Linked	74.30 (1.53%)	13.66 (12.02%)	41.97 (-5.71%)
	Amount	9897.42 (20.45%)	24017.36 (16.67%)	42927.52 (9.02%)
2014-15	No of SHG's Linked	76.97 (3.59%)	16.26 (19.03%)	44.68 (6.46%)
	Amount	11059.84 (11.74%)	27582.31 (14.84%)	51545.46 (20.06%)
2015-16	No of SHG's Linked	79.03 (2.68%)	18.32 (12.67%)	46.73 (4.59%)
	Amount	13691.39 (23.79%)	37286.90 (35.18%)	57119.23 (10.81%)
2016-17	No of SHG's Linked	85.77 (8.53%)	18.98 (3.60%)	48.48 (3.74%)
	Amount	16114.23 (17.69%)	38781.16 (4.01%)	61581.30 (7.81%)

(Figures in parenthesis indicate growth/decline over the previous year)

Source: NABARD Reports "Status of Microfinance in India" (2006-07 to 2016-17).

The table above depicted the clear picture of the development of SHGs under SHG-Bank Linkage model, the above data is collected from NABARD annual reports (Status of Microfinance in India). Above data depicted the growth in number of SHGs linked under bank linkage model, also the amount of savings, loan disbursed and loan outstanding against SHGs also shown in the above table. Figures of SHGs is in lakh whereas the amount is in crore, the figures in parenthesis shows the percentage increase or decrease over the last financial year.

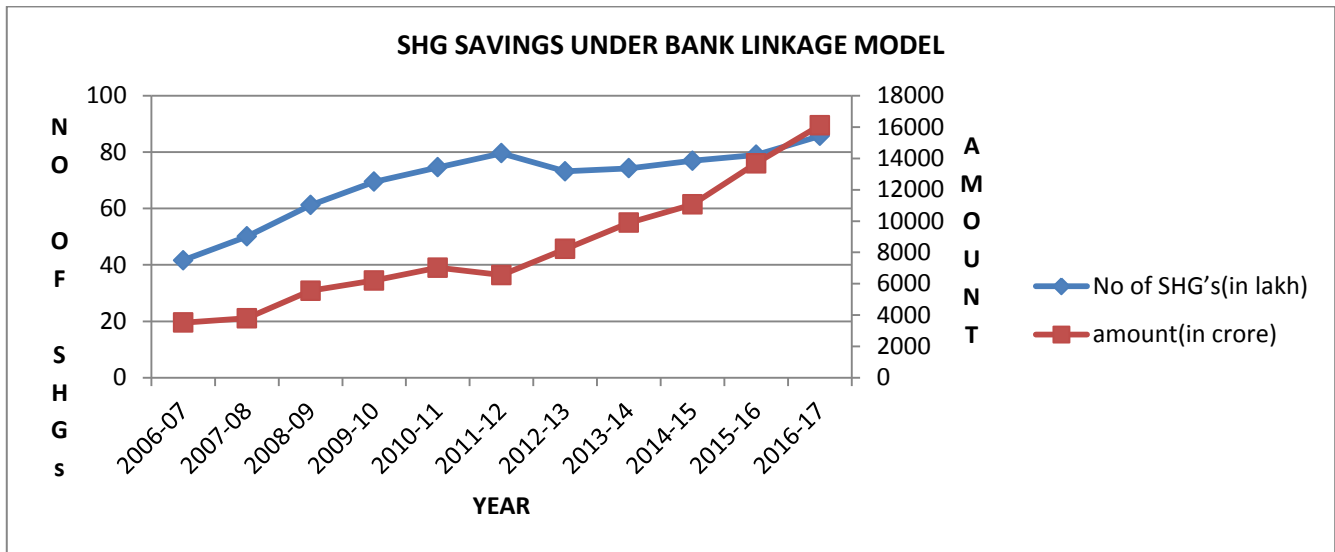
Below the growth of savings done by SHGs, loan disbursed to SHGs and loans outstanding against SHGs is shown with the help of charts:

4. SAVINGS UNDER SHG-BANK LINKAGE MODEL:

During the year 2006-2007 to 2011-12 we saw a gradual increase in the no. of Shgs linked as well as in the amount of savings done by these shgs under Bank linkage model. But in the year 2012-13 the no. of shgs decline

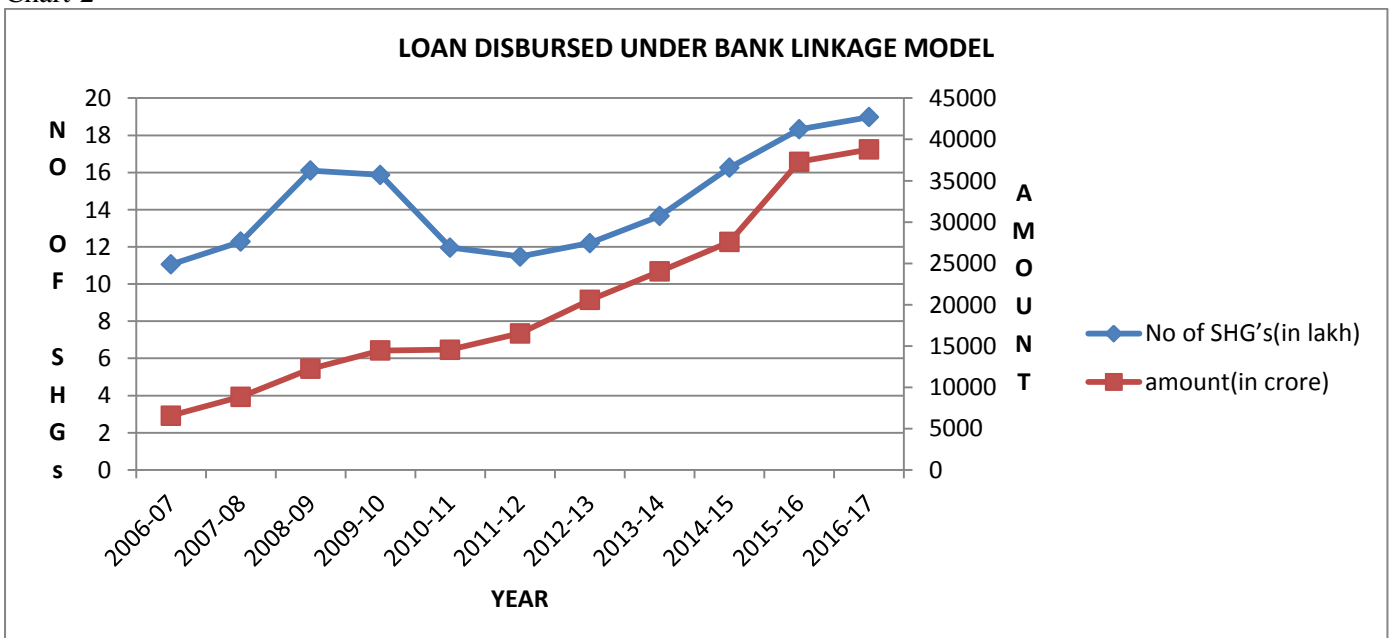
from 79.6 lakh to 73.18 lakh(i.e. 8.1%), whereas in 2011-12 the saving amount experience a decline of 6.7%, the saving amount comes to 6551.41 crore which was 7016.13crore in the year 2010-11.

Chart-1



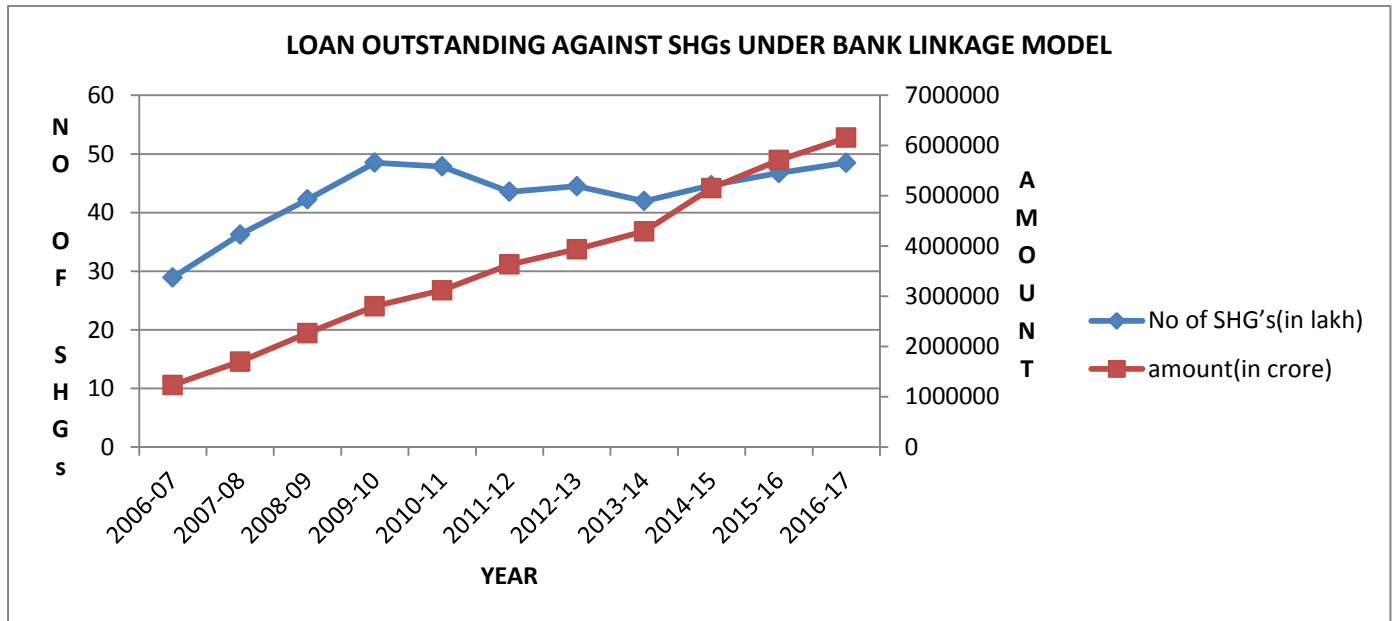
Loan disbursement under Bank Linkage Model: In the below chart (and in table-1) we found that in the year 2006-07 loan amount of 6570.39 crore has been disbursed to 11.06 lakh SHGs, which gradually increases till the year 2008-09. In the year 2009-10 the SHGs number reduced to 15.87 lac from the previous year figures of 16.10, whereas the loan amount is still increasing but having a decline in its percentage change, the percentage change reduced to 17.9% compared to the 38.5% of the previous year which further reduced to 0.01% in the year 2010-2011. Meanwhile, the no. of SHGs is continuously decreasing with the year, it reached 11.96 lac in the year 2010-11 and finally its least figure of 11.48 lac in the year 2011-12. Thereafter, from the year both SHGs number and loan amount increased slowly, in the year no. of SHGs reached to 18.98 lac whereas loan amount reached to 38781.16 crore.

Chart-2



Loan Outstanding against SHGs: In the year 2006-07 the loan outstanding against the SHGs was 12366.49 crore which gradually increased with every year, it experienced the maximum increase of 20.06% in the year 2014-15. Whereas the no.of SHGs also gradually increased to the year 2009-10, it reaches to 48.51 lac from the figure of 28.95lac(in2006-07), it experienced a decline of 1.3%, 9% and 5.71% in the year 2010-11, 2011-12 and 2013-14 respectively. In the year2016-17 no. of SHGs reached to the figure of 48.48 lac.

Chart-3



Present situation of SHG-BLP Model: During last decade, the model showed many positive results but not overwhelming or extraordinary. Till march’2017, 85.77 lakh SHGs get linked through this model, mostly women SHGs(73.22 lakh) which is a good sign as such type of programmes plays important role in women empowerment. The programme reaches to 112 million families, it also develops a habit of savings mostly among rural households, and total savings of SHGs was found Rs.16, 114crore in March’2017. No. credit linkage SHGs was 18.98 lakh only(which is a matter of concern), average loan disbursed per SHGs and average loan outstanding per SHGs was Rs.2,04,314 and Rs.1,27,017. NPA is found to be 6.50% which should not get neglected.

Table-2

S.No.	Particulars	Figures as on 31st March, 2017
1	Total No of SHGs Linked	85.77 lakh
2	Out of total SHGs - exclusive Women SHGs	73.22 lakh
3	No. of Families Reached	112 million
4	Total Savings of SHGs	Rs.16,114 Cr
5	Total No. of SHGs Credit Linkage	18.98 lakh
6	Gross Loan Outstanding	Rs. 61,581 Cr
7	Total Loan Disbursed	Rs.38,781 Cr
8	Avg. Loan Disbursed per SHG	Rs. 2,04,314
9	Avg. Loan Outstanding per SHG	Rs. 1,27,017
10	NPA	6.50%

Source: The Bharat Microfinance Report, 2017.

5. CONCLUSION:

Several studies showed that SHG-BLP model played a vital role in the growth of SHGs, it is true to some extent, but the reality is somewhat different because the results are not so overwhelming. As we know, most of the SHGs concentration lies only in some states of the country especially in south and central region; the model should spread in all states of the country. It still needs to cover a larger part of the population which is financially marginalized. The data above in table-1 and its corresponding charts clearly shows that the model has not achieved its goal in its context, the growth is not continuous not in the number of SHGs as well as in the loan or saving amount, even the increment is also very meagre for most of the years. In table-2, it is cleared that the figures are not so overwhelming, the model reaches to 112-million families and number of SHGs formed so far is 85.77 lac, but the savings amount is Rs.16,114 crore i.e. Rs 1,87,874 per SHG, total number of credit linked SHG is only 18.98 lakh only i.e. 22.13% SHGs are credit linked which need to be concerned. Average loan per SHG is also very less(i.e. Rs. 2,04,314) means 10-15 thousand per SHG member. NPA is also as high of 6.50%.

There are several hindrances in the growth of such programme, there are several loopholes which are pulling it back. The intermediaries of such programme may play a vital role in its growth. First of all, most of the SHGs are not credit linked, saving is found to be less attracted to its clients. There are many SHGs which are making transactions from several years but not availing the facility of CCL(credit-linkage), because they don't have enough knowledge about the process and the intermediaries or NGOs who formed the group does not show any interest after the formation of group. If any researcher visits to these SHGs he/she will found that 8 out of 10 groups have their account register incomplete, will found incomplete details of the clients, meeting register is filled with meeting oath only. There is no proper account register is maintained in the group. Most of the members are of argue that since after the formation of group no concern authorities have ever visited them for any kind of awareness or guidance or any audit. If the government and the concern want to get overwhelming results of such unique program, the reforms should be made at the grass-root level first, otherwise this unique step will proved be a waste in the coming years.

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