

SHG Bank Linkage Programme in India – A network mechanism of microfinance

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Abstract:

Microfinance in India provide financial services to the underprivileged poor in rural areas. The financial services are savings, insurance, money transfers, counselling etc. along with lending provision of credit. There are varieties of institutions viz., NGOs, Cooperatives, RRBs, Public and Private Commercial banks, Non-Banking Financial Institutions are providing these financial services. The intention of microfinance is to alleviate the poverty. Self-Help Groups(SHG) are voluntary association of poor people not exceeding twenty members formed with the intention of promoting savings and to solve common problems through self- help and mutual help. NABARD introduced SHG- Bank Linkage Programme in 1992 which became the highly profitable and generally accepted model in India. The objective of the study is to understand the concept of microfinance, to study the growth of SHG- Bank Linkage Programme and to assess the performance of SHG- Bank Linkage Programme in India.

It is a matter of network of Govt. of India, RBI, NABARD, SHPIs, SHGs and its members striving for eradication of poverty and uplifting the rural poor with financial services. The number of SHGs with savings linkages, the amount of savings outstanding, the loan disbursement to SHGs and Loans outstanding of SHGs shows favourable performance. The NPA against SHG Total Loans Outstanding is showing increasing trend except last year. SHG- Bank Linkage Programme in India is facing some of the issues which can be easily resolvable with proper action.

Introduction:

Poverty is the biggest challenge to development in India. Of all major problems, which India is facing today, the problem of poverty is perhaps the most fundamental. All the political parties in India in one form or the another have adopted poverty eradication as an important goal. The Government of India launched several poverty alleviation programmes and schemes. But the problem of poverty continues to persist in India. In Indian financial system cooperative movement, nationalization of major commercial banks, branch expansion, introduction of RRBs, NABARD took place to serve the rural poor. Microfinance movement became an economic development tool with an objective of assist the poor to eradicate the poverty. Microfinance in India

provide financial services to the underprivileged poor in rural areas. The financial services are savings, insurance, money transfers, counselling etc. along with lending provision of credit. Thus it helps the poor to grow tiny businesses or involve them in other productive economic activities. This process enables the working poor to become more self-sufficient and in turn, improve the lives of family members, communities and whole societies. Among different models of Microfinance, NABARD introduced SHG- Bank Linkage Programme in 1992 which became the highly profitable and generally accepted model in India. Now it is an attempt to understand and evaluate the network mechanism of Microfinance through SHG- Bank Linkage Programme.

Poverty:

Poverty includes extreme or considerable scarcity of commodities. Poverty made individuals difficulty in satisfying their basic needs for survival. Poverty is associated with poor education, poor health, poor housing and so on.

The poverty line, based on the minimum consumption of 2100 calories a day, can be regarded as a physical subsistence measure of poverty. Those who are unable to reach this level have a high risk of not having a long life. A now widely used measure of the presence of poverty is whether an individual's daily consumption per head is less than the purchasing power equivalent of US\$1 per day is low but includes some social influences. It was determined as being representative of poverty lines widely used in low-income countries (Deaton, 2001).

Some of the factors associated with the occurrence of poverty which was outlined by World Bank (2001, Ch.2) are societies have few natural resources or their natural resources are of poor quality, or they may be short on physical capital and human capital and may also lack adequate social capital. Furthermore, they may have little access to technologies and methods able to enhance economic productivity.

Individuals may be in poverty because of social, physical (mental impairment / sickness) , behavioural, natural disasters, managerial reasons.

Rural poverty as estimated by the Planning Commission of India shows a declining trend from 56.44 percent in 1973-74 to 25.70% in 2011-12.

Statement of the Problem:

Microfinance is fast emerging the world over as an effective tool for poverty alleviation, equitable and inclusive growth, and women empowerment. In India, there has been impressive growth in micro-finance activities over the three decades or more. Micro-finance of the type of SHG-Bank Linkage model has been found to be the most popular type in the Indian context. Because of the profit potential of this segment, many banks including private sector banks have been aggressive in lending to this sector. Here, the peculiarity with micro-finance is that it caters to the needs of the disadvantaged sections and at the same time ensures adequate profitability to the lenders.

The SHG-BLP is also the largest network mechanism of microfinance to help the underprivileged rural poor and to alleviate the poverty and NABARD has always strived to broad base the ownership of the programme amongst different stakeholders like banks, NGOs, Govt. etc. The network among the NABARD, Government, RBI, SHPIs (Commercial Banks, Cooperative Banks, MFIs, NGOs etc.) succeeding this programme. It is not simply a loan interface with the poor but a holistic social contact programme with mutual benefit for the banks as well as the SHGs. This saving led model of microfinance is a successful empowerment tool which has covered almost 10 crore households in the country.

Hence an analysis of the progress of SBLP and its performance will be made at all India level by studying the savings, loan disbursements, Recovery performance.

Refinance to the Banks: During the initial years of the movement NABARD was extending refinance to the extent of 100 percent to banks for lending to SHGs since the SBLP was launched. The refinance support from the NABARD however, continues to supplement the resource mobilization of the programme.

Objectives:

- 1) to understand the concept of microfinance
- 2) to study the growth of SHG- Bank Linkage Programme
- 3) to assess the performance of SHG- Bank Linkage Programme in India
- 4) to give suggestions for the improvement of the SBLP.

Methodology: The methodology adopted for the study is descriptive.

Sources of Data: The secondary data is followed to conduct the study.

Period of the Study:

The period of the study belongs to six years ranging from 2010-11 to 2015-16

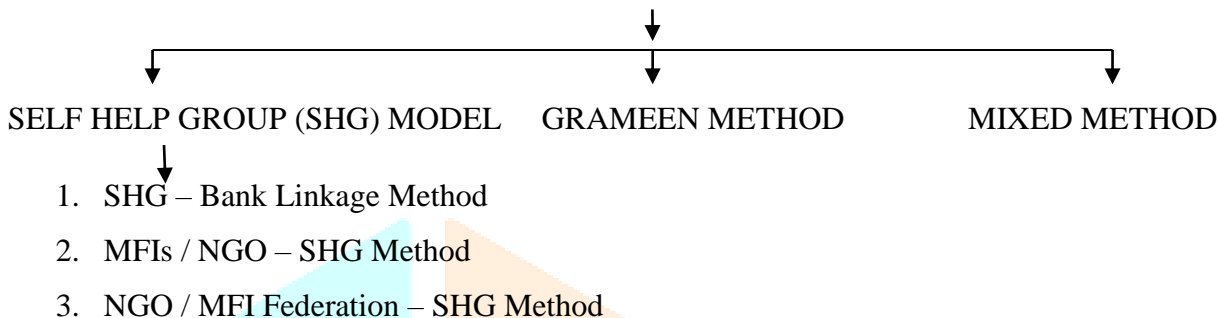
Micro Finance: Both NABARD and RBI defined “Microfinance as the Provision of thrift, credit and other financial services and products of very small amounts to the poor enabling them to raise their income levels and improve living standards”. (NABARD 2000; RBI 1999).

According to Robinson (1998), ‘ Microfinance refers to small-scale financial services for both credits and deposits-that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas’.

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Different models:

Methods Microfinance Practices in India



SELF HELP GROUP (SHG) MODEL : Self Help Groups in India dominate microfinance. Here groups of 10 – 15 members are formed, encouraged saving and credit is rotated among the members based on priority. These groups promote saving among members and use pooled resources to meet the emergent needs of their members, including consumption needs. Under this system group becomes collateral for the loan. A group could be exclusively male or female even mixed. However, majority of SHGs are female groups. These groups come under any MFIs or NGOs or Vas or NBFCs. This model gives scope for members to participate in decision making process. NGOs like Professional Assistance for Development Action (PRADAN), Shri KshetraDharmasthala Rural Development Project (SKRDP) etc. follow this model.

Ways of SHG Model: The different ways of SHG model are:

- 1. SHG – Bank Linkage Method:** Under this method, groups are formed by different agencies known as the Self Help Promoting Institutions (SHPI / s). SHPIs may be NGOs, Voluntary Associations, Government Agencies, Panchayat Raj Institutions, Vikas Volunteer Vahini [VVV] Clubs, Banks, Co-operative Societies etc.
- 2. Micro Finance Institutions (MFIs) / NGO – SHG Method:**
Under this method the NGO, VAs, MFIs, NBFCs etc., accessing funds either from banking system and / or from Development financial Institutions (DFIs) like NABARD and SIDBI for giving loans to SHGs.
- 3. NGO / MFI Federation – SHG Model:**
Under this method the SHGs get financial assistance from their savings and credit, with the help of federations
- 4. Grameen Method:**

The finance provided for productive purposes by MFIs / NGOs directly to the members of small groups (consisting of about 5-7 members) directly on the strength of group assurance. It is often coupled with an obligation to save by group members.

5. The Co-operative Method: It is initiated by Co-operative Development Forum (CDF) Hyderabad, which has relied upon a “Credit Union” model involving savings first strategy. It has built up a network of Woman Thrift Groups (WTGs) and Man Thrift Groups (MTGs). They are registered under Mutually Aided Co-operative Society Act (MACs) and mobilize savings resources from the members and access outside supplementary resources from the institutional systems.

Self Help Group: A SHG can be defined as “ a small group of people from rural areas and urban slums, come together with the intention of solving their socio-economic problem through the regular saving and having access to credit, which in turn will lead to livelihood generation with certain degree of self-sufficiency”

SBLP in India:

The SBL approach involves the formation of SHGs (mainly women). These women regularly save money that is placed in a local (general public sector) bank account. Creation of a safe avenue for savings is an attractive feature of SHGs, which has led to significant promotion of savings. The SHGs have a set of bye-laws devised and agreed by the members themselves. These include rules for monthly savings, lending procedures, periodicity and timing of meetings, penalties for default, etc. Meticulous Accounts and Records are maintained. The SHG itself operates like a small bank. The group lends money to its members. After a certain period of disciplined functioning, it becomes entitled to a loan from the bank where it has an account.

I. REGION - WISE Savings of and Loan Disbursement to SHGs through Bank Linkages

Table No. 1.1

Table showing Region-wise Distribution of Number of SHGs with Savings Linkage from 2011-12 to 2015 -16

Year	North Eastern Region	Northern Region	Central Region	Western Region	Eastern Region	Southern Region
2010-11	3,24,739	3,72,772	7,86,436	9,60,921	15,27,618	34,89,460
2011 - 12	3,66,718	4,09,326	8,12,767	10,62,087	16,25,714	36,83,737
2012 - 13	3,23,896	3,72,837	7,02,198	9,06,016	14,71,099	35,41,505
2013 – 14	3,16,299	3,65,208	6,85,929	8,96,954	14,68,786	36,96,324
2014 – 15	3,33,981	3,60,858	8,17,251	9,41,144	15,24,614	37,19,621
2015 - 16	4,29,823	3,93,475	8,15,653	10,18,049	17,00,106	35,45,896

Source: Status of Microfinance in India 2011-12 to 2015-16

The Table No.1 shows that the Southern region got highest number of SHGs with savings linkage in the study period. There is an increasing trend in number of SHGs with savings linkage up to 2011-12 in all the regions. From 2012-13 till the end of the study period the number of SHGs with savings linkage show a fluctuating trend.

Table No. 1.2

Table showing Region-wise Distribution of SHGs with Savings Linkage in amount from 2010 - 11 to 2015 -16

(Rs. in Crore)

Year	North Eastern Region	Northern Region	Central Region	Western Region	Eastern Region	Southern Region
2010 - 11	131.05	328.57	603.38	829.01	1,408.38	3,715.92
2011 - 12	152.52	252.77	613.58	871.94	947.26	3,713.35
2012 - 13	130.11	291.19	624.22	695.86	1,393.26	5,082.63
2013 - 14	128.82	282.95	790.56	929.91	1,526.55	6,238.62
2014 - 15	130.22	239.92	823.70	1,091.23	2,153.36	6,621.41
2015 - 16	190.26	450.14	841.09	1,057.04	2,483.52	8,669.34

Source: Status of Microfinance in India 2010-11 to 2015-16

The above table (No.2) shows that SHGs with Savings Linkage in amount from 2010 - 11 to 2015 -16. The southern region denotes highest amount of savings linkages with banks. North eastern region shows the lowest amount of savings linkages with banks.

Table No. 1.3

Table showing Region-wise Average Loan Disbursement in India

(Rs. per SHG)

YEAR	REGIONS						
	All India	Southern Region	Eastern Region	Northern Region	Central Region	Western Region	North Eastern Region
2010 - 11	1,21,623	1,51,459	65,402	88,843	1,24,666	68,068	81,655
2011 - 12	1,44,046	1,79,493	80,718	1,09,080	1,21,343	74,508	88,483
2012 - 13	1,68,757	2,05,262	70,570	1,09,413	1,08,895	1,00,803	71,606
2013 - 14	1,75,768	2,35,718	50,783	1,17,269	93,092	98,404	79,125
2014 - 15	1,69,608	2,13,083	93,690	97,777	1,01,536	1,20,279	84,056
2015 - 16	2,03,495	2,58,996	84,709	1,67,636	1,41,272	1,26,746	84,375

Source: Status of Microfinance in India 2007-08 to 2015-16

The overall average loan disbursement in India shows an increasing trend over the study period. Highest average loan disbursement is made to Southern region. Eastern and North eastern region shows lowest loan disbursement per SHG.

II. Savings of and Loan Disbursement to SHGs through Bank Linkages – ALL INDIA:

Table No. 1.4

Table showing the Number of SHGs with SAVINGS linkages and the number of SHGs disbursed with Loan – ALL INDIA

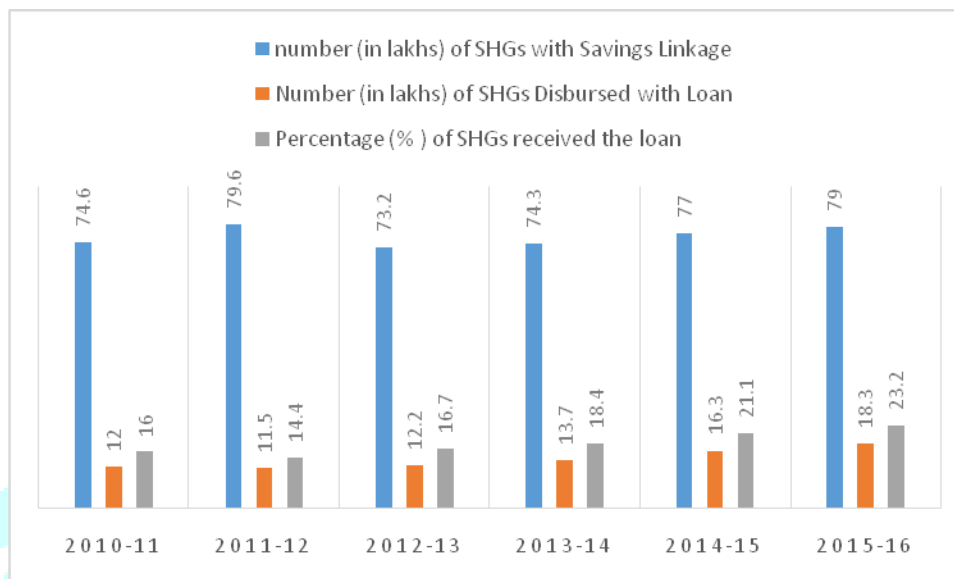
Year	Number (in lakhs) of SHGs with Savings Linkage	Number (in lakhs) of SHGs Disbursed with Loan	Percentage (%) of SHGs received the loan
2010-11	74.6	12.0	16.0
2011-12	79.6	11.5	14.4
2012-13	73.2	12.2	16.7
2013-14	74.3	13.7	18.4
2014-15	77.0	16.3	21.1
2015-16	79.0	18.3	23.2

Source: Status of Microfinance in India **2010-11 to 2015-16**

Firstly, the total number of SHGs with savings linkages along with the number of SHGs that were disbursed with loan at all India level is depicted in Table No.1.4. Accordingly, it is observed that there is an increase in the number of SHGs from 74.6 Lakh to 79.6 Lakh with savings linkages during 2011-12 and suddenly during 2012-13 it was reduced to 73.2 and there onwards it keep on increasing till the end of the study period.

There is a marginal decrease in number (in lakhs) of SHGs disbursed with Loan i.e., from 12 Lakh in 2010-11 to 11.5 Lakh in 2011-12. Later on it shows an increasing trend and reached 18.3 Lakh during 2015-16.

Percentage (%) of SHGs received the loan shows an increasing trend over the study period except 2011-12.

Graph No. 1.1**Graph showing the Number of SHGs with SAVINGS linkages and the number of SHGs disbursed with Loan – ALL INDIA**

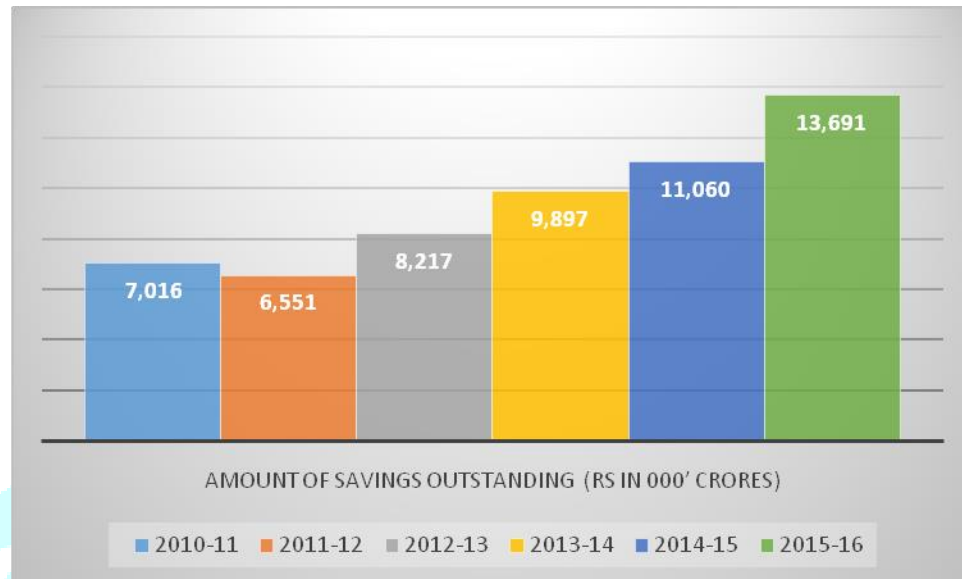
The above graph represents the number of SHGs with savings linkages and the number of SHGs disbursed with Loan at all India level. The number of SHGs with savings linkages is highest during 2011-12 i.e., 79.6 Lakhs, number of SHGs disbursed with Loan at all India level and the percentage of SHGs received the loan is highest during 2015-16 i.e., 18.3 Lakhs and 23.2% respectively.

B. Savings Outstanding:**Table No. 1.5****Table showing the Amount of Savings Outstanding – ALL INDIA**

Year	Amount of Savings Outstanding (Rs in 000' Crores)	Growth rate (in %)
2010-11	7,016	-
2011-12	6,551	- 6.7
2012-13	8,217	25.5
2013-14	9,897	20.4
2014-15	11,060	11.7
2015-16	13,691	23.8

Source: Status of Microfinance in India 2007-08 to 2015-16

The Table No. 1.5 shows an increasing trend in total savings outstanding of SHGs and annual growth rate except for the year 2011-12, where a marginal decline in savings outstanding from Rs.7,016 thousand crores to Rs 6,551 thousand crores and with a negative growth rate of 6.7 percent. It reaches Rs 13,691 thousand crores in 2015-16 with an annual growth rate of 23.8 percent.

Graph No.1.2**Graph showing the Amount of Savings Outstanding – ALL INDIA**

Graph No. 1.2 represents that the amount of Savings Outstanding at All India level. It shows an increasing trend over the study period except 2011-12.

C. Loan Disbursement:

Table No. 5.2 depicts the loan disbursement at the all India level to the SGHs over a period of time. Accordingly, it is observed that during 2006-07 and 2007-08, the total disbursement was Rs 6,570 crores and Rs.8,849 thousand crores with an annual growth rate of 34.7 percent. In continuation, a further increase in the total loan disbursement was observed in 2008-09 with a total amount of Rs 12,253 thousand crores. The growth rate during this period was 38.5 percent as compared to the previous year. Further increase in the loan disbursement is noticed during 2009-10 and 2010-11 respectively to Rs 14,453 thousand crores and Rs 14,548 thousand crores with a growth rate of 18 percent and 0.01 percent respectively.

Table No. 1.6**Table showing the Total Loan Disbursement to SHGs at All India level**

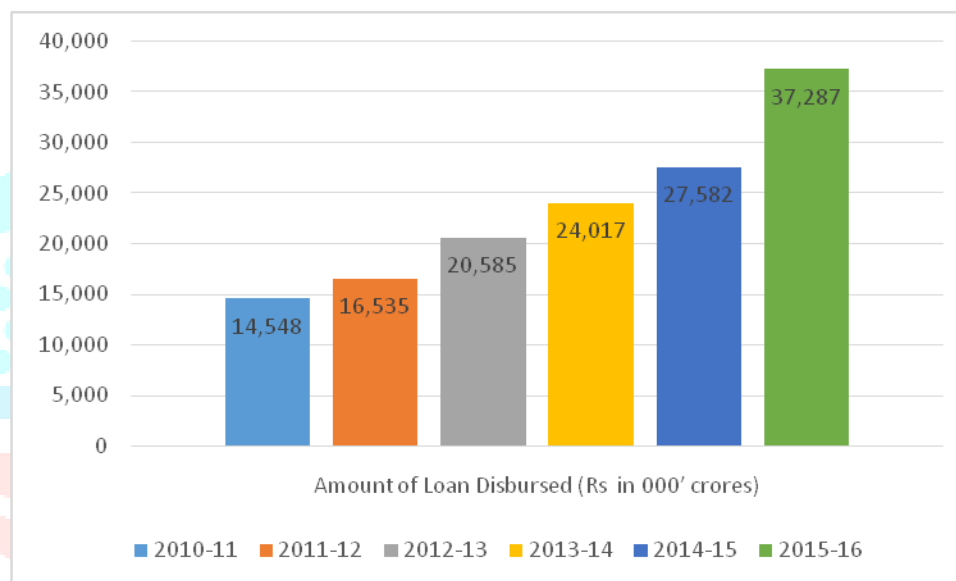
Year	Amount of Loan Disbursed (Rs in 000' crores)	Growth Rate (in %)
2010-11	14,548	0.01
2011-12	16,535	13.70
2012-13	20,585	24.50
2013-14	24,017	16.67
2014-15	27,582	14.84
2015-16	37,287	35.18

Source: Status of Microfinance in India 2007-08 to 2015-16

Table No.1.6 shows an increasing trend in amount of loan disbursed over the study period. It was Rs.14,548 thousand crores during 2010-11 and reaches Rs.37,287 Crores during 2015-16. But the growth rate was 0.01 percent in 2010-11 and shows an increasing trend till 2012-13 by reaching 24.50 percent. Then it shows declining trend till 2014-15 and reaches 14.84 percent. The growth rate increased to 35.18 percent in 2015-16 is the highest during the study period.

Graph No. 1.3

Graph showing the Total Loan Disbursement to SHGs at All India level



Graph No.1.3 shows an increasing trend in amount of loan disbursed over the study period. It was Rs.14,548 thousand crores during 2010-11 and reaches Rs.37,287 Crores during 2015-16.

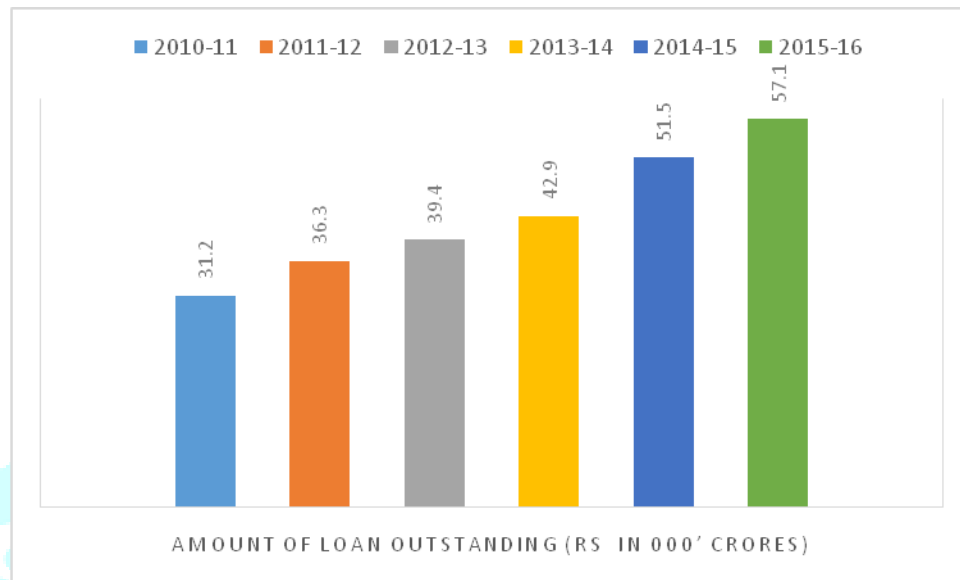
D. Loan Outstanding:

Table No. 1.7

Table showing the Total Bank Loan Outstanding from SHGs at All India level

Year	Amount of Loan Outstanding (Rs in 000' crores)	Growth Rate (in %)
2010-11	31.2	--
2011-12	36.3	16.34
2012-13	39.4	8.50
2013-14	42.9	8.80
2014-15	51.5	20.04
2015-16	57.1	10.87

Source: Status of Microfinance in India 2007-08 to 2015-16

Graph No. 1.4**Graph showing the Total Bank Loan Outstanding from SHGs at All India level**

Graph No.5.2 depicts the total loan outstanding of SHGs at the national level for six year period from 2010 -11 to 2015-16. The total Loan outstanding of SHGs at all India level was Rs.31.2thousand Crores during 2010-11 and showing increased trend during the study period and reached Rs.57.1 thousand Crores during 2015-16.

E. Non Performing Assets (NPA):**Table No. 1.8**

Table showing the Non Performing Assets against SHG Total Loans Outstanding under SHG-Bank Linkage Programme in India from 2010-11 to 2015-16

Years	%age of NPAs to Total Loans Outstanding
2010-11	4.72
2011-12	6.09
2012-13	7.08
2013-14	6.83
2014-15	7.40
2015-16	6.45

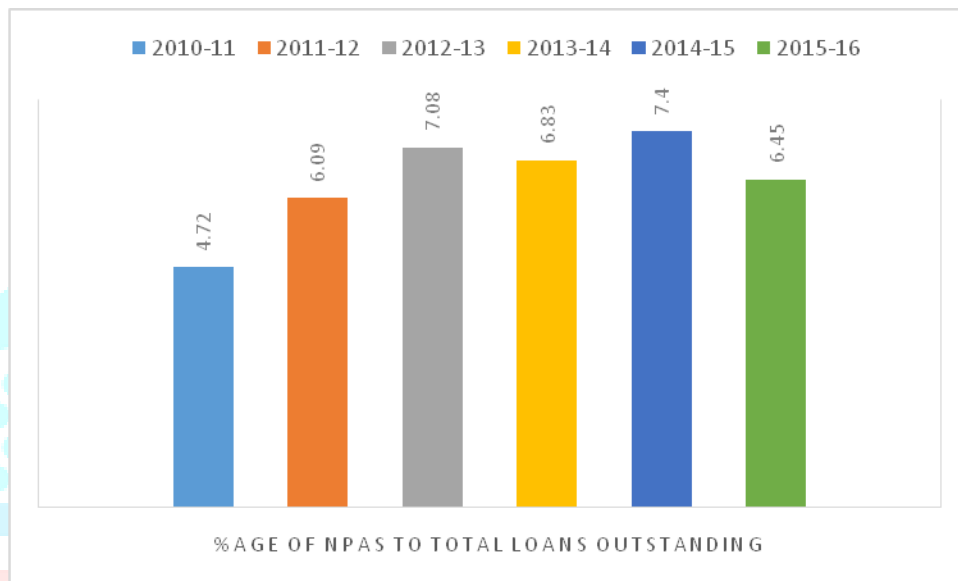
Source: Status of Microfinance in India **2007-08 to 2015-16**

Table No. 5.4 depicts the Non Performing Assets against Total Loans Outstanding at all India level by the SHGs over a period of time. The NPA was 4.72 percent during 2010-11 and shows an increasing trend till 2014-

15 and reaches 7.40 percent except 2013-14 where there was a marginal decline in NPA from 7.08 percent to 6.83 percent. during 2015-16 NPA declined to 6.45 percent.

Graph No.1.5

Graph showing the Non Performing Assets against SHG Total Loans Outstanding under SHG-Bank Linkage Programme in India from 2010-11 to 2015-16



Graph No. 1.5 shows an increasing trend in NPA against SHG Total Loans Outstanding under SBLP at all India level except 2013-14 and 2015-16. It was lowest during 2010-11.

Findings:

- Southern region stood highest in Region-wise Distribution of Number and amount of SHGs with Savings Linkage. Whereas, North Eastern and Northern region shows the lowest over the study period. This privilege is not according to the proportion of Number and percentage of persons by state below poverty lines in India.
- Total Loan Disbursement and Loan Outstanding shows the increasing trend over the study period.
- NPA to Total Loans Outstanding against SHGs is still high.

Suggestions:

- NABARD has to take severe steps to promote SHG- BLP in poor or Bhimaru States and maintain the SHGs activities equitable to all states on the proportion of number and percentage of persons who are below poverty line.

- NABARD should insist all SHPIs to maintain the sustainability in loan disbursement
- Proper measures to be taken to reduce the NPA level.

Conclusion:

SHG-BLP is the most accepted and profitable model showing favourable performance. The sustainability of this SHG-BLP is achieved with the grand network mechanism among the stakeholders. There are some issues which can be resolved with proper measure by the SHPIs and NABARD, Government of India.

