



Micro Finance: SHG-Bank Link Programme- Some Analytical Issues

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Introduction

The process of economic development is crucially dependent upon the availability of timely and cost-effective credit for production purposes. It is observed that in developing countries, lack of credit is the main cause of untapped entrepreneurial skills and low levels of income and standards of living. It has been a long-held view that the rural masses are unbankable customers and hence the formal credit providing institutions like the commercial banks were not ready to lend these customers, numerous in number, but insignificant in the amounts they deal with. It is generally held that the transaction costs of these accounts would be far greater than the business that can be generated. Thus, many of the poor families in rural, semi-urban, and urban areas were forced to depend on the informal sector for their credit needs, both for production and consumption purposes. This entailed higher interest rates, stringent repayment conditions, which often resulted in the loss of assets when the borrowers failed to make the repayments. In section II of the paper, we explain the genesis of the microfinance institutions, and important milestones in their development in India during 2010 and 2022. Section III discusses the SHG-Bank Linkage Programme initiated to strengthen the microfinance movement in India. Section IV explains the regional dimensions of this programme and the lacune therein. Section V explains the development of SHG-Bank Linkage programme in the state of Andhra Pradesh. Section VI concludes.

Evolution of the Micro finance Institutions

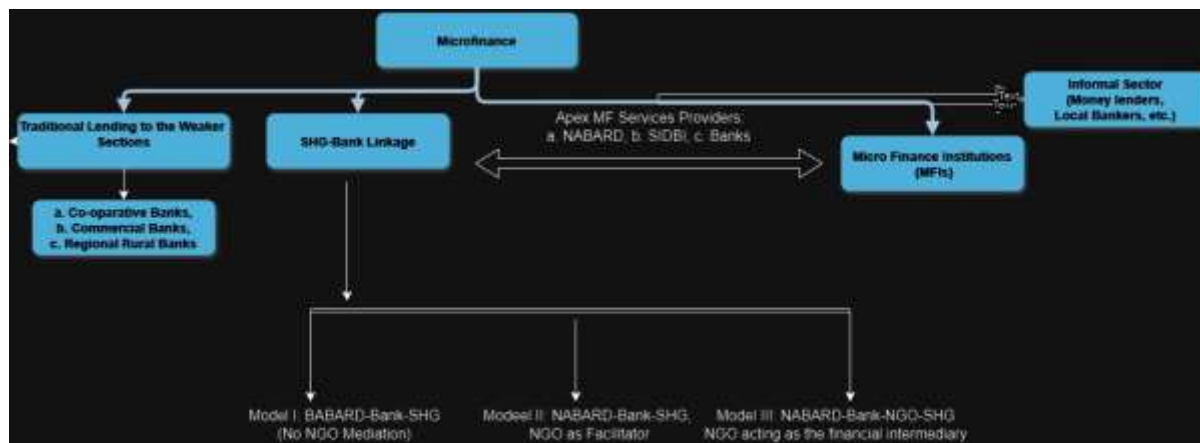
Studies have shown that providing timely credit is a crucial element in poverty alleviation and the process of economic development. Many of the rural and urban entrepreneurs could not access the institutional sources of credit like the commercial banks. The co-operative banks were largely confined to providing agricultural credit. Thus, there was a vast reservoir of un-baked segment of the economy, which required credit in small quantities to improve their living conditions, through self-employment. The first attempt in India to address this malady has been the nationalisation of commercial banks in 1969 and 1980. With the

nationalisation of the twenty major commercial banks, where, the government could direct the financing of the small and marginal borrowers through the 'Priority Sector Lending' targets. This was done through the specification that a rural branch has to be opened for every new branch in the urban areas. The government supplemented this with the creation of the Regional Rural Banks (RRBs), the Small Industries Development Bank of India (SIDBI), and by strengthening the co-operative credit institutions. However, all these efforts, in spite of their impressive progress, could not fill-in the credit gap that the most of the needy borrowers were facing. This led to a realisation that a new system of credit provisioning is required to meet the production and consumption needs of the small and marginal borrowers in both the rural and urban areas.

The earliest microfinance initiative in India was the "Shri Mahila SEWA (Self-Employed Women's Association) Sahakari Bank", which is established in 1974. "The Working Women's Forum" of Tamil Nadu is the second successful microfinance institution in India. The impetus for this initiative came from the 'Grameen Bank' created by Prof. Mohammed Yunis of the Chittagong University. In this case, small loans are extended to a group of women entrepreneurs, to meet their productive and when necessary, consumption needs as well. This arrangement is that, ten to 15 women will form a group. This group is known as the Self-Help Group (SHG). The objective of this group is to promote thrift among the members, allow them to access bank credit as a group and to repay the loans on timely basis. In other words, the SHG can be seen as a co-operative enterprise with mutual co-operation and collective responsibility of all the members. It is to be noted that the members, upon forming a group, will have to show a track record of regular thrift, though not in large sums to facilitate the access to the credit from the financial institutions. This is to make them feel responsible for the credit borrowed and the need for timely repayment of the loans. It is to be noted that the concept of microfinance as seen by 'The Task Force on Supportive Policy and Regulatory Framework for Microfinance (NABARD, 1999)', recognises the need to provide products and services that are needed by the very numerous borrowers of the SHGs needing small amounts, and also to provide supportive services, capacity building, for their effective operation. The objective of the microfinance is to provide credit to the poor in the rural, semi-urban and urban areas to engage in productive activities that will enable them to improve their incomes and their standards of living. Thus, micro finance can be seen as an effective alternative to commercial lending. The earliest attempt at regulating the operations of the micro finance institutions was made by the state of Andhra Pradesh in 2011 by passing "The Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act in 2011. The Malegam Committee of the RBI incorporated many of these provisions in their recommendations. This is recognised as the main cause of Andhra Pradesh emerging as the center of microfinance.

In Figure. 1 we show the organisation of the various microfinance institutions.

Figure.1. Organisation of Microfinance Institutions:



From the above figure, it can be seen that in India, we have adopted models that operate with and without the NGOs involved in the process of providing microfinance. The NFOs play an important role in facilitating the activities of the self-help groups. Because of their reach in many rural and semi-urban areas, they help to co-ordinate the activities and access to the banking services.

The Self-Help Group- Bank Linkage {Programme (SHG-BLP)

We now turn to the important milestones in the evolution of the microfinance institutional framework in India. They are as under:

- a. **SHG-Bank Linkage Programme:** This programme is launched by the NABARD in February 1992 with the support of the Reserve Bank. This scheme is essentially to overcome the failure to provide credit to large sections of the society through the traditional banking channels. Under this scheme, small groups of poor, forming a collective known as the Self-Help Group (SHG), are allowed to pool their savings, open bank accounts and access credit on the basis of the deposits made by them. As shown in Figure 1, this may involve the NGOs as well. More importantly, the members of SHGs are allowed to maintain individual “no-frills” accounts as well to promote thrift.
- b. **Microfinance Development Fund:** In March 2003, with the initiative of the RBI and the NABARD, a fund was created with a corpus of Rs. 100 crore for the promotion and development of microfinance sector. The RBI and NABARD provided Rs. 40 crore each. Rs. twenty crore were provided by eleven nationalised banks. This fund allows training the members of the SHGs and NGOs and help them to overcome the problems faced in the initial stages of setting up of the groups. It also facilitates designing of new methods of credit delivery mechanisms. The fund is being used to scale-up the activities of the SHGs. As part of this, NABARD also entered into external agencies like the Swiss Agency for Development Cooperation (SDC),
- c. **The Micro Finance Sector (Development and Regulation) Bill 2007:** This bill proposes to provide for the promotion, development and an orderly growth of the microfinance sector. It proposes to provide financial services to individual clients upto specified amounts through Banking Correspondents. It also proposes to provide life and general insurance and pension services to the members of the SHGs.

- d. Creation of Non-Bank Financial Companies- Micro Finance Institutions (NBFC-MFI): In 2011, the RBI has allowed these institutions following the recommendations of the Y.H. Malegam Committee on the micro-finance institutions. The committee after defining such institutions, prescribed regulations for their operations and the interest that can be charged and the process of recovery as well. Most importantly, it is stipulated that no borrower can access funds from more than two MFIs at a time. This is important in light of the experience of debt burden of the poor as they borrow from multiple lenders.
- e. Micro Finance Institutions (Development and Regulation) Bill 2012: This Bill allows the creation of a Micro-Finance Development Council (MFDC) by the central government to advise on policies and measures to strengthen the microfinance institutions. The state-level and district level committees are to be set up to facilitate an orderly growth and effective management of the MFIs. Apart from creating a Micro-Finance Development Fund (MFDF), the Reserve Bank is also made responsible for grievance redressal.
- f. Micro Finance Institutions' Network (MFIN): In 2014, the Reserve Bank recognised the MFIN as a self-regulatory organisation (SRO) for providing financial services to the small and marginal borrowers through the MFIs.
- g. Launching of Small Finance Banks (SFBs) and Micro Units Development and Refinance Agency (MUDRA) 2015: In 2015, the RBI has allowed Bandhan Bank, the then largest MFI to provide universal banking services under the category of small finance banks. MUDRA was launched to meet the micro credit needs of the different micro units to meet both the fixed and working capital requirements, subject to certain ceilings.

Regional Spread of the SHG-Bank Linkage Programme

It is important to note that the regional spread of the SHG-Bank Linkage Programme is observed to be plagued with disproportionate spread across the five regions of the country. In Table 1., we provide data on the number of SHGs covered under the Bank-Linkage Programme and the credit accessed by them during selected years. We also provide the growth rates for both the number of SHGs covered and the credit accessed by them during the thirteen-year period under study.

Table 1: Regional spread of SGH-Bank Linkage Programme (2010-11 to 2022-23) (Bank credit in Rs. lakh):

Year/ Region		Central	Eastern	North eastern	Northern	Southern	Western	All India
2010-11	Number	5,27,618	1,62,514	3,24,738	3,72,772	34,89,466	9,6,6921	74,61,946
	Bank Credit	1,40,838	94,726	11,105	32,857	3,71,335	82,901	7,01,630
	Average	26,694	92,125	34,197	88,142	1,06,490	85,737	94,028
2015-16	Number	84,282	4,12,576	26,037	38,106	11,50,797	97,341	18,32,323
	Bank Credit	1,19,067	3,49,489	21,969	48,296	30,01,235	1,17,080	37,28,698
	Average	1,71,272	84,709	84,375	1,26,746	2,58,996	1,20,279	2,03,495
2020-21	Number	1,28,617	11,24,578	68,116	67,658	13,37,266	1,74,218	28,87,394

	Bank Credit	1,05,428	14,87,551	1,03,651	94,045	37,86,063	2,49,327	58,07,068
	Average	81,971	1,32,276	1,52,168	1,39,001	2,83,120	1,43,112	2,01,118
2022-23	Number	2,78,359	16,34,604	1,23,602	1,02,931	18,28,772	2,73,253	42,95,521
	Bank Credit	4,63,873	33,38,333	3,13,764	2,06,439	95,22,872	6,75,144	1,45,20,023
	Average	166574	2,04,229	2,53,850	2,00,529	5,05,779	2,47,077	3,38,027
2010-23	Number	1,07,099	1,17,171	1,17,171	1,07,581	18,53,358	3,36,630	27,18,168
	Bank Credit	1,28,288	75,800	75,800	68,325	34,18,640	6,65,613	43,64,614
	Average	1,19,340	1,06,570	99,880	1,06,358	2,39,834	2,84,836	1,64,005

From the above table, it can be seen that the spread of SHG-Bank Linkage Programme has not been uniform across the country. We consider this as another case of the failure of the policy-makers to ensure that the benefits of a scheme reach the intended beneficiaries. The growth of both the number of the SHGs and the credit extended to them under the SHG-BLP needs much to be desired. We provide the relative growth rates in the number of SHGs, credit extended under the BLP, and the average credit across the six regions of the country. Table 2 provides these data.

Table 2: Average Growth in the SHG-Bank Linkage Programme (2010-11 to 2022-23) (Bank Credit in Rs. Lakh):

Year	2010-11 to 2022-23		
Region	Number of SHGs	Bank Credit to SHGs	Average Credit
Central	11.60	8.19	-3.06
Eastern	20.24	38.25	14.98
Northeastern	-8.32	20.67	31.64
Northern	-5.59	15.92	0.74
Southern	10.01	28.02	16.36
Western	-8.26	26.06	37.41
All India	-0.22	27.85	28.13

Source: Authors' calculations from the NABARD Reports.

From the above table it can be seen that in three out of the six regions, the number of SHGs has posted a negative growth. Except for the eastern and southern regions, the growth rate of bank credit to these groups has been below the national average. The average credit to each of the SHGs has posted a less than average growth in four of the six regions, with the central region recording a negative growth and the northern zone remaining stagnant at 0.74 per cent.

The data indicate a need for serious re-examination of the SHG-BLP to be far more effective and to ensure a balanced growth path for all the intended beneficiaries.

SHG-Bank Linkage Programme on Andhra Pradesh

The spread of SHG-Bank Linkage Programme has been very impressive in Andhra Pradesh. The various initiatives of the government like the DWACRA, gave the state an early start in this direction. Many of these measures were extended to the entire country following the Y.H. Malegam Committee Report. However, we can see that though the state has made steady progress, there is still an element of iniquitous spread of the SHG movement. While the state of Andhra Pradesh recorded a 9.44 percent in the number of SHGs linked to the banks, eleven districts, Chittoor, Visakhapatnam, Vizayanagaram, Srikakulam, and seven other districts have lagged in the progress of SHG-BLP. The north-eastern Andhra Pradesh is a traditionally backward region and the problem seems to continue even after nearly three decades of the SHG movements.

Conclusions

It is important to note that the microfinance initiatives under the Reserve Bank and NABARD have made a remarkable progress and played a pivotal role in addressing the problem of poverty. These initiatives are now synchronised with the poverty alleviation programmes under the National Rural Livelihood Mission and the Urban Livelihood Missions. It is to be noted that these are intended to support the entrepreneurial skills of the women and help them to be economically and financially independent, rather than doling out some welfare funds.

The spread of the movement in the southern region can be attributed to the traditional society that allowed a larger role for the female members of the family. The northern India is generally not disposed to giving freedom to the female members of the family. Further studies in this direction would help to devise more effective scheme in addressing the problem of poverty.

Also, further studies should focus on the regional disparities in the spread of the SHG-BLP in Andhra Pradesh itself.

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