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NPAs OF SHG-BANK LINKAGE PROGRAMME IN INDIA

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ABSTRACT

Microfinance operations span across 641 districts across 36 States and Union Territories in India. Banks lead with a presence in 636 districts, followed by Small Finance Banks (SFBs) in 616 districts, and Non-Banking Financial Companies - Microfinance Institutions (NBFC-MFIs) in 613 districts. NBFCs operate in 538 districts, while Non-profit Microfinance Institutions (MFIs) are active in 384 districts. The study provides a comprehensive analysis of the SHG-Bank Linkage Programme in India from 2017-18 to 2022-23, focusing on Non-Performing Assets (NPAs) as key performance indicators. The objectives include examining trends in Gross NPAs, NPA as a percentage of Loan Outstanding, and regional variations. Secondary data from NABARD's annual reports on microfinance in India served as the primary data source. Growth rates were computed to analyze year-on-year changes. The findings reveal fluctuating Gross NPAs over the study period, reflecting varying asset quality and repayment performance. NPA as a percentage of Loan Outstanding decreased consistently from 6.12 per cent in 2017-18 to 2.79 per cent in 2022-23, indicating improved credit risk management. Regional analysis showed diverse NPA trends, with some regions demonstrating significant improvements while others faced ongoing challenges.

Keyword: SHG-BLP, NPAs, different regions

Microfinance initiatives, such as the Self-Help Group (SHG) - Bank Linkage Programme, play a pivotal role in fostering financial inclusion and empowering marginalized communities across India. These programs aim to provide access to credit and financial services to individuals who are typically excluded from traditional banking systems. Central to the effectiveness of such initiatives is the management of Non-Performing Assets (NPAs), which directly impact the sustainability and success of microfinance operations. Microfinance operations span across 641 districts across 36 States and Union Territories in India. Banks lead with a presence in 636 districts, followed by Small Finance Banks (SFBs) in 616 districts, and Non-Banking Financial Companies - Microfinance Institutions (NBFC-MFIs) in 613 districts. NBFCs operate in 538 districts, while Non-profit Microfinance Institutions (MFIs) are active in 384 districts. The penetration of microfinance remains below 10 per cent in regions such as Jammu & Kashmir, coastal Maharashtra, Western Uttar Pradesh, and Uttarakhand, whereas it is higher in Southern states like Tamil Nadu, Karnataka, Kerala, and Eastern states such as West Bengal, Odisha, and Bihar.

Out of the 124 aspirational districts identified, micro-lenders operate in 113 districts, with microfinance penetration ranging between 25 per cent to 50 per cent. In the fiscal year 2022-23, banks reported adding 15 lakh savings-linked Self-Help Groups (SHGs) at the national level, marking a 13 per cent growth from the previous year. Regionally, all regions except the Southern region saw growth in savings-linked SHGs during this period, with the Central region leading at 35 per cent growth and the Western region at 14 per cent. The Southern region experienced a slight decline due to program saturation. In terms of the percentage share of savings-linked SHGs in 2022-23, the Southern region held the highest share at 31 per cent, followed by the Eastern region at 29 per cent, and the Western region at 14 per cent.

Detailed state-wise data on the number of SHGs savings-linked with banks is provided in Statement IIA. Maharashtra has the highest number of SHGs at 15.15 lakh, followed by West Bengal (14.44 lakh), Bihar (11.10 lakh), and Andhra Pradesh (10.81 lakh). During the fiscal year 2022-23, West Bengal added the highest number of SHGs (3.61 lakh), followed by Chhattisgarh (2.26 lakh) and Maharashtra (1.81 lakh). However, negative growth was observed in Telangana, Tamil Nadu, and Punjab during the same period.

Studying Non-Performing Assets (NPAs) holds critical importance in the realm of financial management and economic stability. NPAs are indicators of loans that borrowers have defaulted on, leading to potential losses for financial institutions. Understanding NPAs is essential for assessing the health of financial institutions, including banks and microfinance entities, as high levels of NPAs can impair profitability, reduce lending capacity, and weaken overall financial stability. By analyzing NPAs, institutions can implement effective risk management strategies to mitigate future defaults, thereby safeguarding their financial health and enhancing their ability to support economic activities through continued lending. Moreover, studying NPAs helps in improving resource allocation efficiency, ensuring that capital is utilized effectively for productive purposes rather than being tied up in non-performing loans. From a regulatory perspective, insights into NPAs aid policymakers in formulating prudent lending practices and regulatory frameworks that promote stability and resilience within the financial system. Furthermore, in the context of microfinance and inclusive finance initiatives like the SHG-Bank Linkage Programme in India, understanding NPAs is crucial for sustaining efforts to provide access to financial services to underserved populations, thereby contributing to poverty alleviation and inclusive economic growth. Overall, studying NPAs is integral to fostering a robust and sustainable financial ecosystem that supports economic development and enhances trust and confidence among stakeholders.

Objectives of the Study

This study aims to comprehensively analyze the performance of the SHG-Bank Linkage Programme in India from 2017-18 to 2022-23, focusing on key metrics related to Non-Performing Assets (NPAs). The specific objectives include examining the trends and fluctuations in: Firstly, the Gross NPAs within the programme, providing insights into the absolute amounts of NPAs over the six-year period. Secondly, the study investigates the NPA as a percentage of Loan Outstanding, offering a critical indicator of asset quality and loan repayment performance. Thirdly, the regional distribution of NPAs across Northern, NE, Eastern, Central, Western, and Southern regions of India participating in the programme. Lastly, the study examines the regional NPA percentages to Loan Outstanding, offering a nuanced understanding of how different regions contribute to the overall program's performance and highlighting areas where targeted interventions may be needed to improve loan recovery rates and reduce NPAs.

Methodology

The study utilizes secondary data sourced primarily from the annual reports of NABARD on the status of microfinance in India from 2017-18 to 2022-23. These reports are considered reliable and comprehensive sources of information regarding the SHG-Bank Linkage Programme, providing detailed insights into financial performance metrics including NPAs. The analytical approach involves computing growth rates for each metric to analyze year-on-year changes and trends. Growth rates serve as a vital tool for understanding the dynamics of NPAs within the programme, offering a comparative perspective on performance across different years and regions.

Results and discussion

Amount of gross NPAs of SHG-bank linkage programme

Table-1 outlines the trend of Gross NPAs (Non-Performing Assets) within India's Self-Help Group (SHG) - Bank Linkage Programme from the fiscal year 2017-18 to 2022-23, accompanied by corresponding growth rates. Starting at ₹4,62,805.51 lakh in 2017-18, the NPAs marginally decreased to ₹4,52,401.05 lakh in 2018-19, reflecting a modest decline of 2.25 per cent. However, the subsequent year witnessed a notable increase to ₹5,32,170.42 lakh in 2019-20, marking a growth rate of 17.63 per cent. This surge was followed by a decline in 2020-21 to ₹4,88,921.34 lakh, showing an 8.13 per cent decrease, suggesting fluctuations in asset quality and repayment performance.

The fiscal year 2021-22 recorded a significant rise in Gross NPAs to ₹5,74,371.00 lakh, representing a growth rate of 17.48 per cent. Conversely, the latest available data for 2022-23 indicates a decrease to ₹5,24,934.00 lakh, marking an 8.61 per cent decline. These variations underscore a cyclical pattern in NPAs within the SHG-Bank linkage programme, influenced by economic conditions, loan repayment behaviors, and regulatory factors.

The overall trend suggests a mixed performance in managing NPAs over the years, with alternating periods of increase and decrease. The increase in NPAs during 2019-20 and 2021-22 may reflect economic challenges or shifts in borrower repayment capabilities within the SHG sector. Conversely, the declines observed in 2020-21 and 2022-23 indicate efforts to mitigate NPAs, possibly through improved credit management or supportive policy interventions.

In conclusion, while the SHG-Bank linkage programme plays a crucial role in facilitating financial inclusion and empowerment, the management of NPAs remains a critical area for sustained effectiveness. The recent decrease in NPAs in 2022-23 suggests ongoing efforts to stabilize asset quality and enhance the programme's resilience against economic uncertainties, essential for fostering sustainable microfinance practices and ensuring financial stability within SHGs across India.

Table – 1

AMOUNT OF GROSS NPAs of SHG-BANK LINKAGE PROGRAMME IN INDIA FROM 2017-18 TO 2022-23

(₹ in lakh)

Year	Amount of Gross NPAs (₹ Lakh)	Growth rate
2017-18	462805.51	-
2018-19	452401.05	-2.25
2019-20	532170.42	17.63
2020-21	488921.34	-8.13
2021-22	574371.00	17.48
2022-23	524934.00	-8.61

Source: Annual Reports of NABARD on Status of Microfinance in India from 2017-18 to 2022-23 Mumbai.

NPA as percent to loan outstanding

Table-2 presents a detailed overview of Non-Performing Assets (NPA) as a percentage of Loan Outstanding within India's microfinance sector from 2017-18 to 2022-23, along with the corresponding annual growth rates. Starting at 6.12 per cent in 2017-18, the NPA percentage saw a significant reduction to 5.19 per cent in 2018-19, marking a decrease of 15.20 per cent. This decline continued over the following years, with the NPA percentage dropping to 4.92 per cent in 2019-20 (-5.20 per cent growth), 4.73 per cent in 2020-21 (-3.86 per cent growth), and further to 3.80 per cent in 2021-22 (-19.66 per cent growth). The most notable decrease occurred in 2022-23, reaching 2.79 per cent, reflecting a substantial 26.58 per cent reduction compared to the previous year. These consistent decreases highlight a positive trend in the microfinance sector, indicating improved asset quality and enhanced loan repayment performance among borrowers. Such improvements are crucial for the sustainability and effectiveness of microfinance initiatives in promoting financial inclusion and supporting economic empowerment, particularly among underserved communities.

Overall, the data underscores the resilience and maturation of India's microfinance landscape, where decreasing NPAs as a percentage of Loan Outstanding signify strengthened institutional capabilities and a more robust framework for managing credit risk. Moving forward, continued efforts to maintain these positive trends will be crucial for sustaining the sector's growth trajectory, ensuring broader financial access, and fostering inclusive economic development across the country.

Table – 2
NPA AS PERCENT TO LOAN OUTSTANDING IN INDIA FROM 2017-18 TO 2022-23

Year	NPA as percent to Loan o/s	Growth rate
2017-18	6.12	-
2018-19	5.19	-15.20
2019-20	4.92	-5.20
2020-21	4.73	-3.86
2021-22	3.80	-19.66
2022-23	2.79	-26.58

Source: Annual Reports of NABARD on Status of Microfinance in India from 2017-18 to 2022-23 Mumbai.

Region-wise NPA amount of SHG-bank linkage programme

Table-3 provides a detailed overview of Non-Performing Assets (NPA) within India's Self-Help Group (SHG) - Bank Linkage Programme across different regions from 2017-18 to 2022-23, highlighting both the NPA amounts in lakh rupees and their respective growth rates annually. In respect of Northern Region, it is observed that starting at ₹19,216.31 lakh in 2017-18, the region experienced fluctuations over the years, with a notable decrease to ₹15,694.00 lakh in 2022-23 (-13.26 per cent growth). In Northeast (NE) Region, it is observed that beginning at ₹17,435.04 lakh in 2017-18, the NE region also saw fluctuations, ending at ₹22,486.00 lakh in 2022-23 (-18.11 per cent growth). In Eastern Region, it is noticed that starting at ₹83,752.01 lakh in 2017-18, the Eastern region peaked at ₹1,00,010.00 lakh in 2022-23 (-15.46 per cent growth). In Central Region, it can be seen that beginning at ₹53,393.04 lakh in 2017-18, the Central region decreased to ₹49,739.00 lakh in 2022-23 (-21.86 per cent growth). This decline suggests improvements in NPA management strategies despite ongoing challenges in maintaining loan quality and recovery rates. In Western Region, it is found that starting at ₹31,854.73 lakh in 2017-18, the Western region showed stability, ending at ₹35,396.00 lakh in 2022-23 (-8.22 per cent growth). This region's relatively consistent performance indicates effective NPA management efforts, possibly benefiting from local economic stability and robust borrower support systems. In Southern Region, it is noticed that beginning at ₹2,57,154.38 lakh in 2017-18, the Southern region decreased to ₹3,01,608.00 lakh in 2022-23 (-2.17 per cent growth). This region demonstrated resilience in NPA management despite economic variations, reflecting strong institutional practices and effective borrower engagement strategies.

Table – 3
REGION-WISE NPA AMOUNT OF SHG-BANK LINKAGE PROGRAMME IN INDIA FROM 2017-18 TO 2022-23

(₹ in lakh)

Year	Northern Region	NE Region	Eastern Region	Central Region	Western Region	Southern Region
2017-18	19216.31 (-)	17435.04 (-)	83752.01 (-)	53393.04 (-)	31854.73 (-)	257154.38 (-)
2018-19	20607.80 (7.24)	27500.92 (57.73)	85786.01 (2.43)	61315.44 (14.84)	30574.16 (-4.02)	226616.72 (-11.88)
2019-20	21206.67 (2.91)	26914.18 (-2.13)	101495.28 (18.31)	56612.66 (-7.67)	33564.66 (9.78)	292376.97 (29.02)
2020-21	17133.33 (-19.21)	28366.44 (5.40)	115888.80 (14.18)	52551.46 (-7.17)	32917.18 (-1.93)	242064.13 (-17.21)
2021-22	18094.00 (5.61)	27458.00 (-3.20)	118293.00 (2.07)	63650.00 (21.12)	38566.00 (17.16)	308310.00 (27.37)
2022-23	15694.00	22486.00	100010.00	49739.00	35396.00	301608.00

Year	Northern Region	NE Region	Eastern Region	Central Region	Western Region	Southern Region
	(-13.26)	(-18.11)	(-15.46)	(-21.86)	(-8.22)	(-2.17)

Note: Figures in the parenthesis represent growth rates

Source: Annual Reports of NABARD on Status of Microfinance in India from 2017-18 to 2022-23 Mumbai.

Region-wise NPA as percent to loan outstanding

Table-4 provides a detailed examination of Non-Performing Assets (NPA) as a percentage of Loan Outstanding across various regions in India participating in the SHG-Bank Linkage Programme from 2017-18 to 2022-23, accompanied by annual growth rates. Beginning with the Northern region at 22.12 per cent in 2017-18, there has been a consistent decline to 7.48 per cent by 2022-23, representing a significant 31.63 per cent reduction. This substantial improvement suggests effective strategies in managing loan quality and enhancing borrower repayment capabilities within the region. Similarly, the Northeast (NE) region, starting at 19.58 per cent in 2017-18, also demonstrated notable progress with a decrease to 5.76 per cent in 2022-23, marking a substantial 50.43 per cent decline.

In the Eastern region, which began at 7.17 per cent in 2017-18, the NPA percentage decreased to 2.50 per cent by 2022-23, reflecting a steady 25.37 per cent reduction. This trend indicates effective risk management practices and proactive measures to maintain loan quality and borrower engagement over the years. Conversely, the Central, Western, and Southern regions started with varying NPA percentages in 2017-18 (24.70 per cent, 13.43 per cent, and 4.46 per cent respectively) and similarly demonstrated significant declines by 2022-23. The Central region saw a decrease to 9.71 per cent (-50.38 per cent growth), the Western region reduced to 5.15 per cent (-39.98 per cent growth), and the Southern region decreased to 2.32 per cent (-21.62 per cent growth). These improvements highlight robust financial management practices and supportive economic environments that facilitate sustainable microfinance activities and strengthen borrower repayment behaviors. Overall, the data underscores a positive trajectory in NPA management across India's regions within the SHG-Bank Linkage Programme. It reflects the sector's resilience in navigating challenges and implementing effective strategies to enhance financial stability and promote inclusive growth.

Table – 4

REGION-WISE NPA AS PERCENT TO LOAN OUTSTANDING IN INDIA FROM 2017-18 TO 2022-23

Year	Northern Region	NE Region	Eastern Region	Central Region	Western Region	Southern Region
2017-18	22.12 (-)	19.58 (-)	7.17 (-)	24.70 (-)	13.43 (-)	4.46 (-)
2018-19	20.74 (-6.24)	33.08 (68.95)	5.19 (-27.62)	30.59 (23.85)	12.39 (-7.74)	3.53 (-20.85)
2019-20	17.35 (-16.35)	26.08 (-21.16)	4.46 (-14.07)	25.15 (-17.78)	11.07 (-10.65)	3.76 (6.52)
2020-21	13.93 (-19.71)	20.07 (-23.04)	4.47 (0.22)	20.83 (-17.18)	10.01 (-9.58)	3.52 (-6.38)
2021-22	10.94 (-21.46)	11.62 (-42.10)	3.35 (-25.06)	19.57 (-6.05)	8.58 (-14.29)	2.96 (-15.91)
2022-23	7.48 (-31.63)	5.76 (-50.43)	2.50 (-25.37)	9.71 (-50.38)	5.15 (-39.98)	2.32 (-21.62)

Note: Figures in the parenthesis represent growth rates

Source: Annual Reports of NABARD on Status of Microfinance in India from 2017-18 to 2022-23 Mumbai.

Conclusion

The Gross Non-Performing Assets (NPAs) of the SHG-Bank Linkage Programme in India fluctuated significantly over the period from 2017-18 to 2022-23, showing alternating periods of increase and decrease, reflecting varying levels of asset quality and repayment performance within the program. NPA as a percentage of Loan Outstanding in India's microfinance sector consistently decreased from 6.12 per cent in 2017-18 to 2.79 per cent in 2022-23. This decline reflects a significant improvement in asset quality and loan repayment performance over the six-year period, indicating effective management of credit risk within the microfinance institutions participating in the SHG-Bank Linkage Programme. NPA amounts in various regions of India participating in the SHG-Bank Linkage Programme showed diverse trends from 2017-18 to 2022-23. While specific regions experienced fluctuations in NPA levels year-on-year, overall trends indicated a downward trajectory in most regions by 2022-23. This suggests varying degrees of success in managing Non-Performing Assets across different geographical areas, influenced by local economic conditions, institutional practices, and regulatory interventions aimed at enhancing loan recovery and borrower support within the microfinance sector. NPA as a percentage of Loan Outstanding across different regions of India's SHG-Bank Linkage Programme consistently decreased from 2017-18 to 2022-23. This decline indicates significant improvements in asset quality and loan repayment performance in all regions, reflecting effective risk management practices and enhanced borrower creditworthiness over the six-year period.

The regional analysis of NPAs in the SHG-Bank Linkage Programme underscores the diverse economic and operational landscapes influencing microfinance outcomes across India. While some regions show improved NPA management and stability, others face ongoing challenges, indicating the need for targeted interventions tailored to regional dynamics. Efforts to strengthen credit assessment frameworks, enhance borrower financial literacy, and adapt strategies to local economic conditions will be crucial in sustaining positive trends and fostering inclusive economic growth through microfinance initiatives nationwide.

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