

The Role of Self Help Groups-Bank Linkage Programmes In The Financial Inclusion Efforts In India

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Abstract: *India is the second fastest developing country of the globe and the Indians should be proud of this achievement. But when it's said that India is growing, there comes the question, whether India is really growing? It was shocking when a news recently appeared in the newspapers stating that "more than fifty percent of the total wealth of the country is held by the top 8 billionaires", whereas the remaining billions of people hold just a meagre amount of fifty percent remaining. Is this the symbol of real development? When one speaks about economic progress and development, it is the development of the rural India that should be looked for as it is considered to be the "heart of India". That is the reason why the country has so many schemes and initiatives introduced by government, private agencies, NGOs, financial institutions to bring in economic parity and the reduce the financial gap. One such effort of financial inclusion is the Self Help Group- Bank Linkage Program (pioneered by NABARD). This work is an effort to study the details of this program and to understand to what extent it has served its purpose and how far it needs to go further to complete its mission. The researcher has used last 5 years data available from the NABARD website for arriving at a conclusion. The study opens up opportunity to future researchers to conduct a deeper analysis, possibly with the help of a survey, to understand the actual cause of the failure of many of such schemes and what can be done to achieve the end result.*

Keywords: *Financial Inclusion, SHG, BLP, Economic development*

I. INTRODUCTION

When one looks at the history of India, he/she can see that it is one of those countries which has a rich heritage to speak about, but now is struggling under extreme conditions of poverty and economic disparity. The reason for this remains unclear. The situation can be attributed to various reasons like incapable rulers of the past, the British colonial rule which suppressed the country's growth for many decades or the current "so called corrupt and biased political environment". But the bitter fact remains unchanged... that India is still a "developing country with a huge gap in its wealth distribution pattern". And this is the point touched upon by all major political parties during their election campaigns... that is, their government will reduce the rich-poor gap of the country. But how far it has been implemented in all these years post-independence? Well, a question difficult to answer!!!

Every changing government comes up with a lot of plans, policies and schemes for ensuring financial inclusion and economic development in the country. The most attractive of them all have been the SHG-Bank Linkage schemes. This study tries to draw light into the role of such linkages in the financial inclusion and economic development and to what extent they have been successful in achieving the desired results.

Self Help Groups (SHGs)

The term "SHG (Self Help Groups)" can be associated with the various financial or non-financial associations that function in rural, semi-urban or urban areas with a specific goal which is mainly driven with the motive of financial inclusion. These groups may be registered or unregistered. The social cause for which such groups get set up is what makes them unique. The RBI has recognized it as a part of PSL (priority sector lending) and normal banking business and hence they receive good kind of support from the main stream banks as banks are obliged to meet their PSL targets as specified by the RBI. The government is also very supportive of such initiatives as they are powerful tools for social and economic development of the country. They are also considered to be very effective in women empowerment as women are the main members of most of these SHGs.

Origin

One of the important and fascinating traditional means of financial intermediation has been through the medium of different forms of financial self-help groups or mutual aid savings associations- the Rotating Savings and Credit Association (ROSCA) and its more evolved form, the Accumulating Savings and Credit Association (ASCA). These associations continue to be important sources of finance for people in urban and rural areas of developing countries of South and South-East Asia, Africa and Latin America and the Caribbean. In India too, such informal groups are found- though rather more in urban areas, particularly in South India and states such as Maharashtra, Assam, Gujarat and UP (in the forms of Kudumabshree units, Ayalkootam, chits, nishis, bishis and shomitis).

The origin of SHGs can be exactly attributed to the women groups that developed in Bangladesh under the guidance of Prof. Mohammed Yunus. It later on spread its roots to the Indian land as well.

Financial Inclusion

Financial inclusion plays a predominant role to achieve sustainable economic development. Any kind of development initiatives which don't carry with it all the sections of the society are not viable in the long run. So, the main aim of any system or government should be to carry all the people together in its development initiatives. This is where the importance of "financial inclusion" comes in. But the lack of awareness and financial literacy among the rural population of the country is extricating the growth of the economy as majority of our population still do not have access to a formal credit system. In order to overcome such barriers, the SHG-Bank Linkage programs were introduced.

Financial Inclusion Models

Several models of financial inclusion have been tried across the world, namely, no-frills accounts banking, business correspondent model (branchless banking), banking without banks (by using mobiles as conduits for financial transactions), micro lending etc. In India, the business correspondent model has been the most popular one.

II. OBJECTIVES

1. To understand the importance and functioning of SHG-Bank linkage schemes
2. To understand and evaluate how effectively these linkages are serving their purpose of financial inclusion and economic development and to give suggestions for improvements

Why Financial Inclusion?

Indian economy is the second fastest growing economy in the world. Majority of its population resides in rural areas and hence the development of rural India is the key to the overall development of the nation. For achieving this objective, timely availability of institutional credit at an affordable rate to this population has to be ensured. It will ensure employment, economic growth and thereby poverty reduction among this rural population. Although our government (past and present) has taken various measures in the course of time to fill up this gap between rich and poor, none of those have served its purpose to its fullest. It is to fill up these gaps that the government needs the various financial inclusion measures and SHG-Bank linkage model plays a key role in such initiatives.

Financial Inclusion Measures

Before 1990, several steps have been taken by RBI for financial inclusion which is as follows:

1. 1955 - establishment of SBI
2. 1969 & 1980- nationalization of commercial banks
3. 1970 - initiated lead bank scheme (which is the big step for financial inclusion)
4. 1975 - establishment of RRBs
5. 1982 - establishment of NABARD

After 1990, the major steps taken for the inclusion of financially excluded people are:

1. 1992 - Self Help Group Linkage Program, established by NABARD
2. 1998 - Kissan Credit Cards
3. 2005 - General Credit Cards

Financially Excluded People

- Marginal Farmers
- Landless laborers
- Oral lessees
- Self-employed and unorganized sector enterprises
- Urban slum dwellers
- Migrants
- Ethnic minorities and socially excluded groups
- Senior citizens
- Women
- The North-East, Eastern and Central regions of the country

SHGs in India

SHGs in India attribute their evolution to the women SHGs that has its origin in Bangladesh. Many of the established international donors and NGOs such as UNDP, OXFAM, Action Aid and Plan International have supported informal groups or community organizations in a program of "poverty lending", which gave a higher priority to social outreach than financial sustainability. Revolving loan fund grants, earmarked for these groups were managed and held in trust by NGOs until community capacity for self-management was developed.

The NGO sector in India had gained momentum in 1980s with its socio-economic programs, especially in developing and promoting people's organizations and community-centered activities.

Role of SHGs

The SHGs, which were promoted widely by the Indian NGOs, banks and government agencies, can be described as a form of ASCA (Accumulating Savings and Credit Association). These types of SHGs are essentially a form of micro bank, which not only raises equity and deposits, but also lends it to its members. Indian SHGs function on the equity ownership of its members and their deposits. They use these accumulated funds to give small credit at a mutually agreed low rates of interest, and earn profits,

which they choose either to distribute among them or to retain and add it to the fund at their joint disposal.

An SHG is an informal homogenous group formed through a process of self-selection based on the affinity of its members. It is owned by its members and operated on the principles of self-help, solidarity and mutual interest. Most of SHGs are women's groups with membership ranging between 10-30 years of age. SHGs have well defined rules and by-laws based on which they operate. The members meet regularly and conduct meetings and review the performance of the group. They maintain proper books of account of all the deposits and lending and do a follow up as well for the advanced funds. Every group will have a code of conduct that binds the members of that particular group. And all members are expected to be regular in their savings, repayments of loans and in attending the meetings. Every member contributes a fixed amount every month (depending on their financial capability) and these funds are pooled together for lending purpose. The group maintains a common SHG account with any of the banks and all the transactions are routed through proper banking channels, thus giving it a professional touch.

NABARD has been a major force in the origin and development of SHGs in India. The SHG-Bank Linkage program was pioneered by NABARD, as it considered SHGs as the financial intermediaries to make banking accessible to the financially excluded parts of the society. The current SHG-Bank Linkage model has evolved over a period of about 25 years since the first SHGs of MYRADA received NABARD support.

Indian SHG System

The members of SHGs in India form a group of 10-20 members located in the particular locality. The group may be promoted by an NGO, Bank, Government or MFIS, for that matter. The process of formal "linkage" to an MFI or bank usually goes through the following stages:

1. The SHG members agree to contribute a fixed amount as savings (one member can take more than one unit for savings contribution) on a regular basis and this is kept under the safe custody of the elected president/head of the group or in the respective SHG bank account.
2. The members, then start to borrow individually from this pooled fund on a pre-determined rate of interest and such advances are usually for smaller fund.
3. For raising additional funds, the SHGs open a bank account and raise loans with the help of their corresponding banker
4. This fund from the bank is supplemented by the own fund of the group for lending purpose.
5. Proper books and accounts are maintained for all such deposits and lending made and the group

members follow up the advances to avoid a shortfall.

Status of SHG in India

The SHG-BLP (Bank Linkage Program) has about 4000 partners and has blossomed as a decentralized, yet cost effective microfinance initiative. It is the fastest growing microfinance initiative in the world, enabling about 97 million poor household's access to sustainable financial services from the banking system. The bank loan outstanding to SHGs in India in the year 2015-16 has exceeded Rs. 37,000 crores.

The number of savings linked SHGs stood at 79.03 lakhs with a financial worth of over Rs. 13,600 crores. While bulk of these savings is used for internal lending within the group, the balance is maintained in the savings account with the financing bank. Over 85.57% of SHGs linked to banks are exclusive for women groups, which is one of the most striking and unique features of SHG-BLP tie up in India. The balance in the savings accounts of the banks as on March 2015 stood at Rs. 13,600 crore, an increase of 23% from the corresponding period of the previous FY.

The majority of funding and financial/credit support under the SHG-BLP program were received in the Southern states especially Karnataka, Andhra Pradesh and Tamil Nadu (a huge sum of around Rs. 2000 crores), whereas the Central and North-Eastern states received the least benefits amounting to only Rs. 800 crores.

Region-wise status of Bank Loan disbursed to SHGs during 2012-13

Regions	2011-12		2012-13	
	No. of SHGs	Total Loans Disbursed (Rs. Lakhs)	No. of SHGs	Total Loans Disbursed (Rs. Lakhs)
North Eastern	51003	45128.74	25168	18021.85
Northern	30751	33543.20	31285	34229.70
Central	58460	70936.83	64180	69888.96
Western	101044	75285.69	70429	70994.41
Eastern	201201	162406.15	182823	129018.93
Southern	705419	1266176.27	845936	1736382.59
All India	1147878	1653476.87	1219821	2058536.44

Source: Status of Microfinance in India 2012-13, NABARD

Table 4.2: Region-wise Status of Bank Loan Disbursed to SHGs during 2015-16

(Total Loan Disbursed in ₹ Lakh; Average Loan Disbursed in ₹ / SHG)

Regions	2013-14			2014-15			2015-16		
	No. of SHGs	Total Loans Dis-bursed	Average Loan Dis-bursed	No. of SHGs	Total Loans Dis-bursed	Average Loan Dis-bursed	No. of SHGs	Total Loans Dis-bursed	Average Loan Dis-bursed
North Eastern	16201	12819	79125	18791	15795	84056	26037	21969	84375
Northern	23918	28048	117269	43848	42873	97777	38106	48298	126746
Central	66393	61807	93092	109231	110909	101536	84282	119067	141272
Western	87846	86444	98404	97341	117080	120279	112525	188632	167636
Eastern	297478	151067	50783	351800	329602	93690	412576	349489	84709
Southern	874585	2061551	235718	1005227	2141972	213083	1158797	3001235	258996
All India	1366421	2401736	175768	1626238	2758231	169608	1832323	3728690	203495

Source: Status of Microfinance in India 2015-16, NABARD

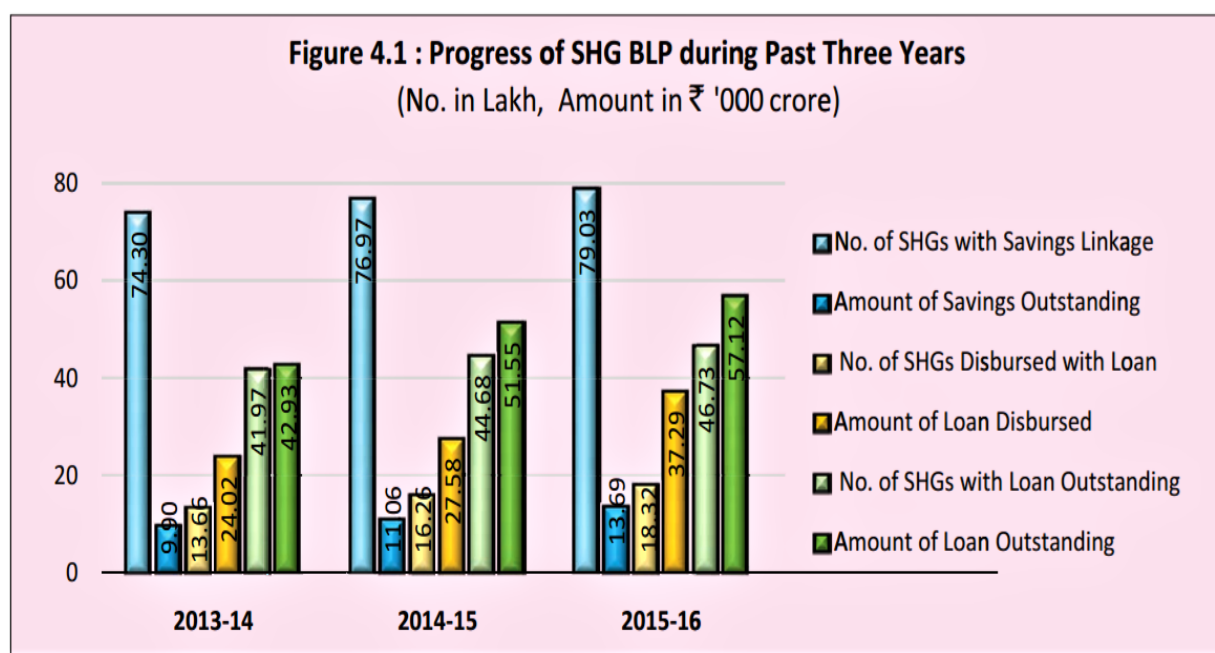
Highlights of the SHG-Bank Linkage Programme 2015-16

Sr. No.	Particulars	Achievements	
		Physical (No. in lakh)	Financial (₹ in crore)
1	Total number of SHGs saving linked with banks	79.03	13691.39
(i)	Out of total SHGs - exclusive Women SHGs	67.63	12035.78
(ii)	Out of total SHGs- under NRLM/SGSY	34.57	6244.97
(iii)	Out of total SHGs -under NULM/SJSRY	4.45	1006.22
2	Total number of SHGs credit linked during 2015-16	18.32	37286.90
(i)	Out of total SHGs - exclusive Women SHGs	16.29	34411.42
(ii)	Out of total SHGs – under NRLM/SGSY	8.16	16785.78
(iii)	Out of total SHGs – under NULM/SJSRY	1.11	2620.22
3	Total number of SHGs having loans outstanding as on 31 March 2016	46.73	57119.23
(i)	Out of total SHGs - exclusive Women SHGs	40.36	51428.91
(ii)	Out of total SHGs - under NRLM/SGSY	21.91	26610.16
(iii)	Out of total SHGs - under NULM/SJSRY	3.13	3979.75
4	Average loan amount outstanding/SHG as on March 2016 (in ₹)		122242.39
5	Average loan amount disbursed/SHG during 2015-16 (in ₹)		203495.24
6	Estimated number of families covered up to 31 March 2016	1010	
7	No of Banks and Financial Institutions submitted MIS (in number)	392	
8	Data on Joint Liability Groups		
(i)	Joint Liability Groups promoted during the year 2015-16	5.72	
(ii)	Loan disbursed to Joint Liability Groups (JLGs) during the year 2015-16		6160.72
(iii)	Cumulative Joint Liability Groups promoted as on 31 March 2016	17.34	
(iv)	Cumulative loan disbursed to JLGs as on 31 March 2016		17336.95

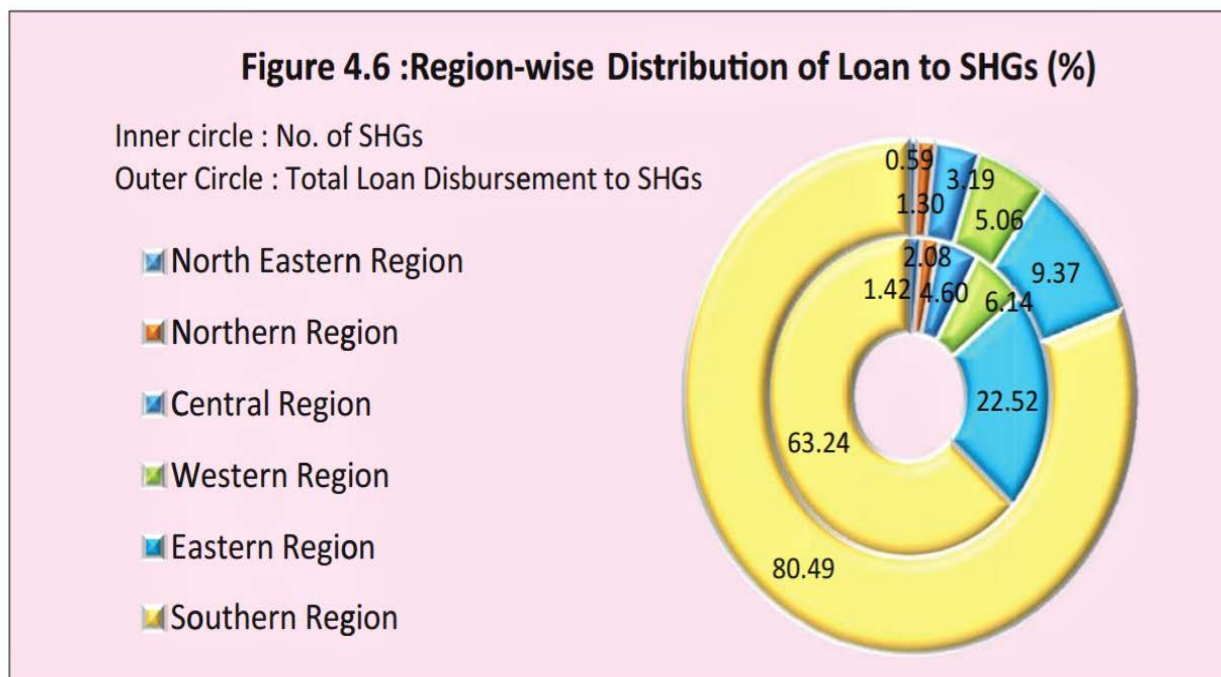
Source: Status of Microfinance in India 2015-16, NABARD

Sr. No.	Particulars	Achievements	
		Physical (No. in lakh)	Financial (₹ in crore)
9	Support from NABARD		
(i)	Capacity building for partner institutions		
	Under SHG-BLP and JLGs		
	Number of Programmes conducted during 2015-16 (in no. only)	3906	
	Number of participants covered during 2015-16 (in lakh)	1.21	
	Cumulative number of participants trained upto March 2016 (in lakh)	34.02	
	Under WSHG Scheme (in LWE affected and backward districts)		
	Number of Programmes conducted during 2015-16 (in no. only)	1194	
	Number of participants covered during 2015-16 (in lakh)	0.38	
(ii)	Refinance Support		
	Refinance to banks during 2015-16		6906.03
	Cumulative refinance released upto 31 March 2016		37663.60
(iii)	Revolving Fund Assistance (RFA) and Capital Support to MFIs		
	RFA outstanding as on 31 March 2016		7.25
	Capital support outstanding as on 31 March 2016		4.42
	Refinance disbursed to NBFC-MFIs during 2015-16		2300.00
(iv)	Grant assistance to SHPIs for promotion of SHGs under SHG-BLP		
	Grant assistance sanctioned during 2015-16		29.49
	Cumulative sanctioned upto 31 March 2016		330.78
(v)	Cumulative grant assistance sanctioned to anchor NGOs for promotion of SHGs under WSHG Development Scheme upto 31 March 2016		204.98
(vi)	Cumulative grant assistance sanctioned to JLPs for promotion of JLGs upto 31 March 2016		129.30

Source: Status of Microfinance in India 2015-16, NABARD



Source: Status of Microfinance in India 2015-16, NABARD



Source: Status of Microfinance in India 2015-16, NABARD

Overall Progress under SHG-Bank Linkage for last 3 years

Particulars		2010-11		2011-12			2012-13
		No. of SHGs (lakh)	Amount (Rs. Crore)	No. of SHGs (lakh)	Amount (Rs. Crore)	No. of SHGs (lakh)	Amount (Rs. Crore)
SHG Savings with Banks as on 31 March	Total SHGs	74.62 (7.3%)	7016.30 (13.2%)	79.60 (6.7%)	6551.41 (-6.7%)	73.18 (-8.1%)	8217.25 (25.4%)
	Of which SGSY Groups	20.23 (19.4%)	1817.12 (40.6%)	21.23 (5.0%)	1395.25 (-23.2%)	20.47 (-3.6%)	1821.65 (30.6%)
	% of SGSY Groups to Total	27.1	25.9	26.7	21.3	28.0	22.2
	All Women SHGs	60.98 (14.8%)	5298.65 (17.8%)	62.99 (3.3%)	5104.33 (-3.7%)	59.38 (-5.7%)	6514.86 (27.6%)
	% of Women Groups to Total	81.7	75.5	79.1	77.9	81.1	79.3
Total SHGs		11.96 (-)	14547.73 (0.01%)	11.48 (-4%)	16534.77 (13.7%)	12.20 (6.3%)	20585.36 (24.5%)

Loans Disbursed to SHGs during the year		24.6%)					
	Of which SGSY Groups	2.41 (-9.9%)	2480.37 (12.8%)	2.10 (-12.9%)	2643.56 (6.6%)	1.81 (-13.8%)	2207.47 (-16.5%)
	% of SGSY Groups to Total	20.1	17.0	18.3	16.0	14.8	10.7
	All Women SHGs	10.17 (-21.4%)	12622.33 (1.6%)	9.23 (-9.2%)	14132.02 (12.0%)	10.37 (12.4%)	17854.31 (26.3%)
	% of Women Groups to Total	85	86.8	80.4	85.5	85.1	86.7
Loans Outstanding against SHGs as on 31 March	Total SHGs	47.87 (-1.3%)	31221.17 (11.4%)	43.54 (-9.0%)	36340.00 (16.4%)	44.51 (2.2%)	39375.30 (8.4%)
	Of which SGSY Groups	12.86 (3.4%)	7829.39 (25.2%)	12.16 (-5.4%)	8054.83 (2.9%)	11.93 (-1.9%)	8597.09 (6.7%)
	% of SGSY Groups to Total	26.9	25.1	27.9	22.2	26.8	21.8
	All Women SHGs	39.84 (2.2)	26123.75 (13.4%)	36.49 (-8.4%)	30465.28 (16.6%)	37.57 (2.9%)	32840.04 (7.8%)
	% of Women Groups to Total	83.2	83.7	83.8	83.8	84.4	83.3

Source: Status of Microfinance in India 2012-13, NABARD

III. CONCLUSION

Over the years, the SHG-BLP has achieved incredible results in terms of financial inclusion. But yet, there are miles to go as the majority of population are still living below poverty line. The main issue which is stopping the banks and financial institutions from lending to SHGs is the issue huge amount of outstanding loans, which is very much visible from the data provided by NABARD. The researcher had conducted a few Q&A with a few NABARD officials and heads of a few SHGs, which provided some valuable insights:

- Majority of the SHG members are not receiving the benefits of the schemes meant for their financial upliftment or are unaware of it and those who are availing it are not aware of its proper usage, resulting in huge amounts of loans outstanding.
- Most of the SHGs are regulated, or precisely saying, controlled by the few well off or educated members, who are re-elected again and again and this over-dependence on a very few is also hindering the growth of such SHGs.

- The conflict among group members is yet another problem faced by such SHGs and as a result there is a question of accountability when it comes to paying off the loans back to the financial banks. This may be due to lack of experience or education.

These can be the possible reasons for the huge amounts of loans outstanding by SHGs. And there can be many more reasons to add on to the list. If majority of these problems are addressed, SHG-BLP programs can play a vital role in poverty alleviation and financial upliftment of the country and we can dream of a developed India in the real terms.

Table 4.1: Overall Progress under SHG-Bank Linkage Programme during past Three Years

(Numbers in lakh/Amount ₹ crore)

Particulars		2013-14		2014-15		2015-16	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Savings with Banks as on 31 st March	Total SHG Nos.	74.30 (1.53%)	9897.42 (20.45%)	76.97 (3.59%)	11059.84 (11.74%)	79.03 (2.68%)	13691.39 (23.79%)
	All women SHGs	62.52 (5.27%)	8012.89 (22.99%)	66.51 (6.38%)	9264.33 (15.61%)	67.63 (1.68%)	12035.78 (29.92%)
	Percentage of Women Groups	84.15	80.96	86.41	83.77	85.58	87.91
	Of which NRLM/SGSY	22.62 (10.46%)	2477.58 (36.01%)	30.52 (34.92%)	4424.03 (78.56%)	34.57 (13.27%)	6244.97 (41.16%)
	% of NRLM/SGSY Groups to Total	30.45	25.03	39.65	40.00	43.74	45.61
	Of which NULM/SJSRY	NA	NA	4.33	1071.81	4.46 (3.00%)	1006.22 (6.12%)
	% of NULM/SJSRY Groups to Total	NA	NA	5.63	9.69	5.64	7.35
Loans Disbursed to SHGs during the year	No. of SHGs extended loans	13.66 (12.02%)	24017.36 (16.67%)	16.26 (19.03%)	27582.31 (14.84%)	18.32 (12.67%)	37286.90 (35.18%)
	All women SHGs	11.52 (11.02%)	21037.97 (17.83%)	14.48 (25.69%)	24419.75 (16.07%)	16.29 (12.50%)	34411.42 (40.92%)
	Percentage of Women Groups	84.3	87.6	89.05	83.53	88.92	92.29
	Of which NRLM/SGSY	2.26 (24.56%)	3480.60 (57.67%)	6.43 (28.45%)	9487.69 (27.26%)	8.16 (26.91%)	16785.78 (76.92%)
	% of NRLM/SGSY Groups to Total	16.52	14.49	39.54	34.40	44.54	45.02
	Of which NULM/SJSRY	NA	NA	1.05	1871.55	1.11 (5.71%)	2620.22 (40.00%)
	% of NULM/SJSRY Groups to Total	NA	NA	6.46	6.79	6.06	7.03
Loans Outstanding against SHGs as on 31 March	Total No. of SHGs linked	41.97 (-5.71%)	42927.52 (9.02%)	44.68 (6.46%)	51545.46 (20.06%)	46.73 (4.59%)	57119.23 (10.81%)
	No. of all Women SHGs linked	34.06 (-9.34%)	36151.58 (10.08%)	38.58 (13.27%)	45901.95 (26.97%)	40.36 (4.61%)	51428.91 (12.04%)
	Percentage Of Women SHGs	81.2	84.2	86.35	89.05	86.37	90.04
	Of which NRLM/SGSY	13.07 (9.55%)	10177.42 (18.38%)	18.46 (41.24%)	19752.74 (94.08%)	21.91 (18.69%)	26610.16 (34.72%)
	% of NRLM/SGSY Groups to Total	31.1	23.7	41.32	38.32	46.89	46.59
	Of which NULM/SJSRY	NA	NA	3.18	3462.62	3.13 (-1.57%)	3979.75 (14.93%)
	% of NULM/SJSRY Groups to Total	NA	NA	7.12	6.72	7.00	6.97

(Figures in parentheses indicate increase/decrease over the previous year)

Source: Status of Microfinance in India 2015-16, NABARD

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