

A study on self-help group bank linkage programme in India

Dr. Mallika V

Associate Professor, Department of Commerce, Sri Ramakrishna College of Arts & Science for Women, Coimbatore, Tamil Nadu, India

Abstract

Microfinance in India started in the early 1980s with small efforts at forming informal self-help groups (SHG) to provide access to much-needed savings and credit services. From this small beginning, the microfinance sector has grown significantly in the past decades. Microfinance means provision of financial services on a small scale to the rural and urban poor, including the self-employed. The project is entitled "A Study on Self Help Group Bank Linkage Programme in India" with objective based on the ideal size of an SHG is 10 to 20 members and members have the same social and financial background. The SHG-Bank Linkage Programme has provided a more favorable environment for enhancing India's potential for greater equitable growth with empowerment while considering the positive signs in their performance.

Keywords: micro-finance, self-help groups (SHG), self-help group bank linkage

1. Introduction

Microfinance is the provision of financial services to the poor who are otherwise considered un-bankable or non-bankable. It operates on the principle that a group of individuals is more bankable than a single individual. Microfinance is an umbrella term that includes micro-credit, micro-savings and micro-insurance and a host of other financial services. Since, independence government has taken several initiatives to tackle the scarce of poverty through area development approach and sectoral approach. But all the initiatives failed to achieve the target due to faulty planning and improper implementation and lack of will. Formal banking sector also ignored the poor due to risk involved in lending to poor as they do not have collaterals and apprehension of non-bankability. Against this backdrop SHG bank linkage from NABARD is considered as best alternative to reach the poor. The provision of small and regular repayment schedule made possible very high recovery rate. After 1990s microfinance has taken its momentum and now it is the largest microfinance movement in the world.

2. World Scenario

Microfinance really took off in the 1970's with the activities of the Grameen Bank, Bangladesh, which was pioneered by the Nobel Laureate for Peace, Dr. Mohammed Yunus, Professor of Economics in Chitagaon University of Bangladesh. He is also known as the Father of Self Help Groups. The idea of SHGs was started mainly to provide institutional credit to the downtrodden and to eradicate poverty in rural areas. This concept proved successful over the years in Bangladesh so much to the SHG concept has evolved to a stage of being able to fund industrial units as well. Microfinance and micro-credit are buzzwords, which have taken the developing and developing countries by storm. It has been documented that nearly 53 developing countries have taken micro-credit on a large scale.

3. Indian Scenario

In India, banks are the predominant agency for delivery of

micro-credit. In 1970, Ila Bhat, founder member of 'SEWA' (Self-employed Women's Association) in Ahmedabad has developed a concept of 'women and microfinance'. The Annapurna Mahila Mandal in Maharashtra and 'Working women's forum' in Tamilnadu and National Bank for Agriculture and Rural Development (NABARD) and many other sponsored groups has followed the path laid down by 'SEWA'.

In 1991-92, NABARD started promoting SHGs on a large scale. In 1993, the RBI also allowed SHGs to open savings account in banks. Facility of availing bank services was a major boost to the movement. The movement of SHGs was nourished in the states of Gujarat, Maharashtra, Andhra Pradesh, Rajasthan, Tamilnadu and Kerala. Banks like NABARD, Bank of Maharashtra, Bank of India, Co-operative Banks, Regional Rural Banks, the Government institutions like Maharashtra Arthik Vikas Mahamandal (MAVIM), District Rural Development Agency (DRDA), municipal corporations and NGOs are actively in the promotion of SHG movement.

According to RBI estimates there are over 450 million "unbanked people" in India, most of who live in rural areas. The term "unbanked" refers to people who have no access to formal financial services, but rather must rely on either family, or informal providers of finance, such as the village moneylender.

4. Concept and Background of Microfinance

The term "Micro" literally means "small". But the task force has not defined any amount. However as per Micro Credit Special Cell of the Reserve Bank of India, the borrowing amounts up to the limit of Rs.25000/- could be considered as micro credit products and this amount could be gradually increased up to Rs.50000/- over a period of time.— As per international perceptions a standard for South Asia roughly equals to \$500. However the Micro Financial Sector (Development and Regulation) Bill, 2007 defined the microcredit as loans not exceeding Rs. 50000 (Rs. 150000 in case of housing).

The importance of microfinance in the field of development was reinforced with the launch of the Microcredit Summit in 1997. The Summit aims to reach 175 million of the world's poorest families, especially the women of those families, with credit for the self-employed and other financial and business services, by the end of 2015 (Microcredit Summit, 2005). The United Nations declared the year 2005 as the International Year of Microcredit.

5. Features of Micro Finance

- Micro finance is a tool for empowerment of the poorest women.
- Micro finance is essentially for promoting self-employment; the opportunity of wage employment is limited in developing countries – not increases the productivity of employment in the informal sector of the economy.
- Micro finance is not just a financing system, but a tool for social change, especially for women.
- Micro credit is aimed at the poorest, micro finance lending technology needs to mimic the informal lenders rather than formal sector lending.

6. Self Help Groups

SHG are considered a new lease of life for the women in villages for their social and economic empowerment. Since SHGs have been able to mobilize savings from persons or groups who were not normally expected to have any 'saving' and also to recycle effectively the pooled resources amongst the members, their activities have attracted attention as a supportive mechanism for meeting the credit needs of the poor (NABARD, 2004).

7. Objectives of SHG

The main objective of targeting women for giving microcredit is to empower women in the household through helping them to create self-employment for them by establishing micro-enterprises. The main characteristics of SHGs are as follows:

- The ideal size of an SHG is 10 to 20 members.
- The group need not be registered.
- From one family, only one member. (More families can join SHGs this way)
- The group consists of either only men or of only women. (Mixed groups are generally not preferred)
- Women's groups are generally found to perform better.
- Members have the same social and financial background. (Members interact more freely this way)
- Compulsory attendance. (Full attendance for larger participation)

8. SHG Model in India

In India, three different models of linkage of SHGs to the financial institutions have emerged. They are:

- Banks, themselves form and finance the SHGs.
- SHGs are formed by NGOs and other agencies but financed by banks.
- Banks finance SHGs with NGOs and other agencies as financial intermediaries.

The second model is the most popular model. Almost three-fourths of the SHGs come under this model. Only 20% of the

SHGs are covered under first and 8% under the third model respectively.

9. NABARD and Self Help Groups

NABARD has started SHG-Bank Linkage Programme as an Action Research Project in 1989. In February 1992, NABARD launched a Pilot Project linking 500 SHGs with banking systems across the country. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, Banks and Non-Governmental Organisations (NGOs). NABARD refinance the banks, which lend of SHGs. The movement has gained a significant momentum with 2.24 million SHGs linked with 44362 bank branches of 545 banks in 583 districts across 31 states of the Indian Union and disbursed Rs. 113.98 billion cumulatively, as on 31st March, 2006 (NABARD, 2006). Total 0.54 million new SHGs have been provided with bank loans in 2004-05 and Rs. 2.99 billion of bank loans disbursed during this period (NABARD). In India, 58 percent of total SHGs are in Southern India mainly in Andhra Pradesh, Tamil Nadu and Karnataka as on March 2005. Only 5 percent of total SHGs are in Northern India. It also provides training support, grant-cum aid support for micro-credit under its different schemes.

10. SHG- Bank Linkage Programme

Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, Microfinance scene is dominated by Self Help Group (SHGs)-Bank Linkage Programme as a cost effective mechanism for providing financial services to the "Unreached Poor" which has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self-help capacities of the poor, leading to their empowerment. Rapid progress in SHG formation has now turned into an empowerment movement among women across the country.

11. Progress of Bank Linkage Programme (2006-07 to 2015-16)

Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, Microfinance scene is dominated by Self Help Group (SHGs)-Bank Linkage Programme as a cost effective mechanism for providing financial services to the "Unreached Poor" which has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self-help capacities of the poor, leading to their empowerment. Rapid progress in SHG formation has now turned into an empowerment movement among women across the country.

The SHG – Bank Linkage Programme started as an Action Research Project in 1989. In 1992, the findings led to the setting up of a Pilot Project. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, Banks and Non-Governmental Organisations (NGOs).The SHG Bank linkage Programme which started in 1992 has grown exponentially over three decades and around 79.03 lakh SHGs are linked to different Banks up to 2016. The overall progress under microfinance from the period 2006-07 to 2015-16 is presented in table-3.2.

Table 1: Progress of Self Help Group Bank Linkage Programme (Amount in Crores)

Year	Particulars	Savings of SHGs with Bank		Bank loans disbursed to SHGs		Bank loans outstanding with SHGs	
			%		%		%
2006-07	No of SHGs (in lakh)	41.61		11.05		28.95	
	Amount (Cr)	3512.71		6570.39		12366.49	
2007-08	No of SHGs (in lakh)	50.09	20.38	12.28	11.13	36.25	25.22
	Amount (Cr)	3785.4	7.76	8849.3	34.69	16999.9	37.47
2008-09	No of SHGs (in lakh)	61.21	22.21	16.09	31.1	42.24	16.5
	Amount (Cr)	5545.62	46.5	12253.5	38.5	22679.8	33.4
2009-10	No of SHGs (in lakh)	69.53	13.6	15.86	-1.4	48.51	14.8
	Amount (Cr)	6198.71	11.8	14453.3	17.9	28038.3	23.6
2010-11	No of SHGs (in lakh)	74.62	7.3	11.96	-24.6	47.87	-1.3
	Amount (Cr)	7016.3	13.2	14547.7	0.01	31221.17	11.4
2011-12	No of SHGs (in lakh)	79.60	6.7	11.48	-4	43.54	-9
	Amount (Cr)	6551.41	-6.7	16534.77	13.7	36340.00	16.4
2012-13	No of SHGs (in lakh)	73.18	-8.1	12.20	6.3	44.51	2.2
	Amount(Cr)	8217.25	25.4	20585.36	24.5	39375	8.4
2013-14	No of SHGs (in lakh)	74.30	1.53	13.66	12.02	41.97	-5.71
	Amount (Cr)	9897.42	20.45	24017.36	16.67	42927.52	9.02
2014-15	No of SHGs (in lakh)	76.97	3.59	16.26	19.03	44.68	6.46
	Amount (Cr)	11059.84	11.74	27582.31	14.84	51545.46	20.06
2015-16	No of SHGs (in lakh)	79.03	2.68	18.32	12.67	46.73	4.59
	Amount(Cr)	13691.39	23.79	37286.90	35.18	57119.23	10.81

Source: NABARD

Table- 1 shows the Overall progress of microfinance from the year 2006-07 to 2015-16. It shows that, though savings of number of SHGs with the bank is increasing over the years, the growth rate of SHGs in percentage terms is declining from 22.21 in 2008-08 to -8.1 in 2012-13 and shows an increasing trend thereafter. Regarding the amount of savings it has a significant growth in 2008-09 (46.5 per cent) but after that it declined and shows a steady increase from 2012-13. With regard to bank loan disbursement to SHGs it shows a declining trend and in terms of number of SHGs became negative in 2011-12 and started to increase from 2012-13. The cause may be non-repayment of loan. Bank loan outstanding the growth in amount is declining, which is a good sign of indication.

12. Impact of SHG Bank Linkage Programme

- Microfinance 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 decisions that affect their lives.
- In certain areas it has reduced child mortality, improved maternal health and the ability of the poor to combat disease through better nutrition, housing and health - especially among women and children.
- 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 given scope to different stakeholders to innovate, learn and replicate. As a result, some NGOs have added micro-insurance products to their portfolios.

13. Conclusion

The SHG-Bank Linkage Programme has provided a more favorable environment for enhancing India’s potential for greater equitable growth with empowerment while considering the positive signs in their performance.

The geographical spread of the movement has also been quite impressive now spreading to even the most remote corners of India. Over 95 million poor rural households are now part of this world’s largest micro-credit initiative. Unlike similar experiments in other developing countries, the SHG-Bank Linkage programme lays emphasis on regular savings by the members with the savings corpus being used to lend among them and as needs arise, later by linking the groups with banks for availing credit. The poor in the country have demonstrated that inspite of being poor; they are, perhaps, the most “bankable” clients and most willing to help each other for a better tomorrow. The impressive performance under SHG-Bank Linkage programme prompted other developmental agencies like the Government Departments to depend heavily on such groups to take the development efforts forward.

14. References

1. Dadhich CL. Micro Finance- A Panacea for Poverty Alleviation: A Case Study of Oriental Grameen Project in India, *Indian Journal of Agricultural Economics*, 2001; 56(3): 419-420.
2. Holvoet Nathalie. The Impact of Microfinance on Decision-Making Agency: Evidence from South India, *Development and Change*, 2005; 36(1):75-101.
3. Karnakar KG. Rural Credit and Self Help Group, Microfinance needs and concepts in India, Sage Publications, New Delhi, 1999.
4. Manab Sen. Self Help Groups and Micro Finance: An Alternative Socio Economic Option for the Poor, in

- Kamta Prasad (eds.), *NGO's and Socio Economic Development Opportunities*, New Delhi: Deep and Deep Publication Pvt. Ltd., 2000, 77-89.
5. Mansuri BB. Microfinancing through self-help groups- A case study of bank linkage programme of NABARD, *Asia Pacific Journal of Research in Business Management*, Vol. 1, No. 3, Sri Krishna International Research & Educational Consortium, 2010, 141-150.
 6. Ramesh S Arunachalam. *The Journey of Indian Microfinance-Lessons for the future*, AAPTII Publications, Chennai, 2011.
 7. Sharma KC. Micro Financing Through SHG's, *Indian Journal of Agricultural Economics*, 2001; 56(3):460-463.
 8. Shetty SL. *Microfinance in India*, Academic Foundation, New Delhi, 2012.