



ORIGINAL RESEARCH PAPER

Engineering

MICRO FINANCE THROUGH SHG- BANK LINKAGE PROGRAMME IN INDIA

KEY WORDS: Microfinance, Self Help Groups, SHG-BLP

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ABSTRACT The present research paper is an attempt to study the status of Micro-Finance and Self-Help-Groups (SHGs) in India. The overall development of a country depends on the development of the poorer section of the society and due to the high levels of poverty and unemployment in developing countries, the overall development can never be achieved. For this development, Government of India has launched a programme known as SHG-BLP. This paper provides some details of this programme and the progress of the programme in India.

Introduction-

The major issues with which most of the developing countries are suffering is Poverty and unemployment. Finance is one of the basic needs of the poorer section of the society for their socio-economic development.

In India, most of the people live below poverty line and fulfilling their financial needs is their major concern. Microfinance through Self Help Groups (SHG) is considered as one of the best option for the upliftment of this section of the society. Micro finance is a broad term that includes deposits, loans, payment services and insurances to poor section of the society. It started in India in late 80s with the development of SEWA Bank in Gujarat. Since then it has grown so much that now India occupies a significant place and a niche in global microfinance sector.

Objectives of the paper-

The main objective of this paper is to study the status of Microfinance and Self-Help-Groups (SHGs) in India. The paper also includes some statistics related to the SHG- Bank Linkage Programme.

Methodology-

For the purpose of the present study secondary data have been used. The secondary data was collected from different journals, reports, relevant documents, articles, etc.

Concept and Evolution of Micro Finance:

Micro finance is a broad term that includes deposits, payment services, loans and insurances to poor section of the society.

Microfinance is the "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards" (NABARD, 1999)

Microfinance Institutions in India emerged in the late 1980s due to the lack of availability of banking services for the poor population. Most of the institutions that entered the field were from the social sector and hence they took the legal form of trusts or Societies. However, not-for-profit status of those institutions started becoming a limitation for their sustainability forcing them to get registered as NBFC-MFIs. NBFCs are companies registered under Companies Act, 1956 and regulated by Reserve Bank of India. The establishment of SIDBI Foundation for Micro Credit (SFMC) in 1999 gave a further flip to the sector.

In India microfinance operates through two channels - banking system through the SHGs under SHG-Bank Linkage Programme (SHG-BLP) & JLG bank lending programme and through Micro Finance Institutions (MFIs).

Evolution of MFIs

Microfinance is not a new concept. It originated in the year 1976, when Muhammad Yunus set up the Grameen Bank in Bangladesh. He developed the concept of lending very small

amounts of money to poor entrepreneurs. He started various schemes for the upliftment of weaker section of rural people. The Self Help Groups scheme with Grameen Bank of Bangladesh was also launched by him. Since then many microfinance institutions have launched many schemes and have also succeeded in reaching the poor.

The earliest instance of microfinance in India started with the unorganised sector of Ahmedabad city in Gujarat through the SEWA Bank, set up as an urban cooperative bank in early seventies. The bank since then, has been providing banking services to the poor and self-employed working as hawkers, vendors, domestic servants etc. After that many other forms of microfinance institutions have been operating in the country like NGO-MFIs and NBFCs. After the crisis in the Microfinance sector in Andhra Pradesh in 2010, RBI set up a Sub-Committee of its Board (Malegam Committee) to go into the issues relating to the sector. Based on the recommendations of the Malegam Committee, RBI came up with a range of guidelines to ensure the orderly growth of the sector.

Till now there is no authentic data on the number of MFIs operating in India. The estimates from various sources range from 300 to 800. To overcome this issue Sa-Dhan started bringing out the 'MFI Directory' from the year 2014 onwards, with verified data on each MFI. As per the latest version of this directory there are 223 MFIs functioning in the country. These function under a variety of legal forms.

Of these 223 institutions only 28 MFIs have a client outreach of more than 2.5 lakhs. 45 MFIs have client coverage between 50,000 and 2.5 lakhs. The remaining 150 are relatively small catering to less than Rs. 50,000. But these small institutions cover poorer clients in remote geographies and they are crucial for development of the nation.

Number of MFIs in India

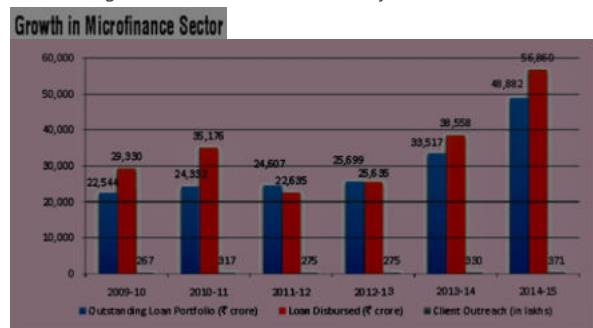
Legal form	No. of MFIs
Society	78
Trust	19
Section 8 (Sec 25) Company	29
MACS/Cooperative	12
Local Area Bank	1
NBFC	13
NBFC-MFI	71
Total	223

Source- Sa-Dhan (2016)

Even though the microfinance industry is growing rapidly but still there is a lot to be done further. The basic hindrance for its growth relates to the issue of accessing public deposits. Deposits from the public are less volatile and more cost-effective sources of funds than alternative sources such as refinance from second-tier institutions, lines of credit from banks or funds from donor agencies. A reliable funding source like savings can expand loaning operations and hence also benefit poor borrowers. Institutions receiving public deposits need to be regulated and supervised by the central banks for superintendence of financial entities as well as the existence of supportive legal framework. Absence of such enabling environment in many countries has restricted the growth of MFIs into full-fledged financial institutions.

In India, the Task Force on Regulation of Microfinance was of the view that since SHGs do not access public savings, there is no need for specific regulation for these entities. As the deposit taking NBFCs are already regulated by RBI, any MFI desirous of accessing public savings should evolve into a deposit taking NBFC and get itself registered under the relevant statutes. All other MFIs should subject themselves to their own Self-Regulatory Organizations (SROs) (NABARD, 1999).

Despite having many issues, the sector has shown tremendous growth in last few decades. Today, India occupies a significant place in the global microfinance industry. The following figure shows the growth in the sector in last few years.



NABARD (2016)

Concept of Self-Help-Groups (SHGs):

Every individual wants to live a life with dignity. Poverty is an obstruction to that dignified life. Entrepreneurship is a significant step to remove these shackles of poverty and this can be done through microfinance. The major form of Microfinance in India is through Self Help Groups (SHGs).

A SHG is an informal organization of people from a homogeneous poor section of the society who come together for giving economic and social support to each other. They start the group with savings and then use these savings to give loans to members to meet their needs. The members decide on savings per member, maximum size of loans, guarantee mechanisms in loan sanction.

There are different types of SHGs which are categorized according to their origin and sources of funds. Some SHGs have been made out of larger groups, formed under preexisting NGO programmes. Some have been promoted by NGOs within the parameters of the bank linkage scheme but as part of an integrated development programme. Others have been promoted by banks and the district rural development agencies (DRDAs). While the term 'self-help group' or SHG can be used to describe a wide range of financial and non-financial associations, in India it has come to refer to a form of Accumulating Saving and Credit Association (ASCA) promoted by government agencies, NGOs or banks. Thus, SHGs fall within the latter category of groups described above.

The types of families handled through Self-Help Groups are capital scarce, labour surplus, have little knowledge & management skills. Given the financial support with appropriate knowledge and

skill input, the poor people have the propensity to make better use of labour and capital. Thus, installation of income-generating activities and micro enterprises in these areas helps promote first-generation micro entrepreneurs with resource mobilization on their own through their SHGs.

Features of Self-Help Groups-

- SHG is a group for the poor and marginalized and are normally formed by NGOs, CBOs, Network of Community-based Coordinators, or team of dedicated functionaries of the government.
- These groups are self-managed and work on the principle of participatory and collective decision making.
- The purpose of the SHG is to build the financial capacity of the poor and the marginalized in the field of employment and income-generating activities.
- Most groups are of the size of 10-20 persons, with the exception of deserts, hills and disabled persons where the number of members may vary from 5 to 20.
- Special focus is given on the formation of exclusive women Self-Help Groups.
- Primarily, single income-generating activity by the group is given preference under group loan. They may however go for multiple activities also.
- Every individual is equal and responsible and decision is based on the principles of consensus.
- Fund support is made available to organize training of beneficiaries in group processes and skill development.

Self Help Group- Bank linkage programme (SHG-BLP)

The SHG-Bank Linkage Programme was started as an Action Research Project in 1989 which was the offshoot of a NABARD initiative during 1987 in which Rs. 10 lakhs were sanctioned to MYRADA as seed money assistance for experimenting Credit Management Groups. Also the Ministry of Rural Development launched PRADAN to establish self-help groups in Rajasthan. The experiences of these early efforts led to the approval of a pilot project by NABARD in 1992. The pilot project was designed as a partnership model between three agencies, the SHGs, banks and NGOs. A working group was reviewed in 1995 which gave the path for the evolution of this much awaited programme. Both NABARD and RBI gave commitment to provide financial and promotional support to SHGs. A set of guidelines were issued to the banks who were giving finance to these SHGs. Initially there was a slow progress in the programme as only 32,995 groups were credit linked during the period 1992 to 1999. But from then the programme has been growing rapidly. This programme has brought a paradigm shift in the credit system of the country by introducing financial inclusion of the poor section of the society. Presently Self Help Group- Bank linkage programme is the largest microfinance programme in the world with 101 million households under 7.9 million SHGs with thrift & deposits of about INR 1,36,914 million, annual loan offtake of INR 3,72,869 million and loan outstanding of nearly INR 5,71,192 million. Despite this huge success, a large section of the poor population still remain unreached and even majority who are in the SHGs face the issues of inadequate credit.

While discussing the contribution of SHG-BLP, more emphasis is given on financial aspects rather than the social aspects of the SHG programme for which they are primarily working. We need to remember the fact that SHG is a tool for holistic empowerment of poor and not just a provider of credit. To bring more and more poor women into SHG programmes and to rejuvenate the institutions for imparting training to the members on various crucial aspects is very important.

Rejuvenation of SHG-BLP requires coordinated efforts by all participants to tackle the issues of heavy south concentration, stagnation in growth, multiple membership, lower bank linkage both in number and quantum, rising NPAs, etc. Efforts at coordination level with all parties and capacity building of bankers have improved the performance of SHG-BLP during 2015-16. The number of SHGs having savings linkage increased to 79.03 lakh as on 31 March 2016 from 76.97 lakh in 2015. There was a net

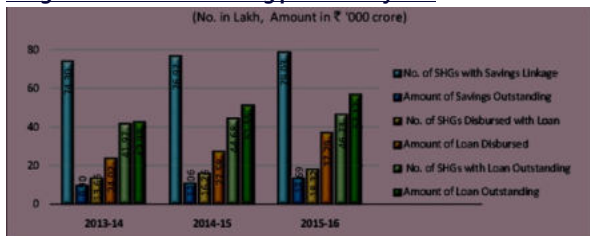
addition of 2.06 lakh SHGs during the year. The domain of SHGs consists of 85.6% women groups which play a crucial role in empowerment of the poor rural women. During the year 2015-16, the coordination between NABARD and National Rural Livelihoods Mission (NRLM/ SRLM) ensured that more and more SHGs get bank loans. NRLM is working since April 2013 with its agenda to cover 7 crore rural poor households across the country with sustainable livelihoods through self-managed SHGs and federations. During the year, 18.32 lakh SHGs were disbursed bank loan of Rs. 37287 crore. About 44.5% of total SHGs receiving bank credit during the year were covered under NRLM and they availed 45% (16,786 crore) of the total amount disbursed.

The following table shows the account of savings, credit disbursement and credit outstanding of total SHGs and under NRLM and NULM during past three years.

Overall Progress under SHG-Bank Linkage Programme during past three years

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 March	74.30 (1.53%)	9997.42 (20.45%)	75.97 (3.53%)	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 (15.81%)	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%)	5244.97 (41.16%)
% of NRLM/SGSY Groups to Total	30.45	25.03	39.65	40.00	43.74	45.61
Of which NULM/SRY	NA	NA	4.33	1071.81	4.46 (3.00%)	1006.22 (6.12%)
% of NULM/SRY Groups to Total	NA	NA	5.63	9.69	5.64	7.35
No. of SHGs extended loans	13.66 (12.02%)	24017.36 (16.67%)	16.26 (19.03%)	27582.31 (14.94%)	18.32 (12.67%)	37266.90 (35.18%)
All women SHGs	11.52 (11.02%)	21037.97 (17.83%)	14.48 (25.63%)	24419.75 (16.97%)	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%)	16795.78 (76.92%)
% of NRLM/SGSY Groups to Total	16.52	14.49	39.54	34.40	44.54	45.02
Of which NULM/SRY	NA	NA	1.05	1871.55	1.11 (5.71%)	2620.22 (40.00%)
% of NULM/SRY Groups to Total	NA	NA	6.46	6.79	6.06	7.03
Total No. of SHGs linked	41.97 (-6.71%)	42927.52 (9.02%)	44.69 (6.44%)	51545.46 (23.96%)	46.73 (4.59%)	57119.23 (10.81%)
No. of all Women SHGs linked	34.06 (-9.34%)	36151.58 (11.00%)	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	89.00	86.37	90.04
Of which NRLM/SGSY	13.07 (9.55%)	10177.42 (18.38%)	18.46 (41.24%)	19752.74 (34.08%)	21.91 (18.69%)	26610.16 (34.72%)
% of NRLM/SGSY Groups to Total	31.1	23.7	41.32	38.32	46.99	45.59
Of which NULM/SRY	NA	NA	3.18	3462.62	3.13 (-1.57%)	3979.75 (14.93%)
% of NULM/SRY Groups to Total	NA	NA	7.12	6.72	7.00	6.97

Progress of SHG-BLP during past three years



From the above figure, it is clear that the number of SHGs and the amount of Savings outstanding has increased in the past three years. Moreover savings and loans outstanding both have increased simultaneously. There was a net addition of 2.06 lakh SHGs during the year increasing the number of SHGs having savings linkage to 79.03 lakh as on 31 March 2016. During the year, banks disbursed loan of 37,287 crore, recording 35% increase over the last year. The savings outstanding of SHGs with banks as on 31 March 2016 has reached an all-time high of 13,691 crore. The total bank loan outstanding to SHGs increased by 10.8% and stood at 57,119 crore against 51,545 crore as on 31 March 2015.

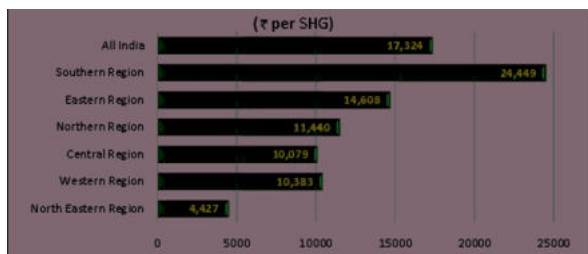
Following table shows the agency-wise status of SHG-BLP in the year 2015-16. Majority of the share is through Commercial-banks.

Agency-wise status of SHG-BLP in 2015-16

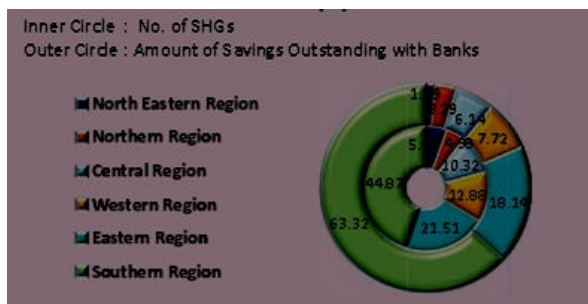
Name of the Agency	Total Savings of SHGs with Banks as on 31 March 2016		Loans disbursed to SHGs by Banks during the year		Total Outstanding Bank Loans against SHGs		NPAs	
	No. of SHGs	Savings Amount	No. of SHGs	Loans dis-bursed	No. of SHGs	Loan Outstanding	Amount of Gross NPA	NPA (%)
Commercial Banks	4140111	903369	1132261	2518497	2626364	3714562	232140	6.25
% Share	52.6	66.0	61.8	67.5	56.2	65.0	62.98	
Regional Rural Banks	2256811	248426	470399	916493	1445476	1610935	106429	6.61
% Share	28.56	16.1	25.7	24.6	30.9	28.2	28.67	
Cooperative Banks	1506080	217322	229643	293700	600781	366426	30054	7.78
% Share	19.1	15.9	12.5	7.9	12.9	6.8	8.15	
Total	7903002	1369139	1832323	3728690	4672621	5711923	368623	6.45

Following figures depict the region wise average savings outstanding and Region-wise Share of Savings linkage of SHGs respectively. The first figure shows that the majority share of SHGs savings belong to the southern region and the least is in the north eastern zone. The same is shown in the next figure. Southern region has a share of 63.32% and the north eastern with 1.79%.

Region-wise Average Savings Outstanding : 2015-16(%)



Region-wise Share of Saving linkage of SHGs : 2015-16(%)



SHG-BLP is sometimes compared with MFI led Micro finance program ignoring its contribution in terms of thrift & savings, support in providing financial literacy, bringing community participation and building social capital etc.

In the last few years, it was noticed that SHG-BLP had lost its focus and has been overshadowed by the MFI sector in the country. While the growth of MFI sector has been remarkable, the SHG Bank Linkage Program has also been growing steadily despite its slow growth in priority states, concerns regarding book keeping, quality of groups and diminishing attention of banks. The following tables are showing the growth in MFI-bank linkage programme and details regarding the loan disbursement.

Progress under MFI-Bank Linkage Programme

Particulars	2013-14		2014-15		2015-16	
	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
Loans disbursed by banks/FIs to MFIs	545	10282.49 (31.16%)	589	15190.13 (47.73%)	647	20795.57 (36.90%)
Loans outstanding against MFIs as on 31 March	2422	16517.43 (14.50%)	4662	22500.46 (36.22%)	2020	25580.84 (13.69%)
Loan Outstanding as % of fresh loans		160.64		148.13		123.00

Loans to MFIs by Banks/Financial Institutions

