



## Impact of Self- Help Groups Bank Linkage Programme in India

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### Abstract

*Self-Help Group means a group of 10-20 members which may or may not be registered representing financial intermediation, but the financial intermediation is not the only primary objective of the groups. The motive is to combine the access to low-cost financial services with a process of self management and development. NGOs or Government agencies usually form and support these SHGs. The members of these groups save the amount which is used for loans. In spite of considerable expansion in the branch network, a large share of India's population continues to remain outside the formal banking system. Due to widespread rural bank branch network, the SHG-Bank Linkage Programme is very suitable to the Indian context. Although various alternative ways are being experimented in order to meet the objectives of financial inclusion. The SHG-Bank Linkage Programme is considered as most successful, promising and widely accepted model in India. Self Help Group- Bank Linkage Programme- a pilot project started by NABARD is widely accepted model as one of the largest and successful one in the world. The present study is analytical and based upon secondary data which has been collected from different published reports, journals and existing available literature. The objective of this study is to evaluate the progress and impact of self help group bank linkage programme.*

**Key Words:** Growth, Models, Self-Help Group, SHG-Bank Linkage Programme

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## **1. INTRODUCTION**

The Self-Help Group (SHG) movement originated in Bangladesh under the Leadership of Noble Laureate Mohamed Yunus. It is a noble mission- an innovative concept that has its roots in Bangladesh and also touched every part of the globe. In order to achieve the mission of reaching those families who did not access to credit by any formal financial institution and, therefore, were dependent on informal sources and moneylenders, the National Bank for Agriculture and Rural Development (NABARD) introduced the "SHG - Bank Linkage Programme" as a pilot project in 1992. Thereafter, RBI had advised commercial banks to participate actively in this programme. Subsequently, this programme was further extended to all Regional Rural Banks (RRBs) and cooperative banks. SHGs through the network of commercial banks, RRBs cooperative banks, NABARD and NGOs has been largely supply driven as well as a recent approach in the provision of financial services to the poor. This paper is an attempt to analyse the SHGs movement in India as these are helpful in order to alleviate poverty and women empowerment. The present study is analytical and based upon secondary data which has been collected from different published reports, journals and existing available literature. The objective of this study is to evaluate the progress of self help group bank linkage programme.

### **1.1 Self Help Group**

Self Help Group means a group of 15-20 members which have become a common vehicle of development covering various development programmes. Financial intermediation is not the only objective but the purpose behind this is to combine the access to low cost financial services with a process of self management and development. SHGs are usually formed and supported by NGOs or Government agencies. SHGs are small, informal and homogenous groups of not more than 20 members each. Any group larger than the size of 20 members has to be registered under Indian legal system. So it is recommended to be informal to keep them away from bureaucracy, corruption, unnecessary administrative expenditure and profit motive. Groups are also expected to be homogenous so that members can participate freely without any fear as well as conflict of interests. SHGs have also emerged as a powerful device and an effective medium for delivering credit to the poor in the rural economy. It helps in poverty alleviation and women empowerment. Self-help groups (SHGs) movement has triggered off a silent revolution in the rural credit delivery system in India.

### **1.2 SHG -Bank Linkage Programme**

The Self-Help Group Bank Linkage Programme (SHBL) which started as a pilot programme in 1992 has developed at a very fast rate with time. SHG-Bank Linkage Programme was started on the basis of the recommendation of S K Kalia Committee. While the SHG-bank linkage Programme has experienced exponential growth over the past decade, there remain large regional disparities in the growth of the SHG movement with limited progress in certain regions. Though the SHG-Bank Linkage Programme contributed to improve economic conditions, social change was not as apparent, and there are concerns of sustainability and further development of self reliance of the institutions. The SHG-Bank Linkage Programme has the following objectives:

- To develop mutual faith and confidence between the rural poor and bankers.

- To combine sensitivity, flexibility and responses of the informal credit system with the strength of administration capabilities, technical strength and the financial resources of the formal financial institutions.
- To expand credit flow/ financial services to the rural poor with less transaction costs.
- To alleviate poverty and empower the women.

## **2. MODELS OF SHG-BANK LINKAGE PROGRAMME**

The strategy behind these models is to form small, cohesive and participative groups of the poor and encourage them to pool their savings regularly and use the pooled savings in order to make small interest bearing loans available to the members. Bank credit facility also available to the group to augment its resources for the purpose of lending to its members. The SHG-bank linkage program has proved to be the major supplementary credit delivery system with a wide acceptance by banks, NGOs and various government departments. There are three models of SHG-bank linkages that have evolved over time, especially in India.

### **2.1 MODEL -I. SHGs formed and financed by banks**

In this model, banks themselves take up the work of forming and nurturing the groups, opening their bank accounts and providing them with bank loans after satisfying themselves as to their maturity to absorb credit. Upto March 2006, about 20% of the total number of SHGs financed was from this category. This shows an increase of 61.63 percent in bank loan to SHGs over the position as on March 2005 reflecting an increased role of banks in promoting and nurturing SHGs. Here, the banks act as the SHGPI.

### **2.2 MODEL- II. SHGs formed by NGOs and formal organisations but directly financed by the banks**

In this model, groups are formed by NGOs (in most cases) or by the government agencies. The groups are nurtured and trained by the agencies. The bank then provides credit directly to the SHGs after observing their operations and maturity to absorb credit. While the bank provides loans to the groups directly, the facilitating agencies continue their interactions with the SHGs. Most linkage experiences begin with this model, where NGOs play a major role. This model has also been popular and more acceptable to banks, since some of the difficult functions of social dynamics are externalized. This model continues to have a major share. About 70 percent of the total number of SHGs is financed under this model.

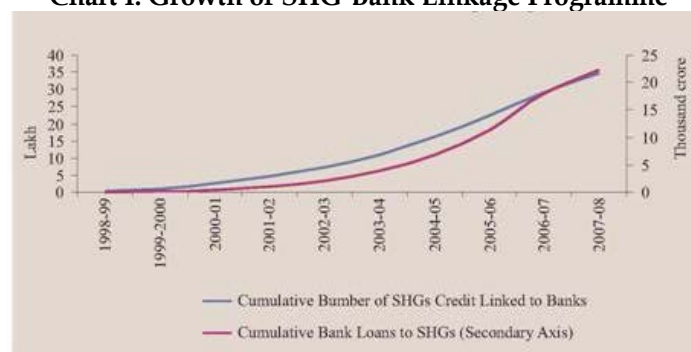
### **2.3 MODEL- III. SHGs financed by banks using NGOs and other agencies as financial intermediaries**

For various reasons, banks in some areas are not in a position even to finance SHGs promoted and nurtured by other agencies. In such cases, the NGOs act as both facilitators and microfinance intermediaries. First, they promote the groups, nurture and train them and then they approach banks for bulk loans for further lending to SHGs. In other words, banks take the sole responsibility for promoting, developing and financing SHGs. In fact, this programme requires considerable effort by the bank staff towards the formation of SHG. This model is not so encouraging.

**Models of SHG Linkages**

Model	Number of Linkages	% of Total	Bank Loans	
			Amount (Rs. In million)	% of Total
1.	13561	14	339.79	18
2.	65636	70	1339.95	69
3.	15448	16	250.10	13

A major share of population in India continues to remain outside the formal banking system inspite of considerable expansion in the branch network. Therefore, various alternative models are being experimented in order to meet the objective of financial inclusion. The SHG-Bank Linkage model is considered a most successful, promising and widely accepted model in India. This model was introduced in 1991-92 with a pilot project of linking 500 SHGs with banks and this figure has gone up to more than 34 lakh by the end of March 2008. Cumulatively, these SHGs have assessed credit of Rs. 22,268 crore from banks during the period. About 4.1 crore poor have gained access to the formal system through the programme. The number of SHGs linked to banks has increased from 32995 during 1998-99 to 3477965 during 2007-08 i.e., during the period of last ten years. It means there is an impressive 68 percent compound annual growth rate. But the compound annual growth rate is almost double each year for the cumulative bank loan to SHGs which is 94 percent. The faster growth in bank loans to SHGs has led to almost a four-fold increase in the average loans per SHG from Rs. 16,816 in 1999-2000 to Rs. 63,926 in 2007-08. These figures reflect the outstanding success of the programme in the Chart 1 given below.

**Chart I: Growth of SHG-Bank Linkage Programme****3. PROGRESS OF THE SHG-BANK LINKAGE PROGRAMME**

NABARD introduced an effective SHG-Bank Linkage Programme in order to provide credit to very small borrowers. The introduction of the SHG-Bank linkage Programme is to discard the general perception of bankers that customers with no formal education or source of income are of no use to the bank and thus are not welcome. Since the year 2000, the statistical data show the rate of growth in SHGs linked under the programme is gradually falling. In the year 1999-2000 the growth rate was more than 245% whereas it fell below 38.3% in 2005-06. However, the higher growth in the late nineties may be due to initial penetration of SHGs under the programme. With the formation of new SHGs, the scope is widened which will improve the condition of the poor

households and it should be worked upon. Table 1 given below shows the cumulative progress of SHG-Bank Linkage Programme.

**Table-1: Cumulative Progress of SHG-Bank Linkage Programme (INR in crores)**

Year	SHGs Linked	Bank Loan	Refinance Assistance
1992-93	255	0.29	0.27
1995-96	4757	6.06	5.66
1998-99	32955	57.07	52.09
2002-03	461478	2048.67	796.50
2005-06	2238565	11397.46	4159.70
2006-07	2924973	17967.46	5452.56
2007-08	3477965	26816.72	7068.06
2008-09	4559443	39070.23	9688.09

Note: From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of Swarnajayanti Gram Swarozgar Yojna (SGSY) SHGs and existing groups receiving repeat loans.

Source: NABARD Annual Report 2008-09

The above table shows the cumulative progress in this area with the amount of refinance assistance during the respective periods.

#### **4. DISPARITY IN THE SHG-BANK LINKAGE PROGRAMME**

SHG-Bank Linkage Programme was started with the objective of extending the outreach of banking the poor, who mainly comprise of marginal farmers, landless labourers, artisans and craftsmen and others engaged in the small businesses such as vending and hawking. Now the important point is that whether the programme has really made inroads into the regions where concentration of poverty is comparatively higher. And this can be found if we compare the poverty ratio at all India level with the corresponding ratio of various regions.

Earlier, during 2004-05, the all-India poverty ratio stood at about 27.6 per cent while the Northern (15.7 per cent), North- Eastern (19.2 per cent), Southern (19.8 per cent) and Western region (25.8 per cent) had lower than the all-India poverty ratio, Central (35 per cent), and Eastern Region (36.2 per cent) had higher poverty ratios than the all-India level. Now this variation is comparatively changed with the expansion of number of SHGs. Similarly, there has been skewed development of SHG-Bank linkage programme on geographical basis in India.

There is wide regional disparity both in terms of the spread of SHGs linked to banks and cumulative bank loans disbursed under the programme. In March 2008, while the Southern Region accounted for 48.2 per cent of the total SHGs, the share of North- Eastern Region was just 3.4 per cent as depicted in table 2. In terms of share in the total bank loans to SHGs, the region-wise differential gets further magnified.

So far, the SHG movement in the country is mostly south-centric and it is yet to take off in the real sense in other regions of India.

**Table-2: Region-wise Progress of SHG-Bank Linkage Programme (As on March 31, 2008)**

Regions	Share (%) in Programme					
	No. of SHGs	Loans to SHGs (Rs. crore)	Average Loans per SHG (Rs.)	No. of SHGs	Loans to SHGs	SHGs per Lakh Population
Northern	2,30,740	851	36,899	6.6	3.8	156
North Eastern	1,19,520	327	27,364	3.4	1.5	283
Eastern	6,72,626	2,372	35,268	19.3	10.7	274
Central	4,05,707	1,501	36,990	11.7	6.7	142
Western	3,74,561	1,320	35,254	10.8	5.9	229
Southern	16,74,811	15,896	94,915	48.2	71.4	703
All India	34,77,965	22,268	64,027	100.0	100.0	310

Source: NABARD

While the Southern Region accounted for 71.4 per cent of the total loans to SHGs, the share of North-Eastern Region was just about 1.5 per cent. For all regions excluding Southern Region, even though the share of total SHGs linked to banks was close to 51.8 per cent, their share in total loans to SHGs was only 28.6 per cent implying that adequate credit is not being routed through SHGs in these regions. As the regions vary in geographical area and population, the number of SHGs is normalized by the population of the region and therefore, SHG per lakh population is considered as a better indicator of SHG spread in the respective regions. The number of SHGs per lakh population for the Southern Region is 703, which is more than double the average at all-India (310) and almost five times of the Central Region (142).

All these data given in the table shows an impressive growth in southern region followed by eastern, central and others.

The SHG Bank Linkage Model has made considerable progress since its inception in the early 1990s and agency-wise outstanding number of credit linked SHGs and amount of loans with Banks is presented in Table3 given below.

**Table-3: Bank Loans Outstanding under SHG-Bank Linkage Programme**

Agency	2008 - 09		2009-10	
	No. of SHGs (in'000)	Amount (Rs. In Crores)	No. of SHGs (in'000)	Amount (Rs. In Crores)
Commercial Banks	2831	16149	3237	20165
Regional Rural Banks	978	5224	1104	6144
Cooperative Banks	415	1306	510	1729
Total	4224	22679	4851	28038

Source: Status of Microfinance in India 2009-10

Banks have financed 15.87 lakh SHGs, including repeat loan to the existing SHGs, with bank loans of Rs. 14,453 crores during 2009-10. Out of the total loans disbursed during 2009-10, SHGs financed under SGSY accounted for 2.67 lakh (16.9%) with bank loan of Rs. 2198.00 crore (15.2%). As on March 2010, the average loan amounts outstanding per SHG and per member were Rs. 57795 and Rs. 4128 respectively. The estimated number of households covered under the Self Help Group (SHG)-Bank Linkage Programme was 9.7 crores up to 31 March 2010.

#### 5. CURRENT POSITION OF SHG-BANK LINKAGE PROGRAMME

Though there are different models for purveying microfinance, the Self-Help Group Bank Linkage Programme has emerged as the major programme in the country. It is being implemented by commercial banks, regional rural banks (RRBs), and cooperative banks. In 2009-10, 1.59 million new SHGs were credit-linked with banks, and bank loan of Rs. 14,453 crore (including repeat loan) was disbursed to these SHGs. Further, about 6.95 million SHGs maintained savings accounts with banks at the end of March 2010. On an average, the amount of savings per SHG was 8,915 as compared to the amount of credit outstanding of 57,795 in 2009-10. While there was a continuous increase in the amount of credit outstanding per SHG, there was a fluctuating trend in the amount of saving per SHG in the recent years.

According to the Status of Micro Finance in India 2009-2010 released by The National Bank for Agriculture and Rural Development (NABARD) there are 69,53,000 SHGs in the country savings linked with banks and 48,51,000 SHGs having loan outstanding as on 31 March, 2010. The estimated number of households covered under this model is about 970 lakhs. The total savings amount of all the SHGs with banks as on 31 March, 2010 amounts to Rs.6198.71 crore and the total amount of loans outstanding against SHGs as on 31 March, 2010 is Rs.28038.28 crore.

**Table-4: New SHGs Financed by Banks during the Year**

Year	New SHGs Financed by Banks during the Year		
	No. (lakh)	Amount (Rs. crore)	Growth (%)
2007-08	12.28	8,849.26	---
2008-09	16.09	12,256.51	38.50
2009-10	15.87	14,453.30	17.90
2010-11	11.96	14,547.73	0.65

Source: National Bank for Agriculture and Rural Development (NABARD)

Under the SHG-Bank Linkage Programme as on 31 March, 2011, Rs. 74.62 lakh SHGs held savings bank accounts with total savings of Rs. 7,016 crores as against 69.53 lakh SHGs with savings of Rs.6, 199 crores as on 31 March, 2010. By December 2011, another 2.98 lakh SHGs have come under the ambit of the programme, taking the cumulative number of saving-linked groups to 77.60 lakh SHGs. As on 31 March 2011, 47.87 lakh SHGs had outstanding bank loans of Rs. 31,221

crores, as against 48.5 lakh SHGs with bank loans of Rs. 28,038 crore as on 31 March, 2010. This represents a decline of 1.3 percent in the number of SHGs and a growth of 11.4 percent in bank loans outstanding to SHGs as per table 4 given above. During 2011-12, (upto December 2011), 4.51 lakh SHGs have been financed with an amount of Rs. 6,791.46 crore. Thus, the SHG-Bank Linkage Programme is considered as the largest financial inclusion programme in the world.

## **6. CONCLUSION**

SHG-Bank Linkage Programme is developed in India to provide finance to the vast rural poor. In this programme, the informal SHGs are credit linked with the formal financial institutions. The SHG-Bank Linkage Programme has emerged as a dominant, relevant and effective programme in terms of borrowers and loans outstanding in India. It is flexible, independence creating, and imparts freedom of savings and borrowing according to the heterogeneous needs and requirements of the group members.

Through this programme, the Reserve Bank of India and NABARD have tried to promote relationship banking, i.e., "Improving the existing relationship between the poor and the bankers with the social intermediation of the NGOs." The SHG-bank linkage program in India is rapidly expanding its outreach under the pioneering initiative of NABARD, the monitoring and supervision of RBI, and the promotional policies of the government of India. At the grass root level the programme is being implemented by the commercial banks, cooperatives, and regional rural banks, with government agencies. Today Self-help groups (SHGs) play a major role in poverty alleviation in rural India. SHGs have changed the life of many individuals or groups for the better. This is considered not only a tool for poverty alleviation, but also has proved to be relevant in offering women the possibility to gradually break away from the exploitation and isolation in India. 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.

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