Indian Journal of Industrial Economics and Development
Volume 7 No. 2 (2011): 1-10

A Review of SHG-Bank Linkage Programme in India

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Abstract

Microfinance has made tremendous strides in India over the years and it has become a household name in view of the multi-pronged benefits from microfinance services to the poor in our country. Self Help Groups (SHGs) have become the common vehicle of development process including microfinance. SHG–Bank Linkage Programme (SBLP) launched in 1992 envisaging synthesis of formal financial system and informal sector has become a movement in India. NSSO data reveal that 45.9 million farm households in the country (51.4%), out of a total of 89.3 million households do not have access to credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27percent of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm household's not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91, 81.26 and 77.59 percent in the North Eastern, Eastern and Central Regions respectively. As on 31 March 2009, there are more than 6.1 million saving-linked SHGs and more than 4.2 million credit-linked SHGs and thus, about 86 million poor households are covered under the programme. The SBLP targeted to reach 100 million of households by 2015. The paper tries to examine the spread of SBLP among geographies and poor and suggest ways to overcome regional and class differences in reach.

Background

Microfinance has made tremendous strides in India over the years and it has become a household name in view of the multi-pronged benefits from microfinance services to the poor in our country. Self Help Groups (SHGs) have become the common vehicle of development process including microfinance. SHG-Bank Linkage Programme (SBLP) launched by NABARD way back in 1992 envisaging synthesis of formal financial system and informal sector has become a movement

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throughout the country. With this, the formal financial institutions in India have ventured into microfinance in a massive way. It is considered as the largest community based microfinance programme in terms of outreach in the world and many other countries are keen to replicate this model. This is also recognized as a part of priority sector lending and normal banking business by the Reserve Bank of India. As on 31 March 2009, there are more than 6.1 million saving-linked SHGs and more than 4.2 million credit-linked SHGs and thus, about 86 million poor households are covered under the programme. The SBLP targeted to reach 100 million of households by 2015. However, since inception of the programme, the outreach is spectacular in southern states, while north, west and eastern states are lagging behind. In view of the large outreach, pre-dominant position and the possible benefits to the poor, it is very important to see the benefits of this program reach across all sections of society and regions. Keeping this in mind, it is important to examine under what conditions credit recycling capacity of SHGs improves, which attributes of banks, SHGs, members, regional agro-economic or social and institutional factors will contribute for success or failure in the spread of the SBLP in different parts of the country. What is the role of the non-government organizations (NGOs/Micro-Finance Promoting Institutions (MFPIs), community based organizations, internal dynamics of SHGs and other credit plus approaches in expanding the SBLP to reach unreachable?

In India, two types of SBLP models have emerged over period of time

- Type--I: Bank-SHG-Members: The bank itself acts as a self-help group promoting institution (SHPI).
- Type-II: Bank-NGO-SHG-Members: Facilitating agencies like NGOs, government agencies, or other community-based organizations form groups.

Another, predominant practice adopted by banks to reach remote and unreachable areas is through providing bulk financing to MFIs for onward lending to the SHGs, which is also recognized as priority sector lending. In this, NGOs act both as facilitators and microfinance intermediaries. First, they promote groups, nurture them train them, and then they approach banks for bulk loans for lending to the SHGs.

Imbalances in Geographical spread

Right from the inception, the program has been a major success in South India. Its share in the SBLP disbursements in 2009-10 is 74 percent. The number of SHGs credit linked in the central region had increased due to a sharp rise in credit linkages in Uttar Pradesh. In the Eastern and the Western regions, the number of SHG links had increased, but these regions’ share of the total linkages had decreased.

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In the north and the northeastern regions, the linkage program had not gained much acceptability. The north, east and north-east still have considerable headroom to grow. The slowing of the pace in the SBLP could be effectively used for consolidation and deepening of the financial services among the SHGs. In that sense, the lower growth rate should be seen as a positive development in the saturated southern states. The MFIs had most of their outreach and loan volumes in Andhra Pradesh, Tamil Nadu and Karnataka (52 per cent of clients and 59 per cent of outstanding loans). There are six major states and all the north-eastern states in which MFIs have very few clients, constituting less than one per cent of total clients. Keeping the imbalances between south and north, there is a need for greater thrust and focus to be given for northern and eastern region in evolving policies for financial inclusive growth of SBLP.

Reasons for success in southern states and some pockets in the north

The SBLP program since its initiation has shown severe spatial preferences. It has been predominant in certain states namely, Andhra Pradesh, Uttar Pradesh, Tamil Nadu, and Karnataka. These four states have accounted for two-thirds of the SHG credit linkages, with Andhra Pradesh alone accounting for 40 percent. Of these four states, only Uttar Pradesh had a higher poverty ratio (31.1%) than the national average of 27.6 percent. APMAS (2005) in its widely quoted study titled *A study on Self-Help Group-Bank Linkage in Andhra Pradesh* assessed the SBLP in Andhra Pradesh. It highlighted the factor which contributed for faster growth of SBLP in AP and lessons to be learned from Andhra Pradesh and replicable to other states. The EDA Rural Systems and APMAS (2006) in a study titled *The Light and Shades of SHGs in India* documented the success stories and failures as case studies by studying four states (2 Southern states Andhra Pradesh and Karnataka; 2 Northern states Orissa and Rajasthan) in India. Ghate (2007) in his study highlighted the need for creating an awareness to charge cost-recovering interest rates, the importance for the NGO sector of building long-term and healthy relationships with the government and other stakeholders, importance of maintaining diversity in delivery channels of micro-credit. GTZ-NABARD (2007) in its study titled *Impact and Sustainability of SHG Bank Linkage Programme* concluded that the phase of growth is slow in north due to the institutional factors like lack of awareness and gender inequality. The study assessed the impact and sustainability of SHG bank linkage on the socio-economic conditions of the individual members and their households in the pre-SHG and post-SHG scenarios. The study was conducted for India as a whole covering six states (Andhra Pradesh, Karnataka, Maharashtra, Orissa, Uttar Pradesh and Assam) from five different regions, namely the south, west, east, central and north-east. The overall findings of the study suggest that the SBLP has significantly improved the access to financial services of the rural poor and had considerable positive impact on the socio-economic conditions and the reduction of poverty of SHG members and their households. It has also reportedly empowered women members substantially and contributed to increased self-confidence and positive behavioural changes in the post-SHG period as compared to the pre-SHG period. Srinivasan (2008) stated that microfinance has to develop a greater sensitivity to the needs of the poor clients. The small loans should give way to livelihood support loans of a larger size and longer duration. Only when livelihoods and incomes are targeted, microfinance sector can claim that its mission is achieved. Most of the studies abroad were related to theoretical aspects of micro-finance which include a major theoretical work by Armendariz and Morduch (2005) which elaborated both theoretical and empirical evidence of microfinance in the larger context of development policy. Yunus (2002) explained some of the innovations in microfinance sector followed by Grameen Bank II, which go beyond the group lending principles with greater emphasis on individual lending. Write (2000) in his study emphasized quality of financial services for the poor with innovative microfinance products and by using technology and institutional innovations in systems perspective. Some of the factors identified for the outstanding performance of South India (especially Andhra Pradesh) in the SBLP were the following: (a) Forty percent of the SHGs that were credit linked under Development of Women and Children in Rural Areas (DWCRA) were concentrated in Andhra Pradesh alone. (b) 2700 groups were promoted in that state under a special project sponsored by United Nations Development Program called South Asia Poverty Alleviation Program. (c) The credit movement in the south led to the evolution of community based development finance institutions, which were composed of SHGs promoted by NGOs or by district rural development agencies. (d) District collectors, NABARD district development managers, and lead bank managers profoundly supported the SHG-bank linkage program in the state. (e) Leading NGOs in the microfinance sector in India, like Mysore Resettlement and Development Agency (MYRADA), Society for Helping Awakening Rural Poor through Education (SHARE) and Bharatiya Samruddhi Investments Consulting Services Limited (BASIX), were also working in Andhra Pradesh.

Relative Strength of the SHGs among States

Cyril and Britta (2007) worked out extent of regional disparities in SHG movement in India across states. The ratio of the number of SHG members to the total households of the states reveals a different, although continuing, pattern in regional variations as compared to the relative strength of the SHGs. In March 2001, there were ninety households participating in SHGs for every 1,000 of Andhra Pradesh's households. In the states Sikkim, Assam and Punjab, however, there were six, five, and three households participating in SHGs for every 10,000 of the total households respectively. The irregular pattern continued in 2003 and 2005. Nevertheless, the relative strength of the SHGs slightly converged among states, as evidenced in the decline of the coefficient of variation from 1.99 in 2001 to 1.15 in 2006. In the study, the states are grouped using the standard deviation of relative share of SHGs. In March 2001, Andhra Pradesh was ranked first, with more than three units of standard deviation above the mean. Tamil Nadu, Himachal Pradesh, Pondicherry and Karnataka formed the second leading group, which had a standard deviation above the mean, *i.e.*, with nineteen, sixteen, twelve and nine households participating in SHGs for every 1,000 households respectively. The rest of the states had one unit of standard deviation below the mean and formed the weakest states in the process of microfinanciarization. The Uttar Pradesh's low percentage of SHG members out of total households might be a result of its large population base. In fact, its absolute size of SHGs was ranked fifth. Five years later, in March 2006, Andhra Pradesh had further consolidated its role as the leading state in the size of the SHG movement, measuring more than three standard deviations above the mean which means that 279 households participating in SHGs for every 1,000 households. Orissa, Pondicherry, Tamil Nadu and Karnataka formed the second leading group, with more than one standard deviation above the mean. Himachal Pradesh, Kerala, Assam, Rajasthan, West Bengal and Maharashtra formed an intermediate group with ratios within one standard deviation of the mean, with ninety-four, eighty-five, eighty-two, sixty-five, sixty-one and fifty-six households participating in SHGs for every 1,000 households respectively. The other states had one unit of standard deviation below the mean. In Uttaranchal and Jharkhand there were less than thirty-two households participating in SHGs for every 1,000. In Jammu and Kashmir, Haryana, Punjab and Arunachal Pradesh there were less than ten households participating in SHGs for every 1,000 of the total households.

Geographical spread

Assam, Bihar, Chhattisgarh, Gujarat, Himachal Pradesh, Jharkhand, Maharashtra, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, Uttaranchal and West Bengal have been identified by NABARD for having higher potential of increasing SHG outreach. In general, the lower credit linkages in some of these states can be explained by a lack of concentrated efforts by banks; the inability of banks to identify NGOs with savings and credit groups; a lack of motivation among bankers; a lack of large sized NGOs with previous background working with SHGs; and the unsuitability of the approach to the region. One of the questions that arose after reviewing the spread of SHGs in different states was, did the spread of SHG credit linkages across India have a systematic approach? The data presented in Table 1 reveal that except southern region all regions are lagging behind in various banking indicators and in poverty levels and the 13 priority states identified by NABARD are also located in these regions. Sizable SHGs are not able to absorb credit from formal sources and disappear within 5 to 6 years after the formation. Further, many of the micro-finance programs including SBLP are fallen into high-cost and high interest rate vicious spiral. Many of the rural households reluctant to take loans with high interest rates from the SBLP, hence they may not be willing to join SHGs. The high cost structure may not be sustainable in the long run, keeping the low profitability of the farming and non-farming sectors in rural India.

Table 1: Region-wise Banking Indicators and SHG Spread

Zone	Per capita Income (`)	SHG Spread[#]	Banking Network[@]	C-D Ratio (%)
Northern	38,938	1560	79	64.6
NE	24,104	2830	46	40.7
Eastern	21,302	2740	50	49.2
Central	18,548	1420	50	44.2
Western	44,699	2290	67	92.0
Southern	35,437	7030	82	84.4
Total	29,453	3100	63	72.4

Source: Kumar and Golait (2009)
#: SHG spread is measured as number of SHGs per million populations.
@: Banking network is measured as number of branches of scheduled commercial banks per million populations.

Coverage of the poor

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes (Reddy and Kumar, 2006). Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty ((Rangarajan Committee, 2008).

The NSSO data reveal that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not have access to credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27 percent of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm household’s not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91, 81.26 and 77.59 percent in the North Eastern, Eastern and Central Regions respectively (Reddy, 2006). Thus, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion (Rangarajan Committee, 2008).

In terms of coverage of the vulnerable, it is difficult to conclude that the most poor have been prioritised. The studies and anecdotal evidence point to the coverage of the upper strata of the poor and not so much to the ultra poor. In the case of SHG linkage, except the government-sponsored programmes that are mandated to focus on poor, the other efforts do not prioritise the poorest. The study carried out by EDA Rural Systems and Andhra Pradesh Mahila Abhivruddhi Society (APMAS) in 2005 had found that only 51 per cent of its sample SHG members were poor. The NCAER study carried out recently has found that in Uttar Pradesh (UP), Andhra Pradesh (AP) and Maharashtra, SHGs with majority non-poor members were as high as 63, 43 and 34 per cent, respectively. The GTZ-NABARD study has also concluded that the coverage of the poor in northern and eastern states is not significant (GTZ-NABARD 2007).

Some insights from field studies

Suvida Dhata was appointed by local administration to coordinate the process of SHG formation and strengthening. In many cases they are working on commission basis, but some committed *Suvida Dhata* is working towards progress of the SHG-bank linkage program and also SGSY. Some local NGOs are actively engaged in the promotion of SGSY program and SHG-Bank linkage program. The Branch Managers of commercial banks are actively engaging in the SHG promotion activities in most of the banks. The Grammen Banks are far ahead of commercial banks in promoting SHG-Bank linkage program. However, local commercial bank branches are also equally reachable by *Suvida Dhata* and other NGOs. Where ever there is active NGO, the progress at grass root level is good and visible. However, some times, local *Suvida Dhata* is more influential in mobilizing local women to form SHGs. There is acute shortage of funds under SHG-Bank Linkage program compared to SGSY program in all districts. That's why most of the NGOs/*Suvida Dhata* are not willing to be part in the SHG-Bank linkage program. The role of *Suvida Dhata* is very prominent in promotion and sustainability of SHGs. There is no role of anganwadi workers in the study districts. There is a good incentive system build in SGSY program for every stakeholder involved, hence banks, NGOs and households are very much interested in the program. No support from political system exists in the study area as politicians feel loose of power after they become financially independent. The driving force behind the SGSY program is a commission taken by bank officials or *Suvida Dhata* of ` 2000 per household at the time of second grading. As a result of this the repayment culture is also effecting adversely. Many people are not willing to join or discontinuing from the SHG after getting the loan. In general repayment performance is good up to second installment, after that there some defaults are reported. The interest rate Offered by banks under SGSY (8%), SHG-Bank Linkage Program (8%), offered by money lenders (60 to 12 %), offered by shop keepers (same as above), internal lending to members (2%), internal lending to non-members (60%). Some mature-SHGs (Old SHGs) are not repaying loans as unprofitable businesses of their micro- enterprises, prevalence of taking commission by bankers and *Suvida Dhata* while disbursing loans and ill-health. Most of the loan is utilized for milk production, goat rearing and for purchasing hybrid buffalo.

Suggestions for strengthening SHG-Bank linkage program

1. ***Encouraging SHGs in Excluded Regions:*** The spread of SHGs in North, Eastern and North-Eastern Region is poor. One of the reasons for this is the weak banking network and social backwardness and less NGO activity. There is a need to evolve SHG models suited to the local context.
2. ***Capacity building of Government functionaries:*** There is a need for sufficient training for *Suvida Dhata* and local NGOS/bank staff on SHG concept
3. ***Check on corruption/commission while sanctioning and upgrading the loan:*** The commission and corruption at grass root level leads to selection of wrong people for loan, higher defaults, misutilisation of loans (like revolving loan for money lending, luxurious consumption).
4. ***Maintenance of participatory character of SHG movement:*** SHG movement retains its participatory and self-help character.

5. ***Identification of poor by the NABARD**:* NABARD has already identified 16 States with large population of the poor, but exhibiting low performance in implementation of the programme. The ongoing efforts of NABARD to upscale the programme in the identified States need to be given a fresh impetus.

6. ***Incentive package for NGOs:*** incentives to be provided to honest and result oriented NGOs and *Suvida Dhata*

7. ***Avoid 'ever-greening' of loans:*** A certain element of "ever-greening" of loans is reportedly taking place among credit linked SHGs. NABARD may expeditiously study this aspect and come out with suggestions for reversing this unsettling trend.

8. ***Transparency in maintenance of records:*** Banks, with the help of NABARD, should evolve a common checklist for all SHGs with very simple record keeping.

9. ***SHGs to evolve norms for distribution of surplus:*** There is a need to evolve norms for distribution of surplus (akin to dividend) especially at the time when a member drops out of the group.

10. ***Need to restructure design & direction of SGSY subsidy:*** All subsidy component of SGSY should be used for income generating activities.

11. ***Resource Centres:*** Resource Centres on the lines of the Andhra Pradesh Mahila Abhivruddhi Society (APMAS) can be set up in different parts of the country.

12. ***Identification of income/employment generating activities**:* The present challenge is to induce SHGs and their members to graduate into matured levels of enterprise, factor in livelihood diversification. Separate cell in each bank branch to be established to address this aspect.

13. ***Federations:*** Federations, if they emerge voluntarily from amongst SHGs, can be encouraged.

14. ***ICT technology and product innovation:*** In the ever changing technology there is good scope for ICT tools to reduce cost of financial inclusion. This needs to be sufficiently explored for the benefit of both banks and rural SHG members.

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