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A STUDY ON EVALUATION OF THE PROGRESS OF MICROFINANCE THROUGH SELF HELP GROUP BANK LINKAGE MODEL

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Abstract
Self-Help Group is a team of 10-20 members save the amount regularly based on which members will avail loans from banks and microfinance institutions. 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 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 microfinance through self-help groups 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 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 model of microfinance. Keywords: Growth, Models, Micro finance, Self-Help Group, SHG-Bank Linkage Programme.

INTRODUCTION

HISTORY OF MICROFINANCE IN INDIA

The post-nationalization period in the banking sector witnessed a substantial amount of resources being earmarked towards meeting the credit needs of the poor. There were several objectives for the bank nationalization strategy including expanding the outreach of financial services to neglected sectors. As a result of this strategy, the banking network underwent an expansion phase without comparable in the world. Credit came to be recognized as a remedy for many of the ills of the poverty. There spawned several pro-poor financial services, support by both the State and Central governments, which included credit packages and programs customized to the perceived needs of the poor.

While the objectives were laudable and substantial progress was achieved, credit flow to the poor, and especially to poor women, remained low. This led to initiatives that were institution driven that attempted to converge the existing strengths of rural banking infrastructure and leverage this to better serve the poor. The pioneering efforts at this were made by National Bank for Agriculture and Rural Development (NABARD), which was given the tasks of framing appropriate policy for rural credit, provision of technical assistance backed liquidity support to banks, supervision of rural credit institutions and other development initiatives.

In the early 1980s, the GoI launched the Integrated Rural Development Program (IRDP), a large poverty alleviation credit program, which provided government subsidized credit through banks to the poor. It was aimed that the poor would be able to use the inexpensive credit to finance themselves over the poverty line.

Also during this time, NABARD conducted a series of research studies independently and in association with MYRADA, a leading non-governmental organization (NGO) from Southern India, which showed that despite having a wide network of rural bank branches servicing the rural poor, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking system. These studies also showed that the existing banking policies, systems and procedures, and deposit and loan products were perhaps not well suited to meet the most immediate needs of the poor. It also appeared that what the poor really needed was better access to these services and products, rather than cheap subsidized credit. Against this background, a need was felt for alternative policies, systems and procedures, savings and loan products, other complementary services, and new delivery mechanisms, which would fulfill the requirements of the poorest, especially of the women members of such households. The emphasis therefore was on improving the access of the poor to microfinance rather than just micro-credit.

To answer the need for microfinance from the poor, the past 25 years has seen a variety of microfinance programs promoted by the government and NGOs. Some of these programs have failed and the learning experiences from them have been used to develop more effective ways of providing financial services. These programs vary from regional rural banks with a social mandate to MFIs. In 1999, the GoI merged various credit programs together, refined them and launched a new programme called Swaranjayanti Gram Swarozgar Yojana(SGSY). The mandate of SGSY is to continue to provide subsidized credit to the poor through the banking sector to generate self-employment through a self-help group approach and the program has grown to an enormous size.

OBJECTIVES AND METHODOLOGY

Keeping the above facts in view this paper has the following objectives (i) to give a brief account of the present performance of micro finance in India (ii) to study the SHG – Bank linkage model of micro finance (iii) to understand the working model of SBLP (iv) to suggest suitable strategies for taking SHG-bank linkage model forward. This paper is based on secondary information gathered from annual reports of Nabard, publications of reputed journals, books, internet and newspapers.

POVERTY AND SHG PENETRATION

In this section, we look at how the penetration of SHG-BLP is related to poverty in different Regions / States. Although SHG-BLP cover people below the poverty line as well as those marginally above BPL, comparison has been made with reference to the BPL population for which state-wise data is available. Number of persons below the poverty line for the year 2011-12 published during 2013 by the Planning Commission, GoI, estimated as per the methodology recommended by Tendulkar Committee has been followed for the analysis (see the table below). The penetration of SHGs have been arrived at based on the number of savings linked SHGs per lakh BPL population and number of credit linked SHGs (those having credit outstanding with banks as on 31.3.2014) per lakh BPL population.

Table - 1, State wise population below poverty line - 2011-12

(No. of persons in lakhs)

Sr. No.	States/UTs	No. of BPL persons (rural + urban)	Sr. No.	States/UTs	No. of BPL persons (rural + urban)
1	Chandigarh	2.35	18	Jharkhand	124.33
2	Haryana	28.83	19	Odisha	138.53
3	Himachal Pradesh	5.59	20	West Bengal	184.98
4	Jammu & Kashmir	13.27	21	Chhattisgarh	104.11
5	New Delhi	16.96	22	Madhya Pradesh	234.06
6	Punjab	23.18	23	Uttar Pradesh	598.19
7	Rajasthan	102.92	24	Uttarkhand	11.60
8	Assam	101.27	25	Goa	1.01
9	Arunachal Pradesh	4.91	26	Gujurat	103.66
10	Manipur	10.22	27	Maharashtra	197.92
11	Meghalaya	3.61	28	Andhra Pradesh	78.88
12	Mizoram	2.27	29	Karnataka	129.76
13	Nagaland	3.76	30	Kerala	23.95
14	Sikkim	0.51	31	Lakshadweep	0.02
15	Tripura	5.24	32	Puducherry	1.24
16	A & N islands	0.04	33	**Tamil Nadu**	**82.63**
17	Bihar	358.15	**All India -Total**		**2697.83**

Source: Status of Microfinance in India 2013-14, NABARD.

MICRO-FINANCE THROUGH SHGs

Micro-finance through self-help groups in the recent past has emerged as a potential instrument for poverty alleviation and women empowerment. It is believed that micro finance through SHGs enables the women to save, and to improve economic condition, confidence, household security, while reducing dependence on money lenders, improving food security, enhancing the access to health and education, enabling the poor to undertake income generating activities, etc. Thus, this system not only provides credit, but also acts as an important input for the development of poorer sections of the society in general and women in particular.

Chart 1, Status of Microfinance in India

Source: NABARD Report "Status of Microfinance in India" from FY09 to FY13

Progress of SHG – bank linkage model

SHG-bank linkage model popularized from 1992 has been spreading rapidly from the year 2000 in particular, in SHG advanced states and SHG less developed states. In this model, subsidy element is generally not found, whereas thrift and credit components constitute the base, the revolving fund assistance is given to SHGs. The importance is given to savings by the members, and loan is obtained from the bank in the ratio of 1:4 or higher multiples of savings.

The focus is on loan given to the members involved in more than one economic activity at times, based on micro-level plan prepared by them and other requirements. SHG approach followed in the context of SGSY/NRLM has the subsidy component.

Table 2, Progress under MFI-Bank Linkage Programme (Amount in Crores)

Particulars	2010-11		2011-12		2012-13		2013-14	
	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount
Loans disbursed by banks to MFIs	47(-39.5%)	8448.96 (-21.3%)	465 (-1.3%)	5205.29 (-38.39%)	426 (-8.4%)	7839.51 (50.6%)	545 (27.9%)	10282.49 (31.16%)
Loans outstanding against MFIs as on 31 March	2315 (39.5%)	13730.62 (-2.0%)	1960 (-15.3%)	11450.35 (-16.6%)	2042 (4.2%)	14425.84 (26%)	2422 (18.6%)	16517.43 (14.5%)
Loan Outstanding as % of fresh loans		162.51		219.98		184.01		160.64

Source: Status of Microfinance in India 2013-14, NABARD.

INNOVATIONS IN SHG – BANK LINKAGE

NABARD extents 100 percent refinance assistance to banks against the financial assistance provided by them to SHGs. In Tamil Nadu, NABARD continues to extend financial support to NGOs, regional rural banks, district cooperative banks, farmers clubs and individual rural volunteers for the promotion and nurturing of SHGs. As part of the innovative strategy to ensure sustainability of SHGs, NABARD has introduced grant assistance to NGOs for imparting training on micro enterprises known as Micro Enterprise Development Program (MEDP). On pilot basis, NABARD has provided a marketing platform for SHGs by sponsoring an exhibition of SHG products in Chennai.

Under the pilot project on SHG-post office linkage, NABARD has been utilizing the services of the trained postal staff in ensuring the savings and credit linkage of SHGs with the post office as a measure of reaching out to unreached poor. The department of posts is charging a simple interest rate of 9 percent per annum on the loan amount given to SHGs with no loan processing fees. NABARD also provides revolving fund assistance to MFIs and NGOs for on-lending to SHGs in selected pockets where bank linkage is poor.

WORKING MODEL OF SBLP

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.

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.

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.

Chart 2Working Model of SBLP

Table 3, Progress under Microfinance - Savings of SHGs with Banks Agency-wise position as on 31 /3/ 2014.

(Amount ` lakh)

Sr. No.	**Name of the Agency**	**Total Savings of SHGs with Banks as on 31 March 2014**		**Out of Total - Under NRLM/SGSY & other Govt.Sponsored Prog.**		**Out of Total - Exclusive Women SHGs**	
		No. of SHGs	**Saving Amount**	**No. of SHGs**	**Saving Amount**	**No. of SHGs**	**Saving Amount**
1	Commercial Banks	4022810	663145.63	1233087	158449.12	3483212	565641.83
2	Regional Rural Banks	2111760	195985.73	828567	71423.39	1753387	139081.96
3	Cooperative Banks	1294930	130610.18	200471	17885.58	1015079	96565.15
Total		**7429500**	**989741.54**	**2262125**	**247758.09**	**6251678**	**801288.94**

Source: Status of Microfinance in India 2013-14, NABARD.

From the above table it is inferred that out of 663145 lakhs of total savings of SHGs with commercial banks, exclusive women SHGs savings amounts to 565641.83 lakhs, whereas women SHGs savings RRBs amounts to 139081.96 lakhs and women SHGs savings with cooperative banks comes to 96565.15 lakhs for the year 2013-2014.

LOANS OUTSTANDING AGAINST SHGs

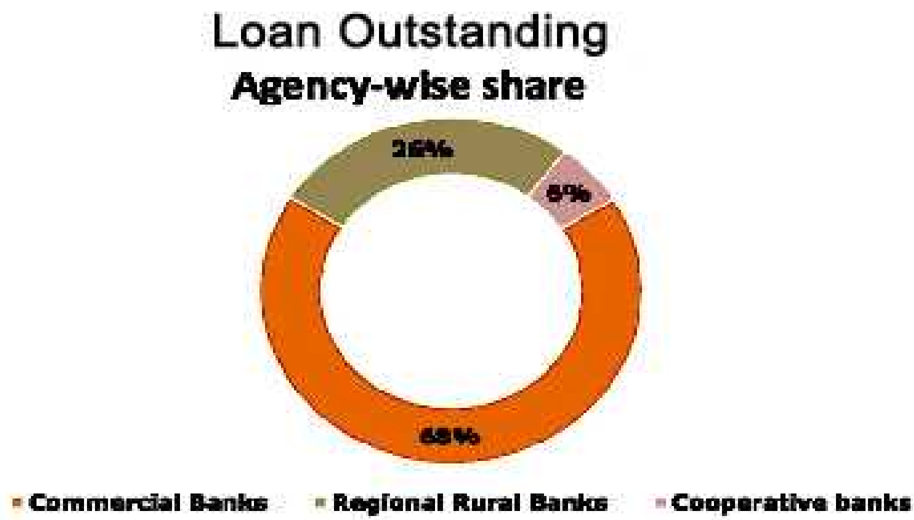
The number of SHGs having loans outstanding against them from banks declined by 5.71% (41.97 lakh as against 44.51 lakh last year) while the amount of loans outstanding rose by 9.02% to Rs.42927 crore (Rs. 39375 crore as on 31.3.2013). The decline in credit linked SHGs is visible in all regions except in the Central Region where there was an increase of nearly 16%. The rise in amount of loan outstanding was reported from Southern and Western regions while other regions reported a decline.

The average loan outstanding against SHGs as on 31.3.2014 was ` 1.02 lakh – up from 0.88 lakh a year earlier. Average amount of loan outstanding ranged from ` 50,500 per SHG in eastern region to 1.43 lakh in the southern region. Chattisgarh recorded the lowest average of Rs.30, 000 per SHG among major states while Andhra Pradesh reported an average of Rs. 1.62 lakh per SHG (Rs.1.87 lakh in Mizoram). Among the agencies, Commercial Banks had an average outstanding loan of 1.18 lakh per SHG while RRBs had Rs.0.90 lakh and Cooperative Banks Rs.0.53 lakh.

The percentage of SHGs credit linked (those having an outstanding balance of bank loans) to those savings linked (having a S.B. Account balance with banks) is 56% for the entire country and ranged between 67% for eastern region states to 30% for the western region. This excludes SHGs which might have been credit linked earlier, but not having any loan outstanding as on 31.3.2014.

Assuming that the SHG savings balance with banks constitute only 30% of the total savings (based on some sample studies conducted by NABARD earlier) of the SHGs (the balance being used for internal lending), the estimated credit outstanding against SHG members (from internal sources as well as from banks) amount to 66022 crore (23094 crore + 42928 crore). If recycling of loans by SHGs with shorter duration loans to members are also considered, the actual credit serviced by SHGs would be much higher.

Chart 3



Source: Status of Microfinance in India 2013-14, NABARD

FRESH LOANS TO SHGs by BANKS

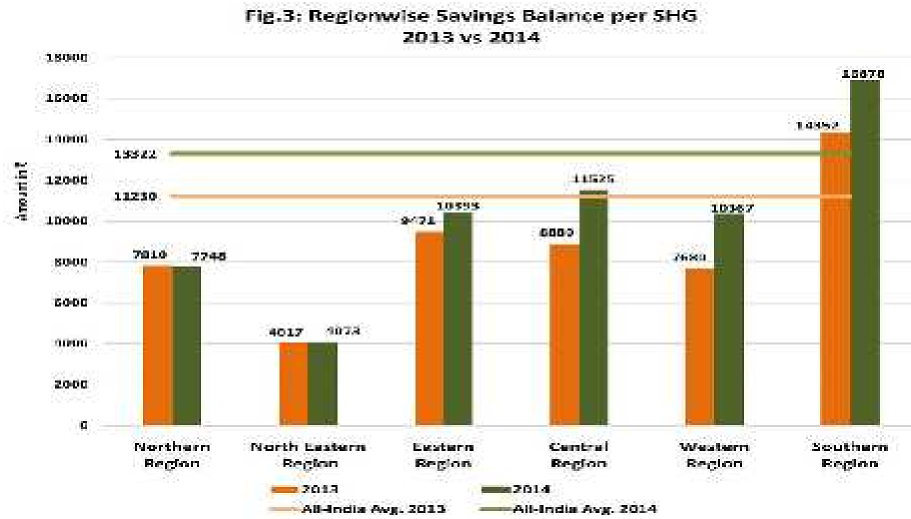
The number of SHGs being extended fresh loans by Banks has been steadily increasing for the last 3-4 years. There has been an increase of 12% (nearly 25% under the Government sponsored programmes) in the number of SHGs being extended fresh loans during the year as compared to the previous year while the increase in the quantum of fresh loans shot up nearly by 17% (13.66 lakh SHGs and 24017.36 crore respectively as on 31.3.2014 compared to 12.20 lakh and 20585.36 crore a year back). The performance of SHGs covered under Government sponsored programmes had been better recording nearly 58% spurts in fresh loans to such SHGs. A region wise analysis shows that the spurt in fresh loans extended is very high in the western Region while substantial decline in both number and amount of loans have been reported in the North Eastern region. Backward states like Bihar and Chattisgarh have reported substantial increase in the number of SHGs and quantum of fresh loans extended while Jharkhand has shown a decline in the number and quantum of fresh loans issued. The average quantum of loans issued to SHGs during the year was 1.76 lakh per SHG and this ranged from 50,782 in eastern region to over Rs.2, 35,700 in southern region.

SAVING LINKED SHGs

The number of saving linked SHGs now stands at 74.3 lakhs with a membership of over 96.6 million poor households showing a marginal increase of 1.53% (73.18 lakh SHGs as on 31.3.2013) from the previous year. The number is still substantially less than 79.60 lakhs SHGs reported during 2011-12 (with coverage of 104 million households). Only southern region reported a growth in savings linked SHGs during the year compared to previous year while all other regions continued to report decline in the number of SHGs. Continued decline in the number of savings linked SHGs in resource poor regions where special SHG programmes are implemented, needs to be viewed with concern. Among the major states only Assam, Karnataka, Rajasthan and Tamil Nadu have reported upward trend in the number of savings linked SHGs compared to the 2011-12 status.

The savings balance of these SHGs with banks, however, shot up by over 20% during the year (Rs.9897 crore against Rs.8217 crore a year back). All except the North and North Eastern region recorded higher savings bank balance with banks with western States recording nearly 34% increase while the Central region reporting 27% and Southern region recording an increase of 23%. The average savings bank balance of SHGs with banks as on 31.3.2014 was rupees 13322, with southern region reporting an average of Rs.16878 while the North Eastern states having an average saving of only Rs. 4073 per group.

Chart 4



Source: Status of Microfinance in India 2013-14, NABARD

FUTURE STRATEGIES

In spite of phenomenal growth of micro finance through SHG program over the years, there is still a large segment of society that is denied access to financial services. An estimate suggests that only 20 per cent of the low income group population access to financial services. Thus there is an urgent need to widen the scope, outreach as also the scale of financial services to cover the un-reached population. The following are the strategies to mainstream the program:

1. **Eliminate/Reregularise broker agents**: Either weed out the broker agents (if they are found to be widespread and used extensively by branch managers of commercial banks) in the SHG-bank linkage model or legalize them under a regulatory framework so that their ill-effects are minimized.

2. **Create a transparent nationwide information system on SBL**: An appropriate information system on SHGs available in the country and their financial transactions is a must to understand and measure the success achieved by the SBL program on various parameters. Such a system will facilitate transparent understanding of the actual (Operational) health of the various SHGs in terms of their loaning and savings.

3. **Re-engineer the SBL program**: Re-engineering the process of formation of SHGs, their linkage to banks and also their regular operations becomes very critical to ensure that SHGs stay as lean and transparent social institutions at the grass-roots`

CONCLUSION

Microfinance and SHG-Bank linkage programs focus only on providing financial services to the poor, but it should also focus on people’s basic needs such as housing, good health, education, social reforms. It is also needed to bring about institutional reforms in the micro finance strategy of Indian banks as the Grameen bank did with the introduction of Grameen II.

And for a microfinance industry that is already under the scanner because of disillusionment with the Grameen MFI model, the SBL model, because of its mainstreaming and several other advantages, certainly offers a ray of hope. This however requires that all the concerned stakeholders introspect seriously and bring in the necessary changes required to make the SHG- bank linkage program a truly vibrant and responsible model for low-income clients at the bottom of the pyramid.

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