

# **The Growth And Impact Of NABARD's SHG - Bank Linkage Programme In India**

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## **INTRODUCTION**

The Indian economy is expected to benefit all sectors, regions and people from every social stratum. The major concern is to spread the benefits attained the economic growth to all sections of the society (Rangarajan, 2009). After nationalization of commercial banks in 1969, the banks opened large number of branches to reach the un-reached section of the society. There are, however, concerns that the banks are still not able to serve a vast section of the society. In fact, the proportion of the informal money lenders has increased over the years. For example, all India debt and investment survey conducted by the National Sample Survey, between 1991 and 2002 reported that the share of institutional finance in the outstanding cash dues of rural households decreased by seven percent, while the share of non-institutional sources increased (Dash, 2007). Many cooperative banks collapsed in the early nineties. The proportion of rural households, who have credit from cooperatives, declined from 28.6% in 1981 to 18.6% in 1991 (Srivastava et al., 2004). With the collapse of cooperative banks, alternative community-based women groups emerged, named as self-help groups (SHGs). Women self-help groups emerged as a means for financial inclusion. The objective of this paper is to study the contribution of SHG- bank linkage programme initiated by NABARD in poverty reduction and social empowerment of the people, by comparing the pre-SHG and post-SHG scenario. The researcher also studies the regional and intra-regional disparity in the development of SHG-Bank linkage programme among the states.

## **LITERATURE REVIEW**

The homegrown SHG model helps in addressing problems like poverty eradication and women empowerment. NABARD found that SHGs can be a tool for providing loan to the un-bankable section of the society. It started an experiment with MYRADA on SHG lending. Soon, it launched a programme to link SHGs with the banks in 1992. This was the first instance where the informal thrift and credit groups of the poor were recognized as bankable clients (Loganthan and Ashok, 2006). The strategy behind the programme was to initially link the groups with the banks through savings, and later through loan products. It was a major breakthrough in including the excluded people in the formal financial system. By March 2009, 42 lakh SHGs were linked to the banks and 8.6 crore rural households were included in the system (Status of Microfinance in India, 2008-09). In comparison to other sponsored credit schemes, this approach teaches the poor to manage his/her own money before availing loan from the bank. The programme was mainstreamed with banks in 1996. The main objective of the programme has been financial inclusion, by extending outreach to poor households in rural areas, making available credit services at their door step with easy and self managed access to formal financial services on a sustainable basis and in a cost-effective manner.

The NABARD SHG-bank linkage programme is promoted by NGOs, banks and government agencies, which are acting as self-help promoting institutions (SHIP). This programme is also beneficial for the banks, specially the Regional Rural banks. The repayment percentage of groups is very high (above 90 percent) and helps the bank to maintain low NPA.

There is an increasing trend in the number of SHGs financed by banks during the last 15 years. The concentration of the SHGs is more in southern part of the country. A few SHGs are present in the North and North East India. The progress of SHGs is not uniform, even among the states within a region. There is a significant relationship between the proportion of the poor and the SHGs, in a region. The higher the SHG concentration, the lower is the proportion of poor in that particular region. The southern region of our country accounts for the highest number of SHGs and the poverty ratio in South India is low in comparison to the other parts of the country.

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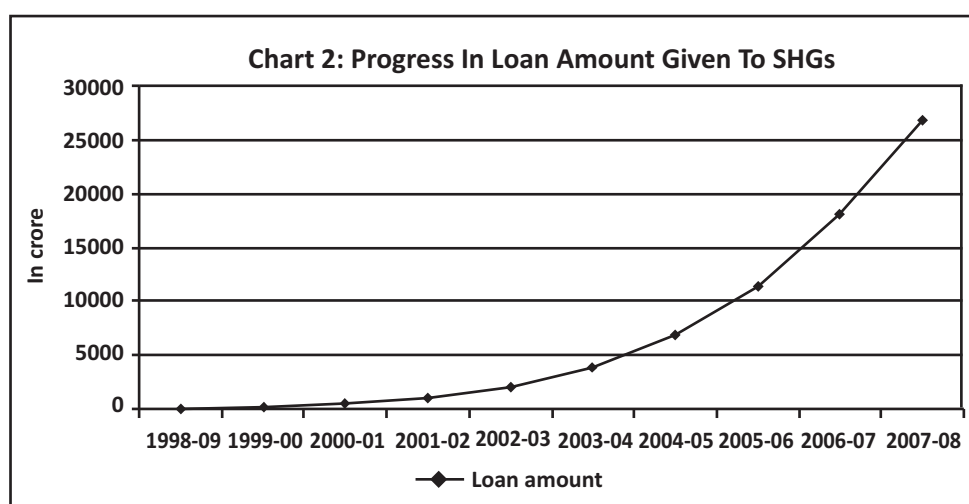
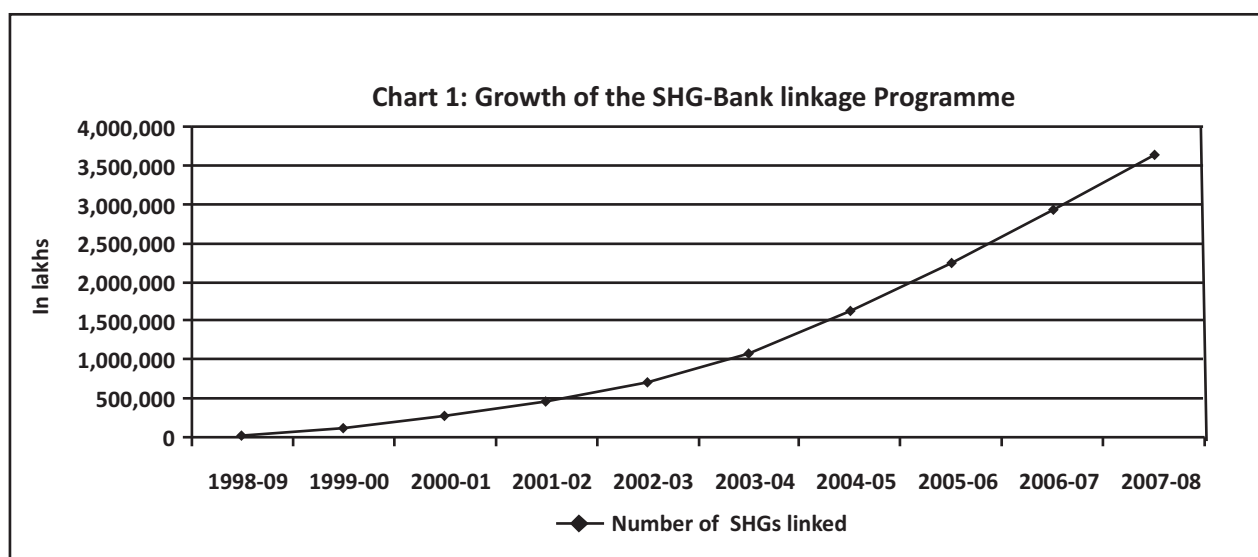
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With the advent of the SHGs, the poverty rate in the country has declined. In the post SHG era, social empowerment of women and access of rural households to the formal financial system has increased significantly. The consumption oriented loans have been replaced by production-oriented loans during the post SHG period.

## GROWTH OF THE SHG - BANK LINKAGE PROGRAMME

✿ **Performance of SHG-Bank Linkage Programme:** The SHG-Bank linkage programme experienced a tremendous growth over the last decade, but there remains a large regional disparity between the growth of the SHGs in the North and North East India, versus the rest of the country (APMAS, 2007).

During 1992 to 2007, the number of groups linked with banks has almost doubled every year (see APMAS (2007), NABARD (2009)). The amount of loan disbursed to the SHGs has also been growing in a similar pattern (see Chart-2). Initially, there was a slow progress in the programme, only 255 lakh SHGs were linked to the banks, whereas the number reached to 32,995 lakh groups in 1998-99. The loan outstanding was ₹ 57 crore over a period of seven years from 1992-1999 which then increased to ₹136 crores during the year 1999-2000. Since then, there has been a rapid growth in the programme. The cumulative number of SHGs financed by banks increased to 3,625,941 in 2007-08 (Chart 1), and the amount of bank loans also increased to ₹ 26,817 crore in 2007-2008 (Chart 2).



The inferences drawn from Chart 1 and 2 are as follows:

1. The programme performed well over the years. The initial growth rate was slow, but from 2002 onwards, there was a rapid increase in the number of SHGs.

2. The volume of loan provided to the SHGs has grown rapidly, especially from 2003 onwards. The financial support is provided by commercial banks, regional rural banks and co-operative banks. The commercial banks account for major portion of the share, which is followed by regional rural banks and co-operative banks. Due to high repayment percentage of SHGs, banks are active in disbursing loans.

❖ **Regional And Intra-regional Distribution Of SHGs** : 2006-07 witnessed a threefold increase in the number of SHGs in all the regions of India. Despite this growth, there is a large disparity between the regional distributions of the SHGs. The spread of SHGs is concentrated more in the Southern part of the country, and the concentration in the Northern and North Eastern part is comparatively low. In year 2008-09, 54 percent of the total SHGs were initiated in the Southern part, whereas only 4 percent were started in the North. Table 1 shows the regional distribution of SHGs linked to banks from the period of 2000 to 2009. South India is continuously leading in terms of share in client outreach, as well as in loan disbursement and outstanding. In 2009, the share of loan outstanding was 66 percent of the total amount.

<b>Table 1: Regional Distribution Of SHGs</b>						
	<b>2000-01</b>		<b>2006-07</b>		<b>2008-09</b>	
	<b>SHGs Credit linked to banks</b>	<b>Per cent to total</b>	<b>SHGs Credit linked to banks</b>	<b>Per cent to total</b>	<b>SHGs Credit linked to banks</b>	<b>Per cent to total</b>
Northern	9012	3.4	182018	6.3	166087	4
North Eastern	477	0.2	91754	3.1	117609	2.8
Eastern	22252	8.4	525881	17.8	893126	21.6
Central	28851	10.9	332729	11.4	326602	7.9
Western	15543	5.9	270447	9.3	357775	8.6
Southern	187690	71.2	1522144	52.0	2283992	55.1
<b>All India</b>	<b>2,63,825</b>	<b>100.0</b>	<b>29,24,973</b>	<b>100.0</b>	<b>4145191</b>	<b>100</b>

In addition to the inter-regional disparity, there exists a wide intra-regional disparity among the states, which form the regions. The progress of SHGs is not uniform in all states within the region. In the southern region, Andhra Pradesh has the highest number of SHGs (53 percent), whereas Kerala (7.6 percent) and Karnataka (14 percent) are not performing in a similar manner (State of the sector Report, 2009). In the North-Eastern region, the major share for SHGs accounted for Assam. In the eastern region, the spread is significant in Orissa and West Bengal. It is evident that the spread of SHGs is not similar in all states. However, the major concern is that the size of average loan distributed in non-southern regions is very low as compared to southern states. In 2009, of ₹ 127.07 billion, 59 per cent went to two states, AP and Tamil Nadu.

<b>Table 2: Share Of Total SHGs, Loans To SHGs And Proportion Of Total Poor</b>			
	<b>Share of total SHGs**</b>	<b>Share of total loans to SHGs**</b>	<b>Proportion of total Poor*</b>
Northern	3.94	2.99	7.4
North Eastern	2.79	2.07	2.6
Eastern	22.10	13.33	29
Central	7.86	9.02	32.1
Western	9.32	6.84	13.6
Southern	53.99	65.75	15.3
<b>All India</b>	<b>100</b>	<b>100</b>	<b>100</b>
Notes: *Planning Commission report, 2004-05			
** NABARD, 2009			

The researcher investigates three important factors for any region, namely the proportion of poor, the number of SHGs linked to banks, and the amount of loan disbursed to the SHGs, up to March 2009, in that region. During 2004-05, the all-India poverty ratio stood at about 27.6 per cent. The proportion of poor in the northern (7.4 per cent), north-eastern (2.6 per cent), southern (15.3 per cent) and western region (13.6 per cent), central (32.1 per cent), and eastern region (29 per cent) is presented in Table 2. The distribution of SHGs region wise in the year 2009 is given in Table 2. The amount of loan to distribute to the SHGs is highest in case of the southern region (66 percent), whereas it is very low in northern and NER.

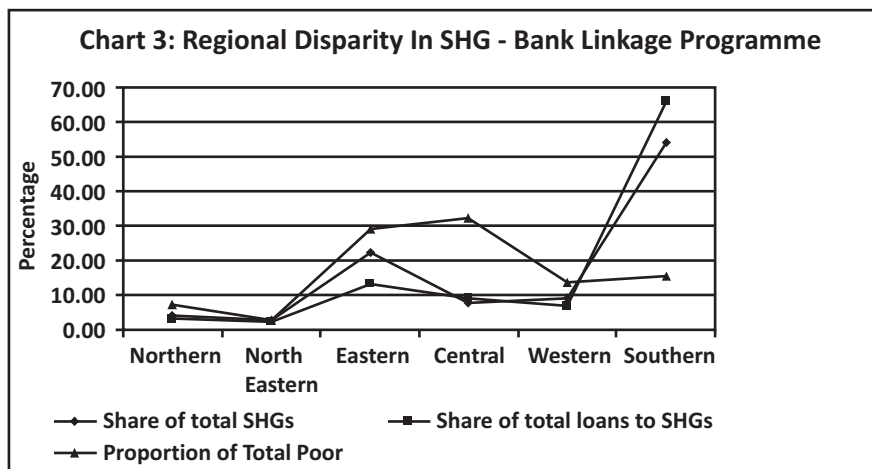


Chart 3 depicts that the proportion of the poor in Eastern and Central region are higher than the proportion of SHGs, linked to banks, in these regions (see Table 2). In both the regions, the proportion of poor is higher than the all India poverty ratio. In South India, the proportion of the poor is the least (15.3 percent), and the number of SHGs, linked to banks, is the highest (54 percent in 2009). The Southern part of the country is actively participating in the programme. Therefore, there is an immediate need to intensify the spread of the programme in the states where poverty is higher. In order to reduce the regional imbalance, NABARD identified 13 priority states, which were showing poor performance in SHGs linked to banks. In 2007, these 13 states had a share of 47 percent of SHGs linked to banks, which increased to 51 percent in 2008.

The failure of the SHG bank link programme in some parts of the country is due to the lack of committed and skilled NGOs for group formation, inadequacy of remuneration to NGOs and the lack of interest on the part of the banks (State of the sector report, 2009). In order to overcome these problems, NABARD has initiated special measures in low growth states. In Uttar Pradesh, promotional project for SHGs has started, and a support has been extended to Arunachal Pradesh government to implement its Microfinance Vision 2011. In addition to this, it also supports the formation of groups through NGOs, banks, individual rural volunteers, farmers' clubs, etc.

#### ✿ Inferences

1. In the southern region, the percentage of SHGs, linked to banks, is more than 50 percent (from 2000 to 2009). This reflects the active participation of NGOs and banks of that region in order to promote the programme.
2. There is a wide intra-regional imbalance in the development of SHGs. For instance, in 2009, Assam received 74 percent of the total loans disbursed by the banks for the states in the NER<sup>1</sup>.
3. The growth of SHGs helps to alleviate the level of poverty in a region. This is due to the fact that the members of the SHGs are self-employed and are able to earn their livelihood.

## IMPACT OF SHG-BANK LINKAGE PROGRAMME

SHG-bank linkage programme is an effective tool to reduce poverty. Through the SHG-bank linkage programme, it has become easier to access credit for the poor, residing even in remote locations. Another advantage of this programme is that the loans provided are collateral free.

Access to formal finance helps the poor to move out from the spiral of informal finance providers. The poor become

<sup>1</sup> North-Eastern region

economically more stable (Puhazhendi, V. C. and K. C. Badatya, 2002), and less vulnerable against the uncertainties. It has helped them in assets' formation (livestock specially). The net increase in the value of consumer durable assets per household was ₹ 4,329 between pre-SHG and post-SHG periods, and the annual growth rate of assets recorded a high growth rate between the two periods at 9.9 percent (NABARD, 2009). A study taken up by EDA Rural Systems (2004) found that improved household incomes can reduce poverty. Similar results are reported by Puhazhendi and Badatya, who states that out of those below the poverty line in the pre-SHG situation, 15 percent have moved above the poverty line. The net household income in post-SHG era, registered a significant growth of 6.1 per cent per annum in comparison to that of the pre-SHG era (see NABARD, 2009). SHGs inculcate the saving habit among the poor, as the SHG model requires compulsory saving from the members.

The programme helps the members to gain self-respect and improve their self-esteem (Sa-Dhan, 2004). The members gain the ability to take decisions, handle stressful situations, and protest against the socially undesirable habits. From the Table 3, we can see that the indicators of change in Social empowerment improved significantly from the pre-SHG to the post-SHG period.

<b>Table 3: Indicators Of Change In Social Empowerment Of SHG Members (Percentages)</b>		
<b>Indicators of changes</b>	<b>Pre SHG</b>	<b>Post SHG</b>
Self confidence and self worth.		
Respondent exudes confidence.	21	75
Can confidently meet financial crisis.	23	85
Respectful treatment from family members.	40	89
Comes out to help neighbours/others.	51	95
Decision making.		
Joint decisions on purchase of assets and investments.	39	74
Joint decision in social matters like education of children , their marriage.	42	79
Developed Good Communication skills.		
Speaking out freely.	23	65
Talks only if asked.	40	9
Behavioural Changes.		
Protests drinking/gambling.	37	81
Protests wife beating by husbands.	52	78
Protests against Domestic violence.	67	49
Leads to Increased mobility.	45	75
Source: Puhazhendi, V & Badatya, K.C. Jan 2002, SHG-Bank linkage Programme for rural poor		

Distribution of institutional credit among the rural poor was achieved to a greater extent. The size of average loan to members increased by 123 percent (₹ 1,522) during the post- SHG situation, than the pre SHG situation. The average loan amount per household grew at an annual rate of 20.5 percent between the pre-SHG and post-SHG periods. According to the data revealed by NABARD (2009), 93 percent of the households availed the loan in the post-SHG period, as compared to 46.5 percent in the pre-SHG period. Due to this programme, the dependence on informal money lenders decreased to a large extent (Planning commission, 2007). There was a marked change in the loaning pattern between the pre and post SHG situations. Consumption oriented loans were replaced by production-oriented loans during the post SHG situation, which was mainly due to SHGs and training provided under the programme.

The programme increased incremental employment by 33 percent. The proportion of employment days generated through non-farm activities increased from 14% to 23% between the pre-SHG and post-SHG situations (Sa-dhan, 2004). During 2004-05, the poverty rate declined from 44.93% to 28.27% in the country.

SHGs played a major role in social and economic empowerment of women in the country. MFI SEWA in India is actively involved in various developmental programs for women. The repayment rates of female groups is higher as compared to other groups, hence, many MFIs are targeting women as their potential clients.. According to the data

provided by NABARD (2009), 92 percent of the rural households reported increase in the social empowerment of women after they joined the SHGs. The findings of NABARD show that 22.5 percent of the women SHG members took an active part in household decision-making in the post-SHG period, as compared to 9.1 percent in the pre-SHG period.

## CONCLUSION

As a result of the collective effort of the Indian government, banks, NGOs and SHGs, more number of rural people now have access to the benefits of the modern financial system. The SHGs-bank linkage programme is yielding promising outcomes. Over the last 15 years, there has been a significant increase in the performance of the SHGs in terms of availing new loans, repeat loan and repaying the loan.

Though there is a rapid increase in the number of SHGs all over India, but the growth is not uniform throughout the country. The growth of SHGs is dominant in the southern region of India. The ongoing process of training and consultation by NABARD and other organizations will help in the development of the other regions of India. To a great extent, the programme is successful in poverty alleviation. It has uplifted the income and savings of the poor, especially of women.

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