

SHG-Bank linkage programme: An effective tool for financial inclusion and women empowerment in India

¹ Parimala Devi B, ² Dr. Anjaneyulu D

¹ Research Scholar, Department of Commerce, Sri Krishnadevaraya University, Ananthapur, Andhra Pradesh, India

² Professor, Department of Commerce, Sri Krishnadevaraya University, Ananthapur, Andhra Pradesh, India

Abstract

SHG-Bank Linkage Programme has emerged as the most prominent means of delivering micro finance services in India. The programme witnessed tremendous results during the last two decades in promoting financial inclusion and women empowerment. It has proved to be a successful model wherein the outreach has expanded substantially leading to many advantages like micro savings, timely repayment of loans, reduction in transaction costs to SHG members and banks, etc. Microfinance clients are overwhelming female and the contribution of microfinance to women's empowerment is widely recognized. This paper reviews the progress of SHG – Bank Linkage Programme at national level. The study presents the growth of savings and loan disbursement made under SBLP. The market penetration of micro finance through SBLP is also analyzed.

Keywords: Micro finance, SHG-Bank Linkage Programme, Financial Inclusion, Women Empowerment

Introduction

Microfinance is considered as an important approach of poverty alleviation and enhancing the living standard, particularly of women. It is viewed as a development paradigm which widens the financial service delivery system by linking rural population at large with the formal financial institutions. Microfinance programme through SHGs is for socio-economic promotion of women and is a strategy for poverty alleviation and women empowerment.

Developing nations have embraced micro finance programs as poverty eradication tools. Women exclusively take part in these programmes for Income Generating Activities (IGAs) in order to improve their economic status. Various scholars (Mayoux 1998, 2001; Hashemi *et al* 1996; Khandker 1998) have stated that the participation in the micro-finance programmes empowered the women socially, politically and economically and hence, improved their status within the household and outside.

Need for the Study

Financial Inclusion is a key factor of sustainable development. However in India access to financial services is highly unequal, especially to the women in rural areas. Women in rural India are the vulnerable section of the society. They have poor access to the institutional finance because of lack of collateral. The existing formal banking system is not reaching the women in rural areas. Access to formal financial credit by the women promotes gender equality and also serves as one of the best anti-poverty measure. Micro financing programs through SHGs can minimize the problem of poor access of formal credit by the rural poor women. The SHGs and the Bank linkage program (SBLP) as far as physical targets, evidently appears to have created craved results. The SBLP model has proved successful with advantages such as regular savings, regular repayment of loan and reduction in transaction cost. The present study is a small endeavor to evaluate the progress made by SBLP.

Objectives of the study

- To study the growth of savings made by women Self Help Groups under SBLP in India.
- To study the micro credit disbursement to women Self Help Groups under SBLP in India.
- To examine the market penetration of micro finance through SBLP in India.

Methodology

The present study is a descriptive study based on secondary data. The secondary data is collected from the reports of NABARD, books and journals. Data for the purpose of analysis is collected for nine years from 2006-07 to 2014-15.

Micro Finance and Financial Inclusion

Microfinance is a financial development mechanism whose goal is to help the poor to work out of extreme poverty. Apart from providing credit it provides various other services such as thrift, money transfer and insurance. Micro credit indicates small advances reached out to the poor for undertaking self-employment activities. These advances are for the most part offered with no guarantee security. Micro credits include financial services such as advances, savings, insurance and money transfers. Micro credit has been characterized by the 1997 Micro Credit Summit held in February 1997 at Washington, as "programmes that provide credit and other financial and business services to very poor persons". Micro Finance evolved as a powerful tool to facilitate financial assistance to the poorest of the poor for the alleviation of poverty.

Women Empowerment through Micro Finance

Microfinance makes women economically independent by putting capital and financial resources in their hands. Economic independence results in higher bargaining power for women in their households and communities, and subsequently results in higher prestige and self-esteem. Empowerment

through microfinance is identified and measured in various dimensions: impact on decision-making, on self-confidence of women, on their status at home, on family relationships and the incidence of domestic violence, on their involvement in the community, on their political empowerment and rights.

In the recent decade micro finance has evolved as an institutional framework for taking monetary services to poor people. Micro finance has become an autonomous financial system with number of variants. They can be categorized into individual approach and the group approach. Self-help group is a group approach where the group is the client not the individual member. Studies indicate that the self-help groups (SHGs) mediated by microcredit have helped women gain control over assets and subsequently acquire self-esteem, knowledge and power (Zaman 2001; Simanowitz and Walker 2002).

Concept of SHG

Self Help Group is a small voluntary homogeneous group of poor people from similar economic background. The membership of group range from 10 to 20 members. SHGs are formed on the basis of self-help and mutual co-operation. They are formed to solve common problems of the members. All the members contribute their savings to the command fund. This fund can be used for the advances to the group members. The terms and conditions of the advances are decided by the group members together.

SHG – Bank Linkage programme (SBLP)

SHG – Bank Linkage programme was launched as a pilot project in February 1992 as a landmark in the field of rural banking. After extensive consultations of NABARD with RBI, a policy circular was issued by RBI instructing all the commercial banks to extend finance to the self-help groups. In 1993 the project was extended to Regional Rural Banks and

Co-operative banks.

Objectives of SHG –BLP

- To provide supplementary credit to SHGs
- To meet the financial needs of the poorest of the poor through the formal credit system.
- To ensure mutual trust between the rural poor and banking system
- To promote banking activity in rural areas where the formal financial institutions could not cover.

Eligibility

The group should satisfy the following conditions for the bank linkage.

- Group should be in active existence for at least a period of six months.
- Group should have successfully undertaken savings and credit operations from its own resources.
- Group should maintain proper accounts/records.
- Group should work on democratic line, ensuring equal say by all the members.

Models of SHG -BLP

Three different models have emerged under this programme:

- Model I: - SHGs promoted, guided and financed by banks.
- Model II: - SHGs promoted by NGOs / government agencies and financed by banks.
- Model III: - SHGs promoted by NGOs and financed by banks under NGOs / formal agencies as financial intermediaries.

Savings under SBLP

Data on progress of savings under the Self-Help-Group Bank Linkage Programme is presented in Table 1

Table 1: Progress of savings under SBLP

Year	SHGs		Saving Amount				% of change Col.7 to Col.6
	All SHGs	Women SHGs	SHGs Savings (₹ in crore)	SHG Women savings (₹ in crore)	Per SHG Savings in in ₹(Col. 4/ Col 2)	Per women SHG in ₹(Col. 4/ Col. 3)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2006-07	4160584	3271239 (78.62)	3512.71	3024.98 (86.11)	9099	9247	1.63
2007-08	5009794	3986093 (79.57)	3785.39	3108.65 (82.12)	7556	7799	3.21
2008-09	6121147	4863921 (79.46)	5545.62	4434.03 (79.96)	9060	9116	0.62
2009-10	6953250	5310436 (76.37)	6198.71	4498.66 (72.57)	8915	8471	(-) 4.98
2010-11	7461946	6098034 (81.72)	7016.30	5298.65 (75.52)	9403	8689	(-) 7.59
2011-12	7960349	6298686 (79.13)	6551.41	5104.33 (77.91)	8230	8104	(-)1.54
2012-13	7317551	5938519 (81.15)	8217.25	6514.87 (79.28)	11229	10970	(-)2.31
2013-14	7429500	6251678 (84.15)	9897.42	8012.89 (80.96)	13322	12817	(-) 3.79
2014-15	7697469	6651911 (86.42)	11059.84	9264.33 (83.77)	14368	13927	(-) 3.07
Average							

Source: Status Reports of NABARD

Figures in parentheses are percentage of Col. 3 and 5 to Col.2 and 4 respectively

Table 1 shows the number of saving linked women SHGs stands at 7697469 in 2014-15 which may have (at an average 13 members per SHG) membership of over 812.76 lakh poor women households. The figures in 2006-07 are 4160854 women SHGs in the country with membership of 540.91 lakh in the country under the SBLP. The exclusive number of

women SHGs had savings of ₹ 3024.98 crore or 86.11 per cent of savings of all SHGs in the country; the figure in 2014-15 are ₹ 9264.33 crore mobilized or 83.77 per cent by the exclusive women SHGs. A progressive trend is observed in number of exclusive women SHGs and their savings mount in terms of both absolute and relative terms. This growth trend is one of the most distinguishing features of microfinance sector in the country.

So far concerning per SHG average amount of savings, it is accounted to ₹ 9099, ₹7556, ₹9060, ₹ 8915, ₹ 9403, ₹ 8230, ₹11229, ₹13322 and ₹14368 during nine years period from 2006-07 to 2014-15 respectively; the increase is accounted by 57.91 per cent while the per women SHGs average savings amount is ₹ 9247, ₹7799, ₹ 9116, ₹8471, ₹ 8689, ₹ 8104, ₹ 10970, ₹ 12817 and ₹ 13927 for the above period respectively. The increase of SHGs and Women SHGs are accounted for 157.91 per cent and 150.61 per cent

respectively in 2014-15 over 2006-07. For the first time since the SBLP was launched, it noticed in 2012-13 over 2011-12 a decline in the number of SHGs and their saving linked with banks to the extent of 642798 SHGs or 8.07 per cent, but their saving linked with banks harmlessly grew by 25.43 per cent.

Disbursement of microcredit under SBLP

Data on microcredit progress under Self-Help Group Bank Linkage Programme is presented in Table 2

Table 2: disbursement of microcredit

Year	All SHGs			Women SHGs		
	No. of AHGs	Credit (₹ in crore)	Per SHG Credit (in ₹)	No. of SHGs	Credit (₹ in crore)	Per SHG Credit (in ₹)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2006-07	1105749	6507.03	58848	957920	5677.36	59268
2007-08	1227770	8849.26	72075	1040996	7474.26	71799
2008-09	1609586	12253.51	76131	1374425	10527.74	76597
2009-10	1586822	14453.30	91081	1294476	12429.37	96018
2010-11	196134	14547.73	121625	1017218	12622.33	124097
2011-12	1147940	16535.82	144048	923232	14132.02	153071
2012-13	1219821	20585.36	168756	1037402	17854.31	17211
2013-14	1366421	23442.18	175768	1151724	21037.97	182665
2014-15	1626238	24765.86	152904	1447609	24419.75	168690
Change (%)	22.45	380.60	259.83	151.12	430.12	284.62

Source: Progress of SHG-Bank Linkages in India, NABARD, Mumbai, Various Issues

Note: Per client credit on an average group size of 14 members

Table 2 discloses that, on an average, per SHG in India got credit to the extent of ₹ 58848 in 2006-7, ₹ 72075 in 2007-08, ₹ 76131 in 2008-09, ₹ 91081 2009-10, ₹ 121625 in 2010-11, ₹ 144048 in 2011-12, ₹ 168756 in 2012-13, ₹ 175768 in 2013-14 and ₹ 152904 in 2014-15. The corresponding figures for microcredit of per women SHGs are accounted for ₹ 59268, ₹ 71799, ₹ 76597, ₹ 96018, ₹ 124097, ₹ 153071, ₹ 17211, ₹ 182665 and ₹ 168690 respectively.

Market penetration

An institution financial sustainability invariably needs to cover the cost of funds plus managerial cost plus risk of bad debts. Return on capital for attracting additional funds, the microfinance institutions require maintaining essentially a minimum capital adequacy to survive their services under the stipulated regulations. Rise of funds in deposits rather than borrowings to achieve financial sustainability, costs and bad debts need to be controlled on one hand, and the increased volume and spreading distribution cost through offer of financial services and insurance on the other are the appropriate measuring dimensions. The smart card through e-cash access ensures security and stored value by reducing the transaction cost. But, the micro-payment system would need a large volume of transactions to amortize the capital cost of the system.

Mission accomplishment on rendering microfinance to the poor for enhancing their livelihood; employment and income does need a provision of comprehensive services like savings, credit and insurance coupled with livelihood promotion. This achievement of mission needs not only focus on the poor but

also on offering microcredit to poor who have lack of access to the financial services. In Andhra Pradesh, some districts which have saw high density of SBLP aggressive competition among two the leading microfinance institutions namely, Spandana and SHARE. This phenomenon in microfinance institutions, finally, led to severe criticism from the Government of Andhra Pradesh and setback to the microfinance sector in the State of Andhra Pradesh.

Region-Wise Penetration:

The compiled data on number of clients of microfinance institutions and SHGs’ outstanding credit to the banks are computed through an index for each State’s share to the country’s total microfinance clients to have an idea of market penetration in microfinance. The market penetration index (MPI) provides the estimates of relative share of States in microfinance clients as compared to their share in the population. Similarly, the value of the Market Poverty Penetration Index (MPPI) is derived by dividing the share of State in microfinance clients by the share of the State in poor population. If, a value more than one, it indicates the acquired share is more to that of the State’s share in microfinance clients to its population; indicating better than par performance. A score of less than one, which is the par value, indicates a comparatively poor performance by the State. The State level poverty data for the present exercise has been taken from the Report of Rangarajan Committee on Poverty for 2012 and Population Data from the Census 2011. The calculated Market Penetration Index and Market Poverty Penetration Index for the top five States and bottom five States in India for 2010 and 2014 are presented in Table 3

Table 3: Market penetration of top and bottom five states

Top Five States in MPI				Top Five States in MPPI			
State	2010	State	2014	State	2010	State	2014
A P	3.64	A P	3.38	A P	6.35	Puducherry	10.71
T N	2.27	Puducherry	2.87	T N	2.77	A P	7.32
Odisha	2.00	Karnataka	2.27	Kerala	2.49	Karnataka	3.07
Karnataka	1.57	Tamil Nadu	1.91	Karnataka	1.74	Kerala	2.87
W B	1.48	Odisha	1.53	W B	1.65	Goa	2.15
Bottom Five States in MPI				Bottom Five States in MPPI			
State	2010	State	2014	State	2010	State	2014
Punjab	0.07	J & K	0.01	J & K	0.13	J & K	0.02
Bihar	0.20	Mizoram	0.02	Bihar	0.14	Mizoram	0.02
Haryana	0.23	Lakshadweep	0.04	Pun jab	0.22	Lakshadweep	0.05
Gujarat	0.26	Arunachal Pradesh	0.06	M P	0.27	Arunachal Pradesh	0.07
J & K	0.33	Chandigarh	0.09	U P	0.32	Chandigarh	0.16

Source: (i) Calculation of MPI and MPPI based on data in Microfinance Annual Repo
 (ii) Census Data 2011
 (iii) State of the Sector Report 2010 and 2015
 (iv) Report of Rangarajan Committee on Poverty for 2012
 (v) Mix Market Data 2014 Microfinance Penetration Index

Table 3 shows the microfinance market penetration index analysis in the States of Indian Union is explained below.

MPI

Among the top five States namely Andhra Pradesh, Tamil Nadu, Odisha, Karnataka and West Bengal which have secured the Market Penetration Index (MPI) in descending order which is accounted for 3.64, 2.27, 2.00, 1.57 and 1.48 in rank order in 2010 while among the top five States of Andhra Pradesh, Pudicherry, Karnataka, Tamil Nadu and Odisha got Market Penetration Index (MPPI) in descending order is worked out at 3.38, 2.87, 2.27, 1.91 and 1.53 in rank order respectively in 2014. So far among the bottom five States concerning MPI in ascending order in five States of Punjab, Bihar, Haryana, Gujarat and Jammu & Kashmir is accounted for 0.07, 0.20, 0.23, 0.26 and 0.33 respectively in 2010 while in 2014 the figures are 0.01, 0.02, 0.04, 0.06 and 0.09 for the five States of Jammu & Kashmir, Mizoram, Lakshadweep, Arunachal Pradesh and Chandigarh respectively.

MPPI

The States of Andhra Pradesh, Tamil Nadu, Kerala, Karnataka and West Bengal secured a MPPI in descending order of 6.35, 2.77, 2.49, 1.74 and 1.65 in 2010 while the figures in 2014 are 10.71, 7.32, 3.07, 2.87 and 2.15 for the States Puducherry, Andhra Pradesh, Karnataka, Kerala and Goa respectively. In case of bottom five States in MPPI; it is accounted for 0.13, 0.14, 0.22, 0.27 and 0.32 for Jammu & Kashmir, Bihar, Punjab, Madhya Pradesh and Uttar Pradesh respectively in 2010 whereas the figures are 0.02, 0.02, 0.05, 0.07 and 0.16 for the States Jammu & Kashmir, Mizoram, Lakshadweep, Arunachal Pradesh and Chandigarh in 2014.

Findings

- The position of women SHGs during the study period has maintained good progress both in number of SHGs and in amount of savings with a little variation in the later period. Either increase or decrease of change in per women SHG to per SHG indicates per women SHG average savings performance is more or less respectively.

- The change in women SHGs number, credit and per SHG credit is more than the all SHGs for all India. The interesting observation that could be made here is that a tremendous progress was made by women SHGs.
- Andhra Pradesh, Puducherry, Tamil Nadu and West Bengal States have continued to be high in MPI while Karnataka State displayed a substantial gain over previous years.
- Among the top five States in MPI in 2010 and 2014, Andhra Pradesh stood first and first in 2010 and second in 2014 in MPPI. It is only the southern States that have consistently showed an MPI and MPPI considerably in excess of par value over the years. Penetration of microfinance is still not even all over India as the northern States are still devoid of much microfinance activity
- Among bottom six States in MPI and MPPI in 2010 and 2014, the State of Jammu & Kashmir secured the least score and below par excellence

Concluding Remarks

SHG – Bank Linkage Programme has significantly improved the access of rural poor to formal financial services both in the aspects of savings and credit. Increased access to financial services by rural women results in social and economic empowerment of women. The initiative is the largest microcredit and micro savings programme of its kind in the world, and uniquely Indian. With some direction to address the imbalances there is substantial potential and scope for expansion of the bank-SHG model for greater coverage and outreach in order to make significant impact. Thus to achieve the desired goals, the financial system should be truly inclusive, SBLP proved successful in this aspect. The policy makers should emphasize on increasing the quality of financial services to serve large number of people, reaching increasingly poorer and more remote people and lowering costs to both clients and financial service providers.

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