

## A CRITICAL REVIEW OF THE STATUS OF OUTSTANDING BANK LOANS OF INDIA'S SELF-HELP GROUPS

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Mr. Tenzing Norbu Tamang\*  
Dr. Manas Naskar\*\*

### ABSTRACT

*The formation of Self-Help Groups, often known as SHGs, is an extremely important factor in the fight against poverty, the promotion of inclusive economic growth, and the emancipation of women. The Self-Help Group Bank Linkage Programme (SHG-BLP) is a groundbreaking model that was first introduced by NABARD in 1992. Since then, it has grown to become the largest and most effective microfinance programme in the entire world. There has been substantial participation from all of the financial agencies, and helpful steps have been done, in order to ensure the success of this endeavour. As a result, thousands of low-income households in remote rural areas have benefited from this endeavour. The purpose of this paper is to investigate the pattern of loan disbursement by various banking agencies to SHGs over the recent past, as well as the amount of outstanding loan, the volume, and the percentage of NPA on outstanding loan owed to various banking agencies by SHGs in our country. It is carried out using just secondary sources of information. Consequently, we use an ANOVA evaluation of Loan outstanding to determine the current state and develop appropriate suggestions for 2021-222. The analysis is based on the report of Status of Microfinance in India by NABARD and five years are the significant years as per the NABARD report that has brought a drastic increase in loan outstanding among all the agencies and particularly with Commercial Banks. The ANOVA analysis has apparently proved it and elucidates the significant difference between the agencies as far as loan outstanding is concerned that paves the way towards the increase in the rate of Non Performing Assets (NPA) by the Commercial Banks which would be further discussed in detail in the future research.*

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**Keywords:** SHGs, Economic Growth, Loan Outstanding, NPA, NABARD.

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### Introduction

As such, eliminating poverty must be a top priority in every nation's development strategy. As a result, it is crucial to design poverty alleviation policies and programs tailored to the rural poor's unique needs, such as the establishment of a basic living wage. Loans injection in the rural sector is one example of a program aimed at revitalizing rural economies after nationalization by enlisting the help of banks in extending credit to residents. Rural poverty in rural India persists despite a colossal network of commercial, cooperative, rural banks and other financial institutions. Under the Integrated Rural Development Programme (IRDP), the government offers subsidized financing to build assets to combat poverty head-on. Partisan local political interests, skewed identification of operations, and poor recovery performance from banks all contributed to this program falling short of its goals.

As a result of changes in the financial sector, the Indian banking system has experienced significant change and is now in a transitional period. To fortify its financial system, it uses modern banking regulation and supervision approaches that have proven successful elsewhere. Multiple steps were taken in the early 1990s, as reported in the Report on Currency and Finance (2006-08), to establish a robust, competitive, and dynamic banking sector. Since the beginning of economic liberalization in 1991, the banking sector and, by extension, credit management have experienced dramatic shifts. Within

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\* Assistant Professor of Commerce, Raiganj University, Raiganj, Uttar Dinajpr, WB, India.

\*\* Assistant Professor of Commerce, Raiganj University, Raiganj, Uttar Dinajpr, WB, India.

the previous half-century, commercial banking has witnessed a plethora of changes around the globe. The nature of retail banking has also been radically altered due to these shifts in India. In some ways, the transformations in India have been more dramatic and far-reaching than anywhere else in the globe.

Due to the scale and prominence of the Micro Finance Programme, its status, development, trends, and qualitative and quantitative performance must be monitored closely and constantly. To accomplish this goal, the Reserve Bank of India and the NABARD issued instructions in 2006–07 to Commercial Banks, Regional Rural Banks, and Cooperative Banks to provide information on the development of Micro Finance. SHG deposits at banks, bank loans to SHGs, bank loans outstanding against SHGs, gross nonperforming assets of bank loans to SHGs, and SHG loan recovery performance are all examples of the types of information gathered in this way. Additionally, the banks submitted information on bank loans made to MFIs (MFIs). The NABARD consolidated document has been released yearly.

### Literature Review

**Gangopadhyay Det.all (2008)**, Rural Development: A strategy for poverty alleviation in India, (India, Science and Technology): The author tries to portray the rural development issues since independence through different govt schemes and planning commission. Since Indian population majority resides in rural areas, the rural economy is an integral part of the Indian economy. The authors have highlighted a number of schemes like PMGSY, DPIP, MNREGA, SGSY etc., which will help in poverty alleviation and rural development of a country. The author also highlighted the role of SHG towards Rural development.

**Pankaj Kumar and Ramesh Golait (2009)**, Bank Penetration and SHG-Bank Linkage Programme: A Critique (Reserve Bank of India Occasional Papers): The author's paper explores the outreach of the Self Help Group Bank Linkage Program (SHGBLP) in the light of an increasing banking and socio-economic divide between regions in India. The study shows that Scheduled commercial banks in India have played a pivotal role in the growth and transformation of the rural and agricultural economy. SCB's in the last decade runs contrary to the objective of faster and more inclusive growth set out by the Government for the Eleventh Plan Period. The uneven banking density across the country shows that banking penetration appears to be a formidable challenge in the way of faster and more inclusive growth. Progress in the SHG-Bank linkage programme needs to reckon the regional loan disbursement variations in the spread of the programme. The SHG-Bank linkage program augurs well for the tasks of financial inclusion, financial equity and performance.

**Mehta P (2015)**, The Role of Self Help Groups- Bank Linkage Programme in Financial Inclusion (International journal of engineering technology, management and applied science): The author's objective regarding this paper highlights the concept of financial inclusion and concentrates on the performance and progress of the SHG- Bank Linkage Program. The findings conclude that SHG-BLP has made easy for the poor people living in rural areas to get easy credits. The biggest network of SHG-BLP with the support of NGOs and MFIs has helped the program to become a huge success. The two mechanisms of financial inclusion tool like SHG-BLP and MFI, SHG-BLP turned out to be effective, but challenges like corruption, unawareness about schemes, illiteracy etc exists. The problem of corruption has been decreased in extent, but not completely eradicated and suggests that the stake holders should work together for awareness of FI and schemes for development.

**BhuvanaM ,VasantaS (2016)**, Self Help Group Bank Linkage Programme- An Index of Measuring Financial Inclusion (Indian Journal of Science and Technology): The author's aim was to explore the different dimensions of measuring financial inclusion through a self-help group banking linkage program. To calculate the index of financial inclusion through self help group bank linkage programme in the various districts of Tamil Nadu. The findings indicate that Model SHG-BLP is a platform for escalating the financial services to the people, especially from the rural areas which in turn elevates the potential of our country with proper empowerment. SHG-BLP is the successful model which is accepted by the poor people. The author suggests that, in order to re-establish the status of financial inclusion, the Government of India, and the banking authorities concerned, should consider members of self-help groups to obtain credit facilities in order to meet their basic requirements.

**InnoueT (2019)**, Financial Inclusion and Poverty reduction in India (Journal of financial economic policy): The author's objective was to empirically examine to what extent financial inclusion interacts with financial deepening in the process of poverty reduction in India. The conclusion is that financial inclusion and financial deepening through public sector banks have a statistically significant negative relationship with the poverty ratio, irrespective of which financial inclusion indicator is used.

Therefore, the breadth and depth of public sector banks have contributed to poverty reduction in India. Commercial banks can play an important role in poverty reduction and achieving financial Inclusion in counterpart private banks are not playing a role as directed by RBI at achieving FI. The study even reveals that in order to achieve FI Public sector banks should invest more money in target area and try to reduce their NPA as the data reveals that their NPA is associated mainly with Industries. Role of Private banks is a minimum and the role of Public Sector banks can be directed aggressive in nature towards achieving FI which will alternatively lead to FI and reduction of poverty.

### **Rationale of the Study**

The implementation of Self Help Groups as a means to increase access to savings and credit among low-income people has been shown to be effective over time. To mature into a functional and adaptive Self Help Group, members must first get together, learn to cooperate, establish ground rules for interaction, and demonstrate interdependence and flexibility in their work together. Self-Help Groups have a payback rate to banks of over 95%, which is considered excellent compared to other priority sector borrowers. However, SHG payouts have been decreasing over the last several years. According to NABARD's report on microfinance in India, the organization is worried about the increasing nonperforming loans (NPA) in SHG lending, which has led to a decrease in the number of SHG borrowers. In addition, the report notes that the SHG movement in India has been deteriorating since fewer SHGs have been able to get bank loans in recent years. Commercial banks are avoiding SHGs since their portfolios include many nonperforming loans.

### **Objectives of the Study**

Primary focus has been given to provide an overview of the current status of SHGs in India in the light of outstanding loan of the groups taken from various sources considering a period of five years. However, the specific objectives are:

- To discuss on the policy of SHG-Bank linkage programme.
- To give an overview of the Indian Microfinance picture in relation with SHGs.
- To analyze the outstanding loan with SHGs and its impact on SHG-Bank Linkage Programme.

### **Research Methodology**

#### **Study Area**

The focus of the study is on SHGs-BLP savings, loan disbursements, loan balances, and non-performing loans. It shows how the GOI and its stakeholders are using SHGs as a useful tool for Financial Inclusion, eradicate poverty, empowering women, and developing rural areas.

#### **Statistical tools used**

The study used quantitative analytical methods and was based on a longitudinal comparative research design. The NABARD's annual reports on the state of microfinance in India were used to get the information for this study. ANNOVA is used to find out the variance in loan outstanding of the SHGs. Diagrammatic representation is shown using pie chart, histogram. Pie charts, Histograms are used for the explanation of data.

### **Analysis and Discussion**

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

Insufficient funding is a significant barrier to the development of SHGs in India. With the help of the RBI's policymaking apparatus, NABARD forged connections between these organizations and financial institutions to alleviate their lack of capital. Since its inception in 1992, the program has progressed through the pilot study (1992–1995), direct streaming (1995–1998), and expansion phase (1998–present) phases.

In the last eighteen years, the Self Help Group (SHG)-Bank Linkage Programme has become a popular resource among banks, NGOs, and major corporations. From its humble beginnings in 1992 as a Pilot Programme launched by NABARD to link 255 SHGs with banks, the programme has expanded to include the linking of 69.5 lakh saving-linked SHGs and 48.5 lakh credit-linked SHGs. As a result, about 9.7 crore households are covered under the programme, envisaging a synthesis of the formal financial system and informal sector.

The "SHG-Bank Linkage Programme" of NABARD, which sought to link impoverished people's self-help organizations with banks, has grown the global microfinance network during the previous ten years. Self-help groups have earned ardent advocates among decision-makers. Even the federal

government has embraced group financing in its fight against poverty after seeing its benefits. Small loans to the underprivileged are known as "microcredit." They have their earliest roots in India. Traders and moneylenders have traditionally given loans to the poor, usually at very high-interest rates. This has caused borrowers a lot of trouble and improvement, including bad and illegal things like bonded labor. Microfinance as we know it now does not include any kind of exploitation. Rather, it's about lending to the poor at sustainable rates that they can afford.

As on 31<sup>st</sup> March 2022 data reveals that Savings of SHGs with Banks are Commercial Banks (₹ 3072648025) in Lakhs, Regional Rural Banks (₹ 1379124.61) in Lakhs, Cooperative banks (₹ 272275.24) in Lakhs, Bank Loan disbursed to SHGs are Commercial Banks (₹ 6122577.33) in Lakhs, Regional Rural Banks (₹3259124.41) in Lakhs, Cooperative banks (₹591220.76) in Lakhs, Bank Loans Outstanding against SHGs are Commercial Banks (₹10265756.79) in Lakhs, Regional Rural Banks (₹3948865.67) in Lakhs, Cooperative banks (₹ 890507.15) in Lakhs. Non Performing Assets data as on 31<sup>st</sup> March 2022, 3.8% in 2021-22, 4.73% in 2020-21, 4.92% in 2019-20, 5.2% in 2018-19, 6.1% in 2017-18.

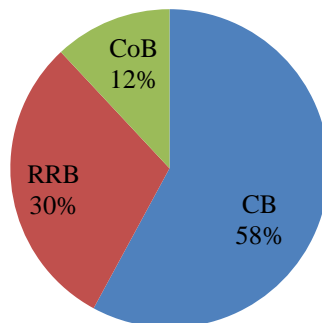
- **Micro Finance: Indian Experience**

Due to the pioneering efforts of a few non-governmental organizations, state governments like Tamil Nadu, and banks like Indian Bank and NABARD, the SHG movement has spread throughout the nation since the 1980s. Various other methods of microlending to the needy have been popular in many regions of the country much earlier. In the recent union budget, the Indian government instructed NABARD to refinance credit to 50,000 SHGs. It's also notable that the SHG is now considered a socially feasible unit for micro watershed programs. Several public and commercial banks have begun microfinance operations. Since independence, the Indian government and RBI have encouraged banks to provide prompt, sufficient, and continuous credit to the poor for agriculture and other businesses, freeing rural people from moneylenders.

As a result of the Hashim committee's recommendations, the Government of India reformed all poverty alleviation programmes under a single umbrella plan, the "Swarnjayanti Gram Swarojgar Yojana" (SGSY), beginning in April 1999. The scheme's emphasis has been on a group approach and organizing the underprivileged into Self Help Groups. This national initiative aims to promote and establish self-employment possibilities for the economically disadvantaged rural poor in agricultural, rural industries, and cooperative sectors by providing timely and enough loans. Experiences with many anti-poverty and other welfare programmes established across the globe have shown that the key to their success resides in the growth and engagement of community-based organisations at the grassroots level. People's engagement in loan delivery and recovery, as well as the connection of official credit institutions to borrowers through intermediaries such as Self-help groups (SHGs), has been acknowledged as a supplemental method for providing financial assistance to the rural poor. With typically loss-making rural banks transferring their portfolio away from the rural poor in the post-reform period, SHG-based microfinance, nourished and helped by NGOs, has emerged as an essential alternative to conventional lending to reach the poor unbankable.

- **Bank Loan Disbursed to SHGs**

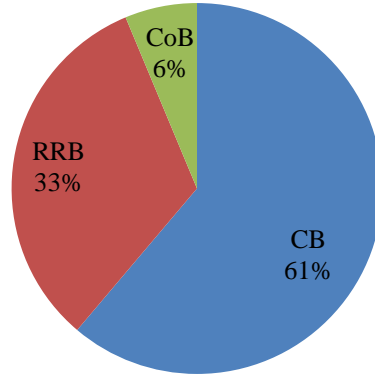
**Figure 1: Savings Linked SHGs- Agency Wise**



Source: Status of Micro finance in India 2021-22

The main goal of research is to find out the hidden truths that haven't been found yet. Even though a lot of research has been done on loan outstanding, this is an analytical study that looks at the savings of Self Help Groups (SHGs) in banks as of March 31, 2022, loans given by banks to SHGs during the 5 years, from 2017-2022, loans still owed by the banking system against SHGs, and a detailed analysis of loan outstanding as of March 31, 2022. The Status of Micro finance in India 2021-22 is the main source of information for the study

**Figure 2: Bank Loan Disbursed to SHGs**

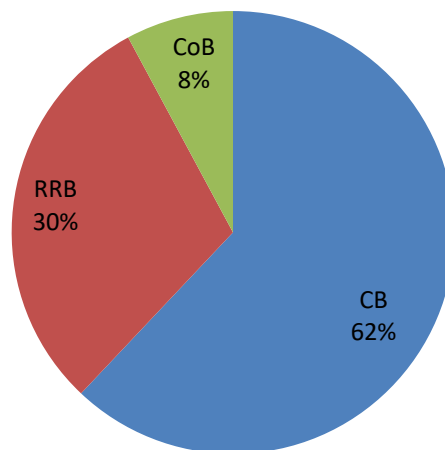


Source: Status of Micro finance in India 2021-22

- Bank Loan Outstanding against SHGs**

As on 31 March 2022, the SHG - BLP programme had a total membership of about 119 lakh SHGs covering 14.2 crore households across India. During the year 2021-22 the number of SHGs increased by 6.70 lakh (as opposed to 9.80 lakh in FY 2020-21) with a corresponding increase in the savings to ₹ 47,240.48 crore from ₹ 37,477.61 crore during the respective years, 26% annual growth is seen. During the year 2021-22, banks have disbursed total loans of ₹ 99,729.23 crore to the sector as against ₹ 58,070.68 crore in the previous financial year showing an increase of 72%.

**Figure 3: Bank Loan Outstanding against SHGs**



Source: Status of Micro finance in India 2021-22

All of the aforementioned information from the report has been analysed critically in terms of the incidence and growth of Loan outstanding; this information has been classified and analysed by region and by agency, and any possible interpretations or recommendations for understanding the same have been brought to light.

The amount of bank loans outstanding against SHGs of various banking agencies, viz., CBs, RRBs and Co-operative Banks have been compared for the past five years and analyzed using one way ANOVA and are tested by the following hypotheses.

Ho: There is no significant difference among the three agencies (CBs, RRBs, Co-op) as far as the amounts of bank loans outstanding against SHGs are concerned.

**Table 3: Single Factor ANNOVA**

| Summary Groups | Count | Sum      | Average  | Variance |
|----------------|-------|----------|----------|----------|
| CB             | 5     | 29531261 | 5906252  | 9.83E+12 |
| RRB            | 5     | 12475181 | 2495036  | 1.51E+12 |
| COB            | 5     | 2807415  | 561482.9 | 4.9E+10  |

| ANOVA               |             |    |             |             |             |          |
|---------------------|-------------|----|-------------|-------------|-------------|----------|
| Source of Variation | SS          | df | MS          | F           | P-value     | F crit   |
| Between Groups      | 7.3236E+13  | 2  | 3.6618E+13  | 9.643775894 | 0.003183156 | 3.885294 |
| Within Groups       | 4.55647E+13 | 12 | 3.79706E+12 |             |             |          |
| Total               | 1.18801E+14 | 14 |             |             |             |          |

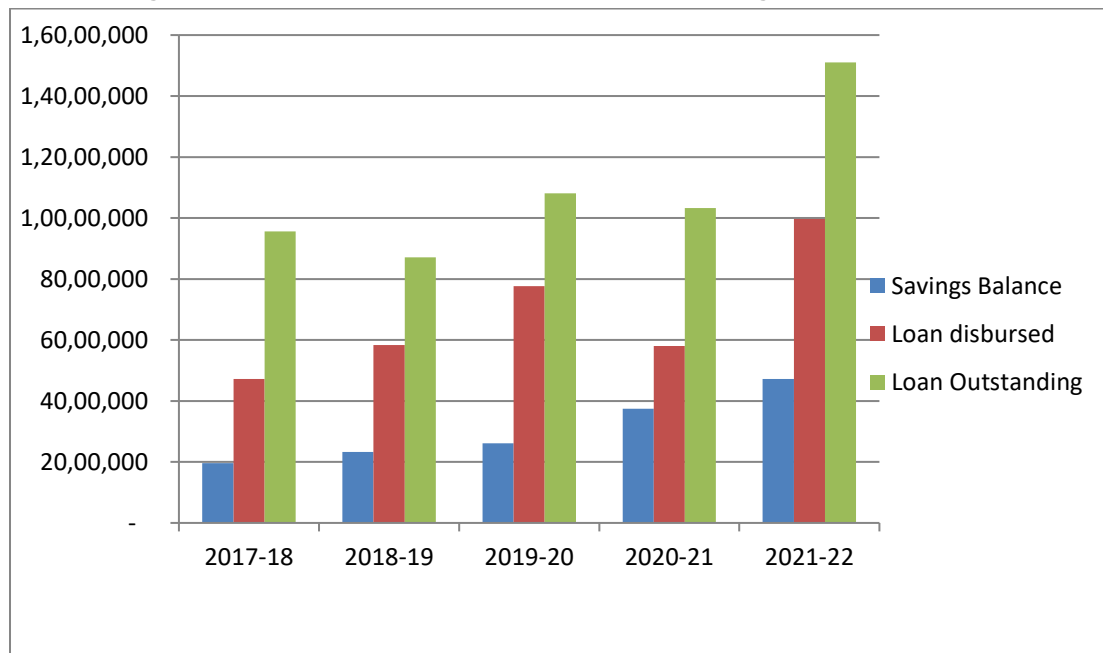
Sources; Prepared by the Researcher

- Bank Position of SHGs for the Last Five Years**

**Table 1: Bank positions of the SHGs for the last Five Years.**

| Year    | Savings Balance | Loan disbursed | Loan Outstanding |
|---------|-----------------|----------------|------------------|
| 2017-18 | 19,59,212       | 47,18,588      | 95,59,845        |
| 2018-19 | 23,32,448       | 58,31,763      | 87,09,815        |
| 2019-20 | 26,15,205       | 77,65,935      | 1,08,07,507      |
| 2020-21 | 37,47,761       | 58,07,068      | 1,03,28,971      |
| 2021-22 | 47,24,048       | 99,72,923      | 1,51,05,130      |

**Figure 4: Graphical Representation of SHG- Bank Linkage for the Past Years**



Source: Prepared by the Researcher

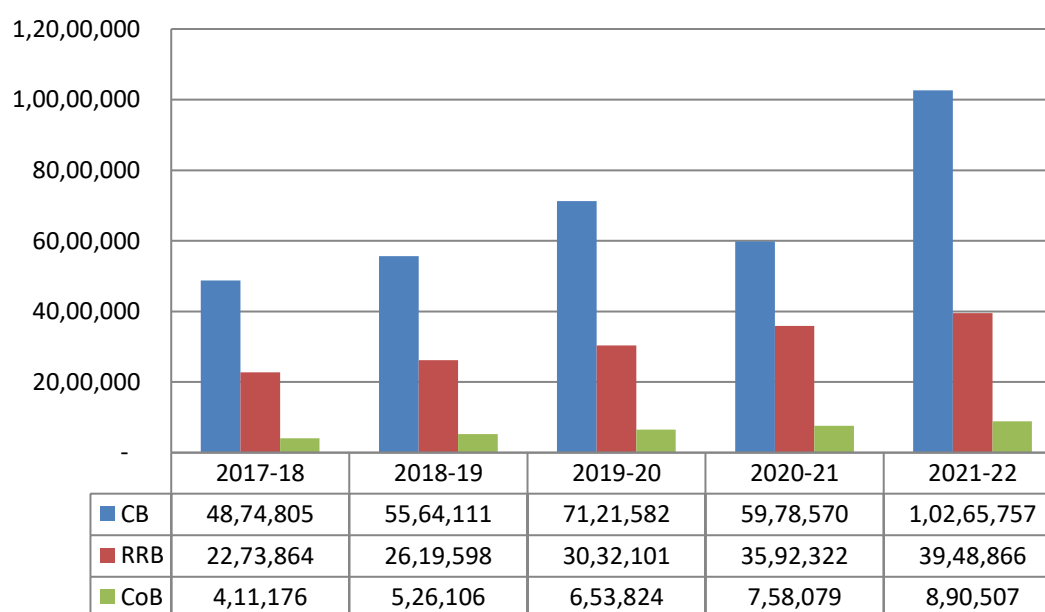
It can be observed that SHGs savings with banks in monetary terms has increased over the last years both in absolute & percentage terms. While the dip in loans out standings as on 31.03.2021 over 31.03.2020 corresponds with the disruption caused due to the Covid 19 pandemic, Loans disbursed to SHGs improved as seen from the Loans outstanding status as 31.03.2022. Further, in terms of share of banks for both savings linkages and credit linkages of SHGs, Commercial Banks account for 58% of the SHGs savings linked and 62% of credit linked SHGs (Figure 1 & 3). Credit amounting to ₹99,729 crore was disbursed by banks to 34 lakh SHGs during 2021-22 as against ₹58,071 crore to 29 lakh SHGs during 2020-21. As on 31 March 2022, a total of 67 lakh SHGs credit linked had loans outstanding of ₹1,51,051.30 crore with loan outstanding per SHG amounting to ₹2.24 lakh at the all-India level.

- **Agency wise Distribution of Bank Loans outstanding among SHGs**

**Table 2: Agency wise Distribution of Bank Loans outstanding among SHGs for the past five years.**

| Year    | CB         | RRB       | CoB     |
|---------|------------|-----------|---------|
| 2017-18 | 4,874,805  | 2,273,864 | 411,176 |
| 2018-19 | 5,564,111  | 2,619,598 | 526,106 |
| 2019-20 | 7,121,582  | 3,032,101 | 653,824 |
| 2020-21 | 5,978,570  | 3,592,322 | 758,079 |
| 2021-22 | 10,265,757 | 3,948,866 | 890,507 |

**Figure 5: Graphical Representation of Bank loan Outstanding against SHGs Agency wise Distribution for the Past Five Years.**



Source: Prepared by the Researcher

Thus, in terms of number of SHGs saving with banks, Commercial Banks lead with 58% share, followed by RRBs at 30% (35.83 lakh SHGs) and Cooperative Banks at 12% (14.22 lakh SHGs) (Figure 1). In terms of number of SHGs Bank Loan disbursement, Commercial Banks lead with 61% share, followed by RRBs at 33% and Cooperative Banks at 6% (Figure 1). In terms of number of SHGs Bank Loan outstanding, Commercial Banks lead with 62% share, followed by RRBs at 30% and Cooperative Banks at 8% (Figure 1).

It is clear that there has been a significant growth in loan outstanding when comparing the savings amount, loan disbursement, and loan outstanding during the previous five years across the agencies (Table 1 & Figure 5). Though the NPA has decreased as on 31<sup>st</sup> March 2022 is 3.23% as compared to 4.73% in 2020-21. NPA creates indebtedness problem, it has to be of uttermost worry whether the spike in loan outstanding is linked to the ongoing pattern of NPAs link to SHG loans with banks. The results of the ANOVA analysis are used to demonstrate this.

**Inference**

The results shows F value=9.64, and P value <0.5, Therefore Null Hypothesis is rejected and it is concluded that there is a significant difference among the three agencies. Hence, it can be concluded that the amount of loan outstanding is more with Commercial Banks as compared to Regional Rural Banks and Co-operative Banks.

**Conclusion**

The research paper clearly explains the five year trend analysis of agency-wise position of outstanding bank loans to SHGs for the years 2021-22. The analysis is based on the report of Status of Microfinance in India by NABARD and five years are the significant years as per the NABARD report that has brought a drastic increase in loan outstanding among all the agencies and particularly with Commercial Banks. The ANOVA analysis has apparently proved it and elucidates the significant difference between the agencies as far as loan outstanding is concerned that paves the way towards the increase in the rate of Non Performing Assets (NPA) by the Commercial Banks which would be further discussed in detail in the future research.

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