International Journal of Advanced Research in Commerce, Management & Social Science (IJARCMSS)
ISSN : 2581-7930, Impact Factor : 5.880 , Volume 04, No. 02(I), April - June, 2021, pp 237-241

IMPACT OF SELF HELP GROUP AND BANK LINKAGE PROGRAMME IN INDIA

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ABSTRACT

Accessible financial resources to the rural poor, marginalised and vulnerable groups are an important prerequisite for poverty reduction, financial inclusion and sustainable growth of the nations. Microfinance is a better way of empowering the poor by adopting the SHG-Bank Linkage Program model. The present paper makes an attempt to analyse the performance of the program in India and across various institutions-commercial banks, cooperatives, nabard and regional rural banks. The paper also studies the impact of this program in a social and economic manner.

Keywords: *SHG, Bank Linkage, Credit, NABARD, RBI, Loan.*

Introduction

Despite a well-developed banking system, rural poor still depend on informal sources such as moneylenders for their financial needs .The moneylenders exploit them in many ways. To bring these poor people into the mainstream of the financial system the government and the RBI have made numerous efforts. Financial inclusion aims to increase access to the formal financial system for the financially excluded and which leads a greater economic development to them. For the attainment of the aim of financial inclusion and inclusive growth it is considered that the banking system will perform the central task in the process of development. Banks are performing well in this objective but for attaining the target of a greater financial inclusion banking should be made a household habit with a bank account in almost every household. It seems hard in the light of this fact that still now a large section of the population in India barely earns a meagre livelihood sources. The SHG-bank linkage program is greatly expanding its reach under the initiative of NABARD, RBI, and the government of India. At the village level the program is implemented by the various commercial banks, cooperatives, and regional rural banks, with government agencies acting as facilitators.

Spatial analysis of poverty suggests that there is a higher level of poverty in areas where there are less economic opportunities being made available to the citizens, specifically poor people. Policy initiatives of the government are to be targeted in such a manner so as to minimise poverty and to fulfil basic needs of poor people.

SHG is the concept of Professor Mohammed Yunus(who is a Bangladeshi economist) He founded the Grameen Bank and is the pioneer of the concept of Microcredit and microfinance. After the success of the Grameen Bank Model in Bangladesh, the seed idea of micro-finance became popular worldwide. The UNDP, SAARC and various other international organizations have appreciated and accepted the SHG model as an important tool in wiping out poverty.

Conceptual Issues

Micro Credit is the provision of credit and other financial services of small amounts to the poor in rural, semi-urban and urban areas to increase their income levels and to improve opportunities and living standards. Micro credit institutions provide these facilities. (RBI Circular, 2008). The term ‘micro finance’ is much wider than micro credit. Micro credit is that part of micro finance that deals with the transfer of economic resources through the lending of funds borrowed on the financial market or received from donors. Micro credit offers access to financial resources to the marginalised and poorest sections of the society in the rural areas. It allows people to do self-employment activities and to start very small

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businesses with independence from moneylenders who demand very high interest rates. Currently there are following organizational forms of the MicroFinance Institutions, viz., Banks, financial Corporations, NBFCs regulated by the RBI, Trusts, Societies, Co-Operative Societies and Section 25 companies and Non- banking corporates.

SHGs have several benefits over the banking system. In the latter, there has been a strong emphasis on issues like economic feasibility and loan size, collateral and guarantees, productivity of a loan, structured loans, unit costs, scheduled assets, strict schedule for recovery, and recovery rates among others. Transaction costs are also high due to rigid lending terms not according to the customer's needs, poor monitoring due to lack of marketing information, high default rate due to political interventions, high procedural costs for borrowers, and lack of market orientation and proper treatment (Karmakar, 1999). From this point of view, SHGs are now seen as dependable vehicles for rural credit delivery. They offer a unique opportunity for providing cheap credit at the doorstep of the poor with almost assured repayment at the terms and requirement of the poor.

Discussions and Findings

Section I: Concept of SHGs

SHG is a group of about 20 persons from a homogeneous economic class, who volunteer to attain collective goals be it social or economic. The SHG group is democratically made and it selects its own leaders. The essential features of SHGs are: members belong to the same social strata and share a basic common ideology. Their aims include economic upliftment of all the participants of the selected group. The concept of SHGs is used in the case of economically backward and poor people (women specifically) of society who come together to pool their small savings and then use it among themselves. The experience is that the SHGs come into form by the intervention of some facilitating agency. The non-Governmental Organisations (NGOs) had a history of traditionally promoting SHGs. However in present times, SHGs are also promoted by Government agencies, banks and federations of SHGs themselves. The SHG members conduct meetings at regular intervals and collect their savings of a pre-decided amount at these meetings. The pooled savings are then used for small interest bearing loans among the group itself. The members who borrow the money have to return it in instalments at decided fixed interest rates. The group is responsible for its own saving rate, lending policy and interest rates.

- **SHG Bank Linkage Programme**

The basic concept of linking SHGs to banks was launched by National Bank for Agriculture and Rural Development (NABARD) in 1992. The success of this project led to its expansion with an increasing number of banks and NGOs participating. From humble beginnings in 1992, the SLBP programme expanded rapidly and nearly in a decade it started emerging as one of the single largest microfinance programmes of the world.

Over a period of time, three models of lending exist under the programme.

- In Model 1, the bank takes the initiative of forming the groups and guiding them to open savings accounts and then also provides credit.
- In Model 2, facilitating agencies such as NGOs, other government agencies and community based organisations take the initiative of forming groups and helping them, by providing savings and credit facilities from banks.
- In Model 3, NGOs, which promoted the groups, act as financial intermediaries. The banks lend them for financing the groups or their members.

In some special cases, the NGOs organise the SHGs into federations, which take the role of financial intermediaries. Data published by NABARD signifies that Model 2 has proved to be the most popular.

There are various advantages of the group lending setup. First advantage is that the borrowers themselves take the task of credit evaluation, which creates a peer screening effect and decreases the costs as community members have much better information than banks (Andersen and Nina). Two, there is a peer monitoring effect that motivates members to utilise these loans in productive ways; Stiglitz (1990), Varain (1990), and Banerjee and Newman (1994) have developed models that explain the mechanism of the peer monitoring effect. Three, the need to preserve valuable social bonds motivates borrowers to put that extra effort for timely payments. Social ties are very valuable because they allow members to borrow in the future, create a good social image and provide business networks. Moreover, a very important aspect of group lending is the collateral effect. Bank's losses due to unsuccessful projects are generally decreased as successful entrepreneurs in each group cover their part losses (Andersen and Nina).

- **Evolution of Financial Inclusion**

The aim of financial inclusion is to expand the scope of the organized financial system by including those sections of society who have low incomes in its ambit. It ensures access to financial products and services at low cost to all sections(specially marginalised sections) of society. Based on NSSO data, the Rangarajan Committee on Financial Inclusion stated that about 51% of the households in India do not have the access to financial services neither from institutional nor non-institutional sources. Further, the committee revealed that only 27% farmers were borrowing from the formal sources. The number of farmers borrowing credit from the institutional sources in the North-Eastern, Eastern and Central states were significantly low. The non-farm households had much less access to institutional finance. The Scheduled Castes and the Scheduled Tribes suffered more financial exclusion. The poorer any social group was, the greater the exclusion it faced.

Section 2: Progress of SHG-Bank Linkage Programme in India

The SHG-Bank linkage programme is considered as one of the largest microfinance programmes. The SHG-Bank linkage programme was started by NABARD in 1992. It was launched as one of the most important microfinance programs of the country. It was started as a pilot project to link 500 SHGs with banks. At present, the SBLP has come along a long path, passing through various different stages: the pilot phase (1992-1995), mainstream (1995- 1998), and expansion (1998) phase. The SBLP is based on the people's own resources supplemented by the existing banking infrastructure, negating the need for the creation of a new institutional setup. The conceptual thought behind the SHG initiative is: (i) self help supplemented by the mutual support becomes a powerful tool in the socioeconomic transformation of the poor (ii) the poor people can have savings and are bankable (iii) the collective knowledge of the poor people and societal peer pressure are important collateral substitutes. The problems in the 1990s were two dimensional i.e. this structure was neither profitable in rural lending nor it was serving the requirements of the poorest. It created a structure which turned out to be 'quantitatively impressive but qualitatively weak' (Mishra,2006). Reaching the poorest, whose loan requirements were very erratic, frequent, very small and unpredictable was difficult. The credit provides financial products and services including savings, insurance, etc. to the poor to meet their simple demands(Ansari, 2007). Therefore, a need was felt for alternative policies, systems and procedures, savings and loans, in addition to complementary services and new mechanisms, which would fulfill the financial needs of the poorest.

SHGs informal associations created with the target of enabling the members to have economic benefits out of mutual help, solidarity and joint responsibility. These small and homogeneous groups are involved in savings and credit activities .Thus it is efficient in taking care of the risks involved through peer monitoring. The main advantage of the bank linkage with the SHGs is the externalization of a part of the task, assessment of credit requirements, appraisal, supervision and repayment, reduction in the formal paperwork involved and a direct reduction in the transaction costs (Rangarajan, 1996).

Year (end March)	No. of SHGs	Growth %	Cumulative no. of SHGs linked	Bank Loan	Growth %	Cumulative Bank Loan
1992-93	255	-	255	0.29	-	0.29
1993-94	365	43.1	620	0.36	24.1	0.65
1994-95	1502	311.5	2122	1.79	397.0	2.44
1995-96	2635	75.4	4757	3.62	102.0	6.06
1996-97	3841	45.8	8598	5.78	60.0	11.84
1997-98	5719	48.9	14317	11.92	106.0	23.76
1998-99	18678	226.6	32995	33.31	140.0	57.07
1999-00	81780	337.8	114775	135.91	238.0	192.98
2000-01	149050	82.0	263825	287.89	112.0	480.87
2001-02	197653	33.0	461478	545.47	89.0	1026.34
2002-03	255882	29.0	717360	1022.34	87.0	2048.67
2003-04	361731	41.0	1089091	1855.53	81.0	3904.20
2004-05	539365	49.0	1618456	2994.25	62.0	S6898.46
2005-06	620109	15.0	2238565	4499.09	50.0	11397.55
2006-07	684408	10.4	2924973	6643.19	47.7	18040.74
2007-08	2084821	204.5	5009794	8849.26	33.2	26890.00
2008-09	1111353	-46.7	6121147	12253.51	38.5	39143.51
2009-10	832103	25.1	6953250	14453.30	18.0	53596.81

Source: NABARD

Regional Distribution of SHG-Bank Linkage Program

Development of the SHG-Bank Linkage programme is highly skewed. State-wise distribution of SHGs shows that the program was most successful in Andhra Pradesh accounting for 20.9 percent of total number of SHGs, Tamil Nadu (11.9 percent), Maharashtra (11.1 percent), West Bengal (9.3 percent), and Karnataka (7.7 percent). These states together made up for 60.9 percent of total SHGs linked and 63.8 percent of the total bank loans given.

Region	March 2001		March 2010	
	Cumulative number of SHGs linked to banks	Percent to Total	Cumulative number of SHGs linked to banks	Percent to Total
Northern	9012	3.4	351801	5.1
North Eastern	477	0.2	292188	4.2
Eastern	22252	8.4	1374242	19.8
Central	28851	10.9	765965	11.0
Western	15543	5.9	945620	13.6
Southern	187690	71.2	3223434	46.3
TOTAL	**2,63,825**	**100.0**	**6953250**	**100**

Source: NABARD

The World Bank (2006) recommended that the achievements of microfinance programs should be analysed using two basics and referred to it as ‘‘double bottom line’’. First criterion is to check the extent of this program contributing to poverty alleviation; and since poverty alleviation is the main target of the SHG Program this is the basic primary criterion. The second criterion is to see the extent this program can be sustainable in the long run. Because the aim of the rural financial reform is to make sure the inclusion of the poor in the modern financial market and to provide sustainable financial services to the poor (Adams 1984; 1981). The SHG Program should be able to stand on its own feet in the long run. Since the fund is not cost free and thus it should be analysed for its efficiency and sustainability.

Section 3: Impact of Self-help Bank Linkage Program

The programme has proven to be an attractive option for banks due to it’s high recovery rates and lowered transaction costs by outsourcing costs associated with monitoring and appraisal of loans. Forming small, homogeneous and participatory SHGs of the poor has emerged as an important tool for human development. This process enables the poor- (especially women) to collectively understand and analyze the problems they face in their social and economic environments. It helps them to pool their few resources- human and financial- and prioritize their use for solving their problems. The emphasis on regular savings and its utilisation to solve immediate problems of day to day needs not only helps to meet their most urgent requirements but also trains them to handle financial resources more skillfully, prudently and with a more long lasting impact.

The evolution of SHGs at various levels:

- Households use this finance to meet basic ‘survival’ requirements where small savings and loans act as a buffer in any emergency, facilitate consumption or help to pay previous debts to provide more liquidity during low times.
- Basic subsistence needs are met through microfinance, where any household can start to utilize microfinance to diversify its income generating activities and to fulfill requirements in traditional activities.
- When households reach a stage where they can go for a higher degree of risk, microfinance is used to invest in setting up any enterprise or providing entry into employment so that the household becomes sustainable.

Economic Impact

- Financially excluded disadvantaged sections of society can be integrated with the formal banking sector. Micro finance has lowered poverty through better income and decreased vulnerability of the poor.
- It has led to less dependence on informal money lenders and other non-institutional sources. The interest rates of moneylenders have also reduced.
- Access to credit has ensured that women meet their consumption expenditures initially. There is a new shift in the loan pattern from consumption loans to production activities with creation of assets. Access to credit has enabled women to improve income levels and enabled the poor to cross the poverty line.

Social Impact

- It has ensured that households spend more money on education than non-member households. This has ensured better attendance and less dropout rates.
- Women are empowered because it increases women's contribution to household financial resources and provides them better control over the decision making that affects their lives.
- Housing conditions generally improved with a shift from kutcha to pucca housing.
- Members were relatively more assertive in confronting social evils and problem situations. As a result, there was a fall in the incidence of family violence and other social issues.
- In some areas, it has decreased child mortality, improved maternal health and the ability of the poor people to combat disease through improved nutrition, housing and health- especially among women and children.
- The SHG movement has expanded opportunities for women to assume leadership positions.

Conclusion

The SHG bank linkage program in India is rapidly expanding its reach. At the grassroot level it is being implemented by the commercial banks, cooperatives, and regional rural banks, with government agencies acting as facilitators. The help in the social cause of reduction of poverty, increase in sustainability, reducing vulnerability, improving capacity building and helping the weaker sections to fulfill basic needs and build assets future with their savings. Better education, better standard of living, decreased child mortality and child labor, empowerment of women, and communal harmony due to financial interdependence are positive benefits of SHG-bank linkage program. Different factors such as: regional, economical, political, cultural, technical knowledge gap, social conditions have led to the sluggish movement of the SHG-bank linkage program in various regions. Banks should put more concentrated efforts (specifically in rural areas) for the promotion of this program. Therefore, it is expected that more and more poor disadvantaged sections should form the SHG group and reap the benefits. Area-based targeted approach will give a better, affordable, and social-welfare oriented option to assist marginalised communities. This similar approach also contributes to social empowerment of women.

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