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MICRO-FINANCE IN INDIA PROGRESS OF SHG-BANK LINKAGE PROGRAMME

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Abstract

The micro finance programme in India made rapid progress since 2001 in term of both the number of SHGs financed and the amount of credit extended. This paper discusses the trends of microfinance programme in India. NABARD's data is used to achieve the objective. The number of SHGs financed increased steadily from year to year since 2001 from 1,49,050 in 2000-01 to 11,47,878 in 2011-12, taking the cumulative total figure to 89,03,610 in 2011-12. Micro credit in India was confined mainly to the Southern region of the country, with 7,05,419 SHGs (61.45%) of the total of 11,47,878 SHGs financed in the year 2011-12 in the country. Commercial banks were at top in both terms, the number of SHGs financed and credit extended to SHGs with 52.34% to the total and 60.13% to the total respectively during the year 2011-12.

Keywords: *Self Help Group, Micro-finance, Commercial bank, NABARD.*

Introduction

Development of a country does not only refer to the development of infrastructure, innovations and technology but it is actually related to the development of each and every citizen in terms of their quality of life. A country will move on the development path if all the citizens are involved in the development process and enjoy good standard of living by having access to

basic amenities of life such as food, clothing, housing, health, clean water, education, employment and good natural and social environment.

India is a development country in which 57% of its total population makes a living from agriculture and allied activities. The prime problem of the rural micro-enterprises including agriculture and allied activities is non-availability of timely and adequate credit at reasonable and affordable rates of interest (Sudhir K.Jain, 2011). That is why, about 30% of India's total population still lives below poverty line. Most of the poor people are unemployed and think about earning their livelihood only. Therefore, poverty alleviation has remained the major focus for development practitioners since the independence of India.

A number of anti-poverty policies and programmes have been launched in India during the 1970s and 1980s, including those of credit delivery programmes, targeting the poor. In order to reduce increasing rural poverty, there was need for providing micro-credit facility to the village entrepreneurs in remote rural areas. The institutional vehicles chosen for this purpose were cooperative banks, commercial banks and regional rural banks. Besides, various institutional and policy measures were taken to attack India's rural poverty, a number of direct wage-employment and self-employment programmes were launched to improve the living standard and the income of the poor people.

Some of these wage and self-employment programmes were: 20-Point Programme, National Rural Employment Programme, Rural Landless Employment Guarantee Programme (RLEGP), Jawahar Rozgar Yojana, Employment Assurance Scheme, Food for Work Programme, Sampoorna Gramin Rozgar Yojna, Integrated Rural Development Programme, Development of Women and Children in Rural Areas, Training of Rural Youth for Self-Employment, Supply of Improved Tool Kits to Rural Artisans, Swarnjayanti Gram Swarozgar Yojana (SGSY), Mahatma Gandhi National Rural Employment Guarantee Act.(MNREGA) etc.
However, these programmes could not achieve the expected results. Although the share of formal financial sector in total rural credit increased progressively from 8.8 per cent in 1951 to 53.3 per cent in 1991 but it was found that the rural banks served only the needs of

Comparatively rich rural borrowers instead of the deserving poor (Basu and Srivastava, 2005). This was mainly due to the reason that the lack of collateral makes the poor people not-bankable. Around 64.95 million cultivator households and 46.6 million non-cultivator households respectively do not have access to formal financial services. NSSO data reveal that 45.9 million households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central regions respectively (Shalini Talwar, 2012).The high transaction cost of lending and low interest rate, focus on giving credit rather than providing financial services such as savings and insurance, political interferences, corruption and low recovering were the main reasons responsible for the limited success of formal banking system to provide credit to the rural poor explained by Fisher and Sriram (2002).

A number of studies found that the government initiated subsidy and grant based anti-poverty programmes failed to reach the target poor people. The poor people are non-bankable, that type of attitude was developed by rural bankers. Once again, there was a need for an innovative programme for credit which must be collateral free, flexible and must fulfil the needs of underprivileged classes. In such an environment microfinance emerged all over the world as an innovative scheme of lending to the poor people, especially women. Under this programme collateral free small loans are given to a group of poor people who make savings regularly. The whole group remains responsible for the repayment of the loan and the peer pressure within the group helps the successful and timely repayment of the loans. These types of groups are called self help groups.

Objective of the Study

To assess the recent trends and progress of the microfinance through SHG-Bank linkage programme in the country.

Research Methodology

This study follows descriptive type of research design. Secondary data collected from NABARD and other departments is used.

What is Microfinance?

Micro finance is defined as any activity that includes the provision of financial services such as credit, savings and insurance etc. to very poor people who are otherwise not qualified for bank loans.

According to Asian Development Bank "Microfinance is the provision of broad range of financial services such as deposit, loans, payment services, money transfers and insurance to poor and low income household and their micro enterprises". Institutional microfinance is defined to include microfinance services provided by both formal and semiformal institution. Microfinance institutions are defined as institutions whose measure business is the provision of microfinance.

The reserve bank of India (RBI) defines micro finance as follows; "Micro finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their levels and improve their living standards".

Objectives of Microfinance Programme

1. To initiate and implement micro-enterprises development programmes and support the programmes by way of an effective micro-finance delivery mechanism.
2. To make the participating agencies well acquainted with the needs of different target groups e.g., women, tribal, scheduled castes, micro-entrepreneurs and unemployed youth.
3. To strengthen capabilities of micro-finance organizations in the areas of planning, managing and coordinating micro-enterprises i.e. identification of feasible business projects, encouraging the entrepreneurs to execute these projects and supporting them with managerial, financial and marketing assistance. (Lokhande, 2009)

Microfinance in India

Micro finance in India can be traced back to the early 1970s when the Self Employed Women's Association ("SEWA") of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with the objective of extending banking services to poor women employed in the unorganised sector in Ahmadabad, Gujarat. In 1986-87 an action research project on 'saving and credit management of SHGs' was made by NABARD, this project was supported and funded by Mysore Resettlement and Development Authority (MYRADA). Encouraged by the results of field level experiments in group based approach for lending to the poor, NABARD launched a pilot project of linking 500 SHGs with banks in 1991-92 in partnership with non-governmental organisations (NGOs) for promoting and grooming self-help groups of socio-economically homogeneous members.

In July 1991 RBI issued a circular to the commercial banks to extend credit to the SHGs formed under the pilot project of NABARD. The results were very encouraging. In February 1992, the launching of pilot phase of the SHG- Bank Linkage Programme (SHG-BLP) could be considered as a landmark development in banking with the poor. In order to further promote this programme RBI issued instructions to banks in 1996 to cover SHG financing as a mainstream activity under their priority sector-lending portfolio. With the support from both the government and the Reserve Bank of India, NABARD successfully spearheaded the programme through partnership with various stakeholders in the formal and informal sector. Since the time of its origin, NABARD provides policy guidance, technical and promotional support mainly for capacity building of NGOs and SHGs. Private Microfinance providers, commonly known as MFIs, are various NGOs, Non-banking Financial Companies (NBFCs) and other registered companies. Many state governments amended/passed their State Co-operative Acts to use co-operative societies for providing microfinance. These days many public and private commercial banks, regional-rural banks, co-operative banks, co-operative Societies, registered and unregistered NBFCs, are providing microfinance through different microfinance delivery models.

Delivery Models of Microfinance in the World

The concept of microfinance involves informal and flexible approach to the credit needs of the poor. No single approach or model can fits in all the circumstances. Therefore, a number of microfinance models emerged in different countries/states according to the suitability to their local conditions. These models can be classified into five groups as follows:

1. Grameen and Solidary Model.
2. The group Approach.
3. Individual Credit.
4. Community Banking.
5. Credit Unions and Cooperatives.

Microfinance Models in India

Indian micro finance is dominated by two operational approaches viz. Self-help Groups (SHGs) and Micro Finance Institutions (MFIs) in addition to a few co-operative forms. The first approach is popularly known as SHG-Bank linkage model. This model is the dominant model, initiated by the NABARD through the SHG-Bank linkage programme in the early 1990s. Today this programme has the largest outreach to micro financial clients in the world. The second approach also called financing through MFIs, is the emerging model. This model emerged in the late 1990s to harness social and commercial funds available for open lending to clients. Today there are over 1,000 Indian MFIs. These institutions assume the responsibility of making available much needed micro credit to the poor section of the society (Moses and Emerlson 2011).

Microfinance through SHGs Model

A SHG is a small group of 5 to 20 persons drawn from relatively homogenous socio-economic backgrounds. These groups are formed by the bank officials, NGOs and various other institutions at the village level. The members are encouraged to make a voluntary thrift on regular basis. The group members mutually decide about the amount and frequency for individual savings to be deposited in the group account. They use this pooled resource to make

Small interest bearing loans to their members within the group. Once the groups show this mature financial behavior (generally after six months of group formation), banks are encouraged to provide loan to the SHG in certain multiples (three to four times) of their accumulated savings. The bank loans are given without any collateral and at specified interest rates. The peer pressure ensures timely repayments and replaces the collateral for the bank loans. Generally, the banks charge between 9-10 per cent rates of interest per annum from the SHGs. The group members themselves decide the terms of loans and the criteria of dividing the loan among the group members. The rate of interest is mutually decided by the group members. The group can get the second loan from the bank only after repaying the first loan successfully and so on. Each such group is given a name and each group has a head, cashier and secretary, democratically elected by the group members to manage the group affairs. The perception here is that the micro-finance follow through small economic activity groups in rural areas would increase outreach of credit and ensure financial inclusion in the rural areas by creating income generating micro-enterprise ventures.

Progress of SHG-Bank Linkage Programme in India

Table 1 shows the trends of SHG-BLP in India from 2000 to 2012. The micro finance programme in India made rapid progress since 2001 in term of both the number of SHGs financed and the amount of credit extended.

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Table 1: Number of SHGs Linked to Banks in India (2000-01 to 2011-12)

Year	SHGs Financed by Banks		Bank loans distributed (in crore)	
	During the year	Cumulative	During the year	Cumulative
2000-01	1,49,050	1,49,050	287.92	287.92
2001-02	1,97,653	3,46,703	545.40	833.32
2002-03	2,55,882	6,02,585	1,022.40	1,855.72
2003-04	3,61,731	9,64,316	1,855.50	3,711.22
2004-05	5,39,385	15,03,701	2,993.80	6,705.02
2005-06	6,20,089	21,23,790	4,499.00	11,204.02
2006-07	6,86,408	28,10,198	6,643.70	17,847.72
2007-08	5,52,992	33,63,190	4,227.30	22,075.02
2008-09	16,09,586	49,72,776	12199.52	34,274.54
2009-10	15,86,822	65,59,598	14,453.30	48,727.84
2010-11	11,96,134	77,55,732	14,547.30	63,275.14
2011-12	11,47,878	89,03,610	16534.77	79,809.91

Source: Status of Micro-Finance in India (2001 to 2012).

The number of SHGs financed increased steadily from year to year since 2001 from 1,49,050 in 2000-01 to 11,47,878 in 2011-12, taking the cumulative total figure to 89,03,610 in 2011-12. This shows an increase of 5,973.58% in term of numbers of SHGs financed during the period of 2001 to 2012. Further the data show that averagely 7,95,869 SHGs per year increased in term of number of SHGs financed and 7,229 crore Rs. averagely distributed to the SHGs

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during the period of 2001 to 2012. All this show a healthy growth in terms of both the number of SHGs financed and the amount of credit extended.

Table: 2 Region-wise progress of SHG-Bank linkage programme

(Rs. in lakh)

Region	**Bank loan distributed to SHGs during 2011-12**		**Bank loan outstanding against SHGs as on 31 march 2012**	
	No. of SHGs	**Loans Distributed**	**No. of SHGs**	**Loans Outstanding**
Northern	30,751 (2.68)	33,543.20 (2.03)	2,12,041 (4.87)	1,17,827.53 (3.24)
North Eastern	51,003 (4.44)	45,128.74 (2.73)	1,59,416 (3.67)	99,326.83 (2.73)
Eastern	2,01,201 (17.53)	1,62,406.15 (9.82)	9,85,329 (22.63)	4,62,979.84 (12.75)
Central	58,460 (5.10)	70,936.83 (4.29)	3,52,452 (8.09)	2,78,029.13 (7.65)
Western	1,01,044 (8.80)	75,285.69 (4.55)	2,89,472 (6.64)	1,36,378.30 (3.75)
Southern	7,05,419 (61.45)	12,66,176.27 (76.58)	23,55,732 (54.10)	25,39,458.56 (69.88)
All India (Total)	11,47,878 (100.0)	16,53,476.87 (100.0)	43,54,442 (100.0)	36,34,000.18 (100.0)

Note: Figures in parentheses are percentages to total.

Source: NABARD (2012).

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The data presented in table-2 show that the micro credit in India was confined mainly to the Southern region of the country, with 7,05,419 SHGs (61.45%) of the total of 11,47,878 SHGs financed in the year 2011-12 in the country. This region was followed by Eastern and Western with 2,01,201 (17.53%) and 1,01,044 (8.80%) SHGs respectively. During the year 2011-12, 76.58% of total bank loan was distributed in the southern region. The share of Southern region in total number of SHGs financed during the year 2011-12 was 61.45% but the region received 76.58% of total amount distributed in that year. All the data show that the inter-regional disparity in bank loans to SHGs has been wider than that in the number of SHGs.

Table: 3 Agency-wise extension of Micro Credit in India

Agency	**Number of SGHs financed (in '000)**				**Amount of credit (in Rs. Crore)**			
	2008-09	**2009-10**	**2010-11**	**2011-12**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Commercial banks	1,004.58 (62.4)	977.52 (61.6)	669.74 (55.99)	600.81 (52.34)	8,060.53 (65.8)	9,780.19 (67.7)	9,724.56 (66.85)	9,942.04 (60.13)
Regional rural banks	405.57 (25.3)	376.80 (23.7)	229.62 (19.20)	304.81 (26.55)	3,193.49 (26.1)	3,333.20 (23.1)	1,625.56 (11.18)	5,026.05 (30.40)
Co-operative banks	199.43 (12.3)	232.50 (14.7)	296.77 (24.81)	242.26 (21.11)	999.49 (8.1)	1,339.92 (9.3)	3,197.62 (21.97)	1,566.67 (9.47)

Total	1,609.58 (100.0)	1,586.82 (100.0)	1,196.13 (100.0)	1,147.88 (100.0)	12,199.51 (100.0)	14,453.31 (100.0)	14,547.74 (100.0)	16,534.76 (100.0)

Note: Figures in parentheses are percentages to total.

Source: NABARD (2012).

The data show that the position of the three agencies in financing the SHGs as at the end of financial year 2011-12. The share of commercial banks was decreased from 55.99% to 52.34% in term of number of SHGs financed and from 66.85% to 60.13% in term of amount distributed to SHGs to the last year. Although commercial banks were at top in both terms, but commercial banks were losing their position to the last years. Regional rural banks were on second position with 19.20% in 2010-11 and 26.55% in 2011-12 in term of number of SHGs financed and 11.18% and 30.40% in term of amount distributed in 2010-11 and 2011-12 respectively. The share of co-operative banks were also decreased from 24.81% to 21.11% in term of number of SHGs financed and from 21.97% to 9.47% in term of amount distributed to SHGs to the past year. This all clearly indicate that commercial banks leading the side, followed by RRBs in both term.

Conclusion

With a slow growth rate in the initial years from 1992 to 1999, the microcredit programme in India has made rapid progress since 2001. Micro programme have, in the recent past, become one of the more promising ways to use scarce developments funds to achieve the objectives of poverty alleviation. Although this programme recorded healthy progress during last decade, but certain weaknesses and short-comings of the programme have also come forward to us. The main short-comings are high rate of interest, the problems of NPAs , insufficiency of credit and regional disparity. The programme needs to be addressed through appropriate policies and strategies to overcome these weaknesses. There should be direct link between the poor and banking system. The programme should be advertised in all the regions by proper channels.

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