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Progress of Microfinance in India under SHG-Bank Linkage Model

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ABSTRACT

The Indian Microfinance Sector has witnessed a phenomenal growth over the past few years. In India, microfinance is provided majorly through two models- the SHG-Bank Linkage Model (SHG-BLM) and Microfinance Institution (MFI)- Bank Linkage Model. The SHG-BLM developed by NABARD is the most widely used model of micro finance in India. National Bank for Agriculture and Rural Development (NABARD) launched the pilot phase of the SHG-BLP in February 1992,as per which Self Help Groups (SHGs) were connected to banks for both savings and credit disbursement. Since1992, the programme has grown manifold. Today, the SHG - Bank Linkage Programme (SHG-BLP) is the largest microfinance programme in the world because of its size and the population it touches. In this background the paper attempts to study the progress made under the SHG-Bank Linkage Model in India during the last decade.While the SBLP model remains the most widely used model of micro finance in India, the MFI model has also gained momentum in the recent past. The MFI Model is more recent and has grown rapidly from less than one million borrowers in 2003 to nearly 40 million borrowers in 2017.

Keywords: Microfinance models, SHG-BLP, MFIs, Progress.

INTRODUCTION:

In India, microfinance programme was formally initiated by National Bank for Agriculture and Rural Development (NABARD) in 1992. With the objective to extend formal banking services to the unreached rural poor by evolving an alternate credit delivery mechanism, NABARD introduced a pilot project in 1992-93, by linking of Self Help Groups (SHGs) with banks. By the end of March 1993, 225 SHGs were linked and the figure reached to 620 by the end of March 1994. Encouraged by the success of the pilot project, in 1996, Reserve Bank of India decided to include bank linkage as a mainstream activity of the banks under priority sector lending. NABARD is the key agency for promoting Self-help group Bank Linkage Programme in India. It plays a strategic role in promoting this programme through formal banks in India. NABARD provides 100 percent refinance to banks at an interest rate of 6.5 percent per annum. It has been playing the role of propagator and facilitator by providing conducive policy environment, training and capacity building besides extending financial support for the healthy growth of the SHG linkage programme in India.

REVIEW OF LITERATURE:

Mehar (2007) in his research work entitled “Microfinance through Self Help Groups to Fight against Poverty” stated that microfinance through SHGs has the potential to fight against poverty. The findings show that SHG based on micro finance have better outreach and positive impact on reducing poverty. However the process of empowerment is found to be slow. The success of this programme depends on both better outreach and the ability to empower the poor, particularly women self help groups. Swain &Wallentin (2009) examined that the Self Help Bank Linkage Program of microfinance in India have been increasingly promoted for its positive economic impact and the belief it will successfully help to empower women. The elegance of the result lies in the fact that the group of SHG participants shows clear evidence of a significant and higher empowerment, while allowing for the possibility that some members might have been more empowered than others. Mansuri (2010)in his study highlights that The SHG bank linkage from NABARD is considered as best alternative to reach the poor. The provision of small and regular repayment schedule made possible very high recovery rate. After 1990s microfinance has gained momentum and now it is the largest microfinance movement in the world.Santosh et al (2016) studied that in India microfinance operates through two main channels viz. a) SHG – Bank Linkage Programme (SHG-BLP) b) Microfinance Institutions (MFIs). The Self-Help Group (SHG) Bank Linkage Programme has during last two decades covered more than 10.01 crore Indian poor households, making it the largest community based microfinance programme in the world.

Reddy and Muhammed (2017) in their study exploredthe new paradigm shift and performance of Microfinance sector and analyze the impact of financialtechnology (Fin Tech) on this sector. They studied the emerging trends in Indian Microfinance and the impact of policy reforms, financial technology (Fintech) and banking initiations. The Government of India and Central Bank (RBI) reaffirmed the role of Microfinance Institutions (MFIs) in financial inclusion by introducing NBFC-MFIs guidelines, Priority Sector Lending (PSL), promoting MFIs as Business Correspondents (BC) of banks and launching of MUDRA bank due to its easy viability and wide range beneficiaries across the country.As a result of the recent movement of the Indian government towards demonetization (8th Nov-2016) and Andhra Pradesh Microfinance crisis of 2011, this sector is dropping large collections and experienced loan defaults due to the cash crunch.Harika and Ramakrishna (2017) in their paper attempt to assess the status of microfinance in India in terms of Saving Amount, Loan Amount and Outstanding Amount through trend analysis. To analyse the status of microfinance in India in terms of above indicators over the period 2010-11 to 2015-16, Compound Annual Growth Rates, Mean, Standard Deviation (SD), Coefficient of Variation (CV) and Instability Index were calculated. The study concluded that the SHG-BLM has emerged as a dominant model in terms of number of borrowers and loans outstanding. Due to widespread rural bank branch network, the SHG-BLM is very suitable to the Indian context.

DATA AND METHODOLOGY:

The study is a quantitative assessment of the progress made by the SHG-Bank Linkage Model of micro finance in India during the time span of 11 years from 2006-07 to 20016-17. The study is exploratory in nature and is mainly based on secondary data obtained from annual reports of NABARD on the Status of Microfinance in India and Sadhan's Bharat Microfinance Reports.

MEANING OF MICROFINANCE:

Microfinance refers to a wide range of organizations dedicated to providing micro financial services including non-government organisations, credit unions, co-operatives, private commercial banks, non-banking financial institutions and some state-owned banks. It is defined as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban areas so as to enable them to raise their income levels and improve their living standard. Microfinance is defined as "the provision of financial services to low-income poor and very poor self-employed people" (Otero, 1999). These financial services generally include savings and credit but can also include other financial services such as insurance and payment services(Ledgerwood, 1999).Microfinance is also defined as "the attempt to improve access to small deposits and small loans for poor households neglected by banks"(Schreiner et.al, 2001).

Microfinance involves providing loans and finance to the poor for self-employment activities. Loan amount is smallbut the timeframe for repayment of loans is longer. Apart from providing financial services microfinance programmeaims at socio-economic development of the participants.

Microfinance- has the following characteristics:

- Providing small loans for the working capital requirements of the rural poor.
- Minimal appraisal of borrowers and investments as compared to commercial banks.
- No collateral demanded, however, these institutions impose compulsory savings and group guarantees.It is based on "trust", not on legal procedures and system.
- Providing repeated and larger loans to the members based on their loan repayment history.

Microfinance,thus, involves providing of financial services such as savings, loans and insurance to the poor living in both urban and rural areas that are unable to obtain such services from the formal financial sector.

Microfinance and Micro-credit:

The terms micro-credit and microfinance are often used interchangeably, but these terms differ over the scope of activities covered. Micro credit refers to small loans, whereas in microfinance the loans are provided along with other financial services like savings, insurance, etc. Therefore micro credit is a component of microfinance as it involves providing credit to the poor, but microfinance also involves additional non-financial services such as savings, insurance, pensions and other payment services.

Microfinance Delivery Models in India:

In India, microfinance is provided through the SHG-Bank Linkage Model (SHG-BLM) and Microfinance Institution (MFI)-Bank Linkage Model. The SHG-BLM developed by NABARD is widely prevalent throughout the country. In this model, the informal SHGs are credit linked with the formal banking system. On the other hand, MFI model is used by the various MFIs which emerge to reach the rural poor people in the areas not served by the formal banking sector. These MFIs provide financial services to the individuals or to the groups like SHGs, JLGs and Grameen groups.

SHG-Bank Linkage Model(SBLM):

SHG-Bank Linkage Model (SBLM) is developed in India to provide microfinance with the help of vast rural network of the formal financial sector. In this model, the informal SHGs are credit linked with the formal financial institutions. The SHG-BLM has emerged as a dominant model in terms of number of borrowers and loans outstanding. This model is flexible, independence creating, and imparts freedom of saving and borrowing according to the requirements of group members. Due to widespread rural bank branch network, the SHG-BLM is very suitable to the Indian context. Microfinance movement started in India with the introduction of SHG-Bank Linkage Programme (SHG-BLP). The programme uses SHGs as an intermediationbetween the banks and the rural poor to help in reducing transaction costs for both the banks and the rural clients. Banks provide the resources and bank officials/NGOs/ government agencies organise the poor in the form of SHGs. Under this programme, loans are provided to the SHGs with three different methodologies:

Model I:

SHGs Formed and Financed by Banks: In this model, banks themselves take up the work of forming and nurturing the groups, opening their savings accounts and providing them bank loans.

Model II:

SHGs Formed by Agencies Other than Banks, but Directly Financed by Banks: In this model, NGOs and other formal agencies in the field ofmicrofinance facilitate organising, forming and nurturing of SHGs and train them inthrift and credit management. The banks directly give loans to these SHGs.

Model III:

SHGs Financed by Banks Using Other Agencies as Financial Intermediaries: This is the model where the NGOs take on the additional role offinancial intermediation along with the formation of group. In areas where the formalbanking system faces constraints, the NGOs are encouraged to form groups and toapproach a suitable bank forbulk loan assistance. This method is generally used by mostof the NGOs having small financial base.

The second model is the most popular model. Almost 75% of all the SHGs come under this model. Only 20% of the SHGs are covered under the first and remaining under the third model.

Micro Finance Institution (MFI)- Bank Linkage Model:

NABARD's experiment in SHG-BLP established the credibility of groups as a bankable proposition and rural people capable of financial discipline. It created a new set of clientele with untapped appetite leading to several NGOs acting as financial intermediaries for on-lending to groups. A new breed of micro lenders was born, the Micro Finance Institutions. Micro Finance Institutions (MFIs) are playing an important role as Financial Intermediaries in micro finance sector. The MFIs operate under various legal forms in India which are as follows:

a) NGO MFIs – Registered under Societies Registration Act 1860 and / or Indian Trust Act 1880
b) Cooperative MFIs
c) NBFC MFIs under Section 25 of Companies Act 1956 (Not for profit)
d) NBFC MFIs incorporated under Companies Act 1956 & registered with RBI

The MFI model has also gained momentum in India in the recent past. MFI model is found worldwide whereas the SHG-BLM model is an Indian model. In MFI model MFIs borrow large amount of funds from the apex financial institutions, donors and banks for on-lending to the individuals or groups. These MFIs provide financial services to the individuals or to the groups like SHGs, JLGs and Grameen groups.Theyare playing a significant role in bridging the gap between the formal financial institutions and the rural poor. However, their increasing urban orientation and providing pure credit products without the capacity building component have been criticised, for the situation in rural areas is not of credit shortage alone. It is more of shortage of entrepreneurial capabilities and lack of technical skills. These aspects need attention.

Progress under Self Help Group (SHG)- Bank Linkage Model:

Till the 90's large section of the rural population was unbanked and overlooked by the mainstream banking institutions. Most of them had to take recourse to informal sources for credit because as compared to formal sources, the informal sources have highly flexible terms and it is easy to obtain loans for consumption needs and also for marriage and other purposes. With least documentation and accessibility as well as availability at any time, the village money lenders are the only resort to many rural poor whose needs are emergent and they don't hesitate to agree to pay exorbitant interest rates during the hour of crisis without realising the deleterious consequences that will follow at a later date like coercive recovery and taking over of the productive assets thereby throwing them into abyss of poverty. Despite the relentless efforts of Government of India and RBI in creating and supporting enabling environment for increasing the outreach of formal financial services to cover the marginalised population, informal sector continued to rule the roost till quite some time. What was needed was to break the monopoly of door-step availability of credit by the informal sources at the time of crisis. That's where the Self Help Group concept scored. It combined the flexibility and availability of informal sources with the transparency of institutional credit. After extensive trial and research the pilot programme (Self Help Group - Bank Linkage Programme (SHG-BLP) was launched twenty five years ago in 1992. This programme was an innovation harnessing the synergy of flexibility of informal system with the strength and affordability of formal system. Three radical innovations were introduced through the RBI/NABARD guidelines on SHG-BLP:

- Acceptance of informal groups as clients of banks – both deposit and credit linkage
- Introduction of collateral free lending, and
- Permission to lend to group without specification of purpose/activity/project

This savings led and door step credit delivery mechanism based on social collateral started making immediate inroads backed by an enabling policy environment and support from some national level institutions and multilateral agencies.The following table(Table 1.1) gives an account of overall progress in savings, credit disbursement and credit outstanding under this programme since 2006-07.

Table 1.1: Overall Progress under SHG-Bank Linkage Programme since 2006-07

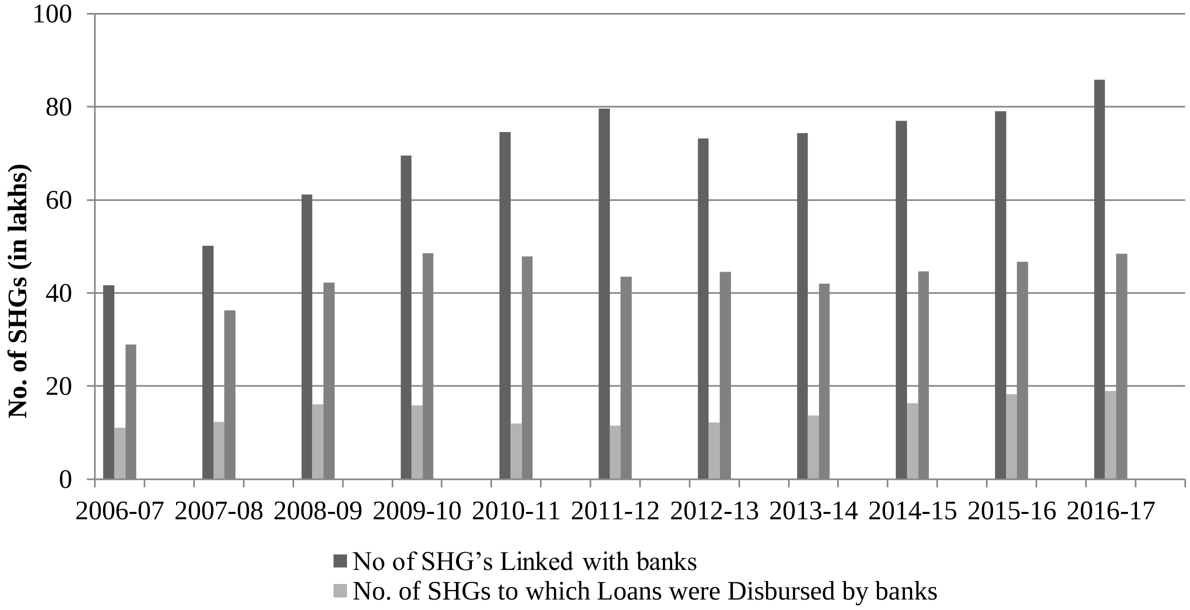
(Numbers in Lakhs/Amount in Crores)

Financial Year		SHG Savings with Banksas on 31March	LoansDisbursed to SHGs duringthe year	LoansOutstanding against SHGsas on31 March
2006-07	No of SHG's Linked	41.61	11.06	28.95
	Amount of Savings	3512.71	6570.39	12366.49
2007-08	No of SHG's Linked	50.10 (20.40%)	12.28 (11.0%)	36.26 (25.3%)
	Amount of Savings	3785.39 (7.76%)	8849.26 (34.7%)	16999.91 (37.5%)
2008-09	No of SHG's Linked	61.21 (22.2%)	16.10 (31.1%)	42.24 (16.5%)
	Amount of Savings	5545.62 (46.5)	12253.51 (38.5%)	22679.84 (33.4%)
2009-10	No of SHG's Linked	69.53 (13.6%)	15.87 (-1.4%)	48.51 (14.8%)
	Amount of Savings	6198.71 (11.8%)	14453.3 (17.9%)	28038.28 (23.6%)
2010-11	No of SHG's Linked	74.62 (7.3%)	11.96 (-24.6%)	47.87 (-1.3%)
	Amount of Savings	7016.30 (13.2%)	14547.73 (0.01%)	31221.17 (11.4%)
2011-12	No of SHG's Linked	79.60 (6.7%)	11.48 (-4%)	43.54 (-9.0%)
	Amount of Savings	6551.41 (-6.7%)	16534.77 (13.7%)	36340.00 (16.4%)
2012-13	No of SHG's Linked	73.18 (-8.1%)	12.20 (6.3%)	44.51 (2.2%)
	Amount of Savings	8217.25 (25.4%)	20585.36 (24.5%)	39375.30 (8.4%)
2013-14	No of SHG's Linked	74.30 (1.53%)	13.66 (12.02%)	41.97 (-5.71%)
	Amount of Savings	9897.42 (20.45%)	24017.36 (16.67%)	42927.52 (9.02%)
2014-15	No of SHG's Linked	76.97 (3.59%)	16.26 (19.03%)	44.68 (6.46%)
	Amount of Savings	11059.84 (11.74%)	27582.31 (14.84%)	51545.46 (20.06%)
2015-16	No of SHG's Linked	79.03 (2.68%)	18.32 (12.67%)	46.73 (4.59%)
	Amount of Savings	13691.39 (23.79%)	37286.90 (35.18%)	57119.23 (10.81%)
2016-17	No of SHG's Linked	85.77 (8.53%)	18.98 (3.60%)	48.48 (3.74%)
	Amount of Savings	16114.23 (17.69%)	38781.16 (4.01%)	61581.30 (7.81%)

(Figures in parenthesis indicate growth/decline over the previous year)

Source: NABARD publication "Status of Microfinance in India" of various years.

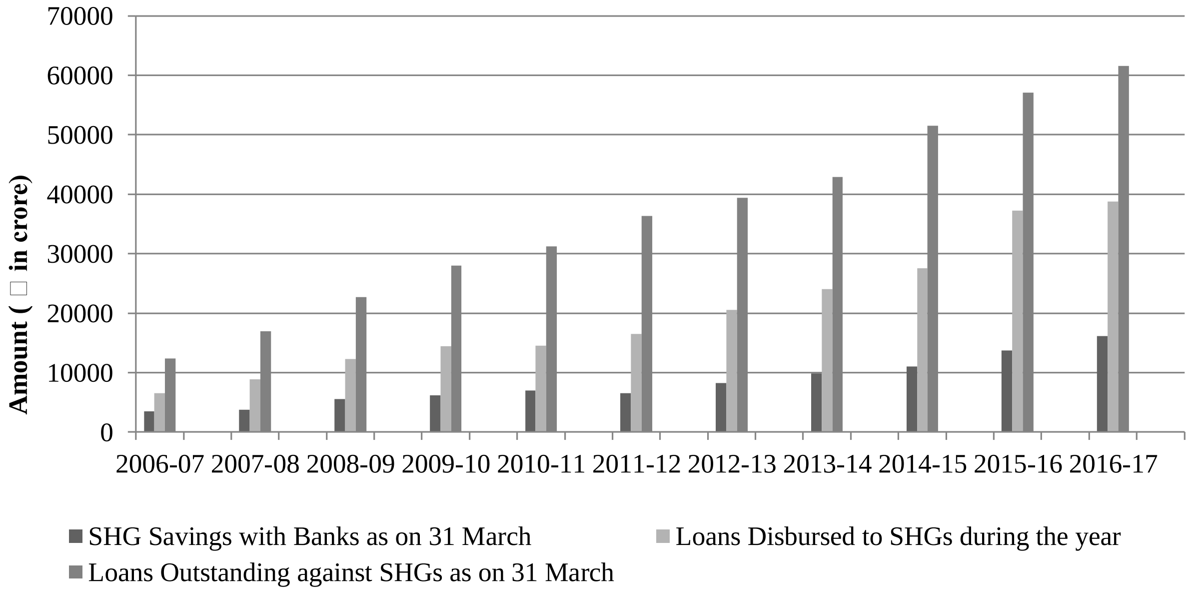
Figure 1.1: Progress under SHG-Bank Linkage Programme (No. of SHGs)



All the major parameters viz. the number of SHGs with savings bank accounts, amount of credit disbursed during the year, the bank loans outstanding as well as the quantum of savings outstanding had shown positive growth during the past five years. The year 2016-17 has proved particularly positive for the growth of SHGs. During 2016-17, despite the impact of demonetisation on credit disbursement and repayments, combined efforts and initiatives of NABARD, banks, SHPIs, NRLM and Government agencies have given great boost to the SHG-BLP movement.

Figure 1.1 and Figure 1.2 present the progress and growth in terms of number and amount respectively. The number of SHGs linked with banks was 41.61 lakh in the year 2006-07 and the number continued to rise till 2011-12 after which there was a slight decline. There was a net addition of 6.73 lakh SHGs during the year 2016-17, thus, increasing the number of SHGs having savings linkage to 85.76 lakh as on 31 March 2017. The amount of savings of SHGs with banks as on 31 March 2017 reached an all-time high of Rupees 16114.22 crore. During the year, banks have disbursed loan of Rupees 38781.16 crore, recording 4% increase over the previous year despite the impact of demonetisation, which slowed down loan disbursement post October 2017. The total bank loan outstanding against SHGs also increased by 7.81% and stood at Rupees 61581.30 crore against Rupees 57,119 crore as on 31 March 2017.

Figure 1.2: Progress under SHG-Bank Linkage Programme (Amount)



SHG - Bank Linkage Programme has successfully traversed a journey of twenty-five years towards empowering the rural poor, in general and rural women in particular. Since the launch of this programme in1992, SHG Bank Linkage Programme has now become the largest community based microfinance initiative with 85.77 lakh SHGs as on 31 March 2017 and covering 112 million rural households. During the financial year 2016-17, there was a net addition of 6.73 lakh savings linked SHGs. Out of these, a major portion (70.4%) were from priority States indicating the urge for connecting the poor households in less developed States with the development process through SHG-BLP. The domain of SHGs consists of 85.4% women groups and is the mainstay programme for empowerment of the poor rural women in the country. The gross NPA of bank loans to SHGs marginally increased by about 5 base points from 6.45% as on 31 March 2016 to 6.50% as on 31 March 2017. This was achieved in a year when there was overall deterioration in quality of assets and mounting NPAs in the banking sector (Sadhan, 2017). The following table (Table 1.2) presents the highlights of theSHG Bank Linkage Programmeas on 31 March, 2017.

Table1.2: Highlightsof SHG Bank Linkage Programme in India as on 31 March, 2017

Sr, No.	Particulars	Figures as on 31st March, 2017
1	Total No of SHGs Linked	85.77 lakh
2	Out of total SHGs - exclusive Women SHGs	73.22 lakh
3	No. of Families Reached	112 million
4	Total Savings of SHGs	₹ 16,114 Cr
5	Total No. of SHGs Credit Linkage	18.98 lakh
5	Gross Loan Outstanding	₹ 61,581 Cr
6	Total Loan Disbursed	₹ 38,781 Cr
7	Avg. Loan Disbursed per SHG	₹ 2,04,314
8	Avg. Loan Outstanding per SHG	₹ 1,27,017
9	NPA	6.50%

Source: The Bharat Microfinance Report, 2017

The above analysis makes it clear that today, the SHG - Bank Linkage Programme (SHG-BLP) is the largest microfinanceprogramme in the world because of its size and the population it touches. Another remarkable feature of this programme is that it is also the most widely participated developmental programme in the country and perhaps in the world for the large number of channel partners, grass root workers, Govt agencies and banking outlets involved.The extent of participation in this programme can be judged by the fact that at present more than 100 Scheduled Banks, 349 DCCBs, 27 State Rural Livelihood Missions and over 5000 NGOs are engaged in promoting Self Help Groups. The programme owes this level of involvement to its ability to mobilise masses of rural people, impress upon the Govt machinery and draw developmentalagencies of all hues. This Programme is a strong intervention in economic enablement and financial inclusion for the bottom of the pyramid. A proven platform initially conceived for increasing the outreach of banking services among the poor has since graduated to a programme for promotion of livelihoods and poverty alleviation (Status of Microfinance in India, 2016-17).

While the SBLP model remains the most widely used model of micro finance in India, the MFI model has also gained momentum in the recent past.According to Sa-Dhan's (The Association of Community Development and Microfinance Institutions) Bharat Microfinance Report – 2016,the Indian Microfinance Industry is pegged at ₹ 63,853 crores making it about US$ 10 billion industry. The industry is beginning to see benefits of scale with reduced interest for borrowers.

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