The Role of Self Help Groups- Bank Linkage Programme in Financial Inclusion

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Abstract
Financial Inclusion Program is an effort made by the Government of India for empowering the excluded part of the population and low-income groups to access the different financial services and products at an economical price. Various government agencies like RBI and NABARD supervise this program. So far different models have been used for the implementation of this program, still, Self Help Groups- Bank Linkage Programme is considered as the most profitable and widely accepted model in India. NABARD introduced this program in 1992 to combine informal saving and credit groups with the prevailing banking system to boost social stability by combining financial education, access to finance and connecting these groups to the banking sector. This paper highlights the concept of financial inclusion and concentrates on the performance and progress of the SHG-Bank Linkage Program.

Keywords: Financial Inclusion, SHG- Bank Linkage Program, Low Income, Banking Sector

Introduction:
India’s progress is certainly based on major pillar of rural development. Even after the period of 60 years the speed of development has been very steady. Social development results in the economic development of the nation and both the factors are dependent on each other. RBI, NABARD and Government of India has made number of efforts towards enhancing the social and economic development of the nation. National Bank for Agriculture and Rural Development proposed the “SHG- Bank Linkage Programme” as a pilot project in 1992 to attain the objective of reaching those people who are not able to access to finance by any formal sources. Subsequently RBI incorporated this model under the concept of financial inclusion. RBI advised all the commercial banks to vigorously engage in this program. Therefore this program was expanded to all Regional Rural Banks and Cooperative Banks. SHGs are becoming an effective mean of for driving microfinance and cost effectiveness, which is resulting in the involvement of the financial institutions. This is considered as an important part of priority sector leading and normal banking business by priority sector leading. So far as on 31 March 2013 there are 7.32 million saving based SHGs whereas on the other side number of credit linked SHGs stands at 4.45 million. By March 2015 it is expected to reach 10 crore households.

Objectives of the Study:
1. To understand the concept of financial inclusion and microfinance.
2. To discuss about the development of SHG- Bank Linkage Program.
3. Efforts made by RBI and NABARD for encouraging SHG- Bank Linkage Program.
4. To evaluate the performance and growth of SHG-Bank Linkage Program in India.

Research Methodology:
Secondary data has been used in the study. Data has been collected from the research papers, Journals, various reports of NABARD and RBI, magazines and other departments and websites etc.
Concept of Financial Exclusion, Financial Inclusion and Microfinance:

Financial Exclusion is described as a situation in which people do not have access to prevailing financial product and services such as different types of loans and accounts, home insurance and credit cards. This could result in a situation where poor are destitute from different savings and pension schemes. Also they could be deprived from fundamental utilities and it could result in a debt.

In India, as per the (Report of financial inclusion in January 2008 by Dr. C. Rangarajan) Financial Inclusion is defined as a limited access to financial services to a particular section of the society. Usually this large segment of the population includes individuals or family, which are part of the low income groups that are not able to access the fundamental banking services like loans and advances, accounts, payment, financial advisory services and insurance. According to the report published by World Bank (2012) on financial inclusion, In India only 35.2% adults above the age of 15 years have an account at a formal financial institution, 55% of the population have deposit accounts and only 9% of the population have credit accounts with formal financial institutions. As per the reports for every 14000 persons there is one bank branch.

In India there are 48000 branches of commercial, RRBs and SCBs that provided help to 6 lakh villages in spite of the growth in the post reform period that is there would be one branch for a bank for every 12.5 villages.

Therefore financial inclusion has become fairly significant issue of under-developed, developing and developed economies for comprehensive growth. We can face the problem of financial exclusion through the process of financial inclusion.

Financial Inclusion:

Financial Inclusion is considered as one of the significant aspect in the current situation for inclusive growth and development of economies. According to Dr. C. Rangarajan on financial inclusion is defined as “ The process of ensuring access to financial services and timely adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.”

Financial Inclusion means providing financial services at an economical cost to excluded segments of the population and low income groups. It plays a vital role in alleviating the poverty from the country. It also gives equal opportunities to the broad segments of the population to access prevailing financial services to enhance their economic and social standards.

Financial Inclusion can be defined as the provision of economical financial services, viz savings, credit, insurance services, access to payments and transfer facilities by the formal financial systems to those who are excluded.

In India, the moneylender is the most commonly used source of loan for medium income families. Due to this different microfinance models like MFI's based lending, SHG etc have been developed. But later on SBLP became one of the most productive models to give financial assistance and protection from the fake moneylenders to the unbanked population.

Concept of Microfinance:

Microfinance has been defined as “ provision of thrift, credit and other financial products and services of small amount to the poor in rural, semi-urban or urban areas for helping them to increase their level of income and enhance living standards.”

In India microfinance is not properly defined. A loan given by SHG or NGO would be considered as Microfinance whereas on the other part a similar loan provided by the commercial bank is not considered as Microfinance. This is a very old concept. In India it began with providing the banking services to the poor women working in the unorganized sector through the development of Mahila SEVA Sahakari Bank in 1974 whereas in Gujarat as an Urban Cooperative Bank. Later on microfinance resulted into a very effective tool for attaining Financial Inclusion over a time span. It helped the poor to raise their income and decrease their financial uncertainties.
The movement of Microfinance started with the introduction of the pilot project of SBLP in 1992 with the National Bank for Agriculture and Rural Development (NABARD). Further Microfinance Institutions (MFIs) developed.

**Concept of Self Help Group:**
Self Help Groups (SHGs) is a concept where the financially excluded people in the village form small groups of 15-20 persons in an informal way by mutual discussion and give financial support to the members in the form of loans at different rates by accumulating their savings. The rate varies as per the borrowers credibility, his need and relations with the other members of the group. Once the group gets balanced and matured financial behavior is reflected by the members of the group than the group can be considered for linking with the banks. Banks are promoted to provide loans to SHGs in definite multiples of the accumulated savings of the SHGs. Banks decide the interest rates and no security is taken for it. As it is easy for the banks to lend money to these groups as they show matured financial behavior through their prudence and internal lending activities. Group decides the terms and conditions of their own members. The pressure in the group makes sure that there is payment on time.

Usually the SHGs require Self Help Promotion Institutions (SHPIs) which play a significant role in formation of SHGs. They give guidance, training and other support services. NGOs, government agencies, microfinance institutions and banks are included in SHPIs. According to the Indian Law, if there are more than 20 persons in a group they have to get registered. Therefore there should be less than 20 members in a group to prevent any obstruction of corruption, irrelevant administrative expenditure and bureaucracy.

**Development of SHG- Bank Linkage Program:**
Indian banking system is more than 150 years old. However after the post independence the main focus of government is to establish a banking system that could improve the economic development of the nation by assembling savings and give financial help to the productive sectors. Therefore banks were believed to be a powerful change agent and the policies of the government helped in the productive usage of the banking system. After this banks got nationalized in 1969. Large numbers of financial institutions were developed over the number of years that included Commercial Banks, Regional Rural Banks (RRBs), urban Co-operative Banks (UCBs), primary agricultural credit societies (PACs) and post offices. Whereas MFIs and SHGs provided financial services to the poor in the rural areas.

Before 1990 various initiatives were taken like nationalization of private sector banks, lead bank scheme, licensing guidelines for banks, establishment of priority sector lending norms with main concentration on rural/semi urban branches, capping on interest rates for credit to the lower sections of the society and formation of specialized financial institutions for helping the poor to fulfill their agricultural requirements. RRBs were developed in 1975 and NABARD in 1982 to help the people in rural areas for fulfilling their agricultural requirements. As per the annual report of NABARD in 2013-2014, it issued its first guidelines for connecting SHGs to banks in 1992. After that more than 73.18 lakh saving-linked SHGs with the banks are covering more than 9.50 crore poor families with a total saving of 8217.25 crore. As on 31 March 2013 the credit linked SHGs stood at 44.51 lakh with a complete outstanding credit of 39,375.08 crore.

**Major Achievements in the Financial Inclusion in India:**
- 1969-Nationalization of Banks
- 1971-Development of priority sector lending banks
- 1975- Development of Regional Rural Banks
- 1982- Development of NABARD
Role of NABARD in promoting in SHG- Bank Linkage Programme:

In 1992 NABARD made a significant effort by issuing norms for linking banks with SHGs to promote SHGs under SHG Bank Linkage programme. The main purpose was to provide stable and regular financial services to poor that could be maintained. It includes SHGs that are financed by different scheduled and unscheduled banks directly or indirectly. Due to this transaction cost was reduced for the banks. SBLP is being implemented through different models. The outstanding ones are:

- Banks directly financing the SHGs
- Banks financing the SHGs through non-government organizations and government agencies.
- Banks financing NGO promoted SHGs through formal agencies and NGOs.

SHG1:

In 1992 NABARD issued SHG1 guidelines for connecting banks with the SHGs that resulted to a huge progress of saving linked and credit linked SHGs. It also became successful in fulfilling its major task of providing access to financial services of the banks. Groups were encouraged to save first and then leverage their savings to access credit. Banks were remarkably safe as the group would decide as the group had to decide whether to lend to a member or not. Therefore pressure emerged within the group to repay the loans that resulted to reduction of bad loans or NPAs. But there were certain issues, which affected this program:

- Inadequate outreach in many regions.
- Delays in opening of SHGs accounts and disbursement of loans.
- Confining of savings by banks as collateral
- Non-approval of repeat loans by banks even when the first loan was repaid
- Multiple membership
- Borrowings by SHG members within and outside SHGs
- Government promoted subsidy oriented SHGs and limited banker interface
- Monitoring of SHGs

Certain drawbacks in the guidelines led to the introduction of SHG-2 guidelines by NABARD. The main features of SHG-2 guidelines are as follows:

- Voluntary savings apart from Compulsory Savings
- Permitting the sanction of cash credit/ overdraft system of lending for SHGs for a longer operational time.
- Graduating selected members of the group that have entrepreneurship skills into joint liability groups for borrowing larger amounts.

SHG-2

NABARD issued SHG-2 guidelines in March 2012. The purpose was to help financing banks to respond to the changing needs of SHGs members. The highlights of the guidelines are as follows:

- Allowing voluntary savings: It was seen that different members had different capacity of savings. Thus additional savings was an opportunity for the banks. It is also expected that after a
period of time the members would transit from group based banking to individual banking. It was also seen that after span of time the members increased the limit of compulsory savings.

- Modifications in credit product:
  a) **Purpose of Bank Loan**-
     As the group decides the objective of loan, RBI has advised all the banks to fulfill the credit requirements of the SHGs regardless of the purpose.
  b) **Cash Credit and Overdraft for SHGs**-
     There were certain cases of loans, which were not revived to SHGs. Thus it is recommended that longer period limits can be provided to SHGs based on their expected savings for the same period limit by the banks. Whereas the cash credit/overdraft limit could also be a fixed multiple of savings. In order to make insure that the revised guidelines does not create disturbance so for that some measures have been suggested:
    - It is hoped that the terms and duration of the credit given to the members would not change.
    - To maintain the financial discipline banks can assert for payment of interest up to a fixed date of every month.
    - Banks could authorize larger multiple of credit to SHGs than the specified multiple of four times of the savings based on the debt servicing history and growth of the savings of the SHGs.
    - Banks should sanction term loans to SHGs as over a time span, the need of credit for purchase of capital assets could rise.
  c) **Promoting Joint Liabilities in SHGs**-
     It is possible that a smaller group within SHG may require larger amount of credit. Whereas on the other part other members may not be ready to take guarantee for the higher credit. Therefore the banks may assist in forming a Joint Liabilities Group within the SHGs. The members would be the same of both the groups. As per the norms of NABARD banks can finance these JLGs. But the loans given to JLGs will be at a higher rate as comparison to SHGs.
  d) **Enhancing Risk mitigation Systems**-
     The revised guidelines for SHGs has recommended some methods like self rating, third party audit to allow the banks to lend with confidence to SHGs. The rating will help to identify the strengths and weaknesses in the working of SHGs.
  e) **Better and stronger mechanism for supervising the SHGs and JLGs**-
     RBI and NABARD have recommended the banks to form a suitable strategic plan for lending to SHGs and JLGs. They have to also make it a part of their corporate strategy and planning. Financial Institutions should also make guidelines for properly supervising these groups by grabbing transactional data through CBS platform.
  f) **Addressing Training requirements**-
     The large number of SHGs across the country made essential that the bank staff should be properly trained. The banks can take support of NABARD regional offices for training.

**Role of RBI in promoting SHG- Bank Linkage Programme:**

Reserve Bank of India has underlined in its guidelines that the banks should lend to the SHGs in their primary credit operations of strategic and planning, training of officials and staff, SHG linkage, monitoring and review mechanism etc could be on a continuous basis and a part of the complete corporate strategy and plan.

The highlights of master circular issued on July 1, 2013 vide circular no RBI/ 2013-14/89, RPCD. FID.BC.NO 10/12.01.033/2014 are as follows:

a) Lending to SHGs directly or through NGOs would be treated as priority sector lending under a revised segment “advances to SHGs”.
b) Opening of saving accounts for encouraging savings among members of SHGs.
c) Lending to SHGs should be a part of the business plan.
d) Loans up to four times the savings can be provided to SHGs.
e) For disbursement of loans at the earliest minimum documentation and simple procedures should be followed.
f) Existence of defaulters in SHGs would create obstruction in providing loans to SHGs.
g) Training programs need to be established and accordingly staff and officials would be trained.
h) Proper supervisory and review methods would be used to monitor the operations of SHGs.
i) Banks will decide the interest rates at their own responsibility.
j) In order to ensure total financial inclusion all credit requirements of the SHGs to be fulfilled regardless of the nature.

Performance of SHG pre and post introduction of Bank Linkage Program:
According to the report of Microfinance India report 2013, the performance of SBLP since 2009 has been shown in Table 1: This data adequately shows the rising trend in all the parameters like number of SHGs, savings and credit. But in 2011 and 2012 the number of SHGs reduced due to adopting reporting standards comparatively better than before.
The number of credit linked SHGs increased by 5.45% from 4.22 to 4.45 million whereas savings linked SHGs increased by 19.61% during the time span of 2009 to 2013. Total outstanding loan increased by 73.62% and savings of SHGs increased by 48.16% during the same period. The average loan per SHG and average savings per SHG increased by 121.66% and 23.94% respectively.

<table>
<thead>
<tr>
<th>Table 1: Growth Trends in SBLP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Particulars</td>
</tr>
<tr>
<td>No. of SHGs with outstanding bank loans (In Mn)</td>
</tr>
<tr>
<td>Loans disbursed to SHGs during the year (In Bn)</td>
</tr>
<tr>
<td>Average loan disbursed during the year per group</td>
</tr>
<tr>
<td>Total bank loan outstanding to SHGs (In Bn)</td>
</tr>
<tr>
<td>Average loan outstanding per SHG</td>
</tr>
<tr>
<td>Incremental groups with outstanding loans (In Mn)</td>
</tr>
<tr>
<td>Incremental loans outstanding (In Bn)</td>
</tr>
<tr>
<td>No of SHGs with savings accounts with banks (In Mn)</td>
</tr>
<tr>
<td>Total savings of SHGs with banks (In Bn)</td>
</tr>
</tbody>
</table>

Despite the complete tremendous growth the groups under the Swarnajayanti Gram Swarozgar Yojna resulted to the winding up of scheme in 2013. The data of major parameters of numbers and volume
for the period of 2010-2013 has displayed a small amount of growth and credit linked SHGs have reduced as visible in Table 2.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Indicator</th>
<th>Change (%)</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2010-13</th>
<th>2006-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SHGs having saving accounts with the banks</td>
<td></td>
<td>7.30</td>
<td>6.70</td>
<td>-8.1</td>
<td>1.72</td>
<td>27.50</td>
</tr>
<tr>
<td>2</td>
<td>SHGs receiving loans during the year</td>
<td>-24.6</td>
<td>-4</td>
<td>6.30</td>
<td>-8.37</td>
<td>26.40</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>SHGs receiving loans during the year under SGSY</td>
<td>-9.9</td>
<td>-12.9</td>
<td>-13.8</td>
<td>-12.20</td>
<td>12.79</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>SHGs with loan outstanding</td>
<td>-1.3</td>
<td>-9</td>
<td>2.20</td>
<td>-2.83</td>
<td>18.78</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>SHGs with loan outstanding under SGSY</td>
<td>3.30</td>
<td>-5.4</td>
<td>-1.9</td>
<td>-1.42</td>
<td>21.9</td>
<td></td>
</tr>
</tbody>
</table>


It is noticed that the total amount of savings and loans disbursed have shown growth regardless the fall in number of SHGs. The only parameter where negative growth has been found is the bank loans disbursed to SHGs under SGSY, which can be seen in Table 3:

<table>
<thead>
<tr>
<th>S.No</th>
<th>Indicator</th>
<th>Change (%)</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2010-13</th>
<th>2006-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Outstanding savings of SHGs with banks</td>
<td>13.2</td>
<td>-6.7</td>
<td>25.4</td>
<td>9.85</td>
<td>26.9</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Bank loan disbursed to SHGs during the year</td>
<td>0.66</td>
<td>13.7</td>
<td>24.5</td>
<td>12.51</td>
<td>33.8</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Bank loan disbursed under SGSY</td>
<td>12.8</td>
<td>6.6</td>
<td>-16.5</td>
<td>0.14</td>
<td>16.25</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Bank loan outstanding with SHGs</td>
<td>11.4</td>
<td>16.4</td>
<td>8.4</td>
<td>11.98</td>
<td>31.3</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Bank loan outstanding with SHGs under SGSY</td>
<td>25.2</td>
<td>2.9</td>
<td>6.7</td>
<td>11.21</td>
<td>24.25</td>
<td></td>
</tr>
</tbody>
</table>


It can be seen in Table 4 that over time span, SBLP has become the most preferred microfinance tool for financial inclusion as compared to MFIs based model. The number of clients connected to the banks for credit through SHGs has been increased through MFIs. The number of clients as percent of total clients availing credit facility varies between 34% to 41% for MFIs whereas the share of MFIs in total loan outstanding varies between 29.8% and 34.1%.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Clients (in crore)</th>
<th>Loan Outstanding (in crore)</th>
<th>Share of MFIs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SBLP</td>
<td>MFI</td>
<td>Total</td>
</tr>
<tr>
<td>2008-09</td>
<td>5.4</td>
<td>2.3</td>
<td>7.7</td>
</tr>
<tr>
<td>2009-10</td>
<td>6.0</td>
<td>2.7</td>
<td>8.7</td>
</tr>
<tr>
<td>2010-11</td>
<td>6.3</td>
<td>3.2</td>
<td>9.4</td>
</tr>
<tr>
<td>2011-12</td>
<td>6.1</td>
<td>2.7</td>
<td>8.8</td>
</tr>
<tr>
<td>2012-13</td>
<td>6.5</td>
<td>2.8</td>
<td>9.3</td>
</tr>
</tbody>
</table>

It is good to see that the share of MFIs has declined in the last years, which shows that SBLP is a more effective model of micro financing as compared to MFIs for financial inclusion.

**Conclusion:**
SBLP has made easy for the poor people living in rural areas to get easy credits. The big network of SBLP with the support of NGOs and MFIs has helped the program to become a huge success. After comparing the shares of MFIs and SBLP it clearly shows that SBLP has been more successful in reaching a bigger population compared to that of MFIs. SBLP is a multi level program where banks are directly related to SHGs or indirectly related to SHGs through partnership with NGOs and MFIs. Therefore a group of individuals start functioning through banks in a group resulting to individual accounts of the members in future.

But there are few challenges, which exist like corruption, unawareness about different initiatives and schemes, illiteracy etc. The problem of corruption has been decreased to great extent as the advantages of various government programmes and schemes along with subsidies provided can now be credited to beneficiary’s account directly. Also the infrastructure like communication network and connectivity for the last mile user needs to be developed so that program can be beneficial for each and every Indian.

All the stakeholders like regulatory bodies, government, scheduled and un-scheduled banks, NBFCs and financial intermediaries should work properly to develop the awareness about the programme and form modules for improving skills, give training and on-going consultancy to the groups and individuals.

Therefore with the help of all the stakeholders, SBLP can be a more effective microfinance tool for attaining financial inclusion than before.

**References:**