

## **Microfinance through Self Helps Groups (SHGs): A Key Driver for Sustainable Growth in India**

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**Abstract:** *Sustainable development can be achieved through growth of entrepreneurial initiatives amongst the underprivileged socio-economic groups to the bottom of the pyramid. Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment. Microfinance is basically very small loans (micro-loans) to below poverty and small entrepreneurial segment. The Scheme of Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. The Self help groups (SHG)-Bank linkage programme has emerged as the largest micro credit programme in the world. The SHG-Bank linkage programme in which SHGs are linked to banks in a gradual way-initially through savings and later through loan products-is considered to be an effective strategy to ensure financial inclusion. This paper is an attempt to discuss the concept of Self Helps Groups and Progress of SHG-Bank linkage programmes.*

**Key Words:** *Microfinance ,Sustainable Growth, Self Help Groups, Bank linkage Programme.*

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### **I. Introduction**

Sustainable development can be achieved through growth of entrepreneurial initiatives amongst the underprivileged socio-economic groups to the bottom of the pyramid. In this era of globalization the deprived segment of our society are still unable to fulfil their financial requirements. They are often denied access to credit for any purpose. The post nationalisation period in the banking sector witnessed substantial amount of resources being earmarked towards meeting the credit needs of the poor. Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment. There are over 24 crore people below the poverty line in the country. To fulfil the gap between the two poles of economic values and societal ethical a rather new concept named MICROFINANCE emerged, which is the brainchild of Noble laureate Dr Muhammad Yunus of Chittagong University, Bangladesh, who felt concern towards the landless low income segment. He articulates that they should work for themselves rather than working for others to keep hold of the surplus. Microfinance is basically very small loans (micro-loans) to below poverty and small entrepreneurial segment. These individuals lack collateral guarantee, regular income and therefore cannot meet even the most minimal qualification to access to traditional credit. Credit packages and programmes were designed based on the perceived needs of the poor. Programmes also underwent qualitative changes based on the experiences gained. The lower segment requires a wide range of financial services, from small advances to tide over consumption needs to loans for investment purposes and long term saving that help them manage life cycle needs. Given the vast population of the low income segment in the country, financial institutions & banks are required to cater to these needs. The Scheme of Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy.

### **II. Review Of Literature:**

In this section, an effort is made to review studies that have undertaken so far in respect to the various qualities, sustainability, and performance of SHGs in India.

Salman Asim (2008) studied on evaluated the impact of microcredit on indicators of women's empowerment in the urbans slums of Lahore District of Pakistan. The different dimensions of household decisions – child related, health related, social mobility, economic and major household purchase decisions were assessed in order to explore the link between micro credit and women's empowerment.

Suguna (2006) also remarked that the emergence of SHGs as silent revolution in the spread of rural credit for rural development

Reddy (2005) observes that the state of SHGs identifies key areas of weakness which undermine the sustainability of SHG movement. He identifies the major areas such as financial management, governance and human resource ranges from weak to average quality for a majority of SHGs.

Pattanaik (2003) emphasized the role of SHGs for socio-economic development of women in particular and society as a whole.

### **III. Objectives Of The Study:**

- To study the concept of Self Helps Groups.
- To evaluate the overall progress of SHG-Bank Linkage Programmes during the period of 2011-2014.

### **IV. Methodology Of The Study**

This is a descriptive research paper; this study is compiled with the help of the secondary data. Secondary data are collected from the various websites, Books, Journals and Magazines.

### **V. SHG-Bank Linkage Approach: Linking Commercial Banks To Grassroots Borrowers:-**

The non-availability of credit and banking facilities to the poor and underprivileged segments of the society has always been a major concern in India. Accordingly, both the Government and the Reserve Bank have taken several initiatives, from time to time, such as nationalization of banks, prescription of priority sector lending norms and concessional interest rate for the weaker sections. It was, however, realised that further direct efforts were required to address the credit needs of poor. In response to this requirement, the micro finance movement started in India with the introduction of SHG-bank linkage programme (SBLP) in the early 1990s. The first step towards setting up self help groups (SHGs) was taken by MYRADA and it built upon rural chit funds and informal lending networks to evolve a credit management group. It is said that any long journey starts from a small, single step. So was the journey of the Self Help Group – Bank Linkage Programme – from linking a pilot of 500 SHGs of rural poor two decades ago, it now boasts of the world’s largest microfinance initiatives with over 7.4 million SHGs representing 97 million rural households directly becoming part of this great movement. Geographically its tentacles have now spread to every nook and corner of India – from the desert sands of Rajasthan to the forest villages of Arunachal Pradesh and from the inaccessible terrain of Jammu and Kashmir to the serene coastal villages of Lakshadweep Islands. The movement which started as a link between the “unbankable” rural poor and the formal banking system to cater to the microcredit needs of the poor, now boasts of a group savings of a whopping `33000<sup>1</sup> crores (70% of which goes for internal lending and the balance in the SB accounts of the groups), from a very miniscule proportion of total bank credit to a credit outstanding of `43000 crores (excluding nearly `23000 crores lent to members from groups’ own savings). There have been numerous success stories of the poor SHG members showing exemplary entrepreneurial qualities to come out of the vicious circle of poverty and indebtedness with the help of SHGs. This incredible success story of SHG-BLP has shaken the age old perception that poor are “not bankable”. In fact, many developmental efforts of Government and non-governmental agencies now rely on SHG-BLP for their effective delivery. Even internationally, Indian experience of SHG-BLP has been recognised as the largest and most successful microcredit initiative in the world. Although SHG-BLP was the first step towards bringing the “unbanked” poor into the mainstream, it was not followed up with linking the individual members with formal banking system as they gain experience in availing the basic banking services which resulted in stunted growth of SHG-BLP. As financial inclusion of the poor became a serious issue which our planners could no longer ignore, several initiatives were taken by the Government of India, the Reserve Bank of India, NABARD and banks to bring the poor into the fold of formal financial service providers. However, no serious attempt was made to leverage the SHG-BLP to achieve the financial inclusion goals. A successful programme which could link millions of rural poor to formal banking system though indirectly, could have been the main instrument through which financial inclusion in the country could have driven ahead. Mature SHGs could have been made direct agents of providing direct banking services to the poor at their doorsteps, as a low cost, but efficient alternative to branch network. This model is certainly more cost effective and reliable alternative to the existing inclusion agenda and millions of households, now members of SHG-BLP, would have been the immediate beneficiaries.

### **VI. Progress Of SHG-Bank Linkage Programme:-**

NABARD introduced an effective SHG-Bank Linkage Programme in order to provide credit to very small borrowers. The introduction of the SHG-Bank linkage Programme is to discard the general perception of bankers that customers with no formal education or source of income are of no use to the bank and thus are not welcome. Detailed analysis of the SHG-Bank Linkage Programme across the geographical spread of the country is being presented in this section. The analysis covers the broader components of the programme, namely inclusive growth, savings, loans and the recovery performance. An overall decline in the number of SHGs linked to banks for their savings accounts under the SHG-Bank linkage programme noticed during 2012-13 – first time since the programme was launched two decades back – has been reversed during the current year though with a marginal increase of 1.53% with 74.30 lakh SHGs savings linked to Banks as on 31.3.2014 as against 73.18 lakh during the previous year. Another highlight of the year’s performance under the programme was the spurt in the number of SHGs being sanctioned fresh loans by banks during the year. 13.66 lakh SHGs were sanctioned fresh loans during the year 2013-2014– a 12% increase over 12.20 during 2012-2013. SHGs getting fresh loans during 2012-13. The quantum of fresh loans issued by banks also rose by nearly 17% during

the year 2013-2014 (24017 crore). This is indicative of increasing confidence in lending to SHGs by banks. Number of SHGs credit linked with banks, however, showed a decline of nearly 6% to 41.97 lakh during 2013-2014 as against 44.51 lakh a year back though the amount of loan outstanding has gone up by 9%. The total loan outstanding by SHGs stood at 42928 crore as on 31.3.2014. Table-1 gives the growth of SHGs – saving as well as credit linked – for the last 3 years.

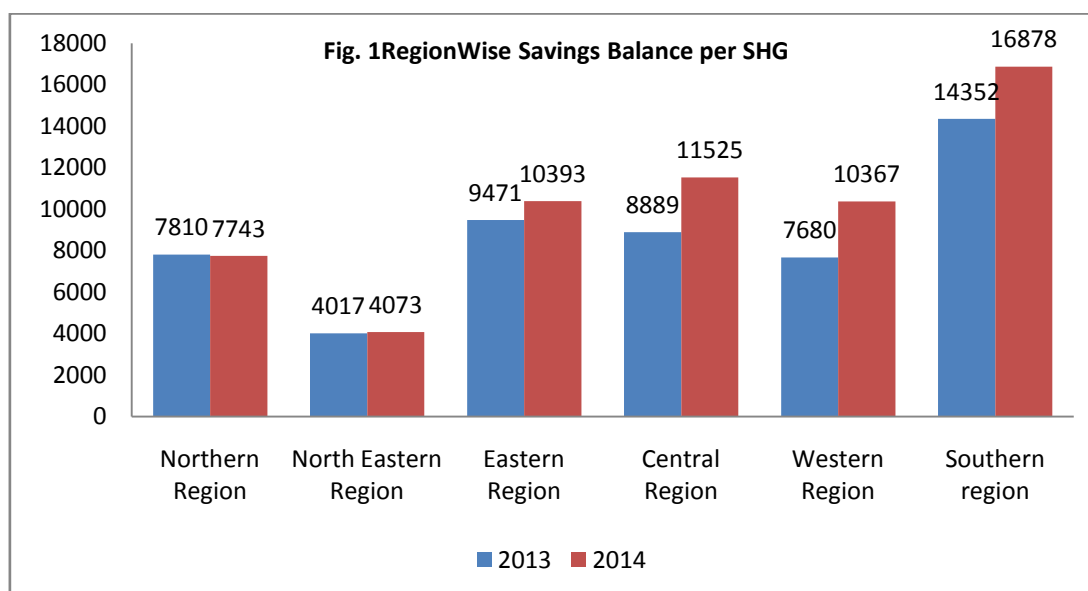
**Table-1: Overall Progress under SHG-Bank Linkage for last 3 years**

(Amount in crore/ Numbers in lakhs)

| Particulars                                     |            | 2011-2012          |                     | 2012-2013          |                     | 2013-2014          |                      |
|---|------------|--------------------|---------------------|--------------------|---------------------|--------------------|----------------------|
|   |            | No. of SHGs (lakh) | Amount              | No. of SHGs (lakh) | Amount              | No. of SHGs (lakh) | Amount               |
| SHG Savings with Banks as on 31st March         | Total SHGs | 79.60<br>(6.7%)    | 6551.41<br>(-6.7%)  | 73.18<br>(-8.1%)   | 8217.25<br>(25.4%)  | 74.30<br>(1.53%)   | 9897.42<br>(20.45%)  |
| Loans Disbursed to SHGs during the year         | Total SHGs | 11.48<br>(-4%)     | 16534.77<br>(13.7%) | 12.20<br>(6.3%)    | 20585.36<br>(24.5%) | 13.66<br>(12.02%)  | 24017.36<br>(16.67%) |
| Loans Outstanding against SHGs as on 31st March | Total SHGs | 43.54<br>(-9.0%)   | 36340.00<br>(16.4%) | 44.51<br>(2.2%)    | 39375.30<br>(8.4%)  | 41.97<br>(-5.71%)  | 42927.52<br>(9.02%)  |

### 2. Saving linked SHGs:-

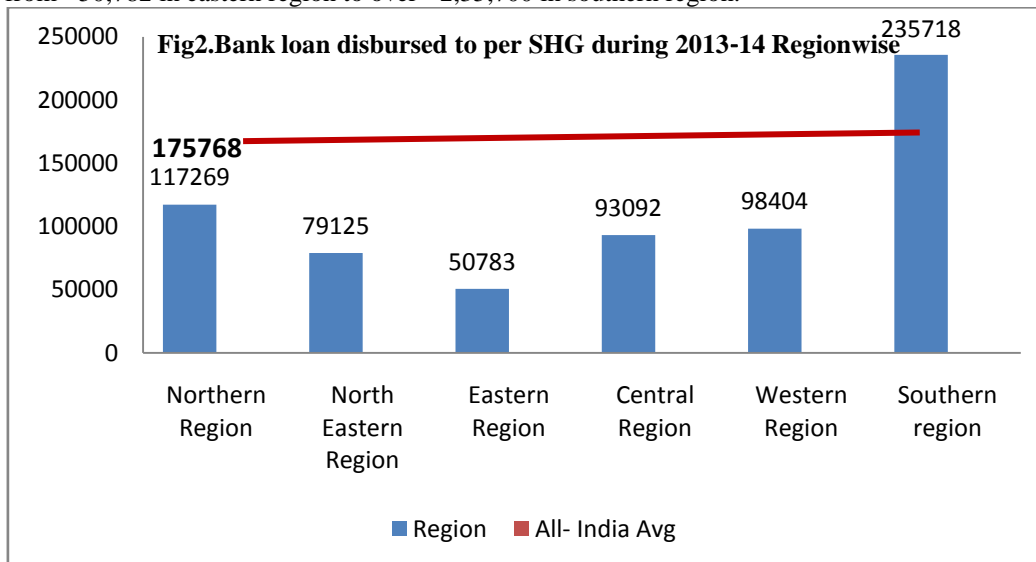
The number of saving linked SHGs now stands at 74.3 lakhs with a membership of over 96.6 million poor households showing a marginal increase of 1.53% (73.18 lakh SHGs as on 31.3.2013) from the previous year. The number is still substantially less than 79.60 lakhs SHGs reported during 2011-12 (with coverage of 104 million households). Only southern region reported a growth in savings linked SHGs during the year compared to previous year while all other regions continued to report decline in the number of SHGs. Continued decline in the number of savings linked SHGs in resource poor regions where special SHG programmes are implemented, needs to be viewed with concern. The savings balance of these SHGs with banks, however, shot up by over 20% during the year (9897 crore against 8217 crore a year back). All except the North and North Eastern region recorded higher savings bank balance with banks with western States recording nearly 34% increase while the Central region reporting 27% and Southern region recording an increase of 23%. The average savings bank balance of SHGs with banks as on 31.3.2014 was 13322, with southern region reporting an average of 16878 while the North Eastern states having an average saving of only 4073 per group.



### 3. Fresh Loans to SHGs by Banks:-

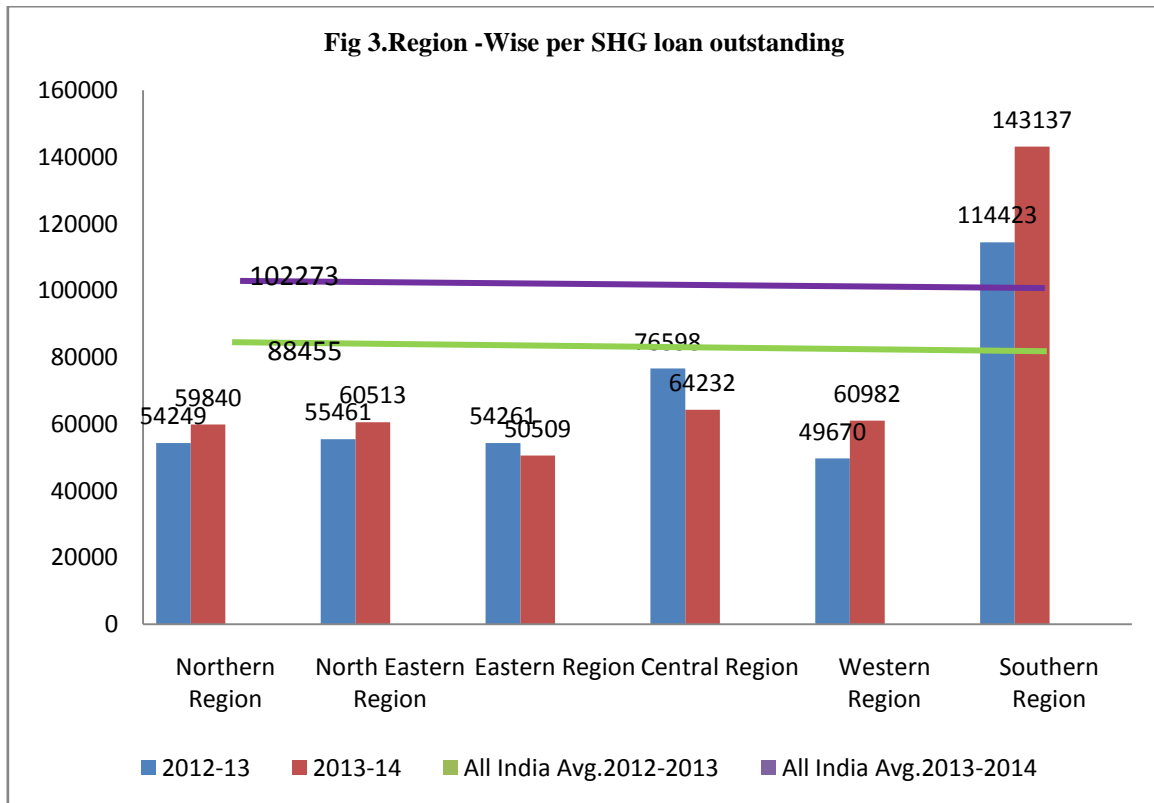
The number of SHGs being extended fresh loans by Banks has been steadily increasing for the last 3-4 years. There has been an increase of 12% (nearly 25% under the Government sponsored programmes) in the number of SHGs being extended fresh loans during the year as compared to the previous year while the increase in the quantum of fresh loans shot up nearly by 17% (13.66 lakh SHGs and 24017.36 crore

respectively as on 31.3.2014 compared to 12.20 lakh and ` 20585.36 crore a year back). The performance of SHGs covered under Government sponsored programmes had been better recording nearly 58% spurt in fresh loans to such SHGs. A regionwise analysis shows that the spurt in fresh loans extended is maximum in the western Region while substantial decline in both number and amount of loans have been reported in the North Eastern region. The average quantum of loans issued to SHGs during the year was ` 1.76 lakh per SHG and this ranged from ` 50,782 in eastern region to over ` 2,35,700 in southern region.



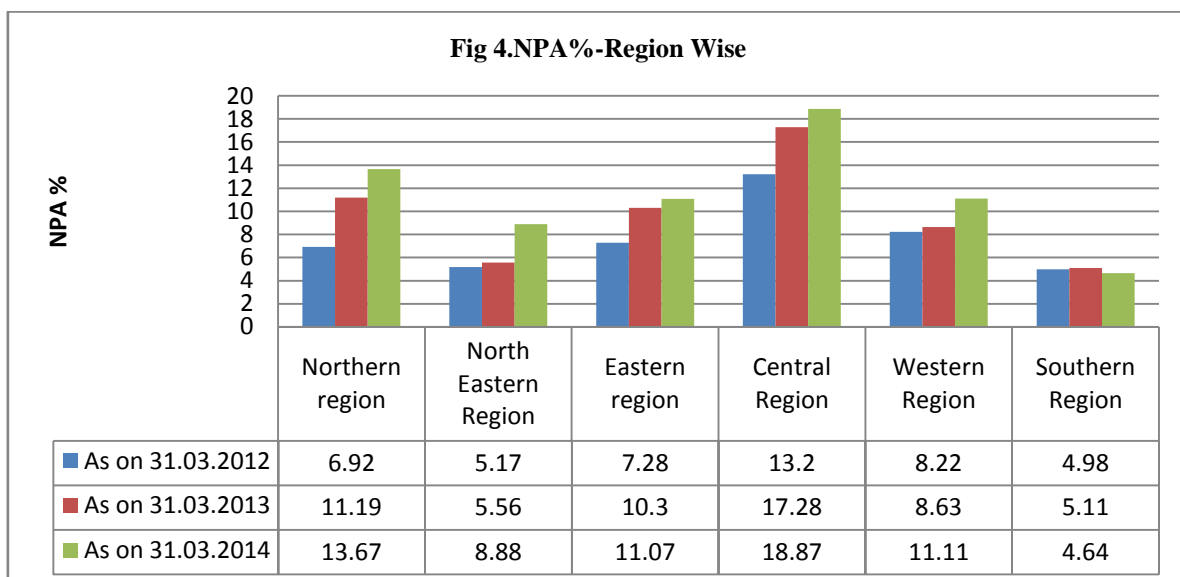
#### 4. Loans Outstanding against SHGs:-

The number of SHGs having loans outstanding against them from banks declined by 5.71% (41.97 lakh as against 44.51 lakh last year) while the amount of loans outstanding rose by 9.02% to ` 42927 crore ( ` 39375 crore as on 31.3.2013). The decline in credit linked SHGs is visible in all regions except in the Central Region where there was an increase of nearly 16%. The rise in amount of loan outstanding was reported from Southern and Western regions while other regions reported a decline. The average loan outstanding against SHGs as on 31.3.2014 was ` 1.02 lakh – up from ` 0.88 lakh a year earlier. Average amount of loan outstanding ranged from ` 50,500 per SHG in eastern region to ` 1.43 lakh in the southern region. Chattisgarh recorded the lowest average of ` 30,000 per SHG among major states while Andhra Pradesh reported an average of ` 1.62 lakh per SHG ( ` 1.87 lakh in Mizoram). Among the agencies, Commercial Banks had an average outstanding loan of ` 1.18 lakh per SHG while RRBs had ` 0.90 lakh and Cooperative Banks ` 0.53 lakh. The percentage of SHGs credit linked (those having an outstanding balance of bank loans) to those savings linked (having a S.B. Account balance with banks) is 56% for the entire country and ranged between 67% for eastern region states to 30% for the western region. This excludes SHGs which might have been credit linked earlier, but not having any loan outstanding as on 31.3.2014.



**5. Non Performing Assets**

The overall NPA percentage of loans to SHGs has come down marginally from 7.08% as on 31.3.2013 to 6.83% during the current year thereby reversing upward swing in NPA observed during the last few years. However, the level of NPA is still alarmingly high compared to position 5 years back (2.9% as on 31.3.2010). Moreover, the decline in the NPA percentage has been reported only in the Southern Region with high progress, while all other regions have continued with the upward swing in NPAs during the year. The NPA in the central region is near 19% while other resource poor regions like Eastern Region reported over 11%. As efforts are being made to spread the reach of SHG-BLP to the resource poor regions, the continued upsurge in NPAs in these regions needs to be viewed quite seriously. The total NPA against loans to SHGs stood at ` 2933 crore as on 31.3.2014 against the total outstanding loan of ` 42928 crore. Among the regions, southern region with a NPA of 4.64% (5.11% last year) was the lowest while Central Region with an alarming 18.87% (17.28% last year) was the highest.



## **VII. Conclusion**

Micro Finance is an important element through which the welfare of the poor can be improved. In addition, some poor people use borrowing in order to embark on entrepreneurship, and thus extricate themselves from poverty. A main conclusion of this paper is that microfinance can contribute to poverty alleviation programmes. Micro-finance interventions through SHGs programmes are well-recognized world over as an effective tool for poverty alleviation and improving socioeconomic status of rural poor in India . Micro-finance through the network of cooperatives, commercial banks, regional rural banks, NABARD and NGO's has been largely a supply driven recent approach. The SHG-bank linkage program in India is rapidly expanding its outreach under the pioneering initiative of NABARD, the monitoring and supervision of RBI, and the promotional policies of the government of India. At the grass root level the program is being implemented by the commercial banks, cooperatives, and regional rural banks, with government agencies. Pro-activeness of the rural folk and artisans is need of the Hour.

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