

Growth of SHG-Bank Linkage Programme – A Comparative Study of Six Regions in India

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ABSTRACT

The SHG-Bank Linkage Programme in India has been a flag-ship programme of National Bank for Agriculture and Rural Development (NABARD), with the objective of enabling the poorest of the poor to access financial resources to increase household income and to achieve sustained livelihood. The purpose of the study was to explore the penetration and growth trend of SBL programme in the six regional divisions of India. Results indicated significant association between savings per SHG, credit disbursed per SHG and loan outstanding per SHG. Growth rate of savings per SHG was less, compared to growth rate of loan amount disbursed per SHG and also outstanding per SHG. The difference between outstanding per SHG and loan disbursed per SHG was gradually increasing. Outreach of SBL programme was significantly uneven between the six regions. During the study period 2007-08 to 2013-14, Southern region's share of savings per SHG, loan disbursed per SHG and outstanding per SHG was significantly higher than the other five regions and also higher than the national average. North-East was the least reached out region, compared to the other regions.

Keywords: SHG, SBLP, Microfinance, NABARD, Savings Linkage, Credit Linkage, Loan Outstanding

INTRODUCTION

The SHG-Bank Linkage Programme (SBLP) was first conceived and planned by the National Bank for Agriculture and Rural Development (NABARD), in the year 1992, with the support of the Reserve Bank of India. The main objective of this SBL programme was to enable the poorer people, as a group, to access credit, without any collateral security, for improving their economic condition by utilizing the credit availed in productive purposes. In 1996, this SBL programme was regularized and linked with regular banks viz. Commercial Banks, Regional Rural Banks and Cooperative Banks. The role of NABARD has been very crucial right from the beginning and through upgrading SBL programme as a regular banking programme, thus transforming the once perceived to be an 'unbankable' group into 'bankable' group. To achieve this, NABARD utilized the services of various sectors, such as bankers, NGOs, and other voluntary organizations.

SHG-Bank Linkage Programme encourages women, particularly rural poor women, join together as self-help groups (SHGs); regularly contribute certain amount as savings to the group; engage in internal lending (within the group members); and after a specified period, banks lend loans to these groups without any collateral security, mostly for income generation purposes. This SHG-Bank Linkage Programme is being executed in three models. In model I, banks themselves promote SHGs and extend credit to its members as a group and the responsibility lies with the promoter banks. In model II, SHGs are promoted and fostered by government or non-government organizations. Banks directly finance such SHGs which meet the mandatory conditions laid down by such banks and here too, the responsibility lies with the bank. Under model III, SHGs are promoted and nurtured by other agencies (not by the banks), and unlike the second model, loans are given to the promoting agencies, which in turn distribute the loan amount among the SHGs. In the third model, the whole liability is with the promoting and loan distributing intermediary agencies. Mostly, in remote areas, where bank services are unavailable, the third model helps in reaching out the unreached.

Microfinance is perceived to be an effective tool for poverty alleviation, particularly through women. Microfinance institutions prefer to target women as they seek small amount as loan and for their higher repayment rate. But there is a wide-spread criticism that mostly, these loans are not used for

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income-generating purposes and thus fail to realize a sustained livelihood. Moreover, reports by various agencies indicate that poorer states, compared to other states, have been less reached out. Against this background and developments, the present study was conceptualized.

STATEMENT OF THE PROBLEM

SHG-Bank Linkage Programme has neither reached out majority of the poor, nor in proportionate in all the states of India. Only 22 per cent of the 75 million poor households in India are facilitated with microfinance (Ghate, 2008). In spite of the fact that about 53.5 per cent of the total poor in India live in Orissa, Bihar, Chhattisgarh, Jharkhand, Uttaranchal, Madhya Pradesh and Uttar Pradesh states, these states are lagging behind more in enabling access to credit to the poor through SBL programme. Combined together, these states share only 23.60 per cent of the total microfinance outreach (Nasir, 2013). Higher concentration of SBL programme is reported in the Southern region, particularly in Tamil Nadu and Andhra Pradesh states, than compared to other regions and states. It is claimed that repayment rates are higher in SBL programme than compared to other poverty alleviation lending initiatives – but reports point out growing gap between savings, credit and outstanding. Hence, the situation warrants examining how these six regions differ in the reach out by SBL programme.

REVIEW OF LITERATURE

Reports indicate disproportionate concentration of SBL programme in the different states of India. Report of the Sub-committee of Central Board of Directors of Reserve Bank of India 2011 registered its concern about the inadequate and unequal penetration and concentration of microfinance in the country and remarked that “there is undue concentration of effort in the Southern region to the relative neglect of other regions” (p.46). Srinivasan (2010), in his report on microfinance India-state of sector 2010, measured the Microfinance Penetration among Poor Index (MPPI), stated that penetration of SBLP in South was about four times more than the Western region and about 10 times higher than the least penetrated Central region. More than 50 per cent of the concentration of Microfinance Institution (MFI) portfolio was concentrated in the Southern region and the least concentration was in the North-East region. But, in the year 2010, there was 163.62 per cent growth in the North-East region, whereas, the growth rate during the same year in the Southern region was 37.09 per cent.

Sarumathi and Mohan (2011) claimed that microfinance has resulted in more psychosocial empowerment than the much needed economic empowerment among the poor. One of the reasons for this was argued that loans are utilized by the SHG members for unproductive purposes, other than income-generation (Manju and Shanmugam, 2013). According to Access to Finance in Andhra Pradesh 2010, CMF-IFMR report by Johnson and Meta (2010), in Chennai only 25.4 per cent of the SHGs utilized the loan for income-generation purposes and about 20.4 per cent of the SHGs used loan for repayment of old debts. Reserve Bank of India report on issues and concerns of MFI 2011 recommended to strike a balance between loans for income-generating and other purposes. Another argument was that since the loan amounts were small, it is quite inadequate for income-generating purposes. Study by Srinivasan (2009) reported that the average amount as loan per member was reportedly Rs.3,500.

Loan repayment is another crucial factor that impacts the growth of SBL programme. The sustainability and success of microcredit is influenced by the amount of loan, frequency of availability, affordability and repayment level of SHGs (Nath, 2014). Again the main reason was utilization of loans for unproductive purposes. The second reason was the long loan repayment period. Since the borrowers are mostly very poor, they were unable to find sustained additional income for a long time, to repay the loan. But Field and Pande in their study found no evidence of association between frequency of payment and repayment behavior. Chary and Savvasi (2013) found that Commercial banks reported significantly higher loan outstanding against SHGs than compared to Regional Rural banks and Cooperative banks.

RESEARCH OBJECTIVES

The study was pursued with the following objectives:

1. To compare the outreach of SHG-Bank Linkage Programme in the six regions, viz. (i) North, (ii) South, (iii) East, (iv) West, (v) Central and (vi) North-East.

- To examine the relationship between savings by SHGs, credit disbursed to SHGs and loan outstanding against SHGs in the six regions.
- To assess the overall growth rate of savings per SHG, credit disbursed per SHG and loan outstanding per SHG.

METHODS AND MEASURES

The study was based on longitudinal comparative research design and employed quantitative analytical methods. Data for this study was obtained from the NABARD’s annual reports on the status of microfinance in India. Data reference period for this study was seven financial years from 2007-08 to 2013-14, as on 31st March of each financial year. The financial year 2007-08 was taken as the base year. The six regions compared were: (1) Northern region (Haryana, Himachal Pradesh, Punjab, Jammu & Kashmir, Rajasthan and New Delhi); (2) Southern region (Andhra Pradesh, Karnataka, Kerala and Tamil Nadu & Pondicherry UT); (3) Eastern region (Bihar, Jharkhand, Orissa, West Bengal and Andaman & Nicobar Islands UT); (4) Western region (Goa, Gujarat and Maharashtra); (5) Central region (Chhattisgarh, Madhya Pradesh, Uttarakhand and Uttar Pradesh); and (6) North-East region (Assam, Meghalaya, Nagaland, Tripura, Arunachal Pradesh, Mizoram, Manipur and Sikkim). In addition, performance of each state was compared with the national average. Six parameters of SHG-Bank Linkage Programme were measured, they were: Total amount saved by the SHGs, Average amount saved per SHG, Total amount of loan disbursed to SHGs, Average loan disbursed per SHG, Total amount of loan outstanding and Average loan outstanding per SHG for the seven financial years. Data are presented mostly in chart form for better and easy comparison. Relationship between savings, credit and outstanding was assessed by Pearson’s correlation analytical methods. Difference between the six regions in average savings per SHG, average loan disbursed per SHG and average outstanding per SHG were examined by one-way analysis of variance method. Appropriate Post-hoc tests were applied to further examine the differences by multiple comparisons. Regression equations were developed to project the overall growth rate. Annual growth rates of the various parameters computed, with reference to the base year 2007-08 (as on 31st March 2008), were presented in percentage. Significance for all tests was determined based on the critical α value 0.05 as the criteria.

RESULTS AND DISCUSSIONS

The regional share of savings by the SHGs, credit availed by the SHGs and loan outstanding against SHGs for the six regions viz. North, North-East, Easter, Central, Western, and Southern regions were evaluated.

Regional Share of Savings Mobilized by SHGs per Year

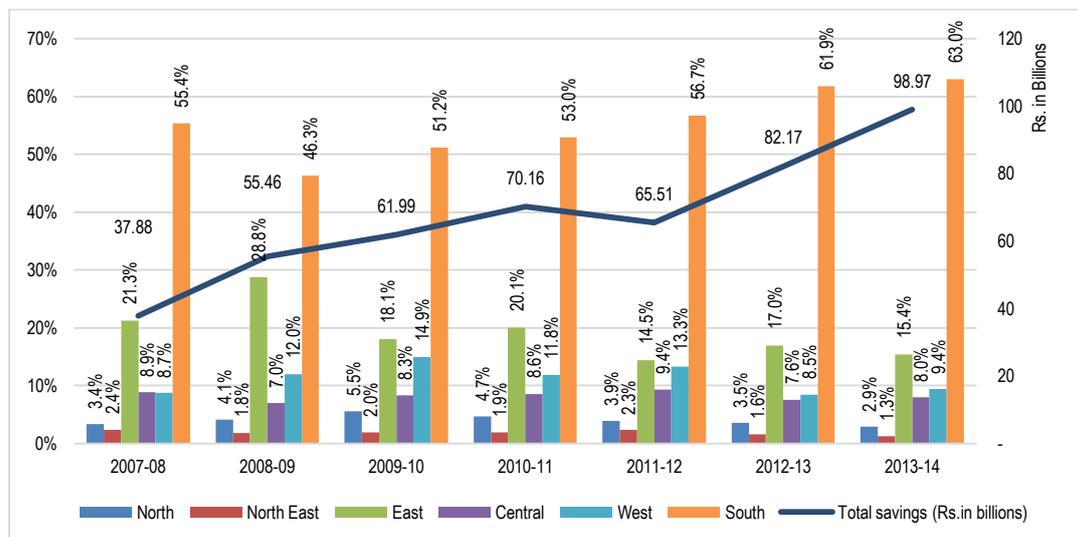


Figure1. Share of Savings per Year by the Six Regions

Southern region was able to mobilize more than 50.0 per cent of the total savings throughout the study period, except a decline during the financial year 2008-09 (46.3%). During 2013-14, contribution of

savings by the Southern mobilized 63.0 per cent of the total savings (Rs.62.39 billion). Southern region’s share was consistently increasing every year, whereas, the other five regions demonstrated a decreasing trend in mobilizing savings during the study period. The lowest contribution was by the North-East region, which never exceeded 3.0 per cent. Eastern region showed a sudden increase in the share during 2008-09 with 28.8 per cent.

Average Savings per SHG

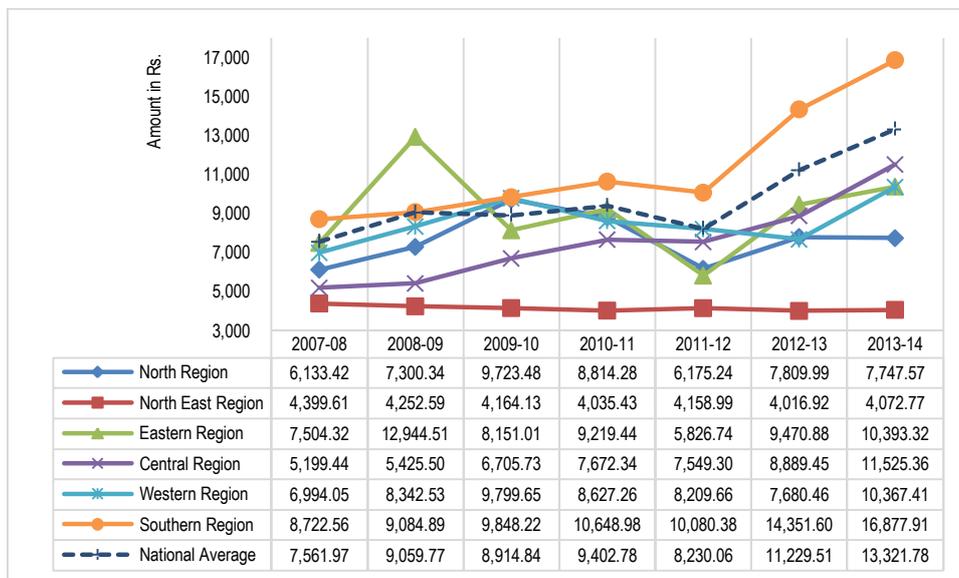


Figure2. Growth in Amount Saved per SHG in the Six Regions

Savings per SHG in the Southern region was higher than the national average as well as the other five regions, throughout the study period and demonstrated a growing trend, except a decline (by 0.05%) during the financial year 2010-11. Amount saved per SHG in the North-East region was the lowest compared to the other regions and indicated a negative trend throughout the study period. Savings per SHG in the North region also showed a declining trend from 2009-10. Greater fluctuations were observed in the savings per SHG in the Eastern region. Higher savings per SHG was achieved in the Eastern region during the financial year 2008-09 (Rs.12,944.51), an increase of about 72.5 per cent compared to the previous year and then a sudden decrease during 2009-10 (- 37.0%). SHGs in the Southern and Central regions indicated a steady increase in savings. Except Southern region, savings per SHG in the other five regions was lower than the national level average.

Regional Share of Loan Disbursed to SHGs per Year

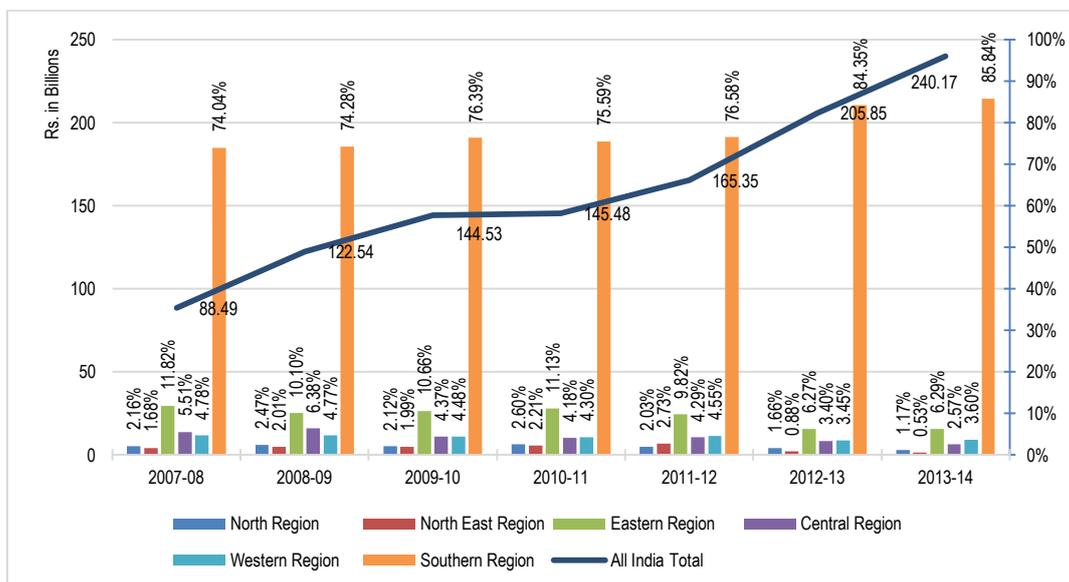


Figure3. Share of Loan Disbursed to SHGs per Year in the Six Regions

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Amount of loan disbursed to SHGs under the SBL programme was increasing every year. Total loan disbursed to SHGs during 2007-08 at the all India level was Rs.88.49 billion and during 2013-14 it was Rs.240.17 billion. More than 74.0 per cent of the total loan was disbursed in the Southern region and was showing an increasing trend – from 74.04 per cent (Rs.65.52 billion) during 2007-08 to 85.54 per cent (Rs.206.15 billion) during 2013-14. The second highest receiver was the Eastern region. Except Southern region, the share of loan was on a decreasing trend throughout the study period.

Average Loan Disbursed per SHG

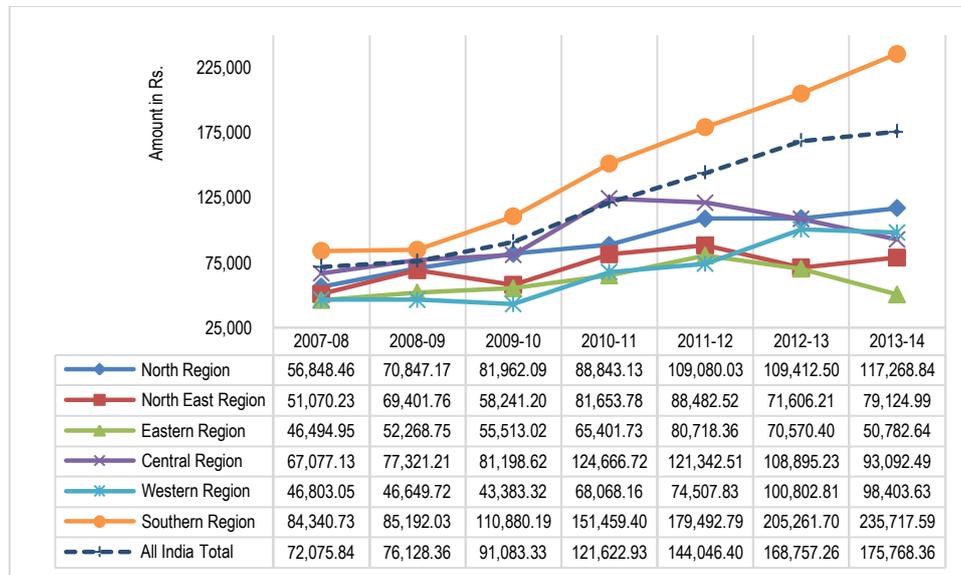


Figure4. Growth of Average Loan Amount Disbursed per SHG

Comparing the six regions, credit per SHG in the Southern region was higher than the national average as well as the credit per SHG of the other five regions. The difference between the national average and the average credit per SHG for the Southern region was consistently increasing every year. Average credit per SHG for Central, North-East and Eastern regions was decreasing since 2010-11.

Regional Share of Loan Outstanding against SHGs per Year

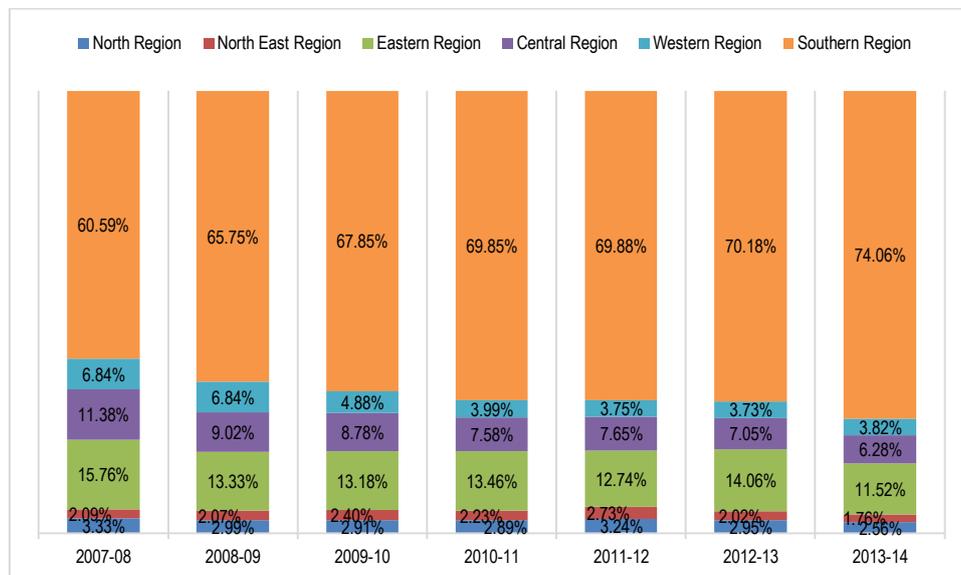


Figure5. Share of Loan Outstanding per Year in the Six Regions

Highest loan outstanding against SHGs per year was in the Southern region. During 2007-08, it was 60.59 per cent (Rs.103.01 billion) and it steadily grew to 74.06 per cent (Rs.317.91 billion) during the financial year 2013-14. The second highest share of outstanding was with the Eastern region – from 15.76 per cent (Rs.26.79 billion) in 2007-08 to 11.52 per cent (Rs.49.45 billion) during 2013-14. The

share of outstanding against SHGs per year was least in North-East region (< 3.0% of the total) throughout the study period. Share of outstanding per year in North, North-East, Eastern, Central and Western regions was gradually decreasing during the study period.

Average Loan Outstanding per SHG

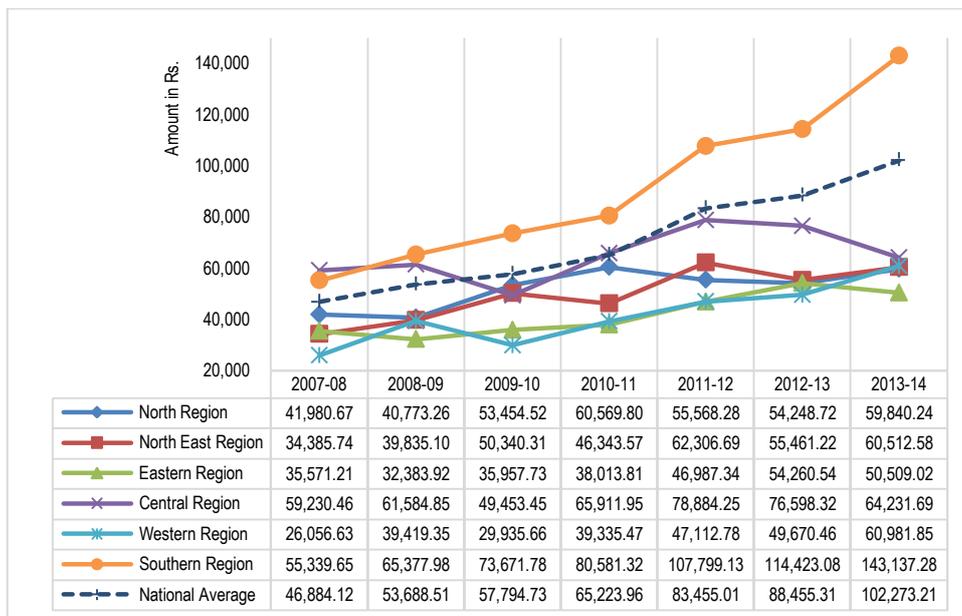


Figure6. Growth of Loan Outstanding per SHG in the Six Regions

Highest loan outstanding per SHG was observed in the Southern region and the amount outstanding per SHG was higher than the national average throughout the study period and was increasing every year. During 2007-08, outstanding per SHG in the Southern region was Rs.55,339.65 and it soared to Rs.143,137.28 per SHG during 2013-14. Outstanding per SHG in the North, North-East, Western and Eastern regions were lower than the national average during the study period. Outstanding per SHG in the Central region showed a declining trend from 2011-12. During the financial year 2013-14, outstanding per SHG was lowest in the Eastern region (Rs.50,509.02).

Region-wise Average Annual Growth Rate

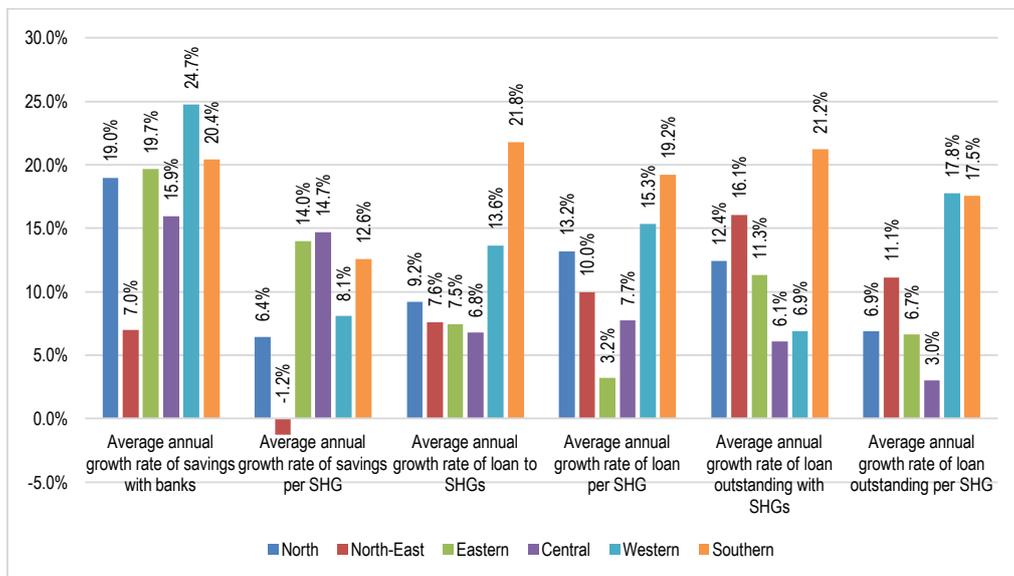


Figure7. Average Annual Growth Rate of the Six Parameters – Region-wise

During the study period, Western region registered highest average annual growth rate of total savings, which was growing at 24.7 per cent per annum followed by Southern region (20.4%) and least growth rate of savings was achieved by the North-East region (7.0%). But, highest growth rate

in the savings per SHG was achieved by the Central region (14.7%), followed by Eastern region with a growth rate of 14.0 per cent per annum and the lowest rate of growth in savings per SHG by the North-East region, indicated a negative growth rate of – 1.2 per cent per annum. Growth rate of loan received per SHG was highest in the Southern region with 19.2 per cent and lowest growth rate of 3.2 per cent was demonstrated by the Eastern region. Rate of increase in loan outstanding per SHG was highest in Western region with 17.8 per cent increase every year, which was marginally higher than the rate of annual increase in Southern region (17.5%). But, if we compare the average annual growth rate of total loan outstanding and outstanding per SHG, there was much disparity between Western and Southern regions. The growth rate of total loan outstanding in Western region was 6.9 per cent less than the growth rate of outstanding per SHG, which was 17.6 per cent per annum; whereas, in the Southern region, the behaviour was inverse, i.e., rate of growth of total outstanding was higher (21.2%) than the growth rate of outstanding per SHG (17.5%). Growth rate of total loan outstanding and outstanding per SHG was lowest in the Central region (6.1% and 3.0% respectively). Growth rate of loan received per SHG (10.0%) was almost the same as the growth rate of loan outstanding per SHG (11.1%). But in the case of North, and Central regions, outstanding per SHG was increasing at a higher rate than loan per SHG.

National Level Trend

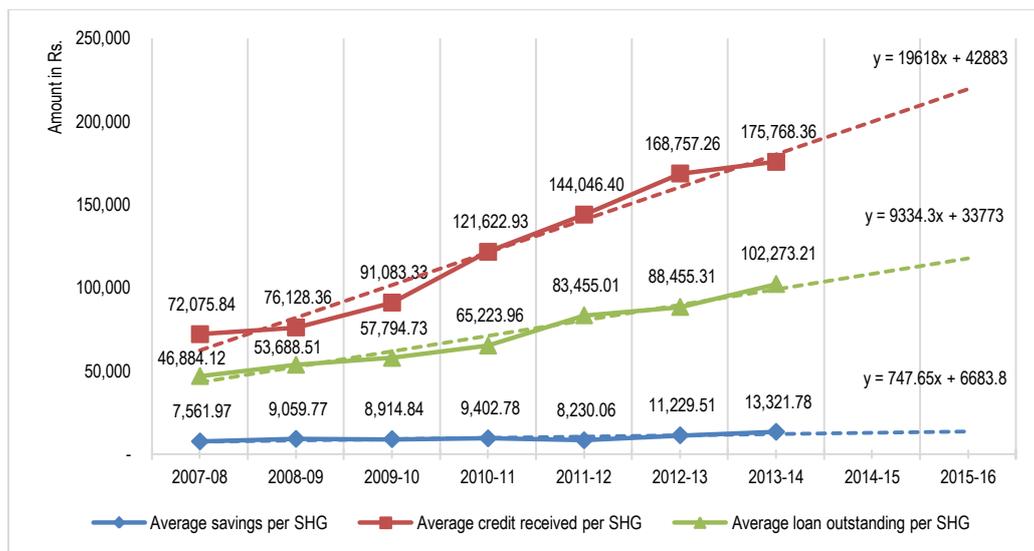


Figure 8. Growth Trend of Savings, Credit and Outstanding per SHG

How the three parameters viz. Average savings per SHG, Average credit per SHG and Average loan outstanding per SHG correlate with each other, was examined using Pearson’s correlation method. Average savings per SHG showed a significantly positive strong correlation with Average credit per SHG ($r = .775, p = .020 < .05$) which indicated that 60.1 per cent of the variations in the Average credit per SHG was attributed to the variations in Average savings per SHG. Secondly, Average savings per SHG was also significantly and positively related to Average loan outstanding per SHG ($r = .809, p = .014 < .05$), which means that about 65.4 per cent of the variations in the Loan outstanding per SHG was explained by the variations in the Average savings per SHG. Thirdly, strong, positive and statistically significant association was indicated between Average credit disbursed per SHG and Average outstanding per SHG ($r = .978, p = .0005 < .05$), indicating 95.65 per cent of the variations in the Average outstanding per SHG was associated with the changes in Average credit disbursed per SHG.

Linear regression lines indicate the growth trend of Average savings per SHG, Average loan disbursed per SHG and Average loan outstanding per SHG at the national level. $y = 747.6x + 6683$ is the equation to project Average savings per SHG and equation $y = 9334x + 33773$ projects the Average loan disbursed per SHG and $y = 19618x + 42883$ estimates the Average loan outstanding per SHG at the national level; where, ‘y’ is the projected amount of the respective parameter and ‘x’ denotes the number of years, assuming 2007-08 as year ‘1’ and so on, and + the constant. The projection is based on the performance during the past seven years – from 2007-08 to 2013-14.

VARIATIONS IN SBLP OUTREACH AMONG THE SIX REGIONS

One-way ANOVA test results indicated statistically significant difference between the five regions compared, in *Average savings per SHG* [$F(5, 36) = 10.517, p = .0005 < .05$]; *Average loan disbursed per SHG* [$F(5, 36) = 8.242, p = .0005 < .05$] and *Average outstanding per SHG* [$F(5, 36) = 10.193, p = .0005 < .05$]. Eta squared computation revealed that the effect size (the magnitude of difference) of the three parameters between the six regions was very large (Cohen, 1988) ($\eta^2 = 0.5936, 0.5337$ and 0.5860 respectively). Further Post Hoc test using the Tukey HSD method revealed the differences between different combinations of pairs of regions, in each of the three parameters, through multiple comparisons. Though there were differences between every possible pairs of regions, only differences of those pairs that were statistically significant, are discussed.

Variations in Average Savings per SHG among the Six Regions

Table1. Post-Hoc Multiple Comparisons for Average Savings per SHG

(I) Region	(J) Region	Mean difference (I – J)	Sig.
South	North	3701.46*	.012
	North-East	7216.30*	.000
	Central	3806.77*	.009
North-East	North	-3514.84*	.018
	East	-4915.68*	.000
	Central	-3409.52*	.024
	West	-4417.22*	.002

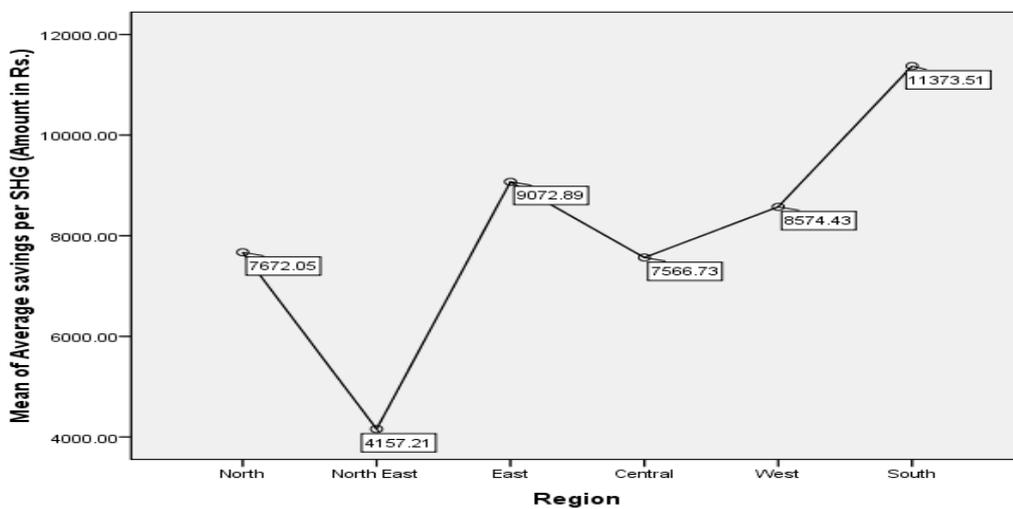


Figure9. Means Plot Showing Average Amount Saved per SHG in the Six Regions

Average savings per SHG during the study period in the Southern region was significantly higher with Rs.11,373.51 ± 3,053.86 and the North-East region it was significantly lower with Rs.4,157.21 ± 135.12. This means in an average, each SHG in the Southern region saved Rs.7,216.30 per year than what was saved by each SHG in the North-East region. The difference in the average savings per SHG in the Southern region (M = Rs.11,373.51 ± 3,053.86) was significantly higher than North (Rs.7,672.05 ± 1,309.05), North-East (Rs.4,157.21 ± 135.12) and Central region (M = Rs.7,566.73 ± 2,174.17) ($p < .05$). Differences between different pairs of regions is shown in Table 1.

Variations in Average Loan Disbursed per SHG among the Six Regions

Table2. Post-Hoc Multiple Comparisons for Average Loan Disbursed per SHG in the Six Regions

(I) Region	(J) Region	Mean difference (I – J)	Sig.
South	North	59726.03*	.009
	North East	78966.25*	.000
	East	90084.94*	.000
	Central	54107.22*	.022
	West	81960.84*	.000

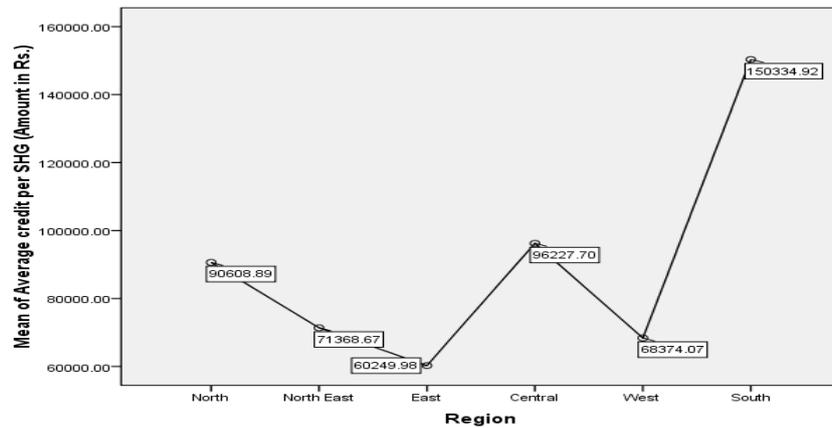


Figure 10. Means Plot Showing the Average Credit Availed per SHG in the Six Regions

SHGs in the Southern region received significantly higher amount of loan per SHG ($M = \text{Rs.}150,334.92 \pm 59,601.60$) than the other five regions compared ($p < .05$). Loan disbursed per SHG in the East region ($M = \text{Rs.}60,249.98 \pm 12,362.42$) was most significantly less than the other five regions. This shows that in an average, each SHG in the East region received Rs. 90,084.94 less than the loan received by each SHG in the South region. The differences between other pairs of regions is shown in Table 2. The rest of the regions, (other than South), did not significantly differ among themselves in loan amount received per SHG. Means plot (Fig.10) shows the average credit amount received per SHG in the six regions, during the study period.

Variations in Average Loan Outstanding per SHG among the Six Regions

Table 3. Post-Hoc Multiple Comparisons for Average Loan Outstanding per SHG in the Six Regions

(I) Region	(J) Region	Mean difference (I – J)	Sig.
South	North	39127.82*	.001
	North East	41592.14*	.000
	East	49520.95*	.000
	Central	26347.89*	.036
	West	49688.29*	.000

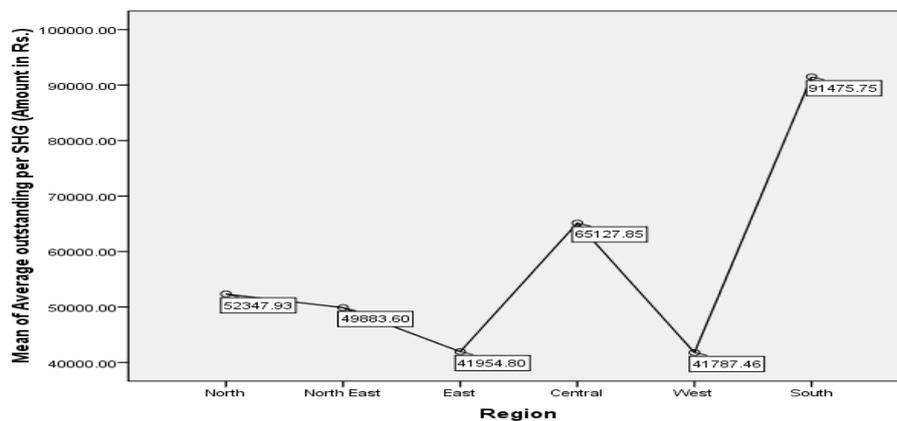


Figure 11. Means Plot Showing the Average Amount Outstanding per SHG in the Six Regions

Repeatedly, average loan outstanding per SHG in the Southern region ($M = \text{Rs.}91,475.75 \pm 31,317.00$) was significantly higher than the other five regions and the lowest average loan outstanding per SHG was reported in the Western region ($M = \text{Rs.}41,787.46 \pm 11,961.53$) during the study period. In an average, each SHG in the Southern region had Rs.49,688.29 more as outstanding than the outstanding of each SHG in the East region, which had the lowest. The differences between other pairs of regions is shown in Table 3. The differences in loan outstanding per SHG among the other five regions were not statistically significant. The average amount outstanding per SHG in the six regions is graphically shown as means plot in Fig.11.

CONCLUSION

These comparisons lead to the conclusion that though number of SHGs in the SBL Programme was on the increase every year, the financial performance of these SHGs was not so. Rate of growth of loan outstanding and the difference between loan disbursal and outstanding was steadily increasing during the study period. Reach out and concentration of SHG-Bank Linkage Programme was found to be uneven among the six regions, during the study period. The reach out in the Southern region was significantly very high and was significantly very low in the North-East region. Outreach in the other regions was also significantly lower than the Southern region. Share of Southern region was also higher than the national average in all the six parameters. Correlation between *savings by SHGs*, *credit received by SHGs* and *loan outstanding against SHGs*, during the study period was strong, positive and significant. But Rate of growth in *savings per SHG* was significantly lower than the rate of growth of *loan disbursed per SHG* and *loan outstanding per SHG*.

Concentrating on loans for productive purposes would increase the borrowers' income and improve their repayment capacity, thus the gap between outstanding and loan disbursed can be narrowed down. Marketing was one of the barriers for income-generation activities by SHGs. NABARD can create a permanent system with the participation and networking of NGOs, private and state-owned handicrafts and other outlets to market the products of SHGs. Frequent exhibitions are organized to market the SHG products, but a permanent system would ensure regular sales and sustained income. Reasons for low level of penetration in the other low performing regions, particularly, North-East region should be studied. Participation of NGOs, CBOs, and particularly government initiatives in educating and capacity-building the poor about the credit link and prudent financial management are crucial in realizing the objectives of SHG-Bank Linkage Programme effectively and sustainably.

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