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Article : Micro credit penetration through Self Help Groups: Clues from growth of SHG -Bank Linkage model in India

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ABSTRACT

The purpose of this study is to analyse the phenomenal growth of SHGs in India during the last two decades. The choice of the period is crucial as the "empowerment" dimension of finance has been growingly appreciated at global level in recent years.The estimated CAGR for two decades since 1992 to 2010 shows that there is a great scope for bank linkage with SHGs to expedite the process of financial inclusion in India. When CAGR for the two decades is bifurcated, it indicates an interesting trend to infer that the community based Bank Linkage Model has been overshadowed by Commercial based model led by MFI on-lending since the turn of millennium. The study, in addition to the analysis of quantitative expansion, also evaluates certain qualitative issues; the outreach of Linkage model is examined more specifically in terms of savings linked SHGs and credit linked SHGs. Further by throwing light on loans of SHGS outstanding with Banks and Non Performing Assets of bank loans of SHGs, the scalability of sound FI initiative are examined. The empirical evidence is obtained to show that the overall growth of SHGs over the past two decades has an important dimension of women empowerment as more than 70 percent of these groups are concentrated by women.

The study concludes that considering positive signs shown by SHGs in their performance through Bank Linkage model, SHG - Bank Linkage Programme has provided a more favourable environment for enhancing India's potential for greater equitable growth with empowerment. But alongside this positive development there are evidences that the direct lending by banks to SHGs has been slowed down and this may be due to the enormous enhancement of on-lending model of MFIs since 2002. The empirical results substantiates that there is a need for initiatives to be taken by RBI and GOI to evolve a strategy to make use of the growth of the gross root level arrangement to a larger extent. Time is ripening for introduction of a well developed regulatory framework coupled with specific targets to bring in meaningful results and social mileage.

Key words: Financial inclusion, Micro finance, Self Help Groups (SHGs), Micro credit, SHG-Bank Linkage model.

Micro credit penetration through Self Help Groups:

Clues from growth of SHG -Bank Linkage model in India

The emerging Indian economy has witnessed a positive expansion of financial services during the last two decades with themassive adoption of Information Technology and the progressive unlocking of regulatory framework. But despite theunprecedented growth of financial sector, there is still a dearth of banking and financial services for the poor and vulnerable as the formal financial sector has not yet covered more than 40 percent of adult population. Availability of credit is one of the critical weaknesses in the development of economic activity. Financial exclusion is a problem of both developed and developing nations.The exclusion could be on the grounds that the individual has no savings / assets and not having a bank account. Hence significant financial intervention by provision of universal access to financial services is the fundamental challenge to development pathways for inclusive growth of Indian economy. Extension of micro credit through Self Help Groups has been considered as a successful mode to fill the gap of financial exclusion to some extent.

Self Help Groups are uniquely positioned to extend financial services to a clientele of poorer and vulnerable sections than traditional bank clientele. They are modern version of cooperatives considered as a strong and desirable institutional set up in the informal financial sector for participatory credit. In the last two decades the strength of Self Help Groups in financial intermediation has tremendously enhanced. Micro finance model in India devises the flow of formal banking loans to the poor basically through Self Help Groups either directly under SHG - Bank linkage programme or through on-lending by Micro Finance Institutions. Out of the two, SHG- Bank linkage model predominantly covers the area of micro credit in India. A modest attempt is made in this research paper to map out the encouragement and support extended by formal banking sector towards the financial inclusion of these community based organizations and in return the response of SHGs who are the main players in the micro space in India in contributing to such improvement.

Objectives of the study

The growing interest shown in recent years by policy makers towards innovative finance for inclusive growth has created a concern in having an insight into the pattern of growth of the booming market in the emerging area. Self Help Groups are the pivot around which micro finance space is organized in India. The role of SHG in India has been recognized worldwide as a revolutionary and proper economic activity and as an efficient mode of finance to combat poverty by generating employment and income. As large amount of resources including World Bank funding of micro credit flow is routed through Self Help Groups, this study has been initiated with the primary aim to analyze the relevance and scope of Self Help Groups and the reach of Bank Linkage Scheme with SHG in expediting financial inclusion in big country like India. The broad objectives and the specific coverage of the present study concentrate on the following:

ü to clarify the basic concept of micro finance which has become a buzzword in the last few years related with financial inclusion;

ü to review the blue print of SHGs as an inherent concept designed towards financial empowerment of weaker sections;

ü to measure and evaluate the nature of growth of Self Help Groups in India through empirical analysis;

ü to grasp the magnitude of Micro Credit extended through SHGs;

ü to appraise the performance of Bank Linkage model of Micro Finance;

ü to draw and propose relevant policy recommendations towards improved disbursement of formal credit through SHG-Bank linkage model.

Methodology

Penetration of micro credit through SHGs is considered as one of the basic indicator of financial inclusion. To examine the above stated objectives, the study uses secondary data collected from NABARD reports. A large pool of data is available from NABARD which has created a Management Information System from formal banking sector regarding flow of micro credit through various agencies to SHGs. The secondary data analysis made in this paper includes various trends and progress in micro finance sector under the SHG-Bank Linkage model. The study is based on time series data since 1992.It examines the role of

SHGs in financial inclusion of poor in terms of savings accounts and credit accounts maintained with them over the years. To empirically ascertain the extent of financial inclusion, data on number of SHG units, the size of savings and bank credit disbursed through SHG-Bank Linkage model is used. The study covers various parameters like savings of SHGs with banks, Bank loans disbursed to SHGs, bank loans outstanding against SHGs and Gross NPA of bank loans to SHGs to ascertain the qualitative aspect of growth. It also depicts that the coverage of women SHGs is predominant in bank linkage model.

The growth trend of Self Help Groups in numbers as well as in terms of magnitude of credit delivery mechanism has been analysed by estimating Compounded Annual Growth Rate (CAGR) was estimated with the help of exponential regression model. Compounded Annual Growth Rate (CAGR) refers to the year-over year growth rate of an investment over a period of time. It is generally used in finance to smooth out the return of assets over time reducing the volatility of the return. Comparison of growth rate of SHG units and credit delivery through SHG-Bank Linkage model is made over identical time periods. To compare the degree of dispersion, in the same data series, of data points around the mean, even when the means are drastically different from each other, the statistical measure of Coefficient of Variation (CV) is used .

The study is organized as follows: Section I gives a backdrop of micro finance industry scenario and the need for micro credit in India. Section II deals with data analysis of Compounded Annual Growth Rate of SHGs. Section III depicts the qualitative dimensions of SHG growth under Bank Linkage model and Section IV concludes the paper.

An overview of micro finance industry

The microfinance industry in India is considered as a tool for socio-economic development over the past two decades. The term Micro finance has attracted much attention in recent days, largely understood interchangeably with MFIs, owing to the huge cry made in media regarding the allegations made against them for resorting to threatening tactics towards recovery of loans from members of SHGs. The MFIs in reality are only on-lending agencies whereas the real backbone of micro finance industry in India are the informal set up called as SHGs at the gross root level. Any sector having a rapid growth will obviously be looked through a different lens; this is true even of the Grameen model of Mohamed Yunus which bagged the coveted Nobel Prize to him. He first met an odd situation when in December 2010, a Norwagian television documentary followed by the

Bangladesh media alleged him of diverting huge aid fund to a business concern and the Prime minister of Bangladesh has made a scathing comment about the inner motive of Grameen model as ‘sucking the blood of the poor’. This article analyses the growth of micro finance in India keeping the current development at the back of mind.

The micro finance industry emerged to alleviate poverty on the premise that poor people, like everyone else, need a diverse range of financial services to undertake economic activity, smoothen consumption, to run their business, build assets, mitigate vulnerability to income shocks, increase savings, and to support self employment. Their needs for financial services have been traditionally met through a variety of financial relationships, mostly informal. In the past two decades, different types of financial services providers for poor people have emerged, including non-government organizations, or NGOs; cooperatives; community-based development institutions like Self Help Groups, or SHGs, and credit unions; commercial and state banks and microfinance institutions, or MFIs, offering new possibilities. The basic tenets of micro finance can be read as follows:

‘Micro finance means building permanent local institutions; it is a means to integrate the financial needs of poor people into the country’s mainstream financial system; micro finance is to pay for itself. The job of Government is to enable the financial services and not to provide them.’ Micro finance is clearly distinguished from charity and is recognized as a movement with an objective to build “a world which enables as many poor and near-poor households as possible to increase incomes and build assets so that their vulnerability to income shocks and economic stress is reduced and the quality of life is improved by enabling better access to education and healthcare. The sector in its broad frame work offers people permanent access to an appropriate range of high quality financial services such as loans, savings, money transfer services and micro insurance,” according to the Consultative Group to Assist the Poor, or CGAP, an independent policy and research organization. However, Indian Micro Finance sector tend to have a narrow scope offering a limited range of services beyond credit.

The community based model of micro finance through Self Help Groups to meet the financial mismatch of the rural poor is of recent origin since 90s in India and the same has been utilized by the Government to intervene the mechanism of micro finance in empowering the poor rather than merely remaining as an observer. Credit flow to poor SHG members witnessed a phenomenal growth as it was tailored through public sector banks. The core mission of SHGs is to provide small, income generating loans to members who are low income households predominantly poor women mostly located in rural areas in India. These individuals often have no or very limited access to loans from other sources other than private money lenders that charge very high rates of interest. Thus, SHGs are informal grass root level arrangements, tailored models formed mainly to empower the under privileged section of the society understanding their economic needs. They are separate models customized to enable access to banking services for the poor with the use of group based lending structures, specialized loan products, training and support of the borrowers and simplified lending requirements. It was since 2000s, there has been a marked change in the delivery model of micro finance when the market forces identified financial services to poor as a business. The discussion on the role of microfinance in India has been intensified further since October 2010 following the suicides episode in Andra Pradesh allegedly linked to the commercial model of micro finance in India.

Nature of Micro credit

Micro credit refers to small scale financial services-both credit and savings-that are extended to the poor in rural, semi-urban and urban areas. Microcredit is disbursed to entrepreneurs who are too poor to qualify for traditional bank loans. Microcredit especially, enables very poor people to engage in self-employment projects that generate income. As per RBI Master Circular, 2008, Micro credit is defined as provision of thrift, credit and other financial services and products of very small amount not exceeding Rs. 50,000/- per borrower to the poor in rural, semi-urban and urban areas either directly or through a group mechanism for enabling them to raise their income levels and improve living standards. Evidently, the word micro credit does not have an exact definition. Advances to Self Help Groups and loans to distress urban poor to prepay their debt to lenders in the informal sector have been classified as advances to weaker sections within priority sector. (Urban poor for this purpose may include those families in urban areas who are below the poverty line) For regulatory purposes, Non-Banking Financial Companies enjoy exemption from the RBI Regulations if such institutions provide loans upto Rs. 50000/-, and in case of loan for a dwelling unit, upto Rs. 125000/- (NOTIFICATION No. DNBS.138/CGM (VSNM)-2000 dated January 13, 2000). The RBI guidelines to banks for mainstreaming micro credit stipulate that extension of micro credit to individual borrowers directly or through any intermediary is reckoned as part of their priority sector lending. However, the RBI has given freedom to banks to formulate their own model and/or to choose any intermediary for extending micro credit.

It is estimated that, worldwide, there are 13 million micro credit borrowers, with US $ 7 billion in outstanding loans. CRISIL estimates that in India around 120 million household continue to face financial exclusion; this translates to a credit demand of around Rs.1.2 trillion. NSSO data reveals that 45.9 million farmer in the country (51.4%) out of a total of 89.3 million households do not have access to credit. Apart from the fact that exclusion is in general large, it also varies widely across regions, social groups and asset building. The poorer the group, the greater is the exclusion.

Micro finance through Self Help Groups –Bank linkage model

In India, modern micro finance emerged with a strong orientation towards private sector solutions. The Self Help Group model is the most common one envisaging a synthesis of formal financial system and informal sector where funds are extended through a mode of bank linkage. Though there are various schemes to purvey micro finance, SHG – Bank Linkage Scheme has emerged as the predominant Indian variant of micro finance. It is implemented through commercial banks, regional rural banks and cooperative banks.

During reform period of 1990s, it has been realized that commercial banks (and also RRBs due to their poor performance) are not the kind of financial institutions for social banking. Since then for the past two decades the task of financial intermediation to poor has been emphasized in India through deployment of credit with the involvement of private social agencies like NBFCs, NGOs, SHGs and others. Formal institutional credit is deployed through such private agencies to facilitate overseeing and repayment. Microfinance has thus attempted to fill the void left between mainstream commercial banks and private moneylenders and has emerged as a fast growing enabler for access to financial services for the poor.

While the success of Grammeen Bank of Mohamed Yunus has inspired the world, it has proved difficult to replicate the success. The microfinance movement in India started with the introduction of the SHG-Bank Linkage Programme in the 1980s by NGOs and the same was later formalized by the Government of India in the early 1990s. Pursuant to the programme, financial institutions, primarily public sector RRBs, are encouraged to partner with SHGs to provide them with funding support, which is often subsidized by the government. The Bank Linkage model covers both savings linked as well as credit linked SHGs. The RBI requires domestic commercial banks operating in India to maintain 40.0% of their loan advances, or a credit equivalent amount of off-balance sheet exposure, whichever is higher, as “priority sector advances.” These include advances to agriculture, micro finance to self help groups or SHGs, and joint liability groups, or JLGs, of individual farmers, small enterprises, retail trade, education loans and housing loans. In addition, the RBI also requires 18.0% of the loan advances to be applied towards the agriculture sector and 10.0% towards the "weaker sections," which are defined to include small farmers owning less than five acres and artisans whose individual credit limit does not exceed Rs. 50,000.00. When banks are unable to meet these requirements, they often rely on specialized institutions like SHGs to provide them with access to qualifying advances through lending programs and loan assignments. These bank requirements result in significant funding for the microfinance sector.

Credit linkage with banks involves various partners at the ground level in the field- two prominent agencies are Self Help Groups (directly financed by banks) and Micro Finance Institutions (Banking agencies financing MFIs for on-lending to SHGs and other small borrowers). The outreach of other specialized microfinance institutions elsewhere in the world is modest in comparison to the Bank Linkage model in India.The Linkage scheme made India a leading country in the microfinance movement. It has been instrumental in facilitating various activities in micro finance sector. It has envisaged a unique approach to meet the credit needs of unbanked low income clients in a financially sustained way. It is an ideal arrangement of combining the significant traits of the traditional informal financial delivery channels – especially flexibility and responsiveness – with the managerial and financial resources of formal banking sector. SHGs are expected to reduce transaction costs and help banks to obtain perfect client information. The loans are provided to SHG members essentially for use in their small businesses or other income generating activities or to fund increases in productivity and not for personal consumption.

With the small beginning as Pilot Programme launched by NABARD in 1992, the SHG-Bank Linkage programme has expanded at a fast pace. By March 2009, the scheme has linked 69.53 lakh saving-linked SHGs and 48.5 lakh credit-linked SHGs and thus about 9.7 crore households have been covered under the programme. The pace of growth shows a definite trend. Ever since 1992-93 when a modest 255 groups were linked to banks for credit, the growth of the programme has been tremendous. By March 2010, the number of bank-linked SHGs stood at 7.13 million. The cumulative credit disbursements also grew from Rs. 3 million in 1992-93 to Rs 1445.33 million in 2009-10. An analysis of the rate of expansion depicts interesting results as revealed in the following table:

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Table 1: Progress of SHG-Bank Linkage Programme delivery of credit (1992-93 to 2009-10)

	Number of SHGs credit Linked to Banks (Cumulative)	Number of SHGs credit Linked to Banks (Annual Addition)	Bank Loan Disbursed (Cumulative, Rs. Crore)	Bank Loan Disbursed (AnnualAddition) Rs crores
1992-93	255	255	0.3	0.3
1993-94	620	365	0.6	0.3
1994-95	2122	1502	2	1.4
1995-96	4757	2635	6	4
1996-97	8598	3841	12	6
1997-98	14317	5719	24	12
1998-99	32995	18678	57	33
1999-00	114775	81780	193	136
2000-01	263825	149050	481	288
2001-02	461478	197653	1,026	545
2002-03	717360	255882	2,049	1023
2003-04	1079091	361731	3,904	1855
2004-05	1618476	539385	6,898	2994
2005-06	2238565	620089	11398	4499.5
2006-07	2711016	1105749	17968	6570.39
2007-08	3938786	1227770	26817	8849.26
2008-09	5548372	1609586	39071	12253.51
2009-10	7135194	1586822	53524	14453.30
Average growth	**431583 units**		**2870.5 crores**	
Coefficient of variation	**127.22 percent**		**149.45 percent**	

Source: http://www.nabard.org/microfinance/shglinkageprogress.asp: Reports on Status of Micro Finance in India (various years) accessed on 20th December 2010

The above data illustrates the astounding pace of growth of SHGs. On an average 4.3.lakh units have been added to the existing units and an average of Rs 2900 crores micro credit have been extended by the formal banking system through this informal credit channel. Further, a study of variability of SHG progress in India both in terms of units as well as in financial terms will throw more light on the nature of growth of this sector. The coefficient of variation of SHG growth (127 percent and 149 percent respectively) underlines that the rate of growth of SHGs and the amount of loans disbursed to them has been highly skewed.

Table 2: Compounded Annual Growth Rate *(CAGR)* of SHG-Bank Linkage Programme

(in percentages)

	***Compounded Annual Growth Rate (CAGR)*(in percentages)**		
	1992-93 to 2009-10	2002-03 to 2009-10	1992-93 to 2000-01
Number of credit linked SHG units	**71.75**	**32.78**	**120.84**
Bank Loan Disbursed	**98.19**	**50.36**	**142.85**

Source: author's calculations

The statistical analysis of growth performance of SHGs from the above Table reveals that there is a spectacular increase both in quantitative terms as well as in terms of loan disbursement from formal financial institutions to these groups. The Compounded Growth Rate of SHGs in number of units (72 percent) and of bank loan disbursement (98 percent) ever since the introduction of Linkage scheme in 1992 displays a very impressive picture. More specifically, the first decade since initiation of formalization process has been more pronounced. When the very high growth rate for two decades is bifurcated, it is revealed that CGR for the 90s has been more than 100 percent in terms of number of units (121 percent) as well as loan amount (143 percent) while CGR for the later period viz.. 2002-2010 has been 33 percent in terms of unit growth and 50 percent in loan amount disbursement. The spurt in the initial stages of formalization reveals a positive response to the scheme by SHGs to bank access. The relative slowing down of the process since the turn of millennium may be linked to the growth of alternative model of MFI – Bank linkage wherein Micro Finance institutions which have shared the flow of funds through direct Linkage programme for on lending. MFIs had taken the task of on-lending the funds deployed by formal banking system towards micro credit as a part of their priority sector requirements and banks found a convenient intermediary in MFIs to deploy micro credit through informal delivery channel. Further, the smoothen out growth trend of both the series i.e. the quantitative expansion of units of SHG and delivery of credit, for the overall period of 1992-2010, as well as the growth rate bifurcated for two decades, when compared portrays that there has been over 20 percent growth difference between the two. The rate of growth of deployment of credit has obviously been throughout higher than increase in the number of units for the simple reason that in addition to the newly established SHGs, repeat loans have been extended to existing SHGs.

Status of Micro Finance under SHG -Bank Linkage Model:

Certain qualitative aspects of growth

The analysis of sharp quantitative expansion of SHG is supplemented with the analysis of qualitative issues too. The overall objective of Self Help Groups is to increase the people's ability to manage their money in a better manner. It is one step above merely extending of banking facility; it is not only to open more bank accounts but also to disseminate banking education so as to enable them to handle their finance effectively, securely and confidently. The main aim of group formation is to ***promote the habit of saving*** on priority basis and credit flow from formal banking system follows. The Self Help Groups are looked at as an ideal arrangement to make voluntary thrift on regular basis at the local level for mobilization of savings as the members (whose number does not usually exceed 20) pool their savings and lend it internally, to meet their emergent consumption needs or supplementary income-generating credit needs. The savings are kept with a bank and in the name of the SHG. The banks make loans to the SHG in certain multiples of the accumulated savings of the SHG.

SHG model is per se self-selection in nature as a group of 10 to 20 members from a homogeneous class promotes the group for the purpose of availing banking services of savings and credit and loan is availed to the group as a whole.
The greatest strength of this system is its *inbuilt regulatory mechanism.* SHG

model have a monthly repayment structure with shorter repayment terms. The rate of interest charged by formal institutional sector to these groups is market determined rates. The interest rate charged varies between 18 to 24 percent per annum based on the reducing balance method to attract progressive lending from financial institutions. They use the pooled resource of their voluntary savings to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritization of needs, setting terms and conditions, and accounts keeping. There is an inherent mechanism of *credit rationing*. This gradually builds financial discipline in all of them. They also learn to handle resources of a size that is much beyond individual capacities of any of them.

The overall progress under SHG-Bank Linkage Scheme shows an impressive trend on these lines. An analysis of data regarding savings rate and the credit flow from formal financial institutions to the micro finance sector reveals that financial intermediation in rural area has gone through a phase of expansion. Three aspects of Bank Linkage with SHG have been taken to assess the coverage of financial inclusion by the scheme - viz.. Savings of SHGs with banks, bank credit flow to SHGs and Bank loans outstanding.

Table 3: Overall Progress of Micro-finance under SHG -Bank Linkage Scheme

(2006-07 to 2009-10)

Particulars As on 31st March	Savings of SHGs with Banks		Bank Loans disbursed to SHGs		Bank Loans outstanding with SHGs	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
2007	41,60,584	3,512.71	1,105,749	6,570.39	2,894,505	12,366.49
2008	50,09,794	3,785.39	12,27,770	8,849.26	36,25,941	16,999.91
% Growth 07-08	**20.4**	**7.8**	**11.0**	**34.7**	**25.3**	**37.5**
2009	6121147	5545.62	1609586	12253.51	4224338	22679.84

% Growth 08-09	**22.2**	**46.5**	**31.1**	**38.5**	**16.5**	**33.4**
2010	6953250	6198.71	1586822	14453.30	4851356	28038.28
% Growth 09-10	**13.6**	**11.8**	**(1.4)**	**17.9**	**14.8**	**23.6**

Source: http://www.nabard.org/microfinance/shglinkageprogress.asp: Report on Status of Micro Finance in India (various issues)

The above table reveals that SHG Bank linkage model has a grown tremendously in terms of thrift as well as credit disbursement. As on 31March 2010, the number of SHGs that have savings accounts with banks is close to 70 lakhs with total savings of Rs.6199 crores as against 61.21 lakhs SHGs with savings of Rs.5546 crores as on 31st March 2009. The bank loan disbursed stands at 14.4 crores and outstanding loans from banking system exceed Rs. 28000 crores. Even at the period of global financial crisis and economic down turn during the period 2006-07 to 2008-09, the growth rate of the industry has shown an upward trend. Though as compared to the previous years, there is a decline in the percentage growth of savings rate of SHGs with banks, in actual terms, there is a steady increase in the disbursement of loans to SHG and the bank loan outstanding with SHGs shows a decline in the financial year 2009-2010.Thus it is possible to arrive at a convenient conclusion that the financial inclusion attained through SHGs is scaleable and sustainable and the overall position of micro finance is untouched by economic fluctuations.At the same time the average size of loan disbursed range from Rs.37000 in case of cooperative banks to Rs.86000 in case of RRBs. Small loans indicate on the one hand the capability of the system to address the issue of meeting the requirements of small borrowers; at the same time is reflective of some degree of risk aversion by organized financial sector Small size of loans prevents the group members from taking up entrepreneurial activities.

Coverage of Women SHGs: One of the impressive features of SHGs for which they are very highly acclaimed has been that they impact gender positively. This can be revealed by analyzing the details of total number of women SHGs saving linked, Credit linked and loans outstanding for the last two years as given in table 4:

Table: 4 – Position of Women SHGs

Particulars	**Year**	**Total SHGs**		**Exclusively Women SHGs**		**percentage of women SHGs to total SHGs**	
		No.	**Amt**	**No.**	**Amt**	**No**	**Amt.**
Saving linked SHGs	2008-09	6121147	5545.62	4863921	4434.03	**79.5**	**80.0**
	2009-10	6953250	6198.71	5310436	4498.66	**76.4**	**72.6**
Loans disbursed	2008-09	1609586	12253.51	1374579	10527.38	**85.4**	**85.9**
	2009-10	1586822	14453.30	1294476	12429.37	**81.6**	**86.0**
Loans Outstanding as on 31st March	2009	4224338	22679.84	3277355	18583.54	**77.6**	**81.9**
	2010	4851356	28038.28	3897797	23030.36	**80.3**	**82.1**

Source: '*Status of Micro Finance in India' NABARD(various issues)*

It can be seen that the percentage of women SHGs to total number of savings linked and credit linked SHGs with banks were 76.4 percent and 81.6 percent respectively for the period ending 31st March 2010 though there has been a marginal decrease as compared to the previous year. Also percentage of loan outstanding amount to exclusively women SHGs has increased from 81.9 percent as on 31st March 2009 to 82.1 percent on 31st March 2010.Through out, more than 70 percent of units, savings as well as credit has been concentrated by women members. It suggests that SHGs can play a significant role in achieving the financial inclusion especially with ***focus on empowerment of*** women and low-income families.

Non-performing Assets of Bank Loans to SHGs:

A distinctive feature of SHG-Bank linkage scheme has been the high recovery rate. As micro finance is extended to weaker section without any collateral base, the risk factor is expected to be on the highest ladder of Non-performing assets .An analysis of the available data on NPA in the Managerial Information System reported by total 221 banks to NABARD as on 31st March 2010 shows that the NPAs to total bank loans outstanding against SHGs as on 31st March 2010 stood at 2.94 percent (Rs. 823.04 crores), an increase from 2.90 percent (Rs. 625.87 crores) during 2008-09.

Table 5: Agency-wise NPAs of bank loans to SHGs

Agency	NPAs as on 31st March 2010		
	Outstanding Loans against SHGs	Amount of NPAs	% of NPAs to outstanding bank loans
Commercial Banks (Public Sector)	19724.42	513.53	2.60
Commercial Banks (Private Sector)	440.29	23.93	5.44
RRBs	6144.58	218.53	3.56
Cooperative Banks	1728.99	67.04	3.88
Total	**28038.28**	**822.04**	**2.94**

Source: '*Report on Status of Micro Finance in India' NABARD (various issues)*

An analysis of NPA to total bank loan outstanding as on 31st March 2010 reveals that the overall percentage is around 3 percent out of which public sector commercial banks face a much better position and the private sector commercial banks have the least. This analysis supports the *intra group appraisal systems and prioritization* of SHG scheme. The process oriented scheme has*Healthy Assets quality; their* assets quality is relatively healthier than other financial service players in India mainly because strong group pressure maintains the repayment system intact. The SHG scheme ensures credit discipline through mutual support and peer pressure within the group to ensure that individual members are prudent enough to conduct their financial affairs and are prompt in repaying their loans. Since the groups' own accumulated savings are part and parcel of the aggregate loans made by the groups to their members, peer pressure ensures timely repayments. Failure by an individual member to make timely loan payments will prevent other group members from being able to borrow from banks / Micro Finance institutions in the future; therefore the group will typically make the payment on behalf of a defaulting member or, in the case of willful default, will use peer pressure to encourage the delinquent member to make timely payments, effectively providing an informal joint guarantee on the member's loan.

The scheme is built on the premises that loans made for this purpose have the highest potential of generating additional income and therefore increase the likelihood of repayment of loans. Also, the low income segment is not as exposed to economic downturns and fluctuations because it is relatively insulated from the general economy of the country. This independence, or economic detachment, from the effects of general economic trend allows the members to continue their businesses without interruption, which ensures higher repayment rates. But one concern on this score in recent period .is that there is deterioration in the repayment ethics in a self regulating system. The programme which traditionally used to enjoy recoveries close to 98 percent for more than a decade seem to have suffered due to a change in the surrounding climate, Financial intervention by multiple agencies including Micro finance Institutions on a rigorous manner since 2007 and different conduits opening access to multiplicity of loans, waiver of farm sector loans etc have lured this system too.

Concluding Remarks: The road ahead

India's future success in sustaining growth and expanding opportunities is closely linked to progress in the policy areas to combat poverty so that fruits of development percolate downwards toward establishing a more egalitarian society. One such area of attention is discussed throughout this paper. The data analysis presented in this paper portrays the Indian experience of micro finance as SHG being very influential in the continual reshaping of formal credit extension to the poor. The impact on inequality through the mechanism of financial markets will definitely be more sustainable than the grants and subsidies. The growth of SHG-Bank Linkage scheme over the past two decades proved that there need not always be a trade-off between an outreach scheme and its sustainability. Even the economic crisis has not have an impact on their performance leading to a conclusion that low income group are insulated from business fluctuations. At the same time it is to be borne in mind that SHGs movement is a long process of community intervention. It is a time consuming effort and caution should be exercised in its future growth.

The ability of SHG is limited in relation to mobilization of member deposits, trade in equity, and raising of debt from external sources. Many factors like adequate capacity, time and cost issues related to group formation and skills in financial control and management, information systems, new product design, etc have posed constraints that have held back the outreach and scale of the Self-help Groups over the period. The recent episode on suicide cases of SHG members in Andra Pradesh due to the alleged pressure tactics used by MFI agents for repayment reflects the absence of an enabling legal and regulatory framework and necessitates a policy intervention by apex agencies to design code of conduct recognizing the key factors and the binding constraints on micro credit deployment through formal credit system in India. The RBI has given much freedom for the genuine purpose of the scheme. It has been adopting a wait and watch policy; but given the massive growth in micro credit, now it is considered too immature to deserve total freedom and too matured to need pampering. Problems like explosion of micro credit dispensing institutions, the application of risk transfer devices such as securitisation to micro credit and multiplicity of loans to SHGs from various agencies reflecting on repayment ethics, deviation of loans from productive purposes to consumption needs etc need to be set right. It is inevitable that there is some structured thinking on the institutional framework for micro credit. There has been sufficient time lag in policy intervention and a standard regularized framework is to be designed for SHGs for financial inclusion to be in the right direction. For a sustained growth strong policy framework is to be developed with a clear vision towards short term, as well as medium term milestones.

Towards the end, the future line of action to be concentrated in micro finance sector may be pictured as follows:

· The nature of schemes adopted by SHGs is such that the income generated is not enough for SHGs to come out of poverty trap. It resembles a lackadaisical approach towards SHGs. SHGs must graduate from mere credit providers to promoting micro enterprises by lending to income generating purposes.

· One major area to throw light upon is the geographical spread of micro finance. Having acknowledged the fact that the Linkage scheme is the right set of arrangement in the right direction efforts, should be made to correct the regional imbalance in the spread of SHGs.

· Strengthening the microfinance and self-help sector can, in the short term, serve as a quick way to deliver finance. Hence in order to enhance credit absorption capacity of SHGs the immediate effort is to improve such internal capabilities as training on entrepreneurial development, better financial and accounting management, and marketing abilities apart from skill up gradation related to production and administrative and operational infrastructural development in order to manage the future growth of business.

· The State support in this regard could be directed towards building capabilities by arranging empowerment training programmes for members of Self Help Groups and providing marketing and technological facilities.

· Emphasis is to be given to promote microfinance going hand in hand with efforts to make the formal sector better at "banking the poor," 'Unbanked section of poor is still large and efforts are to be initiated to bring them under empowerment banking.' Technological advancement of banking sector be shared with poor clients. For example, Smart cards linked to the bank branch terminal could be introduced for village clients.

· However the long-term strategy to scale up access to finance for the poor should be to "graduate" microfinance clients to formal finance institutions where they can access standard individual loans, possibly on a fully commercial basis.

To conclude it may be observed as follows:

The Linkage scheme has a long way to go to build a strong business growth with increasing geographical diversity supported by Government initiatives to achieve greater financial inclusion. Shared growth and improved human development outcomes in India cannot be achieved without addressing the special need to expand opportunities to people who are lagging behind. Failure to address these challenges can pose risks to the sustainability of India's overall growth process and can thwart its development prospects. In a nutshell, Noteworthy achievements are made and lot remains to be achieved. Having achieved significant surge in growth over two decades, the main focus has now to turn towards augmenting quality of inclusive growth and both the government and the private sector can play a critical role in this context.

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