

NABARD SHG Bank-Linkage Model: Progress, Challenges & Recommendations

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Abstract: Economic empowerment of citizens particularly women can be replicated into economic empowerment of nation. It has been observed that offering financial services to the poor has benefitted them largely all across the world. Financial services to the economically disadvantaged groups become more influential when they are combined with enhancement of entrepreneurial skills, community development and focus on social issues as well. Keeping this objective in mind government of India launched several initiatives in different forms and phases since independence. Creation of women centric self-help groups, and linking them with banks has been a landmark decision of government touching the lives of 11 crores households today. This paper is an attempt to study the progress of NABARD led SHG movement after the backlash of Andhra Pradesh crisis of 2010 and it also discusses the challenges being faced and suggestion to overcome those challenges.

Keywords — *Financial Inclusion, Microfinance, NABARD (National Bank for Agricultural & Rural Development), Non-Government Organization (NGO), Poverty, Self-help group (SHG),*

I. INTRODUCTION

India is a diverse, vast and unique geography with just 2.4 percent of the total world area but supporting almost 17 percent of the world population, meaning one in every 6 people on the planet, lives in India. Therefore, our problems are also myriad and unique - illiteracy, unemployment, urban - rural divide, dependence on agriculture, lack of access to financial services, limited outreach of financial institutions, are just a few. Over the years, Government of India has taken various initiatives to surmount these multifarious problems. Given that 21.9% population of India is below poverty line [1]. So here all the policies related to poverty removal are always welcomed. There has been many successful women-centric entrepreneurial movement since independence like SEWA (Self-employed Women Association) Bank, LIZZAT Papad and AMUL, where poor women came together and created successful business models. This has definitely paved the way for launch of nation-wide bank supported women-centric SHG movement.

II. BANK -LINKED SHG MOVEMENT: BACKGROUND

Since independence government has been taking all stapes necessary as per the need of the hour to reduce the economic gap that lie among its citizens. The nationalized commercial banks in 1969 and were directed to lend 40% of their loanable funds to the priority sector at a concessional rate. The priority sector included agriculture and other rural activities and the weaker strata of society in

general. The aim was to provide resources to help the poor to attain self-sufficiency. Microfinance is one of the initiatives that was undertaken by government. Today this is proliferating all across India in several forms. Microfinance is an economic development tool with an objective to assist the poor to work their way out of poverty. It covers a range of services which include the provision of credit, savings, insurance, money transfers, counselling and many more [2]. Financial inclusion can play a very vital role in the economic upliftment of the masses. A vast section of the population, especially in rural areas, is excluded from the easy access to finance. Still a large part of rural India is dependent on local moneylenders.

In developing economies like India, the banks work as mobilizers of savings and allocators of credit for production and investment, have a very critical role. As a financial intermediary, the banks contribute to the economic growth of the country by identifying the entrepreneurs with the best chances of successfully initiating new commercial activities and allocating credit to them. Keeping this objective in mind, government launched SHG linkage model after the success of pilot programme in 1992. Since then this movement has grown exponentially. India has its own SHG Bank linked Programme as well as adopted models of delivery of Microfinance. Most crucial among all these models is the SHG-linkage Bank Model because of its significant outreach and impact that it has been able to create in the lives of its members.

Self Help Group is a group of 15-20 people, who come together, save regularly for about six months and then with the help of an NGO or a bank correspondent credit is provided to the group, the loan obtained has a joint liability to the bank. The members of the group decide who will get the amount of loan or how it will be distributed among members. The group is provided the training in Income generating activities as well as book-keeping, Marketing and Packaging of their products and other administrative tasks. In India more than 90% of the SHGs are women only. A humble movement started in 1992 with just 500 SHGs has evolved into the largest microfinance programme in the world, and undoubtedly, it is the main microfinance programme in India. Today more than 11 crore households are associated with over 87 lakh SHGs spread throughout India.

III. OBJECTIVE OF THE STUDY

- To know about the status of SHG led Microfinance Model after the Andhra Pradesh crisis of 2010
- To study the patterns of growth in SHG movement in terms of various significant indicators.
- To analyze the challenges being faced by the members of SHGs
- To recommend the strategies to mitigate the challenges being faced by SHG Bank linkage programme.

IV. MATERIALS AND METHODS

This is a descriptive research paper purely based on secondary data. Data have been found out from different websites (like NABARD, RBI and Ministry of Rural Development), books, research paper and journals. Data has been collected from the period 2011 to 2018.

V. LITERATURE REVIEW

Self Help Groups (SHGs) in India established themselves as credible institutions for financial inclusion, livelihood promotion and social development and cultural changes [3] We cannot deny the fact women are the worst victim when it comes to facing issues like poverty, gender disparity, violence within and outside family. Microfinance programmes target women, reason being credit is economically empowering; increasing women's income, improving gender equality, status within the family, as well as the health, nutrition and educational status of other household members [4] The SHG movements have given way to the mobilization of even the poorest women and be benefited from economic opportunities and to help them manage their own well-being. Microfinance has come to India through different channels (banks, MFIs, NGOs, etc.) and it is growing in India as an instrument to transform the lives of the poor [5]. SHG membership creates capacity and social awareness among poor women and helps in improving the living standard and making an identity for themselves. It led to

institutional development for easy access to credit services and reduced dependency on moneylenders [6]. It is no wonder that Microfinance is counted among a significant movement to counter against poverty, gender discrimination and dependence on local moneylenders. Microfinance has proved to be significantly beneficial for women's economic and social empowerment. SHG movement has certainly helped in economic empowerment of women and made the women aware about the financial choices that they possess [7]. . Although it is not a panacea yet it had the potential for becoming a permanent system of rural lending in the country with full participation from the formal banking system and without any interference from the government [8]. . We have to make sure that without bridging this concept of financial inclusion, (programs like) Skill India, Make in India are not going to take us anywhere, we need to make a very conscious effort, while being conscious that we do not repeat mistakes of past and delve into consumerism that led to Andhra crisis. SHGs, facilitated appropriately by NGOs, has a lot of potential for developing both social and financial capital, promoting harmony within communities despite diverse cultural, social and economic circumstances [9].

More than 90% of the Microfinance clients are women, as they have proved to be more responsible towards group commitment and repayment of loans. It has been observed that in societies where there is gender discrimination are more prone to poverty, illiteracy and economic backwardness. Therefore women are a central focus in SHG movement initiated in India. SHGs are the most contemporary modes for poverty eradication and women empowerment in India. Microfinance helps poor people including women in getting employment, increasing confidence, enhancing communication skills and in other aspects as well. Women gain greater control over resources like material possession, intellectual resources like knowledge, information, ideas and decision making at home, community, society and nation through involvement in these microfinance programs [10]. For a country with limited means and a huge population to support microfinance is being seen as a ray of hope in the darkness of illiteracy, poverty and gender disparity.

VI. SUCCESS STORY OF SHG BANK LINKED PROGRAMMES : RECENT DATA

This movement has risen so significantly in spite of facing some serious concerns, which only reaffirms the faith in the potential that SHG movement possesses. Number of SHGs registered with banks is definitely a strong indicator about the faith of its stakeholders in its potential.

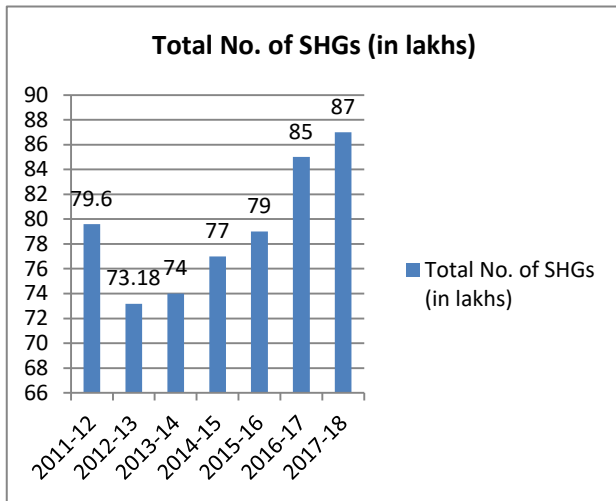


Figure 1: No. of SHGs in previous years

Source- Compiled from Various Reports of NABARD Status of Microfinance in India

This figure indicates towards the number of SHG registered with banks during the year 2011 to 2018. It is apparent from the figure that total number of SHGs are following an

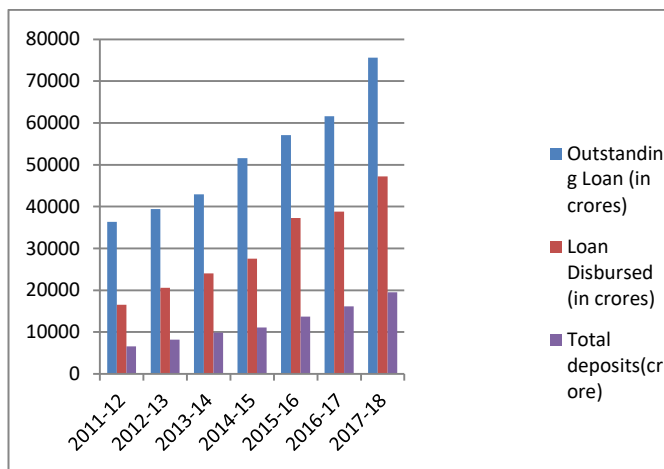
Table 1: Year wise details of SHGs as per banks

increasing trend barring the downfall in 2012-13, growth has been steady and robust. Starting from 500 in 1992, to 80 lakhs SHGs in 2012 is a very big number. But we can clearly see that there has been downfall as well because of certain issues grappling the sector, but sometimes these corrections become compulsory to check misbalanced growth. After 2011-12 around 6 lakhs non-working SHGs closed down. Since then the number are following a increasing trend but growth is modest like in the year 2012-13 to 2013-14 only few thousand SHGs got registered. After 2013-14 the growth is big in numbers like in 2014-15 3 lakhs more SHGs were registered. Most remarkable among these has been the year 2015-16 to 2016-17 around 6 lakhs more SHGs were registered. This was an impressive growth. If we analyze from 2011 to 2018, 8 lakhs more SHGs were registered, around 10% increase in number of SHGs. The number of new SHGs formed is not very much since this sector was already much hyped and facing lots of irregularities, malpractices of MFIs and lack of clearly defined government policies.

Year wise Outstanding Loan, Loan Disbursed and Total Deposits of Overall Banks							
Year	Outstanding Loan (in crores)	Outstanding Loan increase in %	Loan Disbursed (in crores)	Loan Disbursed increase in %	Total deposits(crore)	Increase in %	
1 2011-12	36340	—	16534.77	—	6551.41	—	
2 2012-13	39375.3	8.35	20585.36	24.50	8217.25	25.43	
3 2013-14	42927.52	9.02	24017.36	16.67	9897.42	20.45	
4 2014-15	51545.46	20.08	27582.31	14.84	11059.84	11.74	
5 2015-16	57119.23	10.81	37286.9	35.18	13691.39	23.79	
6 2016-17	61581.3	7.81	38781.16	4.01	16,114	17.69	
7 2017-18	75598.45	22.76	47185.88	21.67	19,500	21.01	

Source- Compiled from Various Reports of 'NABARD Status of Microfinance in India'

Figure 2: Year wise outstanding loan, loan disbursed and total deposits of overall banks



Source- Compiled from Various Reports of 'NABARD Status of Microfinance in India'

From the year 2011-12 to 2013-2014 growth in Loans outstanding is showing a pattern of 8-9% yearly basis, it may be due to a correction phase after the crisis of 2010 and after introduction of Microfinance bill in 2011.in the year 2014 the sector has shown a remarkable growth of 20%. After that in the year 2017 again the sector witnessed growth of 22% in loans outstanding. From the total loan outstanding of 36340 crores in the year 2011-12, till the year 2017-18 the total outstanding loans has reached up to nearly 75,598.45 crores which is more than double in six years. It is a very interesting observation since the number of SHGs has only grown by 10% but outstanding loans in the same period has touched a growth of more than 100%. It clearly points out that existing SHGs were being granted loans and stakeholders are putting their faith on the possibility of the sector.

Loans disbursement to SHGs has touched a new paradigm nearly three times in six years from 16534 crore in 2011-12 to 47185 crore in 2017-18. Another interesting observation

that we can clearly see that in all these years from 2011 to 2017, growth in Loans disbursed is higher than the increase in Loans Outstanding and this clearly indicates towards repayment capability of borrowers. Except the year 2016-17, in all year's growth is in double digit number and this is quite significant. Here also we can analyze that SHGs that were formed earlier are now being distributed loans, because that is the very purpose for which it is formed.

In total deposits with banks also SHGs has shown a growth rate of nearly 300% from 6551 crore in 2011-12 to 19500 crore in 2017-18. In every year starting from 2011 the increase in deposits of SHGs with banks is a double digit percentage increase. The average percent of increase is around 20% while national average of increase in bank deposits over few years is not more than 8-9%. This sector has a lot of potential to finance itself, banks just have to tap the opportunity and also reaffirms the faith that marginalized and financially excluded section also have savings potential provided they have a chance to park their funds.

As it is quite clear from the data shown in table that microfinance movement over the years has been advancing in a positive direction. The Graph and Table of Projected data confirm that we will see a robust growth in the future also.

VII. CHALLENGES BEING FACED BY THE SHG MOVEMENT

Microfinance outreach poses several challenges to all the stakeholders. Poor are bankable, profitable but the same time they are vulnerable too and get trapped very easily in the lure of easy money. Somehow MFIs and NGOs are just focused on the fact that fortune lies at the bottom of the pyramid, giving no regard to social development and hindering the objective for which this movement was started. The sector is currently facing many issues which can be summarized as follows-

1. Lack of Co-ordination or group conflict is rampant across SHGs and it is one of the key reasons hindering the growth of the sector. It has been seen that powerful SHG members try to impose their agenda on other members of SHGs.
2. Rate of Interest charged by banks is also high and restructuring of loans is rarely done in case the borrower is having difficulty in repayment. Loans for working capital is also a rarity in SHGs.
3. Nearly all SHGs face the problem of marketing their products. Lack of awareness regarding branding, packaging and sales promotion diminishes the possibility of a product.
4. Sometimes SHG members borrow from multiple sources owing to various consumption needs. This is a sure recipe for disaster with no chances of recovery of loans.

5. Political interference through panchayat and local leaders to influence the borrowers and asking them not to repay the loans for garnering the votes also impact loan repayments.
6. Regional imbalances in terms of presence of SHG movement also poses the challenge in the growth of the sector.
7. It is very unfortunate that moneylenders still play a dominant role in meeting the credit needs of 50.6% of households in the state and 51% of total credit disbursed [10].

VIII. RECOMMENDATIONS

The following suggestions will definitely help SHGs in a big way-

- Identification of the opportunity lying in the environment for the entrepreneurs or the areas in which they can be trained has to be done in a deliberate manner.
- Timely and adequate availability of loans is a must if the unit has to survive and prosper. Return on investment is low and gestation period may be longer than anticipated. So financiers must keep this in mind while granting loans.
- The connectivity to the market, roads and internet, availability of electricity is also vital in today's world. Sometimes rural areas lag behind in terms of these things and businesses have to close down.
- There is a need to upgrade the skills of members in terms of documentation skills and making them aware about their rights. It can be done through various rural development programmes or integrating the NGOs working for this cause with SHGs.
- Branding, Packaging and Quality maintenance is the core behind selling a product. Proper emphasis should be given so that SHG members do not lag behind in these aspects. Also linking them with any marketing agencies would help them.
- In many cases instead of being used for productive or Income Generating activities, loans are used in consumption activities and it blocks the possibilities of repayments. Also, multiple borrowing should be checked before granting any fresh loans.

IX. CONCLUSION

Of the entire indicators stating the success of SHG model like Loans outstanding (average growth per year 9%), Credit disbursement (average growth per year 20%), and total deposits (average growth per year 22%), we can see a remarkable growth being achieved and new landmarks being created. Started in a very humble way, SHG based microfinance movement has truly evolved. It is wonderful to record the progress how this sector has endured the Andhra Pradesh crisis of 2010 and came out shining brightly. As we can see that number of SHGs are increasing

and year-wise data analysis is also indicating towards more positive momentum. It is the time when government should realize and gear itself for the upcoming challenges as well as opportunities. A high population density coupled with poverty and penetration of technology has resulted into very fast growth of microfinance. But the stakeholders of this industry must realize that not all entrepreneurs turn credit into wealth. The chances of failure are also high with no collateral to pay. The banks, NGOs and Microfinance Institutions should deal with this sensitive issue responsibly.

Nearly 10 million Indians add in the workforce every year, and SHG movement can be significant tool in generation of employment, creation of jobs etc. Keeping in view Government of India's mission for creating digital India. In 2014, for providing the benefits of digitalization to SHG members, NABARD has launched a mission "EShakti" where every information about SHG is uploaded on the website. This will help the government to create a database so that timely benefits of policies and information can reach to the members.

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