PROMOTING RETAIL LENDING THROUGH SHGS-BANK LINKAGES AND ASSISTING FINANCIAL INCLUSION IN INDIA

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Abstract: *SHGs are necessary to overcome exploitation, create confidence for the economic self-reliance of the rural poor. These groups enable them to come together for a common objective and gain strength from each other to deal with exploitation, which they are facing, in several forms. A group becomes the basis for action and change. Significantly, credit is a major factor in boosting economic development if it is effectively utilized. The government's recent initiatives to streamline credit operations and delivery system through micro finance movement and strengthening and expansion of credit institutions can definitely help in the revival of rural economy and empowerment of the rural poor. Entrepreneurship has been considered as the backbone of economic development. It has been well established that the level of economic growth of a region, to a large extent, depends on the level of entrepreneurial activities in the region. Women-owned businesses are playing a more active role in society and the economy, inspiring academics to focus on this interesting phenomenon. Skill up gradation and entrepreneurship has been considered as the backbone of economic development. It has been well established that the level of economic growth of a region, to a large extent, depends on the level of entrepreneurial activities in the region. Against this background, present paper highlights the SHGs bank linkages and financial inclusion in India.*

Keywords *: Self -Help Groups, Financial Inclusion, Retail lending, economic development.*

1. INTRODUCTION:

Self Help Groups (SHGs) emerged as a powerful strategy and an effective approach for building people's organization. This has raised participation levels in the development process which in turn has a direct impact on their own life. The success of Mohamad Younus' Grameen Bank Model in Bangladesh has led to its adoption with some modifications and adaptations to suit local environments by various Governments and NGOs across the globe. The basis of the model is the formation of groups of poor people. These groups are called as Grameen Groups. Micro finance is given to the groups and not to individuals. The group decides on how much is to be given and to whom. This group approach is now used world - wide for the rapid economic development of marginalized and poor. This group approach is originated from the 'social group work' which is one intervention method in social work. In the social group work method desired change in individuals can be brought through the purposeful group interactions (Kanopka , 1983). By applying this principle and organizing the community, problems. Presently such groups are started in various sectors such as agricultural, waste land development, water and sanitation works, natural resources development & management, income generation and self-employment promotion. The approach assures peoples participation in development programs and initiative and their effective sustainable implementation. The users and beneficiaries are motivated and educated through the groups. In India, such groups are usually called as beneficiaries or users groups and they are generally named as Self Help Groups (SHGs).The foundation of self help approach has instilled confidence in every participant. Individuals have a great strength and potential to develop themselves. The hidden potential in the rural poor can be taken out if the right environment is provided by the stakeholders. The reason behind this is that as an individual- the poor are powerless, voiceless, and vulnerable. By bringing them together as homogeneous collectives they develop the strength to help themselves. Self- help process of development helps to build the confidence and capacities of poor so that collectively they get empowered to take responsibility and ownership of their lives and to bring about the necessary changes.

2. LITERATURE REVIEW :

During the recent past, the new types of institutions have been promoted to meet the credit needs of those groups who have been excluded from formal credit markets (Prakash, 2002). SHG's are mostly informal groups whose members have a common perception and impulse towards collective action. These groups promote savings among the members and use, the pooled resources to meet their emergent needs including the consumption needs.

Sometimes, the generated internal savings are supplemented by external resources/loans by NGO's and banking institutions promoting them. SHG's are thus able to provide banking services to their members, which though may not be sophisticated yet are cost effective, simple, flexible, accessible to the members and above all, without any default in the repayments. The linking of SHG's to banks helps to overcoming the problem of high transaction costs to banks in providing credit to the poor, by transferring some banking responsibilities, such as loan appraisal, follow up, recovering etc. to the poor themselves (Satish, 2001). In the rural context, SHG's have facilitated the poor, especially the women to overcome the existing constraints grappling the formal credit institutions. These groups provide considerable social protection and income opportunities to their members. They have sought to explore new ways and alternatives based on value-system, introduce new relationships and take into account the social and economic aspects of collective living and livelihood improvement. Besides, they also help facilitate poor women to overcome the difficulty of providing collateral guarantee to raise the finance to initiate micro-income generating activities. Due to better performance, the SHG's have acquired a prominent status to maximize social and financial returns (Sudan, 2004).

3. SELF HELP GROUPS AND BANK LINKAGE PROGRAMME:

The Indian experience of SHG linkage programme is unique in some respects. RBI and NABARD have tried to promote 'relationship banking' i.e. improving the existing relationship between the poor and bankers with the social intermediation by NGOs. The Indian model is predominantly "linkage model", which draws upon the strengths of various partners – NGOs (who are the best in mobilizing and capacity building of poor) and bankers (whose strength is financing). Thus, as compared to other countries, where "parallel" model of lending to poor (i.e. NGOs acting as financial intermediaries) is predominant, the Indian linkage banking tries to use the existing formal financial network to increase the outreach to the poor while ensuring necessary flexibility of operations for both the bankers and the poor. Thus in a nutshell, the SHG Linkage programme offers a win-win situation for the credit delivery system comprising banks of all types. The SHG Bank Linkage Program has now completed more than 22 years of existence. Though SBLP is a savings led and savings-linked program, the main thrust has been on the provision of microcredit. Over much of this period credit flow under SBLP grew steadily on account of support from the governments, public sector banks and NGOs.

As for the changes in regional distribution, the share of the southern states continued to increase both in number of SHGs covered and the amount of loans disbursed (64 per cent and 86 per cent, respectively) during 2013–14.The position of the western and eastern regions too improved while the share of the northern, north-eastern and central regions experienced a decline during this period. The north-eastern states which reported 50 per cent decline during 2012–13 in the number of SHGs receiving loans recorded a further decline of 36 per cent. The average loan amount disbursed during 2013–14 was about Rs. 175,768 per SHG. It ranged from Rs. 50,783 in the eastern region to Rs. 235,718 in the southern region (Table 1).

Table: 1

Regional Share in Linkage—SHGs with Outstanding Loans

Region	**2011**		**2012**		**2013**		**2014**	
	Groups	**% share**	**Groups**	**% share**	**Groups**	**% share**	**Groups**	**% share**
Northern	149,108	3.1	212,041	4.9	213,955	4.8	183,929	4.4
North-Eastern	150,021	3.1	159,416	3.7	143,660	3.2	124,569	3.0
Eastern	1,105,533	23.1	985,329	22.6	1,020,656	22.9	978,960	23.3
Central	358,872	7.5	352,452	8.1	362,521	8.1	419,834	10.0
Western	316,821	6.6	289,472	6.6	295,451	6.6	269,008	6.4
Southern	2,706,408	56.5	2,355,732	54.1	2,415,191	54.3	2,221,038	52.9
All	**4,786,763**	**100**	**4,354,442**	**100**	**4,451,434**	**100**	**4,197,338**	**100**

Source: NABARD.

The latest data shows a substantial decrease of nearly 6 per cent in the number of SHGs with outstanding bank loans to 4.2 million at the end of March 2014 as compared to the previous year. This follows a small increase of 2 per cent during 2012–13 which to some extent had reversed the decline during 2010–12. The number, however, is far short of the peak level attained with over 4.8 million SHGs as on 31 March 2010. The share of the southern states in SHG loan accounts remained stable at around 53–54 per cent as on March 2014. This suggests the decline in the number of loan clients is a more widespread phenomenon with varying causes across states. This is discussed in further detail in subsequent sections. The volume of fresh loans issued by banks to SHGs during 2013–14 showed a significant growth of nearly 17 per cent to reach Rs. 240.17 billion. This maintains the steady and substantial increase over the years building upon the over 24 per cent increase during 2012–13 (Table 2).

Table: 2

Growth Trends in SHG Bank Linkage Program

Particulars	**2010**	**2011**	**2012**	**2013**	**2014**
No. of SHGs with outstanding bank loans	4,851,356	4,786,763	4,354,442	4,551,434	4,197,338
Of which in southern region	2,582,112	2,706,408	2,355,732	2,415,191	2,221,038
Share of southern region (%)	53	57	54	54	53
Share of SGSY/NRLM/Other govt. programme groups (%)	26	27	28	27	23
Share of women's groups (%)	80	83	84	84	81
Loans disbursed to SHGs during the year (Rs. billion)	144.53	145.48	165.35	205.85	240.17
Average loan disbursed during the year per SHG (Rs.)	91,081	121,625	144,048	168,754	175,768
Total Bank loan outstanding to SHGs (Rs. billion)	280.38	312.21	363.41	393.75	429.27
Average loan outstanding per SHG (Rs.)	57,794	65,224	83,457	88,455	102,273
Incremental groups with o/s loans (million)	0.63	(-)0.06	(-)0.43	0.10	(-)0.25
Incremental loans o/s (Rs. billion)	45.9	33.53	57.22	30.35	35.52
No. of SHGs with savings accounts with banks (million)	6.95	7.46	7.96	7.32	7.42
Total Savings of SHGs with banks (Rs. billion)	61.99	70.16	65.51	82.17	98.97
Average savings of SHGs with banks (Rs.)	8,915	9, 402	8, 230	11,229	13,321

Source: NABARD

The average loan outstanding was Rs. 102,273 as on 31 March 2014 against Rs. 86,511 a year earlier. There was a 19 per cent increase in the number of SHGs getting loans from banks. This increase has been confined to a few states, mainly in the southern region. In other states repeat financing and deepening of loans to credible SHGs is the rule even as the problem of overdue accounts has begun to constrain lending. Despite significant growth (20.4 per cent) in bank savings of SHGs to nearly Rs. 99 billion, the number of savings-linked groups increased only marginally over 2013–14 with a consequent increase in average savings. At 7.42 million the total number of SHGs savings-linked to banks is still lower than that in March 2011. The decline in number of SHGs could partly be explained by better reporting standards adopted by banks by including only operative SHG accounts.

The number of SHGs savings-linked with the banking system has grown steadily from 2007 since when records are available, and had peaked at 7.96 million groups in 2012. The number declined to 7.3 million as at the end of March 2013 before increasing marginally to 7.4 million in March 2014. In keeping with the observed phenomenon of stagnation, the number of SHGs savings-linked to banks has not picked up during the past one year. The total savings amount seems to have picked up momentum again in 2013 after a blip in 2012 to reach Rs. 99 billion in 2014. SHG savings as a proportion of bank loans outstanding to SHGs has been steadily growing (Table 3).

Table: 3

State-wise Performance of SHGs in India

(Rs. Millions)

Name of States	**No. of SHGs**	**Amount of Savings**	**Amount of Loan Disbursed**	**Loan Outstanding per SHG (Rs.)**	**Savings / Per SHG (Rs.)**
Andhra Pradesh	14186760	34996.2	133248.2	187473	2385

Arunachal Pradesh	2588	15.3	10.5	65899	5912
Assam	285327	1129.0	1186.8	59815	3957
Bihar	268721	1646.7	2840.0	47228	6128
Chhattisgarh	111884	1828.4	1117.1	30064	16341
Delhi	2901	66.1	14.4	72936	22770
Gujarat	196510	1687.2	1293.8	47235	8586
Haryana	43029	453.9	306.1	65899	5912
Himachal Pradesh	37634	273.2	370.7	64730	7261
Jammu & Kashmir	873	4.1	8.3	131523	4667
Jharkhand	86386	893.3	346.2	48195	10341
Karnataka	709171	10875.7	29640.2	116129	15336
Kerala	601325	5694.2	10725.5	145372	9470
Madhya Pradesh	157481	1301.0	1420.5	55205	8262
Maharashtra	692274	7480.6	7181.3	64606	10806
Manipur	9039	9.5	9.4	35280	1050
Mizoram	187	0.4	2.0	187473	2385
Nagaland	2437	21.0	27.1	75105	8620
Orissa	517391	4573.4	5048.6	61838	8839
Punjab	23041	228.4	150.9	62257	9913
Rajasthan	257262	1790.7	1946.0	49472	6960
Tamil Nadu	942469	10514.5	31928.1	110249	11156
Uttar Pradesh	379270	4385.9	3448.8	78425	11564
Uttarakhand	37294	390.3	194.3	48099	10466
West Bengal	72695	8140.7	6851.6	46101	13764
Total	**7429500**	**98974.2**	**240173.6**	**102273**	**13322**

Source: NABARD Data, 2015

The average savings per SHG amounted to Rs. 17324 at an all India level as of March, 2016. Average savings per SHG have been on an increasing trend since 2011. Year 2015-16 witnessed an increase of 21 percent in comparison to 2014-15. Average savings had previously witnessed a decline of 12 percent in 2011-12, but in the subsequent year, the decline was arrested and growth restored. The average loan amount disbursed per SHG has been on the increase. It was Rs. 203495 during 2015-16 across India. Average loan amount disbursed per SHG has been maintaining an increasing trend over the corresponding period. On an average, the loan outstanding per SHG as of March, 2016 is Rs. 122242 at an all India level, which is a jump of around 6 percent (Table 4).

Table: 4

Progress of SHGs in India

Year	**Average Saving Per SHG (Rs.)**	**Loan Amount Disbursed to SHGS (Rs. Cr.)**	**Average Bank Loan Amount Disbursed Per SHG (Rs.)**	**Average Per SHG Loan Outstanding (Rs.)**
2009-10	8915	14859	93616	57795
2010-11	9403	14548	121623	65224

2011-12	8230	16535	144046	83455
2012-13	11230	20585	168732	88455
2013-14	13321	24017	175769	102273
2014-15	14367	27582	169608	115361
2015-16	17324	37286	203595	122242

Source: Bharat Micro Finance Report, 2016

World over the focus of microfinance has always been on serving women. Since independence, schemes were being planned and implemented by the Government of India for economic independence of women mainly by exposing them to formal mode of finance through Self Help Groups, Women Self Help Groups and Self Help Group – Bank Linkage Programme and its collaboration with Non Government Organizations. All these efforts have improved women's access to finance in India especially in the rural regions. This is evident from the statistics which shows that women's accessibility to credit has increased from Rs. 7474 crores in 2007-08 to Rs. 24419.75 crores in 2014-15 (Mathew and Kurian , 2016). The improvement in credit savings of women eventually created a huge impact in the inclusion factor of the country.

4. FINANCIAL INCLUSION:

Financial inclusion has got momentum in the recent past in India. In order to promote the accessibility and outreach of banking and financial services to the masses, banking sector reforms have been introduced by RBI besides implementing regulatory framework for financial inclusion. Financial inclusion is closely related with inclusive growth and development as envisaged in 11th Five Year Plan. There has been remarkable progress in the direction of financial inclusion in India however; sharp variations emerged in the accessibility and outreach of financial and banking services across the states and regions of India. A large chunk of population is still out of the gamut of financial and banking services in India and therefore there are daunting challenges to promote financial inclusion and provide banking and financial services to the unbanked population and in backward areas. Globalization is a process through which the diverse world is unified into a single society. The rapid industrial development, opening up of economies and the rapid progress of science and technology has reduced the world into a global village. Though the term Globalization has been used by the economists since 1980's, but the concept became popular only in the latter half of 1980s and 90s. India too is no exception to Globalization. The Indian economy witnessed major changes in the 1990s. The new economic reform was known as Liberalization, Privatization and Globalization. The main aim was the rapid growth of Indian economy and to make it globally competitive. The period of economic transition had major impact on the economic development in all the major sectors. Globalization has offered a number of advantages to the banking sector in India. Remarkably advancements in communication and information technology have facilitated the Globalization of these domestic banks. Apart from the benefits, several risks are also associated with the opportunities made available by the Globalization. In order to fortify the Indian banking sector against the risks involved in supervisory framework need to be adopted. This will help in strengthening the domestic banking system in increasing the outreach, accessibility, transparency, accountability and quality in delivery of services with multiple modes in global banking environment (Mishra and Haque ,2016).

Financial Inclusion has got momentum in the recent past in India. In order to promote the accessibility and outreach of banking and financial services to the masses, banking sector reforms have been introduced by RBI besides implementing regulatory framework for financial inclusion. As per RBI Report (2012), India had over 900 million deposit accounts. Of these, over 770 million accounts were in the names of individual. However, census data (2011) show that only 144 million households have access to banking services, indicating that many have multiple accounts. Prosperous states include Tamil Nadu and Gujarat reported fewer households accessing banking services than the national average while Kerala, Delhi, Uttarakhand and Himachal Pradesh were the better performing states. More than 1.8 crore bank accounts were activated as the government stepped up its financial inclusion efforts on 29th August, 2014, setting a record of the mega programme of Pardhanmantri Jan Dhan Yojana. This is one of the most ambitious financial inclusion programmes undertaken by any government. However, credit is highly skewed towards big cities. Personal loan accounts, the single largest category of credit accounts, outnumber agricultural loan accounts and the vast majority of these accounts are in metropolitan cities. There is also a significant gender gap in banking. Chhattisgarh, West Bengal, Madhya Pradesh, Maharashtra and Gujarat were even worse than the national banking sex ratio, while Delhi and the southern states were better.

5. CONCLUSION:

The SHGS became a regular component of the Indian financial system since 1996. The SHGs are small, informal and homogenous groups. These groups have proved as cyclic agents of development in both the rural and urban areas. The SHGs after being formed started collecting a fixed amount of thrift from each member regularly. After accumulating a reasonable amount of resources, the group started lending to its members for pretty consumption needs. If the bank is satisfied with the group in terms of (i) genuineness of demand for credit, (ii) credit handling capacity of the members, (iii) repayment behavior within the groups and (iv) the accounting system and maintenance of the records, it extends a term loan of smaller amount to the group. Thus, financing SHGs effects quite a few benefits viz, (i) savings mobilized by the poor, (ii) access to required amount of appropriate credit by the poor, (iii) meeting the demand and supply of credit structure and opening of new market for financing institutions, (iv) reduction in transaction cost for both lenders and borrowers, (v) tremendous improvement in recovery, (vi) heralding a new realization of subsidy-less and corruption-less credit, and (vii) remarkable empowerment of rural poor. Thus, SHGs not only contribute to the economic self-reliance of women but also help them to participate in socio-political life by enabling them to play a greater role in the decision making process of the family and the society at large. SHG based micro credit has been promoted by government, international donor agencies, corporate sector and non-government organizations as an effective tool for social empowerment, poverty alleviation and mainstreaming of poor and weaker sections in development process. Micro credit is also proved to be a major source of financing of economic activities, livelihood developments and employment generation for the weaker sections of society. Several programmes, schemes and projects have been implemented for promoting SHG based micro credit in India both in urban and rural areas. It is imperative to study development of micro enterprises through SHGs

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