

## **GROWTH OF MICROFINANCE IN INDIA BELOW SHG- BANK LINKAGE PROGRAMME IN INDIA**

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### **Abstract**

The Indian Microfinance Sector has perceived an incredible evolution over the earlier few years. In India, microfinance is provided majorly through two models-the SHG-Bank Linkage Model (SHG-BLM) and Microfinance Institution (MFI)-Bank Linkage Model. The SHG-BLM established by NABARD is the best generally used model of micro finance in India. National Bank for Agriculture and Rural Development (NABARD) launched the initial phase of the SHG-BLP in February 1992, as per which Self Help Groups (SHGs) were associated to banks for both savings and credit distribution. Since 1992, the programme has grown manifold. Today, the SHG Bank Linkage Programme (SHG-BLP) is the biggest microfinance programme in the world because of its size and the population it touches. In this background the paper attempts to study the progress made under the SHG-Bank Linkage Model in India during the last decade.

**Keywords: Micro Finance, Self-Help Groups, Bank Linkage Programme, NABARD, Development,**

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## **Introduction**

Microfinance concepts have exist since 1904, when the cooperative societies act was passed for ensuring invention credit loans for farmers through primary credit societies. The formation of long term cooperative credit institutions to meet investment needs of farmers started in 1928. The syndicate bank, started in 1921, concentrated on raising micro deposits in the firm of daily or weekly savings and also authorized micro loans for its constituents. With the various priority sector targets under social banking in 1967 and after bank nationalization in 1969, microfinance concepts in banking institutions once again came to the fore. However, in the rural area the money lenders and traders did extend loans at high rates of interest and even for consumption purposes. Under priority sector norms, microfinance was extensive for investment credit purposes but integrated fundamentals of production credit and even expenditure credit. The included Rural Development Programme and the revamped programme named as SwarnajayantiGrameenSwarozgarYojana (SGSY), laid importance on investment credit needs only. But the subsidies and low interest rates ensured that the rural poor did not obtain these loans people which were instead cornered by the better off sections of the rural people. Also, refund rates were poor possibly due to 'rent costs' incurred by the borrowers and poor monitoring and follow-up by bankers. With the NABARD programme on self-help group in 1992, the emphasis shifted to loans without collateral, 100% repayment norms and lending to groups of people who would also provide their saving and control their groups and group loans, thus reducing transaction costs for the borrowers and for the banks. Other innovative concepts were sanctioning of production-cum-consumption loans, unregulated interest rates, weekly or monthly saving and loan repayment.

## **Review of Literature**

Microfinance is accessing economic services in an unofficially proper route in an imitation quick to respond and susceptible manner which otherwise would not have been potential for the official system for provided that such services because of factors like high transaction cost originate from the low scale of procedure high turnover of customers frequency of transaction etc. Microfinance and self-help group must be evolved to see that SHGs do not accuse high rates of interest from their clients and improve access to those who cannot sign by their use through thumb attention.

Qasi, M., (1997) analyzed in his work makes an attempt to study the reasons for the linkage of members of Self-Help Groups in rural development. According to his findings a common bond like caste sub-caste blood community and place of origin or activity linked the members of Self-Help Groups.

Karmakar, K.G., (1998) in his study reviewed the SHGs program in Orissa. He was of the opinion that women can be empowered through SHGs by offering them an opportunity initiate income generating projects and there by assist in raising their family incomes.

Prusty, T., &Chaudhari, A. K., (2011) examined in their Study the present study related to the performing role of the NABARD in rural transformation. The study covers various types of the refinance facilities provided by the NABARD in rural areas in Uttar Pradesh. NABARD provides refinance assistance for the promotion of agriculture small scale industries cottage and village industries handicrafts rural crafts and other allied economic activities in rural areas with a view to promote integrated development for employment and income generation.

Ghosh, M., (2012) in their paper reviews the progress of SHG Bank linkage programme at the national and regional levels and examines its impact on the socio economic conditions of SHG member households.

Vasanth V., (2015) in his study studied Microfinance through SHG is instrument poverty reduction. Micro financing through Self Help Groups has transferred the real economic power in the hands of women and has considerably create a space for gender equality.

Selvaraj A., Balamurugan P (2017) in their study details on the satisfaction level of beneficiaries about the services providing by microfinance institutions in the study area. Beneficiaries were noted other money to these institutions in the manner of annual savings. The findings specify that the maximum of the sample beneficiaries less level satisfaction about the microfinance institutions.

## **Data and Methodology**

The study is a quantitative assessment of the progress made by the SHG-Bank Linkage Model of micro finance in India. The data and information has been collected with the help of research articles, Reports of RBI, NABARD, MFIN, Bharat microfinance etc. The data was collected for the period from 2008-09 to 2017-18

## **Objectives of the Study**

To identify the development of microfinance in India and progress of microfinance institutions, SHG bank linkage program in India and its delivery models.

## **Microfinance Delivery Models in India**

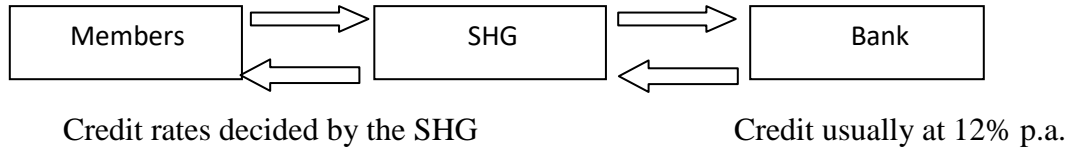
The following are the diversity of delivery models of microfinance in India.

### **SHG-Bank Linkage Model**

The predominant model in the India microfinance context continues to be the SHG linkage model that accounts for nearly 20 million clients. Under this model, self-help promotion institution usually a NGO helps groups of 15-20 individuals through an incubation period after which time they are linked to banks. The SHG had proved their efficacy overtime but they suffer from an insufficient resource base which handicapped their capacity to expand the economic activities of their members. The factors received by the SHG members were the lack of information, time-consuming and expensive procedures for obtaining bank loans, rigid lending policies of the banks in respect of unit costs, unit sizes and group guarantee for loans. There are three linking model in the country.

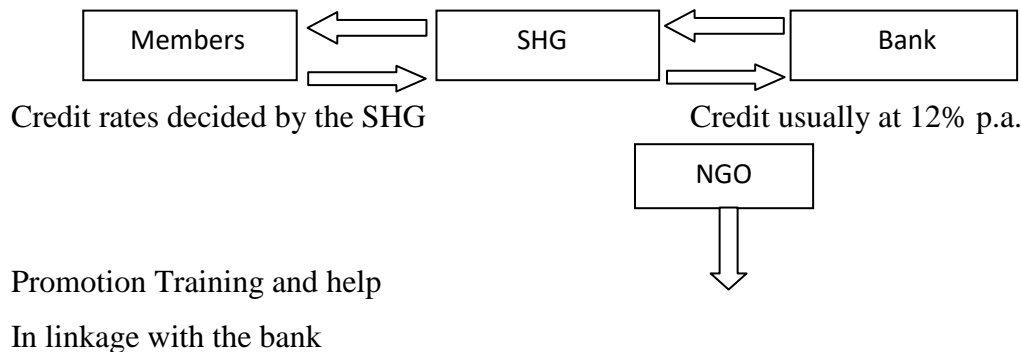
### **Model - I: SHG formed and financed by banks**

Under this model, banks themselves act as self-help promoting institutions i.e. engaged in forming and nurturing the groups, opening their savings accounts and providing them bank loan. Group members act as collateral security. In this model the credit is generally made available to the group and members to be financial are identified by the groups itself, which takes the responsibility of loan repayment. In this model, the banks play dual role of promotion of SHGs and also provider of credit to SHGs.



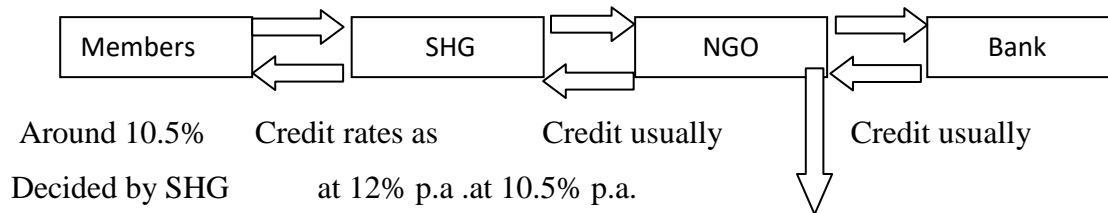
**Model - II: SHGs formed by NGOs and formal agencies, but directly financed by banks**

This model appears to be most popular model amongst bankers. Under this model NGOs and formal agencies in the field of microfinance act as facilitators. They propagate the message, organise groups, and train them in thrift and credit management and nurture them over a period. Banks in due course, link these groups by directly providing loans to them.



**Model - III: SHGs financed by banks using NGOs as financial intermediaries**

In this model, NGOs take on the dual role of facilitators and financial intermediaries. They help in formation of SHGs, nurturing them, training them in thrift and credit management. Eventually the NGOs approach banks for bulk loan assistance for on-lending to these SHGs.



Promotion Training and providing credit support

## Progress of SHG-Bank Linkage Programme in India

Through there are different modes of purveying micro finance, the self-help group bank linkage programme has emerged as the major micro finance programme in the country. It is being implemented by the commercial banks, RRBs and cooperatives banks. The objective of the SHG-Bank Linkage Programme initiated by NABARD in 1992 is to enable formal banking services to provide financial services to the rural poor through the process of saving and credit linkage of SHGs. The growth of SHGs in India over various years is shown in the table 1

**Table 1. Overall Progress under SHG-Bank Linkage Programme since 2007-2018**

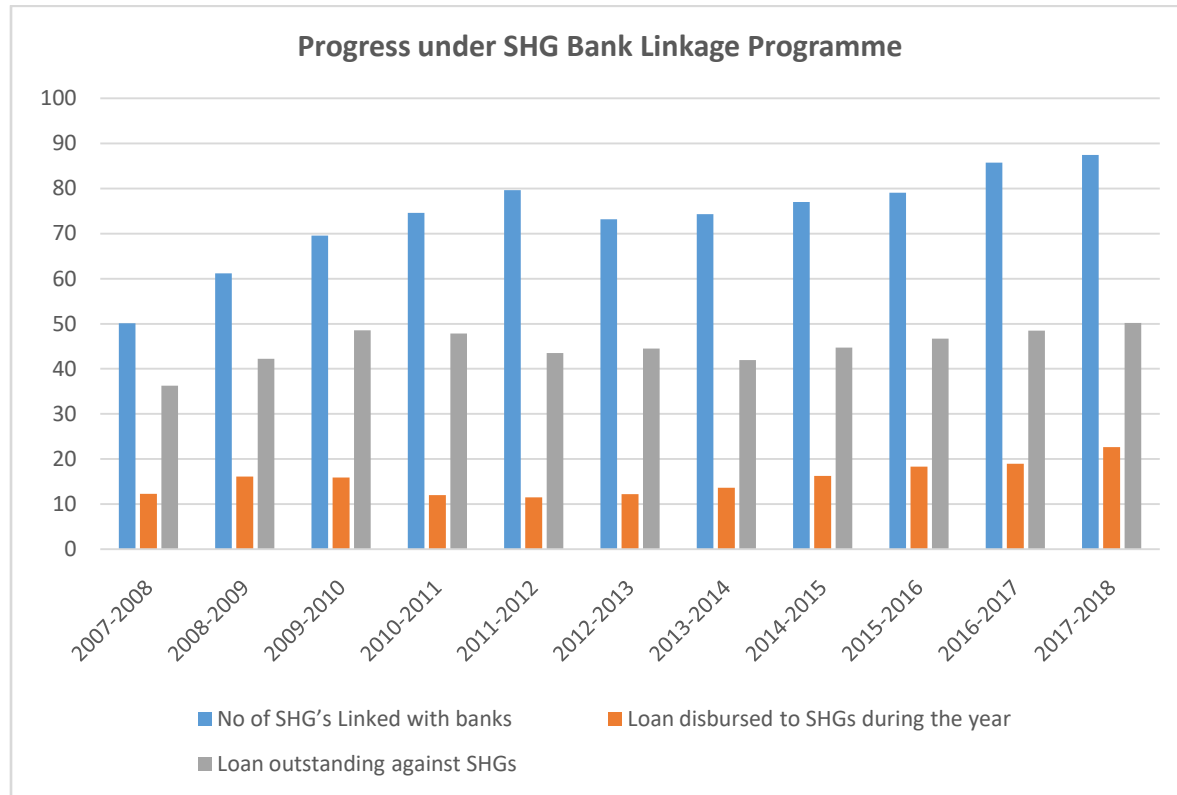
(Numbers in Lakhs/Amount in ₹Crores)

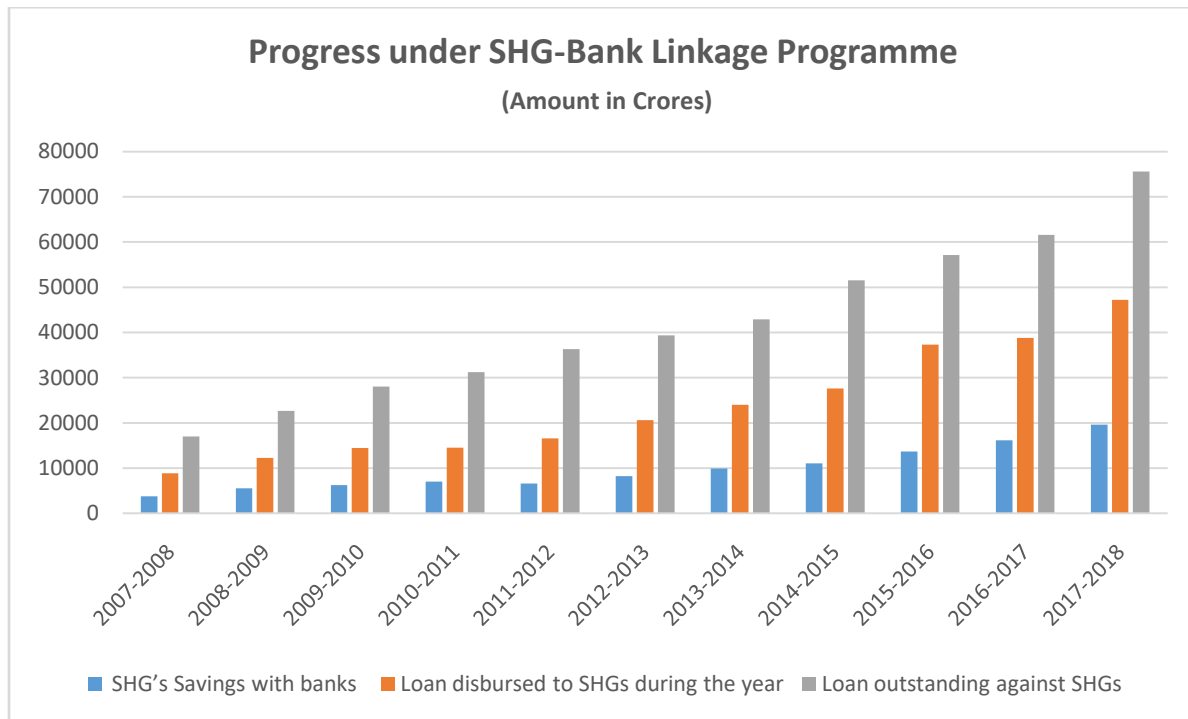
Financial Year		SHG savings with bankers on 31 March	Loan disbursed to SHGs during the year	Loan outstanding against SHGs as on 31 March
2007-2008	No of SHG's Linked	50.10 (20.40%)	12.28 (11.0%)	36.26 (25.3%)
	Amount of Saving	3785.39 (7.76%)	8849.26 (34.7%)	16999.91 (37.5%)
2008-2009	No of SHG's Linked	61.21 (22.2%)	16.10 (31.1%)	42.24 (16.5%)
	Amount of Saving	5545.62 (46.5)	12253.51 (38.5%)	22679.84 (33.4%)
2009-2010	No of SHG's Linked	69.53 (13.6%)	15.87 (-1.4%)	48.51 (14.8%)
	Amount of Saving	6198.71 (11.8%)	14453.3 (17.9%)	28038.28 (23.6%)
2010-2011	No of SHG's Linked	74.62 (7.3%)	11.96 (-24.6%)	47.87 (-1.3%)
	Amount of Saving	7016.30 (13.2%)	14547.73 (0.01%)	31221.17 (11.4%)
2011-2012	No of SHG's Linked	79.60 (6.7%)	11.48 (-4%)	43.54 (-9.0%)
	Amount of Saving	6551.41 (-6.7%)	16534.77 (13.7%)	36340.00 (16.4%)
2012-2013	No of SHG's Linked	73.18(-8.1%)	12.20 (6.3%)	44.51 (2.2%)
	Amount of Saving	8217.25 (25.4%)	20585.36 (24.5%)	39375.30 (8.4%)
2013-2014	No of SHG's Linked	74.30 (1.53%)	13.66 (12.02%)	41.97 (-5.71%)

	Amount of Saving	9897.42 (20.45%)	24017.36(16.67%)	42927.52 (9.02%)
2014-2015	No of SHG's Linked	76.97 (3.59%)	16.26 (19.03%)	44.68 (6.46%)
	Amount of Saving	11059.84 (11.74%)	27582.31 (14.84%)	51545.46 (20.06%)
2015-2016	No of SHG's Linked	79.03 (2.68%)	18.32 (12.67%)	46.73 (4.59%)
	Amount of Saving	13691.39 (23.79%)	37286.90 (35.18%)	57119.23 (10.81%)
2016-2017	No of SHG's Linked	85.77 (8.53%)	18.98 (3.60%)	48.48 (3.74%)
	Amount of Saving	16114.23 (17.69%)	38781.16 (4.01%)	61581.30 (7.81%)
2017-2018	No of SHG's Linked	87.44 (1.95%)	22.61 (19.13%)	50.20 (3.55%)
	Amount of Saving	19592.12 (21.59%)	47185.88 (21.67%)	75598.45 (24.73%)

**Source:** NABARD Publication “Status of Microfinance in India” of various years.

**Figure 1 Progress under SHG Bank Linkage Programme**



**Figure 2 Progress under SHG Bank Linkage Programme**

### MFI - Banks Linkage Programme

Micro Finance Institutions (MFIs) in India are at a cusp where they again have to reinvent themselves. Post Andhra crisis, the Reserve Bank of India issued guidelines for the lending operations of MFIs based on the Malegam Committee recommendations. A new class of financial organizations named as NBFC–MFIs was created subject to satisfying certain conditions regarding the capital to be employed, lending to members, cap on interest to be charged and margin to be retained, etc. As the loans extended to the MFIs by banks qualify for priority sector category subject to fulfilment of similar conditions, other MFIs also strived to follow these guidelines.

RBI's upgraded regulations and guidelines on NBFC-MFIs and inclusion of loans to MFIs by banks under priority sector resulted in phenomenal growth of MFIs during the last five years with a Compound Annual Growth Rate (CAGR) of 25% between December 2012 and December 2016. As per Bharat Microfinance Report 2017, the median Active Borrower per credit officer, (ABCO) in 2017 is 426 which is very high. ABCO measures the number of active borrower



served by a Credit officer. The number is significant as it measures the quality and quantity of time spent by the officer. With low ratio, better service is possible. It will ultimately reduce cost and enable the MFIs to price their products better. Better data analytics will lead to new products and customer segments.

**Table 2. Loans to MFIs by Banks/Financial Institutions**

Financing Agency	Period	Loans Disbursed to MFIs during the year		Loan Outstanding against MFIs	
		No. of MFIs	Amount (crore)	No. of MFIs	Amount (crore)
<b>All Commercial Banks</b>	2008-09	522	3718.93	1762	4977.89
	2009-10	645	8038.61	1407	10095.32
	2010-11	460	7601.02	2153	10646.84
	2011-12	336	4950.98	1684	9810.98
	2012-13	368	7422.66	1769	12467.7
	2013-14	484	9468.83	2197	14307.57
	2014-15	541	13858.64	4445	18720
	2015-16	564	19324.14	1561	22682.85
	2016-17	1430	17091.33	3328	25089.18
	2017-18	641	22133.60	1962	26039.52
<b>Regional Rural Banks</b>	2008-09	59	13.40	153	31.20
	2009-10	46	24.14	103	52.22
	2010-11	9	4.16	23	42.01
	2011-12	113	13.28	128	37.51
	2012-13	14	4.58	153	70.66
	2013-14	16	163.10	124	222
	2014-15	15	47.69	131	1186.62
	2015-16	31	52.42	344	210
	2016-17	13	37.83	250	48.75
	2017-18	13	55.93	358	64.16
<b>Cooperative Banks</b>	2008-09	NA	NA	NA	NA
	2009-10	0	0	3	0.01
	2010-11	NA	NA	NA	NA
	2011-12	4	1.61	19	4.75
	2012-13	3	4	18	6.83
	2013-14	4	4.48	17	7.97
	2014-15	0	0	0	0
	2015-16	3	6.00	17	11.76
	2016-17	834	207.33	1682	261.54
	2017-18	1248	38.70	2653	68.51
	2008-09	NA	NA	NA	NA
	2009-10	88	2665.75	146	3808.20

<b>SIDBI</b>	2010-11	2	843.78	139	3041.77
	2011-12	12	239.42	129	1597.11
	2012-13	41	408.27	102	1880.63
	2013-14	41	646.01	84	1979.90
	2014-15	33	1283.8	86	2593.23
	2015-16	49	1413.01	98	2676
	2016-17	37	1967.90	97	3795.98
	2017-18	20	3287	100	6133
<b>Total by all agencies</b>	2008-09	581	3732.33	1915	5009.09
	2009-10	779	10728.5	1659	13955.75
	2010-11	471	8448.96	2315	13730.62
	2011-12	465	5205.29	1960	11450.35
	2012-13	426	7839.51	2042	14425.84
	2013-14	545	10282.49	2422	16517.43
	2014-15	589	15190.13	4662	22500.46
	2015-16	647	20795.57	2020	25580.84
	2016-17	2314	19304.38	5357	29225.5
	2017-18	1922	25515.23	5073	32305

**Source:** NABARD Publication “Status of Microfinance in India” of various years.

**Table 3. Progress under MFI-Bank Linkage Programme**

year	Loans disbursed by banks to MFIs		Loans outstanding against MFIs	
	No. of MFIs	Amount (crore)	No. of MFIs	Amount (crore)
2008-09	581 (12.2%)	3732.3(89.4%)	1915 (72.7%)	5009.09 (82.2%)
2009-10	779 (34%)	10728.5(187.4%)	1659 (-13.4%)	13955.8 (178.6%)
2010-11	471 (-39.5%)	8448.96 (-21.3%)	2315 (39.5%)	13730.62 (-2%)
2011-12	465(-1.3%)	5205.29 (.38.39%)	1960 (-15.3%)	11450.35 (-16.6%)
2012-13	426 (-8.4%)	7839.5 (50.6%)	2042(4.2%)	14425.84 (26%)
2013-14	545	10282.5 (31.16%)	2422	16517.43 (14.5%)
2014-15	589	15190.13 (47.73%)	4662	22500.46 (36.22%)
2015-16	647	20795.57 (36.9%)	2020	25580.84 (13.69%)
2016-17	2314	19304.38	5357	29225.45
2017-18	1922	25515.23	5073	32305.92

### Refinance to Banks

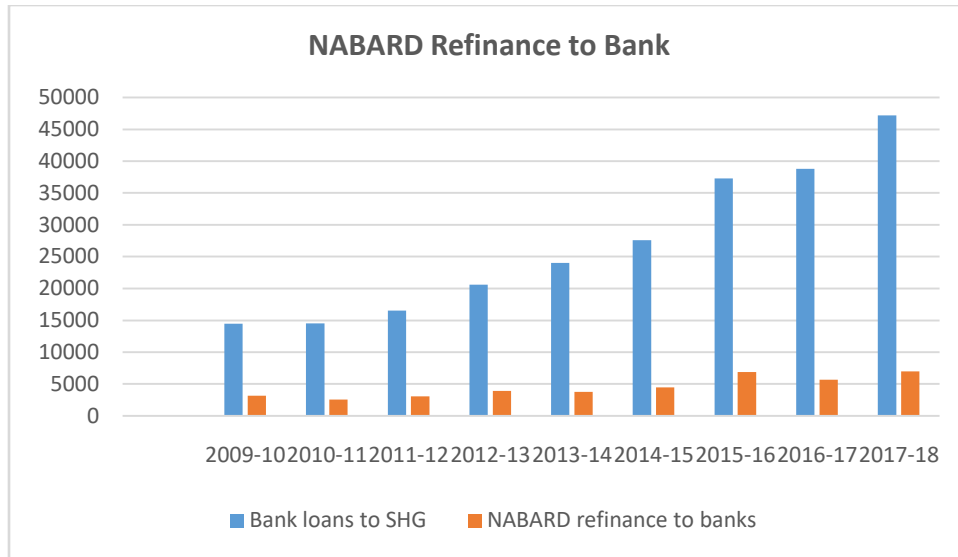
NABARD has been spreading 100% refinance to banks to their providing to SHGs to addition their resources. Total loans allotted by banks to SHGs and the refinance drawn-out by NABARD for such loans is shown in Figure 3. During 2017-18, NABARD extended refinance to the extent of R6981.37 crore under SHG lending, comprising 14.80 % of the total refinance provided to banks for investment credit, as against R5659.51 crore disbursed during the previous year. Cumulative disbursement of refinance by NABARD for SHG lending now stands at R50274.97 crore

**Table-4.4 NABARD Refinance to Banks**

Years	Bank loans to SHG Amount (Crore)	NABARD refinance to banks Amount (Crore)
2009-10	14453.3	3173.56
2010-11	14547.73	2545.36
2011-12	16534.77	3072.59
2012-13	20585.36	3916.64
2013-14	24017.36	3745.84
2014-15	27582.31	4493.67
2015-16	37286.90	6906.03
2016-17	38781.16	565951
2017-18	47185.88	698137

Source: NABARD Report

**Figure 3 NABARD Refinance to Bank**



## Conclusion

SHG -Bank Linkage Programme (SHG-BLP) is the largest microfinance programme in the world because of its size and the population it touches. Another remarkable feature of this programme is that it is also the most widely participated developmental programme in the country and perhaps in the world for the large number of channel partners, grass root workers, Govt agencies and banking outlets involved. This Programme is a strong intervention in economic enablement and financial inclusion for the bottom of the pyramid. A proven platform initially conceived for increasing the outreach of banking services among the poor has since graduated to a programme for promotion of livelihoods and poverty alleviation

MFI model has also gained momentum in the recent past. According to Sa-Dhan's (The Association of Community Development and Microfinance Institutions) Bharat Microfinance Report –2016, the Indian Microfinance Industry is pegged at ₹63,853 crores making it about US\$ 10 billion industry. The industry is beginning to see benefits of scale with reduced interest for borrowers. Micro finance SHGs in India which are classified under informal organizations intentionally or unintentionally help formal banks by increasing the number of accounts by inculcating habits in rural people especially the women.

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