

## **THE STATUS OF MICROFINANCE IN INDIA THROUGH SHG BANK LINKAGE MODEL**

<sup>1</sup>Prof. Ayushi Choudhary, <sup>2</sup>Prof. Gaurangi Munje, <sup>3</sup>Dr. Bina Sarkar

### **Abstract**

The microfinance sector of India has shown a positive growth pattern across the nation due to its growing awareness among the people. Microfinance can be accessed under two models viz SHG-Bank Linkage Programme (SHG-BLP) and Microfinance Institutions. The SHG-BLP was developed by National Agriculture Board for Agriculture and Rural Development abbreviated as NABARD in 1992 which has proved to be the most widely accepted model in India. Credit and saving facilities are extended to SHGs under this model. Presently, the SHG-BLP model is the largest microfinance programme in the world due to its reach to large number of people. In this paper, the researcher endeavors to analyse the progress made during the last ten years under the SHG-BLP in India.

**Keywords:** Microfinance, SHG, NABARD, SHG-BLP, MFI

### **1. INTRODUCTION**

#### **1.1. MICROFINANCE**

The microfinance includes the financial services provided by different organisations both government and non-government such as commercial banks, cooperative houses and NBFI's. The microfinance organisations work under the principle of "overall assistance" like saving facility, credit facility and other services of substantial amount to the poor belonging to rural as well as urban region with the motive of enabling them in raising their living standard.

#### **Microfinance has following characteristics:**

To provide loans to rural poor for their daily working capital requirement.

Collateral free loans. These institutions demand for timely payment of installments and mandatory savings with the banks.

To provide high amount of loans to the members on the basis of loan repayment history.

Microfinance includes financial services and credit to the poor section of the society in both rural and urban areas who are out of reach from the formal financial sector.

According to the report of microcredit summit campaign 2001, women are accessible to financial services through the microfinance institutions, non-banking financial institutions and non-government organizations. These women account to nearly about 73% of 19 million of poor people of the world which are now getting assistance from microfinance institutions.

Most of these aforesaid women are accessible to credit that enable them in promoting investment in the ventures they own and be able to operate it effectively. The vast majority of people have shown good performance in repayment of the amount borrowed by them. The records have proved that the ideas of lending to the poor women is sustainable in the development of the country.

#### **1.2. SELF HELP GROUP**

Self-help group is small group of 10-20 people who come together to form a group for commencing business with some individual and group goals. These self-help groups have a

---

<sup>1</sup> Asst. Professor, Ajeenkya D. Y. Patil University, Charoli, Budruk, Lohegaon, Pune.

<sup>2</sup> Assistant Professor, Dr. Ambedkar Institute of Management Studies and Research, Deeksha Bhoomi, Nagpur.

<sup>3</sup> Asst. Professor, Ajeenkya D. Y. Patil University, Charoli, Budruk, Lohegaon, Pune.

sense of habit in terms of saving, timely payment of instalment and income generation. The origin of self-help group can be traced back from Grameen bank of Bangladesh which was the discovery of Prof. Mohammed Yunus who had completed his study from the University of Chittagong in 1975.

In India, the concept of SHG was originated by NABARD in the year 1986-87 for the need of institutional credit. NABARD took many of the significant steps during the year 1986-87 in the field of microfinance with the aim of extending financial services to the poor who are far away from the reach of formal banking services by building a mechanism of credit delivery. For this, NABARD has introduced a pilot project of bank linkage with self-help groups in 1992-93. From March 1993 to 1994, the number of self-help groups have showed an improvement from 225 to 620 respectively. NABARD has served as a main agency for promoting Self-help Group Bank Linkage Programme in India. It has been playing a significant role in stimulating the programme through formal banks in India. NABARD provides refinance facility to financial institutions at an interest rate of about 6-7 percent per annum. NABARD has also played the role of a facilitator by providing a capacity building and policy environment in India apart from extending financial support for the sake of success of SHG bank linkage programme.

### **1.3. SHG-BANK LINKAGE MODEL (SBLM)**

SHG Bank Linkage Model (SBLM) has been developed to promote microfinance with the assistance of vast network of banking sector. Under this model, the SHGs are credit linked to the banks. The SHG-BLM has been evolved as an idol in terms of savings and loan disbursement. This model is flexible, independent and inculcated a habit of saving and borrowing among the group members as per their needs and requirements. Due to the widespread rural bank branch network, the SHG-BLM has been proved to be one of the suitable tool to serve the poor of rural India. Microfinance movement has been started in India with the introduction of SHG Bank Linkage Programme (SHG-BLP).

The programme uses SHG as a channel between the financial institutions and the poor and the transaction costs are inexpensive for the parties involved. The responsibility of the banks and bank officials, government and non-government organisations is to provide resource to the people who need it and organising them in the formation of self-help groups.

Under this programme, loans are provided to the SHGs under three different models:

**Model I:** SHGs developed and financed by banks

Under this model, banks themselves takes the responsibility of forming the groups, opening their savings accounts and loans disbursement.

**Model II:** SHGs formed by agencies except banks but are directly financed by the banks.

Under this model, some formal agencies and non-government organisations facilitate formation, organisation and serve the groups in the field of microfinance and provide them training for thrift and management of credit.

**Model III:** SHGs financed by banks using other agencies as financial intermediary.

Under this model, non-government organisations take the responsibility of financial intermediation by forming the group. In the areas where the formal banking system face restrictions, NGOs are motivated to form groups and approach the bank for assistance. This method has been generally adopted by most of the NGO's who are in deficiency of loans of huge amount for serving the self-help groups.

## **2. REVIEW OF LITERATURE**

- **Mehar (2007)** in his research work titled "Microfinance through Self Help Group to "Fight against Poverty" concluded that microfinance provided to self-help groups serve the

purpose of alleviating poverty. The findings showed that the microfinance provided to SHG's have shown a positive growth rate but there is a sluggish growth rate seen in empowerment.

- **Swain & Wallentin (2009)** stated that the Self Help Group -Bank Linkage Program of microfinance in India has shown a progress due to its positive trend in economic growth and the belief of success in women empowerment. The results have shown that the impact of microfinance on the group show a sign of significant and higher empowerment.
- **Mansuri (2010)** in his paper stated that the SHG BLP of NABARD has been found to be one of the best approach to reach the poor section. The method of regular repayment has minimised the chance of default in repayment. After 1990 microfinance has achieved pace and now it has been considered as a largest microfinance programme worldwide.
- **Ningshen, P. (2016)** in the study found that before joining SHG, a little above half of the respondents about 52.4 per cent of the respondents were involved in agriculture and allied activities. After joining SHG, the respondents expanded their activities. About one-fourth of them had undertaken various new income generating activities. Most of the women members informed that there was no objection by their husbands for joining the group. They did not even face any criticism from their family members and relatives. Most of them also said that they got much financial independence at home.
- **Santosh (2016)** in his study found that in India microfinance operates under two main streams Self Help Group Bank Linkage Programme and Microfinance institutions. The Self Help Group- Bank Linkage Programme during the last twenty years have reach ed more than ten crore poor households of India.
- **Reddy and Muhammed (2017)** in their study found a new shift in microfinance sector and analysed the impact of financial technology in this sector. They analysed a new trend in the microfinance sector and the impact of policy reforms on self-help group formation. The Government of India and Central Bank has appreciated the role of Microfinance Institutions in providing the service of financial inclusion by introducing Non-Banking Financial Company-Microfinance guidelines and launching of Micro Units Development and Refinance Agency bank scheme due to its easy accessibility and wide range beneficiaries across the nation.
- **Raju Kumar, Gattu (2017)** found in the study that the participation in Self Help Groups increases the livelihood opportunities for the rural poor women in the form of income support to start the Income Generating Activitiy. The study also found that the SHG members in the three districts are not much dependent on informal money lenders rather their source of credit is internal lending among each other. The study also said that tehre are various other schemes that have been introduced by the government to reach the self-help groups but these are not communicated to them in a proper way. So, in this regard the NGOs should come forward and take the responsibility.
- **AMALANATHAN S (2018)** in the thesis have found that Micro credit through Panchayat Level Federations (PLFs) in the state of Tamil Nadu has nullified the role of NGOs in promoting entrepreneurship among rural women because of some NGOs. The government should come forward and join hands with NGOs to provide training to the rural women and the thesis also suggests that the MFIs and Banks need to carefully monitor the credit linked groups especially when the amount are much higher than the average, in order to ensure an excellent recovery performance.
- **Sharma, Khama (2020)** in the study found that 65 percent of respondents have observed a positive change in the behaviour of the family after joining the Self Help groups. A major problem reported is production related issues which includes the non-availability of raw material throughout the year, lack of skills, backward technique of production, disease and dependency on traditional businesses.

- **Kannammal A (2020)** in the thesis concluded that there are many discrepancies from the side of MFIS which leads to backwardness of women community. The following problems with MFIS are improper funding support, inappropriate loan collection methods, systematic credit risk and inadequate donor funding. The study also found that there are some benefits which microfinance has brought in the lives of women in terms of Women are now able to take decisions independently and take part in child programmes. They were also able to generate income to support her family.

### 3. OBJECTIVES

1. To study the progress made by SHGs in terms of savings in previous years
2. To assess the impact of SHG-BLP in loan disbursement to SHG.

### 4. RESEARCH METHODOLOGY

#### 4.1. Source of data

The study is exploratory in nature and based mainly on data collected from secondary sources such as journals, articles, research papers, annual reports of National Bank for Agriculture and Rural Development on microfinance and Sadhan Bharat microfinance reports.

#### 4.2. Statistical methods

The methods that has been used while conducting the research are tabulation method and percentage analysis. The study depicts an assessment of the progress made by the SHG-Bank Linkage Model in India during ten years starting from 2009-10 to 2019-20

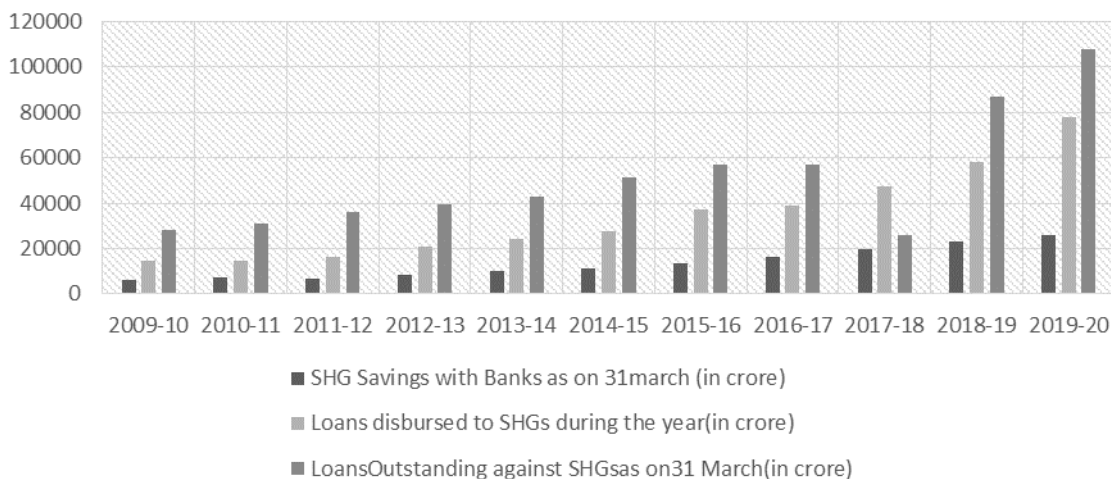
### 5. FINDINGS AND ANALYSIS

Table 1 - Progress of SHG-BLP (2009-10 to 2019-20) , Amount in '000 crore

| Financial year | SHG Savings with Banks as on 31 <sup>st</sup> march (in crore) | Loans disbursed to SHGs during the year(in crore) | Loans outstanding against SHG as on 31 <sup>st</sup> March(in crore) |
|----------------|--|---|--|
| 2009-10        | 6198.71  | 14453.3   | 28038.28   |
| 2010-11        | 7016.30  | 14547.73  | 31221.17   |
| 2011-12        | 6551.41  | 16534.77  | 36340.00   |
| 2012-13        | 8217.25  | 20585.36  | 39375.30   |
| 2013-14        | 9897.42  | 24017.36  | 42927.52   |
| 2014-15        | 11059.84   | 27582.31  | 51545.46   |
| 2015-16        | 13691.39   | 37286.90  | 57119.23   |
| 2016-17        | 16114.23   | 38781.16  | 57119.23   |
| 2017-18        | 19592.12   | 47185.88  | 26152.05   |
| 2018-19        | 23,324.48  | 58,317.63   | 87,098.15  |
| 2019-20        | 26,152.05  | 77,659.35   | 108,075.07   |

Source: NABARD publication "Status of Microfinance in India" of various years

**Progress of SHG-BLP (2009-10 to 2019-20)**  
**Amount in '000 crore**



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

From the figure given above it can be said that there has been a growth rate of SHG savings with the banks shown in these 10 years from the year 2009-10 to 2018-19. In 2009-10 the SHG savings with the banks stands at 6198.71(in crore) and showed a growth of 817.59(in crore) in 2010-11 and showed a decline of 464.89(in crore) in the year 2011-12 and again started to increase till the year 2018-19. The percentage increase in savings is about 276.28% from 2009 to 2019.

The loans disbursed to SHGs showed an upward trend of 43,864.33(in crore) starting from the year 2009 upto the year 2019. The percentage increase is of 303.49%. From the above data, we can conclude that the SHG savings and the loans disbursement to SHGs have been working in the right direction as per the plans formulated.

**6. DISCUSSION, CONCLUSION AND RECOMMENDATIONS**

The above analysis has made it clear that the SHG Bank Linkage Programme has become a largest microfinance programme in the world due to its growing size and the population it reaches. Another important characteristic of this programme is that it also serve as the most widely participated programme of development among the nation and the world due to the presence of huge number of intermediaries, government agencies and banking institutions. The efficiency of microfinance programme through SHG-BLP needs to be improved by arranging workshops, seminars and training which will help them in getting higher income.

**7. REFERENCES**

1. Kannammal A. (2019). A study on the issues and challenges of microfinance institutions and their Performance with respect to rural women self help groups in erode district.
2. *Handle.net*. <https://doi.org/http://hdl.handle.net/10603/302437>
3. Sharma, K. (2017). Microfinance and Rural Women Empowerment a study of Purulia District of West Bengal. *Handle.net*. <https://doi.org/http://hdl.handle.net/10603/316714>
4. Kumar, R. (2017). Empowerment of rural women through SHGS and microfinance a study in north coastal Andhra region of Andhra Pradesh. *Handle.net*. <https://doi.org/http://hdl.handle.net/10603/384478>

5. Harika, K. & Ramakrishna, R. (2017). Trends in Micro Finance with SHG-Bank Linkage Model (SHG-BLM) in India during 2010-11 to 2015-16. IOSR Journal Of Humanities And Social Science (IOSR-JHSS), Volume 22, Issue 11, Ver. 10, p.p 17-28
6. Santosh, K., Subrahmanyam, S. E. V., & Reddy, T. N. (2016). Microfinance–A Holistic Approach towards Financial Inclusion. Imperial Journal of Interdisciplinary Research, 2(9).
7. Ningshen, P. (2016). Management of Microfinance a study on SHGs in Manipur state. Handle.net. <https://doi.org/http://hdl.handle.net/10603/342866>
8. amalanathan s. (2013). Impact of microfinance on rural women through self-help group bank linkage programme sblp and microfinance institutions mfis a comparative study. *handle.net*. <https://doi.org/http://hdl.handle.net/10603/190697>
9. Mansuri, B.B., (2010). Microfinancing through Self-help Groups- A case study of Bank Linkage Programme of NABARD. Asia Pacific Journal of Research in Business Management, Vol.1, Issue 3, December, pp.141150.
10. Mehar, Shibalal (2007). Micro Finance Through Self-Help Groups to Fight Against Poverty. New Delhi: Discovery Publishing House, pp. 18-22.
11. NABARD (2009-10). Status of Microfinance in India, Report.
12. NABARD (2010-11). Status of Microfinance in India, Report.
13. NABARD (2011-12). Status of Microfinance in India, Report.
14. NABARD (2012-13). Status of Microfinance in India, Report.
15. NABARD (2013-14). Status of Microfinance in India, Report.
16. NABARD (2014-15). Status of Microfinance in India, Report.
17. NABARD (2015-16). Status of Microfinance in India, Report.
18. NABARD (2016-17). Status of Microfinance in India, Report.
19. NABARD (2017-18). Status of Microfinance in India, Report.
20. NABARD (2018-19). Status of Microfinance in India, Report.
21. Sadhan. (2017). The Bharat Microfinance Report.
22. Swain, R. B., & Wallentin, F. Y. (2009). Does microfinance empower women? Evidence from self- help groups in India. International review of applied economics.