The SHG-Bank Linkage Programme and Financial Inclusion in India: A Review of the Recent Trends

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Broad based and Inclusive economic development of the country requires, as a prerequisite, broad based and inclusive financial development in the country. Inclusive banking expansion in a country assumes importance in this context since banks enjoy a unique position among financial institutions. The SHG-Bank Linkage programme and the provision of micro-credit through the SHGs in India is an attempt at banking inclusion and inclusive development in the country. A review of the progress of the programme in the country since its inception in 1992-93 to 2015-16 shows its usefulness to the target group of people to whom it is addressed and its popularity among them. The two models highlighted in the micro-finance programme with facus on inclusiveness are a) SHG Bank Linkage Programme, b) MFI Bank Linkage Programme. The paper presents a few comments on the care to be taken to ensure safeguards in the implementation of the programme.

INTRODUCTION:

Meaningful economic development of a country requires that development is broad based and inclusive, which implies that development is diversified sectorally and regionally and that the benefits of economic development go to every section of the society, in the different regions of the country and in the rural as well as the urban sectors of the economy. Hence, inclusive economic development is the basic objective of economic policy in India at present.[1]

However, inclusive economic development is possible only when there is financial inclusion, so that every section of the society derives the benefit of availing the services, financial as well as non-financial, of financial institutions in the country. This is because availability of adequate and timely finance at affordable rates is a necessary condition for undertaking any productive and income yield undertaking, small or large, that gives economic strength

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and security to individuals and households. Different measures are being adopted in India to bring about financial inclusion in the country in recent years. The self-help group- bank linkage programme (SHG-BL programme) is one such measure.

This paper attempts to review the progress of the SHG-BL programme in the country as a tool of financial inclusion and to comment on its nature and implications.

1.1 Meaning of Financial Inclusion:

The people of a country with underdeveloped modern financial institutions depend, traditionally, on the local money lenders, merchants and relatives for their credit needs. This source of finance, though locally available and convenient, has such demerits as usurious rates of interest and their exploiting nature. Hence, Governments have initiated measures at developing the modern financial institutions like commercial banks, and other non-banking financial institutions, whose activities and mode of functioning are well regulated and coordinated by the central bank of the country and whose activities are linked to the modern industrial and commercial sectors of the economy. However, in the initial stages of the growth and expansion of the modern financial sector, large sections of the society, particularly in rural areas, remain outside the purview of the modern financial sector and bringing them into the fold of the modern financial sector requires deliberate initiative at financial inclusion.

Financial inclusion, thus, implies bringing the people of the country into the fold of its modern or formal financial sector so as to enable them to get the services of the modern banking institutions, such as depositing their savings with the banks, borrowing from the banks to meet their credit needs and availing other subsidiary and non-financial services from the banks.

The Reserve Bank of India (RBI) defines Financial Inclusion as "Financial inclusion refers to delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluded from the formal banking channel."[2] It means the "process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated, mainstream institutional players".[3]

1.2 Early Attempts at Financial Inclusion in the Country:

The nationalisation of the fourteen major commercial banks in the country on the 19th of July 1969 and the direction of the branch expansion and branch location policy of the banks and the changes in their lending policy, stressing a more balanced sectoral distribution of bank credit, extension of credit to the economically and socially weaker sections of the society, as directed by the Government in accordance with the socio-economic priorities of Economic Planning, can be regarded as the first deliberate attempt at financial inclusion in the country.[4] Measures were taken during the 1970s and 1980s to extend bank credit at low rates of interest to the agriculturists, non-agricultural people in rural areas, artisans and the poorer and weaker sections of the people in rural and semi-urban areas for undertaking productive self-employment undertakings by organising credit-camps, loan melas as they were popularly called in the country, at different places in the country. Though a good part of the advances made in such credit camps turned out to be unproductive assets to the banks, they nevertheless served the purpose of making the people aware of the availability of bank credit and banking services as an alternative to the money lenders.

1.3 The SHG-Bank Linkage Programme:

The self-help group[5]-bank linkage programme (SBLP) is a more recent step initiated in the country aimed at financial inclusion and providing micro-credit to individuals to undertake micro and small productive undertakings. However, the link between the lending bank and the borrowing individuals is not a direct link, but an indirect one through a self-help group (SHG)[6] of individuals. Hence, the programme is called the SHG-Bank linkage programme.

The programme had its origin in a pilot project launched by the National Bank for agriculture and Rural Development (NABARD) in 1992 to link about 500 SHGs across the country with the banks for extending them financial help. The project is called the self-help group (SHG) – bank linkage programme (SBLP).[7] The usefulness of the programme as a tool of extending micro credit in the country and as a programme of financial inclusion was realised soon and the programme gained momentum since 1999 with the required policy support extended by the NABARD, the Small Industries Development Bank of India (SIDBI), the RBI and the Government.

1.4 An Intermediary Approach:

The programme uses the SHGs as an intermediary between the banks and the ultimate customers of the banks for bringing about financial inclusion in the country and uses micro-credit as an instrument for attaining financial inclusion. The need for such an indirect approach to financial inclusion in the country was found necessary due to

i) the low level of literacy and education of the poor that make them unable to understand the modern banking formalities, practices and procedures;

ii) the inability of the poor people to offer the collateral security needed by banks;

iii) the high cost involved in handling retail loans individually by the banks that make such loans unattractive to them and, therefore, the need to reduce such costs through lending to a group; and

iv) the need to develop banking literacy among the poor people and to educate them on modern banking practices and credit discipline through group interaction and consultation.

1.5 SHG-Bank Linkage Programme and MFI-Bank Linkage Programme

The SHG-Bank Linkage programme being used in the country for promoting inclusive banking has the following three different forms or models:

1. The initiative at forming the self-help groups of individuals is taken by the banks and they nurture these SHGs through finance, advice and guidance;
2. SHGs of individuals are formed by voluntary agencies and non-governmental organisations and these are financed by the banks; and
3. SHGs are financed by the banks through NGOs as intermediaries.

The first emerged as the popular form of the SHG-Bank linkage programme in the country.

Micro-Finance Programme in operated through two broad categories of models in the country a) SHG - Bank Linkage Programme (SBLP) and b) Micro-Finance Institutions - Bank Linkage Programme (MFI-BLP). MFIs have evolved into a vibrant segment of financial sector exhibiting a variety of business models in recent years. While the MFI model reaches micro credit quickly and efficiently to the financially excluded through individuals and SHGs or other groups. The SHG-BLP focuses besides savings and credit, wholesome social and economic justice to the excluded and deprived sections of the society, and the proved itself an invaluable platform for inclusive growth.

At the All India Level at the end of March 2016 loans outstanding for SHGs is Rs.57,119 billion in comparison to Rs.256 billion for MFIs. Loans disbursed for SHGs during 2015-16 is Rs.372.9 billion in comparison to Rs.208 billion for MFIs. MFIs account for 44.8% of outstandings and 55.8% of disbursements of SHGs. The contribution of MFIs for micro-finance delivery is, thus, quite significant. The savings of SHGs at the end of March 2016 is Rs.136.91 billion.

1.6 Progress of the Programme:

Table-I presents data pertaining to the progress of the SHG-Bank linkage programme in the country. The data show that the progress of the scheme was very slow during the initial years from 1992-93 to 1999-00. The cumulative number of SHGs financed/linked by the banks increased from 33 thousand in 1992-93 to 115 thousand in 1999-2000 and the outstanding amount of credit increased from Rs. 57 crore to Rs. 193 crore.

The programme recorded rapid progress since 1999-2000, the cumulative number of SHGs increased from 115 thousand in 1999-2000 to 4,673 thousand in 2015-16 and the outstanding amount of credit extended to the SHGs increased from Rs.193 crore in 1999-2000 to an amount of Rs. 57,119 crore in 2015-16. This is indicative of the usefulness of the programme to the target group[8] of people in the society and its popularity among the groups of people to whom it is addressed.

Table-I. **Progress of the SHG-Bank Linkage Programme in India, 1992-93 to 2015-16**

Year (1)	Total Number of SHGs financed by Banks (in '000) During the Year (2)	Cumulative/ Outstanding Number (3)	Amount of Bank Loan Sanctioned (in Rs.Crore) During the Year (4)	Cumulative/ Outstanding Amount (5)
1992-93	33	33	57	57
1999-00	82	115	136	193
2000-01	149	264	288	481
2001-02	198	461	545	1,026
2002-03	256	717	1,022	2,049
2003-04	362	1,079	1,856	3,904
2004-05	539	1,618	2,994	6,898
2005-06	620	2,239	4,499	11,398
2006-07	1,106	3,345	6,570	17,968
2007-08	1,128	3,626	8,849	17,000
2008-09	1,610	4,224	12,254	22,680
2009-10	1,587	4,851	14,453	28,038

2010-11	1,196	4,781	14,548	31,221
2011-12	1,148	4,354	16,535	36,340
2012-13	1,220	4,451	20,585	39,375
2013-14	1,366	4,197	24,017	42,928
2014-15	1,626	4,468	27,582	51,545
2015-16	1,832	4,673	37,287	57,119

Source: NABARD Micro Credit Innovations Department (2016); Status of Micro Finance in India (2016).

1.7 Growing Banking Habit and Credit Intensity:

It is interesting to note that the amount of credit extended increased at a much higher rate than the rate of increase in the number of SHGs financed. This is indicative of

i) the increasing credit intensity of the projects financed, and

ii) the growing banking habit among the people credit-linked by the banks.

The increasing credit intensity of the projects financed implies that the amount advanced to a project has been increasing in recent years so as to enable the borrowers to undertake a productive venture on a small scale. Unless the amount borrowed is sufficient to undertake a project there is every possibility that the amount borrowed is frittered away on consumption or diverted into other unproductive uses thereby thwarting the very objective of bank credit of enabling the borrower to undertake an income yielding productive venture so as to make him economically self-dependent. Besides, the debt burden that such an unproductive use of bank credit, because of its insufficient size, imposes on the borrower results in the loan becoming a non-performing asset (NPA) for the financing bank with adverse implications to the lending bank and to the economy at large.

The growing banking habit among the people, who are credit linked by the banks, will have a multiplier effect on banking/financial literacy and enlightenment among the people through its demonstration effect on their neighbours and relatives who are yet to be brought within the banking fold and will, thereby, be encouraged to go to the banks for financial assistance instead of going to the money lender. The pace of financial inclusion will thereby be speeded up in the country.

Both the above aspects require that the amount advanced by the banks to a project is sufficiently large as is pointed out by the trend of the data.

A COMMENT:

Having reviewed the progress of the SHG-Bank linkage programme in the country one or two comments on the potential of the programme as a tool of financial inclusion in the country are in order.

1. Financial inclusion is basically aimed at the poorer sections of the society who are outside the ambit of the commercial banks and other formal financial institutions because of
    a. the low level of income of the people that effectively precludes them from the ambit of the banks because of their inability to save and, hence, they do not have the need for the services of the banks as the repositories of savings, and
    b. the low level of literacy that makes it difficult for them to understand the rules and practices of the modern formal banking and other financial institutions and which scares them away from them.
2. Hence, it is essential that banks devise and introduce saving/deposit and loan products/schemes that are addressed at these sections of the society. Small savings and deposit schemes, daily deposit schemes that suit the savings capacity of the poorer sections of the society have to be devised so as to bring such people into the banking net. Simplification of banking formalities and practices is very much required if financial/ banking inclusion of the poor is to be attained. It is in this context that the entrepreneurial role and sagacity of the banks are specially called for and have relevance.
3. The cost of banking services is another relevant and an important point that needs to be addressed. The rate of interest on bank credit, the rates of commissions and fees of banking services have to be low so that the poorer people can afford to pay. The affordability of banking services is an important condition for the success of banking inclusion as is implied in the very definition of financial inclusion presented earlier. One of the criticisms of the micro credit movement in the country implemented through the SHG-Bank linkage programme and through the micro finance institutions is that the rates of interest charged to the members and to the borrowers is high, sometimes going even above 20 percent. This will deter the otherwise willing people from going to the banks and will detract any attempt at financial inclusion. Reduction of the rate of interest is very much needed so as to make the rate of interest affordable to the poor people going in for micro finance.

4. The SHG-Bank linkage program is only an indirect method of bringing the poor people into the banking fold. Real financial inclusion should aim at bringing the poor directly into the fold of the banks and their services so that they gain the banking habit, imbibe financial literacy and financial calculus and avail of banking services as the repositories of their savings and as their financiers in times of need. Such a lasting and direct relationship between the banks and the people is the real test of the success of any attempt at financial inclusion in the country that benefits the individuals as well as the banks and the economy at large.

5. The way of functioning of the SHGs and the insufficiency of the amount of credit extended to the members are also points that detract the poor from joining the movement. A cordial relationship between the SHG and its members has to be developed so as to attract new members to form SHGs and participate in their activities. The amount of credit extended to the members should also be made sufficient for undertaking a productive venture so as to prevent the borrowing members from wasting the borrowed money on uses other than the purpose for which it is borrowed.

CONCLUSION:

The foregoing review of the nature of the SHG-Bank linkage programme and its progress in the country brings out the potential of the programme as a tool of financial/banking inclusion in the country that will have a salutary effect on promoting inclusive economic development in the country. Measures will have to be adopted, however, in order to avoid its shortcomings, as pointed out above, so as to enhance its efficacy as a tool of financial inclusion and inclusive economic development in the country.

MFI-Bank Linkage Programme is another model being pursual extensively in various states which has made significant contribution to this programme with focus on inclusiveness.

NOTES AND REFERENCES

1. It may be noted that inclusive development is not a new objective of economic policy in India. It is only an aspect of 'economic development with social justice', the basic objective of the Second Five Year Plan (1956 - 1961) of the country.

2. The Reserve Bank of India (2007) – Report on Trend and Progress of Banking in India, 2006- 07, P. 27.

3. Chakrabarthy, K.C. (2013)- Financial Inclusion in India- Journey So Far And Way Forward; keynote address delivered at the Finance Inclusion Conclave organised by CNBC TV 18 in New Delhi on September 6, 2013; RBI Monthly Bulletin, October 10, 2013. Chakrabarthy points out Financial Inclusion and Financial Literacy as twin pillars where financial Inclusion acts on the supply side, i.e. for creating access and Financial Literacy acts from the demand side i.e. creating a demand for the financial products and services.

4. It may be recalled that even before the nationalisation of the fourteen major commercial banks in the country in 1969 some private banks in the country had introduced deposit schemes addressed specially at the economically and socially poorer and weaker sections of the society. The South Kanara (now Dakshina Kannada) based Syndicate Bank, head quartered at Manipal (now in Udipi District after the bifurcation of South Kanara district) is the pioneer in this field. The bank had introduced a small savings daily deposit scheme in 1928, called the Pigmy deposit scheme, under which individuals could deposit daily as small an amount as 4 Annas, now twenty-five Paise, originally two Annas, now twelve Paise, in a daily deposit scheme called the Pigmy deposit scheme with a maturity period of seven years. The deposits are collected daily by the agents of the bank at the door steps of the depositors. The depositors can borrow from the bank against the deposit as security after a certain period. See: Thingalaya, N.K. (1968)- The Growth of Syndicate Bank; The Syndicate Bank Ltd., Manipal, P.5. Also Thingalaya, N.K.(1997) - Banking Development in Independent India; Economic Research and Planning Department, Syndicate Bank, Manipal, P. 53. The usefulness and popularity of the scheme made the other South Kanara based banks also to introduce similar schemes.

5. Reserve Bank of India- Report on Trend and Progress of Banking in India, 2007-08. P.196 and 2006-07, P.153.

   "An SHG is a small homogenous affinity group of about 15 to 20 people who join together to address common issues. Voluntary thrift activities are undertaken on a regular basis by the group and these pooled savings are used to make interest bearing loans to the group members. Apart from inculcating the habit of thrift, the SHG activity also imbibes concepts like financial intermediation and handling of resources. Once the group is stabilised , it gets linked to the banks and avails financial services from banks."-Reserve Bank of India- Report on Trend and Progress of Banking in India, 2008-09; P.148

6. Since the scheme involves the granting of small amounts of credit to the members of a self help group the scheme is called the micro credit programme.

   The micro credit programme is, however, much more than the mere provision of small amounts of credit. It involves the provision of noncredit services as well, aimed at improving the living standards of poor people as is clear from the definition of micro finance given by the Reserve Bank as "Micro finance is the provision of thrift, credit and other financial services and products of very small amounts for the poor for enabling them to raise their income levels and improve their living standards".- The Reserve Bank of India – Report on Trend and Progress of Banking in India, 2007-08, P. 196.

7. Reserve Bank of India- Report on Trend and Progress of Banking in India, 2007-08, P.196.

8. The term 'target group' is used to refer to the group of people in society to which the programme is addressed and whose economic conditions which the programme aims to ameliorate.