



SHGs- BANK LINKAGE PROGRAMME AND FINANCIAL INCLUSION – AN ECONOMETRIC ANALYSIS

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Abstract: *Financial inclusion is the delivery of financial services at an affordable cost to the marginalized groups, by providing them with timely and adequate access to the financial products and services and it is also a strategy for eradicating the poverty. Through disbursement of funds by various methods of financial inclusion like self-help groups and microfinance by Banks an attempt has been made by the Govt. to provide women economic independence & self-confidence, as well as achieve more respect in their socially defined roles. Micro financing through Self Help Groups (SHGs) has transferred the real economic power in the hands of women. SHGs represent a unique approach to financial intermediation or micro - credit. Nearly 70 % of Indian population resides in villages and among them 48% are women. SHGs provide micro – loans to women member which helps them to become self-dependent. SHGs play a vital role to improve the socio-economic condition of women folk by developing thrift habit and providing micro finance in times of need and also encouraging micro entrepreneurs. With this backdrop this study going to make an analysis of the strength of SHGs programme to achieve Financial Inclusion and this study highlighted the role of SHGs in financial inclusion with the SHGs- Bank Linkage programme. Thus SHGs help the deprived section of people to enter into formal financial sector and through that social and economic empowerment.*

Key words: *Self Help Groups, Women Empowerment, Micro Finance, Financial Inclusion, NABARD.*

1. INTRODUCTION

Financial Inclusion is “the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players.” (Rangarajan, 2008, The Committee on Financial Inclusion).The ‘National Policy for The Empowerment of Women’ (2000) states that “The women’s movement and a widespread network of NGOs which have strong grassroots presence and deep insight into women’s



concerns have contributed in inspiring initiatives for the empowerment of women.” UNDP has identified two crucial routes as imperative for empowerment. These are social mobilization through agencies and economic security. Financial inclusion through microfinance programs & self-help groups has adopted the same routes for providing women financial & nonfinancial assistance to reduce poverty & gender-bias.

1.1 Self Help Group and Financial Inclusion

The SHGs approach was introduced in 1992 to include the vulnerable groups such as poor people and low income group who were excluded from financial services and informal financial system. The SHG is a group of people belonging to same socio-economic conditions; they are associated for eradication of poverty. These people are often residing in same location. The SHGs make a common fund and open a group’s bank account for doing a small business and to fulfill livelihood requirement of the groups. Women members of SHGs are encouraged to save amount of rupees within range of approximately Rs. 20 to Rs. 100 per month. Non-Government Organizations (NGOs), Regional Rural Banks (RRBs) are playing a vital role in promoting the SHGs in India. The government is monitoring and implementing several wage employment and economic developments such as Mahatma Gandhi National Rural Employment Scheme (MGNRES), Swarnjayanti Gram Swarajgar Yojana (SGSY) through District Rural Development Agencies (DRDA). SGSY was launched by the Union Ministry of Rural Development with effect from April 1, 1999 which was replaced Integrated Rural Development (IRDP) and its allied schemes. The main objectives of SGSY are to cover all aspects of self-employed activities such as SHGs and to provide financial assistance and subsidies to Below Poverty Line (BPL) families. Therefore, SGSY is making very key role in promoting the SHGs for greater access of financial inclusion. A Self-Help Group [SHG] is a small, economically homogeneous and affinity group of 10 to 20 poor persons which comes together to,

- save small amounts regularly
- mutually agree to contribute to a common fund
- meet their emergency needs
- have collective decision making
- resolve conflicts through collective leadership and mutual discussion
- Provide collateral free loans on terms decided by the group at market driven rates.



1.2 SHG-Bank Linkage programme

Limited access to affordable financial services such as savings, loans, remittances and insurance services by the vast majority of the population in the rural areas and unorganized sector is believed to be acting as a constraint to the growth impetus in these sectors. Access to affordable financial services especially credit and insurance enlarges livelihood opportunities and empowers the poor to take charge of their lives.

The SHG-Bank Linkage programme launched by NABARD in 1992 is an important strategy in promoting financial inclusion and inclusive growth. The programme started as a pilot project to finance 500 SHGs across the country has resulted in 34.77 lakh SHGs being credit linked by March 2008. Further, the programme has enabled an estimated 409.5 lakh poor households to gain access to microfinance from the formal banking system as on 31 March 2007. Studies conducted by various experts show that the programme has indeed helped in the social and economic empowerment of rural folk, especially women, causing significant up-scaling of social capital while at the same time delivering crucial financial services. Thus, it has proved to be a successful model wherein the outreach has expanded substantially leading to many advantages like micro savings, timely repayment of loans, reduction in transaction costs to SHG members and banks, etc.

2. OBJECTIVES

- To know the trends and progress of SHG Bank Linkage Programme in India.
- To study the performance of Banks in SHGs Lending.
- To analyze the saving behavior of SHGs.
- To examine the impact of SHGs on financial inclusion.

3. HYPOTHESES

- There is a significant difference in savings growth by SHGs among various Banks.
- Disbursed amount to SHGs, number of SHGs saving linked and number of SHGs credit linked are positively and significantly determine the financial inclusion.

4. METHODOLOGY

The present study made use of the secondary data from the Planning Commission Reports, NABARD annual reports, census of India, report on crisis inclusix and State of the Sector Report 2013 (Microfinance India). The data collected for the research are analyzed with the help of simple statistical techniques such as AGR, CAGR, percentage and graphs to come to



meaningful conclusions. Multiple Regression analysis and ANOVA test has been used to test the hypotheses.

5. TRENDS AND PROGRESS OF SHG BANK LINKAGE PROGRAMME

The SHG – Bank linkage programme, referred to as the Indian Microfinance Model began formally in 1992 with a set of guidelines passed by NABARD and RBI enabling commercial banks to lend to SHGs. Self Help Groups have evolved both as a viable alternative and a supplement to existing credit facilities. These are small, voluntary, economically homogeneous groups of women who share a single aim: they put savings into a common fund, which operate like mini banks, loaning money to group members at low interest rates following unanimous group decisions. Each group has a formal account with the bank and they appoint their representatives to manage the accounts.

Table: 1 Growth & Trends in SHG Bank Linkage Programme

Particulars	2009	2010	2011	2012	2013
No.of SHGs with outstanding bank loans	4224338	4851356	4786763	4354442	4451434
of which in southern region	2283992	2582112	2706408	2355732	2415191
Share of southern region (%)	54	53	57	54	54
Loans disbursed to SHGs during the year (rs billion)	122.54	144.53	145.48	165.35	205.85
Average loan disbursed during the year per group (rs)	76131	91081	121625	144048	168754
Total bank loan outstanding to SHGs (rs billion)	226.79	280.38	312.21	363.41	393.75
Average loan outstanding per SHG (rs)	53687	57794	65224	83457	88455
Incremental groups with outstanding loans (million)	0.6	0.63	(-)0.06	(-)0.43	0.096
Incremental loans outstanding (billion)	56.77	45.9	33.53	57.22	30.35
No. of SHGs with savings accounts with banks (million)	6.12	6.95	7.46	7.96	7.32
Total savings of SHGs with banks (rs billion)	55.46	61.99	70.16	65.51	82.17
Average savings of SHGs with banks (rs)	9060	8915	9402	8230	11229

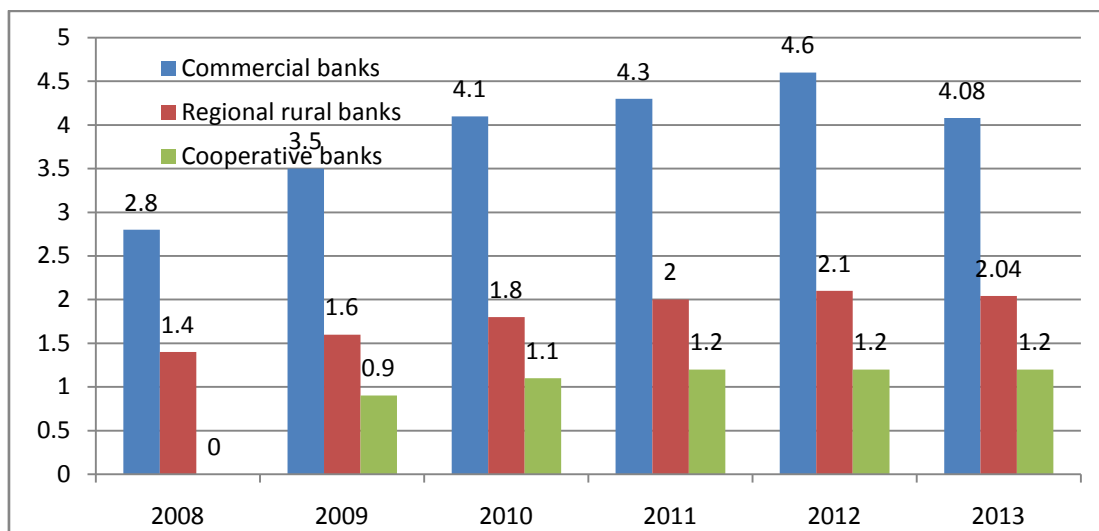
Source: State of the Sector Report 2013 on micro finance.

The progress of SBLP since 2009 is given in table 1. It shows a small increase of 2.22 % in the number of SHGs with outstanding bank loans on 2013 as compared to a year earlier. But this was declined during 2011–12 by 9.92%. However, the number is reached the peak level with 4.8 million loan clients in 2010. The share of the southern states in SHG loan accounts remained stable at about 54 per cent in 2012 and 2013. The loans issued by banks to SHGs



during 2012–13 showed a significant growth of 24.49% to reach 205.85 billion. The average loan outstanding was 88,455 in 2013 as against 83,457 a year earlier. Despite significant growth (25.4 per cent) in bank savings of SHGs, the number of savings-linked groups declined between 2012 and 2013, with a consequent increase in average savings. The decline in number of SHGs is explained by the adoption of better reporting standards by banks, such as counting only operative SHG accounts.

Figure: 1 Number of SHGs holding savings accounts: 2008–13(in millions)



Source: Compiled from State of the Sector Report 2013 on micro finance.

As the above figure 1 shows that from 2008 to 2012 there was an increasing tendency in the number of accounts opened by SHGs among various banks. But after 2012 there was a declining trend in the number of accounts opened by SHGs. Because after the 2012 there are number of other programmes has gained more importance than SHGs. Further the percentage share of commercial banks was very high than others.

Table: 2 Results of ANOVA test to show the difference in Savings growth by SHGs among various Banks

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2559.229	2	1279.615	23.331	.000
Within Groups	822.702	15	54.847		
Total	3381.931	17			

The above table 2 tells about the ANOVA test results, to test the significant difference in the savings growth by SHGs among various Banks. Since the probability value is 0.000, the result is statistically significant at 1% level of significance. It means that there are significant



differences in the savings growth by SHGs among Commercial banks, Cooperative banks and RRBs in India.

Table: 3 Loan outstanding and disbursed amounts to SHGs

States	Loan outstanding (rs billion)		Disbursements (rs billion)		
	2012	2013	2012	2013	AGR
Andhra Pradesh	153.42	174.81	81.71	111.64	36.62954
Tamil Nadu	46.39	50.4	19.33	29.16	50.8536
Karnataka	34.7	32.94	16.29	22.99	41.12953
Uttar Pradesh	20.32	19.57	4.45	4.51	1.348315
Kerala	17.79	16.78	8.54	8.99	5.269321
Odisha	16.53	17.97	5.41	4.73	-12.5693
West Bengal	15.7	24.24	5.51	5.14	-6.71506
Maharashtra	11.63	12.29	6.02	5.78	-3.98671
Bihar	10.41	9.32	3.99	2.22	-44.3609
Madhya Pradesh	4.14	4.44	0.95	1.37	44.21053

Source: Calculated and compiled from State of the Sector Report 2013 on micro finance.

The table 3 tells that if we consider the amount of loan outstanding from banks to SHGs as 2013 as compared to a year earlier a mixed picture emerges. While loan outstanding has gone up in several states including Andhra Pradesh, Tamil Nadu, West Bengal and Odisha, it has virtually stagnated or declined in the other states. The volume of loans disbursed by banks during 2013 has increased significantly over the previous year in the leading states of Andhra Pradesh, Tamil Nadu, Madhya Pradesh and Karnataka by 37 %, 51 %, 44 % and 41 %, respectively, while stagnating or declining in the other states. Particularly remarkable is the decline by 44 % in the disbursements to SHGs in Bihar.

Table: 4 Loan amount outstanding to SHGs with various agencies (Billions)

year	Commercial banks	RRBs	Cooperative banks	Total	AGR
2008	101.92	38.7	7.47	148.09	-
2009	164.64	42.03	8.94	215.61	45.5939
2010	201.65	61.45	17.29	280.39	30.04499
2011	218.83	74.3	19.08	312.21	11.34848
2012	258.1	86.14	19.16	363.4	16.39602
2013	266.39	105.21	22.15	393.75	8.351679
CAGR		0.216			

Source: Calculated and compiled from State of the Sector Report 2013 on micro finance.

The above table 4 revealed that the loan outstanding by banks to SHGs was 393.75 billion in 2013. Out of this, 266.39 billion was accounted for by commercial banks, 105.21 billion by RRBs and 22.15 billion by cooperative banks, representing 68 %, 27 % and 5 % of total



respectively. As the AGR reveals there was declining tendency in the amount over the six years with the 21% of CAGR.

Table: 5 Determinants of Financial Inclusion

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Adj R-squ
	B	Std. Error	Beta			
1	(Constant)	38.487	3.508		10.972	.000
	disbursed amount	.320	.000	1.588	2.570	.017
	saving link	3.75E-05	.000	.890	2.051	.051
	creditlink	.270	.000	-2.017	-2.385	.025

a. Dependent Variable: Financial Inclusion

The above table 5 shows the regression results of determinants of financial inclusion. Disbursed amount to SHGs, number of SHGs saving linked and number of SHGs credit linked are positively and significantly associated with financial inclusion implying that higher the Disbursed amount to SHGs, number of SHGs saving linked and number of SHGs credit linked, higher will be the financial inclusion. The $adjR^2$ is 0.43 which means that 43% of the variation in the financial inclusion explained by the Disbursed amount to SHGs, number of SHGs saving linked and number of SHGs credit linked.

6. CONCLUSION AND POLICY SUGGESTIONS

The overall conclusion emerging from the analysis of the SHGs- Bank Linkage Programme and Financial Inclusion is that, SHGs are playing a very big role in achieving the aim of financial inclusion.

The analysis showed that there was an increasing trend for SHGs, because till 2011-12 the number of SHGs, loan outstanding and disbursed to SHGs, Savings accounts and amount by SHGs have a significant growth. But after 2011-12 the decline in number of SHGs is explained by the adoption of better reporting standards by banks, such as counting only operative SHG accounts. In the total number of SHGs in India, around 55% of SHGs are located in southern region only and at the same time the financial inclusion is also very high in the southern region. It clearly tells us that the establishment SHGs leads to high financial inclusion. The number of savings accounts opened by SHGs among various banks the percentage share of commercial banks was very high. Further, there are significant



differences in the savings growth by SHGs among Commercial banks, Cooperative banks and RRBs in India.

The amount of loan outstanding from banks to SHGs as 2013 as compared to a 2012 a mixed picture emerges. While loan outstanding has gone up in several states including Andhra Pradesh, Tamil Nadu, West Bengal and Odisha, it has virtually stagnated or declined in the other states. The commercial Banks share was 68% in the loan outstanding by banks to SHGs in 2013; it shows that commercial Banks playing significant role in the success of financial inclusion. As the regression results revealed Disbursed amount to SHGs, number of SHGs saving linked and number of SHGs credit linked are positively and significantly associated with financial inclusion. So, the policy makers should give more importance to these variables to achieve the aim of financial inclusion.

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