

## **SHG-Bank Linkage Programme & Trend of Its Effective Intervention in Economic Upliftment**

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**Abstract:** *This paper has referred to research done over the years and tries to study the trend of average amount of loan disbursed to SHGs, amount of bank loans outstanding and its associated gross NPA from 2015 to 2020, agent-wise. Microfinance programmes like the Self-Help Group Bank Linkage Program in India have been increasingly promoted for their positive economic impact and the belief that they empower women. They are playing vital role in the inclusive growth of economy of India. There are many published works that provides insights into the success of this model. Moving from the concept of savings and credit, the Government aims to achieve universal mobilization of women and other common interest groups into SHGs and support for improved livelihoods at a time when several new opportunities for entrepreneurship and livelihoods are coming up under other schemes of the Government. The group-based micro finance approach of SHGs is expected to contribute to poverty eradication, empowerment of SHG members, awareness amongst members about issues related to health, education, nutrition, social development etc. and to asset building. Thus, the group movement is advantageous for the individual group members as well as their respective families. This paper also focuses on the no. of SHGs and the estimated no. of families covered in the past five years.*

**Keywords:** *Microfinance, Self Help Groups, Loan Disbursed, Loan Outstanding, NPA, Financial Inclusion.*

**JEL Classification:** *G21, G23, G29...*

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### **I. Introduction**

The revolution in microfinance has created a development paradigm shift. This paradigm shift favours the use of microfinance as an important ingredient in improving the welfare of the poor particularly in developing countries. This has come about as a result of: (1) call by the 1997 Microfinance Summit for mobilization of US\$20 billion over a 10-year period to support microfinance; (2) The proclamation of 2005 by United Nations as the “Year of Micro-credit”; and (3) the ultimate award of a Nobel Peace Prize to a universally acclaimed founder of modern microfinance, Prof. Muhamad Yunus and Grameen Bank which he founded in 1970. These milestones in the history of microfinance, can be said to have partially propelled the boom in microfinance area. In early 1980s, National Bank for Agriculture and Rural Development (NABARD) started promoting SHGs in rural areas on a large scale. The concept was soon introduced in urban areas and has been promoted thereafter through several government schemes. Moving from the concept of savings and credit, the government aims to achieve universal mobilization of women and other common interest groups into SHGs and support for improved livelihoods at a time when several new opportunities for entrepreneurship and livelihoods are coming up under other schemes of the government. The group-based micro finance approach of SHGs is expected to contribute to poverty eradication, empowerment of SHG members, awareness amongst members about issues related to health, education, nutrition, social development etc. and to asset building. Thus, the group movement is advantageous for the individual group members as well as their respective families. It is also expected that SHG members will take a leadership role in framing their economic problems, in identifying/ scaling up and managing their economic activities and become successful producers of valuable goods/ services. This model of SHG movement is popularly known in India as the “SHG-Bank Linkage Model” (Shetty, 2017).

NABARD provides capital support to various MFIs which in turn provides financial assistance to SHGs. Banks provide financial services to SHGs directly or indirectly through NGOs and other agencies. Three models have emerged in SHG-Bank Linkage Programme (SBLP):

- (i) SHGs are formed, financed and promoted by banks; the bank itself acts as a Self-Help Group Promoting Institution (SHPI) (Model 1);

- (ii) SHGs are formed by formal agencies like NGOs and others (other than banks) but directly financed by banks (Model 2); and
- (iii) SHGs are promoted by NGOs but financed by banks through NGOs and other agencies as financial intermediaries (Model 3).

The second model, where SHGs are formed and nurtured by NGOs, has emerged as most popular among the bankers. The need for an alternative credit delivery mechanism in the form of SBLP was felt because despite the phenomenal expansion of the organised banking system, a very large number of the poor continued to remain excluded from the formal banking system (Ghosh, 2012). SBLP was evolved as a strategy of 'Financial Inclusion' of poor households by extending outreach, making available to them formal financial services including both savings and credit in a sustainable and cost-effective manner. It involves setting up of small, cohesive, participative and homogeneous groups of poor people encouraging them to pool their savings, which can be lent out to group members for meeting their credit needs, either for consumption or income generating activities on mutually agreed upon maturity term, interest rate and other conditions.

SBLP was an attempt to bring the unbanked poor into the formal banking system and to inculcate among the poor the thrift and credit habits, a natural corollary is for the group members to graduate into seeking more and better livelihood opportunities with access to credit (Nandal & Hooda, 2015). It has grown at a tremendous pace and emerged as the most prominent means of delivering micro-finance services. We will examine this forging bridge between the financially deprived and the formal financial services in India.

Recognizing the importance of financial inclusion in overall economic development of people, the banking sector has been proactive in expanding microfinance through expansion of savings and credit linkage of SHGs. Commercial Banks by virtue of their vast network took the lead in SHG-BLP. More than half (54.7 lakh, 53.4 per cent) of the SHGs in the country maintain their savings account with the Commercial Banks. On the other hand, 32.6 Lakh (31.8 per cent) SHGs maintain their savings bank account with RRBs. The cooperatives continued with their subdued performance under SHG-BLP with 14.7 per cent SHGs and 10.2 per cent of savings outstanding. Bank-wise status of outstanding, disbursement and NPAs occurred of SHGs from 2015 to 2020 is given in the tables below.

## **II. Literature Review**

SHG– Bank Linkage programme had proved its efficiency as a main stream programme for Banking and emerged as one of the need-based policies to cater the neglected groups of society such as woman, poor and deprived sections of rural areas. The beautiful advantages of the programme are on time repayment of loans to banks, reduction in transaction cost to the poor and to the banks, door-step savings and credit facilities to the poor and exploitation of the untapped business potential in rural India. The government of India and State governments should formulate and redefine their strategies and policies such a way to stress on extensive awareness campaign, skill development and training programmes, co-ordination between banks and SHGs, effective flow of credit need for strong follow– up in those states where it is yet at nascent stage (*Nagaraju & Sreekrishna, 2017*).

SHG movement among the rural poor in different parts of the country is emerging as a very reliable and efficient mode for technology transfer. SHG is agreed to be one of the effective means of empowerment of women to facilitate rural development, building solidarity and socio-economic betterment of the poor (*Pradeep & Rakshitha, 2016*).

Banking institutions play a significant role in the economic development of a country. There are certain issues of concern that affect their performance and efficiency. One of the major issues is the credit risk involved in the banking sector. According to the Narasimhan Committee, Non-Performing Assets (NPAs) are considered as one of the important indicators of profitability and efficiency of any bank. Lesser NPAs indicate a better position of a bank in terms of solvency. More NPAs lead to less profit because of non-repayment of interest and principal amount of loan by the creditors, thereby effecting the overall profitability of a bank. Under the SBLP, SHGs are linked to a bank where these groups are provided financial services for the benefits of their members. Credit disbursed to a SHG under this scheme is without collaterals. The credit disbursed under this scheme increases the risk for the banks (*Arora & Singh, 2015*).

### **III. Objectives**

- To examine the trend of loan outstanding of SHGs from 2015-2020.
- To examine the trend of loan disbursement to SHGs from 2015-2020.
- To examine the trend of NPA of SHGs from 2015-2020.
- To examine the trend of estimated number of families covered from 2015-2020.
- To examine the current scenario of SHG-BLP model in India.

### **IV. Methodology**

The secondary literature is drawn in house, which consists of reports from Ministry of Rural Development and NABARD. This paper is basically descriptive and analytical in nature, prepared with the help of secondary sources, consisting of exploration of already existing literatures from various research journals, articles and authorized websites. The information from survey of various literatures, thus, is collected and compiled, in both tabular and diagrammatic representation, for overall understanding. The literature is cross checked and validated to give the latest information.

### **V. Estimated Coverage**

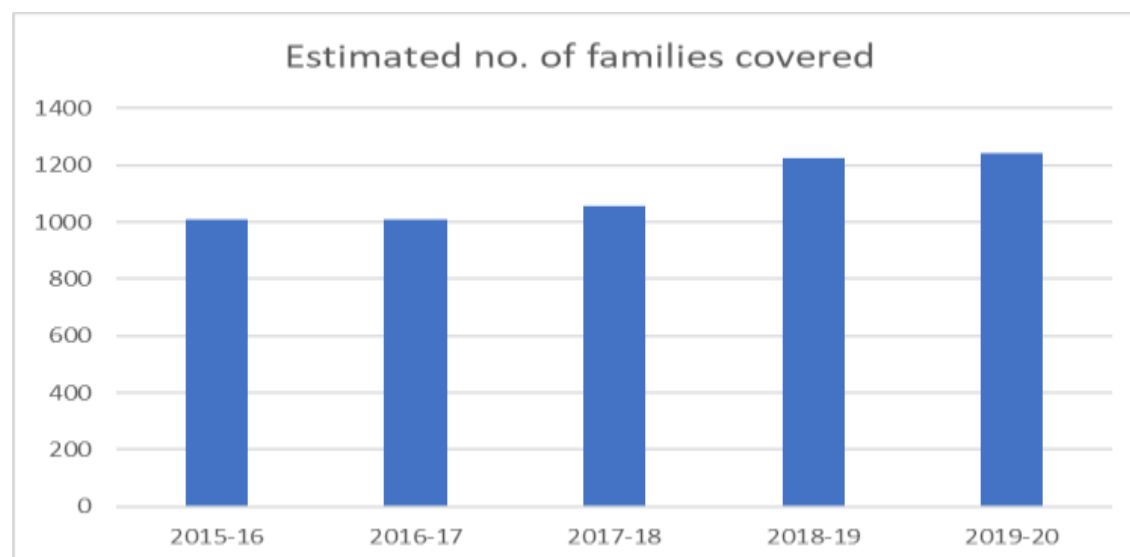
Not much of the glaring differences is seen in terms of estimated no. of families covered by SHGs in the last five years. It has, somewhat shown a rising trend.

Table 1: Estimated no. of families (in lakh) covered from 2015-16 to 2019-20:

<b>Year</b>	<b>Estimated no. of families covered</b>
2015-16	1010
2016-17	1010
2017-18	1055
2018-19	1224
2019-20	1241

Source: NABARD

**Fig. 1: Estimated no. of families covered from 2015-16 to 2019-20**



### **VI. Loan Disbursement**

Commercial Banks have a robust share in the credit flow to SHGs with disbursement of Rs 48,431 crore to 17.9 lakh SHGs. In 2020, loan disbursement by Commercial Banks increased from Rs 34,492 crore to Rs 48,431 crore registering a growth of 40.4% and an increase of 18.7% of SHGs as compared to the year 2018-19. RRBs have registered a considerable jump from 30.78 lakh to 32.61 lakh of SHGs registering a growth of 5.9% in number of SHGs and 23.93% in quantum of loan disbursed to SHGs during 2019-20. Cooperative banks have extended credit of R4,996.6 crore to 2.56 lakh SHGs during this period recording an increase of 16.9

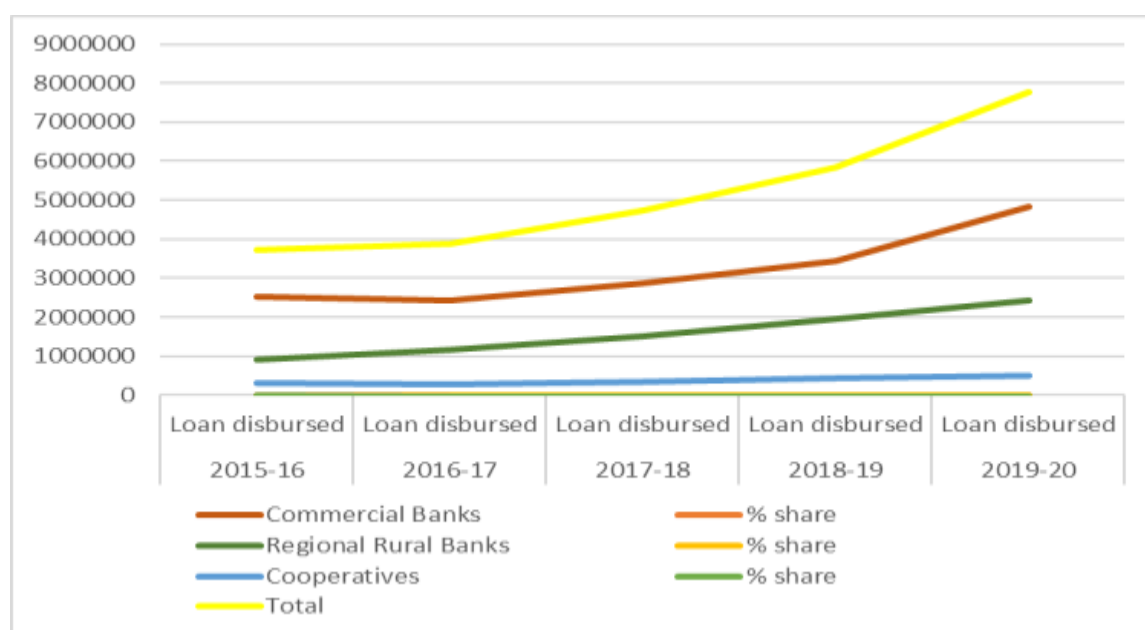
per cent in the quantum of credit disbursed and an increase of 4.7 per cent in the number of SHGs respectively as compared to the year 2018-19. This implies an improvement in the average credit disbursement of loans to SHGs by Cooperatives during the years. The average loan disbursement of R2.69 lakh per SHG by Commercial banks remains the highest during 2019-20. It was significantly higher (18.3 per cent) than the previous year. RRBs also recorded an increase in the average credit disbursement during 2019-20.

**Table 2: Agency-wise loan disbursed (in Rs lakhs) to SHGs by banks during the years 2015-16 to 2019-20:**

	2015-16		2016-17		2017-18		2018-19		2019-20	
Agency	No. of SHGs	Loan disbursed	No. of SHGs	Loan disbursed	No. of SHGs	Loan disbursed	No. of SHGs	Loan disbursed	No. of SHGs	Loan disbursed
Commercial Banks	1132281	2518497	111642	2429702	127286	2870762	1512907	3449246.74	1796099	4843108.56
% share	61.8	67.5	58.8	62.7	56.29	60.84	56.07	59.15	57.09	62.36
Regional Rural Banks	470399	916493	557540	1161300	782563	1511934	940818	1955264.43	1093788	2423162.23
% share	25.7	24.6	29.4	29.9	34.61	32.04	34.87	33.53	34.77	31.20
Cooperatives	229643	293700	224138	287113	205683	335892	244675	427251.71	256115	499664.05
% share	12.5	7.9	11.8	7.4	9.10	7.12	9.07	7.32	8.14	6.43
Total	1832323	3728690	1898120	3878116	2261132	4718588	2698400	5831762.88	3146002	7765934.84

Source: NABARD

**Fig. 2: Trend of agency-wise loan disbursed to SHGs by banks during the years 2015-16 to 2019-20:**



## VII. Outstanding Bank Loans

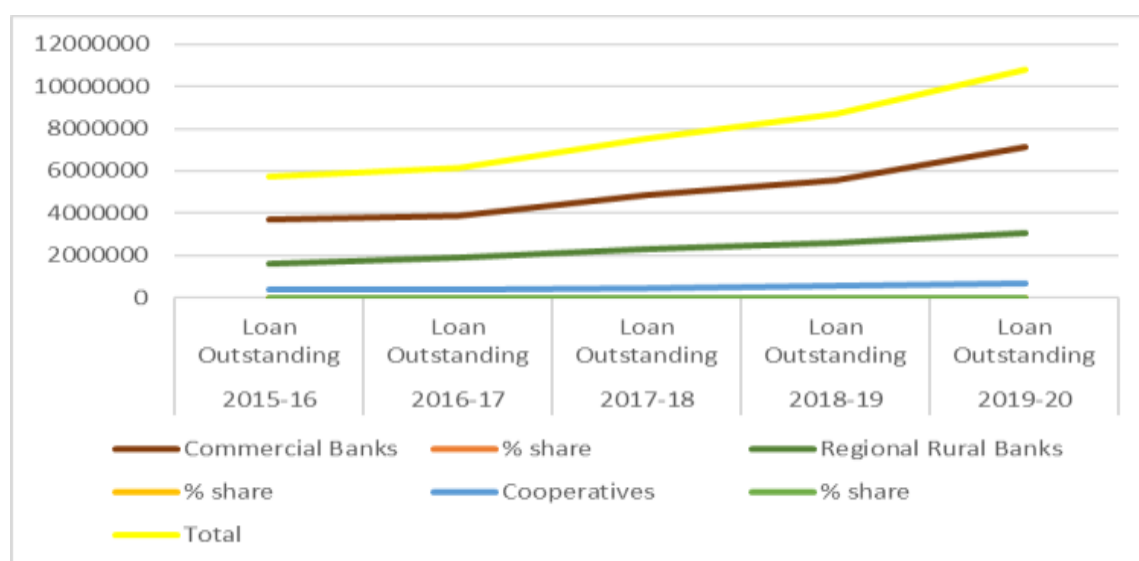
Commercial Banks have 65.9 per cent of total bank loan outstanding by SHGs as on 31 March 2020. RRBS and Cooperative banks have 28.1 and 6.0 per cent share respectively. The average loan outstanding also remains the maximum in the case of Commercial Banks and least for the Cooperative Banks. Cooperative banks have recorded 12.0 per cent jump in average loan outstanding during the year as compared to 12.7 and 6.1 per cent in case of Commercial Banks and RRBs respectively.

**Table 3: Agency-wise total outstanding bank loans (in Rs lakhs) against SHGs from 2015-20:**

	2015-16		2016-17		2017-18		2018-19		2019-20	
Agency	No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding
Commercial Banks	2626364	3714562	267030	3866847	2904086	4874805	2901209	5564111.05	3294643	7121582.37
% share	56.2	65.0	55.1	62.8	57.85	64.48	57.14	63.88	58.03	65.89
Regional Rural Banks	1445476	1610935	161184	1911991	1658221	2273864	1695534	2619598.85	1849225	3032101.28
% share	30.9	28.2	33.2	31.0	33.03	30.08	33.39	30.08	32.57	28.06
Cooperatives	600781	386426	566141	379292.2	458051	411176	480589	526105.53	533203	653823.59
% share	12.9	6.8	11.7	6.2	9.12	5.44	9.47	6.04	9.39	6.05
Total	4672621	5711923	484828	6158130	5020358	7559845	5077332	8709815.43	5677071	10807507.24

Source: NABARD

**Fig. 3: Trend of agency-wise total outstanding bank loans against SHGs from 2015-16 to 2019-20:**



### VIII. Non-Performing Assets (NPAs) of SHGs

The overall NPA rate in bank loan to SHGs was 4.92 percent as on 31.03.20 registering a fall of 27 basis points from the previous level of 5.19 per cent. All categories of banks have reduced their NPA level during 2019-20. The RRBs have reduced their NPA level from 4.87 per cent in 2018-19 to 4.37 per cent in 2019-20. Similarly, Cooperatives have reduced their NPA level from 6.69 per cent in 2018-19 to 5.99 percent in 2019-20. Out of the total NPA amount of R5,322 crore, the Commercial Banks with R3,605 crore accounted for two thirds of the share with an increase of 3.7 percent over the previous year. The absolute level of NPA in case of RRBs was R1,325 crore in 2019-20 as against R1,274 crore in 2018-19 whereas for Commercial Banks there was a surge in the absolute NPA amount from 2,897 crore in 2018-19 to R3,605 crore in 2019-20.

Since NPA is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days, there are still other factors that determine and contribute to overdue of payment. In 2019, the National Institute of Rural Development and Panchayati Raj (NIRDPR) has conducted a research study on NPAs by SHGs. It found that poor economic conditions, non-cooperation, lack-of training, expenses towards marriages,

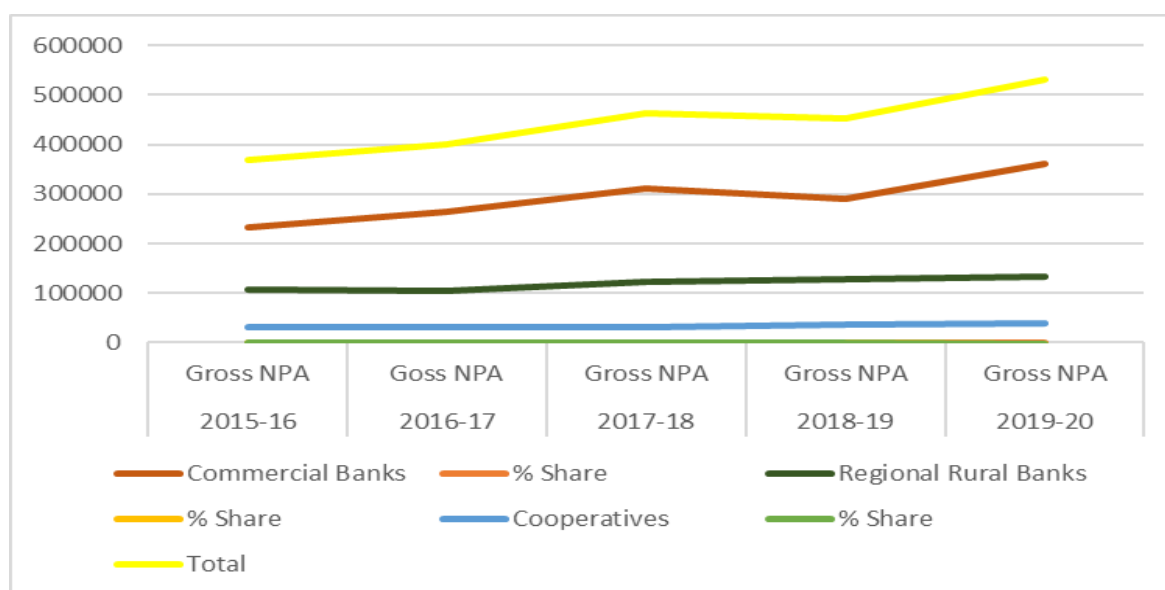
social ceremonies and medical emergencies are the main reasons for non-payment of loans by SHGs. Expectations of loan waiver from the government was also found to be a major reason for the poor financial health of SHGs. The role played by banks in handholding, timely opening accounts, monitoring and follow-up was not as per the expectation.<sup>1</sup>

**Table 4: Agency-wise NPA (in Rs lakhs) during the years 2015-16 to 2019-20:**

	2015-16		2016-17		2017-18		2018-19		2019-20	
Agency	Gross NPA	NPA %	Gross NPA	NPA %	Gross NPA	NPA %	Gross NPA	NPA %	Gross NPA	NPA %
Commercial Banks	232140	6.25	264112	6.83	310120	6.36	289739.17	5.21	360466.90	5.06
% Share	62.98		66.0		66.0		64.04		67.74	
Regional Rural Banks	106429	6.61	104500	5.47	121603	5.35	127482.95	4.87	132526.97	4.37
% Share	28.87		26.1		26.10		30.08		24.90	
Cooperatives	30054	7.78	31607	8.33	31082	7.56	35178.93	6.69	39176.55	5.99
% Share	8.15		7.9		7.90		7.78		7.36	
Total	368623	6.45	400219	6.5	462805	6.12	452401.05	5.19	532170.42	4.92

Source: NABARD

**Fig. 4: Trend of Agency-wise NPA during the years 2015-16 to 2019-20:**



## IX. Suggestions

- Training SHGs and providing them market linkages for the products/services so that they use the funds for income generating activity and have no problem in paying back the loan amount should be done by the government. In addition, providing group health and life insurance clubbed with loans at low cost will help as members spend a significant portion of the loan on events like ill-health, ceremonies etc.
- It needs to be ensured that grading of SHGs needs to be done properly and loans should be issued only if it is found suitable for lending. Follow-ups and constant monitoring is a must.
- Quantum of loan should be high as it is a major limiting factor, one-time lending not only impedes the process of business expansion but also wastes the money lent so far. Banks need to be sensitized to lend multiple doses of credit, for well performing SHGs.<sup>1</sup>



## **X. Conclusion**

SHG Bank Linkage programme is an effective intervention in economic upliftment and financial inclusion for those at 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. All major parameters viz. the number of SHGs with bank loans outstanding and amount of credit disbursed during the years, have shown positive growth during the past five years. However, the growth of NPAs over a period of five years has shown declining trend from the agency point of view. Though NPAs by SHGs are a major concern, it must not deter the government from supporting SHGs. Post lockdown, there is an imperative need for economic revival and reconstruction. Each SHG loan sanctioned or enhanced, will either facilitate spending or investment- the twin engines for driving an economy. Women SHGs have contributed largely to the community response for combatting the pandemic.

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## **Notes:**

<sup>1</sup>Drishti IAS, Indian Economy, "NPAs in SHG loans", 02 Sep 2020