

# Bank Loans disbursed to Self-Help Groups under the SHG-Bank Linkage Model in India – An Empirical Analysis

**Dr. S. Narasimha Chary, Mr. Sreenivas Savvasi**

Assistant Professor, Department of Commerce & Business Management, Kakatiya University, Warangal.

<sup>\*\*</sup>Research Scholar, Department of Commerce & Business Management, Kakatiya University, Warangal. Email-sreenivassavvasi79@gmail.com

## Introduction

Finance provided to benefit the low income women and men is called 'micro finance'. Microfinance is the provision of financial services such as **loans, savings, insurance, and training** to people living in poverty.

Microfinance (MF) as a financial service innovation is fast emerging as an important method of bettering the lot of the poor and the downtrodden. Micro finance has become a subject of interest in the recent past especially in the context of reaching the poorest families in a more effective way. For a country like India, where substantial number of population is poor, access to credit facility is not only necessary but also indispensable for optimizing their contribution to the growth of national economy.

Microfinance is the provision of a broad range of financial services to low-income micro enterprises and households. The range of financial services usually includes savings, loans, insurance, leasing, and money transfers. On the other hand Micro credit emphasizes on providing credit to low income clients. Micro credit is often associated with an insufficient appreciation of the value of savings services to the poor. Microfinance models usually refer to the products and services provided as well as the method in which they are provided.

Internationally, the most well known microfinance models include the Grameen bank model, the Latin American solidarity group, community-owned village banks, savings and loans associations, credit unions, and self-help groups.

The informal nature of microfinance, uncontrolled by governments and donors, allowed the MFO's to freely innovate. The MFO's themselves designed innovations that enabled them to reduce lending costs and risks and serve poor clients without the collateral normally required. According to ADB (Final Report 2000) "these innovations included:

1. Small loans mostly for working capital for short periods, sometimes only a few weeks, with frequent repayments;
2. Incentives for good repayment, primarily guaranteed access to repeat (and sometimes larger) loans;
3. High real interest rates, sufficient to cover costs;
4. Large loan portfolios per loan officer, frequently 75 to 100 groups or 100 to 500 borrowers, with financial incentives for efficiency and good loan portfolio performance;
5. Little or no collateral, with solidarity group guarantees or assets with high personal use value as collateral;

**Bank Loans disbursed to Self-Help Groups under the SHG-Bank Linkage Model in India – An Empirical Analysis**

6. Decentralized and simple lending procedures and close client supervision; and

7. High loan repayment rates, often of 95 percent. "

#### **Models of Microfinance:**

This chapter analyses the two microfinance models being operating in India:

i) **SHG - Bank Linkage Model:**

This model involves the SHGs financed directly by the banks

viz., CBs (Public Sector and Private Sector), RRBs and Cooperative Banks.

ii) **MFI - Bank Linkage Model**

This model covers financing of Microfinance Institutions

(MFIs) by banking agencies for on-lending to SHGs and other small borrowers.

The data presented in this paper covers information relating to loans disbursed by banks to SHGs during the years from 2006-07 to 2010-11. The data have been compiled aggregately vis-a-vis agency-wise. However, the data pertaining to all 27 Public Sector Commercial Banks, 19 private sector Commercial Banks, 81 Regional Rural Banks and 318 Co-operative Banks have been considered for analysis.

#### **SHG – Bank Linkage Programme**

The SHG - Bank Linkage Programme was launched by NABARD in 1992, with the policy support of the Reserve Bank of India (RBI), the Central Bank of the country. The programme has been designed and nurtured by NABARD for over 15 years. The pilot phase was followed by the setting up of a Working Group on NGOs and SHGs by the RBI in-1994 which came out with wide ranging recommendations on SHG - Bank Linkage as a potential innovation in the area of banking with the poor. The programme was mainstreamed with Commercial and Cooperative banks in 1996. *The main objective of the programme has*

*been financial inclusion by extending outreach to poor households in rural areas, making available credit services at their door step with easy and self an aged access to formal financial services on a sustainable basis and in a cost effective manner.*

Under the SHG model the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings in the group periodically and from these savings small loans are provided to the members. In the later period these SHGs are provided with bank loans generally for income generation purpose. The group's members meet periodically when the new savings come in, recovery of past loans are made from the members and also new loans are disbursed. This model has been very much successful in the past and with time it is becoming more popular. The SHGs are self-sustaining and once the group becomes stable it starts working on its own with some support from NGOs and institutions like NABARD and SIDBI.

#### **Self-Help Group**

A self-Help Group [SHG] is a small, economically homogeneous and affinity group of 10 to 20 poor persons which comes together to:

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

The SHG is formed and groomed by a Non-Governmental Organisation (NGO) or a bank branch or a government agency acting as a Self Help Promoting Institution (SHPI). The

### **Bank Loans disbursed to Self-Help Groups under the SHG-Bank Linkage Model in India – An Empirical Analysis**

members are encouraged to collect regular thrift on a weekly to monthly basis and use the pooled thrift to provide interest bearing small loans to needy members. The SHPI trains the members to maintain simple accounts of the collected thrift and loans given to members.

NABARD has been playing the role of propagator and facilitator by providing conducive policy environment, training and capacity building besides extending financial support for the healthy growth of the SHG linkage programme. Over the years NABARD has initiated the following steps which have resulted in the development of the world's largest microfinance programme.

1. Conceptualizations and introduction of Pilot Programme in February 1992 for linking 500 SHGs with banks after consultations with Reserve Bank of India, Banks and NGOs
2. Introduction of Bulk Lending Scheme in 1993 for encouraging the NGOs which were keen to try group approach and other financial services delivery innovations in the rural areas
3. Developing a conducive policy framework through provision of opening Savings Bank Accounts in the names of SHGs [though they are informal groups], relaxation of collateral norms, simple documentation and delegation of all credit decisions and terms to SHGs
4. Training and awareness building among the stakeholders
5. Provision of capacity building support of NGOs/SHGs/Banks
6. Mainstreaming the SHG Linkage Programme as part of corporate planning and normal business activity of banks in 1996 and internalizing training, monitoring and review mechanism Linkage between Self-help Groups (SHGs) and Banks in India 125
7. Encouraging Regional Rural Banks and Cooperative Banks to act as Self Help Groups promoting Institutions.
8. Support to NGOs for promotion of

SHGs

9. Dissemination through Seminars, Workshops, Occasional Papers and media and
10. Constitution of a High Powered Task Force to look into the aspects of Policy and Regulation of micro Finance and suggest policy, legal, regulatory measures for smooth, unhindered growth of micro Finance sector.
11. Setting up a micro Finance Development and Equity Fund in NABARD for meeting the promotional costs of up scaling the micro Finance interventions

### Objectives:

The following are the main objectives of this paper:

1. To analyze the aggregate amount of Bank loans disbursed to SHGs by various banks;
2. To evaluate the agency-wise distribution of loans disbursed to SHGs by the banking agencies, viz., Commercial Banks, Regional Rural Banks, and Co-operative Banks.

### RESEARCH METHODOLOGY

#### Data sources:

The data collected for the study includes secondary data. The various sources used to collect secondary data include research papers, journals, Status of Microfinance in India reports published by NABARD and various other websites.

#### Techniques of data collection and analysis:

The secondary data collected is analyzed using various statistical tools and techniques such as one way ANOVA. The technique is used to identify if there exist a significant difference

## Bank Loans disbursed to Self-Help Groups under the SHG-Bank Linkage Model in India – An Empirical Analysis

in the mean of different banking agencies, viz., Commercial Banks, Regional Rural Banks, and Co-operative Banks.

The data pertaining to the amount of loans disbursed by various banking agencies viz., Commercial Banks, Regional Rural banks, and Co-operative Banks against SHGs have been presented in table-1.

#### Loans Disbursed to SHGs:

The following section analyses the trends in loans disbursed by various banking agencies to various groups of SHGs during the study period 2006-07 to 2010-11 under review.

**Table-1**

**Bank Loans disbursed to SHGs during the years 2006-07 to 2010-11**  
(No. in Lakhs / Amount in crore)

Years	No. of SHGs		Amount of Loans disbursed	
	No. in Lakhs	Growth Rates (%)	Amount	Growth Rates (%)
2006-07	11.06	-	6,570.39	-
2007-08	12.28	11.0	8,849.26	34.7
2008-09	16.09	31.0	12,253.51	38.5
2009-10	15.86	-1.4	14,453.30	17.9
2010-11	11.96	-24.6	14,547.73	0.7
<b>Mean</b>	<b>13.45</b>		<b>11,334.84</b>	

Source: Status of Microfinance in India 2006-07 to 2010-11

The analysis of data presented in table-1 disclose that during the year 2009-10, banks have financed 15.86 lakh SHGs, including repeat loan to the existing SHGs, with bank loans of Rs.14, 453.30 crore as against 16.09 SHGs with bank loans of Rs.12, 253.51 crore during 2008-09, registering a decline of 1.4 per cent of SHGs but a growth of 17.9 per cent in bank loans disbursed. However, during the year 2010-11, banks extended fresh loans to the extent of Rs.14, 547.73 crore to 11.96 lakh SHGs. There had been a decline of 24.6 per cent in the number of SHGs securing fresh loans from banks during the year as compared to the previous year.

#### Agency-wise distribution of Loans Disbursed to SHGs:

An attempt has been made to analyse the amount of loans disbursed by various banking agencies against SHGs during the study period 2006-07 to 2010-11. For this purpose, the banks have been categorized under three agencies:

1. Commercial Banks
2. Regional Rural Banks
3. Co-operative Banks

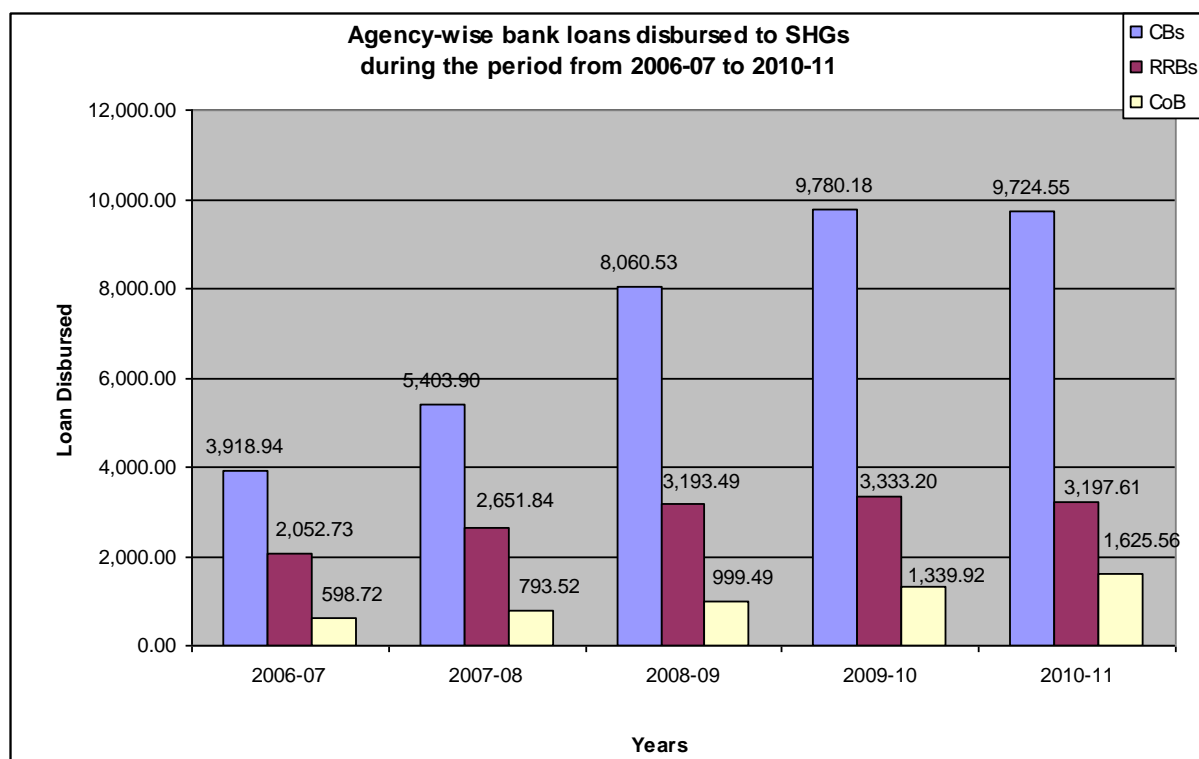
The Agency-wise position of loans disbursed to SHGs by these three agencies have been presented in table-2

**Table-2**  
**Bank loans disbursed to SHGs - Agency-wise position during the years 2006-07 to 2010-11**

Agency	Position as on 31 <sup>st</sup> March 2011	Total Loans disbursed by Banks to SHGs during the year				Per SHG loan disbursed (Rupees)	Out of Total : Bank loan disbursed to SHGs under SGSY	
		No.of SHGs	Percent	Amount	Percent		No.of SHGs	Amount
Commercial Banks (Public & Private Sector)	2006-07	5.72	51.7	3,918.94	59.7	68,557	1.24	878.72
	2007-08	7.35	59.9	5,403.90	61.0	73,511	1.61	1,103.70
	2008-09	10.04	62.4	8,060.53	65.8	80,237	1.33	1,102.38
	2009-10	9.77	61.6	9,780.18	67.7	1,00,050	1.57	1,215.50
	2010-11	6.69	55.9	9,724.55	66.8	1,45,359	1.24	1,237.82
	2007-08 Growth (%)	28.5	15.9	37.9	2.2	7.2	29.8	25.6
	2008-09 Growth (%)	36.6	4.2	49.2	7.9	9.1	-17.4	-0.1
	2009-10 Growth (%)	-2.7	-1.3	21.3	2.9	24.7	18.0	10.3
	2010-11 Growth (%)	-31.5	9.3	-0.6	-1.3	45.3	-21.0	1.8
Regional Rural Banks (RRBs)	2006-07	3.81	34.5	2,052.73	31.2	53,849	0.49	407.91
	2007-08	3.28	26.7	2,651.84	30.0	80,935	0.65	597.71
	2008-09	4.05	25.2	3,193.49	26.1	78,741	0.81	655.27
	2009-10	3.76	23.7	3,333.20	23.1	88,461	0.67	682.41
	2010-11	2.97	24.8	3,197.61	22.0	1,07,663	0.75	838.48
	2007-08 Growth (%)	-13.9	-22.6	29.2	-3.8	50.3	32.7	46.5
	2008-09 Growth (%)	23.5	-5.6	20.4	-13.0	-2.7	24.6	9.6
	2009-10 Growth (%)	7.2	6.0	4.4	-11.5	12.3	-17.3	4.1
	2010-11 Growth (%)	-21.0	4.6	-4.1	-4.8	21.7	11.9	22.9
Cooperative Banks	2006-07	1.53	13.8	598.72	9.1	39,153	0.17	124.39
	2007-08	1.65	13.4	793.52	9.0	48,092	0.21	156.33
	2008-09	1.94	12.4	999.49	8.2	50,117	0.49	257.57
	2009-10	2.32	14.6	1,339.92	9.3	57,629	0.42	300.09
	2010-11	2.30	19.2	1,625.56	11.25	70,677	0.40	404.06
	2007-08 Growth (%)	7.8	-2.9	32.5	-1.1	22.8	23.5	25.7
	2008-09 Growth (%)	17.6	-7.5	26.0	-8.9	4.2	133.3	64.8
	2009-10 Growth (%)	16.6	19.6	34.1	13.4	15.0	15.2	16.5
	2010-11 Growth (%)	-0.9	2.1	21.3	21.0	22.6	-4.8	34.6
TOTAL	2006-07	11.06	100.0	6,570.39	100.0	59,420	1.89	1,411.02
	2007-08	12.28	100.0	8,849.26	100.0	72,076	2.47	1,857.74
	2008-09	16.09	100.0	12,253.51	100.0	76,128	2.64	2,015.22
	2009-10	15.86	100.0	14,453.30	100.0	91,083	2.67	2,198.00
	2010-11	11.96	100.0	14,547.73	100.0	1,21,600	2.39	2,480.37
	2007-08 Growth (%)	11.0	100.0	34.7	100.0	21.3	30.7	31.7
	2008-09 Growth (%)	31.0	100.0	38.5	100.0	5.6	6.7	8.5
	2009-10 Growth (%)	-1.4	100.0	17.9	100.0	19.6	1.1	9.1
	2010-11 Growth (%)	24.6	100.0	0.7	100.0	33.5	-10.5	12.8

Source: Status of Microfinance in India Reports,  
NABARD for various years

## Bank Loans disbursed to Self-Help Groups under the SHG-Bank Linkage Model in India – An Empirical Analysis



The analyses of data in table 2 disclose that the average loan extended per SHG shoot up from about Rs.91,083 per SHG during 2009-10 to over Rs.1, 21,600 during 2010-11 and increase of 33.5 per cent. However, the same has been increased from Rs.76,128 as on 31 March 2009 to Rs.91,083 as on 31 March 2010, which represent increase by 19.6 per cent. This is indicative of selective lending by banks (concentrating their lending to those SHGs who have good track record). This rather cautious approach of the banks is probably the result of the turmoil witnessed in the MF sector in states like Andhra Pradesh.

As on 31 March 2010, a total of 15.86 lakh SHGs were being financed with an amount of Rs.14, 453.30 crore as against 16.09 lakh SHGs with loan disbursement of Rs.12, 253.51 crore as on 31 March 2009, thereby showing a decline of 1.4 per cent in terms of number of SHGs and 17.9 per cent increase in respect of amount of loans disbursed. Thus, more than 90

million Poor households were associated with banking agencies under SHG-Bank linkage programme. However, a total amount of loan has been disbursed by all the banking agencies during the year 2010-11 amounted to Rs. 14,547.73 crores against 11.96 lakh SHGs which accounted for a growth of 0.7 per cent and 24.6 per cent respectively over the previous year.

As far as agency-wise distribution of the loans disbursed during the period 2009-10 is concerned, the CBs accounted for loan disbursement amounting to 9.77 lakh SHGs (61.6 per cent) with Rs.9,780.18 crore (67.7 per cent) followed by RRBs having loans distribution of 3.76 lakh SHGs (23.7 per cent) with loan amount of Rs.3,333.20 crore (23.1 per cent) and Cooperative Banks disbursed against 2.32 lakh SHGs (14.6 per cent) with loan amount of Rs.1,339.92 crore (9.3 per cent). Further, it is observed that the share under SGSY was 2.67 lakh SHGs with loan of Rs.2, 198.0 crore.

### **Bank Loans disbursed to Self-Help Groups under the SHG-Bank Linkage Model in India – An Empirical Analysis**

However, the data analysis during the year 2010-11 disclose that a total of 6.69 lakh (55.9 per cent) SHGs were being financed with a loan amount of Rs.9, 724.55 crore (66.8 per cent) by the Commercial banks followed by RRBs with loan disbursement against 2.97 lakh (24.8 per cent) SHGs amounting to Rs.3,197.61 crores (22.0 per cent); and Cooperative Banks having loan disbursement against 2.30 lakh (19.2 per cent) amounted to Rs. 1,625.56 (11.25 per cent).

The above analysis showed that the Commercial Banks have been playing a predominant role as far as bank loan disbursed to SHGs are concerned. This is being supported with the relevant proportion of bank loans disbursed during the study period recorded at 65.09 per cent by Commercial Banks, 25.46 per

cent by Regional Rural Banks, and the Co-operative Banks accounted for 9.45 per cent.

#### Agency-wise distribution of Loans Disbursed to SHGs – ANOVA:

The amount of bank loans disbursed to SHGs by various banking agencies, viz., CBs, RRBs and Co-operative Banks have been compared and analysed using one way ANOVA and are tested by the following hypotheses.

Ho: There is no significant difference among the three agencies (CBs, RRBs, Co-opus) as far the amount of bank loans disbursed to SHGs are concerned.

The results of ANOVA-single factor are shown in table-3.

**Table-3**  
**ANOVA: Single Factor**

SUMMARY				
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
CBs	5	36888.1	7377.62	6901195
RRBs	5	14428.87	2885.774	285202.1
CoB	5	5357.21	1071.442	171252.8

ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	1.05E+08	2	52696968	21.4866	0.000108	3.885294
Within Groups	29430598	12	2452550			
Total	1.35E+08	14				

Source: ANOVA is performed by using MS-Excel

**Inference:** Since the calculated “F” value of 21.487 is greater than the table value (Fcrit) at 5 per cent level of significance, the hypothesis stand rejected. As such, it can be inferred that

there is significant differences among the three agencies as far as amount of loans disbursed to SHGs are concerned. Hence, it can be concluded that the CBs have been playing a pivotal role in financing with loans among the SHGs.

### **Bank Loans disbursed to Self-Help Groups under the SHG-Bank Linkage Model in India – An Empirical Analysis**

**Conclusion:** The analysis showed that during the year 2010-11 disclose that a total of 6.69 lakh (55.9 per cent) SHGs were being financed with a loan amount of Rs.9, 724.55 crore (66.8 per cent) by the Commercial banks followed by RRBs with loan disbursement against 2.97 lakh (24.8 per cent) SHGs amounting to Rs.3,197.61 crores (22.0 per cent); and Cooperative Banks having loan disbursement against 2.30 lakh (19.2 per cent) amounted to Rs. 1,625.56 (11.25 per cent). As such it can be concluded that the Commercial Banks have been playing a predominant role as far as bank loan disbursed to SHGs are concerned. This is being supported with the relevant proportion of bank loans disbursed during the study period recorded at 65.09 per cent by Commercial Banks, 25.46 per cent by Regional Rural Banks, and the Co-operative Banks accounted for 9.45 per cent.

#### References:

1. K.S. Thakur, Peyush Kant Sharma and Ravi Jain,(2011), A Comprehensive Study of Microfinance in India (With Special Reference To Gwalior), Journal of Accounting and finance Volume 25, No. 2. April-September, 2011
1. 2.Jyothi (2010), INDIAN JOURNAL OF FINANCE, Vol:4, No:3, March 2010
2. 3.Lata Swaminathan, (2010), Tackling Urban Poverty- Micocredit Through Mahila Urban Co-operative Banks, Journal of Commerce and Management though/January 2010
3. 4.purna Chandra parida and anushree sinha (2010), "Performance and sustainability of self-help Groups in India: A Gender perseptive.
4. Pankaj K Agarwal and S.K.Sinha (2010), The financial performance microfinance institutions in India Delhi Business Review X Vol. 11, No. 2 (July – Desember 2010)
5. Naveen K. Shetty and Dr. Veerashekarappa (2009), "The Microfinance promise in financial Inclusion: Evidence from India"
6. Jayashhela, Dinesha.P.T and V. Basil Hans (2008), Financial incluton and microfinance in India: An overview" <http://india.Microsav.org/node/1270>
7. Aiain de Crombrugghe, Michael Tenike and Julie Sureda (2007), Performance Analysis for aSample of Microfinance Institutions in India, Annals public and Corporative Economics 79:2 2008 pp. 269-299.