



Variations in the performance of self-help groups in India: A region-wise analytical study

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Abstract

The contribution of the SHG programme to financial inclusion, poverty reduction, and women empowerment has been commendable since its initiation. But although the programme has been implemented throughout the country, its success is scattered. This study evaluates the performance of SHGs during 2015-22. The focus is on the overall performance of the SHG programme and its regional variations. It shows that the programme is performing well, but its success is more skewed towards the southern region, while the northern and northeastern regions are lagging.

Keywords: microfinance, SHGS, regional variations, India

Introduction

Background

For many years, governments and other humanitarian institutions have recognized that for individuals to better their economic lives, they needed access to capital. In the 1970s, the primary source to deliver this aid was subsidized credit funded by governments and institutional investors. Their primary aim was to increase and promote agriculture by providing farmers access to cheap and readily available credit. At this time, small credit unions were also established to encourage and teach the farmers how to save. However, this model was criticized as ineffective due to the high reported loan losses that suggest borrowers did not benefit from loans and organizations regularly needed recapitalization, which meant they were not self-sustaining. It had become evident that a market-based solution was required, and the emphasis shifted to the creation of local and sustainable institutions that could be modeled after the traditional banking system. This is actually where microfinance took birth.

Review of Literature

Sinha. P. and Navin. N. (2021) assesses how well the SHG programme performed from 2011 to 2019. The study concludes that while the recovery performance of the programme is better in the southern region, it is less successful in the central and northeastern regions.

Sharma. S. (2018) finds that the southern region is still responsible for the most significant proportion of outreach and outstanding loans, followed by the east. The northeastern and eastern regions, however, have faster growth rates. In comparison to the rural population, the outreach fraction of the urban consumer has dropped substantially. Women constitute the maximum of the total clients.

Saravanan. S. and Prasad. D. (2017) ^[17] examine a large sample of SHG financing across 30 Indian states between 2007 and 2015. They discovered a strong and favorable correlation between SHG loan outstanding and savings of SHGs and bank funding across the states. Over time, the rise of SHGs has positively impacted bank loans, particularly those from the public and private sectors.

Ahlawat. S. (2016) concludes that SHGs growth was positive in all the regions. While the northeast exhibits little development, the southern region maintains its supremacy. Nikita (2014) ^[12] is of the opinion that the number of SHGs whose savings are connected with banks has decreased after the launch of SHG-BLP. Additionally, there was an increase in SHGs' loan outstanding, which contributed to the rise in NPAs.

Bansal. H. (2003) tries to evaluate the effectiveness of the SHG-Bank Linkage Programme in various Indian states. According to the study, southern India has a substantially greater acceptance rate for the Programme. Due to the area's political, economic, and social complexity, northeastern India and J&K demand special consideration.

Objectives of the Study

1. To comprehend the concept of microfinance.
2. To assess the current status and performance of SHG-BLP in India.
3. To analyze the variation in the region-wise distribution of SHGs in India.

Concept of Microfinance

Microfinance is a provision of financial services to low-income sections of society lacking access to banking and related services. Microfinance refers to an array of financial services, including loans, savings, and insurance, available to poor entrepreneurs and small business owners with no collateral who would not otherwise qualify for a standard bank loan (Brooks, 2013) ^[3]. In general, the movement's goal is to provide marginalized members of society with financial services, such as savings, insurance, and cash transfers, in addition to credit. Microfinance has evolved as a need-based policy and program to cater to the neglected groups, especially women, poor people, rural deprived, etc. Microfinance enables poor people to create productive capital, deal with risk, and avoid the destruction of wealth. Moreover, the idea behind microfinance is that if the neglected section of society is provided access to financial services, they can equally contribute to the development and growth of the economy. Littlefield & Rosenberg (2004) ^[7] argue that though microfinance is not a panacea for poverty,

the poor value it highly because it can enable them to create employment opportunities that might induce improvements in a range of welfare measures, including income stability and growth, school attendance, nutrition, and health.

Microfinance and microcredit were used interchangeably, but microfinance is a broader concept than microcredit. Microcredit expresses the provision of small loans to small businesses to combat poverty and promote economic growth. Microcredit has been replaced by microfinance recently due to its broader role, as microfinance adds the provision of savings and insurance services to that of credit. Some organizations also include training and other services such as health and education (Abed, 2000) ^[1]. Nussbaum and Sen (1993) ^[15] argued that the notion of ‘microfinance’ actually blends two dimensions — economic (capital accumulation via savings and credit and investing those for productive purposes) and social (augmenting human capabilities to improve the quality of life). The convergence of the two can contribute to helping people overcome financial hardship, using their innate facility to get involved in productive enterprise, and empowering themselves in a social and political sense, even if in a limited form (Pitt *et al.*, 2006) ^[13].

The Institutionalist school and the Welfarist school are the two main schools that have an impact on the idea of microfinance. The institutionalist school is concerned with creating institutions that can support the underprivileged. In this approach, numerous large-scale profit-seeking microfinance organizations provide high-quality financial services to many poor. Believers in the institutionalist approach oppose the idea of dependency on subsidiaries because earlier attempts at poverty alleviation through subsidies credit by development agencies, NGOs, and governments of developing countries failed. This includes high-cost transactions, a lack of assets for poor households, institutions lacking in saving mobilization, and a high level of corruption. According to institutionalists, a significant impact on poverty can be achieved only if microfinance institutions are financially self-sufficient and independent from any subsidized funding from donors or the government.

On the other hand, the Welfarist approach focuses on the immediate improvement of the economic safety of the poor. They focused on providing financial services to the poorest of the poor at subsidized interest rates. Microfinance organizations that fall under this approach rely heavily on government subsidiaries, grants, and donor subsidiaries. Saving mobilization is not a part of the lending process in this approach. Though they understand and are aware that the long-term sustainability of microfinance organizations is essential, they disagree that avoiding donor subsidiaries altogether is required to achieve that state.

Over the years, microfinance has become a widely used financial tool to combat poverty. It is currently being promoted as a critical strategy to address poverty. Besides the direct link with poverty reduction, microfinance has an indirect link to addressing the issues of health, education, and gender also. The poor possess the capacity to contribute to income-generating activities, but lack of access to resources gives them a setback. Through microfinance, poor people manage to optimize resources and accelerate the process of generating incomes, assets, and economic security.

Microfinance World Penetration

Microfinance Institutions (MFI) had a Gross Loan Portfolio (GLP) worth \$ 159.9 billion by the end of 2020. This represents a median growth rate of 20 percent from 2019. Additionally, the top 100 MFIs, which currently control 74.4 percent of total GLP, continue to rule the industry.

The total number of borrowers remained constant at 140.3 million during this time, while the percentage of active borrowers increased slightly in MFIs from 2019 to 2020, on average, by 0.3 percent. In terms of demographic makeup, female consumers continue to make up the majority of MFI borrowers—80.9 percent in 2020.

In terms of portfolio quality, both the average level of credit risk and the variation of risk among MFIs increased in 2020. From 4.3 percent in 2019, the median portfolio at risk for more than 30 days has increased to 7.1 percent, a 33 percent rise on average among MFIs.

The portfolio yield has dropped from 24.6 percent in 2019 to 22.3 percent in 2020, a 12.9 percent decline in response to the rise in credit risk. Geographically, south and southeast Asia continue to lead the industry, accounting for 43.1 and 70.3 percent of it both in terms of GLP and the number of borrowers. Compared to all other regions, the percentage of female borrowers stood at 82 percent (Back *et al.*, 2019).

Microfinance in India

Despite high economic growth following the economic reforms introduced in the 1990s, India continued to see a high degree of poverty and low human development. The post-independent India adopted various means to combat poverty and other livelihood challenges. However, this added to the inequalities between the large and the small farmers and the landed and the landless. Moreover, the poor depended on large farmers, merchants, and moneylenders to meet their credit needs. Unable to pay high-interest rates, the poor often forfeited their land and eventually became bonded laborers to money lenders. Thus, breaking dependence on moneylenders through the provision of institutional credit was the need of the hour. The urgent need to promote self-employment for the landless further highlighted the role of credit facilities.

After the nationalization of banks in 1969 as an instrument of development, it became more evident that mainstream banking did much less than needed despite the priority sector lending obligation. This led to the emergence of microfinance.

NABARD commissioned an Action Research Program in 1987 through Mysore Resettlement and Development Agency (MYRADA) to identify the reasons for the same, which brought out the mismatches between the needs of the poor clients and the products on offer by the banking systems. A pilot program was launched in 1992, which anticipated the linking of 500 SHGs by the end of 1994, with financial support from the Reserve Bank of India (RBI) advising banks to open a savings account in the name of Groups.

The Government of India (GoI) has been aiding the promotion of the SHGs through specific budgetary arrangements since 1999. GoI introduced ‘Swarnajayanti Gram Sawarozgar Yojana’ in April 1999. The SGSY was implemented to envelop all BPL families with a group mode of financing. By restructuring Swarnajayanti Gram Sawarozgar Yojana (SGSY), National Rural Livelihood Mission (NRLM) was launched by GoI, subsequently in

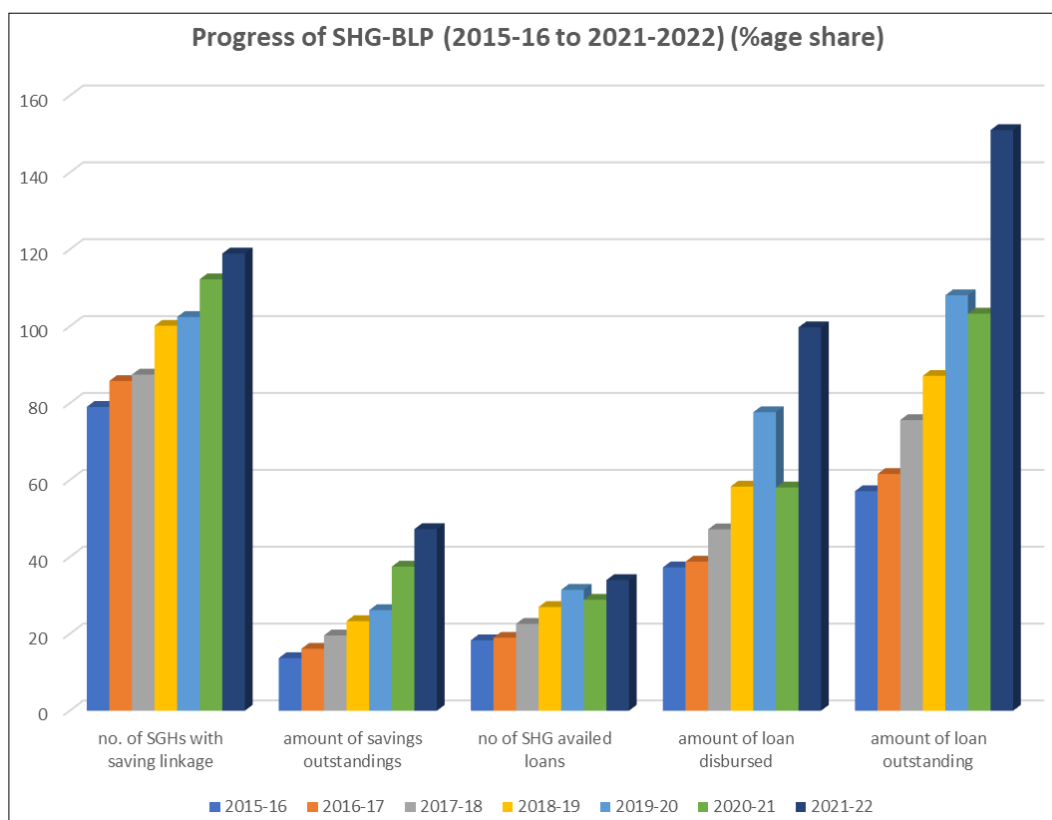
2011. NRLM strives to promote financial inclusion on both the supply and demand sides. It encourages financial knowledge among the underprivileged and gives the SHGs on the demand side impetus capital. On the supply side, NRLM works hand in hand with the banking industry to provide SHGs and their federations with financing and associated services. The NRLM has supported nearly 70 lakh SHGs with a cumulative outreach to nearly 7.5 crore families. (Mahila & Bharat, 2021).

The success of SHG-BLP also attracted the attention of the state governments. Many state governments, over a period, undertook major programmes of SHG promotion. Participation in SHGs has facilitated the economic, political, and social empowerment of the underprivileged segments of society through resource control, decision-making participation, and improved social standing brought about by improved economic position.

On 31 March 2022, the SHG-BLP reached a milestone with a total membership of about 119 lakh SHGs covering 14.2 crore households across India. During the year 2021-2022, the number of SHGs increased by 6.70 lakh as opposed to 9.80 lakh in 2020-21, with a corresponding increase in the saving to INR 47,240.48 crore from 37,477.61 crores during the respective years. During the year 2021-22, the banks have disbursed total loans of INR 99,729.23 crore to the sector as against 58,070.68 crores in the previous financial year, showing an increase of 72 percent.

Performance of SHG-Bank Linkage Program

The SHG-BLP has become successful globally with outreach to 13.87 crore families providing social, economic, and financial empowerment to the rural poor.(Mahila & Bharat, 2021). The year-wise (2015-16 to 2021-22) progress of SHG-BLP in India is enumerated in the table and figure below.



Source: Status of Microfinance in India (NABARD Report)

Fig 1

Table 1: Progress of SHG-BLP (2015-16 to 2021-2022) (%age share)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
No. of SHGS with saving linkage	79.03	85.77	87.44	100.14	102.43	112.23	118.93
Amount of savings outstanding	13.69	16.11	19.59	23.32	26.15	37.47	47.24
No. of SHGs availed loans	18.32	18.98	22.61	26.98	31.46	28.87	33.98
Amount of loan disbursed	37.29	38.78	47.18	58.32	77.66	58.07	99.72
Amount of loan outstanding	57.12	61.58	75.60	87.1	108.08	103.29	151.05

Source: Status of Microfinance in India (NABARD Report)

No. in lakhs/amount in crores

The table and the figure above depict that the number of SHGs has shown an increasing trend. It has increased from 79.03 lakhs in 2015-16 to 85.77 lakhs in 2016-17. The year 2018-19 showed a significant increase of 12.7 lakh, from 87.44 in 2017-18 to 100.14 lakh in 2018-19. This number

has further increased from 102.43 lakh in 2019-20 to 112.23 in 2020-21 and 118.93 lakhs in 2021-22.

In terms of the savings outstanding, there is also an increasing trend. It was highest in 2021-22, i.e., Rs 47.24 thousand crores, compared to Rs 37.47 thousand crores in

2020-21. It has increased from Rs 13.69 thousand crores in 2015-16 to Rs 16.11 thousand crores in 2016-17 to Rs 23.32 thousand crores in 2018-19 and Rs 26.15 thousand crores in 2019-20.

The loan outstanding for the year 2015-16 was Rs 57.12 thousand crores. It has increased from Rs 61.58 thousand crores in 2016-17 to Rs 75.60 thousand crores in 2017-18 and Rs 87.1 thousand crores in 2018-19. In the year 2019-20, it showed a sharp increase of Rs 21 thousand crores and increased to Rs 108.08 thousand crores but declined by Rs 5 thousand crores in the year 2020-21. However, in 2021-22 it has increased to a remarkable amount of Rs 151.05 thousand crores.

Reasons for Expansion

Various initiatives and interventions by the government of India, state governments, the Reserve Bank of India, the National Bank for Agriculture and Rural Development (NABARD), banks, various organizations, etc., have contributed to the microfinance sector's tremendous growth over the past three decades. NABARD has continued to aid the expansion of this sector by grant assistance for the establishment, development, and credit linkage of SHGs with banks, capacity building of different players, and refinancing assistance to banks and MFIs.

Since 1992, NABARD has provided financial assistance to NGOs, SHG Federation, Commercial Banks, etc., for the promotion, nurturing, and credit linkage of SHGs. This assistance has accelerated the dissemination of SHG-BLP throughout the nation. As of 31 March 2022, the cumulative grant approvals and disbursements were Rs 428.28 crores and Rs 175.86 crores, respectively (Status of Microfinance Report, 2021-22).

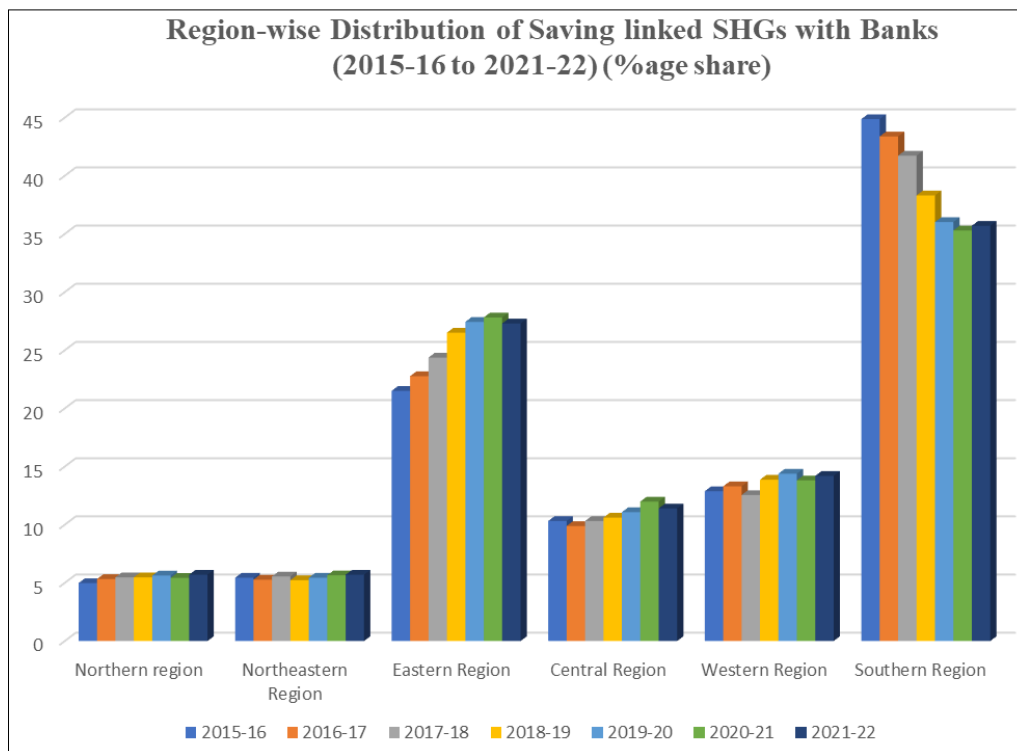
NABARD, in collaboration with the Department of Financial Services, Ministry of Finance, Government of

India, established the plan for the promotion and financing of Women Self Help Groups, which has also stimulated the development of SHG-BLP. As of March 31, 2022, 1.29 lakh WSHG were tied to credit, and 2.11 lakh were linked to savings accounts (Status of Microfinance Report, 2021-22). Through the execution of the Micro Enterprise Development Programme (MEDP) and Enterprise Development Programme, NABARD assists SHG members in establishing and maintaining successful enterprises for their livelihood (LEDP). With the execution of these programmes, NABARD has performed two functions: supporting livelihoods and contributing to the expansion of SHG-BLP.

Importantly, the Indian government started the "Digital India" initiative to turn the country into a digitally enabled society and knowledge economy. In March 2015, NABARD initiated Project E-Shakti, a pilot project for the digitalization of SHG data, with the objectives of the Indian government. The initiative assisted in resolving problems in the SHG ecosystem by offering a digital "end-to-end" solution through a protected and managed database of SHGs and their members. The initiative has resulted in an expansion of credit relationships with banks. As of 31 March 2022, the credit linkage of the 12.74 lakh digitized SHGs grew from 4.92 lakh (39 percent of digitized groups) before E-Shakti to 7.17 lakh (56 percent of digitized groups) after E-Shakti (Status of Microfinance Report, 2021-22).

Regional Distribution of Savings Linked SHGs

Savings boost SHG eligibility for bank loans, increasing business investment possibilities. The table and figure below provide the region-wise performance of the savings linkage of SHGs in terms of percentage share.



Source: Status of Microfinance in India (NABARD Report)

Fig 2

Table 2: Region-wise Distribution of Saving linked SHGs with Banks (2015-16 to 2021-22) (%age share)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Northern Region	4.98	5.33	5.48	5.48	5.6	5.4	5.6
North-eastern Region	5.44	5.28	5.55	5.32	5.4	5.7	5.7
Eastern Region	21.51	22.77	24.37	26.51	27.4	27.8	27.3
Central Region	10.32	9.89	10.32	10.61	11.08	12.0	11.4
Western Region	12.88	13.3	12.55	13.87	14.4	13.8	14.2
Southern Region	44.87	43.38	41.73	38.31	36.02	35.3	35.7

Source: Status of Microfinance in India (NABARD Report)

The table and the figure above depict that in terms of the percentage share of savings-linked SHGs, the share of the southern region is highest at 35.7 percent in the year 2021-22. In 2020-21, it was 35.3 percent, a decline of 1 percent from the previous year. This share has moderately shown a declining trend. It was 44.87 percent in 2015-16, which declined to 43.38 percent in 2016-17 and 36.02 percent in 2019-20. The eastern region continues to have the second-highest share. It was 27.3 percent in 2021-22, a slight decrease over the previous year, which was 27.8 percent. The share of the eastern region has remained stable over the past few years. The western region is in third place with a share of 14.2 percent in 2021-22. The share has a slight increase of 0.6 percent from the previous year. The share increased from 12.88 percent in 2015-16 to 14.4 percent in 2019-20. The north-eastern region showed a continuous increase in the share from 5.44 in 2015-16 to 5.7 percent in 2020-21, and the share also remained the same for 2021-22. The share of the northern region has remained the lowest at 5.6 percent in 2021-22. It was 4.98 percent in 2015-16, which increased to 5.33 percent in 2016-17 and further to 5.63 percent in 2019-20. This share was 5.4 percent in 2021-22. The share of the central region has shown an increasing trend from 10.32 percent in 2015-16 to 12 percent in 2020-21, but this share declined by 1.4 percent in 2021-22.

Reasons for high growth

Since its inception, the SHG programme has enjoyed significant success in the southern states of India (Bansal, 2003; Fouillet & Augsburg, 2007) [5]. The share of the southern region in the total percentage of the Savings-Linked SHGs has always remained the highest, followed by the eastern region. The southern states are industry-driven and generate more returns on the micro-loans invested in such activities. The concentration of loans for productive purposes has increased the borrowers' income and improved their repayment capacity, thus making the programme more successful in the southern region. While the northern region, primarily agriculturally driven and technologically backward, generates demand for unproductive and personal loans that generally end up with non-repayment. A higher level of NPAs in the northern and central regions tends to lower the subsequent credit disbursement, and at the same time, the low level of NPAs in the southern region makes it a viable market for microcredit. The NPA level of bank loans to SHGs in the southern region stood at 2.28 percent in 2021-22 as compared to the northern region having an NPA level of 14.17 percent and the central region at 26.17 percent (NABARD Report, 2021-22). High financial literacy has also helped in the better delivery of financial services in south India as the literate customer understands the microfinance schemes easily and readily cooperates with the institutions. Moreover, the major microfinance projects

have their roots in south India, which provide momentum for awareness and trigger the growth of SHGs in this region.

Conclusion and Policy Implications

The year 2021-22 marks 30 years of the SHG- Bank Linkage Programme (SHG-BLP), a journey that covered more than 141 million rural households and brought them into the fold of the formal banking system for those who were once considered unbankable. Analyzing the region-wise performance of SHGs has led to many critical insights. SHG Programme has spread rapidly to almost all parts of the country, but its success is uneven. The Programme is more skewed towards the southern region, the eastern region is also performing well, but the Programme is struggling in the northern and northern-eastern regions.

As a policy implication, it is essential to build procedures before infusing money from the depository. This necessitates that organizations working on SHG initiatives pay attention to the group's internal dynamics as they emerge. While interacting with SHG members from different socio-economic strata, it is imperative to ensure a balance between business activity and the social dimensions within the group (Kanitkar, 2002) [6]. Moreover, initiating financial literacy in northern regions will also boost the microfinance programmes in these regions. There is also a need for attention to be paid at the state level to the struggling SHGs. This will help to remove the impediments to the successful implementation of SHGs in various regions of the country.

Notes

The latest NABARD report, for 2021-22, on Microfinance in India divides the country's states into six regions. The regions (along with states) are as follows: Central region: Chhattisgarh, Madhya Pradesh, Uttarakhand, and Uttar Pradesh (UP). Eastern region: Andaman and Nicobar, Bihar, Jharkhand, Odisha, and West Bengal. North-eastern region: Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura. Northern region: Chandigarh, Haryana, Himachal Pradesh, Jammu and Kashmir, New Delhi, Punjab, and Rajasthan. Southern region: Andhra Pradesh, Karnataka, Kerala, Lakshadweep, Puducherry, Tamil Nadu, and Telangana. Western region: Daman and Diu, Dadra and Nagar Haveli, Goa, Gujarat, and Maharashtra.

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