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Performance Evaluation of SHGs and Microfinance (Agency-wise) in India

Subir Kumar Chowdhury, Assistant Professor of Commerce

Sonamukhi College, Bankura. West Bengal

Abstract:

Microfinance means building a financial system that serves poor for alleviating their poverty and enhancing their standard of living. It is an attempt to improve access to small deposits and small loans for poor household neglected by formal banks. Micro credit started in India in the early 1980s with small efforts at forming informal SHGs to provide access to much-needed savings and credit services. Now microfinance sector has grown significantly and forming SHG strategy has become an integral component of the Govt. of India's thought to reduce the poverty of the country. As a result SHG strategy has been introduced in every annual plan since 2000. An attempt has been made to examine the growth of performance of microfinance through SHGs formation.

Key words: Microfinance, SHGs (Self Help Groups), Poverty, Formal Banks, Micro Credits, Savings.

Introduction:

In most developing countries, poor people are majority of the population. In India, after independence, the credit delivery in rural areas was mostly confined to co-operatives. In 1969, the Govt. of India nationalized the commercial banks to give boost to the rural finance through these banks. But objectives of this nationalization failed to extend the credits in rural areas as desired, mainly due to non-availability of equivalent physical collateral securities from the poor. In 1999 Govt. of India merged all existing credit programmes providing for rural sector and launched a new programme (SGSY) to provide credit to poor through banks to generate self employment through Self Help Groups (SHGs).

Objectives and Methodology of the Study:

This study aims to throw light on present status in number of Self Help Group – Bank Linkage Programme in India and also the performance of bank agency-wise (Commercial Banks, Regional Rural Banks and Co-operative Banks) SHG savings, loan disbursements and loan outstanding. For the purpose of the study, secondary data is collected from annual reports of NABARD on status of Microfinance in India and from RBI. Simple measurements viz. percentages, year-on-year growth percentages are used. For better understanding at a glance, statistical bar diagrams are used.

Review of Literatures:

Ratna Ravikumar (2006) stated that SHG is a small economically homogeneous and affinity group to poor voluntarily. It is formed to save and contribute a common fund to be Lents to its members as per group decisions and for working together for the socio economic uplift of their families and community. SHG is a medium for the development of saving habit among women. These SHGs take a vital role to rescue the women and enhance the quality of status of women as participants and decision makers in the economic, social, political and cultural spheres of life.

Sinha (2006) conducted a study taking 214 SHGs in 108 villages across two northern and two southern states of the country. He observed in his study that microfinance contributed significantly in the field of saving and borrowing of the vulnerable section of the society of the country.

Swain, et al (2007) conducted a study on SHGs and Bank Linkage Programme in India to judge the impact of microfinance on women empowerment. In his study he gave importance on two matters to judge the impact, one was change of income level and other was change of level of vulnerability. He also watched in his study that women taken micro credit have increased in control, management ability, self confidence in decision making process, greater awareness and participation in local politics.

Self Help Group:

An SHG is a group of people containing 10 to 20 members and members have the same social and financial background that meets regularly to discuss issues of interest to them and to look at solutions of commonly experienced problems. Objectives of SHGs are –

- ✓ To mobilize the rural savings.
- ✓ To extend the external and internal credits facilities.
- ✓ To generate the income and share the same among the members.
- ✓ To discuss the common problems of rural masses.
- ✓ To strengthen the spirit of co-operation through social development
- ✓ To contribute for the growth and development of rural household and cottage industries.

Microfinance:

Microfinance refers to very small credit facilities provided to the needy and poorest households of the society. It is an important income generation tool for the poor and marginalized in the developing countries. The system of microfinance has been viewed as a powerful tool for uplifting the socio-economic status of the country people who belongs to the poorer section of the society through group approach with special emphasis on empowering women. It envisages mobilizing thrift and supplementing it with loan from the financial institutions. The features of micro credit are –

- Credits under microfinance programmes are very small.
- Credits under microfinance follow thrifts, i.e., mobilized savings and lend the same.
- No collateral securities required for getting credit
- Low transaction cost
- Shorter repayment periods
- Targets for giving credit refer to rural and urban households mainly women

- Liberal procedure for processing the delivery of credits
- No ceiling in respect of minimum and maximum repayment amounts.

SHG – Bank Linkage Programme (SBLP) -

In this programme SHGs are directly financed by the banks. This programme is treated as a cost effective mechanism for providing financial services to the unreached poor. The SBLP model was introduced in 1991-92 with a pilot project of linking 500 SHGs with banks which increased to 69.53 lakh at the end of the period 2009-10 and these SHGs accessed credit of Rs. 6198.70 crore from banks during that period.

There are three models of credit linkage of SHGs with banks.

Model –I SHGs formed and financed by banks :- In this model, banks themselves take up the work of forming and nurturing the SHGs, opening their savings accounts and providing them bank loans.

Model – II SHGs formed by formal agencies (other than banks) and NGOs but directly financed by banks:- NGOs and formal agencies act as facilitators here. They organize, from and nurture the groups and train them in thrift and credit management.

Model – III SHGs financed by banks through NGOs:- In this model NGOs take on the additional role of financial intermediate. Here NGOs are encouraged to approach a suitable bank for lump-sum bank loan assistance.

Performance of SHG-Bank Linkage in India:

Table – 1 SHGs linked with Banks in India (2005-06 to 2009-10)

Year	Number of SHGs	Growth in Percentage
2005-06	2238565	-
2006-07	2924973	30.66
2007-08	5009794	71.28
2008-09	6121147	22.2
2009-10	6953250	13.6

Source: NABARD reports of respective year.

Growth of Self Help Groups in India is shown in the above Table-1. In the year 2005-06, 2238565 SHGs were linked with the banks and it was increased to 6953250 in number in the year 2009-10. In the year 2006-07 the number of SHGs has been increased by 30.66% against the previous year 2005-06 and also the positive growth of the period 2007-08, 2008-09 and 2009-2010 were 71.28%, 22.2% and 13.6% respectively. So there is a trend with high growth rate to form SHG and to link with banks.

Savings of SHGs with Bank – Agency-wise

From the table-2, it is clear that the savings amount with the banks have been increased during the period. At the end of the period 2009-10, Commercial Banks (CBs) lead in savings with a

Table: 2 Agency-wise SHGs savings in India (2007-08 to 2009-2010)

Year	Particulars	Bank Agencies			Total	Growth/ Performance
		Commercial Banks	Regional Rural Banks	Co-operative Banks		
2007-08	No. of SHGs	2810750 (56.1)	1386838 (27.7)	812206 (16.2)	5009794 (100)	
	Amount (in Rs. Crore)	2077.73 (54.9)	1166.49 (30.8)	541.17 (14.3)	3785.39 (100)	-
2008-09	No. of SHGs	3549509 (58)	1628588 (26.6)	940305 (15.4)	6121147 (100)	
	Amount (in Rs. Crore)	2772.99 (33.5)	1989.75 (35.9)	782.88 (14.1)	5545.62 (100)	40.49
2009-10	No. of SHGs	4052915 (58.2)	1820870 (26.1)	1079465 (15.5)	6953250 (100)	
	Amount (in Rs. Crore)	3673.89 (59.2)	1299.37 (20.9)	1225.44 (19.7)	6198.70 (100)	11.78

Source: Microfinance in India, NABARD. Figures in parentheses indicate percentage.

total of Rs. 3673.89 crore followed by Regional Rural Banks (RRBs) with Rs. 1299.37 crore which is closed to Co-operative Banks. Following figure-1 (Bar Diagram) represents the growth (+ve or - ve) of each agency in the given three years. Overall growth in savings for the period 2008-09 is 40.49 percent and for the period 2009-10 is 11.78 percent.

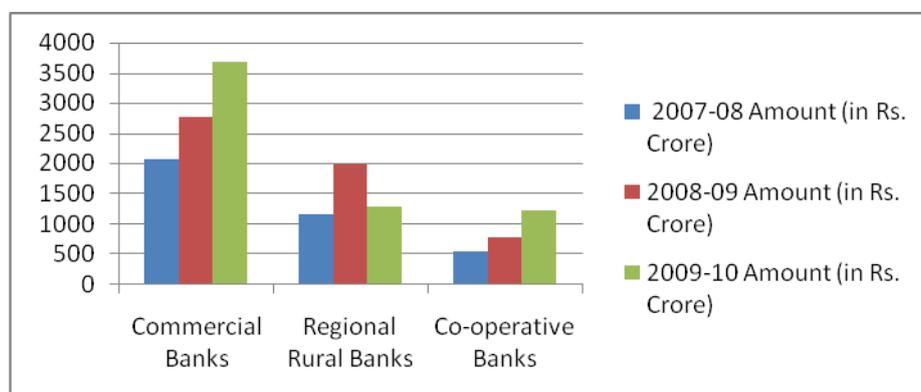


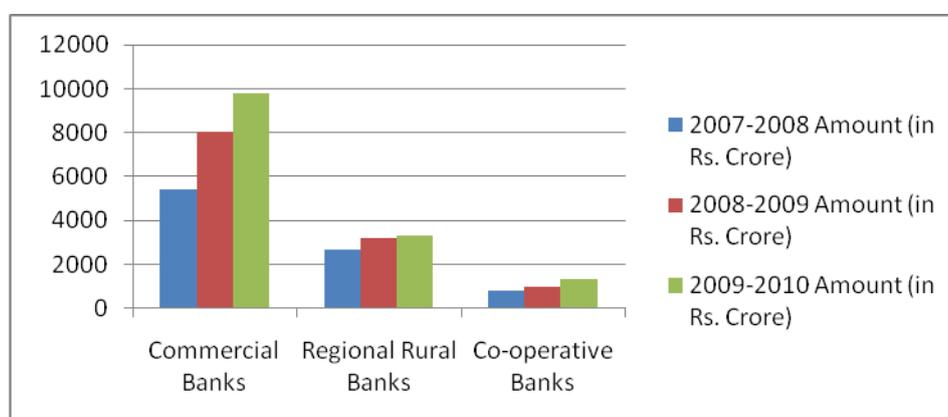
Fig. – 1 (Savings of SHGs)

Credit Disbursed by the Banks - Agency-wise**Table: 3** Agency-wise Credit delivered to SHGs in India (2007-08 to 2009-2010)

Year	Particulars	Bank Agencies			Total	Average credit per group (in Rs.) and their growth
		Commercial Banks	Regional Rural Banks	Co-operative Banks		
2007-08	No. of SHGs	735119 (59.9)	327650 (26.7)	165001 (13.4)	1227770 (100)	
	Amount (in Rs. Crore)	5403.90 (61.1)	2651.84 (30)	793.52 (8.9)	8849.26 (100)	72075
2008-09	No. of SHGs	1004587 (62.4)	405569 (25.2)	199430 (12.4)	1609586 (100)	
	Amount (in Rs. Crore)	8060.53 (65.8)	3193.49 (26.1)	999.49 (8.1)	12253.57 (100)	76128 (5.62)
2009-2010	No. of SHGs	977521 (61.6)	376797 (23.7)	232504 (14.7)	1586822 (100)	
	Amount (in Rs. Crore)	9780.18 (67.7)	3333.20 (23)	1339.92 (9.3)	14453.30 (100)	91083 (19.6)

Source: Microfinance in India, NABARD. Figures in parentheses indicate percentage.

Table-3 presents credits disbursed to SHGs for three years periods from 2007-08 to 2009-10. In the initial study period 2007-08, the relative share of CBs, RRBs and Co-operative Banks are 61.1 percent, 30 percent and 8.9 percent respectively. In the terminal period 2009-10 share of CBs, RRBs and Co-operative Banks are 67.7 percent, 23 percent and 9.3 percent respectively. Thus CBs and Co-operative Banks increased their shares but RRBs lost her share. And, also there is a trend in positive growth in per group credit amounts. The following Fig-2 represents the growth of each formal agency among the study periods.



Bank Loan Outstanding - Agency-wise**Table: 4** Bank Loan Outstanding - Agency-wise (2007-08 to 2009-2010)

Year	Particulars	Bank Agencies			Total	Average loan outstanding (in Rs.)
		Commercial Banks	Regional Rural Banks	Co-operative Banks		
2007-08	No. of SHGs	2378847 (65.6)	875716 (24.2)	371378 (10.2)	3625941 (100)	
	Amount (in Rs. Crore)	11475.47 (67.5)	4421.04 (26)	1103.39 (6.5)	16999.90 (100)	46884
2008-09	No. of SHGs	2831374 (67.1)	977834 (23.1)	415130 (5.8)	4224338 (100)	
	Amount (in Rs. Crore)	16149.43 (71.2)	5224.42 (23)	1306.00 (5.8)	22679.85 (100)	53689
2009-2010	No. of SHGs	3237263 (66.7)	1103980 (22.8)	510113 (10.5)	4851356	
	Amount (in Rs. Crore)	20164.71 (72)	6144.58 (22)	1728.99 (6)	28038.28 (100)	57795

Source: Microfinance in India, NABARD. Figures in parentheses indicate percentage.

Table-4 represents that in case of loan outstanding, CBs also captured first place and followed by RRBs and Co-operative Banks. Agency-wise year to year outstanding loan amounts are shown by the following diagram. An increasing trend in average loan outstanding per group is observed. If this trend continues, it may creat fund problem on part of banks.

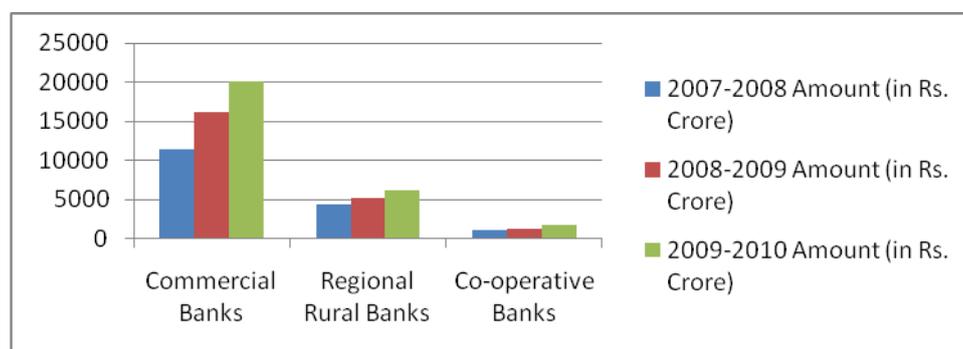


Fig – 3 (SHGs loan outstanding)

Findings:

- CBs and RRBs combined share 70 percent in SHGs savings in 2009-10
- CBs alone hold a predominated share in bank loan disbursement and in bank loan outstanding which are 67.7 percent and 72 percent respectively at the end of the period 2009-10.
- Average amount of loan outstanding is increasing, which may reflect a bad impact on fund.
- RRBs exhibit a down trend in share of credit disbursement.

Conclusion:

Microfinance has been identified as a way to alleviate poverty and to empowerment. The SHGs – Bank Linkage Programme is the largest micro credits and micro savings programme of its kind in the world and unique in India. To form SHGs and provide credits through formal banking institute is a gradual and constant process, but poor people should build their mindset for taking additional efforts willingly for their overall development. SHGs have the potentiality to have an impact on empowerment. To achieve the desire result on account of socio-economic development of the vulnerable section of the society, the financial services should be more inclusive. The policy makers should emphasize on increasing the quality of financial services to serve large number of people and lowering costs to both clients and financial service providers.

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