

An assessment of Women SHGs under SHGBLP over a decade in India

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Abstract:

SHG-Bank Linkage Program is the most prominent microfinance in the formal banking sector. Through this program RBI and NABARD have tried to initiate relationship banking. This program is rapidly expanding its outreach under the pioneering initiative of NABARD, the monitoring and the supervision of RBI along with the promotional support from Government of India. In this study we have estimated the parameter, the change in loan disbursement due to changes in the amount of savings, denoted as $WSHG^L_S$ for 2010-11 to 2018-19 which shows that although the savings growth follows positive trend but it prevails at sub optimal level. There can be substantial growth possible if the bottlenecks of the income generation are identified and implemented policy at central, state and local level accordingly. The purpose of the setup of women SHGs under financial inclusion program can have a desirable outcome if the coordination among Women SHGs- CBs- Institutional and Non-institutional partnership is feasible.

Keywords: SHG-Bank Linkage Program, savings mobilisation, loan disbursement, women SHGs, Non-farm production activities.

1.Introduction:

Economic empowerment of rural underprivileged women is a paramount importance to the Economists, Policy makers and Social scientists. Microfinance has emerged as a vivacious approach to meet the heterogeneous needs through the access of formal financial sector. SHG-Bank Linkage Program is the most prominent microfinance in the formal sector. Through this program RBI and NABARD have tried to initiate relationship banking. This program is rapidly expanding its outreach under the pioneering initiative of NABARD, the monitoring and the supervision of RBI along with the promotional support from Government of India. The benefits of this program are not merely economic, it also helped the rural women gain the leadership qualities, attain self-confidence, self-respect and focuses on capacity building among them.

SHGBLP facilitates the members to pool their small amount of financial resources/savings along with the borrowed resources from banks to provide micro loans to needy members. The repayment of loan collected at shorter duration (intra SHG transaction) and then it is being reused as lending purpose to

other members of the group. Thus this model serves the purpose of recycle the loans within the group by utilising the longer duration bank loan. Hence the credit disbursed by the banks to SHGs serves as credit formation through the multiplier effect in micro finance sector.

1.1.The Microfinance revolution in the context of Grameen Bank:

Microfinance is a small community-oriented microcredit manoeuvres exist since the Franciscian monks in the 15th century. Friedrich Raiffeisen invented the first cooperative lending bank to assist the rural farmers of Germany in mid-1800s. But the commencement of modern microfinance industry started in the village of Jobra, Bangladesh in 1976 on the establishment of Grameen Bank by Nobel laureate economist Muhammad Yunus in 1983. As of today more than 250 institutions on nearly 100 countries are operating micro-credit programs based on the Grameen methodology to initiate economic development. Borrowers of this bank own 93% of the total equity with 7% by Bangladesh Government. Grameen bank stopped soliciting and accepting donor money in 1998 by financing its credit program purely through existing deposits and loans. The total amount of loans disbursed by Grameen Bank since its inception is 3.9 billion dollar, out of this 3.6 billion dollar has been repaid with the substantial recovery rate 97%.

1.2.Self-Help Group (SHG) Model

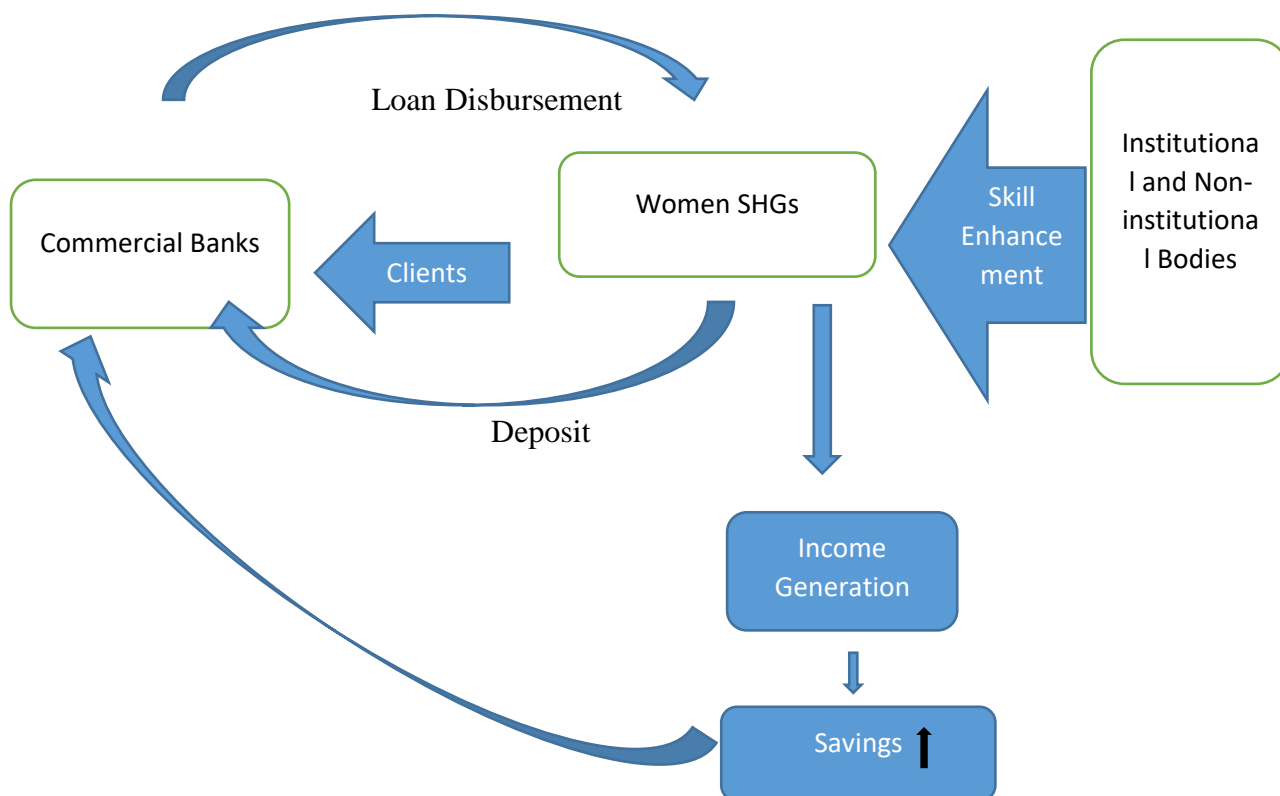
The "self-help group" is the most common microfinance model in India. SHGs are defined by the World Bank's Development Economics 'Capacity Building Unit' as village-based organisations that promote female members' savings, credit, and social empowerment. These organisations are responsible for three major tasks :(i) They serve as an intermediate in transactions involving the formal financial industry. (ii)They provide a vehicle for alternative (i.e., nonpublic) service delivery, such as direct contracting for agriculture or other vocational skills training such as healthcare, childcare, and educational services; and (iii)They provide the members a platform to become more involved in local civic activities. This approach is based on the Grameen Bank's pioneering group lending methodology and is the most widely employed model of microcredit in other analogous communal communities, however individual micro-lending has experienced a recent increase in popularity. The two primary delivery mechanisms for these financial services are :(1) Individuals' relationship-based banking and (2) group-based strategies for bringing together a group of people to apply for loans and other services.

1.3.Efficacy of Women SHG model of Microfinance: Theoretical description

If we assume that women SHG borrowers are risk neutral and have access to project which requires one unit of capital and each yields x units of income where x is independently and identically distributed on $(0, x^*)$ with a continuous distribution function $f(x)$. As the members of women SHGs have less wealth in a developing country like India, therefore they borrow from the formal banking institutions who requires a repayment rate $r > 1$. The upper bound of income generation of women SHGs, x^* is assumed to be greater than r so that the repayment is feasible. If the average income generation of women SHGs is consistent i.e $\bar{x} \geq r$, then the probability of loan default will be less and after the successful repayment the bank will offer to continue sequential lending process.

1.4. The proposed model of capacity generation of Microfinance Industry:

The proposed Model of Women SHGs- CBs –Institutional and Non-institutional partnership is depicted in the following flow chart. The purpose of the setup of women SHGs under financial inclusion program can have desirable outcome if the coordination among them is feasible. This model helps to explain how CBs will have more clients' base and the accumulation of deposits through the savings of women SHGs which channelizes as loan disbursement to them. This loan can be transformed to productive if and only if the income generation opportunities are adequate in local and region level.



1.5. Model developed by researchers

This model is not only act as poverty alleviation in rural and semi urban area but it can utilise the huge potential prevail in India by transforming women SHGs into small production unit. The effective coordination among three economic agents, commercial banks, Women SHGs and Institutional and non-institutional service provider can also enhance financial sector development led economic growth.

Micro finance + Skill enhancement = Capacity ~~Build up~~ → Income Generation

SHG-based microfinance, which falls under the category of village banking, extends the solidarity-type model to 10–20 (primarily female) members. Such a microfinance program follows a group-lending methodology with joint liability clauses inserted into credit transactions and compulsory saving systems.

External loans can be given for up to four times the savings amount. Banks disburse loans under the name of the group rather than the individual member; thus, the group decides how to manage and

allocate those resources. As savings increase through the group operation, the group can access higher amounts of loans from formal bank.

External loan to Groups depends on ----- 1. Gross Savings amount in banks

2. Internal management of loan

3. Age of SHGs

Dr. Soumendu Bhattacharya, Dr. Neeta Majumder

2.Literature Review:

Das and Patnaik (2016) examined the status of women on the basis of four types of banks that have contributed maximum for the objective of women empowerment in West Bengal in terms of savings, loan disbursement and loan outstanding. The study was based on secondary data collected from the reports of NABARD from the year 2009 to 2014. Results indicated a significant difference in the means of these four types of banks in case of providing microfinance and rural credit to the under privileged women of the society. Further in the study it was seen that the total requirements of loans was not being fulfilled by the banks which resulted in huge amount of outstanding loan status, even after the huge disbursement of the loan.

Malakar and Gautam (2016) made an attempt to examine the impact of SHG-bank linkage program in Nalbari district of Assam. For that 100 SHGs who got bank credit in the district were selected randomly. The findings revealed that self help bank linkage program has helped in promoting saving habits and increased the credit absorption capacity of SHG members, thus contributing towards the economic development and social upliftment of economically weaker section of the poor.

Chirkos (2014) studied the impact of microfinance on the lives of poor people in Ethiopia. The study was conducted in two branches of Amhara Credit and savings institutions like Debrator and Estie. For this questionnaires were distributed to the clients of Debrator and Estie branches of ACSI. Sample for this survey was taken 150 with 75 respondents per branch. Findings revealed that the factors which contributed to poverty reduction were training and education, clean water and hygienic environment, nutrition and adequate food, accommodation, income and savings. The results also showed that access to microfinance led to the increase in the income of almost all the clients, thus improving their standard of living.

Nargiza Alimukhamedova (2013) identified the possible transmission channels for microfinance and established the choice of appropriate methodology for the causality testing. This study adopted the Granger-Causality type test to reveal the direction of causality and overcome endogeneity issue. The main purpose was to check the impact of microfinance on the development of financial sector.

Loomba (2013) assessed the role of microfinance in women empowerment and performance of SHGs in Ghaziabad district. From the study she concluded that microfinance loan availment and its productive utilization had a profound influence on the economic status, decision making power, knowledge and self-worthiness of women participants of self-help group bank linkage program in Ghaziabad district.

Chandran and Sandhya (2012) stated that the SHBLP for the credit availability has been able to reduce the transaction costs. It has also enabled the commercial banks to achieve better loan recovery and mobilise low cost funds. In this research they tried to establish that the gradual improvement of this programme can effectively serve the purpose of savings mobilisation in the initial stage followed by the credit creation.

Khan and Raheman (2007) investigated that how microfinance works by using group lending methodology for poverty reduction, empowerment and improving living standards of poor people in Bangladesh. Sample was chosen on the basis of random sampling technique and people involved in microfinance activities were interviewed. The study concluded that access to microfinance has a positive impact on the standard of living of the poor and has also helped the poor to empower themselves.

Khandekar (2003) scrutinised the impact of microfinance on poverty reduction at both the participant and the aggregate level using panel data of two periods of 1991-1992 and 1998-1999 in Bangladesh. Analysis of data revealed that access to microfinance contributed to poverty reduction, especially for female participants and to overall poverty reduction at the village level. He also highlighted that microfinance reduced poverty among non-participants as well through spill over effects in which non participants benefited from the increase in economic activities.

Hatarska (2005) empirically tested the impact of the governance of MFIs in Central and Eastern Europe by using financial sustainability indicators. The author combined three survey data to obtain cross-country observations for 140 Microfinance institutions (MFIs) and estimated a cross-MFI random effect model. The justification of a random effect with MFI performance variable on the left-hand-side is because the impact of time invariant explanatory variables (MFI type, regulatory status, lending technology) is independent of the dependent variable.

An assessment of Women SHGs under SHGBLP over a decade in India

This assumption, however, is quite vague as no formal test was conducted to draw conclusions about the random vs. fixed effect.

Vasantao D. Rupnawar¹ and Rahul S. Kharat (2014) established in their study that south region of India is ahead of other states regarding the outstanding loan disbursement to the Joint Liability Group. It is also evidenced that Tamilnadu is the state that leads in south region and across India as well. Western region like Goa, Maharashtra and Gujarat are left behind in formation of JLGs and loan disbursement.

3. Research Objectives:

- To understand the importance of women SHGs' savings mobilisation in formal banks for the access of loan disbursement
- To estimate the parameter, change in loan disbursement due to changes in the amount of savings of the respective women SHGs. denoted as $WSHG^L_s$ from 2010-11 to 2018-19
- To evaluate the parameter in respect of other subjective factors.

4. Research Methodology:

In this research we have considered the amount of savings of women SHGs in banks is the basic parameter of the granting loan by institutional lenders. Although there are other factors like age of SHGs, loan default rate, managerial and leadership skills of the SHGs etc but these information can only be collected by conducting survey.

We have estimated a parameter denoted as $WSHG^L_s$, which indicates the change in loan disbursement to women SHGs for the changes in the amount of savings of the respective SHGs.

$$WSHG^L_s = \text{Change in loan disbursement } (\Delta L) / \text{Change in the amount of savings } (\Delta S)$$

This can be a very useful indicator to measure the extent of loan access by women SHGs on the basis of their savings deposits in formal banking institutions, as savings increase through the group operation, the group can access higher amounts of loans from formal bank.

Table 1: Overall Progress of Women SHGs from 2009-10 to 2018-19

Year	Savings of Women SHGs with Banks (As on 31st March)	Loans outstanding against women SHGs(As on 31st March)	ΔS	ΔL	$\Delta L / \Delta S$
2009-10	4498.66	23030.36			
2010-11	5298.65	26123.75	799.99	3093.39	3.866786
2011-12	5104.33	30465.28	-194.32	4341.53	-22.3422
2012-13	6514.86	32840.04	1410.53	2374.76	1.683594
2013-14	8012.89	36151.58	1498.03	3311.54	2.210597
2014-15	9264.33	45901.95	1251.44	9750.37	7.79132
2015-16	12035.78	51428.91	2771.45	5526.96	1.994248
2016-17	14283.42	56444.24	2247.64	5015.33	2.231376
2017-18	17497.86	70401.73	3214.44	13957.49	4.342122
2018-19	20473.55	79231.98	2975.69	8830.25	2.967463

Source: Status of Microfinance in India, NABARD

Table 2: Descriptive Statistics of WSHG^Ls

Mean	0.562526
Standard Error	2.926565
Standard Deviation	8.779694
Sample Variance	77.08304
Kurtosis	7.903114
Skewness	-2.72949
Range	30.13349
Minimum	-22.3422
Maximum	7.79132
Sum	4.745339
Correlation of ΔS and ΔL	0.585366
Confidence Level (95%)	6.748671

4.1. Analysis of descriptive statistics:

Standard deviation 8.7 represents that the data set WSHG^Ls is widely spread. Variance 77.08 tell us that the degree of spread in data set is larger. Skewness value -2.72 indicates that the data set is stretched towards the left side more. As we know the limits of the skewness are >3 or < -3 , therefore it has not crossed the negative range of its standard estimates. Kurtosis tells us about the flatness or peakedness of the distribution curve. In our study the kurtosis value 7.9 suggests that it has a thin “bell” with a high peak.

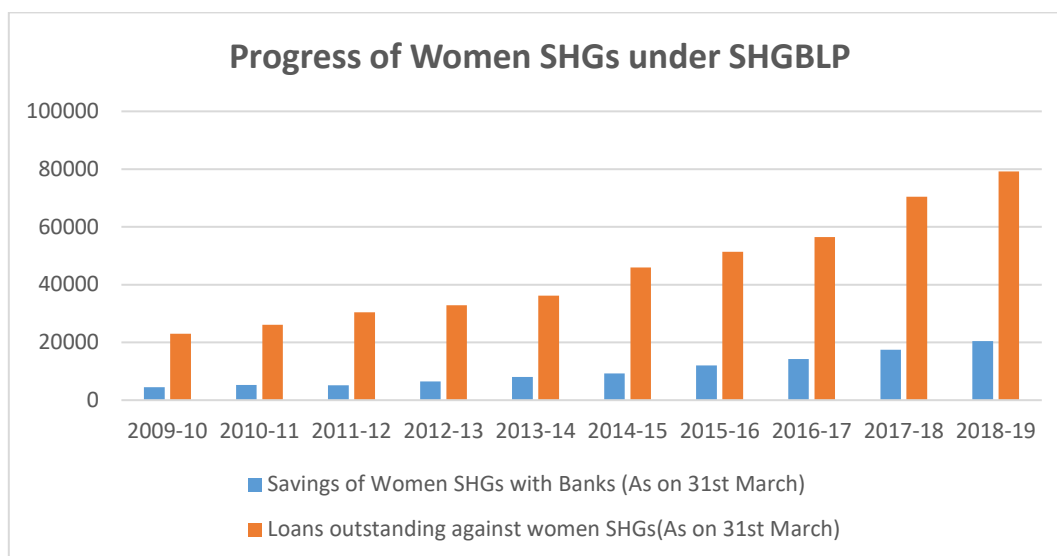
As the correlation of the change in loan disbursement (ΔL) and the change in the amount of savings (ΔS) is 0.58, therefore it indicates that the variables are moderately correlated.

4.2. Interpretation of the descriptive statistics of WSHG^Ls:

The results of descriptive statistics reveals that the credit disbursement for savings of women SHGs do not have stable growth over the select time period. Standard deviation from the mean value is very highly spread and not consistent. This is due to the fact of informal set up of women SHGs, lack of opportunities for non-farm production activities and lack of support from other institutional and non-institutional bodies.

Except 2011-12, savings growth was positive and quite stable but due to the scam in microfinance sector, 2011-12, savings reduced from 5298.65 cr to 5104.33 cr. As this sector is at informal level and potential risk of fraud by private players are there, therefore regulatory and supervisory role at central, state and local level is highly recommended. In 2014-15, credit growth surged at 9750.37 from 3311.54 in 1013-14. Due to high growth of credit, the value of WSHG^Ls reaches at its peak level at 7.79.

Figure 1: Savings and Credit Performance of Women SHGs under SHGBLP



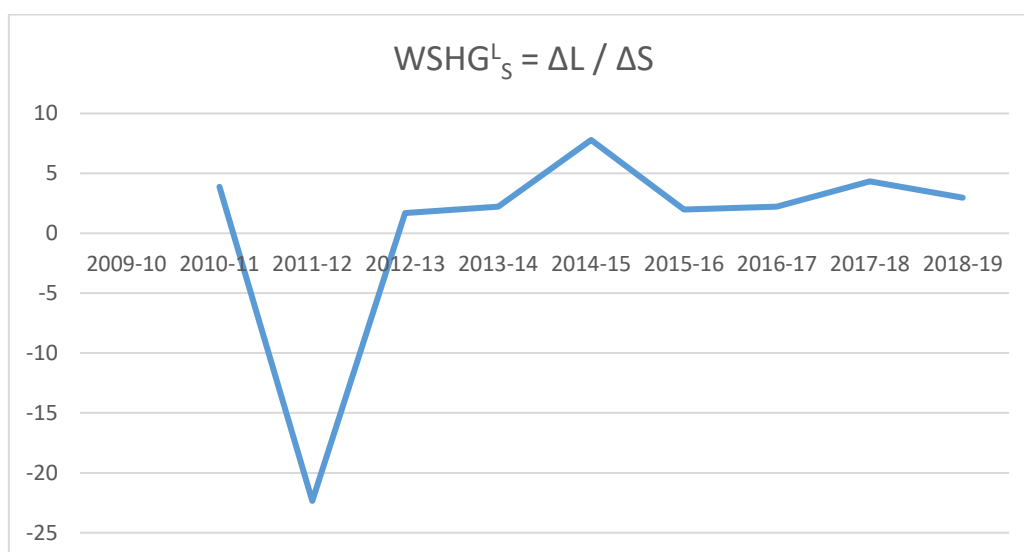
Savings performance of SHGs:

A positive trend of savings outstanding of women SHGs act as its strength as it can meet the exigencies of members through internal lending with joint liability clauses as well as can source a bank loan for the suitable investment plan. The savings outstanding of women SHGs as on 31st March 2018-19 has reached all-time high of Rs. 19,592 crore.

Credit performance of SHGs:

As of 31st March 2018-19, credit outstanding of 44.61 lakh women SHGs was Rs 79,231.98 crore as against Rs. 70401.73 crore in 2017-18, recording 12.54% rise. The rise in the outstanding of loan is due to 19.51% increase of credit disbursement during the year.

Figure 2: Trend of WSHG^L_s



It is known that the credit disbursement to the women SHGs substantially depend on the performance of savings but the estimate $\Delta L / \Delta S$ shows that except 2014-15 and 2017-18 credit growth based on savings was not satisfactory. In 2011-12, the value of $WSHG^L_s$ has been dropped to -22.34, due to the reduction of savings from 5298.65 in 2010-11 to 5104.33 in 2011-12. Therefore it is strongly recommend that savings mobilisation is the basic parameter for the loan disbursement to women SHGs. The data described in table. 1 represents aggregate loan and savings of all women SHGs in India, but there are spatial and other differences on the performance of women SHGs. In some states like Andrapradesh and Tamilnadu, women SHGs are substantially performed well and the loan has utilised in mostly productive purposes, hence generated income followed by asset creation. But in some states women SHGs are in vulnerable standard due to lack of awareness, skill and support from other institutional and non-institutional bodies.

Therefore it can be inferred from the above result that savings mobilisation is not substantially satisfactory due to the lack of opportunities of production activities in some states due to political, geographical and other constraints.

The scope of microfinance as an alternative inflow in capital markets is huge in the developing country like India. But the leakages of the flow as an unproductive asset or idle fund will not be used as a mechanism of economic development and eradication of poverty in the long run perspective.

The purpose of the loan disbursement through the formation of women SHGs envisage the integration of the economic empowerment of underprivileged women into country's financial system that leads to positive impact on economic growth. But the study shows that although the savings growth follows positive trend but it prevails at sub optimal level. There can be substantial growth possible if the bottlenecks of the income generating activities can be identified and implemented policy accordingly.

5. Conclusion and Policy recommendations:

SHG Bank linkage program is a strong intermediation for economic enablement and financial inclusion for the bottom of the pyramid mainly underprivileged women. This model has been graduated for the promotion of livelihoods and poverty alleviation which also empower the rural women to live life with dignity.

The importance of inclusive development is the crucial determinant of economic growth with equity for a vast and diverse country like India. To initiate the inclusive growth agenda different financial products and services are offered to the most underprivileged classes by promoting SHGBLP through leveraging group dynamic mechanism.

The study depicts that savings mobilisation by Women SHGs are not substantially satisfactory due to the lack of income generating economic activities available for them. This huge informal sector has full potential to contribute into India's GDP. As savings of them is the crucial parameter for disbursing the loan from formal banking sector, therefore the initiatives by Govt at local, region and state level alongwith the private sector involvement can strengthen and improvise the microfinance industry effectively.

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