

Role of Self Help Groups (SHGs) in Accelerating Financial Inclusion

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Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of economic empowerment of the vulnerable groups. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include savings, credit, insurance and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another, so that they can come out of poverty.

To achieve financial inclusion or to reach the un-reached the Reserve Bank India has been taken many steps such as i) no frill accounts, ii) overdraft in savings, bank accounts, iii) business correspondent and business facilitator model, iv) KCC/GCC guidelines, v) liberalised branch expansion, vi) liberalised policy for ATM, vii) introducing technology products and services, viii) allowing RRBs/ Co-operative banks to sell insurance and financial products, ix) financial literacy program, x) creation of special funds (FIF and FITF) and xi) identification of 431 districts by the SLBC Convenor Banks for 100 percent financial inclusion across the country.

The poverty ratio in rural areas among the social categories, Scheduled Tribes exhibit the highest level of poverty (47.4%) followed by Scheduled Castes (SCs) (42.3%) and Other Backward Classes (OBC) (31.9%) against 33.8% for all classes (Planning Commission, Government of India, 2012). According to NSSO survey, 51.4% of farmer households are financially excluded from both formal /non-formal sources. Of the total farmer households, only 27% access formal sources of credit and one third of this group even borrow from other non-formal sources. About 36% of Scheduled Tribe (ST) farmer households are indebted mostly to non-formal sources (Rangarajan, C. 2008). The Committee has recommended to 'encourage SHGs in excluded regions' as one the recommendations to achieve financial inclusion.

India's Self Help Group (SHG) movement has emerged as the world's largest and most successful community based poverty alleviation and empowerment program. It is predominantly a women's movement. As some experts have pointed out, it is a development innovation in its own right. The SHG bank linkage program (SBLP), which is the India's own innovation has proved to be one of the most effective community based microfinance programs. The SBLP had a modest beginning with 255 credit linked groups and loan amount of Rs. 29 lakh in 1992-93. Since then the program has grown exponentially. In the process, SHGs emerged as a mass movement across the country and largest community based microfinance model in the world. As per NABARD's microfinance report by March 2012, 79.6 lakh SHGs, with an estimated membership of 9.7 crores, have savings accounts in the banks, with aggregate bank balance of Rs. 6,551 crores. Over 43.54 lakh SHGs have loan accounts with total loan outstanding of

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Rs. 36,340 crores. However, there remain regional disparities in the growth of the SHG movement with limited progress in eastern and western regions.

SHG Bank Linkage Programme During the Last Three Years			
Particulars	2009-10	2010-11	2011-12
1. No. of SHGs savings linked	69,53,250	74,61,946	79,60,349
2. Savings amount in SB Account (Rs. in Lakh)	6,19,871	7,01,630	6,55,141
3. Bank loans disbursed to SHGs during the year	15,86,822	11,96,134	11,47,878
4. Amount disbursed during the year (Rs. in lakh)	14,45,330	14,54,773	16,53,477
5. No. of SHGs having loans outstanding	48,51,356	47,86,763	43,54,442
6. Amount of loan outstanding (Rs. in lakh)	28,03,828	31,22,117	36,34,000
7. Amount of Gross NPAs Against SHGs	82,304	1,47,411	2,21,273

Source: Status of Microfinance in India, 2009-10; 2010-11; 2011-12

Growth of SHG Bank linkage programme in India during the last three years: The data shows that the number of SHGs savings linked to banks has increased during the period 2009-10 to 2011-12. The balance in SHGs' SB accounts has increased during 2010-11 and it has decreased during 2011-12. The number of SHGs credit linked with banks has decreased from 2009-10 to 2011-12; however, the amount of loan disbursed has increased during the period. The number of SHGs having loans outstanding with banks has been decreased year to year, but the amount of loan outstanding has increased. Further, the amount of gross non-performing assets against SHGs has increased during the period.

Number of SHG federations: There are 1,66,742 SHG federations in India (APMAS, 2012). Of the total federations, 1,60,286 (96.1%) are primary federations, 6,358 (3.8%) are secondary federations and the remaining 98 (0.1%) are tertiary federations. Like SHGs in the country, there is an uneven growth in the formation of federations between different regions in the country. Majority of the primary and secondary federations are in the Southern and eastern regions of the country (see table below).

Region-wise Promotion of SHG Federations in India as on March 2012				
Region	No. of SHG Federations			
	Primary	Secondary	Tertiary	Total
1. Northern	371	24	14	409
2. North Eastern	369	18	0	387
3. Eastern	62,189	2,940	56	65,185
4. Central	5,459	180	2	5,641
5. Western	8,629	11	1	8,641
6. Southern	83,268	3,185	25	86,478
7. Union Territories	1	0	0	1
Total	160,286	6,358	98	166,742

Credit linkage with banks by improving the quality of SHGs: According to a study conducted by ENABLE network (2012) many SHGs are in A-grade (42%) followed by B-grade (36%) and C-grade (22%). There are many issues related to quality of the SHGs such as i) limited focus on growth of savings and need based savings products, ii) there are still some SHGs with no fixed meeting date/day and regular meetings, iii) poor quality of book keeping, iv) low incidence of leadership change, v) high dependency on external funds, vi) absence of lending from internal funds, vii) large amount of idle

funds etc. As a result, many SHGs are not credit linked to banks. The promoting institutions and banks should pay attention on the strengthening of SHGs as the quality of SHGs is linked to credit linkage with banks and volume of loan.

Financial inclusion as one of the agenda points for SHG/Federation meetings: Financial agenda is dominant in majority of the SHGs. Mostly it is confined to savings, and disbursement and repayment of loans. To create financial literacy among the SHG members and their household members, the SHGs should introduce financial inclusion aspects as mandatory agenda for SHG/federation meetings that would help in creating awareness among the rural households on financial inclusion.

Engagement of SHGs and federations in promotion and strengthening of SHGs: A number of SHGs have taken part in the implementation of various welfare and development programmes of the Government and are increasingly addressing various social issues. Many old SHGs and their federations promoted by NGOs and Government have formed new SHGs and revived defunct groups with their rich experience. Community to community approach using the services of 'Jankars' and 'Community Resource Persons' proved to be a cost effective approach for scaling up and sustaining SHG movement. For saturating the villages with almost all the poor households having membership in SHGs, older SHGs and SHG federations can play a significant role. As a result, many poor will be brought into SHGs and to access financial services from the formal financial institutions.

Focus on SHG bank credit linkages: In majority of the states and union territories not even 50% of SHGs are credit linked to banks. About 45% of the SHGs do not have active loans with banks. The average loan size is Rs. 1.44 lakh. But there is a wide disparity between states in the percentage of SHGs credit linked to banks and the average loan amount. In the state where the SHG programme is poor in implementation and the loan is small the promoters and the bankers should pay attention in addressing those gaps.

Bulk lending to federations: Most of the SHG federations in India are multi-purpose federations and they provide multiple services such as financial services, livelihood services and social services. Many federations are engaged in financial services such as savings, loans, insurance, remittance services, and act as business correspondents and business facilitator of a bank. In terms of accessibility, the federations are in their vicinity, when compared to banks; besides there are many issues in SHG-BL programme. In this milieu, bulk lending to federations is more appropriate to reach un-reached and to provide quality financial services to their member organizations and their members.

Need based lending for livelihood promotion: Many research studies reported that about 80-85 percent of the SHGs disburse loans to their members equally rather than based on need. Further, banks also decide the loan volume based on the no. of linkages rather than credit plans submitted by SHGs. As a result many are unable to use bank loan for productive purposes. The SHGs, banks and the facilitating agencies should encourage livelihood promotion with need based lending, which contributes to the reduction poverty and inclusive growth of the country.

Skill building and monitoring of loan utilization & recovery: The SHGs and federations can play a role in skill building and financial literacy by enhancing loan absorption capacity of their members; further, it can also play a monitoring role by supervising

whether the members are using loans for productive purposes or not. The loan absorption capacity or the loan for income generation activity influences the repayment rate which in turn persuades credit access with banks in future.

Linkages with line departments and institutions: To cater the needs of their members the SHGs/federations should establish linkages with various financial institutions and the other service providers. Further, a clear understanding in Government, Line Departments, Banks and Micro Finance Institutions is needed about what a self help group really is with its own mission and functions.

Adoption of technology by the SHGs: There is a need for using technology based multi-channel approach to reach the un-reached. There are lot of innovations such as handheld devices, mobiles, cards, Micro-ATMs etc are implementing in small scale in the sector. These initiatives must be scaled up with necessary infrastructure.

SHGs and Federations can act as Business Correspondents and Business Facilitators: As per the Reserve Bank of India, Jan 2006 guidelines banks are allowed to employ two categories of intermediaries - Business Correspondents (BCs) and Business Facilitators (BFs) - to expand their outreach. According to the guidelines, while the BCs are permitted to carry out transactions on behalf of the bank as agents, the BFs can refer clients, pursue the clients' proposal and facilitate the bank to carry out its transactions, but cannot transact on behalf of the bank. Many research studies are saying that the SHGs have brought positive changes at household and villages level especially in the attitude of men towards the SHG members and their activities. If SHG Federations allow as BCs, would succeed in social mobilization, creating awareness among the villages on financial literacy, opening of accounts, promotion of savings, accessing credit, repayment, recovery etc.

The other possibility is that linking of SHG and SHG federation transactions with business correspondents that has dual implications –i) helps BC to sustain financially by increasing the volume of business and ii) the SHGs can get the quality services on low cost at door steps by minimizing the cost like travel expenses, loss of time and wages, misuse use of funds etc.

In conclusion, If the SHGs, SHG federations, promoters, banks and other agencies working works towards the quality of SHGs to evolve as member owned, managed and controlled institutions; provide an environment to access quality services from financial and non-financial agencies, the SHGs would significantly contribute to achieve the goals of financial inclusion and inclusive growth.

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