

# SUSTAINABILITY OF SHGs – BANK LINKAGE PROGRAMME : THE INDIAN EXPERIENCE

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## ABSTRACT

**The Scheme of micro financing through SHGs creates empowerment-promoting conditions for poor to move from positions of marginalization and exclusion within community. The basic objective of this study is to assess the sustainability of SHGs-Bank Linkage Programme in India. The sample selected for the present study is Patehara Kalan Block of Mirzapur District (U.P). The present analysis shows that we are unable to reap the full benefits of this marvelous tool of social engineering. The study concludes that the SHGs- Bank Linkage Programme is the biggest programme of its kinds in the world and if implemented effectively in more feasible process, this scheme has the best potential to alleviate poverty. Further, the study offers some fruitful initiatives for long term sustainability of this programme.**

## 1. INTRODUCTION

Micro finance programmes are currently being promoted as a key strategy for addressing poverty alleviation and rural empowerment. Before 1990, there were certain misconception about the poor people that they need loan at subsidized rates of interest on soft terms, they lack skills, capacity to save, credit worthiness and therefore are not bankable. Nevertheless, the experiences have revealed that real poor are actually efficient managers of credit and finance. Availability of timely and adequate credit is essential for their enterprises rather than subsidies. Earlier government efforts through various poverty alleviation schemes for self employment by providing credit and subsidy received little success. Since most of them were target based involving various government agencies and banks. The micro finance programmes are known for

their potential to generate income and employment and alleviate poverty in developing countries. Moreover, micro finance has come to be regarded as a supplementary development paradigm, which widens the financial service delivery system by linking the large rural population with formal financial institutions through self-help groups (SHGs). The Scheme of micro financing through SHGs creates empowerment-promoting conditions for poor to move from positions of marginalization and exclusion within community. A SHG consists an average size of 15 people from a homogeneous social or economic class, all of who come together for addressing their common problems. The SHGs meet regularly and save small sums of money. They route these small pooled savings as loans within the SHG. They maintain records of such financial transactions and

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slowly learn the basic aspect of micro banking. They then approach a bank and leverage their accumulated savings for higher loans, which they then intermediate within the SHG. The groups are promoted either by bank or non- governmental organization (NGOs) and are credit linked to various models developed by banks. Since the introduction of financial sector reforms in 1991 the banks are using these distinct linkage models to finance SHG s.

1. Model I: Banks provide microfinance to non-governmental organisations (NGOs) for lending to SHGs and ultimately to the micro entrepreneur (it covers about 27% of SHGs).
2. Model II : Banks provide direct finance to SHGs for lending to micro entrepreneurs (It covers 17% of SHGs)
3. Model III : Banks finance directly to SHGs for on landing to micro entrepreneurs with the intervention of NGOs as social mobilizes and facilitators (It covers 56% of SHGs )
4. Model IV: the fourth model envisages bank loans directly to individual member of SHGs upon recommendation of the SHGs and NGOs. In this case, the NGOs assists the bank in monitoring, supervising and recovery of loans.

The NABARD report (2005-06) suggests that the cumulative number of SHGs financed by bank up to March 2006 was approximately 2.3 million persons. The report also points out that more than 7.8 lath new SHGs were formed during 2005-06 and the banks extended total finance of Rs. 620109 crores. Regarding the regional distribution of SHGs the report suggests that more than half the SHGs (12.1 lakh up to March 2006) are operating in south India, followed by 3.9 lakhs in the east and 2.7 lakhs in central region. However, the north-east has only

about 60000 SHGs. The existing literature on SHGs- bank linkage program reveals an overall picture of great promise on the socio-economic well being of members' household (Puhazhendi and Satyasai, 2000, and Puhazhendi and Badatya, 2002)

## 2. Objectives, Sample Design and Methodology:

The basic objective of this study is to assess the sustainability of SHGs-Bank Linkage Programme in India. This has been initiated with the following specific objectives:

- 1) To assess the establishing proper SHG process
- 2) To appraise the financial viability of SHGs
- 3) To inquire the involvement of SHGs in community based activities, convergence with other schemes and saturation of SHGs.

In the light of abovementioned objectives, relevant literatures, development plans and their achievements and the role of various Government and Non-Government agencies have been studied. The present study is an innovative study based on primary as well as secondary sources of data and information. The primary data and information have been obtained by interviewing various stakeholders/ authorities engaged in SHGs-Bank Linkage programme in Patehara Kalan Block (Mirzapur UP). The secondary data and information have been collected from various publications of Government and Non-Government agencies i.e. Economic Survey of India, Five Year Plan Documents, Economic Times, Times of India, Economic and Political Weekly, publications of NABARD and RBI and various publications of District Rural Development Authority (DRDA), Mirzapur etc. The study analyses the data and information pertaining to

selected five SHGs Of Patehara Kalan Block of Mirzapur district,UP. The study has been initiated with relevant comparative charts, percentages, and statistical averages etc.

### 3. A Review of Earlier Studies:

Much has happened in this sector during the past decade and a number of studies have already evaluated the outreach and coverage of SHG programmes, of which we have reviewed some. In this section, we present a review of a number of studies that has gone in to the various socio –economic issues related to SHGs in India – self confidence, communication skills, positive behavioral changes, savings, incomes and assets.

- In India the first survey on SHGs was undertaken by NABARD, alongwith other Indian members of the Asia and Pacific Regional Agricultural Credit Association. They conducted an action research on linking SHGs with the concept of savings and credit in 1987, and published the outcome of the research in the form of a survey report in 1989. The survey was carried out in the form of case studies of 46 SHGs spread over 11 states. Out of all the SHGs sampled, 17 had savings collection and credit provision as a major activity. Another 13 were engaged in farming or farm based activities, five were into social forestry and forestation, eight were engaged in non farm activities and three were occupied in diverse occupations.
- The first impact study of NABARD on SHG-Bank linkage programme was carried out by Puhazhendhi and Satyasoi for NABARD in 2000. The study assessed the impact of microfinance on socio- economic conditions of 560 household members from 223 SHGs located in 11 states.

The study included SHGs that had completed a minimum of one year of bank linkage as on march 31, 1999. The results of the above study suggest that people who come together to form SHGs end up better off in social and Economic terms. The average value of assets per household was Rs. 6843 during the pre SHG period, which increased by 72.3 per cent to Rs. 11793 in the post SHG period. In addition, the study stated that the composite index of different socio-economic parameter increased from 40 to 65 from the pre SHG to post SHG period. On the performance of different model types, it was reported that linkage model involving NGOs as either facilitator or financial intermediary, recorded better performance than other.

- Another impact study on SHG linkage programme in India was carried out by Puhazhendhi and Badatya in 2002. The study assessed the impact on SHG members in three eastern states i.e. Orissa, Jharkhand and Chattisgarh. The analysis of the study was based on primary data collected from sample of 115 members of 60 SHGs. The overall findings of the study suggest that the SHG bank linkage programme has made a significant impact on social and economic improvement of SHG members. The net incomes of SHG member households increased by 23 percent, from Rs. 12319 to 15814 after forming the SHG. With regard to employment, the study found that employment per household increased by 34 percent between the pre SHG and post SHG situations. The share of BPL household was reduced from a high of 88 percent to about 75 percent in the SHG after its group formation and activities; there was also a remarkable improvement in the social

empowerment of SHG members in terms of self confidence, as reflected in their decision making abilities and communication skills. Sustainability of SHGs was well established in terms of increased Value of assets and savings rate, better access to institutional loans, higher rate of repayment of loans, elimination of informal sources and impressive social empowerment.

- The study on SHGs conducted by EDA Rural System and APMAS (2006) addressed a wide range of issues including causes of dropouts from SHGs and internal politics, and issues of social harmony and social justice, community actions, books-keepings, equity and defaults etc. On issues related to sustainability and financial aspects of SHGs, the study found that the quality of record notebooks was good only in 15 percent of groups, moderate in 39 percent and weak in 40 percent. The governments promoted groups were weakest in record Keeping and were half as likely as NGO or bank promoted groups to have well or moderately maintained records. In matters of distribution of loan amount, the number of non- borrowers was quite small – 5 percent in southern region and 8 percent in the north. Group leaders generally had better access to loans. The study evaluated the repayment of loans by members to SHGs on monthly basis. It was found that 24 percent of borrowers were more than three months behind schedules on repayments and defaults by 12 months were significantly higher for the very poor borrower.
- A study by Meissner (2006) examined the viability of SHGs lending in a regional rural bank branch in Alwar district of Rajasthan. The analysis of the study was based on survey data collected for 2004-05. The Study found that the SHG lending operation of the branch were viable and sustainable. Moreover the study revealed that the branch accumulated more profits from SHG lending (3.9 percent of loan outstanding) than that from normal lending operations (3.1 percent). The study also highlighted the importance for the viability of SHG lending operations lies in the low risk costs of SHG lending in comparison to normal transactions.
- A study by Chakrabarti (2004) reassessed the micro finance scenario in India and the impact of micro finance programme on poverty eradication. Based on the secondary data, study found that the focuses of banking, particularly of RRBs over the period, had shifted from outreach to financial profitability. The study acknowledged the role of NGOs in promoting micro finance programmes. Though over half of the SHGs were formed by government agencies, NGOs continue to play a critical role in promoting and financing SHGs. In the policy perspective, the study stated that micro finance programmes have improved in various respects significantly. However the scope for further improvement is unlimited.
- Prabhu Ghatge (2006) reviewed the findings of three important studies, Prakash and others (2005) APMAS (2005) and EDA rural system & APMAS (2006). The review revealed that groups formed by government agencies tend to be the weakest and reducing their share relative to those promoted by NGOs. The study also reports that the key to a group's prospect of achieving equity, longevity and reduction of dropout rates lies in improving its

bookkeeping capacity and formation of clusters and federations. In policy recommendations, the study states that there is need for slowing down of coverage and increasing the focus on quality. In this regard, it suggests that only indicative targets for the undeserved states and regions within them be encouraged. Policies could also be developed to ensure better books keeping effective training programmes and helping to devise viable incentives for participation in the system.

### 3. Sustainability of Self Help Groups : Results and Discussion

The SHG driven micro finance movement (MFM) has been flourishing in India for last two decades. Besides the state government which is promoting these institutions in big way, many NGOs are actively involved in forming and nurturing the SHGs. Programmes like Swarnjayanti Gram Swarojagar Yojana (SGSY) come under the rubric of poverty alleviation programmes which adopt a self help group approach for establishing micro enterprises in rural areas. The ideology of SGSY stems from realization that well targeted subsidies are still required by poor. The District Rural Development Authority implements SGSY, which also supports creation of self employment opportunities in rural areas. This scheme supports both men's and woman's SHGs which can be provided some revolving loan after grading of their performance. The village extension worker form and nurture these SHGs.

Considering that the SHG movement is two decade old, not much information on the processes supporting their long- term sustainability is available. It was earlier considered that once SHGs become part of a bigger federation and transform their role, they would last for a long-time.

However, with a large number of members withdrawing after few years, SHG members not growing beyond weak survival enterprises and substantial attrition rate after withdrawal of the promoting organization, the role of SHG networks in ensuring sustainability needed a reexamination.

The experiences of SHGs development has shown that a SHG has to fulfil following criteria a for its long term sustainability: it should establish proper processes, be financially viably, there should be a critical mass of SHGs in the village, it should be a part of large federation, its members should be involved in some community action and the SHG should be able to access few regular schemes of the government. In this section, an effort has been made to test the following SHGs of Patehara Kalan block (Mirzapur, U.P.) against these parameters to evaluate their approaches and strategy for long- term sustainability.

- 1) Mahabeer SHG, Kusumha
- 2) Dakshinanchal SHG, Gopalpur
- 3) Neelu SHG Gopalpur
- 4) Gautam Budhdha SHG, Patewar
- 5) Vikash SHG, Bhadauha.

The basic descriptive information about these SHGs has been exhibited in Table 1.

**a. *Establishing proper SHG process*** : Some of the basic and immutable principles of SHG formation are of voluntary nature, members coming from similar socio- economic background and they form a group for a specified purpose. Once a group is formed, it should meet regularly, members should attend group meetings and they should participate in decision making process. To ensure involvement of every member, strategies like rotation of

membership, training of members, decisions taken only in group meetings, maintenance of records by group member themselves etc. are adopted. Quality of SHGs can be improved with systematic provision of various inputs during their formation stage. Group meeting of the SHGs deals with savings and credit issues only without discussing other matters like awareness generation, literacy, health, sanitation and issues relating the lives of poor rural women. In such a situation, meetings become just a ritual without any significance and responsibility of maintaining records, collection of saving and repayment of loan etc. As it can be seen from the Table 2, the SHGs are likely to face problems due to lack of training and audit of SHG accounts. Rotation of leadership was not practiced by any SHG covered under the study. This may be attributed to lack of literary and numerical skills among members of the group. Lack of proper capacity building inputs provided to the members has also been a major cause of slow growth of SHGs in this region.

- b. **Financial Viability of SHGs** : Financial viability does not only consist of generation of surplus of income over expenditure, but also require putting in place a very good system of audit of group accounts, fast rotation of group funds, mixing warm money with cold money, control over loan defaults, access to external funds and ensuring credit availability to majority of members. Although, the group accounts of the SHGs under study was not maintained properly, as it can be seen from table 3, the SHGs routed fund and arranged adequate credit to its members and showed satisfactory fund management practice. It can be

seen that the SHGs were able to provide micro credit to a large number of members. Every SHG was able to rotate their savings at least once and the performance was best since they were able to leverage substantial intuitional finance.

The issue of setting up proper audit system becomes important with increasing financial transaction in SHGs. But none of the SHGs covered under study, could put into place a reliable audit system. The loan repayment rate in all the SHGs was 100%. However, tiny loans even if repaid fully, can not help members to come out of poverty and such loans may be fully repaid since members can afford it. Income generating activities started by all the SHGs remained typically “feminine” showing low investment –low risk -low returns cycle. They can be explained as the limitations of the promoting organisations in skill enhancement of members leading to limited credit absorption capacity of their members and low total loans to savings ratio in the SHGs.

- c. **Involvement in Community Based Activities** : SHGs mature faster with awareness of members and lively meetings of members where various non-financial issues affecting the poor are discussed. In fact restricting the SHG members to savings and credit activities for a long time appears to be under utilization of the potential of SHGs. The SHGs have proved to be very effective in tackling community level issues like alcoholism, getting work done through government system, sanitation, water supply management etc. However, initiating them into such activities requires considerable efforts by highly trained field workers and as

table 4 shows, none of these SHGs had played any worthwhile role in handling issues affecting the community.

- d. **Convergence with other schemes** : It is necessary for SHGs to get linked with existing schemes of the government for being able to keep on accessing other sources of funds and support in future. But unfortunately no convergence was tried by any of the SHG covered under study.
- e. **Saturation of SHGs** : Although the SHGs in Mirzapur have done reasonably well in promoting micro finance discipline among their members, political and social aspects of empowerment have been completely neglected in all the SHGs. Moreover, none of them have developed an appropriate strategy for training and capacity building of their members. All the five SHGs have engaged external monitoring and evaluation agencies for concurrent evaluation and monitoring of the project.

#### 4. Conclusion & Suggestion

Although, the SHGs- Bank Linkage Programmes had shown considerable potential in the beginning of the last decade, present analysis shows that we are unable to reap the full benefits of this marvelous tool of social engineering. Majority of the SHGs could not address the gender concerns of members, could not succeed in reducing their poverty and could not empower them socially and politically. This was probably due to the fact that implementers treated SHGs as a 'stand alone' organization literally owned by them and resisted their converge with other on- going programmes for wage and self employment. This failure is now leading to withdrawal of the members and also stagnating the SHGs. With a view to utilize the potential of SHGs and link them

actively with livelihood, employment generation and other opportunities, few initiatives are described below.

1. Although none of the SHG in Patehara Kala Block are following the parameters which are necessary for long-term sustainability. A better focus on audit, systematic training and active convergence with schemes of the government can provide these groups a better chance of long-term sustainability.
2. Implantation of SGSY suffers from many of the same constraints and limitations of the earlier poverty alleviation programmes. Factors such as mindset of functionaries, SHG formation and nurturing, capacity building of members, entrepreneurship training etc. needs to be reengineered.
3. The promotion of project philosophy, creating a sense of solidarity among members, creating a larger forum for taking up community level issues at Village Panchayat level are vital for long- term sustainability of SHGs. These may also reduce the implementation cost.
4. Federating all the SHGs working in a Block/District is a must for sustainability of SHGs. This federation is expected to provide managerial, technical and financial assistance to SHGs working in the Block/ District. This may augments functioning of SHGs in a big way.
5. While emphasizing the need for sustainability, the focus should be on social intermediation through a combination of interventions which includes gender awareness, health, education, sanitation, population problems etc. so that social, political and economic empowerment may take place in a better way.

At last it can be inferred that SGSY is the biggest programme of its kinds in the world and the average size of assistance available to the borrower under this programme is much larger than those of the normal micro credit initiatives in India. Henceforth, if implemented effectively in

more feasible manner, this scheme has the best potential to alleviate poverty from the rural India. The special projects component of this scheme provides an avenue for experimentation and ensuring better linkages for long- term sustainability of the SHGs.

**Table 1: Basic Inputs about SHGs in Patehara Kalan Block Mirzapur UP)**

1. Group type no of members/ men/women/SC/ST	10/Male/S C	20/Male/O BC	20/Female / SC	10/Male/ SC	20/Male/SC
2. Saving Amount (Rs. Per Month)	250	550	280	250	600
3. Revolving Fund from DRDA (Dare and Amt)	19.10.02 10000/=	24.07.04 10000/=	18.08.03 10000/=	05.04.06 10000/=	15.02.07 10000/=
4. First loan (Date and Amt)	04.07.03 2.5 Lakh	30.11.05 2.8 Lakh	16. 11.05 2.8 Lakh	15. 12.07 2.5 Lakh	18. 11.07 2.4 Lakh
5. Payment System of Loan Instalment	Lump sum	Lump sum	Lump sum	Lump sum	Lump sum

**Table 2: Fund Management among SHGs in Mirzapur - Project**

1. % of Members who Received Loans	100%	100%	100%	100%	100%
2. Credit - Savings Ratio					
3. Total Loans-saving Ratio					
4. Average credit per Loan (Rs.)	7000%	2500%	2000%	4500%	5000%
5. Loan Repayment hate (%)	100%	100%	100%	100%	100%
6. SHG Audit System	No	No	No	No	No

**Table 3: Other Parameter for Sustainability of SHGs in Mirzapur Project**

1. % of Members who Received Loans	100%	100%	100%	100%	100%
2. Credit - Savings Ratio					
3. Total Loans-saving Ratio					
4. Average credit per Loan (Rs.)	7000%	2500%	2000%	4500%	5000%
5. Loan Repayment hate (%)	100%	100%	100%	100%	100%
6. SHG Audit System	No	No	No	No	No

Table 4. Group Processes among SHGs in Mirzapur:

Project	Mahabeer SHG Kushumha	Dakshina nehal	Neelu SHG Gopalpur	Goufam Budhdha SHG, Patewar	Vikash SHG Bhadauhan
1. Age of SHG	07 Years	05 Years	6 Years	3 Years	3 Years
2. Meetings	Regular	Regular	Regular	Regular	Regular
3. Attendance	100%	100%	100%	100%	100%
4. Savings	Regular	Regular	Regular	Regular	Regular
5. Internal Loans	After 6 months				
6. Records	Maintained by extension workers				
7. Capacity Building	Nominal	Nominal	Nominal	Nominal	Nominal
8. S Rell Training	None	None	None	None	None
9. Patation of Leadership	No	No	No	No	No
10. % of Members in Income Generating Activities	100%	100%	100%	100%	100%

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