

STATUS OF MICROFINANCE IN INDIA: A REVIEW OF GROWTH AND CURRENT PERSPECTIVE OF SHG-BANK LINKAGE PROGRAM IN INDIA

Bhashkar Pandey

Research Scholar,
P.N.G. Govt. Post Graduate College,
Ramnagar, Kumaun University,
Nainital, Uttarakhand, India
Email: bhashkarpandey997@gmail.com

Abstract

Over the past few years, there has been a remarkable evolution in the Indian microfinance sector. The Microfinance Institution (MFI)-Bank Linkage Model and the SHG-Bank Linkage Model (SHG-BLM) are the two main models used in India to deliver microfinance. The most effective widely utilized microfinance model in India is the SHG-BLP, which was created by NABARD. The SHG-BLP was first introduced by the National Bank for Agriculture and Rural Development (NABARD) in February 1992. Under this program, banks were linked to Self Help Groups (SHGs) to distribute credit as well as savings. Since 1992, the program has expanded greatly and gradually covers the all regions for the country. Due to its scale and the number of people it serves, the SHG Bank Linkage Programme (SHG-BLP) is currently the largest microfinance initiative globally. In this background, the paper attempts to study the current status and progress made under the SHG-Bank Linkage Model in India.

Keywords: Microfinance, MFIs, SHG, SHG-BLP, Financial inclusion.

Introduction

In a developing nation such as India, it is imperative to assist low-income families and raise their level of living by assisting them financially in a more effective manner and there comes the idea of "microfinance," a type of financial business that regularly and lawfully offers modest loans and other financial services to low-income and impoverished people, emerged. It's a tool for the economy intended to encourage financial inclusion, which lifts low-income and impoverished households out of poverty and raises their standard of living overall. It can help make national policies that aim to enhance living standards, empower women, support vulnerable populations, and make poverty more successful.

Globally, microfinance is widely acknowledged as a means of reducing poverty. It is a useful and efficient instrument when utilized correctly. A sizeable section of the populace in India continues to live in poverty. Thus, microfinance is an ideal solution to this issue. In essence, microfinance provides funds to the underprivileged so they can participate in a range of revenue-generating endeavors and elevate their social and economic standing. In India, microfinance is not a novel idea. With the introduction of commercial large-scale microfinance by Muhammad Yunus in Bangladesh,

NABARD implemented microfinance using the Self-Help Group (SHG) model in 1992. Many parts of the programmes have been successfully incorporated once extensive SHG model operations began in India.

Concept of Microfinance

At first, the word "microfinance" was limited to services that had just one component: giving microloans to people who couldn't access traditional financial institutions like banks. In a brief amount of time, microfinance expanded to become much more than a source of loans. Many recipients of microfinance see it as a means of improving their general growth, social standing, and economic standing. Particularly, microfinance aided the impoverished in rural areas in their quest for independence. Microfinance providers use a variety of methods to primarily target rural women, with encouraging outcomes. Thus, microfinance is now a catch-all word for a variety of financial services provided to consumers as well as for financial inclusion in general.

Microfinance evolution in India

Microfinance has a lengthy history in India. Since its initial introduction in Gujarat in 1974 by the SEWA Bank, a branch of the Self-Employed Women's Association (SEWA), it has been instrumental in supplying financial services to countless individuals who have been excluded from the mainstream of society's economy. In 1985, Mysore Resettlement and Area Development (MYRADA) started several initiatives. MYRADA began conducting structured training for 300 self-help groups (SHGS) in 1986–1987; this effectively launched microfinance via SHGS. Ten to twenty local men or women make up one group of SHGS. The development of SHGs was fostered throughout time by government organizations including IFAD (International Fund for Agricultural Development), RBI, NGOs, and NABARD (National Bank for Agriculture and Rural Development). Therefore, the development of SHGs and microfinance can be divided into two stages. In the first phase from 1987 to 1992, NABARD along with MYRADA nurtured SHGs till the Reserve Bank of India accepted the SHG model as one of the credit options that shaped the first phase. In 1992 onwards marks the 2nd phase and in this phase, SHGs got help from all the agencies such as RBI, IFAD, etc. NABARD started SHG-BLP (Self-help Group Bank Linkage Program) in 1992.

Microfinance Models in India

Many models have been established globally throughout the years; however, there are two main models for microfinance services in the Indian microfinance market.

1. **SHG- Bank linkage program-** NABARD launched SHG-BLP in India in 1992. Typically, a Self-Help Group (SHG) has 10 to 25 individuals who share a common socioeconomic background. In India, women make up the majority of SHG members. As a result, it is now an instrument for women's empowerment. In India, SHG-BLP is the most popular microfinance scheme. The Reserve Bank of

India (RBI) has allowed SHGs to create savings linking accounts with any commercial bank, district central cooperative banks (DCCBs), regional rural banks, and similar establishments. The SHG members distribute internal credits they have accrued as low-interest loans to one another.

2. **Microfinance Institution Model (MFI):** MFIs are essentially non-governmental organizations (NGOs) that are established under the Companies Act of 1956, the Trusts Act of 1882, or the Societies Registration Act of 1860. Other MFIs are not registered but operate for the benefit of the underprivileged by laws and regulations. MFIs are businesses that offer a range of services to private citizens, SHGs, and Joint Liability Groups (JLGs). They offer underprivileged instruction in both skill development and financial literacy. Thus, they serve as a middleman between borrowers and financial institutions.

In India, microfinance institutions (MFIs) have been instrumental in providing small loans, particularly to underprivileged groups who lack collateral. They are making a significant impact on the nation's effort to promote financial inclusion. The microfinance industry is incredibly varied, with a wide range of players of different kinds and legal structures. It includes Banks, SFBs, NBFCs, NBFC-MFIs, and Non-Profit MFIs.

Literature Review

Khan, Ahmed, and Shireen (2021), conducted a study to look at the variations in the ownership makeup of MFIs in India about effectiveness. According to their analysis, microfinance institutions in India met the efficiency requirements from 2005–2006 to 2017–2018, regardless of changes in regulations. Regression analysis was done in this work, and it was discovered that NBFC and MFI outperformed their counterparts. According to this study, increasing efficiency might be achieved by adopting cutting-edge technologies through outsourcing from financial technology.

Hyder (2020), found that microcredit had reduced income poverty by 1.5% as a consequence of their qualitative and quantitative research approach based on secondary data from Bangladesh. Thus, by providing low-cost loans and generating income, microcredit may be able to assist individuals in escaping poverty, as the research shows. However, as the microfinance industry has expanded, several scholars have researched outreach failure and mission drift.

Wondirad (2020), investigated the relationship between the financial and social performance of MFIs. Data from 183 MFIs were gathered between 2005 and 2014 and used in this paper. Aside from the connection between social and financial factors, the main query was whether competition was causing any kind of performance distortion. The study concluded that there is not only a favorable correlation between MFIs' social and financial success but also that the participation of MFIs boosted the poor's sustainability and profitability.

Sharif (2018), found in this study that improving the lives of rural impoverished people requires microfinance. His study looked at several factors to determine how well Indian microfinance organizations were performing. The information was gathered from multiple secondary sources, encompassing data spanning from 2012–2013 to 2016–2017. During the study period, it was discovered that deposits, clients, savings, etc. are growing annually.

Kumar et. al. (2015), the study concluded that MFIs and SHGs are essential to the provision of microfinance services, which promotes the development of India's low-income and impoverished population. However, several study findings from across the nation have also been reported regarding slow progress in SHG member graduation, subpar group functioning, member dropout, etc. These findings must be taken into consideration when creating the roadmap for the SHG program's next phase.

Kumar (2015), focused on the problems and difficulties facing MFIs. It also addressed the current environment and the necessity of microfinance for sustainable development. The report offers MFIs several recommendations for resolving the issues. These precautions include transparency in interest rates, appropriate regulation, field oversight, and alternative funding sources. These actions may lead to the rural economy's expansion, diversification, and development.

Nikita's (2014), study concludes that the number of SHGs with bank-linked savings declined for the first time in 2012–2013, following the introduction of the SHGs BLP. The report also reveals that there was an increase in SHG loan outstanding, which contributed to the rise in non-performing assets. Eventually, it is discovered that commercial banks hold the majority of the shares when the agency-wise loan to MFI is given. He recommended that actions be taken to enhance the results of programs periodically introduced under microfinance.

Sibghatulla (2013), focused on the problems and difficulties facing Indian microfinance. The paper covers the significant influence that MFIs have had in reducing poverty and raising the living standards of the impoverished. It also says that MFIs should give regulatory concerns, geographical imbalances, appropriate management, and language difficulties top emphasis. If these problems are resolved, thousands of impoverished people's living conditions will rise to a new level.

Ghosh (2012), examined the effect of SHG-BLP on India's socio-economic development and efforts to reduce poverty. The research was conducted in six states of India. Multi-stage simple random sampling was employed in the study to gather data. According to the study's findings, the southern part of India has the largest potential for SHG-BLP expansion, and the majority of borrowers used their loans for small businesses and economic

Quayes (2010), MFIs may give up on helping the underprivileged to increase their earnings. The results of this study, which looks at a sample of 1591 MFIs over sixteen years, show that outreach to women has not decreased and has generally increased.

In India, there are two main models used to provide microfinance services: the MFI model and the SHG-bank linkage program (SBLP). India's microfinance sector is dominated by the SBLP model.

Agarwal & Sinha (2010), study, which employed cross-sectional data, revealed that 13 out of 22 MFI with the highest performance levels were utilizing distinct business models. The top performers from the mixed market database were the only ones considered in this analysis. The study covered the MFIs' revenue, costs, productivity, efficiency, and risk management in addition to their overall performance. Furthermore, they determined that variations in the study's parameters might be acceptable because of the MFIs' disparate working areas.

Ramakrishna (2006), a survey of 192 Regional Rural Banks (RRBs), 114 Cooperative banks in Tamil Nadu, West Bengal, Karnataka, Chhattisgarh, and Maharashtra, as well as 27 public sector banks, was used to examine the effects of the SHG-Bank linkage model. According to the study's findings, commercial banks made up the majority of the banks involved in bank linkages, credit extension, and outstanding loans. At just 9% of the market, cooperative banks had the lowest market share for credit extension.

Gurumoorthy (2000), explained that self-help groups as a viable option for achieving the rural development objectives, and to involve the community in all alternative rural development programs. Self-help groups were created to provide microloans to rural women based on the saving power of the group without insisting on any guarantee to encourage them to get into business and become women entrepreneurs.

Objectives of the study

- To understand the concept of microfinance and its evaluation and models in India.
- To examine the current status and growth of microfinance in India.

Research Methodology

This is descriptive research based on secondary data. The Data have been collected through books, newspapers, recent research papers, research articles, research journals, and reports of NABARD, etc.

Analysis of data

SHG-Bank linkage program

In terms of clientele and outreach, the Self-Help Group Bank Linkage Programme (SHG-BLP) is the biggest microfinance initiative globally. Even though the project has reached saturation points in some places, deeper program penetration is still needed in some locations.

Table: 1 Status and progress of SHG-Bank Linkage Program in 2020-21 to 2022-23.

(Number in lakh/₹ in crore)

Particular		2020-21		2021-22		2022-23	
		No. of SHG	amount	No. of SHG	amount	No. of SHG	amount
SHG saving with Bank	Total SHG no.	112.23	37477.61	118.93	47240.48	134.03	58892.68
	All women SHG	97.25	32686.08	104.05	42104.77	112.92	52455.48
Loan disbursed to SHGs	Total SHG	28.87	58070.68	33.98	99729.22	42.96	145200.23
	All women SHG	25.9	54423.13	31.5	93817.21	41.42	139315.69
Loan outstanding against SHGs	Total SHG	57.8	103289.71	67.4	151051.30	69.57	188078.80
	All women SHG	53.11	96596.6	62.65	142288.61	65.15	179468.42

Source- NABARD

Overall, compared to 2021–2022, there is a 13% increase in the number of SHGs linked to savings accounts and a 25% increase in the total amount of savings in 2022–2023. Over the past three years, there has been a favorable trend in both the quantity and number of SHG savings accounts with banks. The quantity and number of Self-Help Groups (SHGs) that have bank loans outstanding during the past two years exhibit a similar upward trend. Over the past two years, loans to Self-Help Groups (SHGs) have climbed steadily, both in terms of quantity and quality, as they have recovered from a decline in FY 2021 brought on by the epidemic.

Regions	2020-21		2021-22		2022-23	
		Saving	No.	of Savings	No.	of Savings

		Amount	SHGs	Amount	SHGs	Amount
Northern Region	6,09,808	1,74,345	6,80,143	1,99,582	7,87,807	1,22,485
North Eastern Region	6,33,714	83,126	6,80,845	1,06,441	7,93,320	1,27,153
Eastern Region	31,22,424	7,74,912	32,43,980	13,58,595	39,30,551	17,42,499
Central Region	13,45,575	2,11,870	13,55,564	3,25,696	18,32,040	4,58,675
Western Region	15,50,176	3,74,023	16,88,451	3,27,691	19,27,560	5,41,611
Southern Region	39,61,703	21,29,485	42,44,070	24,06,043	41,31,805	28,96,845
Total	1,12,23,400	37,47,761	1,18,93,053	47,24,048	1,34,03,083	58,89,268

Table: 2 Region-wise progress of Savings Linked SHGs with Banks during 2020-21 to 2022-23)**Source: NABARD**

According to Table no. 2 the region-by-region comparison analysis, an increase in savings-linked SHGs was observed in all regions in 2022–2023, except the Southern region, which experienced a slight decline as a result of program saturation. Between 2022 and 2023, the savings-linked SHGs grew at a region-specific rate of 35% in the Central area and 14% in the Western region

Table: 3 Region-wise Status of Bank Loan Disbursed to SHGs during 2020-21 to 2022-23.

(₹ Lakh)

Region	2020-21		2021-22		2022-23	
	No. of SHGs	Total Loans Disbursed	No. of SHGs	Total Loans Disbursed	No. of SHGs	Total Loans Disbursed
Northern	67,658	94,045	79,532	1,17,102	1,02,931	2,06,437
North Eastern	68,116	1,03,651	94,871	1,84,636	1,23,602	3,13,764
Eastern	11,24,578	14,87,551	13,01,505	25,68,978	16,34,604	33,38,333
Central	1,28,617	1,05,428	1,84,322	2,16,983	2,78,359	4,63,673
Western	1,61,159	2,30,331	2,39,086	3,81,363	2,73,253	6,75,144

Southern	13,37,266	37,86,063	14,98,951	65,03,860	18,82,772	95,22,672
Total	28,87,394	58,07,068	33,98,267	99,72,923	42,95,521	1,45,20,023

Source: NABARD

Table 3 provides a comparative analysis of bank loans issued to SHGs over the last three fiscal years (2020–21 to 2022–23). Banks disbursed credit totaling ₹ 1,45,200 crore to 43 lakh SHGs in 2022–2023 as opposed to ₹ 99,729 crore to 34 lakh SHGs in 2021–2022; this represents a growth of 46% and 26%, respectively, in the amount of credit disbursed and the number of SHGs credit linked over the year.

All regions had a rise in the amount of credit disbursed to SHGs in 2022–2023 compared to 2021–2022, with the Central region experiencing the largest growth (114%). In terms of the total distribution, the Southern region received the largest amount ₹ 95,226.72 crores to 19 lakh SHGs, while the Northern region received the least amount ₹ 20, 64.37 crores to 1 lakh SHGs. With 7.44 lakh SHGs credit linked throughout the year, Karnataka led all other states, followed by West Bengal (6.76 lakh), Bihar (6.40 lakh), and Andhra Pradesh (5.27 lakh).

Table: 4 Agency-wise status of SHG-Bank Linkage Program in 2022-23.

(₹ Lakh)

Category of Agency	Total Savings of SHGs with Banks as of 31 March 2023		Loans disbursed to SHGs by Banks during 2022-23		Total Outstanding Bank Loans against SHGs as of 31 March 2023		NPAs as on 31.03.2023	
	No. of SHGs	Savings Amount	No. of SHGs	Loans disbursed	No. of SHGs	Loan Outstanding	Amount of Gross NPA	NPA (%)
Commercial Banks	7753137	3468997.61	2471417	9308819.17	4202133	12924408.8	340220.81	2.63
% Share	57.85	58.90	57.53	64.11	60.40	68.72	64.81	
Regional Rural Banks	4047836	1820277.34	1570469	4429041.17	2193119	4821593.92	119371.64	2.48
% Share	30.20	30.91	36.56	30.50	31.52	25.64	22.74	
Cooperative	1602110	599992.61	253635	782162.99	561799	1061877.	65341.36	6.15

Banks						04		
% Share	11.95	10.19	5.90	5.39	8.08	5.65	12.45	
Total	13403083	5889267.56	4295521	14520023.33	6957051	18807879.8	524933.81	2.79

Source: NABARD

Table 4 provides the agency-wise status of SHG-BLP. As of March 31, 2023, the provision of savings and credit services by Commercial Banks, RRBs, and Cooperative Banks is crucial in fortifying the SHG-BLP. With over 77 lakh SHGs having savings accounts with them, Commercial Banks have done incredibly well through their extensive network of banking operations. Thus, commercial banks have the largest percentage of SHG savings associated with banks (58%), followed by RRBs 30%, or 40 lakh SHGs, and cooperative banks 12%, or 16 lakh SHGs. With 12.49 lakh, or 19.4% of all the saving-linked SHGs of Public Sector Commercial Banks, the State Bank of India is the bank with the most number of these.

Table 5 indicates the average savings of SHGs with banks have increased for all agencies. The average savings climbed from ₹ 39,721 in 2021–2022 to ₹ 43,940 in 2022–2023; average loans given to Self-Help Groups (SHGs) saw a 15% increase from the previous year, with a 4% fall in RRB loans and an increase in loans from Commercial Banks and RCBs.

Table: 5 Agency-wise Average Savings, Loan Disbursement, and Loan Outstanding per SHG in 2021-22 to 2022-23

(₹ Lakh)

Category of Agency	Average Savings of SHGs with Banks			Average Loans disbursed to SHGs by Banks			Average Outstanding Bank Loans against SHGs		
	2022-23	2021-22	Change (%)	2022-23	2021-22	Change (%)	2022-23	2021-22	Change (%)
Commercial Banks	44,743	44,612	0.29	3,76,659	2,94,460	27.92	3,07,568	2,45,495	25.28
Regional Rural Banks	44,969	38,488	16.84	2,82,020	2,94,896	-4.37	2,19,851	1,94,620	12.96
Cooperative Banks	37,450	19,143	95.63	3,08,381	2,76,485	11.54	1,89,014	1,68,247	12.34
Total	43,940	39,721	10.62	3,38,027	2,93,471	15.18	2,70,343	2,24,113	20.63

Source: NABARD

Conclusion

In India, microfinance institutions (MFIs) have been instrumental in providing small loans, particularly to underprivileged groups who lack collateral. They are making a significant impact on

the nation's effort to promote financial inclusion. In terms of clientele and outreach, the Self-Help Group Bank Linkage Programme (SHG-BLP) is the biggest microfinance initiative globally. Even though the project has reached saturation points in some places, deeper program penetration is still needed in some locations. According to the aforementioned study, SHG-help is essential to the provision of microfinance, which propels the development of India's low-income and impoverished population. As of March 31, 2023, there are a total of 18 SGs connected to banking, up 13% from the year before. Savings have increased by 25% from the year before, but loans on SGs have increased to 59 lakhs, up 3.22% is due.

The current study discovered that, as a result of NABARD's initiative, there has been a notable increase in the amounts of SHG savings with banks and a rise in the formation of new SHGs, mostly through SHG BLP. As a result, the SHG-Bank Linkage Programme has grown tremendously in India to become the largest microfinance sector globally and the country's premier microfinance initiative. The increase in funds awarded to Self-Help Groups (SHGs) during the past three years is praiseworthy, given that COVID-19 has caused economic difficulties. The joint efforts of agency partners including commercial banks, RRBs, cooperative banks, NGOs, the government, and SHG women who supported the goal of reducing poverty through microfinance have made the SHGBLP successful. The study found that there is positive growth in microfinance in India through the SHG-bank linkage program.

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