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MICRO-FINANCE AND RURAL POVERTY IN INDIA SHG–Bank Linkage Programme

*Madhusudan Ghosh**

ABSTRACT

This paper reviews the progress of SHG-Bank linkage programme at the national and regional levels, and examines its impact on the socio-economic conditions of SHG member households. The programme has grown at a tremendous pace during last two decades and emerged as the most prominent means of delivering micro-finance services in India. Though the regional spread of the programme is highly skewed with highest concentration in the southern region, it has started picking up pace in other regions. The average annual net income, assets and savings of SHG member households increased significantly in the post-SHG situation. The average amount of loans and the regularity in repayment of loans increased, and the dependence on moneylenders decreased remarkably. The percentage of loans used for productive purposes and employment per household increased, the incidence of poverty among SHG members declined, and the social empowerment of women improved significantly. The study offers important policy suggestions.

Introduction

Micro-finance has received considerable attention among researchers, policymakers and financial service providers. It has been considered a powerful instrument for achieving 'financial inclusion' and alleviation of poverty, enabling the rural poor to increase their income opportunities and reduce economic vulnerability. The Self-Help Group (SHG)–Bank linkage programme, implemented by the National Bank for Agriculture and Rural Development (NABARD) since 1992, has become the dominant model of micro-finance in India in terms of both number of borrowers and bank loans disbursed and outstanding. The SHG-Bank linkage programme (SBLP), which was initiated in 1992 as a pilot project for promoting 500 SHGs, experienced significant growth over time in terms of coverage and amount of credit to poor people in rural areas. The need for an alternative credit delivery mechanism in the form of SBLP was felt because, despite the phenomenal expansion of the organised banking system, a very large number of the poor continued to remain excluded from the formal banking system. The SBLP was evolved as a strategy of 'financial inclusion' of poor households by extending outreach, making available to them formal financial services including both savings and credit in a sustainable and cost-effective manner. It involves setting up of small, cohesive, participative and homogeneous groups of poor people encouraging them to pool their savings, which can be lent out to

* Professor of Economics, Department of Economics & Politics, VISVA-BHARATI University, Santiniketan – 731235, Birbhum (West Bengal). E-mail: msghosh123@rediffmail.com

group members for meeting their credit needs, either for consumption or income generating activities on mutually agreed upon maturity term, interest rate and other conditions. Banks provide financial services to SHGs directly or indirectly through NGOs and other agencies.

Three models have emerged in the SHG-Bank linkage programme. (*i*) SHGs are formed, financed and promoted by banks; the bank itself acts as a self-help group promoting institution (SHPI) (Model 1); (*ii*) SHGs are formed by formal agencies like NGOs and others (other than banks) but directly financed by banks (Model 2); and (*iii*) SHGs are promoted by NGOs but financed by banks through NGOs and other agencies as financial intermediaries (Model 3). The second model, where SHGs are formed and nurtured by NGOs, has emerged as most popular among the bankers. In 2003-04, while 20 per cent of SHGs were credit linked under Model 1, and 8 per cent under Model 3, 72 per cent of SHGs were credit linked under Model 2.

The SHG-Bank linkage programme has grown at a tremendous pace during last two decades and emerged as the most prominent means of delivering micro-finance services in India. Though the regional spread of the programme is highly skewed with highest concentration in the southern states, it has started picking up pace in other states. The Commercial Banks, Regional Rural Banks, Cooperative Banks and NGOs have contributed significantly to the rapid spread of the programme. Several studies reported that the programme has contributed significantly towards (*i*) alleviating rural poverty through increased employment and income, enabling the poor to reduce economic vulnerability, (*ii*) reducing dependency on informal credit market, (*iii*) enabling poor households to achieve better school attendance and lower dropout rates, (*iv*) achieving lower child mortality, improved maternal health, better nutrition, housing & health, and (*v*) empowering rural women.

This paper reviews the progress of the SHG-Bank linkage programme at the national and regional levels, and examines its impacts on the socio-economic conditions of poor households. While the progress of the programme is evaluated in terms of its growth and outreach using published data from secondary sources, the impact of the programme on the socio-economic conditions of the SHG members has been examined using information from various reports.

Progress of SBLP

This section reviews the progress of the programme at the national and regional levels. The SBLP as a dominant model of micro-finance exhibited significant growth in terms of both number of SHGs financed by banks, bank loan outstanding and refinance assistance.

All India Level : Table 1 and Figure 1 report the trends in the number of SHGs financed by banks, amount of bank loans and refinance at the national level during the period 1992/93 – 2009/10. The programme, beginning with a modest number of 255 SHGs financed by banks in 1992-93, experienced tremendous growth, as the number of SHGs increased to 149050 in 2000-01 and further to 1586822 of which 81.6 per cent (i.e., 1294476) were exclusively women SHGs credit linked in 2009-10. The estimated semi-logarithmic trends (reported in Table 2) reveal that the number of SHGs financed by banks grew at the rate of 54.1 per cent per annum during 1992/93 – 2009/10. Table 1 shows that the number of credit linked SHGs have been growing tremendously since 1998-99. Registering a growth rate of 68.0 per cent per annum during 1992/93 – 2009/10 (Table 2), the amount of bank loan disbursed to SHGs increased from ₹ 0.29 crore in 1992-93 to ₹287.89 crore in

Table 1: Progress in SHG-Bank Linkage Programme (All India)

Year (End March)	Number of SHGs financed by Banks		Bank loan (Rupees crore)		Refinance assistance (Rupees crore)	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1992-93	255	255	0.29	0.29	0.27	0.27
1993-94	365	620	0.36	0.65	0.19	0.46
1994-95	1502	2122	1.79	2.44	1.67	2.13
1995-96	2635	4757	3.62	6.06	3.53	5.66
1996-97	3841	8598	5.78	11.84	4.99	10.65
1997-98	5719	14317	11.92	23.76	10.74	21.39
1998-99	18678	32995	33.31	57.07	30.70	52.09
1999-00	81780	114775	135.91	192.98	98.04	150.13
2000-01	149050	263825	287.89	480.87	250.61	400.74
2001-02	197653	461478	545.47	1026.34	395.76	796.50
2002-03	255882	717360	1022.33	2048.67	622.30	1418.80
2003-04	361731	1079091	1855.53	3904.20	705.40	2124.20
2004-05	539365	1618456	2994.26	6898.46	967.80	3092.00
2005-06	620109	2238565	4499.00	13397.46	1067.70	4159.70
2006-07	1105749	3344314	6570.00	19967.50	1292.86	5452.56
2007-08	1227770	4572084	8849.26	28816.70	1615.50	7068.06
2008-09	1609586	6181670	12253.51	41070.20	2620.03	9688.09
2009-10	1586822	7768492	14453.30	55523.50	3173.56	12861.65

Notes : Data for 2009-10 are provisional. Data relate to Commercial Banks, RRBs and Cooperative Banks. From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of 'Swarnajayanti Gram Swarozgar Yojana' (SGSY).

Sources: NABARD (2010); Reserve Bank of India (2010, 2011).

2000-01 and further to ₹ 14453.30 crore of which ₹12429.37 crore (i.e., 86.0 per cent) was disbursed to women SHGs in 2009-10. Out of the total loans disbursed in 2009-10, SHGs financed under Swarnjayanti Gram Swarojgar Yojana (SGSY) accounted for 2.67 lakh (16.9 per cent) with bank loan of ₹ 2198 crore (15.2 per cent). In 2009-10, the average bank loan disbursed per SHG was ₹ 91083 as against ₹ 76129 in 2008-09. The average bank loan outstanding per SHG was ₹ 57795 in 2009-10 as against ₹ 53689 in 2008-09. The amount of refinance by banks increased from ₹ 0.27 crore in 1992-93 to ₹ 250.61 crore in 2000-01 and further to ₹ 3173.56 crore in 2009-10, registering a growth rate of 57.6 per cent per annum during 1992/93 – 2009/10. It experienced an impressive growth since 2000-01 (Table 1 and Figure 1). Moreover, as on 31 March 2009-10, the number of savings linked SHGs stood at 6953250 and total amount of savings at ₹ 6198.71 crore, registering an annual growth rate of 13.6 and 11.8 per cent, respectively over the previous year (NABARD, 2010).

The estimated semi-logarithmic trends in the three indicators of the linkage programme (viz., number of SHGs financed by banks, amount of bank loan, and refinance assistance) during the period 1992/93 – 2009/10 are reported in Table 2. The estimates of the coefficient of trend (t) provide information about growth rate of the indicators. Annual growth rate of an indicator is obtained by multiplying the coefficient of t by 100. The estimates display an outstanding performance of SHG-Bank linkage programme. While the number of SHGs grew at the rate of 54.1 per cent per annum and bank loan at the rate of 68.0 per cent, refinance by banks grew at the rate of 57.6 per cent per annum during 1992/93 – 2009/10.

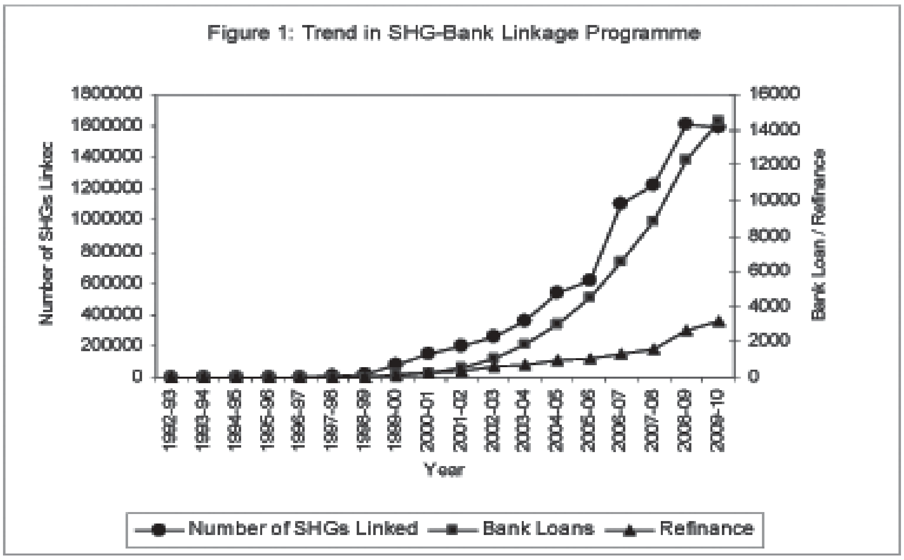

Table 2: Trends in SHG-Bank Linkage Indicators during 1992/93 – 2009/10

Ln (Number of SHGs) = 5.81 + 0.541 t;	R^2 = 0.940
Ln (Bank Loan) = "1.351 + 0.68 t;	R^2 = 0.966
Ln (Refinance) = "1.048 + 0.576 t;	R^2 = 0.921.

Notes : The trend lines were estimated using data reported in Table 1. t = trend; Ln = Natural logarithm.

Agency-wise Distribution of SHGs : NABARD has been instrumental in promoting and nurturing SHGs by providing financial support to participating agencies in the SGH-Bank linkage programme. The participating agencies include commercial banks, regional rural banks (RRBs), cooperative banks and NGOs. These agencies have been effectively playing the role of promoting and nurturing SHGs. Twenty seven public sector commercial banks, 19 foreign and private sector banks, 81 regional rural banks, 318 cooperative banks and one Small Industries Development Bank of India participated in the linkage programme in 2009-10.

The agency-wise distribution of disbursed and outstanding loans to SHGs during the years 2008-09 and 2009-10 are reported in Table 3. The data presented in the Table clearly reveal that the commercial banks have been in the forefront of SHG-Bank linkage programme, followed by RRBs and cooperative banks. It may be seen from the Table that the commercial banks have had the largest share in the linkage programme in terms of number of SHGs and the amount of disbursed and outstanding bank loans to SHGs.

Table 3 : Agency-wise Distribution of Disbursed and Outstanding Bank Loans to SHGs

Agency	Year	Total Loans Disbursed by Banks to SHGs during the Year			Total Bank Loan Outstanding against SHGs as on 31 March in each Year		
		No. of SHGs	Amount of Loan (Rupees crore)	Per SHG Loan Disbursed (Rupees)	No. of SHGs	Amount of Loan (Rupees crore)	Per SHG Loan Disbursed (Rupees)
Commercial Banks (Public & Private)	2008-09	1004587 (62.4)	8060.53 (65.8)	80237	2831374 (67.1)	16149.43 (71.2)	57037
	2009-10	977521 (61.6)	9780.18 (67.7)	100050	3237263 (66.7)	20164.71 (71.9)	62289
Regional Rural Banks (RRBs)	2008-09	405569 (25.2)	3193.49 (26.1)	78741	977834 (23.1)	5224.42 (23.0)	53428
	2009-10	376797 (23.7)	3333.20 (23.1)	88461	1103980 (22.8)	6144.58 (21.9)	55658
Cooperative Banks	2008-09	199430 (12.4)	999.49 (8.2)	50117	415130 (9.8)	1306.00 (5.8)	31460
	2009-10	232504 (14.7)	1339.92 (9.3)	57629	510113 (10.5)	1728.99 (6.2)	33894
Total	2008-09	1609586 (100.0)	12253.51 (100.0)	76128	4224338 (100)	22679.85 (100)	53689
	2009-10	1586822 (100.0)	14453.30 (100.0)	91083	4851356 (100)	28038.28 (100)	57795

Note: Figures in parentheses are percentages to total.
Source: NABARD (2010).

Commercial banks accounted for the highest percentage of SHGs (62.4 per cent) in 2008-09, which declined slightly to 61.6 per cent in 2009-10. Their share in total loan disbursed was also highest (65.8 per cent) in 2008-09, which increased further to 67.7 per cent in 2009-10. RRBs have been conservative compared to commercial banks, their share of SHGs being 25.2 per cent in 2008-09 and 23.7 per cent in 2009-10 with the share of disbursed loan of 26.1 and 23.1 per cent, respectively. RRBs are functioning as Self-help Promoting Institutions (SHPIs) with grant support from NABARD. Cooperative banks are late entrants to micro-finance through SHGs, and they have been more conservative relative to RRBs. They accounted for 8.2 and 9.3 per cent of the total loan disbursed, respectively in 2008-09 and 2009-10, supporting 12.4 and 14.7 per cent of the SHGs. Like RRBs, cooperative banks have also been acting as SHPIs. The average loan per SHG ranged from the highest of ₹ 100050 by commercial banks to the lowest of ₹ 57629 by cooperative banks in 2009-10.

NABARD provides refinance support to banks to the extent of 100 per cent of the loans disbursed to SHGs. The total refinance disbursed to banks against bank loans to SHGs increased from ₹ 2620.03 crore in 2008-09 to ₹ 3173.56 crore in 2009-10, registering a growth of 21.1 per cent during the period. The cumulative refinance disbursed under SBLP by NABARD to banks up to March 3, 2010 was ₹ 12861.65 crore.

Table 3 also reveals that commercial banks led in the distribution of bank loans outstanding against SHGs. During 2008-09, commercial banks had the highest share of 67.1 per cent of SHGs, followed by RRBs with a share of 23.1 per cent and cooperative banks with a share of 9.8 per cent. The corresponding figures in 2009-10 were 66.7 per cent for commercial banks, 22.8 per cent for RRBs and 10.5 per cent for cooperative banks. Commercial banks also accounted for as high as 71.2 per cent of outstanding bank loans to SHGs followed by RRBs with a share of 23.0 per cent and cooperative banks with a share of 5.8 per cent in 2008-09. The corresponding figures in 2009-10 were 71.9, 21.9 and 6.2 per cent, respectively for commercial banks, RRBs and cooperative banks. The average bank loan outstanding per SHG varied between ₹ 62289 in the case of commercial banks and ₹ 33894 in the case of cooperative banks in 2009-10.

The recovery performance of banks has been quite impressive. As on 31 March 2010, out of 302 banks, which reported the recovery data, 103 banks (34.1 per cent) had more than or equal to 95.0 per cent recovery of SHG loans and another 100 banks (33.1 per cent) had recovery rate of 80 to 94 per cent, implying that 203 banks (67.2 per cent) had more than 80.0 per cent recovery of SHG loans. Seventy banks (23.2 per cent) had reported recovery rate of 50 to 79 per cent and the remaining 29 banks (9.6 per cent) had less than 50.0 per cent recovery rate (see NABARD, 2010).

Regional Disparities in SBLP : Micro-finance under the SHG-Bank linkage programme grew at a tremendous pace during the last two decades at the national level. However, there has been no uniformity with regard to its progress across regions. From its very inception, the programme has had major success in the southern region, while its performance has been very poor in the other regions, particularly in the northern, north-eastern, central and western regions. The southern region continues to occupy the leading position in the programme in terms of its share in credit linked SHGs as well as loan disbursement and outstanding. Table 4 shows that while the southern region accounted for 62.75 per cent of SHGs and 76.39 per cent of the total loan disbursed with per SHG loan of ₹ 110880 in 2009-10, the share of the north-eastern region was 3.11 of the SHGs and 1.99 per cent of the total loans disbursed to SHGs with per SHG loan of ₹ 58241. Similarly, while the share of the southern region was 53.22 per cent of the total SHGs and 67.85 per cent of the total loan outstanding with per SHG loan of ₹ 73672 as on 31 March 2010, the north-eastern region accounted for 2.76 per cent of the SHGs and 2.4 per cent of the total outstanding loans. The northern region accounted for 2.36 per cent of SHGs and 2.12 per cent of loans disbursed, with per SHG disbursed loan of ₹ 81962; it accounted for 3.14 per cent of the SHGs and 2.91 per cent of the outstanding loans, with per SHG loan of ₹ 53455. The shares of the remaining regions in SHGs and total disbursed and outstanding loans were also very low.

Table 4 : Region-wise Progress of SHG-Bank Linkage Programme

Region	Bank Loans Disbursed to SHGs during 2009-10			Bank Loans Outstanding against SHGs as on 31 March 2010			Poverty Ratio (%) 2004-05	Proportion of Total Poor 2004-05
	No. of SHGs	Loans Disbursed (₹ Lakh)	Loans Disbursed Per SHG (₹)	No. of SHGs	Loans Disbursed (₹ Lakh)	Loans Disbursed Per SHG (₹)		
Northern	37375 (2.36)	30633.33 (2.12)	81962	152491 (3.14)	81513.33 (2.91)	53455	15.7	7.4
North Eastern	49307 (3.11)	28716.99 (1.99)	58241	133785 (2.76)	67347.79 (2.40)	50340	19.2	2.6
Eastern	277446 (17.48)	154018.65 (10.66)	55513	1027570 (21.18)	369490.88 (13.18)	35958	36.2	29.0
Central	77846 (4.91)	63209.88 (4.37)	81199	497922 (10.26)	246239.60 (8.78)	49453	35.0	32.1
Western	149130 (9.40)	64697.54 (4.48)	43383	457476 (9.43)	136948.48 (4.88)	29936	25.8	13.6
Southern	995718 (62.75)	1104053.97 (76.39)	110880	2582112 (53.22)	1902287.99 (67.85)	73672	19.8	15.3
All India (Total)	1586822 (100.0)	1445330.36 (100.0)	91083	4851356 (100.0)	2803828.07 (100.0)	57795	27.6	100.0

Note : Figures in parentheses are percentages to total.

Sources : NABARD (2010), Kumar and Golait (2009).

It appears that the inter-regional disparity in bank loans to SHGs has been wider than that in the number of SHGs. While all the regions excluding the southern one accounted for 37.25 per cent of the SHGs, their share in total disbursed loans to SHGs was only 23.61 per cent in 2009-10. Similarly, while their share of the total SHGs linked to banks was 46.87 per cent, they accounted for only 32.15 per cent of the total outstanding loans against SHGs in March 2010. The average disbursed/ outstanding loan per SHG was much higher in the southern region compared to the other regions. This indicates that adequate credit was not routed through SHGs in the regions other than the southern one. Besides inter-regional disparity, there exists wider intra-regional (i.e., across States from each region) disparity in the spread of SHG-Bank linkage programme. The progress of the programme has not been uniform across States in any region. Even in the southern region, where the programme has been very successful, there is wide variation in the progress of the programme across the southern States (Kumar and Golait, 2009). The programme has been predominant in some States such as Andhra Pradesh, Tamil Nadu, Karnataka and Uttar Pradesh, which together accounted for about two-thirds of the credit linked SHGs, with Andhra Pradesh alone accounting for about 40.0 per cent (Bansal, 2003).

The SHG-Bank linkage programme has been implemented with the primary objective of alleviating poverty by extending banking services to the poor. In order to see whether the programme was extended significantly to the regions with higher incidence of poverty, we have compared the regional distribution of SHGs and bank loans to SHGs with the incidence and distribution of poverty across regions. The data presented in Table 4 do not appear to display any correspondence between the extent of poverty and the spread of SBLP across regions. While the southern region, which accounted for only 15.3 per cent of the total poor in India during 2004-05, had 62.75 per cent (53.22 per cent) of all SHGs linked to banks with much higher share of 76.39 per cent (67.85 per cent) of the total disbursed (outstanding) loans to SHGs in 2009-10, the remaining regions accounted for much lower percentage of SHGs and bank loans relative to their share in the total poor. It may be noted in particular that in the eastern, central and western regions, the proportion of the total poor was substantially higher than the proportion of SHGs linked to banks and their share in total bank loans under the programme. While the three regions together accounted for 74.7 per cent of the total poor, they accounted for only 31.79 per cent (40.87 per cent) of the total SHGs linked to banks and 19.51 per cent (26.84 per cent) of the total bank loans disbursed (outstanding) to SHGs. These findings suggest the need for intensifying the dissemination of the SBLP to the regions and states where poverty incidence is higher.

Impact of SBLP

A number of studies have evaluated the impact of the SHG-Bank linkage programme on the socio-economic conditions of SHG member households. A study by Puhazhendi and Satyasai (2000), carried out for NABARD, assessed the impact of micro-finance on the socio-economic conditions of 560 household members in 223 SHGs selected from 11 states. Comparing the socio-economic conditions of the households between the pre- and post-SHG periods, they observed that the average household savings increased by 214 per cent, the average value of assets per household by 172 per cent, employment by 17 per cent, and the incidence of poverty among SHG households declined from 42 to 22 per cent. The SBLP also contributed to the empowerment of women by significantly improving the self-confidence of the participating women.

Another study by Puhazhendi and Badatya (2002), also carried out for NABARD, evaluated the impact of SBLP on 115 members in 60 SHGs selected from three States viz., Odisha, Jharkhand and Chhattisgarh. The reference year of the study was 2001-02. Comparing the socio-economic conditions of the members between the pre- and post-SHG situations, they found that the average annual savings per household increased by about 96 per cent, the average value of assets by 30 per cent, the average loan amount by 123 per cent, and the repayment percentage among the sample households increased from 86.5 to 94.9 per cent. The average net income increased by 23 per cent, employment days per household by 34 per cent. Fifteen per cent of the SHG member households living in poverty moved above poverty line, and the social empowerment of SHG members improved significantly in terms of improved self-confidence, better treatment from family members, improved communication space for freely talking to others and taking joint decisions.

A post-evaluation study by NABARD (2004) conducted on 120 members belonging to 40 SHGs in Wayanad district of Kerala for the reference year 2002-03 also reported positive impacts of SBLP on the socio-economic conditions of the SHG households. Saving and borrowing habits of the members were found to have improved along with a significant shift in the usage of loans from consumption purposes to income generating purposes during the post-SHG period as compared with the pre-SHG period. Employment opportunity increased by 2.2 per cent – from 118.13 persondays per household during pre-SHG period to 120.73 persondays per household during post-SHG period. Average net income and net asset per household increased substantially, and housing and sanitations conditions improved significantly in the post-SHG period. Moreover, involvement in SHGs significantly contributed towards improving self-confidence, self-worth and communication skill of the members.

A collaborative study by NABARD and APMAS (2009), based on primary data collected from 109 SHGs from 9 blocks of 4 districts of Assam during 2007-08, revealed that the SBLP yielded social and economic benefits to a high percentage of the sample SHGs. More than 80 per cent of the SHGs experienced improvement in savings habit, access to formal credit and its availability; over 80 per cent of SHGs experienced increase in income, and more than 50 per cent experienced increase in expenditure on food, education and health; about 75 per cent experienced decline in family debts, interest burden and dependence on moneylenders; more than 80 per cent have positive experience about women leadership development and their interaction with government officials. The results of some micro-level studies [e.g., De and Sarker (2010), Dhanya and Sivakumar (2010), Kashyap and Kashyap (2010), Kumar (2010), Moyle et al. (2006)] demonstrated positive impact of SBLP on the socio-economic conditions of SHGs members.

The above mentioned studies were confined to a particular region or state, and do not represent the all India scenario. We have evaluated the impact of the SBLP on the socio-economic conditions of SHG members, utilising data from a comprehensive primary sample survey conducted by the National Council of Applied Economic Research (NCAER). The NCAER (2008) survey was carried out for the country as a whole covering a total of 4791 households from 961 SHGs spread over six sample States from five different regions viz., Andhra Pradesh and Karnataka (south), Maharashtra (west), Odisha (east), Uttar Pradesh (central) and Assam (north-east). These States together accounted for 77 per cent of the total credit-linked SHGs as of March 2002, suggesting that the sample size could be considered as representative of all of India. The average number of members in the sample SHGs was 13. About 41 per cent of 961 SHGs have been linked for more than five years, and the remaining 59 per cent have been linked for 3–5 years. The average number of years of bank linkage of SHGs was 5.4 years. Eighty per cent of the SHGs are all-female, about 10 per cent are all-male and another 10 per cent are mixed. More than 60 per cent of the SHGs are either fully composed of below poverty line (BPL) families, or with majority of the members from BPL category. In order to make comparisons among the three types of SBLP models, 58 per cent of households were selected from Model 2, 29 per cent from Model 1, and 13 per cent from Model 3 at the all India level.

The impact of SBLP on the socio-economic conditions of SHG members has been measured by estimating the changes in a parameter between the pre-SHG (before bank linkage) and post-SHG (after bank linkage) situations. The extent of the impact is measured in terms of compound annual growth rate (CAGR) of a parameter between the pre-SHG (base level i.e., 2002) and post-SHG situations. All the financial parameters for both the situations were measured in the reference year (i.e., January – December 2006) prices. Since the primary objective of the SBLP is to alleviate rural poverty by improving the rural poor's access to formal banking services, thereby enabling them to increase their income and employment opportunities, consumption, savings & assets and social empowerment, we have examined the impact of the linkage programme on these socio-economic aspects of SHG households, utilising NCAER (2008) survey data.

Changes in Income and Employment : Improved access to financial services to SHG households through SBLP is expected to enable them to increase their income. A review of household income data during pre- and post-SHG situations clearly reveal significant positive impact of SBLP on income of the SHG households. Data at the all India level revealed that net household income per annum increased from ₹ 34786 during pre-SHG situation to ₹ 47934 during post-SHG situation, registering an increase by about 38 per cent at the compound annual growth rate (CAGR) of 6.1 per cent. There are, however, large inter-state variations in the level and growth rate of net household income. Table 5 shows that the annual net household income grew at a faster rate in Karnataka (7.3 per cent), Maharashtra (6.9 per cent) and Assam (6.4 per cent) relative to the all India average rate of 6.1 per cent. The remaining three States experienced growth rates slower than the all India average rate. The estimated coefficient of variation (CV) in CAGR of net household income across six States turned out to be 14.35 per cent. There are also wide inter-state variations in the base level of net household income, the estimated CV being 23.7 per cent. There are, however, no significant variations in the annual growth rate of household income across SBLP models, though there are some variations in the base level of income – from the lowest of ₹ 29019 in Model 3 to the highest of ₹ 36142 in Model 2. This explains why Model 2 becomes the predominant and most popular SBLP model in India.

The growth in household income was driven by the growth in all the activities (viz., agriculture, livestock, farm and non-farm wages, salaries, non-farm self-employment, and others such as rent, interest, dividend, social assistance, subsidies etc.) in which SHG members were engaged. The growth rate was faster in livestock (11.2 per cent), other activities (7.3 per cent) and non-farm self-employment (7.0 per cent), but slower in the remaining activities as compared to the average growth rate of 6.1 per cent. There was also a slight decline in the share of income from agriculture, wages and salaries in favour

Table 5: Level and Growth of Annual Net Household Income

State/Model	Annual Income Per Household	
	Base Level (*Rupees*)	CAGR (%)
Andhra Pradesh	46467	5.0
Karnataka	33077	7.3
Maharashtra	38637	6.9
Uttar Pradesh	39110	5.6
Assam	28004	6.4
Odisha	23740	5.6
Coefficient of Variation (%)	23.70	14.35
Model 1	34789	6.2
Model 2	36142	6.1
Model 3	29019	6.2
All India	34786	6.1

Note : All India refers to all six States. CAGR=Compound Annual Growth Rate.
Source : NCAER (2008).

of livestock and self-employed non-farm activities during post-SHG situation.

The SBLP is expected to generate additional employment opportunities for SHG households by enhancing opportunities for undertaking income-generating activities. The data collected in the NCAER (2008) survey revealed that employment per household increased from 314 persondays in pre-SHG situation to 400 persondays in post-SGH situation, registering an increase by 86 persondays (i.e., by 27.3 per cent). Female employment increased by 29.5 per cent – from 122 persondays to 158 persondays; male employment increased by 26.0 per cent – from 192 persondays to 242 persondays. This indicates that as compared to male members, female members have benefited more in terms of employment opportunities from the linkage programme.

Changes in Expenditure : Increased levels of employment and incomes of SHG households are expected to raise their expenditures on various items. The level and growth rate of annual per household expenditure on food and non-food items are reported in Table 6. While the expenditure on food included cereals, pulses, edible oils, vegetables, milk, and milk products, meat and fish, sugar, *gur*, and other items, the expenditure on non-food included clothing, footwear, consumer durables, *pan*, *beedi* & cigarettes, intoxicants, ceremonies, newspaper, travel and also on education and health.

Table 6 : Level and Growth of Annual Expenditure Per Household

State	Consumption Expenditure on Food		Consumption Expenditure on Non-food		Expenditure on Education		Expenditure on Health	
	Base Level (₹)	CGAR (%)	Base Level (₹)	CGAR (%)	Base Level (₹)	CGAR (%)	Base Level (₹)	CGAR (%)
Andhra Pradesh	3528	4.8	2612	5.4	310	7.4	367	5.5
Karnataka	2244	6.8	1459	6.2	196	3.8	182	9.7
Maharashtra	2952	5.1	1782	6.7	172	7.1	245	3.6
Uttar Pradesh	3600	4.8	1445	3.8	211	7.0	129	2.7
Assam	3468	5.1	1023	4.7	119	Neg.	112	5.9
Odisha	2544	4.1	905	4.1	74	1.6	125	3.5
All India	3040	5.1	1529	5.4	180	5.6	193	5.5
Coefficient of Variation (%)	17.02	16.10	36.57	20.45	41.22	63.19	46.46	44.84

Notes: All India refers to all six States. CAGR=Compound Annual Growth Rate.

Source: NCAER (2008).

At the all India level, the share of expenditure separately on four groups of items viz., food, non-food, education, and health to total expenditure at the base level turned out to be 66.54, 33.46, 3.94 and 4.22 per cent, respectively. More importantly, per household expenditure on each group of items grew at the rate of more than 5.0 per cent per annum between pre- and post-SHG periods. The annual compound growth rate of per household expenditure was highest in education (5.6 per cent), followed by health (5.5 per cent), non-food items (5.4 per cent) and food items (5.1 per cent).

However, there were wide inter-state variations in the base level and growth rate of expenditure on each group of items. The base level of expenditure on food varied from ₹ 3600 in Uttar Pradesh to ₹ 2244 in Karnataka. Its growth rate was highest in Karnataka (6.8 per cent) and lowest in Odisha (4.1 per cent). The base level expenditure on non-food varied from ₹ 2612 in Andhra Pradesh to ₹ 905 in Odisha. The inter-state variations, measured in terms of CV in the base level and growth rate of expenditure on education and health were wider than those in expenditures on food and non-food items. It may also be noted that on an average about 80 per cent of the SHG households reported an increase in their access to nutrition, children's education and health care in post-SHG situation relative to pre-SHG situation.

Changes in Savings, Assets and Borrowing: The average level of financial savings (viz., savings in SHGs, banks, post offices, cooperative societies, life insurance, and cash in hand) increased from ₹ 2057 in the pre-SHG period to ₹ 4213 in post-SHG period, physical savings (viz., gold, silver and jewelleries) from ₹ 777 to ₹ 1569. As a result, total savings increased from ₹ 2834 to ₹ 5782, registering an annual compound growth rate of 14.2 per cent. There were variations in the extent of change in savings across the three SHG models.

The data reported in Table 7 show that the value of consumer durables per household, growing at the rate of 9.9 per cent per annum, experienced a net change of ₹ 4329 during pre- and post-SHG periods. The growth rate is found to have varied widely across the three models – from 6.1 per cent in Model 1 to 20.7 per cent in Model 3. There were wide variations in the growth rates across the States also. The State level data showed that the growth rate was highest in Karnataka (18.0 per cent), followed by Odisha (15.4 per cent), Andhra Pradesh (11.8 per cent), Assam (11.5 per cent), Maharashtra (7.6 per cent) and Uttar Pradesh (6.1 per cent) (NCAER, 2008).

Table 7: Changes in Savings, Assets and Loan (All India)

Model Type	Average Level of Savings per Household (₹)			Change in Assets per Household		Average Loan per Household (₹)		
	Base Level	2006 (%)	CGAR (%)	Net Change (₹)	CGAR (%)	Pre-SHG	Post-SHG	CGAR
Model 1	3391	6714	13.8	3233	6.1	5229	14282	20.95
Model 2	2911	5984	13.3	4923	11.1	5636	14922	19.81
Model 3	1327	2948	15.5	4133	20.7	4645	14202	22.42
All Models	2834	5782	14.2	4329	9.9	5384	14640	20.45

Source : NCAER (2008).

Significant changes have also been observed in the borrowing habits of SHG members due to bank linkages. While 46.5 per cent of all SHG members had taken loan in pre-SHG period, 92.8 per cent were found to have taken loan in post-SHG period. This change is considered to be due to improved access of SHG members to formal financial services. The average loan amount per household increased from ₹ 5389 in the pre-SHG situation to ₹ 14640 in post-SHG situation, registering a growth rate of 20.45 per cent per annum. There were no major variations in the average loan per household or in its growth rate across the three SBLP models (Table 7). Repayment of loans was found to be quite satisfactory. More than 96.0 per cent of SHG households were found to have repaid their loans on time at the all India level. The percentage of households reporting regularity in repayment was highest in Andhra Pradesh (100 per cent), followed by Assam (99.9 per cent), Karnataka (99.8 per cent), Maharashtra (96.9 per cent), Uttar Pradesh (92.9 per cent) and Odisha (88.7 per cent).

The dependence of households on moneylenders was found to have reduced substantially in post-SHG situation. While about 60 per cent of households took loans from moneylenders in pre-SHG situation, only 1.2 per cent of households reported that they had taken loans from them in post-SHG situation. Again, while 60.1 per cent of total loans were taken from moneylenders in pre-SHG period, only 1.2 per cent of total loans were taken from them in post-SHG period. SHG households were found to have reduced their use of loans for consumption purposes in favour of productive purposes after the linkage programme. Loans used for productive purposes increased by 20 per cent – from 42.6 per cent in pre-SHG period to 51.3 per cent in post-SHG period (NCAER, 2008).

Impact on the Incidence of Poverty : A major objective of the SBLP is to alleviate poverty by extending banking services to the poor, thereby helping them to enhance employment and income opportunities to come out of poverty. We have examined the impact of SBLP on the incidence of poverty among SHG households. Evidence shows that the percentage of poor households declined from 58.3 per cent in pre-SHG situation to 33.0 per cent in post-SHG situation, indicating that the incidence of poverty among SHG households declined substantially by 25.3 percentage points, after about five years of bank linkage (Table 8). The annual rate of poverty reduction turns out to be 10.0 per cent at the all India level. While the performances of Models 2 and 3 in poverty reduction were better than the all-India average level, the same of Model 1 was below the average. State-wise data show that the rate of poverty reduction was highest in Andhra Pradesh (36.89 per cent), followed by Karnataka (12.38 per cent), Maharashtra (12.16 per cent) and Uttar Pradesh (10.54 per cent). The rates of poverty reduction in Assam and Odisha were below the average level. The SBLP appears to have immensely helped SHG members to come out of poverty in an effective way.

Table 8 : Impact of SBLP on Poverty

State	Percentage of households below poverty line			CAGR (%)
	Base Level	2006 (percentage points)	Net Reduction	
Andhra Pradesh	11.6	0.8	10.8	“36.89
Karnataka	67.0	33.0	34.0	“12.38
Maharashtra	62.8	30.1	32.7	“12.16
Uttar Pradesh	61.4	34.7	26.7	“10.54
Assam	66.1	41.4	24.7	“9.24
Odisha	78.0	56.8	21.2	“5.63
Model 1	62.4	38.5	23.9	“8.74
Model 2	55.6	30.2	25.4	“10.70
Model 3	61.1	33.1	28.0	“10.51
All India	58.3	33.0	25.3	“10.00

Source : NCAER (2008).

Social Empowerment : Since one of the objectives of SBLP is to enhance social empowerment, it is worthwhile to examine whether the programme has contributed towards improving the social empowerment, particularly of women members. Social empowerment has been measured here in terms of six indicators viz., (i) self-confidence of female members, (ii) abilities to face problems, (iii) control over use of money, (iv) decision making, (v) participation in public affairs, and (vi) ownership of productive and consumer assets. As per NCAER (2008) survey, 92.0 per cent of households reported that the social empowerment of women has increased over a period after joining SHGs (Table 9). The percentage of households reporting improvement in such empowerment was highest in Maharashtra (95.4 per cent), followed by Orissa (94.4 per cent), Karnataka (93.6 per cent), Andhra Pradesh (91.5 per cent), Uttar Pradesh (90.3 per cent) and Assam (86.5 per cent). This percentage was highest in Model 3 (95.1 per cent), followed by Model 2 (91.7 per cent) and Model 1 (91.4 per cent). Parida and Sinha (2010) reported that female SHGs are most sustainable, as they have been performing well in terms of recovery of loans, per capita savings, and linkage with SHG federation.

Table 9 : Households Reporting Improved Social Empowerment of Women after Joining SHGs

State	Percentage of SHG Households
Andhra Pradesh	91.5
Karnataka	93.6
Maharashtra	95.4
Uttar Pradesh	90.3
Assam	86.5
Odisha	94.4
Model 1	91.4
Model 2	91.7
Model 3	95.1
All India	92.0

Source : NCAER (2008).

Concluding Observations

We have reviewed the progress of the SHG-Bank linkage programme at the national and regional levels, and evaluated its impact on the socio-economic conditions of SHG households. The programme has grown at a tremendous pace during last two decades and emerged as the most prominent means of delivering micro-finance services to the poor, forging a bridge between the financially deprived and the formal financial services in India. Commercial banks, regional rural banks, cooperative banks and NGOs have contributed significantly towards the rapid spread of the programme. Though the regional spread of the programme has been highly skewed with highest concentration in the southern region, it has started picking up pace in other regions.

The findings of this study suggest that the SHG-Bank linkage programme has significantly improved the rural poor's access to formal financial services and has had a positive impact on the socio-economic conditions of SHG households. The results show that the average annual net income, assets and savings of the households increased significantly in post-SHG situation. The average amount of loans and the regularity in repayment increased, and the dependence on moneylenders decreased remarkably during post-SHG period. The percentage of loans used for productive purposes and employment per household increased, and the incidence of poverty among SHG households declined significantly after the linkage programme. It has also improved the social empowerment of women members over a period after their joining SHGs.

The programme has been confronted with many challenges, which need to be addressed through appropriate policies and strategies. Some of them are indicated here. (*i*) Though banks have played significant role in providing financial services to the poor, appropriate steps have to be taken to widen the coverage, as there are still large sections of the population in different regions who have no access to formal financial services. The finding of significant reductions in poverty in the post-SHG period along with the evidence of wide regional disparities in the spread of SBLP suggests the need for adopting appropriate policies for intensifying the spread of the programme to the regions where the incidence of poverty is higher. There is an urgent need to widen the scale and outreach of financial services to different sections of the population in different regions to achieve the objectives of 'financial inclusion' and regional balance. (*ii*) There are also serious concerns over the quality of SHGs, which is reported to have deteriorated. This is often considered to be due to the lack of emphasis on the quality of SHGs at the time of very fast growth of the linkage programme. Ensuring the quality of SHGs becomes a great challenge and it should be properly addressed, because sustainability of the programme depends crucially on the quality of SHGs. (*iii*) Since the launch of SGSY as poverty alleviation programme, there has been a growing tension between SGSY and SBLP. Since SGSY has an inbuilt subsidy element, it has tended to attract the linkage group members to come together to form SGSY not for self-help but for enjoying the benefits of subsidy. Hence, there is an urgent need to resolve the tension between the two programmes through appropriate policies to refrain the linkage group members from migrating to SGSY. (*iv*) The problem of how to induce the linked SHGs to graduate into viable productive enterprises becomes a major challenge. Transforming the SHG households into viable productive micro-enterprises through micro-credit could be an effective way to ensure their livelihood security and to reduce poverty. Appropriate training programme, and technical and marketing support for linked SGHs could be very useful to this end.

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