

# Financial Inclusion through SHG-Bank Linkage Programme: A relative Measure among Different states in India

Dr. Amar Nath Das

Assistant Professor, Nabagram Hiralal Paul College, Konnagar, Hooghly, West Bengal

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## ABSTRACT

Delivery of financial services among underserved sections of society, at affordable cost is named as financial inclusion. The outreach of SHG-Bank linkage programme is considered as an effective contributory instrument of financial inclusion. In India, dissemination of microfinance is characterized by immense regional variations. This study attempts to measure indicators of microfinance penetration to examine regional differences in the outreach of microfinance services in India. The paper argues that a comprehensive microfinance system is the need for augmenting the process of financial inclusion by addressing the existence basic imperfection of financial services in India.

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## 1. Introduction

In an attempt to offer basic financial services to the wider sections of society, a broader network of financial institutions has been developed over the years. The network comprises of government affiliated financial intermediaries like MFIs, self-help groups (SHGs), bank correspondent, primary agricultural credit societies (PACS) etc. However, some innovative model under institutional framework has been developed in recent years. These decentralized strategies involve credit disbursement using multiple informal channels such as non-government organisations (NGOs), business correspondents, farmers' association, civil society organizations (CSOs) etc. Customized financial instruments/services have also been developed to promote financial inclusion (RBI, 2008). Within couple of decades, microfinance has been come up as an important semi-formal channel of credit delivery, especially to financially excluded section of society. We can observe two broad models of microfinance in India, i.e., SHG-bank linkage programme and MFI model. In this context we confine our study to SHG-bank linkage model.

Self Help Groups (SHGs) is the most successful microfinance approach in India. Self Help Group is a voluntary association of 15 to 20 people to achieve common financial objectives. People with common social background, are willingly form the group and pool their savings for extending credit to members of the group. In this process, group members accumulate their savings at a predefined amount on a regular time interval (daily, weekly or monthly) and provide advance to members for a certain time span. NABARD facilitates external financial assistance to these programs by entailing bank credit directly to SHGs or via bulk advance to MFIs.

## 2. Review of Literature:

A lot of studies have been conducted to evaluate the role of microfinance on the financial inclusion in underserved regions in India. This section is confined to a review of some important theoretical and empirical works carried out in this regard.

Mishra et al. (2001) examined the impact of rural SHGs on income generating activity among the group members in Faizabad district of eastern Uttar Pradesh. The study identified major constraints faced by the groups, and suggested measures for surpassing these problems. The empirical results found that SHGs can increase the income of its members by 10 to 15 per cent. The major problems have been experiencing by the members were lack of credit and marketing facilities, vocational training, entrepreneurship skills and higher interest rate. The study also recommended to incorporate Primary agricultural co-operative societies, RRBs and Commercial Banks in the process of providing affordable credit facilities to the financially excluded section through SHGs.

Harper (2002) analyses outreach and sustainability of the SHG-Bank linkage model of providing financial services. This model is more flexible for saving and borrowing activities according to the member's requirements in the Indian context. The study concluded that SHG members have the liberty to manage group financial affairs with their own but at the same time it exposes to more vulnerability.

Swain (2007) revealed the impact of SHG-Bank linkage model on poverty, and social development of group participants. Over the time, level of confidence, mobility, exposure and communication skill have been improved in SHG participants. The SHG households have been experiencing a significant positive change in their level of self-confidence at the time of expressing opinions in meetings. The data expressed a greater participation of SHG members in decision-making process regarding buying and selling of property, family planning, children's marriage, sending their daughters to school etc. However, a little increase of about 10 per cent in family violence was reported within members' households.

Sangwan (2008) identified the determinants of financial inclusion and examined the role of SHGs in attaining financial inclusion. The outreach of financial inclusion was estimated in terms of percentage of adults having a bank accounts. The study infer that the branch density and per capita income have positive and significant correlation with the percentage of adults having a bank account. Literacy percentage has astonishingly inverse relationship with percentage of bank accounts of adults. The study concluded that lack of financial literacy is one

of the primary reasons behind it. The results substantiated that an individual having low income and living beyond the outreach of banking services (e.g., marginal or small farmers, agricultural and migrant labourers, tribal people) were excluded from the financial inclusion. It also stated that SHGs could play significant role in achieving the financial freedom especially for low-income category people.

Srinivasan (2009) conducted an empirical study to measure outreach of microfinance across the states of India. The study developed Microfinance Penetration Index (MPI) considering the supply side dimension only. MPI has tried to capture client mobilization effort relating to the states' population. The intensity of outreach of microfinance has been estimated by the ratio of microfinance clients with total population.

**3. Objectives of the study:**

This study has attempted to construct an inclusive measure of microfinance outreach which help us to capture information on penetration and participation of women section in the population. It helps us to know the position of different states in India, districts of West Bengal and blocks of Hooghly<sup>1</sup>.

The paper has been divided into six sections. The next section deals with methodology and data sources. Section 5 develops a theoretical framework and two comprehensive indicators to measure the extent of microfinance outreach in different states of India, West Bengal and Hooghly. The summary of findings is presented in section 6.

**4. Methodology and Research Design:**

In this section we have constructed an inclusive indicator of microfinance outreach among poor population (MOP) and proportion of women Self-help Group member with banks account (public, private, cooperatives, RRBs, etc.) to total SHG member which is considered as a measure of participation of women section of the society to the drive of SHG-Bank Linkage Programme (SBLP). As the programme of SBLP is specifically designed to serve the needs of marginal women population of the society. For a transparent understanding, elucidation of indicators used in both the indices is given in the Table 1.

		the region to total number of poor households in all regions.
Indicator of women participation to total SHG member (MOW)	Share of women SHG member of a region as a proportion of total SHG members of that region	MOW = C / A Where C indicates the proportion of number of women SHG member of a region to total number of women SHG member in all regions.

As per the values of MOP, MOW, regions are classified into two categories. Value less than one implies lower level of microfinance outreach among poor (MOP) as well as lower participation rate of women in SHG (MOW). We have measured microfinance outreach across the states and union territories of India (Table 2), different district of West Bengal (Table 2) and also covered 18 blocks (Table 3) of the district Hooghly.

**5. Financial Inclusion through SHG- Bank Linkage Model**

Formal financial Institutions in India has been continued to play the prime role in financial inclusion programme since its inception. Their association with informal delivery channels has created necessary momentum in microfinance sector. In this context one predominant model is SHG-Bank Linkage Programme. Under this programme Self-Help Groups are financed, in a joint liability manner, directly public and private sector commercial Banks, Co-operative Banks, Regional Rural Banks. Collateral free advances are provided to SHGs at interest rates as decided by banks (Chary and Savvasi, 2013). NABARD launched SHG-Bank Linkage Programme (SBLP) with the policy support of the Reserve Bank of India (RBI) in 1992. The main objective of this programme is extending outreach of credit services at the door step of poor households in rural areas with easy access to formal financial services on a cost effective and sustainable manner. SBLP is comprises of three different approaches. First, SHGs are promoted and financed by banks. Second, SHGs are assisted by NGOs/Government agencies and financed by banks. Finally, SHGs guided by NGOs and financially backed by banks using NGOs/formal agencies as financial intermediaries. Second approach has been emerged as the most popular in this programme.

**5.1 State of microfinance in India  
An inter-state analysis**

Various estimates regarding microfinance outreach and financial inclusion have been made over the years. In a noteworthy attempt, Srinivassan (2009) developed two index, namely, Microfinance penetration index (MPI) implies proportion of microfinance client to state population and Index of penetration of microfinance among poor which indicates share of microfinance client on state poor population. In another outstanding attempt, Laha and Kuri (2012) constructed

**Table 1**

Description of microfinance outreach indicators and data sources

Indicators	Descriptions	Corresponding measure	Data Source
Indicator of Microfinance outreach to poor Households (MOP)	A proportional measure between Share of the region in SHG members with bank account and share of poor households of that region	MOP = A / B Where A implies the proportion of number of SHG members of the region to total number of SHG members in all region, B indicates the proportion of the number of poor households of	"Status of Microfinance in India", NABARD, 2013-14 and Census 2011. official website of Dept of Cooperation, West Bengal ( <a href="http://coopwb.org">http://coopwb.org</a> ), District Human Development Report, Hooghly, 2011

<sup>1</sup> Hooghly is considered as fully financial inclusive district as per state level bankers' committee in 2008.

a comprehensive indicator of microfinance outreach on the basis of microfinance penetration, availability and usage.

**Table 2**

Ranking of the States as per the indicators of microfinance outreach and women participation in SBLP

State Name	MOP	MOW
Andaman & Nicobar Islands	14.73 (1)	1.18 (2)
Uttarakhand	11.48 (2)	0.61 (31)
Kerala	9.17 (3)	1.07 (11)
Puducherry	8.29 (4)	1.15 (4)
Andhra Pradesh	6.44 (5)	1.2 (1)
Tamil Nadu	4.05 (6)	1.06 (13)
Goa	3.96 (7)	1.09 (10)
Lakshadweep	3.46 (8)	0.02 (33)
Himachal Pradesh	2.06 (9)	0.98 (18)
Karnataka	1.99 (10)	1.02 (15)
Odisha	1.4 (11)	1.11 (7)
Maharashtra	1.18 (12)	0.92 (22)
Assam	0.96 (13)	0.91 (23)
West Bengal	0.96 (14)	1.1 (8)
Rajasthan	0.74 (15)	1.1 (9)
Gujarat	0.68 (16)	1.01 (16)
Meghalaya	0.67 (17)	0.73 (28)
Tripura	0.53 (18)	1.14 (6)
Haryana	0.48 (19)	0.94 (20)
Chhattisgarh	0.36 (20)	1.01 (17)
Manipur	0.36 (21)	1.17 (3)
Punjab	0.35 (22)	0.96 (19)
Bihar	0.26 (23)	0.68 (30)
Jharkhand	0.25(24)	0.8 (26)
Sikkim	0.23 (25)	0.85 (24)
Uttar Pradesh	0.21 (26)	0.53 (32)
Arunachal Pradesh	0.2 (27)	1.07 (12)
Madhya Pradesh	0.2 (28)	0.72 (29)
Nagaland	0.2 (29)	0.94 (21)
Delhi	0.06 (30)	1.05 (14)
Chandigarh	0.05 (31)	0.83 (25)
Jammu & Kashmir	0.02 (32)	1.15 (5)
Mizoram	0.02 (33)	0.79 (27)

Source: Authors own calculation as per Status of Microfinance in India, NABARD( 2013-14) and Census 2011.

There is a wide inter-state disparity has been observed in individual indicators of microfinance outreach. In the context of penetration of microfinance services to poor population (MOP), states like Andaman & Nicobar Islands, Uttarakhand, Kerala, Puducherry, Andhra Pradesh, Tamil Nadu, Goa, Lakshadweep belong to the higher outreach category. On the other hand, nearly 64 percent of the states fall in the category of lower outreach level (below 1.00) of microfinance programme. The

states with lower outreach level are mainly confined to the central, northern, eastern and north-eastern region,. It is apparently observed that states with lower percentage of poor population [e.g. Andaman & Nicobar Islands (1.05%), Lakshadweep (3.1%), Goa (5.1%), Kerala (7.16%), Himachal Pradesh (8.1%) Puducherry (9.9%)], emerge with higher penetration microfinance services to poor. Inter state disparity in the participation of women section of society to SBLP is presented in column 3 of Table 2. A greater participation of women in SHGs is observed in Andhra Pradesh, Andaman & Nicobar Islands, Manipur, Puducherry, Jammu and Kashmir, Tripura, Odissa, West Bengal, Rajasthan and Goa. States like Uttarakhand, Kerala, Tamilnadu, Lakshadweep, West Bengal. Rajasthan and Jammu & Kashmir are the explanation of a notable point that higher penetration level of microfinance in poor does not ensure higher participation of women in SHG or vice-versa. The results shows, unlike the outreach of microfinance, there is no region centric concentration of women participation across the country.

### An inter-district analysis

However, imbalance of microfinance outreach at district level of west Bengal shows (Table 3) Hooghly, Purba-medinipur, Bankura, Malda, Burdwan, Nadia, Uttar Dinajpur are top seven districts far ahead of state penetration level of SHG-bank linkage programme.

It is interesting to note that Hooghly maintain first ranks among eighteen districts in west Bengal for both microfinance outreach and women participation of SBLP. Like the states, a parallel trend has also been observed in respect of percentage of poor population and microfinance outreach level across the districts of West Bengal. Districts with lower percentage of poor population (as per Tendulkar poverty definition for 2011-12) like Hooghly (14.2%), Nadia (16.6%), Purba Medinipur (17.7%) and Burdwan (19.5%), belongs to the higher stratum in the ladder of microfinance outreach among poor households. Although, women participation in SBLP across the districts exhibit a satisfactory level except North 24 Parganas (0.42). It is strikingly lower than all other districts but incidentally emerged as second lowest poverty district (after Kolkata) in West Bengal.

**Table 3**

Ranking of the District and Blocks as per indicators of microfinance outreach and women participation in SBLP

District Name	MOP	MOW
Hooghly	3.51 (1)	1.10 (1)
Purba medinipur	2.52 (2)	1.01 (8)
Bankura	1.69 (3)	1.07 (3)
Malda	1.66 (4)	0.98 (14)
Burdwan	1.64 (5)	0.84 (17)
Nadia	1.63 (6)	1.00 (12)
Uttar dinajpur	1.24 (7)	1.00 (9)
Coochbehar	0.96 (8)	1.01 (7)
Dk dinajpur	0.70 (9)	1.06 (4)
Murshidabad	0.68 (10)	1.00 (10)
Howrah	0.63 (11)	1.00 (11)
Purulia	0.51 (12)	1.05 (5)

Pashim medinipur	0.42 (13)	0.86 (16)
Jalpaiguri	0.36 (14)	1.08 (2)
South 24-pgs	0.34 (15)	1.04 (6)
North 24-pgs	0.24 (16)	0.42 (18)
Birbhum	0.22 (17)	0.91 (15)
Darjeeling	0.22 (18)	0.99 (13)

Source: Authors calculation based on official website of Dept of Cooperation, West Bengal (<http://coopwb.org>), District Human Development Report, Hooghly, 2011 and Census 2011.

Arambag	1.61 (6)	0.98 (13)
Chanditala - II	1.34 (7)	1.10 (3)
Khanakul - II	1.17 (8)	1.07 (6)
Goghat – I	1.04 (9)	1.03 (8)
Pursura	1.02 (10)	1.00 (11)
Jangipara	0.81 (11)	1.14 (1)
Tarakeswar	0.78 (12)	0.86 (16)
Balagarh	0.59 (13)	1.09 (5)
Pandua	0.53 (14)	1.00 (12)
Dhaniakhali	0.46 (15)	1.13 (2)
Haripal	0.35 (16)	0.85 (17)
Chinsurah - Magra	0.31 (17)	1.01 (10)
Polba - Dadpur	0.28 (18)	0.87 (15)

Source: Authors calculation based on official website of Dept of Cooperation, West Bengal (<http://coopwb.org>), District Human Development Report, Hooghly, 2011 and Census 2011.

### An inter-block analysis in the district of Hooghly:

One of the primary objectives of SHG-Bank linkage program was to deliver enhanced access to the banking to the poor. As far as microfinance outreach to under privilege people at block level is concern more than fifty five percent of total blocks in Hooghly exhibit higher microfinance penetration level. In terms of MOP, Chanditala – I shows an exceptional performance among the eighteen blocks in Hooghly. Apart from that only nine blocks (Goghat – II, Serampur Uttarpara, Singur, Khanakul – I, Arambag, Chanditala – II, Khanakul – II, Goghat – I, Pursura) have been classified under the category of higher level of microfinance outreach as they have crossed the district average. All other blocks falls in the category of lower level of microfinance outreach programme. A narrow inter block disparity is visible at women participation in SHG-Bank linkage programme. It is obvious that the blocks of a district which score highest among 18 districts of west Bengal would emerged with decent percentage of women participation in SHG-Bank linkage programme.

**Table 3**

Ranking of the Blocks as per indicators of microfinance outreach and women participation in SBLP

Block Name	MOP	MOW
Chanditala - I	9.50 (1)	1.09 (4)
Goghat - II	2.89 (2)	0.74 (18)
Serampur Uttarpara	2.26 (3)	1.06 (7)
Singur	1.86 (4)	1.02 (9)
Khanakul - I	1.64 (5)	0.94 (14)

### 6. Conclusion:

The forgoing sections contemplate the extent of microfinance outreach across different region of India on the basis of two indicators of microfinance outreach. A state wise analysis reveals that the states with lower outreach level of microfinance services are mainly confined to the central, eastern, northern and north-eastern region in India. A greater participation of women in SHGs is observed in Andhra Pradesh as it is the best performers in such outreach indicators among 33 states and union territories in India.

Among 18 districts, Hooghly secures first rank in west Bengal for both microfinance outreach and women participation of SBLP. As per expectation, most of the blocks in Hooghly performs well in the respect of both indicators. However, there is a wide range of variability in microfinance outreach across the states of India. In order to reduce regional imbalances, it is desirable to foster pre-requisite conditions for enhancing outreach of microfinance programme especially to low inclusive states. It is obvious that an all inclusive microfinance framework would reinforce the process of financial inclusion in India and thereby helps to obliterate rural poverty.

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