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LOAN OUTSTANDING OF BANKS AGAINST SHGs IN INDIA – A TREND ANALYSIS OF LAST FIVE YEARS

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Abstract: *The issue of Loan outstanding has been an area of concern for all economies and reduction in outstanding of Loans has become synonymous with functional efficiency of financial intermediaries. Although this seems to be an issue of individual banks and financial institutions, it has wider macroeconomic implications. It is important that, if resolution strategies for recovery of dues from Loan outstanding are not put in place quickly and efficiently, these outstanding loans would deteriorate in value over time and only scrap value would be realized at the end. Thus an analysis of Loan outstanding is evaluated using ANOVA analysis to identify the current status and the necessary recommendations can be evolved based on the analysis of the last five years 2008-2013.*

INTRODUCTION

Poverty alleviation is one of the primary objectives of any countries planning. Therefore it becomes imperative to formulate situation specific poverty alleviation policies and programmes for generation of a minimum level of income for the rural poor. One such initiative is credit infusion in the rural sector, increased involvement of banks in rural credit in post nationalization in the rural area. However, despite a vast network of commercial, cooperative, rural banks and other financial institutions no significant impact could be made on the rim poverty situation prevailing in rural India. To make frontal attack on poverty, Integrated Rural Development Programme (IRDP) was launched by the government under which subsidized credit for asset creation was provided. This programme also could not achieve its projected aims due to partisan local political interests, lopsided identification of activities and poor recovery performance of banks.

The Indian banking system has undergone noteworthy transformation following financial sector reforms, and at present it is passing through a decisive phase. It is adopting international best practices in the area of regulation and supervision with a view to strengthening the banking sector. According to Report on Currency and Finance (2006-08), with a view to create a strong, competitive and vibrant banking system, several measures were initiated in the beginning of

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early 1990s. The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management. Commercial banking itself has undergone numerous changes all over the world, during the last five decades. In the case of India too, the changes during this period, have redefined the very complexion of commercial banking. As a matter of fact, the changes that have taken place in India have been far more significant and much more radical, in some regards, than elsewhere in the world.

In view of the large outreach and pre-dominant position of the Micro Finance Programme, it is important to keep a continuous track of the status, progress, trends, qualitative and quantitative performance comprehensively. To achieve this objective, Reserve Bank of India and NABARD issued guidelines in the year 2006-07 to Commercial Banks, Regional Rural Banks and Cooperative Banks to furnish data on progress under Micro Finance. The data so collected covers various parameters like savings of SHGs with banks, bank loan disbursed to SHGs, bank loan outstanding against SHGs, gross nonperforming assets of bank loans to SHGs, recovery performance of loans to SHGs. Further, the banks also furnished the data regarding bank loans provided to Micro Finance Institutions (MFIs). NABARD, has been bringing out the consolidated document annually.

SHG-BANK LINKAGE PROGRAMME

A major obstacle in the growth of SHGs in India is lack of financial resources. NABARD with the policy back up of the RBI designed of linking these groups with banks to overcome the financial constrain. The program has come a long way since passing 1992 through stages of pilot study (1992-95) main streaming (1995-98) and expansion phase (1998) onwards.

The Self Help Group (SHG)-Bank Linkage Programme, in the past eighteen years, has become a well known tool for bankers, developmental agencies and even for corporate houses. With the small beginning as Pilot Programme launched by NABARD by linking 255 SHGs with banks in 1992, the programme has reached to linking of 69.5 lakh saving-linked SHGs and 48.5 lakh credit-linked SHGs and thus about 9.7 crore households are covered under the programme, envisaging synthesis of formal financial system and informal sector.[1]

Over the past decade, NABARD's "SHG-Bank Linkage Programme" aimed at connecting self help groups of poor people with banks, has, in fact, created the largest microfinance network in the world. The self help group approach has won enthusiastic supporters among policymakers. Even the central government has recognized the advantages of group lending and has adopted the approach in its battle against poverty. Micro credit, in the sense of small loans to the poor, is of ancient origins in India. Traders and moneylenders have traditionally provided credit to the poor, usually at exorbitant rates of interest, leading to considerable hardship and improvement of borrowers, including undesirable and illegal practices like bonded labour. What we refer to as microfinance today does not include such exploitative practices. But rather lending to the poor at reasonable but sustainable rates.

MICRO FINANCE: INDIAN EXPERIENCE

Starting in the 80's because of the path breaking efforts of a few non-governmental organizations, state governments like Tamil Nadu, banks like Indian Bank and NABARD, the SHG movement has taken firm roots in many part of the country. Many other varied models of micro lending to the poor have of course been in vogue in many parts of the country even earlier. It is heartening to note that, even in the latest union budget, the government of India has directed that 50,000 SHGs are being reached out through credit with NABARD refinance. it is also interesting to note that, the SHG is now being recognized as a socially viable unit for implementation of various other programmes like micro watersheds. A number of public sector banks and private sector banks have already realized the potential of micro finance as a viable business option and have commenced operations. The governments of India and the RBI realizing the importance of credit in the development processes have taken various steps, since independence to encourage banks to timely, adequate and uninterrupted finance available to the poor for agriculture and allied activities and emancipated the rural masses from the clutches of the money lenders.

On the recommendations of the Hashim committee, the Government of India therefore restructured all the poverty alleviation programmes under a one-umbrella all the poverty scheme the "Swarnjayanti Gram Swarojgar Yojana"(SGSY) from April 1999. The focus of the scheme has been on a group approach and in organizing the poor into Self Help Groups. This national programme seeks to provide and create self employment opportunities for economically disadvantaged rural poor in agriculture and in rural industrial and cooperative sectors by providing timely and adequate credit. Experiences of different anti-poverty and other welfare programmes implemented throughout the world have shown that the key to their success lies in the evolution and participation of community-based organizations at the grassroots level. People's participation in credit delivery and recovery and linking of formal credit institutions to borrowers through intermediaries of Self – help groups (SHGs) have been recognized as a supplementary mechanism for providing credit support to the rural poor. With traditionally loss making rural banks shifting their portfolio away from the rural poor in the post reforms era, SHG based micro finance, nurtured and aided by NGOs, has a become an important alternative to traditional lending in terms of reaching the poor unbankables.

A review of existing literature revealed that little is known about the sustainability of SHGs, how long they last, and how they and the scale of their transactions change over time. The research paper focuses on the development of SHG over the years and tries to identify the sustainability of SHG through bank linkage process so as to identify the ratio of savings, loan disbursal and loan outstanding for a period of time and would focus on the significant difference between the agencies.

RESEARCH METHODOLOGY

Rationale of the Study

Self Help Groups have become proven and time-tested vehicles for promoting savings and credit among poor. Self Help Group development evolves through phases of coming together, learning to work together, developing norms of engagement and finally being able to work together in an interdependent and flexible manner. The repayment rate of Self Help Groups to banks is usually perceived as good compared to other priority sector lending and it is more than 95percent. But for the last few years, the repayments of SHGs are slowly coming down. As per NABARD's status of Microfinance in India, Nabard raises concern over rising NPA in SHG lending leading to the situation of number of SHG borrowers on decline. The study also expresses that the number of self help groups obtaining loan from the banking system has been coming down over the years, an indication of the weakening SHG movement in India. Increasing bad loans from SHG portfolios are keeping commercial banks at bay from SHGs.

National Bank for Agriculture and Rural Development (NABARD) has already raised alarm over rising NPA in SHG lending in its recent report called, Status of Microfinance in India, 2011-12. The number of SHG borrowers declined by around 4%, from 1,196,000 to 1,148,000 between March 2011 and March 2011, according to the NABARD report. Also, in percentage terms the gross Non Performing Assets from SHGs increased from 4.72% as on March 2011 to 6.09% as on March 2012.

However, the quantum of fresh loans issued to SHGs by banks rose 13.70% in to Rs 16,535 crore in 2011-12, against Rs 14,548 crore in the previous year. The report points out there arise a cautious attitude of commercial banks towards SHGs. While commercial banks accounted for 63% of the savings of the SHGs, their share in fresh lending against total lending to SHGs was just 60%. In contrast, while regional rural banks had a savings share of just 20% from SHGs, their share of fresh lending to them was close to 30%.

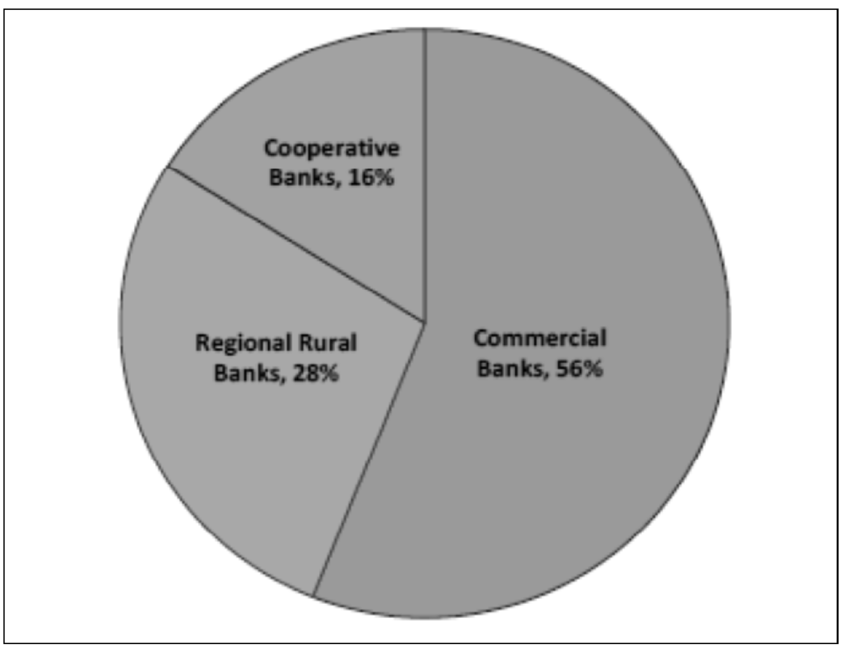
"What causes more concern is the fact that the number has been declining over the last three years, though the rate of decline has come down nearly from 24% to 4% this year," the report said. Moreover, the number of SHGs having loans outstanding against them against banks declined by 9% during the year to Rs 43.54 lakh, against 47.87 lakh in the previous year.

Thus this is a matter of concern for the microfinance sector and the causes for declining recovery rate needs to be analyzed and remedial action initiated urgently," the report said. The report also says that the fact that the commercial banks are loosing interest in lending to MFIs is certain from the fact that the amount of fresh lending in the last one year declined by 38%.

Thus understanding the need of the hour, the purpose of research is to discover answers to the questions through the application of scientific procedures. The main aim of research is to find out the truth which is hidden and which has not been discovered as yet. Though there are lot of researches has been carried out on Loan outstanding, this is a analytical study focusing on the information relating to savings of Self Help Groups (SHGs) with banks as on 31 March 2013, loans disbursed by banks to SHGs during the 5 years i.e, 2009-13, loans outstanding of the banking system against the SHGs and a detailed analysis of loan outstanding over the years as on 31 March 2013. The main source of data for the study is from the Status of Micro finance in India 2009-13.

The data from the report has been critically analyzed in terms of the prevalence and increase of Loan outstanding, region wise and agency wise classification and analysis has been brought and possible interpretations and recommendation to understand the same would be highlighted.

Figure 1: Savings Linked Shgs - Agency Wise



Source: Status of Micro finance in India 2012-13

ANALYSIS AND FINDINGS

Origin of SHG Bank Linkage Programme

The concept of linking SHGs to banks was launched as a pilot project by National Bank for Agriculture and Rural Development (NABARD) in 1992. The pilot envisaged linking of just 500 SHGs to banks. By the end of March 1994, 620 SHGs had been linked to banks. The success of the pilot led to its transformation into the SHG bank linkage programme with an ever-increasing number of banks and NGOs participating therein. From modest beginnings in 1992, the SHG bank linkage programme spread rapidly and in just over a decade had emerged as the single largest microfinance programme in the world.

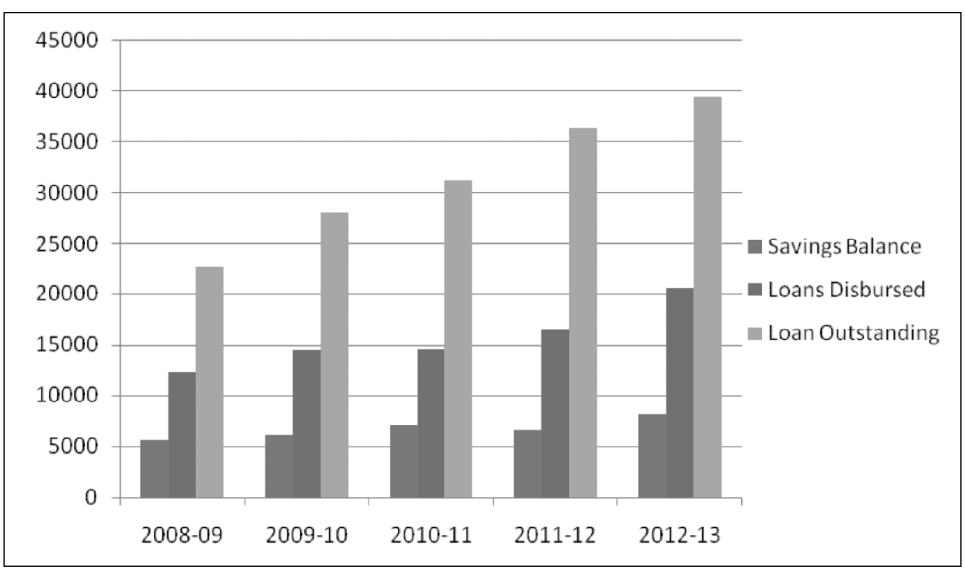
SHG BANK LINKAGE – 2009-2013

FIVE YEAR DATA TRENDS

Table 1

Year	*Savings Balance*	*Loans Disbursed*	*Loan Outstanding*
2008-09	5546	12254	22680
2009-10	6199	14453	28038
2010-11	7016	14548	31221
2011-12	6551	16535	36340
2012-13	8217	20585	39375

Figure 2: Graphical Representation of Shg Bank Linkage for the Past Five Years



While comparing the growth of SHG in the last five years in terms of growth of savings and credit through SHG, it is found that the number of SHG availing fresh loans from the bank has shown a decline of about 25% during the year while the amount of loan availed has remained the same, also significantly the loans outstanding has increased over the years revealing behind the increase in the ratio of NPA in the year 2012-13, which is clearly represented in Fig. 2.

After nearly 3 years, in analyzing the trend of past five years, the number of SHGs availing fresh loans by banks showed an increase of 6.3% during the year and the amount of fresh loans issued has also increased by 24.5% over the previous year. The declining trend in the number of SHG extending fresh loans by banks for the past 4 years has reversed this year with number increasing to 11.48 lakhs during 2011-12 to 12.20 lakh during 2012-13.

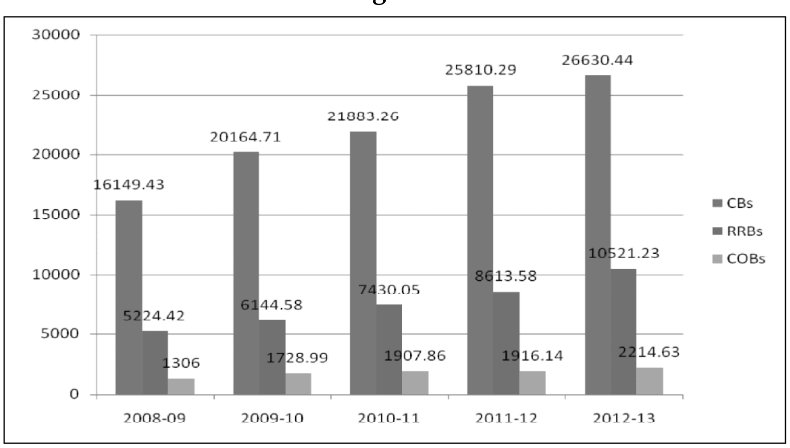
Equally analyzing the savings balance and loan disbursed to SHG in the past five years, it is found that there has been a significant change and increase in both, but simultaneously it can be noticed that from the Fig 2 that the loan outstanding has also increased drastically.

Table 2
Agency Wise Distribution of Bank Loans Outstanding Among SHG's
During the Period 2009-2013

(No. in Lakhs/Amount in crore)

Year	*Commercial Banks (CBs)*	*Regional Rural Banks (RRBs)*	*Cooperative Banks (COBs)*
2008-09	16149.43	5224.42	1306
2009-10	20164.71	6144.58	1728.99
2010-11	21883.26	7430.05	1907.86
2011-12	25810.29	8613.58	1916.14
2012-13	26630.44	10521.23	2214.63

Figure 3



In analyzing the agency wise distribution of bank loans outstanding among SHG'S during the period 2009-2013 (Fig. 4), it can be seen that there is a constant increase in loan outstanding over the period of five years and the quantum of increase in commercial banks expresses the concentration of commercial banks towards the SHGS in relative comparison to the Regional rural banks and cooperative banks.

As reported by RBI, under the SHG-Bank linkage programme, the coverage of rural households having access to regular savings through SHGs linked to banks came down by around 8% during the year to 95 million as on 31 March 2013. A similar decline of number of SHGs savings linked to Banks was also observed with only 73.18 lakh SHGs linked to Banks as against 79.60 lakh a year back. Number of SHGs having outstanding credit with banks, however, showed a marginal increase of 2% to 44.5 lakh as against 43.5 lakh the previous year. The average loan outstanding of SHGs with banks is '88,500 against '83,500 a year back. There has also been a 6% spurt in the number of SHGs getting fresh loans from banks during the year to 12.2 lakh (up from 11.5 lakh the previous year) and the quantum of fresh loans issued also showed a significant growth of about 24% during the year. The share of exclusive women SHGs in the total number of SHGs savings linked to banks now stands at 81% while the groups formed under the SGSY programme now constitutes 28% of the total number of groups.

As far as agency-wise distribution of the loans outstanding during the period 2008-09 is concerned, the Commercial Banks accounted for loan outstanding amounted to with Rs.16149.43 crore followed by RRBs with loan outstanding amount of Rs. 5,224.42 crore and Cooperative Banks with outstanding loan amount of Rs. 1,306. However, the data analysis during the year 2012-13 disclose that the loan outstanding of Commercial banks against SHGs accounted for SHGs with a loan outstanding amount of Rs. 26,630.44 crore followed by RRBs with loan outstanding against SHGs amounting to Rs. 10521.23 crores and Cooperative Banks having loan outstanding amounted to Rs. 2214.63 crores. It can be observed based on the above analysis that the Commercial Banks aggregately have the maximum share of loan outstanding against SHGs to the extent of 70.28 per cent on an average. However, the RRBs accounted for a proportionate of 23.25 per cent and followed by Cooperative Banks which accounted for 6.17 per cent during the study period under review. This indicates a majority share amount of loans outstanding has been with Commercial Banks against SHGs. This has been tested by performing ANOVA.

In comparing the savings amount, loan disbursal and loan outstanding in the past five years across the agencies (Fig. 2&4), it can be understood that there is drastic increase in loan outstanding. The outstanding amount is stagnant and this has caused the members as Non Performing Assets (NPA) leading to a situation of indebtedness. Thus, if the spurt in loan outstanding is attributed to the continuing trend of increase in NPAs of SHG loans with banks that needs an utmost concern. This is proved thorough the results of ANOVA analysis.

Loans Outstanding of Banks Against SHGs - ANOVA

The amount of bank loans outstanding against SHGs of various banking agencies, viz., CBs, RRBs and Co-operative Banks have been compared for the past five years and analyzed using one way ANOVA and are tested by the following hypotheses.

Ho: There is no significant difference among the three agencies (CBs, RRBs, Co-op) as far as the amounts of bank loans outstanding against SHGs are concerned.

The results of ANOVA-single factor are shown in table-2

Table 2
Single Factor Anova

Anova Summary *Groups*	*Count*	*Sum*	*Average*	*Variance*
CB	5	110638.1	22127.63	18372232
RRB	5	37933.86	7586.772	4337641
COB	5	9073.62	1814.724	111258.7

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	1.1E+09	2	5.48E+08	72.01297	2.07E-07	3.885294
Within Groups	91284529	12	7607044			
Total	1.19E+09	14				

INFERENCE

Since the calculated "F" value of 72.01297 is greater than the table value (Fcrit) at 5 percent level of significance, the hypothesis shall be rejected. As such, it can be inferred that there is significant differences among the three banks as far as amount of loans outstanding against SHGs are concerned. Hence, it can be concluded that the amount of loan outstanding is more with Commercial Banks as compared to Regional Rural Banks and Co-operative Banks.

CONCLUSION

The research paper clearly explains the five year trend analysis of agency-wise position of outstanding bank loans to SHGs for the years 2008 -13. The analysis is based on the report of Status of Microfinance in India by NABARD and five years are the significant years as per the NABARD report that has brought a drastic increase in loan outstanding among all the agencies and particularly with Commercial Banks. The ANOVA analysis has apparently proved it and elucidates the significant difference between the agencies as far as loan outstanding is concerned that paves the way towards the increase in the rate of Non Performing Assets (NPA) by the Commercial Banks which would be further discussed in detail in the future research.

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