ANALYSING THE SELF-HELP GROUP BANK LINKAGE PROGRAM IN INDIA FROM 2013-2014 TILL 2019-2020: A CASE STUDY ANALYSIS OF NORTH EASTERN INDIA

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Abstract

In 2015, The financial Insights Survey pointed out that the correlation between access and use of bank accounts in India is 0.59. Historically, access to credit for the poor in India has been low due to constraints like the presence of collateral and high interest rates. Due to institutional variety, regional disparities in the access and the use of bank accounts also exist. This study explores the low access to bank accounts and provision of credit in North East India against the backdrop of a high literacy rate. Through a case study analysis of the Self Help Group Bank Linkage Program in North East India, the study investigates the state of the program in North East India and poses the question, under what conditions can participation in the Self Help Group Bank Linkage Program increase? Secondary data is used for research and analysis.

JEL Classification: G21, G28, I24, I38, J16, P43, P48
Keywords: Micro finance, Self Help Group Bank Linkage Program, Financial Inclusion, Financial Literacy

1. INTRODUCTION

Access to basic financial services is essential for sustainable development. In terms of outreach and client base, India has the largest microfinance program in the world, the Self Help Group Bank Linkage Program. However, concomitantly, 56% of the debt of Indian households is unsecured, signifying that a disproportionately large percentage of Indian households rely on informal and non-institutional sources of lending (Reserve Bank of India, 2017). Poorer households hold disproportionately high levels of unsecured debt. The financial inclusion data released by the World Bank reflects that in the year 2017-2018, only 8.1% of Indians borrowed from financial institutions or used credit cards, as opposed to 32.7%. Indians, who borrowed from their friends and family (The World Bank, 2018). Further, this data leads to miscounting of the dismal situation. Calculation of the data excludes the northeastern states and remote islands as they represent less than 10% of the population. This leads to miscounting because nearly all loans that originate in northeastern states of India, originate from unsecured debt, through non-institutional sources (Reserve Bank of India, 2017).

This issue of lack of financial inclusion and low Self Help Groups in North Eastern India is puzzling given the backdrop that the literacy rate in northeastern states is among the highest levels in the country (Mazumdar, 2020). Northeast India includes Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Sikkim. The situation of inadequate credit access in northeastern India and across states is worse than in other parts of the country. Evidently, North Eastern India has a credit-to-deposit ratio of 41%, in comparison to 44.4% credit-deposit ratio in Eastern India, 90% credit-deposit ratio in Western India and 93.2% credit-deposit ratio in Southern India (Reserve Bank of India, 2017). Moreover, the region is known for political instability (Datta, 2001) and fares the lowest with respect to parameters like the average number of factories per 1000 people (NSO, 2017) and entrepreneurship. People in the northeast parts of India depend primarily on the agriculture sector, which underscores the importance of proper access to credit. Lower per capita income and a weak industrial base are termed to be the reasons behind the low credit deposit ratio in North Eastern India (Reserve Bank of India, 2019), however, even in terms of the number of Self Help Groups, the number is lowest in North Eastern India (Kumar & Golait, 2009).

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Policy interventions targeted towards the poor in the form of microfinance leads to greater availability of credit (Field & Pande, 2008). Credit markets are essential in the ownership of wealth. In 2006, Deere & Doss pointed out that poverty in terms of assets signifies poverty for a long time as compared to poverty created due to lack of income. It is thus, important to investigate the reason behind the dismal state of microfinance in North East India. The study begins by providing an evolution of microfinance in India. In the following sections, it presents a review of the literature and further dwells into the case study analysis of Self Help Group Bank Linkage Program in North East India.

Evolution of Microfinance in India

In order to enhance access to finance services, India followed the approach of offering subsidised rural credit programs. The Integrated Rural Development Program is an example of the same, however, by 1989, repayment rates fell below 60% and by 2001, they had come down to 31% (Basu & Srivastava, 2005). In 1984-1985, an NGO named MYRADA first initiated Self Help Groups (Kubati, 2021). In 1976, Muhammad Yunus introduced the concept of microfinance in Bangladesh through establishing a Grameen Bank. The National Bank of Agriculture and Rural Development started the concept of microfinance in India by building on the idea laid by Muhammad Yunus in Bangladesh, thus, linking Self Help Groups that are formed and nurtured by NGO's with the Banks. The Self Helf Group Bank Linkage Program was initiated as a pilot project in 1992. An overarching theme of the program is to promote financial inclusion by delivering financial services like credit at affordable costs to the poor. Through the Self Help Group Bank Linkage Program, the market-based strategy of providing microfinance was adopted. According to Satish 2005, the Reserve Bank of India provided instructions to commercial banks in 1996 that activities conducted by Self Help Groups should take centre stage under their priority lending portfolio. In 2005, the Reserve Bank of India adopted financial inclusion as a policy objective.

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2. LITERATURE REVIEW

Joseph Schumpeter, in 1911 provided the theoretical foundation regarding the importance of financial intermediaries and their role in enhancing entrepreneurship, leading to economic growth and technological innovation. The percentage of credit provided to entrepreneurs is positively correlated to economic growth as it leads to higher capital accumulation and improved efficiency with which economies use capital (King & Levine, 1993). While access to credit is often seen in terms of businesses that lead to higher profits and have the ability to provide collateral, there is disagreement on whether microfinance is beneficial for poverty alleviation. Fouillet, 2010 points out the extensive body of literature that monitors the development of the microfinance sector in India.

A second strand of literature accesses the impact of microfinance on poverty and empowerment. On one hand it is argued that microfinance has led to poverty reduction (Ramath & Preeti, 2014; Mathu, 2021), another strand of thought argues that microfinance institutions cause vulnerability and financial instability for the poor (Ghosh, 2013). The argument is substantiated by the claim that the profit orientation of micro-financial institutions leads to wrong incentives and peculiar risk management. Sangwan S. & Nayak N. (2019) further argue that despite the growth of SHG and MFI, the less developed sector remains excluded and inter-regional disparities persist.

In developing countries like India, high-interest rates are not the primary factor because of which people do not borrow from formal credit sources (Duflo & Bannerjee, 2010). Tripathi, 2013, added to the literature by conducting a mapping analysis and showed that the spread of microfinance through the number of self-help groups did not happen evenly. Linggi et al., 2022, contribute to literature by looking at the evolution of microfinance in India and posit that the regional distribution of microfinance in India makes it essential to focus on the self-help group bank linkage program. Das, 2013, presents a sectoral analysis and finds that though the Self Help Group Bank Linkage Program has performed satisfactorily in Southern States, it has not done so in North Eastern States. However, literature pertaining to North Eastern states (Nath & Kumar, 2012) realises the importance of the SHG programmes, however, studies do not address the role of financial literacy, caste and institutional factors in the effectiveness the Self Help Group Bank Linkage Program in North Eastern India.

This study analyses regional disparity and frames a tentative hypothesis that states that in order to achieve a higher number of self-help groups leading to greater economic growth in North Eastern India, it is important to focus on financial literacy along with changing the societal structure of institutional norms, especially for women in terms of occupation and exogamy in the region. In the case of developing countries like India, higher education is said to lead to higher literacy and financial literacy (Abel, Mutandwa & Roux, 2018). However, this study explores the case study of northeastern India to depict how contrary to the said belief, high literacy doesn't imply high levels of financial literacy. Therefore, specific policy interventions to enhance financial literacy and other institutional factors have a significant impact on financial inclusion of women.

3. CASE STUDY ANALYSIS - SELF HELP GROUP BANK LINKAGE PROGRAM OF NORTH EASTERN INDIA

The Self Help Group Bank Linkage Programe is a dominant component of microfinance in India that is implemented by Cooperative Banks, Regional Banks and Commercial Banks. It comprises Self Help Groups having 10-20 members and provides financial services to the people like credit, mobilising savings and insurance.

While the program is the largest in the world and is considered as a success story, when analyzed through a critical lens, it becomes evident that the outreach of the Self Help Group Bank Linkage program at the grassroot level in North Eastern India, as evident from the table below, is dismally low. The study addresses this issue against the puzzling backdrop of high levels of literacy in north-east India. The time period 2013-2014 is considered because it subsumes the effects of the structural change that took place in 2006-2007 and goes up to 2019-2020, covering the pre pandemic years.

Table 1: *Regional Statistics on Self Help Group Bank Linkage Program in India*

Regions	**% of Self Help Groups**	**% of Loans to Self Help Groups**
Northern	6.6	3.8
Central	11.7	6.7
Southern	48.2	71.4
Western	10.8	5.9
Eastern	19.3	10.7
North Eastern	**3.4**	**1.5**

Source: NABARD, Adapted from Kumar & Golait, 2009

In terms of demography, according to Census data, North East constitutes 3.78% of the total population of the country. The average literacy rate of the region is 78.5% while that of the country is 73% (ibid). However, alarmingly, as shown in the table below, North eastern states have the lowest levels of financial literacy in the country. For instance, Mizoram, despite having the highest literacy rate in the country at 77% has the lowest financial literacy at 6%. This depicts that high levels of literacy rates do not imply high levels of financial literacy. Against this backdrop, the amount being disbursed through the Self Help Group Bank Linkage Program in States like Mizoram and Manipur are among the lowest in the country with no amount being disbursed in Category II districts for a majority of northeastern states.

Table 2: *Amount disbursed for Self Help Group Bank Linkage Program in India, Literacy rate and Financial Literacy rate in Northeastern India*

State	Amount Disbursed (Category I District) Self Help Group Bank Linkage Program (Rs in Lakh)	Amount Disbursed (Category II District). Self Help Group Bank Linkage Program (Rs in Lakh)	Literacy Rate	Financial Literacy
Arunachal Pradesh	250245.41	17803	55	10
Assam	618.89	37.99	61	20
Manipur	5.58	NA	69	36
Meghalaya	68.55	NA	60	24
Mizoram	7.86	NA	77	6
Nagaland	22.6	NA	68	8
Sikkim	53.08	NA	73	8
Tripura	183.73	0.28	67	21

Source: Indiastat. State-wise Amount of Interest Subvention (I.S.) Disbursed to Self Help Groups (SHGs) in India (2013-2014 to 2019-2020)

Knowledge regarding financial services is essential for financial inclusion (Barua & Sane, 2014). Self Help Groups Bank Linkage Programme caters to the problem of low access to institutional finance and bank credit by poor people living in rural areas. The program identifies that besides limited outreach and coverage, the lack of an effective credit delivery mechanism for the poor is the main reason behind the lack of access to institutional finance (DAY-NLRM, 2017). However, the analysis conducted in this study suggests that policy measures focused on enhancing financial literacy in the region is the key. Moreover, through an institutional lens, it is essential for the Self Help group bank linkage program to reach the underprivileged people living in rural areas with greater involvement of the Panchayati Raj system (Karmakar, 2009). To fulfill the motive of financial inclusion, apart from opening bank accounts, it is important for banks to put in more effort and ensure that the self-help groups reach a stage where they become independent (Dev, 2009). Dev, 2009 shows that it is evident through the NSS data that in northeastern India, scheduled Tribes have higher reliability on informal credit.

A critical analysis of the levels of informal debt in northeastern states shows that since the northeast region has the highest tribal community population in the country, therefore the scheduled cast farmers have higher informal debt. This leads to a greater scope of microfinance in the states which is not being realised to its potential.

Out of a minimum requirement of 5 women to form a self-help group in North Eastern India, the President, Secretary and Treasurer are required to be literate. In order to be registered, the Self Help group must follow Panchtantra, according to which, there should be regular meetings, regular savings within groups, internal lending based on demand, timely repayment of loans and proper books of accounts (Reserve Bank of India, 2021).

Maintaining proper books of accounts requires skill training sessions for the women. The savings-led microfinance model seeks to promote regular savings and conducts training sessions, however, as evident in a study done in the Karbi Angong District of Assam, women in tribal communities are not encouraged to participate due to their dependable nature, especially due to institutions created after marriage (Das, 2011).

This is also evident in women's work in the Naga society, where the sexual division of labour leads to women doing more household chores (Shimray, 2004). Opening of savings account for the scheme also requires KYC process of the women. During several instances, the Reserve Bank of India has instructed banks to simplify their KYC process (Karmakar, 2019), in order to ensure that maximum people get registered.

Therefore, demand side as well as supply side measures, which include disbursement of adequate funds for Category II districts are essential in order to strengthen the Self Help Group Bank Linkage Program in North Eastern region. It is essential to strengthen the institutional norms with respect to decision-making power and management of wealth to enhance financial inclusion and the participation of women.

4. CONCLUSION

The study set out to answer the question, "Under what conditions can participation in the Self Help Group Bank Linkage Program increase?". It found that reducing the structural gap with respect to financial literacy and strengthening institutional measures like effective credit delivery mechanisms, KYC processes and decision-making power of the marginalised are required to increase participation in the Self Help Group Bank Linkage Program in the North Eastern Region. Moreover, heterogeneity among states requires for decentralized policy interventions based on the specific demography and institutional variety of the region. For example, the tribal population living in Naga and smaller districts of Mizoram and Manipur require greater financial education and empowerment. Adequate inclusion of the people and an increase in the number of Self Help Group Bank Linkages Programs created in North East India will facilitate the shift from an agricultural economy and reduce the burden of poverty in the region. Therefore, the Self Help Group Bank Linkage program should be strengthened in North Eastern region by the inclusion of financial literacy in educational curriculums, skill training sessions for tribal communities and evolving institutional norms of patriarchy in order to increase the demand for Self Help Groups. Greater money allocation for the program even for smaller districts and hilly areas in North Eastern India and increased involvement of banks in order to register unregistered Self Help Groups is required to increase financial inclusion in the region.

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