

SHG-BANK LINKAGE THROUGH MICRO FINANCE A POTENTIAL TOOL FOR FINANCIAL INCLUSION: AN EMPIRICAL STUDY

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ABSTRACT: Micro Finance Institutions (MFIs) play a vital role in extending financial support to the poorer sections of the society. With the entry of commercial banks, Regional Rural Banks and Co-operative Banks with favorable Government regulations and innovative delivery models such as SHG-Bank linkage programs in micro finance field, it has created a new chapter in poverty reduction in rural areas. Considering the above facts, an attempt has been made to analyze the position of Commercial Banks, Regional Rural Banks and Co-operative Banks in extending micro finance to the SHGs in rural areas through Bank linkage programs. Data has been collected from both primary and secondary sources for the study. Primary data has been collected from a sample consisting of 459 members of 230 SHGs spreading over three districts of Odisha. The main objective is to ascertain whether the micro finance extended through bank-linkage has benefited the SHGs members in their socio-economic development or other-wise. Further, NABARD's annual reports have been referred to find out the position of bank linkage programs of SHGs in Odisha and the extent of financial inclusion. Here, the aim is to examine the SHG-Bank linkage position and report the trend and position of such innovative scheme for poverty mitigation of the SHGs members. The study finally concludes with few important suggestions for better functioning of SHG-Bank linkage scheme for financial inclusion and the socio-economic development of the SHG members.

Index Terms: Financial Inclusion, Micro Finance, NABARD, SHG-Bank Linkage.

1. Introduction

Micro finance plays an important role to reduce poverty in rural areas and support the rural development. The major objective of micro finance is to increase the level of the standard of living of poor people in rural areas. Extension of micro finance to SHGs in rural areas is considered as an important mean to raise the level of income and hence, increase the standard of living of its members.. Various studies highlighted that the SHGs have helped the economic independence of rural people particularly the SHG women members. Since, the level of poverty is high in rural India as compared to its counterparts in developing economies therefore; the SHGs movement could be applied as a prospective device for eradication of poverty and financial inclusion among the people living in rural areas. These programs are viewed as significant institutional devices for extending small credit to the rural mass in order to reduce poverty. Moreover, the SHG-bank linkage is an innovative and effective device to overcome the problems of insufficient access of banking facilities to poor people in rural areas. Studies also revealed that SHG-Bank linkage programs have helped in the habits of savings to its members. These studies also further noted that availability of more micro credit to the poor through SHG-bank linkage program has supported its members in their socio-economic development in rural areas. Taking into account the above facts, this paper attempts to examine the impact of micro credit on SHGs members with bank-linkage for both financial inclusion and socio-economic development.

2. Statement of the Problem

Many studies have pointed out that micro finance is an important tool for eradication of poverty in many countries of the world. Of late, it has attracted attention of banking institutions in India. An attempt is made in this paper to examine the effect of micro finance supply through SHG-Bank linkage for socio economic development of its members and their subsequent financial inclusion. In this regard, a number of questions raised in relation to the impact of micro finance on the beneficiaries are as follows.

1. What is the impact of micro finance on living standard of poor people who joined in SHGs?
2. What is the impact of micro finance on social-economic development of members in SHGs-Bank Linkage program?
3. Does the SHG-Bank linkage model helpful in achieving financial inclusion of its members.

Based on above questions, the objectives of the study have been laid down and accordingly, data have been collected and analyzed.

3. Review of Literature

The literature review is a key step in research work. Review of past studies reveals the works done by researchers and facilitates to begin with the unexplored areas of the concerned research work. Social scientists both at national level as well as

international level have carried out research on different aspects on the functioning of Micro Finance Institutions and Self Help Groups,. Although there exists much literature in the area of micro finance and SHGs, but the research on micro finance and bank linkage is quite new. The research work conducted by the eminent scholars in the area of micro finance and the SHGs-Bank linkage include Goetz and Sengupta (1996), Raghavendra (2001), Dahiya, et al. (2001), Kumaran (2002), Shylendra (2004), Moll (2005), Hietalahti and Linden (2006), Karmakar (2009), Karlan and Jonathan (2009), Goyal and Goel (2012), Eswar and Raghvendra (2014), Ernest (2014), Manohar (2015), Lokhande (2016), Doley (2017), Arora and Singh (2018), Bhansali (2019) and Gangwar and Srivastva (2020). These studies focused on the role of micro finance and its impact on the functioning of SHGs with regard to the socio-economic development of the members. These studies also noted the fact that micro finance is a potential device for poverty reduction in rural areas. Besides this, few studies also examined the micro finance via SHG-Bank linkage for financial inclusion of the beneficiaries. Against this backdrop, this research paper attempts to study the impact of micro finance on the members of SHGs with regard to their socio-economic development and financial inclusion.

4. Objectives of the Study

Following are the objectives of the present research work.

1. To examine whether the income of the members increased after joining the SHGs.
2. To examine the impact of micro finance through SHG-Bank linkage in developing socio-economic conditions of the members.
3. To examine whether micro finance has helped in supporting the financial inclusion of the members of SHGs through bank linkage program.

5. Hypotheses for the Study

Based on the above stated objectives for the study, the following null hypotheses are framed.

1. H_0 : There is no significant increase in income after becoming the SHG members.
2. H_0 : There is no significant change in socio-economic conditions after becoming the SHG members.

6. Research Design

The research design followed in this research work is noted below.

The present study has applied a structured questionnaire for collecting primary data from the member respondents of SHGs from three selected districts i.e. Balasore, Bhadrak and Mayurbhanj districts of Odisha. Non-random sampling method i.e. purposive method of sampling was used to select the SHGs and its members. Finally, 230 SHGs were selected on the basis of their micro finance bank-linkage program. Further, data on 459 respondents were collected through questionnaire from 230 SHGs and included in this study. The annual reports of NABARD were also referred to find out the SHGs-Bank linkage for a period of 8 years i.e. from 2010-11 to 2017-18. By using Cronbach's Alpha, the reliability of the data set was tested whose test value was found to be 0.66. The data was then analyzed and interpreted by applying the statistical tools such as percentage, Pearson's chi-square test etc.

7. Analysis and Interpretation of Data

The analysis and interpretation of the data are presented in two sections. The first section deals with the SHG-Bank linkage position in Odisha and the second section shows the socio-economic status and financial inclusion of SHG members.

Section-I

Table-1: Position of micro finance Savings of SHGs with banks in Odisha

Year	Commercial Bank		RRBs		Cooperative Banks		Total	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
2010-11	2.34	105.22	1.99	197.94	0.77	50.37	5.21	353.54
2011-12	2.35	123.66	2.26	179.48	0.77	58.21	5.40	361.36
2012-13	2.06	181.81	2.42	194.31	0.73	42.15	5.22	418.27
2013-14	1.78	205.96	2.63	191.69	0.75	59.68	5.17	457.33
2014-15	2.00	252.66	1.70	179.35	0.80	65.01	4.52	497.03
2015-16	2.18	235.99	1.84	186.38	0.83	63.49	4.86	485.87
2016-17	2.34	291.22	1.15	274.53	0.81	61.69	4.31	627.45
2017-18	3.02	442.43	1.76	412.72	0.51	69.62	5.30	942.78

Source: Compiled from the Annual Reports of NABARD

Note: No. of SHG in lakh, and Amount in crore.

The table-1 reveals that the no. of SHGs with bank linkage in Odisha has revealed a fluctuating trend during the period of study i.e. from 2010-11 to 2017-18. . However, its savings with the banks has increased continuously during the same period. Similar situation has prevailed in case of individual group of banks namely commercial banks, Regional Rural Banks and Cooperative banks.

Table-2: Position of micro finance bank loans disbursed to SHGs by banks in Odisha

Year	Commercial Bank		RRBs		Cooperative Banks		Total	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
2010-11	0.29	293.22	0.31	212.70	0.11	68.99	0.71	574.92
2011-12	0.22	298.11	0.20	178.32	0.07	64.54	0.49	540.97
2012-13	0.16	222.17	0.26	211.79	0.05	39.31	0.47	473.28
2013-14	0.27	229.73	0.22	234.30	0.04	40.82	0.53	504.83
2014-15	0.31	404.87	0.25	542.80	0.65	331.2	1.22	1278.88
2015-16	0.32	448.37	0.25	354.80	0.05	57.13	0.63	860.31
2016-17	0.43	655.63	0.24	254.61	0.04	50.74	0.72	960.99
2017-18	0.43	808.51	0.63	644.11	0.05	64.07	1.11	1516.69

Source: Compiled from the Annual Reports of NABARD

Note: No. of SHG in lakh, Amount in crore.

With regard to disbursement of micro loan by different banks to SHGs, the table-2 reveals an erratic trend during the period of study. Alike position is noticed in case of individual category of banks. Further, it is also noticed from the table that the number of SHGs availed the micro loan also exhibited an erratic trend during the period of study.

Table-3: Position of micro finance bank Loans outstanding against SHGs of Banks in Odisha

Year	Commercial Bank		RRBs		Cooperative Banks		Total	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
2010-11	1.53	961.71	1.52	508.99	0.28	108.77	3.35	1579.48
2011-12	1.45	1060.33	1.39	451.60	0.30	141.44	3.14	1653.38
2012-13	1.31	1006.93	1.19	655.07	0.26	134.75	2.77	1796.75
2013-14	1.21	973.78	0.99	539.23	0.29	130.16	2.49	1543.17
2014-15	1.29	991.70	0.77	768.54	0.28	136.89	2.36	1897.05
2015-16	1.06	914.85	0.81	832.68	0.26	135.81	2.13	1883.35
2016-17	1.11	1063.35	0.85	926.28	0.24	137.18	2.20	2126.82
2017-18	1.19	1096.39	0.94	1053.12	0.19	112.54	2.32	2262.06

Source: Compiled from the Annual Reports of NABARD

Note: No. of SHG in lakh, Amount in crore.

Regarding the outstanding loans against the SHGs, the Table-3 depicts an increasing trend during the same period except the years 2013-14 and 2015-16. Similar position is also noticed in case of individual group of banks. From the analysis of the data, it can be concluded that quite large number of SHGs are linked to banks for availing micro loans and thus helping in financial inclusion.

Section-2

8. Descriptive Analysis

Descriptive analysis has been done on demographic profile of the participated respondents in the survey. Analysis has been done with key variables such as age, sex, educational qualification family size etc. and presented below.

Table-4: Demographic variables of respondents (N=459)

Variables	Frequency	Percentage
Gender		
Male	55	11.98
Female	404	88.02
Age		
Below 25 years	23	5.01
25 to 40 years	367	79.96
41 to 55 years	55	11.98
Above 55 years	14	3.05
Educational qualification		
Illiterate		
Primary	37	8.06
High school	69	15.03
Intermediate and above	138	30.07
	215	46.84

Social caste		
ST	83	18.08
SC	119	25.93
OBC	147	32.03
GEN	110	23.96
Family size		
1-2 members	22	4.79
3-5 members	321	69.93
More than 5 members	116	25.28

Source: Compiled from survey data.

The gender profile of the respondents is presented in the Table-4. Out of the 459 respondents, 55 respondents were male and rest 404 was female respondents. This shows the more women participation in SHGs than their counterpart. The age group of the members of the SHGs is an important variable showing the interest for undertaking various economic activities. The above table shows that 367 members i.e. 79.96% belong to the age group of 25-40 years. A negligible percentage was marked in the age group of below 25 and above 55 years. It can be concluded that young persons are motivated to join the SHGs. The above table also reveals that the highest percentages of respondents are from intermediate & above qualification which constituted 46.84%. It can be said that members having intermediate and above qualification are more interested in joining SHGs to do some kind of economic activities.

It is noticed from the above table that out of the 459 respondents, 147 respondents are from OBC category that accounted for 32.03% of the total respondents. The numbers of respondents belonging to ST, SC and General category are 83,119 and 110 respectively. From this it can be inferred that the representation of different castes in the total sample is more or less evenly distributed. It is also noticed from the table that 69.93% of the respondents are having 3-5 members in their family which is distantly followed by 25.28% of the respondents having more than 5 members. On the other hand, only 4.79% respondents have the family size of 1-2 members. It can be concluded that presence of large family size in the Self Help Groups may be attributed to generate extra income to meet basic necessities of the family members.

9. Inferential Analysis

The inferential analysis on the critical variables which affects the SHG members is presented in the following section.

9.1 Motives for Joining Self Help Group

Table-5: Motives for joining Self Help Group

Educational qualification	Eradicating poverty	Generating extra income for the family	Elevating social status	Total
Illiterate	26	10	1	37
Primary education	40	21	8	69
High school	70	54	14	138
Intermediate & above	62	118	35	215
Total	198	203	58	459

Source: Compiled from survey data

The Table-5 presents the information on the motives for joining as member of SHGs. Here, educational qualification is taken as a condition and the respondents were asked the motives for Joining SHGs. It can be observed from the Table-5 that qualified respondents (intermediate and above) have cited generating extra income for the family followed by eradicating poverty are the main motives behind joining the SHGs. The other categories viz. illiterate, primary education and high school going respondents have given the view that poverty eradication is the main reason for joining the SHGs. On the other hand, few respondents from each category cited elevation of social status as one of the reasons for joining the SHGs. On the whole, majority respondents cited two important reasons namely, poverty eradication and generating extra income for the family behind joining the SHGs.

9.2 Effect on Income of Members after Joining Self Help Group

The respondents have joined the Self Help Group to generate more income and lead a better life. To know it, data have been collected on income position of the members before joining and after joining in SHGs. The frequency table is presented below.

Table-6: Effect on income of members after joining Self Help Group

Income			
Category	Observed frequency		Total frequency
	Yes	No	
After membership	215	135	350
Before membership	35	74	109
Total	250	209	459
Category	Expected frequency		Total frequency
	Yes	No	
After membership	191	159	350
Before membership	59	50	109
Total	250	209	459

Table-6(a): Chi-square test

Test	Calculated value	Df	Tabulated value	Decision
Chi-Square (χ^2)	37.66	1	3.84	Rejected

1. H_0 : There is no significant increase in income after becoming the SHG members.

To test the hypothesis, the chi-square test has been applied. The test result is shown in the table-6 (a). It is noticed from the table that the chi-square test value is 37.66 which is higher than the tabulated value at 5% level of significance. Since the calculated value is more than the tabulated value, the above hypothesis stands rejected. Hence, it is concluded that there is a significant rise in income after becoming the member of Self Help Group.

9.3 Effect on Socio-economic Conditions of Self Help Group Members

To measure the effect on socio-economic conditions of the members of Self Help Group, the information on important variables on socio-economic were collected on pre and post membership period and they are presented in table-7 for analysis and interpretation.

Table-7: Effect on social-economic conditions of Self Help Group Members

Income			
Category	Observed frequency		Total frequency
	Yes	No	
After membership	126	100	226
Before membership	144	89	233
Total	270	189	459
Category	Expected frequency		Total frequency
	Yes	No	
After membership	133	92	225
Before membership	138	96	234
Total	271	188	459

Table-7 (a): Chi-square test

Test	Calculated value	Df	Tabulated value	Decision
Chi-Square (χ^2)	21.26	1	3.84	Accepted

2. H_0 : There is no significant change in socio-economic conditions after becoming the SHG members.

To test this hypothesis, the chi-square test has been applied and the test result is presented in the table-7(a). It is observed from the table that the chi-square test value is 21.26 which is higher than the tabulated value at 5% level of significance. Since, the calculated value is more than the tabulated value, the above hypothesis is rejected. Therefore, it is concluded that there is significant change in the socio-economic conditions of members after joining Self Help Groups.

9.4 Satisfaction Level of SHG Members with Regard to Bank Linkage and Financial Inclusion

Table-8: Satisfaction level of member respondents of Self Help Groups on Bank Linkage and Financial Inclusion

Response	No. of respondents	Percentage
Highly satisfied	55	11.98
Satisfied	323	70.37
Neutral	23	5.01
Dissatisfied	42	9.15
Highly dissatisfied	16	3.49
Total	459	100

Source: Data compiled from survey data.

The table-8 shows the level of satisfaction of member respondents with regard to the bank linkage and financial inclusion. It is noticed from the table that 70.37% respondents are satisfied on SHGs performance with regard to bank linkage and financial inclusion. It is distantly followed by 11.98% highly satisfied members. On the other hand, 12.64% member respondents are either dissatisfied or highly dissatisfied on this aspect. On the whole, it can be concluded that a maximum of 82.35% members are satisfied with the performance of their respective SHGs with regard to the bank linkage program and financial inclusion.

10. Findings of the Study

The important findings of the study are presented below.

- ❖ The bank-linkage on micro finance program with SHGs in the state of Odisha shows an increasing trend with fluctuations in certain years of the period of study.
- ❖ The NABARD has been playing a key role in facilitating the SHG-Bank linkage for micro finance in Odisha and is also trying to consolidate such programs by providing training as well as capacity building measures to SHGs.
- ❖ The study reveals that maximum members have joined the SHG for poverty eradication and generating extra income for the family.
- ❖ The study observes that there is a significant rise in the income level of the SHG members.
- ❖ The study also reveals that there is significant change in the socio-economic conditions of SHG members.
- ❖ The study also discloses that maximum respondents are satisfied with SHGs performance particularly with regard to SHG-Bank linkage for financial inclusion.

11. Suggestions

Few suggestions are given for the benefit of the SHG members.

- ❖ The members of SHG should form groups in order to avail micro loan through bank-linkage model so that it would create an environment of mutual trust among the group members.
- ❖ It is suggested that Bank linkage will enable the members to get cheaper credit on an average from banks and serve the very purpose of financial inclusion.
- ❖ NABARD has a greater role to play in guiding and counseling the SHGs in their choice of business activities. Hence, the NABARD should provide adequate training and capacity building measures to SHGs for their growth and success.

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