

## **A Study of Non Performing Assets of Loans Outstanding Under SHG-Bank Linkage Programme in India**

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### **ABSTRACT**

*Every major economy of the world strives to eradicate unemployment and poverty to improve their performance on development indices. Microfinance initiatives are thereby launched to uplift these impoverished segments and empower them to access social and economic strength. Since early 70s of the 20th century, India has adopted a multi-model approach to serve the economically weaker segment of the society and capacitate them to contribute in the country's economic as well as social development. Out of these microfinance initiatives, SHG-Bank Linkage Programme has emerged as the largest world's largest microfinance movement demonstrating exorbitant growth wherein the number of SHGs with outstanding loans rises up to 102.43lakh SHGs (up to 31<sup>st</sup> March, 2020). Despite its remarkable growth, the programme encounters several encumbrances like uncertainty in bank loans, poor quality of book keeping, lack of technology, absence of specified leadership norms and aggravating NPAs. The programme has witnessed a steep rise in the NPAs over the last few years which not only indicates diminished income generation capacity of banks but will also hamper the further dispersal of the loans under the programme. In addition to that, the financial institutions become more vulnerable to adverse economic shocks and eventually putting consumer deposits at risk. Hence, this paper studies the level of NPAs in loans given to SHGs across a time span of 5 years from 2015-16 to 2019-20. The paper studies the amount of gross NPAs of different agencies through which loans were dispersed to SHGs. The paper also analyses the level of NPAs across the six regions of the country. In addition to that, the study reveals key concerns related to rising level of NPAs under SBLP and offers some important suggestions that can cut down the NPAs of the banking institutions and improve the profitability of banks as well as economic strength of the financial institutions and the borrowers.*

**Keywords:** *Micro Finance, Loans Outstanding, Self Help Groups, SHG-Bank Linkage Programme, Non Performing Assets.*

### **1. Introduction**

One of the critical constituent of any development project is finance, especially if that development project aims at the well-being of rural people; improve their quality of life, and income level and alleviate poverty, which is very crucial for overall and inclusive growth of the economy. Further, access to finance also empower and brings poor and vulnerable group into the mainstream of economic development. But the majority lower lungs of society has very low access to formal credit system of the country in spite of the introduction of number

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of financial inclusion plans by the government because these programs are not implemented according to the actual spirit of the plans and non-availability of suitable financial products. That is why; rural people have to largely depend on money lenders and other informal credit institutions to meet their emergent needs. In order to lessen the dependence on unorganized financial middlemen, Self-Help Group- Bank Linkage Programme, being one of the prominent micro finance initiatives has been working like a revolutionary step, which witnessed significant growth in past two decades.

Self-help group-Bank linkage program is a major plank of the strategy for delivering financial services to the lower lungs of the society by linking them to formal banking sector. Self Help Group is the voluntary association of 10 to 20 individuals of small and low income group from same social and economic background. Once the group is established, the members of the group are encouraged to contribute to a common fund of the group from the amount conveniently saved out from their earnings. The pooled fund so created by the group members is used to lend internally for meeting their income generation activities and emergent credit needs at such a rate of interest, the period of the loan, terms of repayment as determined by the group members and they also keep record of it, which builds their financial discipline and credit history.

For a period of 6 months to 1 year there is no funding by the formal credit institutions. Once the self-group builds its credit history then they encourage and convince the banks or other formal institution to lend them in certain multiples of their own saving without any collateral security. This is where Bank Linkage to self-help group is initiated. Banks lend to SHGs after evaluating their credit worthiness on parameters such as group discipline, regularity of meetings, savings, rotation of funds, maintenance of books of accounts, group record keeping, repayment of loans etc.

Though this microfinance initiative reached many milestones during its long journey in the Indian financial landscape, but the movement has also witnessed a steep rise in the NPAs in SHG portfolio over the last few years. The NPA levels have risen significantly over the last 10 years from 2.90% as on March 31, 2008 to 6.12% as on March 31, 2018.

## **2. Review of Literature**

**Cyril and Britta (2007)** studied the extent of disparity across regions in India under SHG-Bank Linkage Programme. The ratio of the number of SHG members to the total households of the states in the country demonstrates a distinct, but continuing, pattern in regional differences as compared to the relative strength of the SHGs.

**Banerjee et al. (2009)** showed that the microfinance helps the ultra-poor to meet their most basic needs and protect against risks; in this process, their economic welfare will be improved. Besides, it ensures the participation of women in development paradigm, which ultimately leads to empowerment of women and gender equity.

**Purushotham (2010)** found that the SHGs in Bidar district, Karnataka recovered to the extent of 98.4 per cent of the loans given to the members; however, majority of the SHG members did not acquire optimal level of skills to maintain their books of accounts reflecting

the prevalence of financial illiteracy among the members. While some researchers reported that the SHGs attract politicians and get reduced into vote banks with all the attendant ills, others argued that repayment of loans is not properly reported and monitored. The finance, accounts and management information system functions are weak even among the matured SHGs. So, the banks are not keen to enhance the credit limits of the SHGs due to lack of authentic records about their activities.

**Johnson and Meka (2010)** in their CMF-IFMR report stated that in Chennai mere 25.4 % of the SHGs used the loan money for income-generation 20.4 per cent of the SHGs used loan money for repayment of old debts. The RBI report on issues and concerns of MFI 2011 recommended striking a balance between loans for income-generating and loans for other purposes. It was also observed that since the loan amounts were small, it is quite inadequate for income-generating purposes.

**Das (2013)** analyzed the NPAs and recovery performance of SHGs in Southern and North-Eastern Region of India where it was observed that although amount of saving balance of SHGs with banks and amount of loan disbursed to SHGs by banks was lower in North-Eastern Region in comparison with SR, but the share of NPAs to total loans outstanding was higher and percentage of recovery to demand of total SHGs was lower in North-Eastern Region. It was also observed that there has been an improvement in rising NPA situation and the recovery rate in North-Eastern Region.

**Manju and Shanmugam (2013)** observed that the main reason for this was argued that loans are not utilized for income-generation but for unproductive purposes by the SHG members.

**Chary and Savvasi (2013)** observed that Commercial banks had substantially higher quantum of outstanding loans against SHGs in comparison to Regional Rural banks and Cooperative banks.

**Manohar, (2015)** the outreach of SBL programme was found to be significantly uneven between the six regions. During the study period 2007-08 to 2013-14, Southern region's share of savings per SHG, loan disbursed per SHG and outstanding per SHG was considerably higher than the remaining five regions and even higher than the national average also. North-Eastern region was observed to be the least reached out region as compared to the other regions.

**Nagayya and Rao (2016)** suggested that SHG-BLP model should be continued with greater enthusiasm to play a proactive role for better outreach, with increased penetration in underserved areas and without compromising on the quality of lending. They emphasized that focus should be on creation of new enterprises, productive activities, and revival of the dormant and not so well functioning SHGs and federations.

### **3. Research Objectives**

SHG-Bank Linkage Programme (SBLP) has come forth as the most prominent means of Micro Finance and Financial Inclusion in the country but rising amounts of NPAs with banks is crippling the growth and development dynamics of the country. As a result, NPAs for loans

given to SHGs have also become a cause of concern. Hence, the main objectives of the study are:

1. To ascertain and analyze the amount of NPAs of banks for loans given to SHGs across the six regions of India i.e. Northern, Southern, Eastern, Western, Central and North-Eastern.
2. To analyze and compare the amount of NPAs of different agencies i.e. Public Commercial Banks, Private Commercial Banks Regional Rural Banks and Cooperative Banks in SBLP.

To ascertain primary reasons leading to rise in NPAs of banking institutions against loans given to SHGs and suggest improvements for the problem.

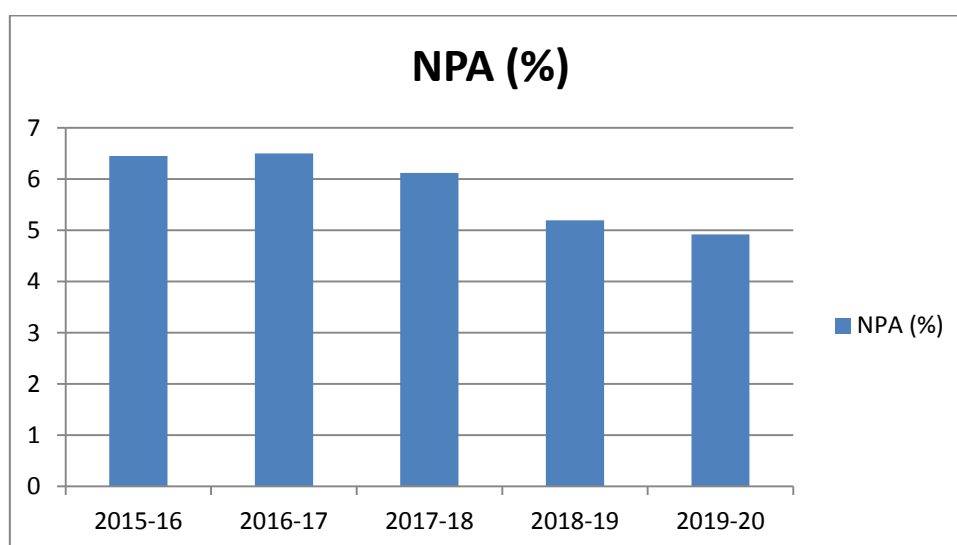
#### **4. Analysis of NPAs Against Self Help Groups (SHGs) Under SBLP**

Although, the amount of saving balance of SHGs with banks and amount of loan disbursed to SHGs by banking institutions is growing every year but it is imperative to ascertain the level of NPAs as well to analyze the effectiveness of SBLP. The levels of NPAs reveal that how effectively SHGs have utilized the funds advanced to them. In addition to that, NPAs also indicate the income generation capacity of banks along with further loans dispersal capacity of the banks under the programme.

The study is based on longitudinal comparative research of the region-wise and agency-wise Non-performing Assets of banks against SHGs. The amount of Gross Non-performing Assets and its percentage to outstanding loans for different regions and agencies was analyzed for a period of 5 years i.e. 2015-16 to 2019-20.

To begin with, Non-performing assets of banks was observed to be declining in the past 5 years wherein NPAs stood at 6.45% in 2015-16 (Figure 1). In the subsequent year, a marginal increase was observed when NPAs rise up to 6.50% in 2016-17. Henceforth, the level of NPAs demonstrated a decline to reach at 4.92% in 2019-20, incorporating a steep downfall in 2018-19 wherein the NPAs decreased by 15.19%.

**Figure 1: Non-Performing Assets of Banks against SHGs**



Source: *Status of Microfinance in India by NABARD 2015-16 to 2019-20*

Further, an analysis of amount of Gross Non-performing Assets of bank loans to SHGs was done along with its percentage to outstanding loans against SHGs across the six regions i.e. Central, Eastern, Northern, North-Eastern, Southern and Western Region (Table 1). It was observed that southern region has the least amount of Gross NPAs. Southern region consistently indicated least amount of NPAs ranging from 3.5% to 4.5% whereas Northern region exhibited highest amount of NPAs in 2015-16. Central region was observed to have highest amount of NPAs in 2016-17 and 2017-18 while northeast region exhibited highest amount of NPAs in 2018-19 and 2019-20.

**Table 1: Region-wise Analysis of Non-performing Assets of Banks against SHGs (in Lakhs)**

Year / Region	Central		Eastern		North-Eastern		Northern		Southern		Western		Total	
	Amt of GNPA's	NPA (%)	Amt of GNPA's	NPA (%)	Amt of GNPA's	NPA (%)	Amt of GNPA's	NPA (%)	Amt of GNPA's	NPA (%)	Amt of GNPA's	NPA (%)	Amt of GNPA's	NPA (%)
2015-16	45536.58	15.72	89041.35	12.65	14591.47	16.49	22189.88	19.14	178538.99	4.14	18724.63	9.20	368622.90	6.45
2016-17	51219.14	23.14	79536.97	8.95	17164.15	20.64	19776.81	21.69	207503.45	4.45	25018.29	11.98	400218.81	6.50
2017-18	53393.04	24.70	83752.01	7.17	17435.04	19.58	19216.31	22.12	257154.38	4.46	31854.73	13.43	462805.51	6.12
2018-19	61315.44	30.59	85786.01	5.19	27500.92	33.08	20607.80	20.74	226616.72	3.53	30574.16	12.39	452401.05	5.19
2019-20	56612.66	25.15	101495.28	4.46	26914.18	26.08	21206.67	17.35	292376.97	3.76	33564.66	11.07	532170.42	4.92

Source: Status of Microfinance in India by NABARD 2015-16 to 2019-20

Table 1 exhibits that central region demonstrated an increasing trend till 2018-19 wherein the amount of NPAs rise up from 15.72% to 30.59% exhibiting almost 2 times increase in NPAs. In 2019-20, the amount of NPAs reduced by % to reach at 56612.66 lakhs. On the other hand Eastern region showed declining trend for the study period where the amount of NPAs decreased by 64% from 12.65% to 4.46%. North-Eastern region also demonstrated an increasing trend till 2018-19 but declined to reach 26.08% in 2019-20. Northern and Western regions were observed to have increasing NPAs from 2015-16 to 2017-18 but declined in 2018-19 and 2019-20 to reach 17.35%. Southern region accounts for the highest SHG loans but least amount of NPAs indicating effective utilization of funds by SHGs. The southern region demonstrated a declining trend till 2018-19 but increased marginally from 3.53% to 3.76%.

In addition to that, an analysis of gross Non-performing Assets of banks against loans given to SHGs across different agencies i.e. Private Commercial Banks, Public Commercial Banks, Regional Rural Banks and Cooperative Banks was done to ascertain which agency accounts for highest as well as least amount of NPAs (Table 2). It was observed that Cooperative banks have the highest amount of NPAs while Private Commercial Banks account for the least amount of NPAs throughout the study period.

**Table 2: Region-wise Analysis of Non-performing Assets of Banks against SHGs** (in Lakhs)

Year	Public Commercial Banks		Private Commercial Banks		Regional Rural Banks		Cooperative Banks	
	Amount of GNPA's	NPA (%)	Amount of GNPA's	NPA (%)	Amount of GNPA's	NPA (%)	Amount of GNPA's	NPA (%)
2015-16	225936.64	6.93	6203.05	1.36	106429.49	6.61	30053.72	7.78
2016-17	255278.13	7.45	8833.46	2.00	104500.02	5.47	31607.20	8.33
2017-18	296948.57	6.65	13171.41	3.19	121603.42	5.35	31082.11	7.56
2018-19	278071.34	5.37	11667.83	3.04	127482.95	4.87	35178.93	6.69
2019-20	341721.41	5.34	18745.49	2.59	132526.97	4.37	39176.55	5.99

Source: Status of Microfinance in India by NABARD 2015-16 to 2019-20

Public Commercial Banks and Cooperative Banks exhibited fluctuating trend for the study period wherein NPAs increased from 2015-16 to 2016-17 but decreased for the subsequent 3 years to reach 5.34% and 5.99% respectively, in 2019-20. Further, Private Commercial Banks exhibited increasing trend from 2015-16 to 2017-18 but decreased in 2018-19 and 2019-20 to reach at 2.59%. In addition to that, Regional Rural Banks demonstrated a decreasing trend throughout the study period wherein the NPAs decreased from 6.61% in 2015-16 to 4.37% in 2019-20.

## 5. Reasons of NPAs in SHG-Bank Linkage Programme

There are number of reasons for high level of NPA in SHG-BLP portfolio of a bank.

- *Social expenditure of members*: one of the major reasons behind high level of NPAs in SBLP is social expenditures of the members of the group like expenses toward marriages, social ceremonies and medical emergencies. That is why; they are not able to repay their loan amount because instead of spending loan amount on income generating activity they are spending it on social activities or non-economic activities. This generally happens because of poor economic conditions of members of the group.
- *Expectation of loan waiver by the government*: another reason of steep rise in NPAs in SBLP is the expectation by the group members about the loan waiver especially during elections season. This expectation is generally created by the defaulters who influence others also to not to repay the borrowed amount. Hence, the promises in election manifestoes may vitiate the repayment behavior among the borrowers.
- *Lack of proper follow up and monitoring by banks*: Poor monitoring of loans and advances due to high work pressure and no dedicated manpower for SHG lending and perception of the branch staff that SHG NPAs are comparatively less in amount is also one of the critical reason of high NPAs in this particular category. In addition, banks are also not following the basic appraisal or grading system of SHG lending.
- *Low ticket size of the loan*- the amount which is advanced under SHG-BLP is generally low, which has not resulted into any notable improvement in the conditions and income of the households. In addition to it, Knowledge and skills regarding the

proper utilization of borrowed amount and lack of proper mentoring by banks result into failure of their business at early stage. Hence, it affects their repayment capacity.

*Others:* there are certain other reasons like non- cooperation among group members, migration/death of any member of SHG, poor record keeping, natural disasters, illiteracy are also some of the crucial factors which result into non repayment by the SHG members.

## **6. Suggestions for Reducing NPAs**

As mentioned earlier, NPAs are growing at alarming rate throughout the banking sector including the loans advanced to SHGs under SBLP. Efforts from both Reserve Bank of India (RBI) and NABARD have shown results to some extent but further reforms also needed to put the train of micro finance initiatives back on track. The following suggestions can be used to reduce the amount of NPAs against SHGs:

- There should be *proper mentoring* of the group while giving loan to them. For this, proper training regarding starting of a business, market linkage should be provided so that SHG can use the fund in income generating activities, which will surely improve their repayment capacity. In addition, special training on morals and business ethics can also be imparted to cultivate proper repayment behavior.
- *There should not be any loan waiver promises* by the political parties and governments. Instead of loan waivers, government may continue to extend interest subvention to the SHGs. Hence, the lesser the government's intervention in grant of loans to the SHGs, the better it would have been the recovery scenario.
- There should be *proper grading* of SHG by the banks and loans should be issued only if it is found suitable for lending. For grading, credit institutions can use past records of SHG, cooperation among members, quality of record keeping by the SHG etc.

*Quantum of loan should be high* as it is a major limiting factor and focus should be on providing customer satisfaction which is the need of the hour. Because due to low ticket size loans the incremental income is not above subsistence and income generating capacity has not gone up to high level. So, in order to improve the performance of SHG, banks should increase the size of loan.

## **7. Conclusion**

The SHGs act as a delivery vehicle for various Micro Finance and Financial Inclusion initiatives so as to assist the government programs of eradicating poverty and making Indian population self-reliant. Though, the amount of saving balance of SHGs with banks and amount of loan disbursed to SHGs by banking institutions is growing every year but the level of NPAs witnessed a steep rise from 2008 to 2018. The entire banking sector is engulfed with the NPA crisis forcing the banks to follow stringent lending practices. The efforts of NABARD and banking agencies have reduced the amount of NPAs but the decline rate is negligible. Rising social expenditure of the members, loan waiver tactics of the political parties, inefficient monitoring mechanisms are some of the contributing factors for the problem at hand. In addition to this, loans are dispersed in smaller amounts which are not being utilized properly partly due to lack of knowledge and skill but also due to its insufficiency to meet the needs of the members. Also, non cooperation among the members

and other uncertainties further foster the NPAs of banks. In order to bring down the amount of NPAs against SHGs, conscious effort must be made to improve the political uncertainty regarding loan waivers along with providing proper mentoring of the groups while sanctioning loans. Also the banks should develop a system of grading to grade SHGs according to their creditworthiness and the quantum of loans should be according the need for income generation by the groups. The SHG-Bank linkage programme can lead the country towards economic prosperity and independence if the level of NPAs is controlled and effectiveness in utilization of funds by the members is improved.

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