

Research Paper



REVIVAL OF RESPONSIBLE COOPERATIVE MOVEMENT THROUGH SELF HELP GROUPS IN INDIA: A REGIONAL AND AGENT WISE ANALYSIS

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ABSTRACT

The present paper focuses on SHG as a revitalisation for responsible cooperative finance particularly with deployment of formal credit to informal sector through Cooperative banking finance. Cooperative sector has been going through a dismal phase for the past two decades and they had not been able to attain their objectives for which they stand. Several solutions have been proffered to make them vibrant and relevant in development process, but the peculiarity of the challenges confronting the subsector calls for a need to align them to address the issues of poverty alleviation and economic development in the country. A revival was envisaged in the form of Self Help groups with NABARD intervention in 1992.

The study is based on secondary data collected from status report of Micro finance published annually by NABARD. The data analysis reveals that the commercial banks are having larger business with SHGs as compared to other two agencies viz... RRBs and cooperative banks in the SHG- Bank linkage programme which is the main mode of micro finance in India. But of late, there is a proportionate increase in the share of Cooperative banks with reference to Savings of SHG, loan disbursement as well as loan outstanding from SHGs. Further regional analysis of the data reveals that while regional disparities in the growth of the SHG movement still remains with limited progress in the Eastern and Central regions, there is an onset of slow change with North and North eastern region picking up well in the last few years as compared to predominance of southern region in all financial operations in the Linkage programme for more than two decades.

The research paper concludes that the cooperative banks have a lot of scope in enhancing their relation with SHGs and there is a niche for the cooperative sector to concentrate and expand its activities with SHGs in north, northeast, eastern and central region of India. A synergy in their operations will go a long way in achieving their common motive of local development and financial inclusion.

KEYWORDS: economic development, Cooperative sector, banking, loan, loan disbursement

INTRODUCTION

The wheels of successful SHGs spin around their basic virtues like **financial discipline, women empowerment, low transaction cost, Savings habit, peer group commitment resulting in solidarity lending and minimal almost zero default, capacity building initiatives by inculcating entrepreneurial ability and leadership quality, etc.** The economic advantage of these entities surpasses their weaknesses like **poor marketing, lack of vision and professionalism, lack of product standardization and quality issues etc.** Financial inclusion is a major issue in public policy agendas as a consequence of its effects, namely, reducing social exclusion and enhancing economic growth. Indian planners considered cooperation as a vital instrument for empowerment of the disadvantaged. They saw in cooperatives a self reliant just economic and social order to emerge. But, Cooperatives in general do not

have a good reputation in India today. Few people would entrust their savings to them where other deposit facilities existed within reach. Credit cooperatives would hardly be considered as creditworthy by commercial banks if strict banking criteria were applied. Not much is left to the capacity of state administrations to serve, guide, advise, monitor, supervise and audit financial cooperatives.

Inspired by Grameen Bank model of Bangladesh, SHG movement developed as Microfinance model in India. A new informal form of cooperatives were found in Self Help Groups when the later gained popularity since 1990s. The established cooperative bank structure found a newer avenue for their funding in these institutions. The earliest instance of microfinance in India can be traced to the initiatives undertaken for providing banking services to the poor women employed in the unorganized sector of Ahmedabad city in Gujarat through the SEWA Bank, set up as an urban cooperative bank



in early seventies. Over the years, in the NABARD led SHG-Bank Linkage scheme, cooperative banks have a considerable share in relation to savings, loan disbursement as well as outstanding liabilities of SHGs under the Linkage scheme. Today, the growth of SHG across India clearly shows a lopsided development and invites more in depth research into it.

RATIONALE OF THE STUDY

Cooperatives are considered as veritable tools to extend financial service delivery to the unbanked and for poverty alleviation and economic development since they enhance individual savings and access to investment credit. The relevance of its history lies in its relationship to poverty, self-help, development and, last not least, legal recognition. The non exploitative character of cooperatives, voluntary nature of membership, the principle of one man one vote, decentralised decision making, and self imposed curbs on profits eminently qualified them as an advantage of development with twin advantage of private ownership and public good. Cooperatives improve macro and micro level incomes, create employment, enable the procurement of commodities, increase productivity and ensure food security. However, the performance of cooperatives in India has been hampered by numerous challenges such as: lack of spontaneity, (instead of springing voluntarily from people themselves, the movement took the form of a government department) defective lending policy, large overdue and poor governance, limited management skill, inadequate fund, limited access to investment credit, ineffective implementation of government policies, resistance to change, inadequate education in cooperative operation and inadequate marketing activities. The most outstanding weakness which is at the root of many short falls in the cooperative performance is in the area of management. Lot had been discussed over years at all level regarding need for proper man power planning in the cooperative sector. Not much have taken place as cooperatives themselves have shown lack of appreciation of this problem. In India it was the government which had taken the initiative followed eventually by state governments taking over the governance and financing of the credit cooperative system. Government was not kept at bay, and the result was disastrous. India is now struggling with a gigantic task: restructuring and reforming the credit cooperative sector, in a country where almost 135 million shareholders of credit cooperatives form a constituency of voters no state government is willing to ignore at election time. There are lessons to be learned by India when it comes to cooperative finance. What has been missing in cooperative development? Where are the dividing lines between due promotion and undue interference? We have not yet reached the boundaries of the wide field of cooperative innovation.

OBJECTIVES OF THE STUDY

Having identified a commonality between cooperatives and SHGs in their goals and objectives, it is understood that there is a possibility to enhance the operation of both these institutions towards fulfilment of shared aim of banking the unbanked. Keeping this in mind, the following were drawn as the major objectives of this paper:

1. To explore the similarity and key differences in concepts of Cooperatives and SHG
2. To understand the regional spread of SHG - Bank linkage programme in India

3. To analyze the agency wise fund flow to SHGs and the comparative status of cooperative banks in funding SHGs and to suggest recommendation on improving cooperative support to SHG.

HISTORICAL BACKGROUND

By the 90's, when sweep of reforms and structural reconstruction were introduced in many sectors of the Indian economy, we had hard choices to make regarding cooperatives as the good and the bad were closely intertwined. Generally radical positions that see the system as fundamentally broken are popular. They fit in with public moods. But as far as cooperatives are concerned, though systemic failure did imply the need for serious reforms that did not mean that a radically different system would be better. Several solutions have been proffered to make cooperatives vibrant and relevant in development process, but the peculiarity of the challenges confronting the subsector call for a need to align them to address the issues of poverty alleviation and economic development in the country. A fresh start was envisaged in the form of Self Help groups. Over the past five to six decades or so, cooperative movement in India involved in different forms of irresponsible finance, mostly setting up state-owned agricultural or cooperative development banks and using credit cooperatives as channels of subsidized credit, thus undermining their self-reliance and sustainability. This rose to the following doubts in the minds of policy makers: How to proceed in establishing a credit cooperative movement with keeping the government at bay? Is there a role for government in credit cooperative development?

The experience of India has been mixed: a positive limited role of government during the first third, and a rather negative, interventionist role during the second half of the 20th century. A fresh start has been taken in Andhra Pradesh in 1995, with the passing of anew Mutually Aided Cooperative Societies (MACS) Act, placing their governance fully in the hands of elected members and submitting them to their own rules and regulations, without an involvement of government; other states followed with similar laws. Since then 164,000 federations of self-help groups have been registered in India under such laws resulting in a hopeful fresh start for responsible cooperative finance by upgrading informal financial institutions such as self-help groups (SHGs) or, where this was not feasible, linking them to banks, propagated as SHG linkage banking In India. SHG banking has enabled 7.5million SHGs, informal cooperatives with 100 million members, to open bank savings accounts; 4.8 million SHGs have a bank loan outstanding (as on 31/3/2011), paralleled by the emergence of 164,000 cooperative SHG federations.

The concept of self-reliant Self-Help Groups, adopted by NABARD twenty five years back, functioning as local banks is now widely accepted as an effective tool for socio economic empowerment of the poor. SHGs brought in a new concept in 'banking with poor.' They were owned, managed and governed by their members, and self-financed from shares, savings and retained earnings. Self Help is not a new phenomenon. Formalised in 1992 by NABARD as legitimate groups to access institutional credit organisations, Self Help Groups (SHGs) marked a watershed in revolutionising rural credit. Through the years, SHGs have been promoted by State machinery, NGOs, international aid organisations and similar entities. In addition to commercial banks, fund flow from Regional Rural Banks and cooperative

banks have enhanced their access to credit. The creditworthiness and good repayment ethics of SHGs over a period of time enabled them to access larger amount of loans

(average of Rs. 2.03 lakh per SHG) under the Bank Linkage Programme when compared to the initial days of the programme (Rs. 10,000 per SHG)

Table 1 : Common features of cooperatives and SHGs

Purpose :	Encourage savings, Access to credit or loan Empowerment of poor and Raise entrepreneurs
Users	Low income earner, Poor people and Irregular income earner
Operation	Low scale financial services, Formal and informal ways
Location	Rural and Semi-urban centres, Areas not served by conventional banks
Benefits	Poverty alleviation and/or reduction Financial empowerment of entrepreneurs
Products	Savings ,Loan & Other financial and non-financial services

The Self Help Group movement has been the harbinger of many changes in the life of poor rural women in India. It has amply demonstrated that poor women save, use loans productively, and do not default on repayment. There are many success stories to show how SHGs have transformed

poor communities. A SHG is an informal yet accountable structure that enables income-generating activities unlike a cooperative, which is more formal, mostly unwieldy and marked by an impersonal outlook.

Table No 2: Key differences between an SHG and a cooperative society

Self Help Groups	Cooperative society
Informal organisation	Formal registered organisation
Easy to organise	Need an organised structure
Limited numbers	Unrestricted numbers
Problems easily solved	Individual problems unaddressed
Capital investment by members on a weekly/ monthly basis: financial problems solved without bank loans	Capital remitted through bank loans
Unlimited role: micro-credit, income generation, community development	Role restricted to economic activity, especially marketing
Personal involvement and enthusiasm sustained	Difficult to sustain enthusiasm of all members
Autonomous decision-making	Autonomy restricted

Fund flow mechanism to SHG: Results and Discussion

When cooperative banking received scathing criticism from various corners, a fresh start has been taken in Andhra Pradesh in 1995, with the passing of anew Mutually Aided Cooperative Societies (MACS) Act, placing their governance fully in the hands of elected members and submitting them to their own rules and regulations, without an involvement of government; other states followed with similar laws. Since then 164,000 federations of self-help groups have been registered in India under such laws resulting in a

hopeful fresh start for responsible cooperative finance by upgrading informal financial institutions such as self-help groups (SHGs) or, where this was not feasible, linking them to banks, propagated as SHG linkage banking NABARD had announced on 25 years of completion of SHG - Bank linkage Programme the astonishing growth of the scheme as largest in the world through above 85 lakh informal cooperative SHG federations enabling more than 10 crore households with deposits of about Rs 16114 crore, an annual loan off take of Rs 38800 crore and loan outstanding of nearly Rs 61600 crore (as on 31/3/2017).

Table No 3: Progress of SHG-BLP during the three year period 2014-17

(No of SHGs in lakhs and amounts in '000crores)

Year	No. of SHGs with savings Linkage	Amount of savings outstanding	No. of SHGs disbursed with loan	Amount of loan disbursed	No. of SHGs with loan outstanding	Amount of loan outstanding
2014-15	76.97	11.06	16.26	27.58	44.68	51.55
2015-16	79.03	13.69	18.32	37.29	46.73	57.12
2016-17	85.77	16.11	18.98	38.78	48.48	61.58

Source: Report on Status of Microfinance in India NABAARD 2016-17

The overall progress of Self Help Group – Bank Linkage Programme shows very rosy picture with a phenomenal jump in all perspectives. SHGs are initiated mainly to concentrate on savings habit which contributes for

future growth and 8% percent increase within three year period is a notable feature. Equally important has been more than 10 % increase in loan disbursal as well as loan outstanding. Within this overall picture, Agency wise performance and region wise distribution will throw more light on the line of progress.

Table No 4: Agency wise performance of SHGs as on March 31st 2017

Sr. No	Name of Agency	Total Savings of SHGs with Banks		Bank Loans disbursed to SHGs		Bank loans outstanding against		NPA of Banks against SHG loans O/S	
		No. of SHGs	Savings Amount	No of SHGs	Loans disbursed	No of SHGs	Loans disbursed	Amount of NPAs	% of NPAs to total loans
1	Commercial Banks	4444428 (51.81)	1017002.46 (63.11)	1116442 (58.8)	2429701.86 (62.65)	2670304 (55.1)	3866846.83 (62.79)	264111.59	6.83
2	Regional Rural Banks	2586318 (30.15)	363176.15 (22.54)	557540 (29.37)	1161300.40 (29.9)	1611842 (33.24)	1911991.30 (31.05)	104500.02	5.47
3	Cooperative Banks	1546129 (18.02)	231244.03 (14.35)	224138 (11.81)	287113.38 (7.4)	566141 (11.68)	379292.23 (6.16)	31607.20	8.33
	Total	8576875 (100)	1611422.64 (100)	1898120 (100)	3878115.64 (100)	4848287 (100)	6158130.36 (100)	400218.8	6.50

Source: same as Table I

Figures within parenthesis denotes percentages calculated by the author

Further, an analysis of figures in Table II regarding fund flow from different agencies to SHG under the linkage programme reveals the following:

1. The share of commercial banks is more in terms of number of SHGs covered savings from SHG as well as bank loan disbursed and loans outstanding against SHGs. One important point to note is that from 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of 'Swarnajayanti Gram Swarozgar Yojna' (SGSY) SHGs and existing groups receiving repeat loans and hence the coverage is shown more. The assistance extended to SHGs is considered under priority sector category and so, to accomplish the target the large network of commercial banking system in India lends more funds to SHGs.
2. The data analysis of cooperative bank funding to SHG which is directly relevant to the current paper reveals interesting facts. The share of cooperative banks at all India level with reference to number of SHG as well as amount flown is comparatively less: savings 18.02% and 14.35%, bank loan disbursed 11.81% and 7.4% and bank loan outstanding 11.68% and 6.16% respectively.
3. The most famous slogan 'Cooperatives have failed but cooperatives should succeed' can be directly linked here. Commercial Banks long back were taken to rural areas in India to fill the gap not covered by RRBs and cooperative banks. Now, commercial banks basically belonging to urban clad, taking over of its role by RRBs and cooperatives will not only give a local tinge, also may result in larger customer reach with financial prudence.

Table No 5: Region-Wise Distribution of SHGs with Savings Linkage (%)

Year	North Eastern	Northern	Central	Western	Eastern	Southern
2014-15	4.34	4.69	10.62	12.23	19.81	48.32
2015-16	5.44	4.98	10.32	12.88	21.51	44.87
2016-17	5.28	5.33	9.89	13.30	22.77	43.43

Source: same as Table I

The above table gives a positive note of Northern, Eastern and western region whereas North eastern region shows a marginal decrease in 2017 and Central and southern regions shows a declining trend. It also reveals that southern region as in previous decades has a dominant position in Savings by well-developed SHGs.

In addition, comparative regional position of SHGs has been analysed in the following tables:

Table 6 shows that region wise coverage of bank lending has a success story for southern region. This leads to

an obvious conclusion that the progress of SHG programme itself is well developed in the southern region not only in number also the lion's share of microfinance fund from all agencies is utilised by southern region. While the growth is very slow in North eastern region. Northern region witnessed a decline. The downward trend is steeper in case of central region. The other three regions viz.. Southern, Eastern and western region recovery was eminent in 2015-16 but there was an onslaught of a negligible decline for the year ending March 31st 2017.

Table No 6: Region-wise Status of Bank Loan Disbursed to SHGs
(Total loan disbursed in Rs Lakh; Average loan disbursed in Rs/ SHG)

Region	2014-15			2015-16			2016-17		
	No. of SHGs	Total loans disbursed	Average loan disbursed	No. of SHGs	Total loans disbursed	Average loan disbursed	No. of SHGs	Total loans disbursed	Average loan disbursed
North	18791	15795	84056	26037	21969	84375	28961	28421	98134
Eastern	(1.15)	(0.57)		(1.42)	(0.59)		(1.53)	(0.73)	
Northern	43848	42873	97777	38106	48298	126746	46567	57414	123294
	(2.7)	(1.55)		(2.08)	(1.29)		(2.45)	(1.48)	
Central	109231	110909	101536	84282	119067	141272	82012	67958	82864
	(6.71)	(4.02)		(4.6)	(3.19)		(4.32)	(1.75)	
Western	97341	117080	120279	112525	188632	167636	106825	148819	139311
	(5.99)	(4.24)		(6.14)	(5.05)		(5.63)	(3.84)	
Eastern	351800	329602	93690	412576	349489	84709	497063	473172	95194
	(21.63)	(11.94)		(22.52)	(9.37)		(26.18)	(12.2)	
Southern	1005227	2141972	213083	1158797	3001235	258996	1136692	3102332	272926
	(61.81)	(77.65)		(63.24)	(80.49)		(59.9)	(80)	
All India	1626238	2758231	169608	1832323	3728690	203495	1898120	3878116	204314
	(100)	(100)		(100)	(100)		(100)	(100)	

Source: same as Table I

Figures within parenthesis denotes percentages calculated by the author

- A close analysis of the following table 7 portrays that in every aspect Southern region has dominance. More than half of total number of SHGs functioning in the country (25.4 lakh, & 52.4% as on 31st March 2017) have been in South in all three years. Analysis on Year on year basis reveals that while in 2015, there had been a 6 % increase in the number of SHGs with credit outstanding is 11 % more than previous year. The same for the year ending 31st March 2017 was that the number as well as the number of SHGs with credit outstanding remained almost same as previous year, there was 8% rise in outstanding amount in Southern Region. As far as the number of SHG in Eastern region is concerned, the rate of growth has been showing an upward trend. (5 % between 2015 & 16 and 16 % as on 31st March 2017). With reference to loan outstanding also the eastern region picks up well. (14 % and 21 % on y on y basis during the past 3 years).
- Growth in Northern region has shown an increase whereas Western region witnessed a marginal decrease in 2016 picked up in 2017. (Overall 3 % increase during three years.) But disquieting trend is witnessed in North Eastern and Central Regions. Number of SHGs have been constantly decreasing and the same has been with reference to outstanding credit in both the regions.

Table No 7: Region-wise Status of Bank Loan Outstanding to SHGs during past three years

Region	2014-15			2015-16			2016-17		
	No. of SHGs	Total loans outstanding	Average loan outstanding	No. of SHGs	Total loans outstanding	Average loan outstanding	No. of SHGs	Total loans outstanding	Average loan outstanding
NE	176904	153970	87036	150860	88473	58646	143222	83160	58064
	(3.96)	(2.99)		(3.23)	(1.55)		(2.95)	(1.35)	
N	123041	72209	58687	154724	115907	74912	143905	91167	63352
	(2.75)	(1.4)		(3.31)	(2.03)		(2.97)	(1.48)	
C	438216	248614	56733	434797	289590	66604	398411	221368	55563
	(9.8)	(4.82)		(9.3)	(5.07)		(8.22)	(3.59)	
W	270718	198739	73412	258119	203462	78825	278097	208907	75120
	(6.06)	(3.85)		(5.52)	(3.56)		(5.74)	(3.3)	
E	1069329	617046	57704	1130902	703767	62231	1343296	888561	66148
	(23.93)	(11.97)		(24.2)	(12.32)		(27.71)	(14.4)	
S	2389972	3863969	161674	2543219	4310725	169499	2541356	4664964	183562
	(53.49)	(74.96)		(54.43)	(75.47)		(52.41)	(75.7)	
All India	4468180	5154546	115361	4672621	5711923	122242	4848287	6158130	127017
	(100)	(100)		(100)	(100)		(100)	(100)	

Source: same as Table I

Figures within parenthesis denotes percentages calculated by the author

NB:

- Total Loan O/S in Rs lakh; Average Loan O/S in Rs per SHG
- O/s = Outstanding as on 31 March of the financial year.
- NR= North Region, NE- North East Region, ER- Eastern Region, CR- Central Region, WR- Western Region, SR- Southern Region-

RECOMMENDATIONS AND CONCLUSION

The above study reveals that there is a niche for cooperative banks to cover and extend financial support to SHGs which reflect all basic characteristics of cooperatives and plugging off the serious drawbacks of the cooperatives

by keeping government interference away and functioning in an informal manner in support of the poor. Contrary to the basic motive of commercial banks as profit, SHGs with the fundamental motive of upliftment of the poor and hence share the same platform of poverty alleviation with cooperatives.

The cooperatives are the right agencies to join hands with SHG to achieve financial inclusion. Both Cooperatives as well as SHGs, by design and operation are expected to help improve the economic well-being of its members, and therefore are the vehicles that could be used to foster growth and development of economy. The lopsided growth of SHG underlines that cooperative Banks can concentrate more in the North and North eastern region of the country where banking habits have yet to be imbibed so that more and more credit can be deployed for the poor in these regions.

In short, a **synergy** between formal and informal microfinance is the need of the hour. SHG having an added agenda of women empowerment, women entrepreneurs are to be encouraged to belong to both these programs to enjoy their complementary.

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