The Inclusive Finance India Report is a comprehensive and well-researched account on cumulative progress made in India toward reaching the ambitious goal of universal financial inclusion. The report covers a review of the performance of diverse institutional structures and delivery models in inclusive finance – the commercial banks, Regional Rural Banks, the new specialized banks, non-bank finance companies, self-help groups, microfinance institutions, banking agents, and fintechs.

The report covers the initiatives in digital technology that help overcome last-mile delivery challenges and provides an overview of the new initiatives and breakthroughs in digital financial inclusion. The document tracks the performance of programmes and schemes of the government to promote financial inclusion, as well as contributions and new initiatives of ecosystem players such as investors, large apex institutions, and regulators. This edition of the Report also provides an overview of the initiatives and achievements in specialised areas of green financing and WASH financing that support progress on the climate resilience agenda.

The report aims to inform the policy development process on inclusive finance, highlight the positive impact of various institutions, models and initiatives and identify and highlight policy and practice gaps.

The report is authored by multiple experts and researchers engaged in the financial inclusion landscape. The Inclusive Finance India Report has earned its place as the top reference document on the annual trends and progress of financial inclusion covering a wide-ranging data-based analysis of all streams and models of financial inclusion; a must-have for every stakeholder interested and involved in financial inclusion in India.

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INCLUSIVE FINANCE INDIA REPORT 2022

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EDITED BY
N. S. Vishwanathan

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Contents

Self-Help Groups: Beyond 3 Decades, Finding a Good Way Forward

Krupa Sriram, Kajol Tanaya Behera, Smita Premchander and Dipayan Pal[1]

5

5.1. SHG Story: The Origins

Having started in the 1970s, the story of women's groups is older than their currently known avatar of Self-Help Groups (SHGs). During 1970-80, women's savings groups were developed, which first saved food grains to use in the months of scarcity. These groups gradually began fostering women's empowerment. A growing realization of women's improving financial capabilities, when saving in a group rather than as individuals, formed the foundation of the SHG movement. The SHGs first began cash savings, inter-loaning, and then availed loans from NGOs. Experiments with the banking sector began in the 1980s, and in 1991, the Reserve Bank of India became the first central bank in the world to permit banks to extend loans to a non-registered entity, Self Help Groups. Figure 5.1 outlines a brief history of SHGs.

1970s	• Women's solidarity groups started by NGOs- for education, savings in kind and cash, empowerment
1980s	• NGO groups started moving from savings in kind to cash • NABARD and NGOs started pilot projects or Action Research Project
1990s	• NABARD launched SHG-Bank Linkage, then RBI accepted SHGs as bank clients permitting collateral free bank loans to SHGs. • Government provided subsidies through SGSY to Women's group
2000s	• The year 2005 is designated as 'International Year of Micro Credit' by UN • NABARD provided support as a Development Financial Institution (DFI)
2010s	• SGSY restructured as NRLM • NABARD role as DFI enhanced • FPOs begin being formed • E-SHAKTI Portal launched for digitization of SHG records
2020s	• Digital Financial Inclusion continues • NRLM largest SHG-BL facilitator • FPOs proliferate

Figure 5.1. A Brief Timeline of SHGs

Source: Adapted from Premchander et al. 2009 and NABARD 2022

Over the past 30 years, there have been many models of development of SHGs. NGOs began to realize that some women are more entrepreneurial than others, and so could absorb enterprise credits. Bank loans were earlier given in proportion to the savings of the SHGs, later the link between savings and loan amounts became less strict, up to ₹20,000-25,000 per woman member, and loan sizes increased to about ₹200,000-250,000 per group.

5.1.1. A Snake and Ladders Game

The sustenance of SHGs has always been perceived differently by NGOs and women SHG members. When SHGs faced leadership or money management issues, they dissolved and reformed the groups, bringing in more cohesion among the members. In the early years of starting SHGs, many NGOs used to encourage groups in tribal areas of Jharkhand (then Bihar) to divide their savings and interest amounts every year. This gave women a sense of having created financial capital and motivated them to start saving again[2]. However, many banks that extended credit viewed this negatively, as savings indicated creditworthiness, and division of money indicated a lack of cohesiveness of such groups.

Although the snakes and ladders feature of SHGs has continued, literature has not studied this well, because of reluctance to recognize groups that close, or are struggling to survive, as they are viewed as dysfunctional, or defunct. There is little data available on the number of groups that divide, or reform, every year.

At the end of March 2021, out of 9.72 million accounts of exclusive women SHGs, only 7.67 million accounts (79%) were operative. This means that in over 2 million SHG accounts, there have not been any customer-induced transactions in the last two years. Many of these SHGs likely are either dormant or defunct (Inclusive Finance India Report 2021, 2021)

5.2. TWO ROADS DIVERGED

The SHG Bank linkage model enabled women members to save, perform intra-loaning, open savings account for group, avail loan from commercial banks, Regional Rural Banks (RRBs) and cooperative banks.

With the Joint Liability group (JLG) model, women members could not pool in savings but could avail loans from a Non-Banking Financial Company Microfinance Institution (NBFC-MFI) for an individual without the group maintaining credit account or reaping profits from it.

The two models grew side by side for over 2 decades but diverged by 2011. THE NBFC model provided credit to individual women through JLG for micro-businesses with interest rates between 21-26% for 1-2 years, and SHG bank linkages provided loans to groups at marginal interest rates for 1-3 years.

The loan sizes for the SHG bank linkage model are smaller, and timely repayment rates are lower than JLG model. It also provides the members of the group with better decision-making potential about group funds.

The JLG model spread due to the dynamic incentives in terms of repeated cycles of loans from the NBFCs. In contrast, the SHG bank linkage model is considered more empowering, emphasizing participation in groups or cluster-level federations, and providing agency besides access to low-cost finance.

The focus of this chapter is the SHG model of microfinance, particularly on SHG-Bank linkages, financial inclusion of SHG members, sustainability of SHGs, and some recent information on their livelihoods impact and an examination of whether the process of financial inclusion will make SHGs redundant, and if not, how can SHGs continue to be impactful.

5.3. TRENDS OF GROWTH, STATE-WISE SPREAD, SAVINGS, LOANS AND REPAYMENTS

The SHG Bank Linkage model has grown and become the largest model in India.

Today, the SHG-Bank Linkage model has emerged as the largest such initiative in the world. The bank-linked SHGs grew from 255 in 1992 to 11.9 million SHGs in 2022. The credit disbursement to SHGs also grew from ₹2.9 million in 1992 to ₹1,511 billion in 2022 (NABARD 2022).

The year-on-year growth of the bank-linked SHGs was 9.5% in the year 2020-2021, but the growth in 2021-22 was only 6%. This slowing yearly growth could signify the saturation or slowing down of SHG growth in many regions.

The total number of bank-linked SHGs in March 2022 was 11.9 million, of which 10.40 million (87%) were exclusively women's SHGs, 7.18 million (60%) of the total SHGs were from the National Rural Livelihoods Mission (NRLM) programme, and 0.6 million (0.5%) were under the National Urban Livelihoods Mission (NULM) programme. 10% of SHGs under the program do not have a savings account with any bank.

DAY-NRLM has emerged as the single largest promoter of SHGs, accounting for nearly 60% of the total bank-linked SHGs. The financial inclusion of SHGs can be largely attributed to the NRLM programme, with 7.18 million NRLM-SHGs having bank accounts; 10% of SHGs under the program do not have a savings account with any bank.

5.3.1. Trends of SHG Savings

As a promising option for the poor to save, SHGs initiate savings discipline immediately as they are formed. Most SHGs agree upon contributing a fixed 'compulsory savings' per member. This fixed amount acts as a quasi-equity. The accumulation of compulsory savings and the velocity of internal lending decide the growth of SHGs. However, over the years, credit-availed has overridden the 'savings first' approach.

The total SHG savings have increased to ₹472.40 billion. The exclusive women SHGs contribute to 89% of the total savings of the SHGs. Non-exclusive women's SHGs and men's SHGs form only 13% of the total SHGs.

Of these savings, commercial banks have a 65% share, followed by RRBs (29%) and cooperative banks (6%). The average savings per group increased from ₹33,392 in 2021 to ₹39,721 in 2022. Figure 5.2 provides a break-up of the total savings of SHGs, according to banking agencies, from 2020 to 2022.

In March 2020, commercial banks had 60% of the savings, which increased to 65% as of 31st March 2022. The share of RRBs increased from 30% in 2020 to 29% in 2022. The third set of agencies, cooperative banks, had a 10% share in 2020, rising to 14% in 2021 and reducing to 6% in 2022. While the savings of SHGs with banks have increased over the last three years, the savings of SHGs in cooperative banks have declined by 49% in 2022.

Figure 5.3 shows the trend of region-wise SHG bank linkages in terms of the number of SHGs from each region of India.

Of the total savings-linked SHGs in 2022, 36% of the SHGs belong to the Southern region of India, followed by the Eastern region (27.4%) and the Western region (11.4%).

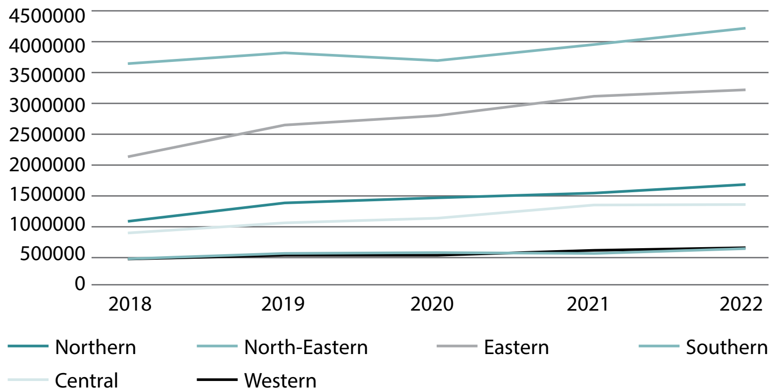

Figure 5.3. Region-wise Number of SHGs With Bank Linkage (2018-22)
Source: Status of Microfinance in India, NABARD 2022

In terms of the number of SHGs savings linked with banks, there has been a growth across all regions in FY 2021-22. However, during the year 2021-22, there has been a notable rise in the savings of SHGs, by 75.3% in the Eastern region of India, followed by 53.7% in Central India, and 28% in the North-eastern region. The savings of western region decreased by 12% during 2021-22. Figure 5.4 shows the analysis of SHG savings by programme.

When analyzed by programme, the savings per SHG is the highest for NULM at ₹44,739, followed by exclusive women SHGs at ₹40,485 and then by SHGs under DAY-NRLM at ₹38,388. The trend may reflect the difference in the earning potential of the

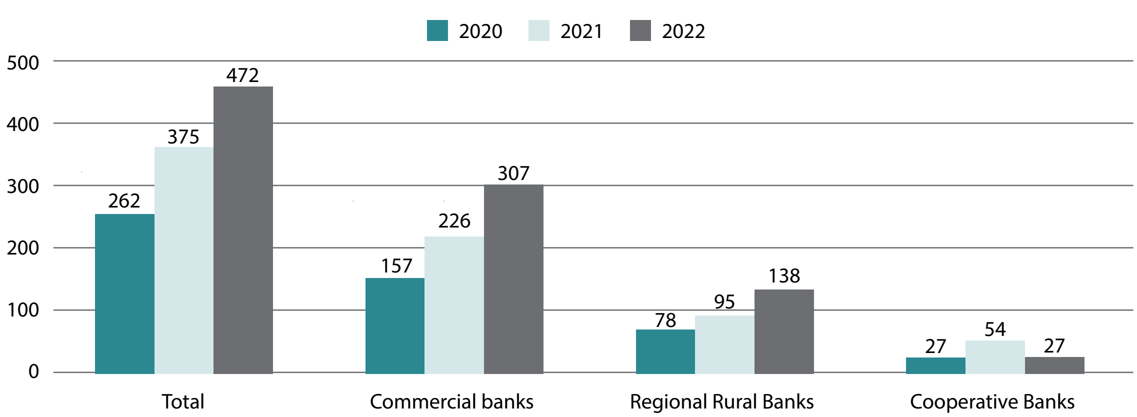

Figure 5.2. Agency-wise Savings of SHGs Over the Past 3 years (in ₹ billion)
Source: Status of Microfinance in India, NABARD 2022

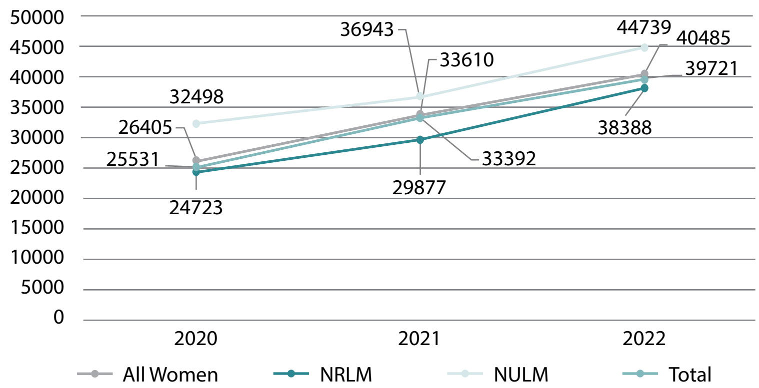

Figure 5.4. Savings per SHG Under Different Programmes (in ₹)
Source: Status of Microfinance in India, NABARD 2022

SHGs under NULM and NRLM programmes, or the difference between potential earnings in urban and rural areas.

The per capita SHG member saving at all India level is ₹3,328. The average saving per member is highest in commercial banks at ₹3,649, which is 10% above the all-India average. By contrast, saving per member in cooperative banks is ₹1,581, which is 52% lower than the all-India average. It implies that SHGs with accounts in commercial banks have a higher earning and saving potential, while the clientele of the cooperative banks may largely belong to the low-income and low-saving strata. This further supports the analysis that the clientele of cooperative banks withdrew their savings after the pandemic more rapidly, owing to their low-income status; thereby, the deposits in the cooperative banks shrunk by 49% in 2022 over 2021, even though the number of SHGs with accounts in cooperative banks reduced by only 5%. Another reason for the reduction of savings could well have been decreasing confidence in cooperative banks, in the wake of the recent failure of some of the Urban cooperative banks. The average saving per SHG in cooperative banks was ₹17,767 in 2020, which rose to ₹35,838 in 2021 and shrunk to ₹19,143 in 2022.

5.3.2. Trends of SHG Loans

In this section, we analyze first the loan disbursed over the previous year and then the total loans outstanding as of March 31, 2022.

Loan Disbursements in 2021-22

Over the past 5 years, except for a slight reduction experienced in 2020-2021, the total loans disbursed have been growing. In 2021-22, banks disbursed loans of ₹997 billion to 3.39 million SHGs in 2022. Over the previous year, there was an 18% rise in the number of SHGs taking loans, the loan disbursed increased by 72%, and the loan disbursed per SHG increased by 46%, from ₹201,117 in 2020-21 to ₹293,470 in 2021-22.

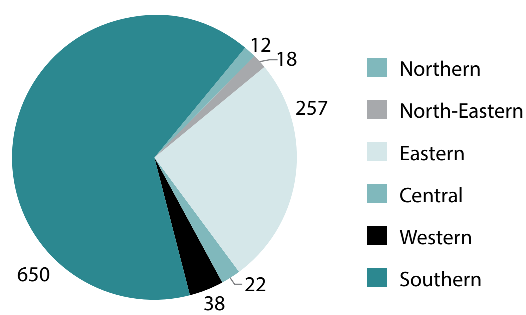

Figure 5.5. Region-wise Loans to SHGs (2021-22)
Source: Status of Microfinance in India, NABARD 2022

Figure 5.5 shows the regional distribution of loans to SHGs for 2021-22. The disbursement was highest in the Southern region, with ₹650 billion provided to 1.5 million SHG, which forms 65% of the total credit and 44% of the total SHGs that were provided credit in 2021-22.

The Eastern region follows, with loans disbursed of ₹256.9 billion (26%) provided to 1.3 million (38%)

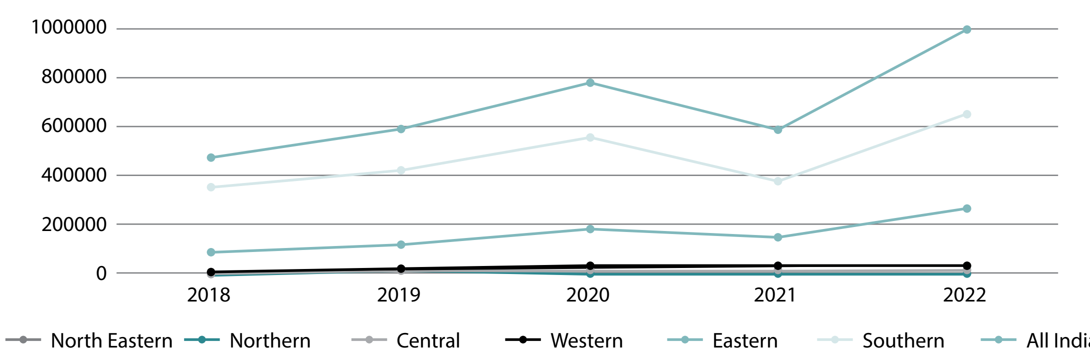

Figure 5.6. Region-wise Trends of Average Loan Disbursed to SHGs in Past 5 Years
Source: Status of Microfinance in India, NABARD 2022

SHGs. The Southern and Eastern regions together account for over 91% of the SHGs, and 82% of the total credit disbursed in the year 2021-22.

Examining further, the trends of region-wise average loan disbursement are shown in Figure 5.6.

The SHGs from the southern region have consistently availed the highest loans, with the average loan per SHG being ₹4,33,894. The Eastern region follows, with the average loan per SHG being ₹1,97,385 loan per SHG. Among the other regions, the central region doubled the loan disbursed from 10.5 billion to 128,617 SHGs in 2021, 21.6 billion to 184,322 SHGs in 2022, improving the average loan per SHG from ₹81,971 per SHG loan in 2021 to ₹1,17,720 per SHG in 2022. The trend was upward in the northern, north-eastern, and western region too.

Commercial banks continue to be the largest agency for the disbursement of credit to the SHGs.

Figure 5.7 shows the year-on-year share of agencies in credit disbursed to SHGs.

As of March 2022, commercial banks contribute to 61% of the credit amount disbursed to SHGs, followed by RRBs (33%) and cooperatives (6%). The loan disbursed to SHGs by commercial banks decreased in 2021, whereas the same of RRBs and cooperatives continued to increase. This may signify that SHGs had better access to these agencies over commercial banks.

Currently, over 93% of the credit-linked SHGs are exclusively women SHGs, and 73% of credit-linked SHGs are supported by two major government programmes, NRLM and NULM. The year-on-year difference of total loans disbursed to SHGs under NRLM and NULM exhibits growth in FY 2021-22 by almost 117%, whereas the same for exclusive women SHGs is 72%. The credit disbursed per group of SHG is illustrated in Figure 5.8.

The credit disbursed per SHG group for the year 2022 amounts to ₹293,470 over ₹201,117 in 2021. The credit per SHG is the highest for those

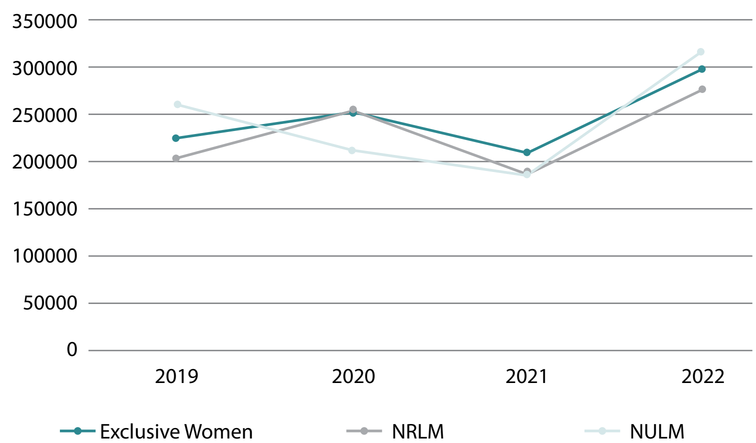

Figure 5.8. Credit Disbursed Per Group in the Last 4 Years in ₹ Million
Source: Status of Microfinance in India, NABARD 2022

under NULM, amounting to ₹316,835, followed by exclusive women SHGs at ₹297,817 and DAY-NRLM SHGs at ₹275,411.

While all the data above provides insights into those SHGs which have bank accounts, there is insufficient data on SHGs with no bank accounts. SHPIs which promote SHGs find it difficult to open bank accounts for SHGs, due to delays in getting the documents needed and/or lack of interest by banks or members.

Although these figures are available for the group accounts, there is no data on the number of SHG members who have individual bank accounts or Jan Dhan accounts. As such, it is difficult then to find out how many individual SHG members are financially included, receive DBTs, or any other support from any government scheme.

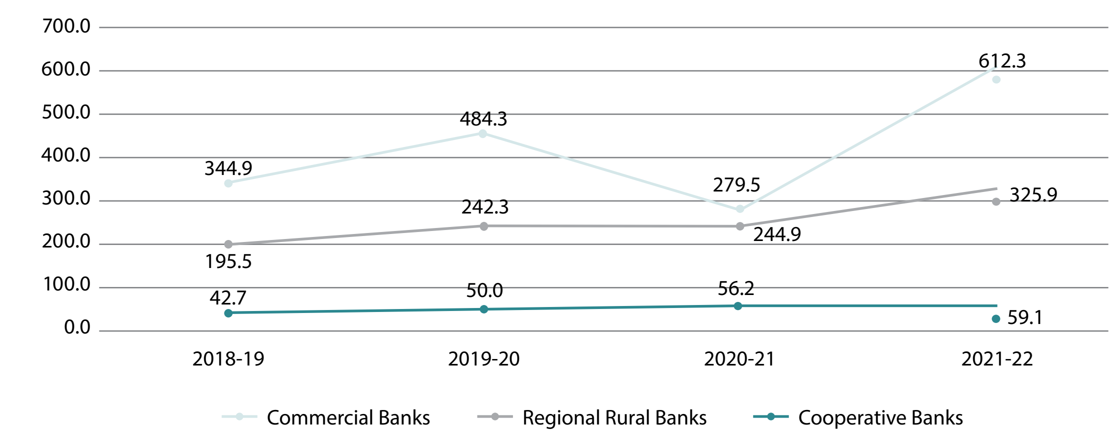

Figure 5.7. Year-on-Year Share of Agencies in Credit Disbursed to SHGs (in ₹ Billion)
Source: Status of Microfinance in India, NABARD 2022

Loan Outstanding as of 31 March 2022

At the end of March 2022, the total loan outstanding against 6.7 million SHGs was ₹1,510.51 billion, which records the highest credit outstanding per SHG in the last three years. Figure 5.9 shows the agency-wise share of the loan outstanding against SHGs from Banks.

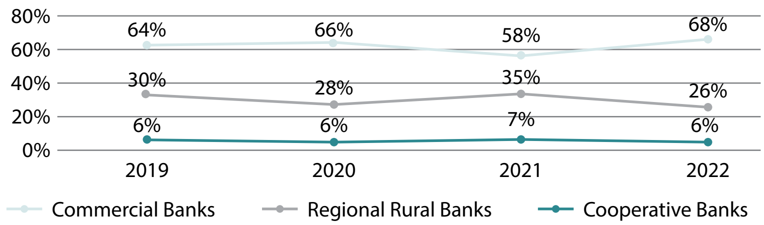

Figure 5.9. Agency-wise Share of the Loan Outstanding Against SHGs
Source: Status of Microfinance in India, NABARD 2022

Of the 11.9 million bank-linked SHGs as of March 2022, 56.3% have outstanding loans. Figure 5.10 shows the category-wise SHG loan outstanding.

Nearly 93% of the SHGs that have outstanding loans are exclusively women SHGs, 71% of these SHGs are covered under government programmes. If the SHGs are promoted by an NGO, not under the NRLM programme, banks are reluctant to open their accounts, as they fear that the SHGs will take loans and not repay. In Varanasi, when Sampark requested the lead bank of the district to open accounts for 100 SHGs, the bank manager declined, stating that the repayment record of the SHGs who have received loans has been very poor in that district. With constant discussion and explanations to the bank officials, only 17 groups have been able to open bank accounts in the Chiraigaon block.

Credit to Savings Ratio of SHGs in 2022

The overall credit-to-savings ratio in India is 2.1, which shows that banks are willing to extend loans more than the amount of savings kept in the SHG accounts. While this is not mandated by RBI, it is a good indication of the trust banks place in SHGs. The credit-to-savings ratio is analyzed region-wise in Figure 5.11.

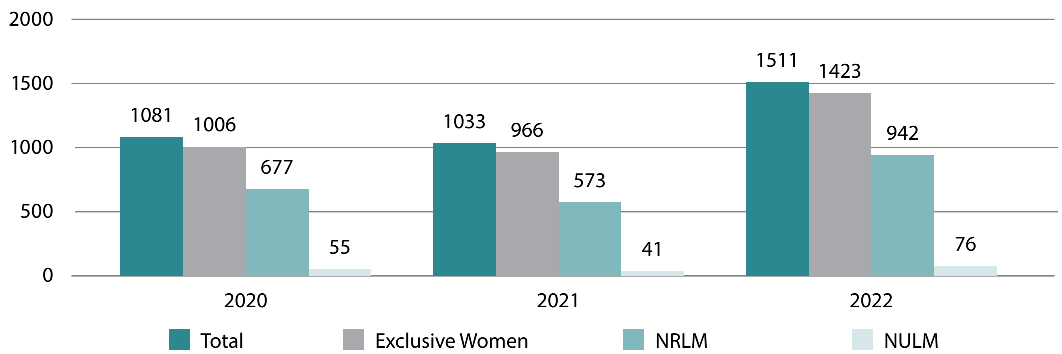

Figure 5.10. The Loan Outstanding Against SHGs in the Past 3 Years (in ₹ Billion)
Source: Status of Microfinance in India, NABARD 2022

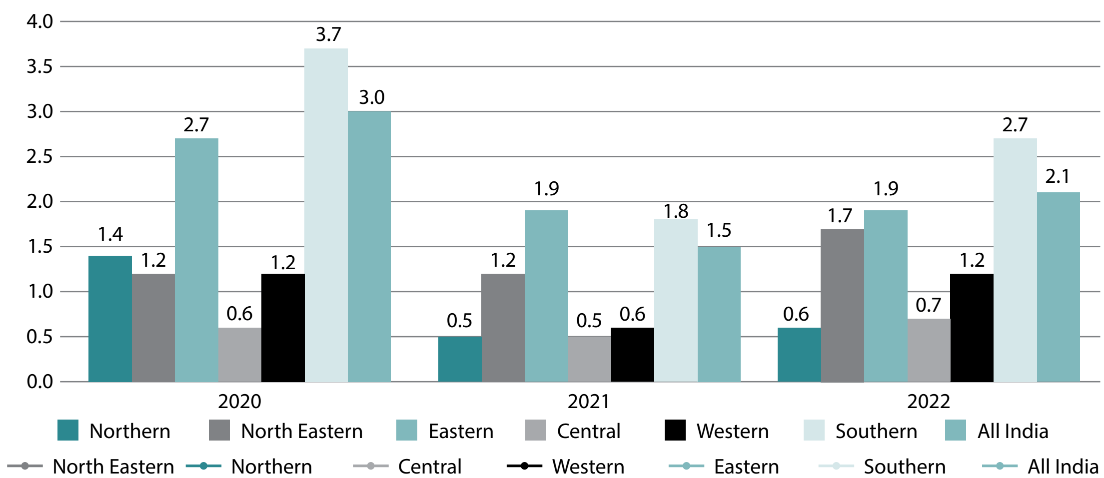

Figure 5.11. Region-wise Credit to Savings Ratio of SHGs
Source: Status of Microfinance in India, NABARD 2022

Data shows that the credit-to-savings ratio of the Southern region (2.7) has consistently remained above the all-India levels (2.1), and shows that the ratio of the Eastern region (1.9) is close to the national ratio. The northern and central region have the lowest credit-to-savings ratio, at 0.6-0.7, which shows that banks in these regions are risk averse, lending on an average, less than the savings collected from the SHGs. Only 0.25 million out of 1.49 million (17%) of the bank-linked mixed and only men's groups have availed loans, compared to 87% of exclusive women's SHGs. The credit-to-saving ratio of exclusive women SHGs has grown from 1.7 in 2021 to 2.2 in 2022, whereas for the mixed or only men's groups has the ratio increased from 0.76 in 2021 to 1.15 in 2022. There appears to be little difference in credit-to-savings ratio of the SHGs under DAY-NRLM or DAY-NULM programmes, which may be due to the fact that these programmes have only exclusive women SHGs.

However, the real Credit- to -savings ratio is much higher, when we consider that only a small proportion of SHGs get loans, and about 7:1 on an average. However, as the savings of only the credit-linked groups are not reported, it is not possible to calculate their Credit- to-savings ratio. It is likely that their savings are significantly higher than the SHGs that are not credit-linked.

5.3.3. The Trends of Non-performing Assets (NPAs)

The percentage of Non-Performing Assets (NPA) to loan outstanding for SHGs in India has consistently declined from 4.9% in 2020 to 3.8% in 2022. The decrease in the NPAs to loan disbursed is depicted in Figure 5.12.

The NPA to Loan disbursed ratio of the overall credit-linked SHGs in India declined by 2 percentage points in 2021-22 compared to 2020-21, which indicates that post-pandemic repayment capacities have improved. The Southern and Eastern region have lowest NPA percentage to loan disbursed, at 5%, which is less than the all-India average of 6%. Central India has the highest NPA, although it has decreased significantly from 54% in 2020 to 29% in 2022.

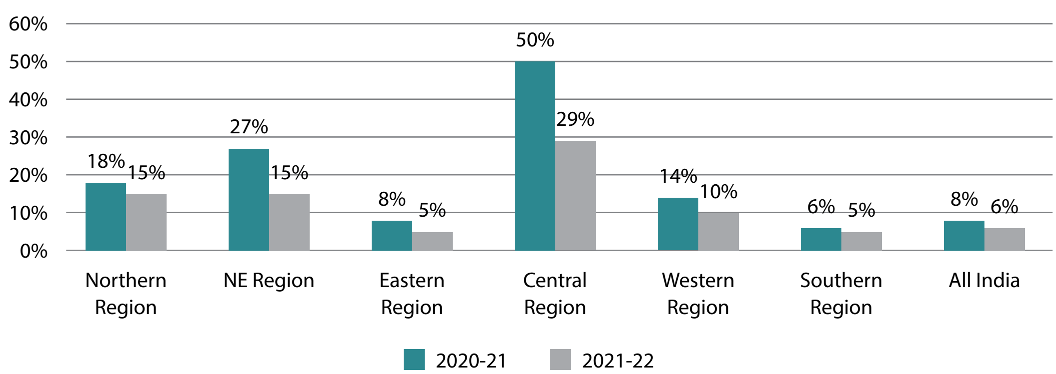

Figure 5.12. NPA as a Percentage to Loan Disbursed 2021 vs 2022
Source: Status of Microfinance in India, NABARD 2022

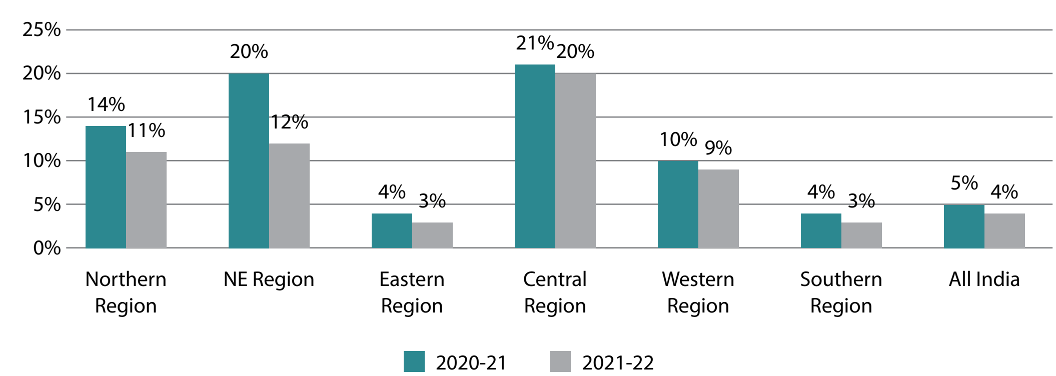

Figure 5.13. Region-wise NPA to Loan Outstanding 2021 vs 2022
Source: Status of Microfinance in India, NABARD 2022

We now examine the repayment performance of SHGs, according to the programmes under which the loans have been disbursed. The NPA for exclusive Women SHGs was 6% in 2022, which is the national average.

The same trend is visible in the NPA to loan outstanding, where the all-India average is 4%. A region-wise comparison of the NPA to loan outstanding can be found in Figure 5.13.

The NPA for loan outstanding in the Eastern and Southern regions, at 3%, is below the national average of 4% (NABARD, 2022). As these two have higher share of loan disbursement and loan outstanding, even a minor change in the NPA levels of these two regions have a major impact on the all-India levels.

The agency-wise NPA as a percentage of loan outstanding is given in Figure 5.14.

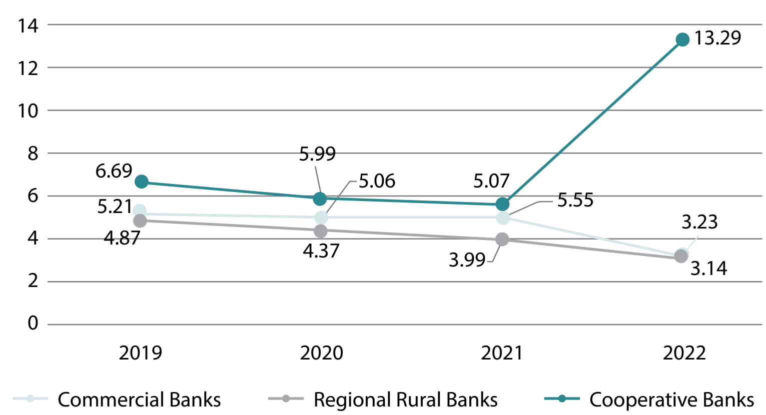

Figure 5.14. Agency-wise NPA as Percentage of Loan Outstanding
Source: Status of Microfinance in India, NABARD 2022

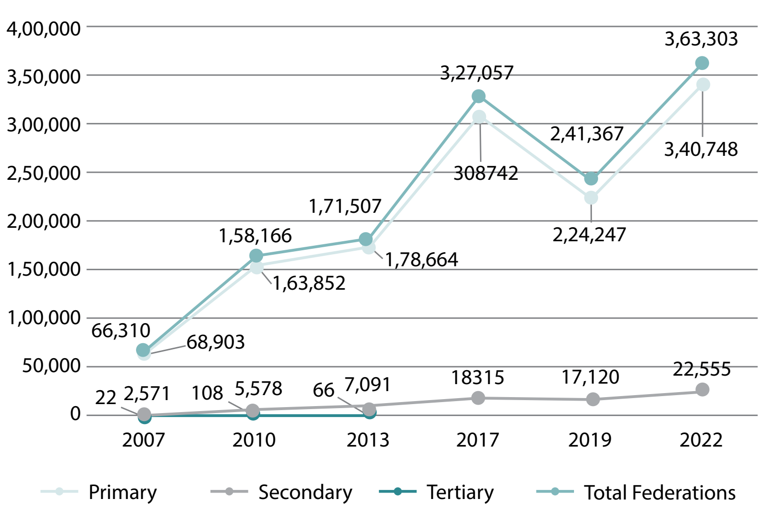

Figure 5.15. Growth of SHG Federations in India
Source: Shylendra (2019), NRLM (2022)

While commercial banks and RRBs have witnessed a decrease in the NPA to loan outstanding in 2021-22, and at 3.23% and 3.14% respectively, are close to the national average of 3%, the NPA for cooperative banks has increased significantly, to 13%. The poor performance of cooperatives' assets could be due to their outreach to a clientele which a lower ability to repay the loans, and/or that the debtors were proportionately more affected by the pandemic or other contextual factors. It could also denote reduced collection efficiency of cooperatives.

5.4. SHG FEDERATIONS

SHG-bank linkage may solve the savings and credit issue, but SHGs need services for good book-keeping, enterprise promotion and linkages to markets. The benefits of collectivization can be realized through federations of SHGs, in terms of improved access to credit, business and SHG sustainability. In the late 1990s, NGO promoters recognized the challenges faced by SHGs and facilitated the creation of SHG federations. Federations can be defined as formal organizations formed at the village/ward level, in which 10-25 SHGs are clustered, to provide services which individual SHGs would be unable to carry out (Reddy 2012). Membership in federations varies from 1,000 to 5,000 members. By creating economies of scale, federations guided SHGs in accounting, audit, and conflict resolution and provided opportunities for SHG leaders to build the capacities of staff recruited. Federations were preferred by financial institutions as they reduced transaction costs for banks and assisted in the reduction of SHG default rates. Federations also assisted in value-added services such as housing loans and insurance for members and livestock. The growth of SHG federations has accelerated over the last 10 years, yet they continue to face challenges in terms of institutional forms, sustainability, and their way forward.

5.4.1. The Number of Federations and Sustainability Issues

Based on their jurisdiction, three types of federations emerged. Primary-level federations (PLF) are formed by SHGs existing in a village or cluster, secondary-level federations (SLF) are the ones formed at block levels by PLFs, and tertiary-level federations (TLFs) are formed at the district level by SLFs. By 2017, there are more than 327,000 such federations across the country.

Figure 5.15 shows the growth of SHG federations in India from 2007 to 2022.

The data show that the number of SHG federations has grown almost 5 times from 2007 to 2022, with more than 50% growth in the recent 10 years. Of the total of 241,367 federations in 2019, 93% are primary federations, and 7% are secondary federations.

In 2019, 2.7 million SHGs, about 41%, were federated. For 2022, data is available only for NRLM groups; 6.22 million SHGs (87%) are federated. The remaining 13% do not have a second-tier organization with which they are affiliated. Under the NRLM programme, federating SHGs into VOs and cluster-level federations is mandatory, and as of March 2022, there were 363,303 federations in India under the NRLM programme. But NRLM SHGs account for only about 60% of the total SHGs. It is not possible to extrapolate from NRLM to the overall percentage of SHGs federated. Suffice it to say that by March 2022, the percentage is likely to have increased from 41%, yet the increase is likely to be much lower than 87%.

A study covering the role of SHG federations in improving the quality of SHGs revealed that on several parameters SHGs, under the umbrella of federations, have shown better or improved performance compared to those without the support of federations (Kumar 2010). SHG Federations provide several financial and non-financial services to the members contributing to SHG sustainability. However, that doesn't mean they are free from challenges, and role clarity, legal form and economic sustainability are the primary challenges (Shylendra 2018).

5.4.2. Institutional Form of Federations

The question of the most appropriate form of registration for the federations has been debated over the past two decades. The institutional form under which SHG federations are registered has varied across states, with most states opting for registering as Societies or Trusts. NRLM SHG federations are registered as cooperatives in only a few states, particularly Andhra Pradesh and West Bengal.

In 2017, the Maharashtra Rural Livelihoods Programme, Umed, set up a task force to examine the institutional form that best serves the needs of an SHG federation. The findings are as per below:

- **Cooperatives:** The strength of the cooperatives is the principle of 'People's money, people's control', reinstating the power of decision-making to its members. But making the cooperatives sustainable requires significant investments in capacity building and a long period of handholding. Interference by government officials and politicians also works as a deterrent to the acceptance of cooperatives as empowering organizations.
- **NGOs:** The procedures to form and register an NGO is relatively simple and can be managed by semi-literate women with little guidance. NGO processes like a quorum for meetings are very adaptable to local rural contexts. But profit-making financial intermediation is difficult to scale up when it is in Societies or Trusts.
- **NBFCs:** NBFCs are legitimate financial intermediaries, and surpluses can be made and distributed to equity holders. NBFCs raise external loans more easily than NGOs and lend loans of higher ticket sizes. However, the cost of formation is high; they are profit- focussed and are not suitable as an organizational form to foster savings and to promote social and political empowerment among women. Since NBFCs require professional expertise to manage the intricate proceedings and compliances, it provides no room for semi-literate women members to manage it. Loans from NBFCs are provided at a high cost, between 18% to 24%, and tend to get unaffordable for women's collectives (SHGs and VOs) and for members.

Based on this analysis, the Umed senior management decided against the registration of federations as cooperatives, as they would find it tough to sustain after the government programme stopped its oversight. NBFCs were also ruled out, considering the management and compliance requirements to be too high for a community-owned organization. So, federations have continued to be registered under the Societies Registration Act, except for West Bengal and Andhra Pradesh, where the SHG federations are registered as cooperatives and have been well supported by the state NRLM programme over the past years.

An additional question came up when Farmer Producer Organizations emerged as a new form of government-supported collective for member-based businesses. The success of FPOs that make value-added products (processed rice, jaggery powder, honey, etc.) hinges on successful production, branding, and marketing. Although some Self-Help Promoting Institutions (SHPIs) worried at first that FPOs may replace SHG federations, it is now clear that FPOs have the same issues as federations, e.g., the oversight on the governance of the FPO remains important, and their sustainability without NGO support is suspect. In general, the link between FPOs and federations remains an unexplored area of study, where further knowledge generation would help the sector.

5.4.3. The Future of SHG Federations

Despite the growth in the number of federations over the past 10 years, they continue to struggle in terms of institutional forms and sustainability.

Resource persons have suggested that DFIs envisage the role, and provide grant support, for the development of federations over 3-5 years. SHG federations need to be envisioned as an organization offering financial services to their SHG members, as well as launching businesses for their own economic sustainability. Federations in the formative phase could focus on the formation and monitoring of SHGs. In the emergent phase, they could foster bank linkages, and identify collective livelihood activities. In their growth phase, they need to pay attention to the market linkages of the collective businesses.

The question of the future of SHGs is thus contingent on whether there are SHPIs or federations which continue to nurture and supervise these grassroots institutions. To prevent them from elite capture or neglect, SHPIs will need grant funds, which have shrunk significantly for the microfinance sector and for the agenda of women's empowerment. The creation of federations in Andhra Pradesh and Maharashtra (the MAVIM CMRC model) offers good examples. The former has seen significant support through World Bank projects and the latter under several rounds of IFAD funding.

The NRLM programme has been very slow in having a vision for collectives of SHGs, and in making a clear strategy for their support. Reportedly, a decision has been taken recently to register all cluster-level federations under the NRLM programme as cooperatives. However, there is not yet a document that clearly outlines the strategy, and we have to wait to see whether these would be financial cooperatives, production cooperatives, or multi-purpose cooperatives, and whether there is long-term SHPI support envisaged.

The authors of this chapter emphasize the need to consolidate SHGs into second-tier federations, emphasize their promotion and capacity building to provide financial and business intermediation and ensure that they have long-term SHPI support, till they become fully accountable and economically viable. Further, they need to make special efforts to include vulnerable households and become truly inclusive organizations with significant livelihoods and empowering impacts.

5.5. SHGs AND LIVELIHOODS

Prof. Rangarajan famously claimed that 'The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups, such as weaker sections and low-income groups at an affordable cost' (Ananth, 2008). The implied Theory of Change around SHGs and poverty reduction is that SHGs provide much-needed access to credit, which would be invested in income-generating activities, which in turn would yield incomes that would bring the members' households out of poverty, creating sustainable livelihoods for rural women (Premchander, Prameela, & Jeyaseelan, 2009). However, a credit-plus approach is needed for the sustainable improvement of livelihoods, with vocational training, enterprise promotion and market linkages being among the key inputs needed.

20-year-old Neha Rai resides in Kotwa village of Varanasi district, with her parents, grandmother and three siblings. The family depends on flower farming and earns a monthly income ₹6,000. Neha's mother is an SHG member for 5 years and runs the SHGs. Neha could not afford to go to school after 11th class due to monetary and social constraints. Neha's involvement with Sampark started when she joined Sampark Digital literacy training. Neha successfully completed the course and she wanted to be associated with Sampark. She showed keen interest in learning the SHG books, helped in book-keeping and became a CRP and got paid for her work. The talent, spark, and dedication of Neha, combined with motivation from the Sampark team convinced her family to send Neha to school. Neha's family, with the additional savings, were able to take one more patch of land on lease and send Neha to school. Neha remains one of the strongest and most motivated young cadres Sampark has come across so far. Neha said, 'I want to become a health sector professional. Be it a doctor or a nurse, I want to work in the health sector in my own village'.

5.5.1. SHGs and Inclusion

The National Rural Livelihoods Mission (NRLM) was launched in 2011 with the objective to reduce poverty by enabling 70 million below-poverty line (BPL) households to access gainful self-employment and skilled wage employment opportunities. It uses a mission approach, to reach out to all the poor in a time-bound manner.

Research on exclusion, with respect to public programmes, highlights that capture of local institutions by the anti-poor, and high transaction costs hamper the inclusion of the poor. A 2011 social assessment of the National Rural Livelihood Project (NRLP) concluded that Dalit groups, Adivasis, Muslims and migrant labour face many types of exclusion for reasons such as distance, affordability, prejudice, poor voice, and skills. These groups have been also excluded from most public programmes, such as the Right to Education, Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and Public Distribution System (PDS). Gender, and the difficulties women face in linking with these mainstream protection programmes, are not mentioned in the report.

The Particularly Vulnerable Tribal Groups (PVTGs) have traditionally accessed minor forest produce (MFP) and are placed favorably to benefit from an income-generating model, but poor education and awareness and weak 'business skills' pose a serious challenge. Savings and credit involving PVTGs and via failed SHGs, provide lessons that improve intra-group trust, relevant livelihood models, extended CRP intervention and closer supervision by the NRLM management are required for groups to function well.

Dalits experience a different challenge of violence by powerful caste groups. NRLM, with its social mobilization approach, would be able to address the poverty question in these groups if focused on a wider basket of entitlements, including social security programmes, public services, security, and dignity, along with income-generation collectives.

Some communities within Islam, constitute the third tier of Muslim society, and they account for most of the Muslim population across swathes of North India. Most of them are homeless, and they possess no capabilities that households can leverage. They are not covered under the MGNREG scheme and are not included in the BPL list too. These must be factored in, and the challenge for NRLM would be to create conditions for the workers to enhance and make the best of their abilities to reach the markets.

Regarding migrant workers, the challenge would be to create secure livelihoods at/near home, and the risk of families being forced into situations where migration is the only choice for survival can be reduced. This needs to be done through both employment creation (public as well as private) as well as self-employment models (individually or in a group). Specific local NRLM capacity supported by civil society groups and labour associations will be required to make all this a reality.

In summary, the study highlights that NRLM needs to reach 70 million BPL households in 7 million villages, which calls for inclusive livelihood models. NRLM needs to internally focus on recruiting human resources with an understanding of exclusion, and the specific needs of communities to actively drive the mission (Hassan, 2015).

5.5.2. Sustainability of SHGs

SHG bank linkage does not only provide access to financial services, it also has the potential to reduce the incidence of poverty through an increase in income and assets. It can help to empower women, secure livelihoods and revive local economies. However, of late, there are rising concerns about the sustainability of self-help groups being affected by a number of factors, including, among them, irregular savings, dwindling membership, rising loan defaults, inability to access credit (typically second and subsequent bank loans), poor record keeping, limited credit absorption capacity and excessive reliance on promoting institutions (Baland, 2007) (Isern, 2007 AUGUST) (Parida & Sinha, 2010) (Rao, 2017) (Reddy C. S., 2008) (Tankha, 2012).

> *SHGs are expected to be a means to sustainable livelihoods, but this is possible only when SHGs are themselves sustainable. Sustainability of SHGs, is however, not tracked by most annual reports produced by leading Development Financial Institutions or the government. While experts claim that SHGs that survive for about 7 years have a positive impact of the livelihoods of members, we do not know how many SHGs do in fact survive for 7 or more years.*

Intra-lending or intra-group loans refer to the process of self-help group members accessing loans against pooled group savings at pre-decided interest rates. Intra-group loans are mostly extended to members for their day-to-day personal needs, children's education, and for survival needs in case of sickness or death of a family member. To improve their livelihoods, SHGs need external loans from the banking sector, which can be used for income-generating activities or micro businesses.

> *It is well known that loans from SHG's savings are primarily used for household needs such as education, health, and emergencies. SHGs need external funds from banks for income generating activities, to fulfill the purpose of improved livelihoods.*

Banks often evaluate the processes of intra-lending as a proxy for the group's repayment performance. From the women's perspective, group savings are 'own' funds, or 'hot money', which they use flexibly, repaying when they can, and they do not equate delays, in repayments of loans from savings, with default (Premchander, Prameela, & Jeyaseelan, 2009). An example from SHGs formed by Sampark in the Chiraigaon block of Varanasi district in Uttar Pradesh illustrates this well. The 76 groups, with about 900 members, have sustained for 5 years, saving consistently, and taking loans from their savings.

Banks view the division of savings and starting afresh as an indication of low capacity to repay loans, while women see it as an achievement, in being able to pool savings, do inter-loaning, and manage these transactions independently.

Many women struggle to repay their loans, especially during the COVID-19 period. They discussed the issue of delayed repayments and came to the solution of pooling all the savings, settling loans against individual savings, bringing all outstanding balances to zero, and restarting the savings. At least 5 groups have followed this process to settle their loans and start savings and loan operations afresh. Although Sampark NGO staff constantly counsel the groups against depletion of savings, they facilitate the distribution if the members want it.

Laxmi Mahila Sampark Samuh in Kamauli, Varanasi, UP was formed in the year 2017 by 16 women. Women saved ₹126,000 in 5 years and took loans. 3 women were unable to repay their loans totaling to ₹30,000 taken 4 years ago. Hence the groups decided to help them and split their savings, repay the loans, and start saving afresh.

The long-term needs are emphasized to the group members, and women are guided on livelihood interventions and set up of small enterprises to assist in their family income.

5.6. WILL SHGs BECOME REDUNDANT

It takes time and effort to form and build the capacities of SHGs for self-management. Many continue to need oversight from SHPIs, for which SHPIs receive grant funds from donors and Development Financial Institutions (DFIs). In some government programmes, such as MAVIM, Cluster-level Resource Management Centres (CMRCs) have been created, which fulfil the role of an SHPI in creating bank linkages. Once SHG-BL is formed, many SHGs become a channel for multiple loan cycles from banks. Repeat loans by banks are not certain, and again, no flagship reports carry figures of SHGs who get multiple cycles of loans from banks.

The question arises about when an SHG fulfill its role as an intermediating institution. If every woman SHG member has a bank account where she saves, builds a credit history and transits to an individual loan from a bank, then would it be possible to wind up an SHG?

We cannot answer this question, as the data on how many SHG members have individual bank accounts are not available in the NABARD report. The NRLM site reports that, of the 84.2 million members in the 7.8 million NRLM-SHGs, only 37 million members, 44%, have individual bank accounts. This shows that the financial inclusion of individual SHG members is still not fully achieved, even under the NRLM programme. Not only do SHG members not have independent accounts, they also do not transit seamlessly to individual loans from formal financial institutions. A recent study (Iyer, 2021), focussed on the supply side barriers to individual loans for SHG members. Banks extend individual loans to those who can provide collateral, whether these are women or men. The data on the percentage of SME loans that go to women is scant, and not tracked by most banks, but banks do agree that SME loans from banks go predominantly to men. SHG women who are capable of transiting to individual loans fall between the cracks. There are some of these women who would already be clients of MFIs, which do extend individual loans to JLG members with a good track record of loan repayments. However, these are MFI loans and not bank loans, and so belong to the second track of loans we discussed in Section 2. For women members of SHGs, the transition to individual loans, with or without collateral, continues to be largely non-existent. Some exceptions are from SHPIs, such as the SEWA group, where the staff makes a special effort to get them bank loans as individuals, not just as SHG members (Iyer, 2021).

If the Theory of Change of Financial Inclusion for SHGs is that SHG members would get access to bank accounts, savings, and loans, we find that such access is limited. Under NRLM, which represents 60% of SHG members, only 44% of the members have individual bank accounts. We could assume that women save regularly in these accounts, or their Direct Benefit Transfers are paid into these accounts, but the data on these parameters is not in public domain. Further, we do not know if such access transits to individual loan;, all indications are that they in fact do not have such access from universal banks.

Although official schemes, e.g., MUDRA, are expected to provide finance for growing women's enterprises, these are often limited to those that NBFC-MFIs already offer to their clients, with little additional outreach.

Given the barriers that women SHG members face in accessing formal credit as individuals, the SHG forum will be needed for another decade or two, till formal financial institutions begin to use SHG credit history, to recognize them as potential individual borrowers.

5.7. CONCLUSION

India's SHG Bank linkage model, recognized by the government for the flow of formal credit to low-income households, has created a unique place in the world-- providing lessons for scale, depth of outreach and impact on livelihoods, poverty reduction and women's empowerment.

Even as financial inclusion reaches marginalized women, the Self-Help Group remains an important forum, for many reasons. To begin with, group savings have a different character and meaning from individual savings, enabling women to exercise agency vis-à-vis their group savings. Secondly, group processes promote leadership, accountability, and most importantly, solidarity that goes beyond financial transactions to social interactions and potentially empowers women. A third reason is that group savings are useful for loans for education, health, or emergencies. Finally, bank finance continues to elude women on an individual basis, with less than half of NRLM SHG members having savings accounts, and the data on the remaining 40% SHG members outside of NRLM not available or being tracked. Even if they build credit history through groups, the transition from group loans to individual formal finance for business, is not seamless, creating continued dependence on the SHG loans.

The question arises whether SHGs, in their current form, dominated by the NRLM programme, will sustain beyond the programme and government support. If banks are willing to provide repeat loans to SHGs, then groups will sustain, and continue to serve the purpose of forums that improve women's access to loans, and improved livelihoods. The extent of such access is not known or recorded in industry reports.

SHG sustainability can be promoted through SHG federations, as evident from examples of government programmes such as MAVIM in Maharashtra, with the latter managing the credit linkage with banks. These federations are well on their way to sustainability and offer credit as well as business linkages. Such federations are, however, not scaled up, and are not yet the predominant model across different states, leaving the questions of SHG sustainability, and that of federation viability, wide open. Going forward, it would be very important for the government and other development organizations to have a vision for the collectivization of SHG and enabling sustainable linkages for enterprise loans for the individual members through SHGs, facilitated by their federations.

Finally, for women SHG members to have access to loans from universal banks, attitudes of the latter would need to change, and they would have to use credit histories rather than collaterals to lend. Many other supply-side barriers, such as lending norms, structures, processes, and attitudes, will need to be overcome for not only SHG members, but all women, to have greater access to business loans by formal financial institutions (Iyer, 2021).

In conclusion, although the number of SHGs has grown, they are still highly concentrated in the Southern and Eastern region, and this uneven spread is visible in the savings, credit, and repayment performances. Clearly, the task for the government's flagship programme, NRLM, and NABARD is to balance this uneven spread, and invest in the growth of SHGs, savings and enterprise credit in the Northern, North-Eastern, Central and Western regions of India. There is still ground to cover in promoting the voice of women through federations and in ensuring inclusion of marginalized groups. The SHG movement has come a long way, yet there remains a long way to go before balanced spread, sustainability of self-help institutions, and women's financial inclusion and their livelihoods are achieved.

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END NOTES

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2 Pradan had this practice in early 2000s, in Bihar. Sampark's groups in Varanasi currently use this method, especially post-COVID, when it has been difficult for women to earn and repay their loans to the SHGs.