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A Qualitative Study of Inclusive Growth through Microfinance in India

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Abstract : Microfinance is considered as one of the key drivers of financial inclusion and pro-poor financial growth. Microfinance in India became popular through Self Help Group (SHG) movement initiated by NABARD. In terms of outreach and loan portfolio, SHG Bank Linkage programme (SHG-BLP) has emerged as the largest microfinance initiative in the world. The success of financial inclusion lies in the successful implementation of SHG-BLP. SHGs are generally promoted by social welfare organisations like NGOs, welfare societies, government agencies, Co-operatives etc. and even banks are also involved in SHG formation. Thus, the pro-poor implementation of the scheme largely depends on the credibility of the SHG Promoting Institutions (SHPIs). The rural poor lack education, skills and financial literacy and hence need continuous support and proper training right from planning to implementation. In this study, we have made an attempt to inspect the reasons behind low penetration of SHG financing to the poorest of the poor both from demand and supply side perspective. Banks, SHPIs, and SHGs are three key essential stakeholders in SHG-BLP programmes. All of them have a vital role in programme implementation. The objective of this paper is to find out the drivers and hurdles in the path of financial inclusion through SHG-BLP and the role of SHPIs in reaching out to the ultra poor. We try to address questions like 'what are the challenges faced by SHPIs in targeting the poor?' and, 'what are factors behind the low credit linkage of SHGs?' Our work is based on a qualitative study of SHG programmes in semi-urban towns in the states of West Bengal and Odisha in India. Data are collected through unstructured questionnaire and in-depth interview from the members of SHGs, SHPIs and designated banks. The study provides some valuable insights about the programme and a comprehensive view of problems and challenges faced by SGH, SHPIs, and banks. On the basis of our understanding from the survey, some findings and policy recommendations that seem relevant are: increasing level of non-performing assets (NPA) of commercial banks and wilful default in expectation of loan waiver and subsidy are the prime reasons behind low rate of credit linkage of SHGs. Regular changes in SHG schemes and no incentive for after linkage follow up results in dysfunctional SHGs. Government schemes are mostly focused on creation of SHG and less on livelihood promotion. As a result, in spite of increasing (YoY) trend of number of SHGs promoted, there is no real impact on welfare growth. Government and other SHPIs should focus on resource based SHG promotion rather only increasing the number of SHGs.

Keywords : financial inclusion, inclusive growth, microfinance, Self-Help Group (SHG), Self-Help Group Promoting Institution (SHPI)
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