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Spread of the Self-Help Groups Banking Linkage Programme in India

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"Though you do not pay your debt to others, you must pay your debt to the goddess. Mâri-Mâri is a form of the goddess Durga who sends small-pox. The meaning is that a powerful creditor is not to be trifled with."

Tamil Proverbs.

Herman Jensen (2002: 118) [1897]

Introduction

This communication presents the preliminary results of a long-term study on the geo-economic analysis of microfinance and, more specifically, of *microfinanciarization*.

What is microfinanciarization? In the broadest sense, microfinanciarization is the process of structural change that involves financial inclusion, bankarization, or the regulation of informal financial practices, and the utilization of voluntary sector and third sector capabilities in the provision of financial services to people who are excluded from financial and banking institutions – i.e., from 60 to 90 % of the entire population. It is one of the most fascinating features of financial economics today.

A considerable body of literature has accumulated over the past years documenting and monitoring the development of the microfinance sector [Sidney *et. al.* 1997, Fisher and Sriram 2002, Littlefield and Rosenberg 2004, Tsai 2004, Dasgupta 2005]. Based on macro as well as household survey data, previous studies on empowerment, income generating or other socio-economic indicators highlight the risk of increasing inequalities in the microfinance sector [Montgomery 1996, Mosley and Hulme 1998, Hulme 2000, Guerin and Palier 2005, Rao 2005]. Neglected to date have been issues of territorial inequalities, despite the major role they play in the process of growing inequality.

India is experiencing a huge expansion in terms of households linked to microfinance, more specifically linked to Self-Help Groups (SHGs). An average annual growth rate of 82 % was observed in the period from March 1993 to March 2006, in relation to a 110 % growth rate in terms of credit amounts. One of the most important programmes conducting this development is the SHG Banking Linkage Programme. Working with 620,109 SHGs during the financial year 2005-2006, it incorporates more than nine million households into the financial sector.

Apart from the aggregate numbers, very little is known about the spatial distribution and evolution of this economic phenomenon across India. Our communication will attempt to fill

this void by applying the recently released state and district data to empirically explore the spatial evolution and distribution of the development of the microfinance sector in India through the example of SHGs. Mapping analysis is an excellent tool to visualize the spatial distribution and evolution of microfinanciarization in India, and with which to initiate debate.

More specifically, in order to examine the spatial distribution and variation of SHGs, picture maps for selected years are employed and plotted using Arc View GIS, which is linked with the main database for this study.

Following common practice (Nabard *various years*, Daley-Harris 2005), the number of households linked to one SHG is set at seventeen, corresponding to the average group-size. We use the total number of SHGs linked by formal agencies (commercial banks, regional rural banks and cooperatives) during each financial year. We also calculate the coefficient of variation, a measure of relative variation, to provide a view of the variation relative to the size of the data measurements.

With these data at hand, two yardsticks are employed in the analysis: the relative strength of households in SHGs measured by the ratio of households in SHGs to total state and district households; and, the pace of change in SHGs measured by the percentage change in the total number of SHGs over the given period.

Relative Strength of the SHGs among States

The ratio of the number of SHG members to the total households of the states reveals a different, although continuing, pattern in regional variations as compared to the relative strength of the SHGs. In March 2001, there were less than ninety households participating in SHGs for every 1,000 of Andhra Pradesh's households. In the states Sikkim, Assam and Punjab, however, there were six, five, and three households participating in SHGs for every 10,000 of the total households respectively. The irregular pattern continued in 2003 and 2005. Nevertheless, the relative strength of the SHGs slightly converged among states, as evidenced in the decline of the coefficient of variation from 1.99 in 2001 to 1.15 in 2006 - a spatial pattern that is confirmed by inspecting the related maps in Figure 1.

Figure 1: State variations in relative share of SHGs (measured by standard deviation)
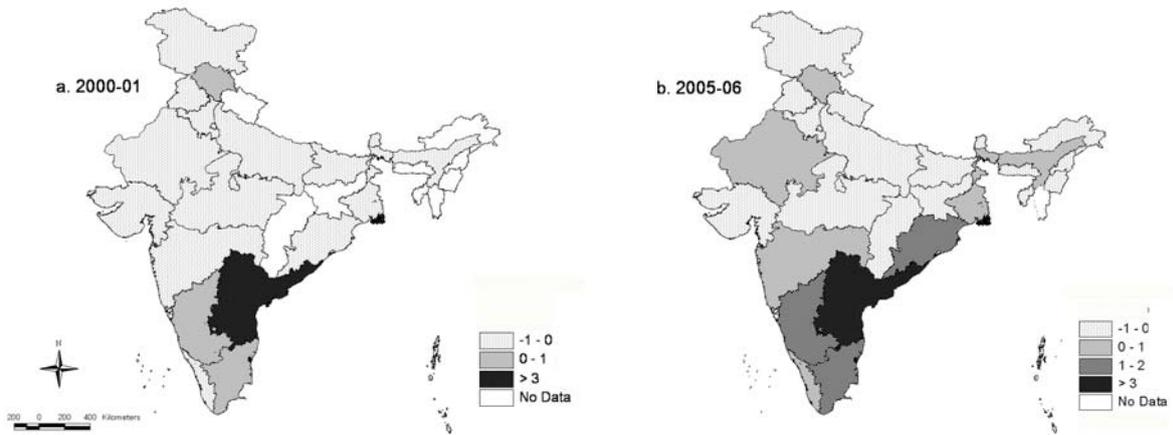

In Figure 1, the states are grouped using the standard deviation of relative share of SHGs. In March 2001 (Fig. 1a), Andhra Pradesh was ranked first, with more than three units of standard deviation above the mean. Tamil Nadu, Himachal Pradesh, Puducherry and Karnataka formed the second leading group, which had a standard deviation above the mean, *i.e.*, with nineteen, sixteen, twelve and nine households participating in SHGs for every 1,000 households respectively. The rest of the states had one unit of standard deviation below the mean and formed the weakest states in the process of microfinanciarization. Uttar Pradesh's low percentage of SHG members out of total households might be a result of its large population base. In fact, its absolute size of SHGs was ranked fifth.

Five years later, in March 2006 (Fig. 1b), Andhra Pradesh had further consolidated its role as the leading state in the size of the SHG movement, measuring more than three standard deviations above the mean, *i.e.*, 279 households participating in SHGs for every 1,000 households. Orissa, Puducherry, Tamil Nadu and Karnataka formed the second leading group, with more than one standard deviation above the mean. Himachal Pradesh, Kerala, Assam, Rajasthan, West Bengal and Maharashtra formed an intermediate group with ratios within one standard deviation of the mean, with ninety-four, eighty-five, eighty-two, sixty-five, sixty-one and fifty-six households participating in SHGs for every 1,000 households respectively. The other states had one unit of standard deviation below the mean. In Uttaranchal and Jharkhand there were less than thirty-two households participating in SHGs for every 1,000. In Jammu and Kashmir, Haryana, Punjab and Arunachal Pradesh there were less than ten households participating in SHGs for every 1,000 of the total households.

Relative Strength of the SHGs among Districts

The development of the microfinance sector through the SHG model reflects the relative importance of this movement for the population, as depicted in Figure 2. It shows a map indicating the relative strength of the households involved in a SHG provided with a bank loan during the financial year 2005-2006. The inequality pattern in the microfinance sector in India is also verifiable at the district level.

Figure 2: District distribution in relative share of SHGs (measured by natural break – percentage)
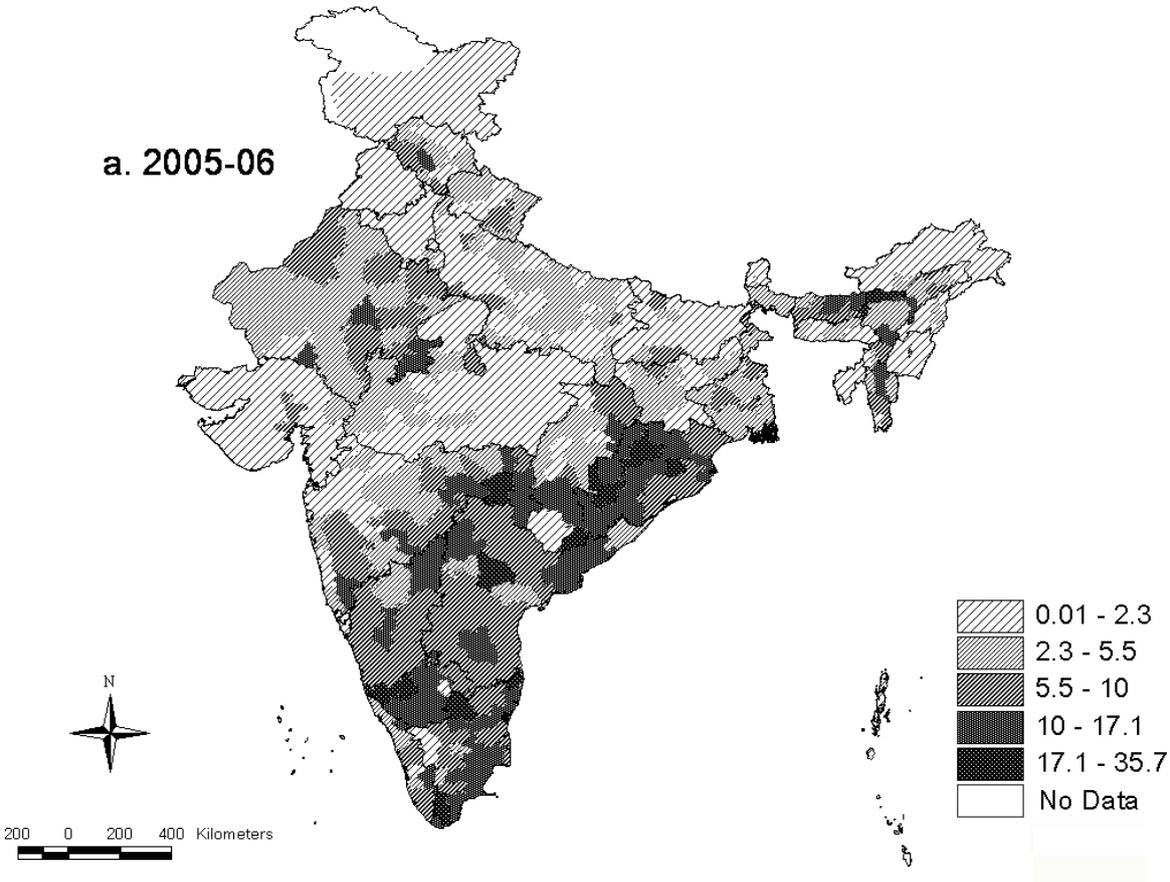
During this financial year, the relative share of SHGs was more than 35 % of the total households in Nuaparha district (Orissa). In other words, more than one third of the total households in this district counted a person involved in a SHG provided with a bank loan during the last year.

The level of market penetration of SHGs is no longer incidental and exceeded 20 % of the household population for the districts of Dhenkanal, Deogarh, Kalanhandi and Malkangiri, all in the state of Orissa.

This situation is also verifiable in the others states. For example, still for the financial year 2005-2006, the relative share of SHGs represented more than 20 % of the total households for seven Indian districts, as Dharmapuri (Tamil Nadu) and Hassan (Karnataka). Sixteen districts exceeded 15 %, with districts in Assam (Sonitpur and Marigaon), Maharashtra (Chanrapur), Tamil Nadu (Tirunelveli, Tiruvallur) and, of course, in Andhra Pradesh with Nalgonda. At the Indian level, eighty-three districts had a level market penetration of more than 10 %, and 201 districts exceeded the margin of 5 %.

At the district level, the intra-state inequalities are very significant and call into question the successes showed by some states. For example, while Himachal Pradesh is ranked among the states with a high level of microfinanciarization, an intra-state analysis shows significant district inequalities. While Mandi and Sirmaur districts show a strong proportion of households with a person involved in a SHG provided with a bank loan during the financial year 2005-06 (11.91 and 9.16), the reality is completely different in Shimla and Lahul-Spiti districts, with only 0.98 and 0.79. We come across this situation in practically all of the Indian states, more particularly in Andhra Pradesh and Tamil Nadu. While Nalgonda, Cuddapah, Nizamabad and Medak districts showed a level of market penetration of 19.46, 16.37, 16.02 and 14.82 respectively, this level was 3.25, 3.32 and 4.19 in Rangareddi, Guntur and Srikakulam respectively. In the same financial year, these territorial inequalities were stronger in Tamil Nadu. While Dharmapuri, Titunelveli and Thiruvallur showed a percentage of households counting one person involved in a SHG of 24.19, 18.91, and 17.88, the level of microfinanciarization was very small in Nilgiris, Coimbatore and Karur, with 0.92, 1.80 and 3.47 respectively.

Pace of microfinanciarization

Significant state variations occurred in the pace of microfinanciarization. Between 2000 and 2002, the number of SHGs in Rajasthan increased by more than twelve times, from 526 in financial year 2000 to 6948 in 2002. In Uttar Pradesh, on the other hand, the number was 'only' multiplied by 1.5 (from 7,744 to 11,490) over the same period of time. Between 2002 and 2004, there was a slowdown in the growth of microfinanciarization, except for areas with few microfinance activities such as in Assam, where the number of SHGs increased by more than eight times from 748 in 2002 to 7229 in 2004. Some of the rare declines, based on the 2002 and 2004 data, were in the states of Nagaland, Sikkim or Manipur.

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The uneven pattern continued in 2006. Nevertheless, the decline in the coefficient of variation from 2000 to 2006 indicates convergence among states. We observe a decline in the coefficient of variation from 1.91 in the first period to 1.50 during the period of 2002 to 2004 – if we exclude Tripura with a strong pace of 37,200 % (2 to 746). Overall, the decline in the pace of increasing numbers of SHGs took place in the period from 2004 to 2006. During the same period, the coefficient of variation increased slightly, to 1.81. This coefficient decreases to 1.28, when excluding Mizoram, Nagaland and Meghalaya, with a strong pace of 4,200, 3,644 and 3,593 % respectively (from 22 to 946, 9 to 337, and 15 to 554). Between 2004 and 2006, Gujarat's SHG members increased less than five times (2,099 to 11,806), while Himachal Pradesh's SHG members increased by 66 % (4,353 to 7,233).

Several states fluctuated drastically in the number of SHGs. Himachal Pradesh, Punjab and Assam, for example, experienced rapid growth in their numbers of SHGs between 2000 and 2002, but between 2002 and 2006, the same states all witnessed declines. Those states that started the SHG Banking Linkage Programme earlier have an overall low growth rate, and those states which started the programme at a later stage have a high growth rate. This is, for example, the case for Mizoram, Nagaland, Meghalaya, Manipur and Sikkim.

Conclusion

The legitimacy of microfinance is beyond doubt. In a context of growing financiarisation, the poor more than anybody else need microfinance services. In the same vein, in a context where democracy remains mainly formal and inaccessible to the poorest, the collective approach (which is at the core of Indian microfinance through the Self-help-group concept) undeniably represents a tool for democratic practices and therefore for grass roots development, especially for women.

In practice, however, real effects are much more limited than what is usually presented. How far and under what conditions can microfinance combat poverty and contribute to grass roots development? The question is all the more acute in India, where microfinance has grown very fast and intensively over the last decade. After a first cycle of growth where the number of clients went from a few thousand to several millions, microfinance is nowadays at the core of many agendas, be they public or private. Indian microfinance, both in terms of the number of clients and the volume of credit disbursed, is not anecdotal any more. Because of the socio-

economic, political, even cultural questions it raises, microfinance becomes a societal challenge.

If it is indeed urgent not to let oneself be blinded by the surrounding optimism and not to under-estimate the present weaknesses of microfinance, it is equally necessary to identify efficient and innovative experiments in order to better reflect on the future of microfinance.

This is why this communication aims to shed light at the process of microfinanciarization, in particular at the spatial dimension and dynamics. Findings on the spatial variation and changes in the development of the microfinance sector can enhance our understanding of the complex processes of current regional development in India and can contribute to the formulation of innovative regional development policies.

The SHG Banking Linkage Programme since its beginning has been predominant in certain states, showing spatial preferences especially for the southern region – Andhra Pradesh, Tamil Nadu, Kerala and Karnataka. These states accounted for 57 % of the SHG credits linked during the financial year 2005-2006.

While the use of absolute numbers of SHGs camouflaged the variations in population size among the states, the ratio between number of households taking part in a SHG and the total number of households yields a different pattern of microfinanciarization. The starting base of the regional pattern is in three southern states, Andhra Pradesh, Tamil Nadu and Karnataka, and in one northern state, namely Himachal Pradesh. These states, except for Himachal Pradesh, are in areas where international aid makes an important contribution. In subsequent years, many states in the eastern region of India, especially along the Bay of Bengal coast, were among the leading provinces that had high ratios of microfinanciarization, while states in the north, except Himachal Pradesh, in the centre and in the eastern region, except West Bengal and Assam, exhibited a weak microfinance sector. Andhra Pradesh, Orissa, Karnataka and Tamil Nadu are among the states with a strong microfinance sector.

Preliminary results from this communication show that the spread of number of SHGs did not evolve evenly over time within districts and states of India. A natural question to arise is therefore what the influencing factors of the distributional variations are? This issue will take up in the second part of our study.

We will empirically test several variables that are hypothesised to influence the spatial distribution. The empirical analysis starts with looking at the impact of several macro-economic variables on the distribution of SHGs in the state of Tamil Nadu by applying simple

ordinaly leas square regressions, including country dummies for capturing spatial heterogeneity (spatial lag model). Results will be presented during the summer.

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