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## **Subsidy Impact on Sustainability of SHGs: An Empirical Analysis of Micro Lending through SGSY Scheme**

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### INTRODUCTION

In sustaining rural livelihood, sustainability of credit provisioning operation is highly essential. It assumes more significance in the case of developing nations with low per capita income and high level of poverty. It is also important to note that in many of the developing nations the financial viability of rural lending institutions is not satisfactory. Studies of Hoff and Stiglitz, 1990, Adams and Pischke, 1992, Agarwala *et al.*, 1997, and ADB 2000; have repeatedly cited this problem. Most importantly all of them put a question mark on the functioning of government run institutions and programmes. Most of the programmes were unsustainable because they were expensive, collected too little revenue, depended too heavily on outside funding, and often suffered serious default problems. Even worse, a substantial portion of the subsidies was captured by people who were not poor and who could have obtained loans in the commercial market (Adams and Pischke, 1992). The Indian experience also reveals that the addition of new institutional mechanism to address the issue of rural finance has not helped in improving the situation and in fact created new problems (Agarwala *et al.*, 1997). The provision of subsidy as the patronage from the state is found in most of the rural lending institutions and many of the poverty alleviation and employment generation programmes launched by the Government of India. By merging the unsuccessful subsidy based Integrated Rural Development Programme (IRDP) and many others, another programme namely; Swarnajayanti Gram Swarozgar Yojana (SGSY) scheme was launched in 1999 to promote the economic well being of poor people by providing micro credit through the self-help groups (SHGs). The impact of this scheme, which carries a subsidy portion in its total loan component, on the sustainability of SHGs is yet to be analysed prominently in research studies.

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This paper is based on the data collected for a major research project undertaken by the author on sustainability of SHG-Bank Linkage Programme in Meghalaya sponsored by ICSSR, New Delhi which has been submitted very recently. While the project was based on both SGSY and non-SGSY scheme sponsored SHGs, this paper is only based on the data of SHGs assisted by SGSY scheme.

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Whether SHGs can be considered as institutions is debatable. The small membership of the groups and the crude nature of their activities do not qualify them as full fledged financial institutions. Considering the background of their members of whom many are illiterate or semi-literate, who do not understand finance and accounting matters, etc., and the nature of formation of the groups, it will not be prudent to include them under the banner of any formal institution. But the working of these informal intermediaries, which is mainly confined to saving mobilisation and loan disbursement hovers around the activities of finance and to some extent constitute rudimentary form of banking. Thus, these groups can only be considered as informal institutional arrangement for delivery of financial services. But the popularity of such initiatives in many developing nations where they have been proved handy for uplifting the downtrodden and less privileged individuals through self employment, new employment generation and small enterprise creation, demand sustainable functioning of these institutions.

Despite considerable outreach, successful savings mobilisation, and high loan repayment rates the sustainability of SHGs is not very clear. The small size of the SHGs and thereby, the limited resources – both financial and human – they have access to, make most groups dependent on the promoter agencies for several essential services. Others operate at a low equilibrium of low savings and low credit that is unlikely to contribute significantly to improving the lives of SHG members (Nair, 2005). Further, the dependence on subsidised credit mainly delivered through the SGSY scheme of the government is another factor critical in the long term functioning of the SHGs. All these make the issue of sustainability more critical for them.

This paper attempts to delve into the issue of sustainability with the help of an empirical data set generated through a primary survey of SHGs. More specifically an attempt has been made to see whether subsidy has impacted the operational and financial sustainability of SHGs. Along with the secondary data a primary data set for 177 SHGs operating in the state of Meghalaya under SGSY scheme is used for this study. Through a set of questions, i.e., schedule, information regarding the performance of these SHGs for a three year period, i.e., from 2003-04 to 2005-06 is collected.

The remaining part of the article is arranged in five sections. The following section elaborates the measurement techniques which captures the sustainability variables of SHGs and impact of subsidy on sustainability. The third section highlights the characteristics of the study area and samples used for this work. The sustainability indicators are analysed in the fourth section. The impact of financial subsidy on the sustainability parameters is presented in Section V. Observations on the whole issue are presented in the last section.

## II

## MEASUREMENT TECHNIQUES

Many of the sustainability studies are found to be based on financial analysis. Chavan and Ramkumar (2002) have used costs of default, administrative costs and dependence on subsidies as the factors for the study of viability of rural credit institutions. Variables like transaction costs, loan losses and cost of capital are used by ADB to study the sustainability of rural financial institutions in India (ADB, 2000a). Apart from the traditional financial analysis, the sustainability of SHGs can be studied with the help of two specific ratios. One of them is the operational self sufficiency ratio (OSSR) and the other one is financial self sufficiency ratio (FSSR) (SEEP, 1995). These measures are advocated by Small Enterprise Education and Promotion (SEEP) for studying the sustainability of micro-finance organisations, which has been extended to SHGs in this work. The first one of the following ratios refers to the extent to which an institution covers its operational costs. The second one refers to the extent to which an institution not only covers its operational costs but also preserves the value of its resources by accounting for loan loss and the effects of inflation. Financial sustainability refers to how effectively the cash inflows and cash outflows of the groups are managed to earn a reasonable margin over a long period of time. The sustainability ratio of more than one indicates 100 per cent cover of all the possible expenditure on real as well as notional basis.

$$1. \text{ OSSR} = \text{Financial Income} / (\text{Financial Costs} + \text{Operating Costs})$$

$$2. \text{ FSSR} = \text{Financial Income} / \{ \text{Financial Costs} + \text{Operating Costs} + \text{Loan Loss Provision (LLP)} + \text{Imputed Cost of Capital (ICC)} \}$$

Subsidy is mainly captured through the Subsidy Dependence Index (SDI), which is one of the most accepted techniques to assess the dependence of financial institutions on government supported funds. The SDI is the ratio of subsidy to revenue from lending (Yaron, 1992a). In the context of development financial institutions (DFIs), the removal of the anomaly of understating cost has been attempted through the SDI (Yaron, 1992b). This Index takes into account all funds at full market rates. A key asset of the SDI is that the subsidy element is removed in order to make a realistic assessment of profitability and tries to find out whether the development bank can sustain itself in the long run. Apart from the studies of DFIs this measure is also used in case of the study of micro finance institutions (MFIs) (SEEP, 1995, Sacay, 1996, Hulme and Mosely, 1996, Schreiner, 1997, Hossain, 1988, and Mordoch, 1999). The purpose of the measurement of social cost through SDI is not to purge subsidies but rather to help donors and governments to make informed choices about the best way to spend scarce public funds earmarked to help the poor. Disciplined use of the SDI cannot but help to improve how funds are spent (Schreiner and Yaron, 1999). This will probably make the government to think twice before they extend

support to institutions and they launch subsidised programmes for economic development. It should, however, be noted that the SDI is only a measure of reliance on subsidies and not a comprehensive evaluation of the economic (rather than financial) performance.

The developing countries' experience of micro finance programme reveals that most of the rural financing institutions are viable because of heavy subsidy. The SDI calculated by Hulme and Mosely (1996) for the MFIs in many developing countries varies between 135 per cent for BoncoSol, Bolivia to 1884 per cent for Mudzi Fund of Malawi. As observed (Hossain, 1988), during late eighties, if subsidies had been removed, Grameen Bank of Bangladesh would have incurred loss. Extending SDI measure to SHGs those who receive concessional funds from the government, mostly under the SGSY scheme, will help to negotiate the real cost of their operation and would lead to show the actual sustainability. This is not captured through the orthodox financial analysis, and therefore, understates the costs. It overstates the income and distorts any ratios which may be computed from such data (Karisa-Kasa and Murinde, 1995). A SDI of 100 per cent means increase of the present lending rate by the same percentage to make it comparable with market interest rate. The financial flows of SHGs are affected by the interest component which constitutes a major chunk of the cash flows. When this major component is understated this inflates the actual profit. This subsidy component in the loan also affects the pricing of its loan products for their members.

### III

#### STUDY AREA AND SAMPLE

The study has focused on the state of Meghalaya, an average state of North East India in terms of economic resource endowments, literacy level (51 per cent as per 2001 census) and per capita income (Rs. 11278 for the year 2004-05). Out of the total 23.15 lakh population (2001 census) more than 80 per cent lives in rural areas and almost one-third are below the poverty line. Despite the rural dominance, agriculture contributes only 24 per cent to the total net state domestic product against 64 per cent contribution from services. This clearly reveals low industrialisation of the state in terms of manufacturing entrepreneurial activities. The commercial banking network consists of only 185 branches which is inadequate to meet the small credit needs of the population.

After the intervention of micro credit schemes by banks and other non-government organisations there has been a rapid proliferation of SHGs in recent years. At present there are more than 4500 SHGs spread over seven districts of the state (Table 1). Out of the total nearly one-third of SHGs are found in the West Garo Hills, which is comparatively a backward district of the state. State Bank of India (SBI) because of its dominant presence in the state has almost 60 per cent of the total SHG credit linkages. Among the nationalised banks Regional Rural Bank (RRB) has also been active in this credit linkage business. Very recently the Meghalaya

Cooperative Apex Bank (MCAB) has started micro financing. The other commercial banks (OCBs) because of their scanty presence are not very prominent in this linking activity. In most of the cases these groups are formed very recently and their duration of credit linkages is very less.

Among all the groups around 85 per cent of the groups are running some kind of group business activities. Prominent among them are grocery, small transport, poultry, piggery etc. Some are also found to have undertaken agricultural activities on group basis. It is found that the women groups are dominant in Meghalaya (75 per cent) followed by mixed group and men group. However, this dominance is well below than the national average of 90 per cent as depicted by NABARD, which clearly indicates that there is also a great deal of interest among the men population to form such groups. This indirectly testifies the prevalence of unemployment and the enormous need for small finance in the rural areas. Another driving force to form such groups is the subsidy provided under SGSY scheme.

TABLE 1. BANK LINKAGE STATUS OF SHGS

Sl.No. (1)	District (2)	SHGs formed (3)	SHGs credit linked by different banks				Total (8)
			SBI (4)	OCBs (5)	RRB (6)	MCAB (7)	
1.	Jaintia Hills	402	76	5	239	53	373
2.	East Khasi Hills	684	162	42	172	19	395
3.	Ri Bhoi	426	151	74	111	90	426
4.	West Khasi Hills	729	21	0	313	1	335
5.	West Garo Hills	1520	985	50	-	132	1167
6.	East Garo Hills	840	309	0	-	19	328
7.	South Garo Hills	242	115	0	-	46	161
8.	Grand Total	4843	1819	171	835	360	3185

Source: Government of Meghalaya, Office of the state coordinator for SHGs in Meghalaya, 2006.

Out of the total groups, 177 SHGs which are doing group business and financed under SGSY scheme constitute the sample for analysis. It is found that among the activities of SHGs, small business, piggery, poultry and small transport business are dominant. In some cases the entire loan amount is invested in a particular business and a single member manages the business. The rest of the members along with the manager share the profit of the business as per the agreed terms. Due to the low literacy level maintenance of books of account is a very cumbersome affair for these SHG members and improper bookkeeping creates lots of confusion about their actual business activities. On an average 11 members are found per SHG and almost all of them are engaged in group business.

## IV

## SUSTAINABILITY INDICATORS

As highlighted in the previous section various indicators can be used for sustainability study of a rural financial institution. Considering the typical nature of

SHGs and their fragile data base the grading status of the SHGs, profitability position, operating expenditures as percentage to total cash inflows, and coverage of operating and financial expenditures are used in this study.

(a) *Grading Status*

Success of any lending institution depends on how effectively it revolves its fund. SHGs have a rudimentary lending mechanism, which basically exists for providing very small finance to its members with very easy formalities. But in the case of group business most of the borrowed funds is invested in a single business. All the 177 SHGs have availed the subsidised finance where the first loan (revolving fund) consists of Rs. 25000 out of which Rs. 10000 is in the form of subsidy. The successful repayment of first loan makes them eligible for the schematic loan, which is project based. It is found that some of the groups have availed loan from other sources apart from banks. But this proportion of loan is very small (only 10 per cent) in the total borrowings. Another feature of lending activities is that nearly 62 per cent of the groups have gone for schematic loans (Table 2) for further investment in the group activities.

TABLE 2. GROUP-WISE SCHEMATIC LOAN TAKEN

Year	No. of SHGs			Total (5)
	Men (2)	Mixed (3)	Women (4)	
2004	5	9	28	42
2005	6	4	21	31
2006	4	3	30	37
No. of SHGs taken Schematic Loan	15	16	79	110
Total SHGs	20	21	136	177
Percentage of SHGs availed Schematic Loan	75.00	76.19	58.09	62.14

Source: Field survey.

This indicates that out of every 100 groups 62 have successfully upgraded themselves into Grade II status and availed the project loan. This is a preliminary indication of financial as well as operational sustainability. The rest 38 per cent groups those who have not been able elevated to upper grade hence not availed project loan are the non-performers. Out of them many would not survive for long period of time which is obviously the cause of concern for overall sustainability of SHG banking in the state. This large percentage of non-performers simply reveals the unproductive use of the revolving fund including the subsidy amount. As a whole this forms a huge amount of public money which is almost wasted. Probably the main reason attributed to this could be the target oriented approach by the government to distribute micro credit to large number of people without assessing the real business needs of the groups.

## (b) Profitability

The total income of groups basically constitutes interest margin and income from the group business activities. Since most of the groups are doing combined business their business income is one of the most important sources of cash inflows which is almost three-fourth of the total income. This clearly, shows that most of the loan amount is utilised for group activities, rather than for individual lending activities. Apart from this a minor percentage comes from the saving account interest.

On the expenditure front groups spend a very small amount for running their activities. Since all the members stay in the same village, their expenditure on travel, maintenance of records etc. is negligible. It is found that on an average one group spends around Rs. 2000 per annum for meeting the travel and other petty expenditure, which is around 10-15 per cent of the total cash inflows. More than 60 per cent of the total cash inflows are used to service the interest and principal components of bank loan (Table 3). The net result of the financial operation clearly shows a high profit margin for these groups (27.28 per cent), which is quite sufficient for these types of businesses. The high linear growth rates (LGR) of total cash inflow (31 per cent) as well as of the net cash flow (39 per cent) and comparatively low growth rate of total cash outflows (28 per cent) for the groups are the indicators of long term sustainability of their operations. This high degree of growth and variations of variables except for the interest income is because of the rise in business activities in the second and third year. Since most of these SHGs are credit linked during the year 2002 and 2003, during the first year a small volume of business activities is witnessed.

TABLE 3. TOTAL INFLOW AND OUTFLOW OF FUNDS OF SHGS

(Rs. lacs)

Year (1)	Total interest income (2)	Net business income (3)	Total cash inflow (4)	Operating expenses (5)	Interest and principal paid (6)	Total cash outflow (7)	Net cash flow (8)
2003-04	8.35 (40.79)	12.12 (59.21)	20.47 (100.0)	3.04 (14.85)	12.79 (62.48)	15.83 (77.33)	4.64 (22.67)
2004-05	8.01 (22.85)	27.05 (77.15)	35.06 (100.0)	3.60 (10.27)	20.19 (57.58)	23.79 (67.85)	11.27 (32.14)
2005-06	8.22 (21.69)	29.76 (78.31)	37.98 (100.0)	4.89 (12.87)	23.00 (60.56)	27.89 (73.43)	10.09 (26.57)
LGR (per cent)	-0.78	44.90	30.90	23.77	29.34	28.32	38.84
Mean	8.19 (26.29)	22.98 (73.71)	31.17 (100.0)	3.84 (12.33)	18.66 (59.87)	22.50 (72.0)	8.67 (27.28)
CV (per cent)	2.09	41.34	30.10	24.68	28.26	27.25	40.81

Source: Field survey.

Figures in parentheses are percentage to total cash inflow.

(c) *OSSR and FSSR*

The financial analysis of SHGs shows a declining trend of the number of loss making groups over a period of three years (Table 4). The rate of fall in the loss making units is very high (22 per cent) signifies very quick recovery of loss positions by these SHGs. This is associated with one of the other important indicators, i.e., the share of operating expenses to total income (OETI). The high growth (21 per cent) of the number of SHGs having less than 10 per cent of their total income spent on day to day operations over a period of time shows their maturity in handling borrowed funds more prudently. Other parameters like growth of saving bank balance per groups (43.5 per cent) and low growth of loan per group (19.5 per cent) also show an encouraging trend. Loan recovery is a crucial parameter of performance and if the rate as claimed by NABARD (i.e., 90 per cent at the hands of the bankers) is assumed for the recovery of loan from the individual member at the hands of SHGs then the figures as depicted in the table stands nowhere. But a consistent improvement of recovery rate from 49 per cent to 70 per cent is a good indication for the future. Though three year analysis is not long enough to predict their sustainability; the initial trend holds a great promise.

TABLE 4. OVERALL SUSTAINABILITY

Year	Loss making SHGs (No.)	SHGs having less than 10 per cent OETI ratio (No.)	Recovery Rate of SHG loan (per cent)	Saving Bank Balance per group (Rs.)	Cumulative loan per group (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)
2003-04	39 (22)	51 (29)	49.29	3432	66,287
2004-05	36 (20)	72 (41)	68.35	6290	88,397
2005-06	25 (14)	78 (44)	70.11	8199	98,001
LGR	-22.23	21.24	-	43.54	19.55
Mean	33 (19)	67 (38)	62.58	5973.67	84228.33
CV	22.11	21.16	18.45	40.16	19.31

Source: Field survey.

Figures in parentheses are percentage to total sample.

Besides the primary indicators presented in Table 4 the overall sustainability is analysed with the help of OSSR and FSSR. Considering the rudimentary nature of activities of SHGs and their book keeping methods it is very difficult to get the exact information about the loan loss provisions (LLP) on the amount lent to their members and imputed cost of capital (ICC). For the LLP 10 per cent of loan outstanding with the SHG members (considering the recovery rate at 90 per cent) and for ICC 21.5 per cent of saving account balances with bank (which indicates the loss of interest of holding cash balance with the linked bank, i.e., the rate charged on loan to group members (24 per cent) minus an interest of 3.5 per cent earned on saving bank closing balance, are assumed as proxies. Since all the SHGs are engaged in group

activities the total income of SHGs consists of both interest income and net income from group business/activities. Financial cost consists of interest expenditures in the form of payment to the linked bank.

TABLE 5. SELF-SUFFICIENCY RATIOS

Year	TII (Rs.lac)	NPB (Rs.lac)	TIE (Rs.lac)	O Exp (Rs.lac)	LLP (Rs.lac)	ICC (Rs.lac)	OSSR	FSSR
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2004	8.35	12.12	11.0	3.04	3.43	1.31	1.46	1.09
2005	8.01	27.05	12.38	3.6	3.62	2.39	2.19	1.59
2006	8.22	29.76	10.3	4.89	3.81	3.12	2.50	1.72
LGR	-0.78	44.92	-3.29	23.77	5.25	43.39	-	-
Mean	8.19	22.98	11.23	3.84	3.62	2.27	2.07	1.49
CV	2.09	41.34	9.43	24.68	5.25	40.06	-	-

Source: Field survey.

Note: TII: Total interest income, NPB: Net profit from business, TIE: Total interest expenditure, O Exp: Operating expenses.

The sustainability ratio of more than one indicates 100 per cent cover of all the possible expenditure on real as well as notional basis. Over the years both the ratios are found to be above one and have been improving, showing better operational maturity on the part of SHGs (Table 5). So, without introducing the subsidy into the sustainability measures the ratios seem to be not very poor in terms of self sufficiency. However, the financial sustainability is calculated on a low LLP. Considering the actual recovery, i.e., 70 per cent, the LLP could rise further. In case a higher LLP is negotiated into the FSSR the financial sustainability would decline further.

## V

### SUBSIDY AND SUSTAINABILITY

The state is having a dominance of SGSY sponsored SHGs which have borrowed more than 70 per cent of the total amount of loan provided to all SHGs. This fact itself establishes that the performance of this scheme is one of the most important indicators of micro-credit interventions in Meghalaya. By the end of the period March 2006 nearly 5000 SHGs were formed under the scheme out of which little less than 50 per cent got the subsidised finance and passed Grade I. However, only 25 per cent of the Grade I SHGs passed Grade II, which works areas out to 11 per cent of the total SHG formed in the state (Government of Meghalaya, 2006). While the quantum jump of the linkages in this state as a whole is quite encouraging the quality dimension is a cause of worry.

Another important indicator of micro-credit status is the recovery position of the groups. Since the majority of the groups are financed under SGSY scheme, the recovery performance of this scheme is considered as the overall indicator. As revealed from the banker's level data, the recovery performance of this scheme is so precarious that, i.e., only 36 per cent (Table 6), their long run sustainability raises a big question mark. Both the above indicators clearly go against the sustainability of SHG financing business by the banks of Meghalaya. It reveals that the recovery from non-SHGs is better than the SGSY linked SHGs. Because of subsidy component the SGSY scheme is gaining more acceptance as many groups are availing the loan for subsidy but, the poor recovery rate of this scheme has a potential of bringing the entire micro-credit operation into jeopardy.

TABLE 6. BANK-WISE RECOVERY POSITION OF SGSY SCHEME AS ON 31ST MARCH 2006

Variable (1)	SBI (2)	OCBs (3)	RRB (4)	MCAB (5)	State (6)
SGSY Demand of loan (Rs. lac)	339.02	20.22	30.92	38.03	428.19
SGSY Recovery of loan (Rs. lac)	120.12	5.17	11.20	16.50	152.99
Overdue with SGSY (Rs. lac)	218.90	15.43	19.72	21.53	581.18
SGSY Recovery Performance (per cent)	35.43	25.57	36.22	43.39	35.73

Source: SBI, (2005-06), State Level Banker's Committee, Shillong, Meghalaya.

The subsidy portion in the SGSY micro credit, which at first place attracts many to form SHGs and to link with banks (since the subsidy is disbursed through banks) is the major driver behind the recent upsurge in credit linkage business in the state. Successful repayment of first loan component makes groups to avail the project loan in which another subsidy of 50 per cent of the loan amount or Rs. 125,000 which ever is lower is given to groups. These loans are usually repaid over a period of three to five years. Considering an average interest rate of 10 per cent (ranges between 8.5 to 11.5 per cent for the sample) for these groups and an average 30 per cent subsidy (as computed for the 177 sample SHGs) in their loan component, pegs the effective borrowing rate at 7 per cent only which is quite low in comparison to the market rate. The conventional accounting methods capture only this 7 per cent of interest and ignore the rest, which understate the real cost of borrowing. Since the commercial viability of group operation solely depends upon the subsidised finance, had there been no subsidy the interest rate charged by them to their members would have been much higher than the present level of 24 per cent. So, in real terms SHG finance is no less cheap than the finance provided by the money lenders.

Since in the initial years subsidy is normally availed by the groups the average figures of three years are used for different variables. Table 7 clearly shows that the present interest rate of 24 per cent as charged by SHGs to their members had to be raised by 44 per cent on average basis so as to become competitive at par with market. This means the lending rate applicable to SHG members should be around 35 per cent, which is quite high in comparison to market rate.

TABLE 7. THE SDI MODEL

Sl. No. (1)	Variables (2)	Average for three years (3)
1.	LP: Loan distributed to members (per SHG)	Rs. 53,498
2.	M: Lending rate of SHG to its members per annum	24 per cent
3.	A: Subsidy per SHG	Rs. 5681
4.	SDI : $A/(LP * M)$	44.24 per cent

Here, the obvious question arises- in case of no subsidy will the members be ready to take loan at this exorbitant rate? Secondly, once the subsidy is stopped will the groups remain viable? Several other questions also crop up. So, the financial sustainability parameters found would be less attractive without the subsidised finance. Since, most of the sample groups engaged in collective business/activities the first question can be ignored. However, the interest payment to banks is always understated in the case of subsidy linked borrowings. Had there been no subsidy, the net cash inflow after meeting all the expenses would have been lower than the calculated figures.

TABLE 8. SELF-SUFFICIENCY RATIOS - WITH SUBSIDY AND WITHOUT SUBSIDY\*

Year (1)	OSSR (2)	OSSR* (3)	FSSR (4)	FSSR* (5)
2004	1.46	1.09	1.09	0.90
2005	2.19	1.67	1.59	1.31
2006	2.50	1.98	1.72	1.33
Average	2.07	1.58	1.49	1.18

\*Ratios after Adjustment of Subsidy.

Table 8 provides the comparative self-sufficiency ratios in case the loan is provided to SHGs with subsidy and without any subsidy. In the latter situation the groups were supposed to pay interest to the banks on an average rate of 10 per cent rather than at 7 per cent, i.e., considering an average subsidy of 30 per cent on all the types of loans. So the total interest payment actually made is adjusted by a factor of 1.43, i.e.,  $[(10-7)/7] + 1$ . The removal of subsidy brings down both the sustainability ratios to a great extent. Without subsidy the sustainability of SHGs is found to be doubtful.

## VI

## OBSERVATIONS

As an important component of micro-finance service, the efficacy of micro-credit intervention in addressing the basic economic problems of the poor people at the grassroot level has been established in the context of many developing economies. Studies have also been conducted on the efficiency of the micro-credit providers

popularly known as micro-finance institutions (MFIs), though mixed results are found. Sustainability studies concerning micro-finance in India are mainly concentrated on MFIs rather than on micro level studies on individual groups. This however, gives indirectly an idea about the latter's efficiency. If we consider these studies as proxies we might not be able to gather knowledge about the performance of SHGs at the very grassroot level. Big MFIs rather than promoting micro-finance activities in a single set up, e.g., geographical - state, district or region; community based, occupation based; gender based etc., venture into many of them at a time. Thus, the overall study of MFIs does not provide the exact nature of SHGs sustainability. The sustainability of SHGs as financial intermediary, which is the conduit between the beneficiary and the MFI, is yet to be established in research studies. There are not many studies on subsidy-SHG sustainability linkage in India.

The current evidences from the state of Meghalaya provide some clues towards the possible impact of financial subsidy on sustainability of SHG. As observed from the sustainability indicators and other efficiency parameters the subsidy-based SGSY programme seems running reasonably well in the present scenario. However, the negative impact of subsidy on the important self-sufficiency indicators, i.e., OSSR and FSSR is also visible. In the long run SHGs may find it difficult to sustain their operation without subsidy. The poor recovery rate still is a cause of worry and a small reduction in the loan portfolio quality can seriously affect the sustainability of the rudimentary banking activities of SHGs. To become self reliant in the long run improvement of recovery rate is one of the imperatives. This will perhaps prompt government to reduce or phase out the subsidy component from the SGSY loan. There is also a need to improve the OETIR ratio at the SHG level by curtailing some of the unnecessary operating expenditures.

The present effort of poverty alleviation and micro enterprise creation through the micro-credit intervention is found with similar type of subsidy arrangements not only in Meghalaya but also in most parts of the country. The SGSY scheme launched to integrate poor people with the main stream economic activities could bring certain ramifications for the micro-credit efforts in India as a whole. It is well said that in the first few years of an SHG, institutionalising group processes is much more important than accelerating lending. "Over a sustained period, an emphasis on growth is probably unwise and unwarranted" (Srinivasan, 2003). Quality is as much an issue as quantity. The micro-credit operation in Meghalaya has been in vogue for quite sometime and it is now imperative to emphasise on qualitative dimension. Since this scheme has been implemented in many parts of the country and a large number of SHGs are credit linked through this scheme these findings could possibly supplement research studies in similar contexts. Further, these observations though specific to the study area have some general implications where any form of subsidised finance is introduced into micro-credit provisions. As rightly observed by Tedeschi (2006) "sustainability is not possible under all circumstances, and both the academics and

practitioners need to sort out when a microfinance institution can be sustainable, and when subsidies may be warranted”.

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