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Subsidised Micro Financing and Financial Sustainability of SHGs

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Apart from emphasising on outreach it is also important for micro finance intervention to remain sustainable in the long run. Financial sustainability is the core of any financial institutions and considering Self help groups (SHGs) as grassroots level organisations engaged in the business of micro credit provision, their sustainability holds crucial for rural upliftment and is examined in this paper with the help of secondary and primary level data from Meghalaya in the northeast region of India. As observed from the secondary sources, the grading of groups and recovery status of SHG financing in Meghalaya is precarious. Many have formed groups because of subsidy provision in the SGSY scheme, and this has made the scheme very popular in the state. The primary survey on 200 SHGs though reveals a sustainable financial operation of sample groups over a three years study period, sustainability become less attractive when the subsidy is negotiated into the financial details. The self sufficiency ratios i.e. OSSR and FSSR are the primary indicators of sustainability and both of them get reduced substantially when the subsidy is introduced into the computations. This suggests a negative impact of subsidy on the financial sustainability of SHG operations, which should be curbed by encouraging group formations with non-subsidised finance.

Introduction

Micro finance although is not a new financial dispensing mode, has up-surged in recent years vigorously in response to fulfil the small financial needs of the poor section of the society. At the first instance, this intervention tries to overcome the short comings and failures of the exiting financial institutions and developmental programmes in providing adequate and hassle free finance to the needy, and secondly, acts as gap filler in the formal institutional network for providing small finance. By doing so, they establish a linkage between the so called un-bankable individual customers with the formal credit delivery institutions. On the efficacy of this mode of financing and on related issues a gamut of literatures has been generated in last 20 years. Most of them delve into the issues pertaining to the operation of micro finance institutions (MFIs) and impact of their interventions. Sustainability studies on grassroots level groups, like client groups or self help groups (SHGs) are however, scanty. Many researchers have used MFIs

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as proxies to prove the case of ultimate borrowers or of the group. This, in any case does not suffice fully to the need of looking critically into the complexities of group operations and their sustainability.

To fill up the gap identified in the existing literature and to scrutinise the group operation, we endeavour to examine the financial sustainability of SHGs and impact of the subsidy on it. To achieve this 200 SHGs are chosen from the state of Meghalaya those are having at least three years credit linkages with commercial banks. Apart from the analysis of primary indicators surfaced from the ground level data, the overall sustainability is studied with the help of two important ratios (SEEP, 1995). These measures advocated originally for studying the sustainability of micro finance organisations extended to SHGs.

One of them is the operational self sufficiency ratio (OSSR) and the other one is financial self sufficiency ratio (FSSR). The former refers to the extent to which an institution covers its operational costs. The latter not only covers its operational costs but also preserves the value of its resources by accounting for subsidies and the effects of inflation. These two ratios along with other indicators of SHG operations are analysed to assess the financial sustainability. Further, subsidy component is introduced to examine its impact on the sustainability ratios.

Review of Literature

Like a number of rural financial institutions, established to achieve the socio-economic objectives but subsequently landed up in highly non-performing recapitalised unviable entities; many credit intervention programmes floated by governments are also found to be expensive, collected too little revenue, depended too heavily on outside funding, and often suffered serious default problems. Among a gamut of institutions few are strong, self-sustaining with the capacity to serve large numbers of rural farm and non-farm clients, including the poorest members of the rural economy (ADB, 2000a). Particularly, in developing countries the performance of the govt. run institutions has been disappointing (Hoff & Stiglitz 1990). 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). Even worse, a substantial portion of the subsidies canalised through these institutions was captured by people who were not poor and who could have obtained loans in the commercial market (Adams & Pischke, 1992). Coupled with the poor recovery of rural loan and siphoning of funds by the influential, questions are often raised on the viability of these institutions. The government's treatment of banks' funds as a substitute for public spending along with their civil service attitude affected the incentives to sound lending and weakened banks substantially (Bansal, 2003). Off late the intervention through micro finance has raised some hope.

The impact of micro financing programme on poverty reduction is quite encouraging in many developing countries. About 21 percent of the Grameen Bank borrowers and 11 percent of the borrowers of the Bangladesh Rural

Advancement Committee, microfinance NGO, managed to lift their families out of poverty within about four years of participation (Khander, 1998). Without exclusively targeting the poor, the Bank Rakyat Indonesia (BRI) has also assisted hundreds of thousands of households in lifting themselves out of absolute poverty over the past decade (Sugianto, 1998). The studies have, in general, shown that microfinance services have also had a positive impact on specific socioeconomic variables such as children's schooling, household nutrition status, and women's empowerment (Johnson and Rogaly. 1997). MFIs have also brought the poor, particularly poor women, into the formal financial system and enabled them to access credit and accumulate small savings in financial assets, reducing their household poverty. A study on Indonesia (Panjaitan-Drioadisuryo and Cloud, 1999) suggests that when agencies, government and non-government, in a developing country make credit available to low income women, they can reduce the costs of delivery, greatly increase repayment rates, and substantially improve the well-being of poor families. However, researchers and practitioners generally agree that the poorest of the poor are yet to benefit from microfinance programmes in most countries partly because most MFIs do not offer products and services that are attractive to this category (Hulme and Mosley. 1996).

The developing countries experience of micro finance programme reveals that most of them are viable because of heavy subsidy. The Subsidy Dependence Index (SDI) calculated by Hume and Mosely (1996) for the MFIs in many developing countries varies between 135% for BoncoSol, Bolivia to 1884% 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.

The International Food Policy Research Institute (IFPRI) supported household surveys in nine Asian and African countries during the 1990s that analyzed formal and informal financial transactions, and it also evaluated the success of innovative approaches at some MFIs. The overall goal was to clarify the conditions under which state investment in microfinance programmes might improve life for poor people more than state investment of the same funds in education, health, nutrition, or infrastructure development. The research led to the concept of the "critical triangle of microfinance" - the need for any MFI to manage simultaneously the problems of outreach (reaching the poor both in terms of numbers and depth of poverty), financial sustainability (meeting operating and financial costs over the long term), and impact (having discernible effect upon clients' quality of life) (Zeller and Meyer, 2003).

Meeting all the costs and delivering products and services at affordable price on a permanent basis is the crux of success in any financial institution and so also for the institutions engaged in micro financing. "A financial institution is considered to be sustainable if it can cover all risks and transaction costs, loan losses, and cost of capital through interest and other earnings without external subsidies. Based on these criteria, none of the rural, formal financial institutions in India can be considered sustainable. Most of the institutions are plagued with huge arrears and incur high transaction costs in providing financial services. Loan losses and transaction

costs are invariably higher than earnings, such that they require constant refinancing and recapitalization by the apex institutions" (ADB 2000b).To be viable, rural financial institutions are required to have sufficient margin between lending rates and the cost of funds raised for lending in order to cover non-financial transaction costs (Agarwala, et al., 1997).

The empirical analysis made by Chavan and Ramkumar (2002) for many MFIs in developing countries reveals that the financial viability of micro-credit institutions has been fragile in nature. A study conducted on 10 important MFIs (NGOs) in India (Quinones, 1997) reveals that several of these are not sustainable. Only three are operationally sustainable in covering operating costs with interest income. Only one is financially sustainable in terms of covering loan losses, inflation risks, and operating costs through interest income. None can also cover the cost of funds and become subsidy free. Although resources to fund MFIs may not be a problem, the capacity of MFIs to utilize the resources effectively and provide sustainable services is inadequate. The apex operations as chalked out at Micro Credit Summit, 1997 have not made a significant impact in creating vibrant and sustainable MFIs in the country (Nagarajan and Gonzalez-Vega, 1998).

Although sustainability remains as the corner stone of micro financing , author like Elisabeth Rhyne (1998) however, points out that "only by achieving a high degree of sustainability have microfinance organisations gained access to the funding they need over time to serve significant numbers of their poverty-level clients. This image reveals that there is in fact only one objective – outreach. Sustainability is but the means to achieve it." Sustainability is not possible under all circumstances, and we–both academics and practitioners–need to sort out when a microfinance institution can be sustainable, and when subsidies may be warranted (Tedeschi, 2006). Micro credit organisations can indeed be sustainable, even financially successful, in very poor countries for long periods of time, and that the key to such success is getting the organisational structure right (Hollis and Sweetman, 1998). There is need to emphasise on the organizational efforts of micro credit institutions to improve their outreach and sustainability Fisher et. al. (2002).

The challenge is thus to mainstream good practice in microfinance operations and increase the outreach to the poor on a sustainable basis. The agencies agree that (i) greater focus is essential on policy framework and building retail institutions that can provide a wide range of services, not just credit; and (ii) the trend toward commercialization must be supported. Their experience also indicates the importance of integrating microfinance operations with the broader financial system to sustain the outreach. There is also a consensus among funding agencies that their role needs to be essentially catalytic (IADB. 1997). Viability of MFIs is important from an equity perspective because only viable institutions can leverage funds in the market to serve a significant number of clients and contribute to broad-based development. Viability and self-sufficiency are fundamental to reach a larger number of the poor which in turn are essential to have a significant impact on poverty reduction. More particularly where resources are limited,

without self-sufficient financial institutions, there is little hope for reaching the numbers of poor firm households that are potential borrowers and depositors (Gonzalez-Vega, 1998). The World Bank Consultative Group to Assist the Poorest (CGAP) in 1997 also emphasised on the sustainability of MFIs. It recommended that the World Bank's microfinance strategy focus on borrower countries with appropriate financial sector policies, strong demand, and a commitment to long-term financial sustainability of retail microfinance institutions.

Rural Credit Flow and Development of Micro Financing: A Profile of Meghalaya

Meghalaya, one of the North Eastern states of India having a population of 0.23 cr. and a density of little more than 100 per square kilometre, is divided into 7 districts. Out of the total population, nearly 80% stays in rural areas and nearly 43% are in below poverty line. These basic parameters reveal the general nature of developmental status in the rural society. The banking network comprises of 131 bank branches of commercial banks, 39 cooperative bank branches and 51 branches of the lone RRB. State Bank of India (SBI) is the lead bank in all the districts, thus obviously commands a very large share in the entire banking business. Apart from the commercial banking network the cooperative banking structure with its 39 branches also provides credit to the masses. Looking at the decadal population growth during 1991-01, the current population per branch ratio is very high and considering the heavy rural dominance of population i.e. 80 percent this existing branch network is insufficient to address their requirements. The total amount of bank credit infused into the state though increased by more than 10 fold during the last ten years is very miniscule when we compare with the total disbursements of credit at all India level (Table-1). Most revealing feature of this credit flow as found from the Table-1 is that over the years the share of rural credit has drastically come down from about 40 percent in 1995-96 to around 16 percent in 2005.

Table 1. Rural Banking in Meghalaya: Key Indicators

	Branches (No.)		Rural Branches (%)		Total Credit Outstanding (Cr)		Rural Credit (%)	
1996	2005	1996	2005	1996	2005	1996	2005	
Meghalaya	180	185	72.8	70.8	112.7	1337.1	39.9	16.2
Share of Meghlaya in NE(%)	9.1	9.3	9.7	10.3	6.1	20.6	7.7	27.9

Source: RBI

Provision of micro finance as a response to the requirement of the state and to the policy initiative of government of India to develop the rural areas was started in Meghalaya with a slow footing. With the launching of SHG-Bank Linkage Programme (SBLP) by NABARD and SwarnaJayanti Gram Sworozagar Yojana (SGSY) scheme of employment creation by GoI group formation and their linkages were accelerated. Formation of SHGs started

Table 2. Scheme-wise distribution of SHGs in Meghalaya

Year	SGSY Cumulative			Non-SGSY Cumulative			Total Cumulative		
	No. of SHGs Savings linked	No.of SHGs credit linked	Bank loan (in Rs. Lakhs)	No. of SHGs Savings linked	No. of SHGs credit linked	Bank loan (in Rs. Lakhs)	No. of SHGs Savings linked	No.of SHGs credit linked	Bank loan (in Rs. Lakhs)
2002	316	45	62.62	0	0	0	316	45	62.62
2003	864	286	119.2	130	33	10.98	994	319	130.18
2004	1246	570	191.25	370	48	40.98	1616	618	232.23
2005	1802	686	351.74	1307	629	123.88	3109	1315	475.62
2006	2442	1907	934.2	1781	1895	386.51	4223	3802	1320.71
LGR	34.86	58.77	67.86	91.14	147.24	117.89	49.94	81.89	76.68

Source: State Level Banker's Committee, SBI, Shillong, Meghalaya.

in Meghalaya in early part of nineties. Till 2000 the growth of such activities was found to be very slow. The initial impetus to this programme was therefore lacking to a great extent. During the last five years most of them have been formed. In most of the cases the commercial banks and block development authorities took the initiatives to promote SHGs. The micro credit initiatives have taken place in the State with the involvement of NGOs both under Government sponsored schemes and outside. Most of the larger NGOs in the State have a good track record and are involved in formation of SHGs. These NGOs are basically church-based and had been undertaking social activities (literacy, health, sanitation etc.) and have in the last couple of years also involved themselves in promoting Self Help Groups (NABARD, 2006-07).

The Linkage Status

As per the NABARD data as on 31st March 2006, only 735 SHGs in Meghalaya are credit linked to various banks, which is well below than the figures provided in the Table-2. The state level data shows that 4223 SHGs are saving linked with various banks out of which 3802 SHGs are credit linked, which shows an encouraging credit to saving linkage ratio of more than 80 percent. An increase in the amount disbursed is however, noticed in recent years only. The popularity of SGSY scheme is very much evident from the recent spurt of SHGs and the amount of credit given to them in this category. But till today less than 1 percent of the total credit has gone for micro financing. This is quite discouraging and questions the intention of the bankers. In recent years the share of SGSY scheme has come down to around 50 percent (Table-3), which is a good sign for the overall growth of SHGs in Meghalaya. The average loan size per group is less than the national level figure of Rs.50000 and this on the other hand reveals the small financial needs of group members. Another feature marked from Table-3 is the variations in the size of the loan under different schemes. The loan under SGSY scheme is more than double of non-SGSY scheme, which shows much higher level of disbursement of loan. This is because of the subsidy component, which can be up to an amount of Rs. 125000 for schematic/ project loans. This has attracted many groups to engage in income generating activities or micro enterprise activities.

Table 3. Composition of SHGs in Meghalaya and average loan size

Variables	Schemes	2003	2004	2005	2006
Savings Linked (%)	SGSY	86.92	77.10	57.96	57.83
	Non-SGSY	13.08	22.90	42.04	42.17
Credit Linked (%)	SGSY	89.66	92.23	52.17	50.16
	Non-SGSY	10.34	7.77	47.83	49.84
Average Loan size (Rs.)	SGSY	41678	33553	51274	48988
	Non-SGSY	33273	85375	19695	20396
	All SHGs	40809	37578	36169	34737

Source: State Level Banker's Committee, SBI, Shillong, Meghalaya.

Quality of Linkages

While the recent quantum jump of the linkages in this state as a whole is quite encouraging the quality dimension is a cause of worry. One of the indicators studied is the up-gradation of SHGs. As found from Table-4, out of every 100 SHGs only 46 of them cleared the first grading and it goes down to only 12 for the second stage. So, out of those groups passed the first grading only 25 percent of them reached the second stage. This clearly indicates their poor overall functioning and also sustainability. Most of them do not keep proper records and the circulation of fund in the group is also very slow.

Table 4. Grading status of SGSY scheme as on 31st March 2006

Districts	No of SHGs formed since 1.4.99	No. of SHGs Passed Grade I	No. of SHGs Passed Grade II	No of SHGs taken up Economic Activities	No of Women SHGs Formed
Total (No)	4769	2206	554	537	2299
% to total	-	46.26	11.62	25.11	11.26

Source: Dept. of Community and Rural Development, Govt of Meghalaya, 2006

Another important indicator is the recovery position of the groups. Since the majority of the groups are financed under SGSY scheme the recovery performance of this scheme could be considered as the important indicator. As revealed from the banker's level data the recovery performance of this scheme is so precarious that i.e. only 36 percent (Table-5), their long run sustainability carries a big question mark. Both the above indicators clearly go against the sustainability of SHG business by the banks of Meghalaya. The overall recovery rate which is also around 37 percent has a spiralling impact of micro finance business portfolio. Because of subsidy component, the SGSY scheme is gaining more acceptance as many groups are availing the loan for former, but the poor recovery rate of this scheme carries enough potential of bringing the entire SBLP into jeopardy.

Table 5. Recovery position of SGSY scheme vis-à-vis all credit delivery schemes of commercial banks in Meghalaya as on 31st March 2006

Loan variables\Schemes	SGSY Scheme	ALL Schemes
Demand of loan (Rs. Lakh)	428.19	63316
Recovery of loan (Rs. Lakh)	152.99	23403
Overdue (Rs. Lakh)	581.18	371796
Recovery Performance (%)	35.73	36.96

Source: State Level Banker's Committee, SBI, Shillong, Meghalaya, 2006

Overall Financial Efficiency

The financial analysis of sample SHGs shows a declining trend of number of loss making groups over period of three years (Table-6). This is associated with one of the other important indicators i.e. the share of operating expenses to total income. The improvement of number of SHGs having less than 10 percentage of their total income spend on day to day operations over a period of time is also another trend of financial sustainability. Other parameters like saving bank balance per groups and loan per group also show an encouraging trend for SBLP. Despite that most of them are financed through the SGSY scheme they have shown a good improvement over the study period. The improvement of recovery rate from 48 percent to 71 percent though a good indication, is far below than the recovery rate of more than 90 percent as claimed by NABARD. Looking at the overall recovery rate of SHG loan under all the banks in Meghalaya this seems to be lagging behind with a big distance. Though, three year analysis is not long enough to predict their sustainability, the initial trend holds a lot of promises.

Table 6. Overall operational sustainability indicators

Year	No. of Loss making SHGs OETI		No. of SHGs having less than 10%		Recovery Rate of SHG Loan (%)	Saving Bank Balance per group (Rs.)	Cumulative Loan per group (Rs.)
2003-04	42	(21.0)	56	(28.0)	48.43	3125	66908
2004-05	57	(28.5)	79	(39.5)	67.93	6309	88508
2005-06	28	(14.0)	80	(40.0)	71.31	8216	98150

Figures in parenthesis are percentage to total sample groups

Source: Field Survey

Self-Sufficiency Indicators

Considering the rudimentary nature of activities of SHGs and their book keeping methods it is very difficult to get exact information about the loan loss provisions on the amount lent to their members and imputed cost of capital. For the first variable ten percent of loan outstanding with the members (considering the recovery rate at 90 percent) and 24 percent of saving account balances with bank (the rate charged to group members) respectively are assumed as proxies. Since most of the groups are engaged in group activities the income of SHGs consists of both interest income and net income from group business/activities. The proportion of latter in total income reveals a high dominance of income generating group activities in most of these SHGs. This surplus from group activities is becoming more crucial rather than the interest income from the lending activities. Apart from financial cost, which consists of interest expenditures to the extent of 35 percent of the total income, operating cost takes away almost 13 percent. But even after meeting these expenditures it is found that there is sizeable margin at the hands of the groups, which shows an increasing trend. The sustainability ratio of more than one indicates 100 percent cover of all the

possible expenditure on real as well as notional basis. Over the years both the ratios have been improving, which show better maturity on the part of SHGs (Table-7) in handling their financial matters. Any ratio above one for both these indicators is encouraging.

Table 7. Financial sustainability indicators

Year	Total Interest Income as % of Total Income	Net Profit from group Nisomess as % of total Income	Total Interest Expenses as % of Total Income	Operating. Expenses as 5 of Total Income	OSSR	FSSR
2004	41.13	58.87	52.09	14.95	1.45	1.09
2005	23.14	76.86	34.96	10.61	2.19	1.54
2006	21.94	78.06	27.49	13.32	2.48	1.64
Avg.	26.74	73.26	35.85	12.68	2.06	1.45

Subsidy and Its Impact on Sustainability

Operating with subsidised finance has a bad effect on the competitive spirit of any financial institution (FIs) and its subsequent performance. State patronage is one of the important causes of the failure of various FIs in India, like IDBI, IFCI, IIBI, RRBs etc. and of the schemes like IRDP in the recent past. For any credit linked poverty alleviation and employment generation programme launched by government a component of subsidy is always found with the actual loan amount. In the case of SBLP, since most of the SHGs are found to be formed under the subsidy linked scheme i.e. SGSY; their financial performances are understated because of the concessional rate of financing. As per this scheme the first loan of Rs.25000 includes a Rs.10000 subsidy, which in first place attracts many to form SHGs and to link it with banks. Successful repayment of first loan component makes groups to avail the project loan in which another subsidy of 50 percent of the loan amount or Rs. 125000 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 loan at 10 percent for these groups and an average of 30 percent subsidy, the effective rate roughly comes down to 7 percent i.e. Actual rate * (1-.30). So groups get loans almost at a rate of 7 percent, which is quite low in comparison to the market rate. 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 more than the present level of 24 percent. So in actual term SHG finance is no less than the rate of interest charged by the money lenders.

Originally developed by Yaron (1992), Subsidy Dependence Index (SDI) as a technique to quantify the dependence of development financial institutions (DFIs) on government funding (concessional fund) is highly accepted in financial literature. Apart from the studies of DFIs this measure is also increasingly used in the context of micro financing institutions (MFIs) (Sacay,

1996, Schreinor, 1997, and Mordoch, 1999). A SDI of zero means the institution is self-sustaining, while an SDI of 100 per cent would mean a doubling of its on-lending interest rate if it were to remain operational without subsidies. Thus, the use of the SDI will give a more realistic assessment of costs required to maintain a SHG which should be compared to social benefits derived from keeping the SHG in operation.

Assuming SHGs as rudimentary financial institutions operating at very grassroots level which receives entire of its finance from the commercial banks at a actual effective rate of 7 percent when the market rate is at least 14 per cent on an average, the conventional accounting methods would capture only seven per cent and ignore the other half (14% - 7%), which understates the real costs. Orthodox financial analysis, 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 zero means the institution is self-sustaining, while an SDI of 100 per cent would mean a doubling of its on-lending interest rate if it were to remain operational without subsidies. Thus, the use of the SDI will give a more realistic assessment of costs required to maintain a SHG which should be compared to social benefits derived from keeping the SHG in operation.

Since in the initial years subsidy is normally availed by the groups average figures of the three years are used for different variables. It shows that the present rate of 24 percent as provided by SHG to their members had to be raised by 43 percent on average basis so as to become competitive at par with market. This means the lending rate for SHG members should be around 35 percent, which is quite high in comparison to market rate. So the obvious questions arise- in case of no subsidy, will the members ready to take loan at this exorbitant rate? Secondly, will the groups remain viable once the subsidy is stopped? Several others also crop up. So, the financial sustainability calculated in the previous section could be less attractive without the subsidised finance. Since, most of the sample groups engaged in collective business/activities the first question can be ignored to some extent. However, the interest payment to banks is always understated in case of subsidy. Had there been no subsidy the net cash flow after meeting all the expenses would have been lower than the actual figures, on which basis the sustainability indicators are computed.

Table 8. Subsidy adjusted self sufficiency Ratios

Year	With Subsidy		Without Subsidy	
	OSSR	FSSR	OSSR*	FSSR*
2004	1.45	1.09	1.10	0.88
2005	2.19	1.54	1.65	1.26
2006	2.48	1.64	1.92	1.38
Average	2.06	1.45	1.56	1.19

* subsidy adjusted

The adjusted self sufficiency ratios without subsidy as presented in Table-8 reveals the impact. In such situation the groups were supposed to have paid interest to the banks on an average rate of 10 percent rather than at 7 percent. 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. This clearly reveals a negative impact of subsidy on the sustainability of SHGs. Without subsidy the sustainability is found to be less attractive.

Conclusion

The recent growth of SHGs witnessed in north east is mainly because of the Swarna Jayanti Gram Swarozgar Yojana (SGSY) scheme promoted by the Government of India which provides concessional finance in form of subsidy. It has encouraged many to form SHGs and avail the benefit since the scheme provides finance to a SHG rather than to an individual borrower as earlier done under Integrated Rural Development Programme (IRDP). Meghalaya as one of the average states in terms of resource base, population and socio-economic infrastructure is also experiencing similar type of upsurge in SHG-bank linkage activities in recent years. The analysis of the linkage activities in the foregoing sections clearly brings some general issues which need to be addressed.

Monitoring of SHG activities by the bankers is increasingly necessary because of very poor grading status under SGSY scheme. Since many are forming groups to avail the subsidised loan portion, this could make a contagious impact on others. Functionaries associated in this process need to be more professional. Bankers need to make an extra effort in ensuring a better performance by involving the promoters of the groups. Non serious groups should be de-linked from the process at the very initial stage. There is a need to be cautious from the beginning rather than lamenting about the failure in a latter stage. Bankers should learn from the past experience of IRDP programme. Although, more outreach is required at the initial stage excessive subsidised finance has a potential to bring negative ramification thus need to be curbed. Though the study reveals sustainability of SLBP in the state several handicaps are prominently surfaced.

Operating cost is still at higher level in case of many SHGs. Many of the groups are also identified as low performers on both the fronts of saving and lending. Credit linkage with banks is also found to be slow. The recovery under SGSY scheme is very low which could bring overall negative impact on the sustainability of SLBP in future. More disciplined loan recovery from members and recycling of fund at the hands of the SHGs are crucial in this regard. The overall banking environment in the state is coupled with low recovery rate. This has spiralling impact on the micro financing portfolio also.

Though the negative impact of SGSY led SHG financing by banks is yet to be established in other parts of the country, considering the earlier experience of Govt. sponsored schemes where there was a component of rebate/subsidy, the sustainability of this SLBP programme in uplifting the poor is doubtful.

Rather than promoting a habit of self generation of income at the hands of SHGs members in a sustainable manner these types of government sponsored schemes are likely to develop laxity among the participating members and will ultimately breed inefficiency into the whole programme.

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