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"Study of Financial Inclusion and Role of Self Help Group in India"

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Abstract

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts topromote inclusive growth. In fact, providing access to finance is a form of economic empowerment of the vulnerable groups. Financial inclusion denotes delivery offinancial services at an affordable cost to the vast sections of the disadvantaged and low-income groups.Financial inclusion is emerging as a priority for a nation's economic development. The Reserve Bank has been pursuing a multi – pronged strategy for enhancing the outreach of financial services including the delivery channels across on sections. Self Help Group is a small association of poor people, which form voluntary by the people from the same social and economic background. They have a purpose to solve their common problems through mutual help. These groups promote small savings among its members and such savings are deposited in a bank in the name of SHG as collective fund. There are a number of plausible ways by which matured SHGs could have been participants in the financial inclusion initiative, including being agents of providing direct banking services to the poor at their doorsteps, as a low-cost and efficient alternative.This study highlighted the role of SHGs in financial inclusion. Thus SHGs help the deprived section of people to enter into formal financial sector and through thatsocial and economic empowerment.

Keywords-Inclusive Growth, Financial inclusion, Self Help Groups, Bank Linkage Programme.

INTRODUCTION

The term "financial inclusion" has gained importance since the early 2000s, a result offindings about financial exclusion and its direct correlation to poverty. The UnitedNations defines the goals of financial inclusion as follows:

Access to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance at a reasonable cost for all households;

Sound and safe institutions as service providers, governed by clear regulation and industry performance standards;

Financial and institutional sustainability, to ensure continuity and certainty of investment; and competition to ensure choice and affordability for clients.

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India in last 15 years has witnessed unprecedented growth in financial services,unfolded by liberalization and globalization of financial services due to adoption of Information Technology and unlocking of the regulatory framework. The bankingsector responded quickly to the new technology; diversified in multiple services and thus the share of finance & related services in the gross domestic product increased toabout 14 per cent in 2006-07 from 11 per cent in 1991-92 (RBI, Annual Report 2006- 07). But alongside this positive development there are evidences that the formalfinancial sector is still excludes a large section of population. As on March 2006, the saving accounts per 100 adult populations were 63 and credit accounts were only 16in all India (RBI, BSR 2006). Reserve Bank of India (RBI) and Government of India (GOI) are very much concerned about the financial exclusion as expressed in variousissues of Monthly Bulletins of RBI during 2006 & 2007 and Central Budget of 2007- 08(5,1). The purpose of this paper is to study the relevance of Self Help Groups(SHGs) in achieving the financial inclusion in the background of initiatives taken so far by RBI and GOI.

A SHG is a group of about 20 people from a homogenous class, who come together for addressing their common problems. They encouraged making voluntary thrift on aregular basis. They use this pooled resources to make small interest bearing loans to members. The process helps them imbibe the essentials of intermediation,prioritization of needs, setting conditions, and accounts keeping. This gradually builds discipline and credit history for them, as the money involved in the lending operationsis their own hard earned over time with great difficulty. They also learn to handle resources of a size that is much beyond their capacities. Once the groups show thismature financial behaviour, banks are encouraged to make loans to the SHG in certain multiples of the accumulated savings of the SHG. The bank loans are given withoutany collateral and at market interest rates.

Origin of research problem:

Former United Nations Secretary-General Kofi Annan, on 29 December 2003, said: “The stark reality is that most poor people in the worldstill lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must buildinclusive financial sectors that help people improve their lives.” More recently, Alliance for Financial Inclusion (AFI) Executive Director AlfredHannig highlighted on 24 April 2013, progress in financial inclusion during the IMFWorld Bank 2013 Spring Meetings: "Financial inclusion is no longer a fringe subject.It is now recognized as an important part of the mainstream thinking on economic development based on country leadership."

Statement of the Problem

Out of 19.9 crore households in India, only 6.82 crore households have access to banking services. As far as rural areas are concerned, out of 13.83 crore rural households in India, only 4.16 crore rural households haveaccess to basic banking services. In respect of urban areas, only

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49.52 per cent of urban households have access to banking services and 34 per cent of the India"s urban population with annual income less than Rs. 50,000 haveaccess to banking services.Poverty and exclusion continue to dominate socio-economic and political discourse in India as they have done over the last six decades in the post-independence period. Poverty reduction has been an important goal ofdevelopment policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The ongoing reforms attach great importance toremoval of poverty and to addressing the wide variations across states and the rural-urban divide. Though the Indian economy recorded impressive growth rates until recently, its impact has sadly not fully percolated to the lowestdeciles. Despite being one of the ten fastest growing economies of the world, India is still home to one-third of the world"s poor.

Need for the Study

Despite witnessing substantial progress in financial sector reforms in India, it is disheartening to note that nearly half of the rural households even today do not have any access to any source offunds- institutional or otherwise. Hardly one-fourth of the rural households are assisted by banks. Hence the major task before banks is to bring most of those excluded, i.e. 75% of the ruralhouseholds, under banking fold. But the task is not so easy since they are illiterate, poor and unorganized. They are also spread far and wide. What is needed is to improve their livingstandards by initiating new/increased economic activities with the help of banks, NGO"s and local developmental agencies. To start with, it is necessary to develop a fair understanding oftheir profile. In addition, their perception about the bank and its services needs to be understood.So there is a need for the formal financial system to look at increasing financial literacy andfinancial counseling to focus on financial inclusion and distress amongst farmers. Indian banks and financial market players should actively look at promoting such programs as a part of theircorporate social responsibility. Banks should conduct full day programs for their clientele including farmers for counseling small borrowers for making aware on the implications of theloan, how interest is calculated, and so on, so that they are totally aware of its features. There is a clearly a lot requires to be done in this area.

OBJECTIVES

The objectives for this paper are as follows:

To highlight the role of Self-Help Groups in financial inclusion.

To explain the role and importance of financial inclusion in Indian Financial System.

To analyze the different roles of SHGs

To enumerate the achievements of SHG microfinance in including the excluded section of the society.

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Literature Review

Khawari (2004) revealed that the establishment of microfinance institutions (MFIs) worldwide for the provision of collateral free loans to the poor through mechanisms andinstruments not known to normal commercial banks has set new milestones in the field of financial services. With 900 million households in the less developed countries left withoutany access to formal financial services.

Firpo (2005) suggested that the Micro development Finance Team (MFT) carried out pilot projects in Uganda to determine the role technologycould play in increasing the reach of microfinance. The conclusions drawn from the study that business process change and the implementation of new technology should proceed intandem; creative technology solutions are required to be tailored to the unique and often challenging needs in emerging markets and local contexts; and partnerships between MFIsand local companies assist in reducing infrastructure costs. Technologies such as the RTS can evolve and provide functionality that serves to build bridges between MFIs and the formalfinancial sector

The concept 'Inclusive Growth' gained much importance as the solution to problem of financial exclusion. Eleventh five year plan (2007-2012) advocates for inclusive growth. This is to reduce poverty and other disparities and raise economic growth. Inclusive growth can be achieved by focusing on expanding regional scope of economic growth. Expanding markets and expanding equity in the opportunities for the next generation of Indian citizens, no matter whom they are and where they live.(World Bank-2004)

Financial Inclusion is a powerful tool to achieve inclusive growth. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as economically and socially weaker sections and low income groups at a fair and transparent manner by formal financial institutions. The financial development and improved access to banking and related services not only accelerate economic growth but also reduce income inequality and poverty (HM Treasury 2007). Financial inclusion is both cause and effect of economic development. Higher the financial inclusion, greater will be the economic development. On the other hand greater economic development leads to higher financial inclusion. It will create opportunities to each and everyone to participate in and get benefit from developmental activities, expanding equity in the opportunities for the next generation of Indian citizens, no matter whom they are and where they live.(World Bank-2004 Financial Inclusion is a powerful tool to achieve inclusive growth. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as economically and socially weaker sections and low income groups at a fair and transparent manner by formal financial institutions.

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In India Multi-Model Approach to financial inclusion was adopted. With nationalization of commercial banks in 1969 and 1980, the Reserve Bank of India introduced various reformativemeasures like rural branch expansion, branch regulations, priority sector lending, differential rate of interest, interest rate ceiling, subsidized rate to priority sector lending, etc. Lead BankScheme in 1970, establishment of Regional Rural Banks in 1975, SHG-Bank Linkage Programme in 1992, Kisan Credit Card Scheme in 2001 and recently General purpose credit card are themajor steps taken to boost financial inclusion. Beck.et.al(2000) disclosed the relationship between financial intermediary development and economic development. They show positiveeffect of total factor productivity with financial intermediary development and in turn economic development. Khan Committee recommended permitting banks to make use microfinance institutions as business correspondents/business facilitators to increase the reach of banks for more financial inclusion. Since 1990 Micro finance approach was considered asbest solution to reach the unreached section. Micro credit, micro insurance, micro remittance at an affordable rate is the three main components of micro finance. Micro finance helps theweaker section to improve their financial position and standard of living. The micro finance activities were intensified up with the introduction of Self-Help Group (SHG) and Bank LinkageProgramme (SBLP) in the year 1992. SHGs are becoming effective intermediaries at the grass root level. They allow voluntary savings; the funded surplus amount is used for intra-group lending. SHGs act as business correspondents to banks forextending financial inclusion. They help poor by providing need based financial services.

Research Design and Methodology

The study is descriptive in nature. The study was based on secondary data. Secondary source of information such as newspapers, magazine, RBI bulletins, NABARD bulletins and other records were used to obtain necessary background/supplementary information.

Result Analysis and Discussion

Tools of Financial Inclusion and the Methods to Achieve

To address the issue of financial exclusion in a holistic manner, it is essential to ensure that a range of financial services is available to every individual. These services are:

(i) no-frills banking account for making and receiving payments,

(ii) savings product suited to the pattern of cash flows of a poor household,

(iii) Money transfer facilities,

(iv) small loans and overdrafts for productive, personal and other purposes and

(v) micro-insurance (life and non-life)

II. Approaches of Financial Inclusion:

According to C. Rangarajan there are six approaches in the system of Financial Inclusion, they are, as follows.

First, credit to the farmer households is one of the important elements of financial inclusion among them providing credit to the marginal and sub marginal farmers as wellas other small borrowers is crucial to the need of he hour.

Second, rural branches must go beyond providing credit and extend a helping hand in terms of advice on a wide variety of matters relating to agriculture.

Third, in district where population per branch is much higher than the national average commercial banks may be encouraged to open the branches.

Fourth, there is need for the simplification of the procedures in relation to granting of loans to small borrowers.

Fifth, the further strengthening the SHG-Bank Linkage Programme (BLP), as it has proved to be an effective way of providing credit to very small borrowers.

Sixth, the business facilitator and correspondent model needs to be effectively implemented

Inclusive Growth:

Role of banking system in extending banking services for financial inclusion.Talwar committee andGoiporia committee in the early eighties have made many recommendations to improve the customerservices in India. Following are some of the steps undertaken by RBI:

The RRBs have been advised to allow limited overdraft facilities in no-frill accounts without any collateral. The idea was that provision of such overdraft facilities provides aready source of funding to the account holders who are thereby inducted to open such accounts.

Banks also have been advised to provide a General Purpose Credit Card (GCC) at their rural and semi urban branches. From this revolving card system the customer canwithdraw money to a limited amount from the concerned branch.

Bhumuheen" credit card facility has been arranged apart from Kisan credit cards for the rural and semi urban tenant farmers, landless labourers whereby they can beallowed hassle free credit limit up to 0.25 lac per person.

Special Agricultural branches have been opened by the PSBs to meet the financial needs for agricultural and allied activities.

On the behest of the RBI, SHG and bank linkage programme has been initiated which has been a major micro finance programme in the country.

Micro finance and SHGs

Microfinance programmes are intended to reach poor segments of society as they lack access to financial services. It, therefore, holds greater promise to further the agenda of financial inclusionas it seeks to reach out to the excluded category of population from the banking system. The predominant micro finance programme namely SHG bank linkage programme has demonstratedacross the country its effectiveness in linking banks with excluded category of poor segments of population. In this process, the role of development NGOs is quite pronounced in providing the
last mile connectivity as enablers and catalyst between the SHGs / Village level co-operatives and the bankslast mile connectivity as enablers and catalyst between the SHGs / Village level co-operatives and the banks.This is also supplemented by the MFIs delivering credit .

The SHG-Bank Linkage Programme launched by NABARD in 1992 continues to be the predominant Micro-Finance (MF) model in the country. It represents the union of thebanking system comprising the public and private sector commercial banks, Regional Rural banks (RRB), and Co-operative Banks with several organizations in the formal and semiformalsectors to facilitate the provision of financial services to a large number of poor clients.

SHG and Bank linkage

SHG bank linkage by far is an effective instrument for financial inclusion.

Considering the importance of linkage the bank accounts of SHGs provide the first link for the members of SHG for graduation to individual family accounts in due course. Thisprocess need to be respected and encouraged to facilitate informed inclusion process.

That opening of bank accounts (Savings) is the beginning of beginning of the financial inclusion process, that is means to achieve larger end of financial inclusion.

That the federation of SHG as an apex body play a an effective complemented role to spread the financial inclusion.

To achieve faster spread of financial inclusion, it is vital that the stake holders and it particular commercial bank recognize the need to take the banking services with thetechnological support to the people rather than waiting for the people to reach out to the banks

SUGGESTIONS

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1.The idea of financial inclusion will be better served in the medium term if specialised banks like the payments only bank and lending only banks are allowed to flourish.

2.One of the reasons for the losses being suffered by banks is the low transaction volume across the accounts opened under the financial inclusion drive. The study shows that the bank account was non-operative in thecase of about 31% of the Self-Help Group members. SHG-Bank Linkage programme should ensure more frequent bank penetration by offering the financial services like asset insurance, ATM and credit cardservices.

3. The structure and functioning of an SHG should not be restricted to small loans for consumption smoothening. The loans taken by SHG members are considered comparatively small and many of them doprovide an income but may not be adequate to meet rising expectations of the SHG members. The trend of loan by SHG-linked banks should be towards one large loan rather than several small loans.

4. NABARD should provide special funds to the banks that should be used particularly in those areas where SHG bank linkage program is not performing well due to various reasons. These funds should act asincentives to the banks to intensify their efforts in those regions.

5. NGOs need to focus on providing proper information and guidance to cover the currently un-reached segments of members and motivate them to take up more productive activities to enhance the income of thehousehold in order to avail these facilities.

CONCLUSIONS

To recapitulate, the two-decade old self-help group-bank linkage programme for the economic betterment of rural poor is not receiving bankers‟ attention. There are a number of plausible ways by which matured SHGscould have been participants in the financial inclusion initiative, including being agents of providing direct banking services to the poor at their doorsteps, as a low-cost and efficient alternative. This model is certainly a more costeffective and reliable alternative to the existing inclusion agenda and millions of households, now members of SHGBLP, would have been the immediate beneficiaries.

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