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A study on the impact of financial inclusion on Self Help Group: a selective study in Karnataka

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Abstract **- In India financial services are used only by a section of the population due to illiteracy and other reasons. The excluded regions are rural, poor regions and also those living in harsh climatic conditions where it is difficult to provide these financial services. The excluded population then has to rely on informal sector (moneylenders etc.) for availing finance that is usually at exorbitant rates. Hence, financial exclusion leads to non-accessibility, non-affordability, and non-availability of financial products. Limited access to funds in an underdeveloped financial system restricts the availability of their own funds to individuals and also leads to high-cost credit from informal sources such as moneylenders. Due to lack of access to a bank account and remittance facilities, the individual pays higher charges for basic financial transactions. Absence of bank account also leads to security threat and loss of interest by holding cash. All these impose real costs on individuals. Prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to fuel social tensions causing social exclusion. Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India, the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more. In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy. In emerging economies, it is a question of both access to financial products and knowledge about their fairness and transparency. Thus, financial inclusion is essential for accelerated economic growth of the country. Financial inclusion is an important step towards inclusive growth. It helps in the overall economic development of the underprivileged population. In India effective financial inclusion is needed for upliftment of the poor and disadvantaged people by providing them the modified financial products and services. The inclusion helps individuals to make daily payments reliably. It helps them to access credit which can be invested in their small-scale income-generating activities. It also helps people save their cash so that they can make future investments or respond to unforeseeable risks. Self Help Groups plays a considerable role in enhancing the financial literacy amongst group member and thereby causes financial inclusion. This paper analyses the efforts of SHG in achieving the novel objective of financial inclusion in Karnataka.**

Index Terms **- Rural, Poor, Unbanked population, Financial Literacy, Bank account, Inclusion.**

INTRODUCTION

Existence of Chronic poverty is the major concern for the country and mitigating it has been the core of all developmental efforts. Several poverty alleviation programs initiated by the government have resulted in the overall development of the poor, but these programs were not able to achieve the targeted success. Lack of capital and inaccessibility to credit is the serious constraint to the development and inhibits poor from responding to the opportunities created by the process of development. Empowerment of women is the most important means of poverty eradication. Despite considerable improvement in the status of women post-independence, they still constitute the largest section of deprived population. Certain problems such as poverty, illiteracy, lack of skills, availability of proper health care facilities, ignorance etc., which are persistent in rural economy, cannot tackled individually but could be effectively solved through group efforts. Today such collective group efforts are called as 'Self Help Groups", which has become a powerful tool in initiating the change and transforming the lives of crores of poor and marginalized across the country.

MEANING OF SELF –HELP GROUPS [SHG]

It is a small, homogenous affinity group of rural poor, comprising of not more than 20 members each. These groups represent and foster true democratic culture, wherein all members of the group take active part in decision making. The membership is open, voluntary and group is primarily formed to practice voluntary savings and thrift on a regular basis (savings implies existence of excess wealth, whereas thrift implies savings created by postponing almost necessary consumption).

Members save on a regular basis and contribute to the 'Group Common Fund (GCF)'. The fund includes not only the savings of the members but also grants from Non-governmental organizations (NGO's), or promoter, fine imposed on members for various irregularities, government aid for various programs, service charges on external loan (inter SHG lending and borrowings) etc., All savings and surplus of the fund would be rotated as short term loans amongst members at a rate of interest, decided by the group and loan is given to the needy members on a priority basis.

Ministry of Rural Development, Government of India, on 1st April 1999, launched its flagship program 'Swarnajayanthi Gram Swarozgar Yojana (SGSY)', by merging Integrated Rural Development Programme (IRDP), Training the Rural Youth for Self-Employment (TRYSEM), Supply of Improved Tools for Rural Artisans (SITRA), Ganga Kalyan Yojana (GKY), Million Wells Scheme (MWS), Development of Women and Children in Rural Areas (DWCRA).

The main objective of SGSY is to bring the assisted poor families above poverty line by providing them income generating assets through bank credit and capital subsidy through group approach. It aims at providing self-employment to villagers through the establishment of Self-Help Groups. The program recommends the establishment of 'activity clusters or cluster of villagers grouped together based on their skill and abilities. Each of these activity clusters worked on a specific activity chosen based on the aptitude and skill of the people, availability of resources and market potentiality.

SGSY incorporates three important approaches, namely: -

(a) Cluster Approach: Based on the available resources, occupational skills of the people and the need of the market, 4 to 5 key activities are identified for each block with the approval of the Panchayat Samitis at the Block level, DRDA's (District Rural Development Agency) at district level.

(b) Project Approach: For each key activity, project reports are prepared in close association with banks or financial institutions, so as to ensure adequacy of financing and to avoid unnecessary procedural delays.

(c) Group Approach: Organizing poor into SHG's and their capacity building, with an objective of bringing every assisted poor family above poverty line within three years through the provision of micro enterprise is the core of this approach. Out of total beneficiary 50% must belong to Scheduled Caste and Scheduled Tribe, 40% must be women, 3% disabled and remaining 7% others.

The Self-Help Groups are aided, supported and trained by Non-Governmental Organizations (NGO's), Self Help Promoting Institutes (SHPI's), Banks etc., government run DRDA's (District Rural Development Agency), and respective state government provides training and financial aid. The program focuses on establishing micro enterprises in rural areas because it remains a known fact that barring certain location limitations, rural areas throw ample opportunities for installation of micro enterprises by making use of untapped manpower, available raw material of various forms and existing market channel.

OBJECTIVES OF THE STUDY

- To understand the concept of financial inclusion and its relevance in economic development
- To identify the role of Self-Help Group in promoting the Savings of members in rural area
- To highlight the importance of SHG Bank Linkage program to achieve Financial Inclusion.
- To suggest measures to improve SHG Bank Linkage Programme.

DATA COLLECTION

The research is based on both primary and secondary data. Primary data has been collected through a well-structured questionnaire. Direct Personal Interview was adopted to elicit the information. Method of Schedule was adopted to collect the required information. Secondary data for the study has been procured by referring to various books, articles published in various national and international journals, websites, government records and publication, NABARD, Publication of APEX bank etc.,

DATA ANALYSIS:

The collected data has been simplified using classification and tabulation mechanism. Simple mathematical tools such as percentage, averages have been used to arrive at the inferences.

Locale of the study: Karnataka State.

ANALYSIS AND INFERENCES

There are Three Models of Linking SHG and Banks in India:

- Model 1- provides all assistance directly to SHGs without any intervention facilitation by any NGOs.
- Model 2- provide all assistance directly to SHGs with facilitation by NGOs and other formal agencies.
- Model 3- provide all assistance through NGOs as facilitator and financing agency.

While the SHG-Bank linkage program has surely emerged has dominant micro financed model in India, other models too have evolved as significant micro finance providing channels. Model 4- The fourth model predicts bank loans directly to individual members of SHGs upon recommendations of the SHG and NGO. In this case, the NGO assists the bank in monitoring, supervising and recovery of loans. During 2014-15 about 2.68 lakh new SHGs were added in the domain of SHG to take the number of SHGs savings linked with formal financial institutions to 76.97 lakh as on 31st March 2015. After a dip in the number of SHGs in 2012-13, the SHG BLP has taken strength not only with net additions to the number of SHGs but also with enhanced savings and credit linkage of SHGs in the subsequent years. There was an increase of 3.59% in the number of savings linked SHGs over the previous year. What is significant that the number of SHGs savings linked has gone up substantially in some of the resource poor and strategic states like J & K and in Northeastern states. Even in states like Chhattisgarh, Madhya Pradesh, Uttar Pradesh, Uttarakhand, Maharashtra, and West Bengal which are resource poor states registered rise in number of groups which is encouraging feature. However, in Bihar, Gujarat, Jharkhand, Odisha, and Rajasthan there was decline in number of saving linked group which may be attributed to the dormancy and the data cleansing efforts made by the banks. As many as 16.26 lakh SHGs were disbursed with fresh loans during the year - a 19% increase over 13.66 lakh SHGs getting fresh loans during 2013-14. The quantum of fresh loans issued by banks also rose by nearly 16% during the year. Number of SHGs with credit outstanding with banks has shown a rise of 6%, from 41.97 lakh in 2013-14 to 44.68 lakh, against a 6% decline, the previous year. The amount of loan outstanding on the other hand has gone up by 20%. The total loan outstanding to SHGs stood at Rs. 51,545 crores as on 31.03.2015 against Rs. 42,928 crores a year back. A faster rise in loan outstanding over that of the number of SHGs credit linked implies a credit deepening during the year. The average institutional loan outstanding of SHGs as on 31st March 2015 was Rs. 1,15,361, which was 12.8% more than the average loan outstanding of Rs. 1,02,273 at the end of 2013-14. The share of exclusive women SHGs in the total number of SHGs linked to banks now stands at 86% (up from 84 % last year). There has been a sizeable rise over the previous year in the number and savings of SHGs under NRLM/SGSY which constituted 39.65% (30.52 lakh) out of total saving linked SHGs and accounted for Rs. 4,424.03 crores (40%) of savings with banks. The number of SHGs under NRLM/SGSY increased by 7.9 lakh though there was a net addition of only 2.68 lakh.

During 2015-16, banks and financial institutions provided loans to 18.32 lakh SHG's (23.2% of the total SHG's) as compared to 16.26 lakh SHG's (21.1% of total SHG's) during 2014-15. There is an overall 35% increase in the amount of loan disbursed by banks to SHG's during 2015-16, taking it to 37,287 crores as against 27,582 crores during 2014-15. The average loan disbursement per group during 2015-16 was Rs. 2.03 lakh which showed a healthy increase of 20% from Rs. 1.69 lakh during 2014-15. With the advantage of vast network of branches in the country, commercial banks enjoy the prominence. More than half (41.40 lakh, 52.39%) of the SHGs in the country maintain their savings account with Commercial Banks. During 2015-16, Commercial Banks had disbursed Rs. 25,185 crores (Rs. 17,334 crores in 2014-15) to 11.32 lakh SHGs (8.56 lakh in 2014-15) with an average of Rs. 2,22,482 (Rs. 2,02,567 in 2014-

15) per SHG, against national average of Rs. 2,03,495. Commercial banks accounted for 67.5% of bank loans disbursed to 61.8% SHGs during the year. The share of RRBs in credit disbursement to SHGs stood at 24.6%. The average loan disbursement by RRBs during the year was Rs. 1,94,833. The average loan per SHG provided by Cooperatives was Rs. 1,27,894.

Name of the Agency	Total Savings of SHGs with Banks as on 31 March 2016		Loans disbursed to SHGs by Banks during the year		Total Outstanding Bank Loans against SHGs		NPAs	
	No. Of SHGs	Savings Amount	No. Of SHGs	Loans disbursed	No. Of SHGs	Loan Outstanding	Amount of Gross NPA	NPA (%)
Commercial Banks	41,40,111	9,03,389	11,32,281	25,18,497	26,26,364	37,14,562	2,32,140	6.25
% Share	52.6	66.0	61.8	67.5	56.2	65.0	62.98	
Regional Rural Banks	22,56,811	2,48,428	4,70,399	9,16,493	14,45,476	16,10,935	1,06,429	6.61
% Share	28.56	18.1	25.7	24.6	30.9	28.2	28.87	
Cooperative Banks	15,06,080	2,17,322	2,29,643	2,93,700	6,00,781	3,86,426	30,054	7.78
% Share	19.1	15.9	12.5	7.9	12.9	6.8	8.15	
Total (in Rs. Lakh)	79,03,002	13,69,139	18,32,323	37,28,690	46,72,621	57,11,923	3,68,623	6.45

Source: Status of Micro Finance in India 2015-16, Micro Credit Innovations Department, NABARD, Mumbai.

The following table depicts the Savings of SHG's with different financial institutions in the Karnataka (as on 31st March 2016).

Commercial Bank		Regional Rural Bank (RRB)		Co-operative societies		Total (amount in Lakh rupees)	
No. of SHG	Savings Amount	No. of SHG	Savings Amount	No. of SHG	Savings Amount	No. of SHG	Savings Amount
6,05,154	79,879.15	1,37,921	16,132.89	2,19,371	48,230.09	9,62,446	1,44,242.13

Source: Micro credit division, NABARD.

The following table depicts the total loan disbursed to SHG's from different financial institutions in the Karnataka (as on 31st March 2016).

Commercial Bank		Regional Rural Bank (RRB)		Co-operative societies		Total (amount in Lakh rupees)	
No. of SHG	Loan disbursed	No. of SHG	Loan disbursed	No. of SHG	Loan disbursed	No. of SHG	Loan disbursed
1,95,477	4,83,737.82	43,056	65,159.58	42,856	77,010.73	2,81,389	6,25,908.13

Source: Micro credit division, NABARD

Saving Linked SHGs the number of SHGs has shown a steady progress since the launch of the SHG program barring a decline recorded in 2012-13 due to "data cleansing" by banks. Notwithstanding the dip in 2012-13, the CAGR of number of SHGs during last five years remained at 2%. There has been an obvious sluggishness in formation of new SHGs mainly because majority of the potential rural households in South India have already joined SHGs and the proliferation of the program in other resource poor states is still quite slow.

SUGGESTIONS FOR STRENGTHENING SHG-BANK LINKAGE PROGRAM (FINANCIAL INCLUSION)

Encouraging SHGs in Excluded Regions: The spread of SHGs in North, Eastern and North-Eastern Region is poor. One of the reasons for this is the weak banking network and social backwardness and less NGO activity. There is a need to evolve SHG models suited to the local context.

Capacity Building of Government Functionaries: There is a need for sufficient training for SHG staff and members on SHG concept and to carry of basic banking transactions.

Check on Corruption/Commission while Sanctioning and Upgrading the Loan: The commission and corruption at grass root level leads to selection of wrong people for loan, higher defaults, miss utilization of loans (like revolving loan for money lending, luxurious consumption).

Identification of Poor by the NABARD: The ongoing efforts of NABARD to upscale the program in the identified states need to be given a fresh impetus.

Transparency in Maintenance of Records: Banks, with the help of NABARD, should evolve a common checklist for all SHGs with very simple record keeping.

Identification of Income/Employment Generating Activities: The present challenge is to induce SHGs and their members to graduate into matured levels of enterprise, factor in livelihood diversification. Separate cell in each bank.

ICT Technology and Product Innovation: There is good scope for ICT tools to reduce cost of financial inclusion. This needs to be sufficiently explored for the benefit of both banks and rural SHG members.

CONCLUSION

According to a NABARD (National Bank for Agriculture and Rural Development) report, though the SHG-BLP (Self-Help Group-Bank linkage program) is a step towards bringing the 'unbanked' poor into the mainstream banking channel, its formal acceptance as a financial inclusion channel by the central bank is still awaited. During 2006-07, the number of new SHGs credit- linked with banks was 0.7 million taking the cumulative number of SHGs credit linked to banks at 2.9 million. The phenomenal outreach of the program has enabled an estimated 41 million poor households to gain access to micro finance from the formal banking system registering a growth of 24.16 % over 2005-06. Today, Commercial Banks with more than 32,000 rural branches have the largest share (55%) in credit linked SHGs followed by Regional Rural Banks (31%) through their 11,900 branches. More than 3,000 NGOs and other development agencies joined the program primarily as promoters of SHGs or capacity building agencies.

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