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Self Help Group: A Potential Tool For Financial Inclusion

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ABSTRACT

In developing countries, majority of poor public is not a part of formal financial sector and excludes from financial activities like access to credit, savings and insurance, India is not exception of it. India has a various types of people who are financially excluded like women, landless laborers, marginal farmers, slum dwellers, small vendors, migrants etc.

According to Committee on Financial Inclusion, in India, only 27% of total farming households have access to formal sources of credit. On the other hand, 51.4% of farmers are financially excluded from both formal and informal sources of credit. According to NABARD, in the Central, Eastern and Northeastern regions, more than half i.e. 64% of farming households are financially excluded. Financial inclusion goes beyond opening of bank accounts; it is a comprehensive set of services that needs to be offered to the clients so that they can choose based on their needs from the services. The financial products services for the weaker sections and low income groups need to be in such a way that they enhance the credit absorption levels to go beyond basic consumptive credit needs. It has been observed that financially excluded segment require such products which may be customized to meet their unique needs. The aim of this paper is to explain the existing scenario of financial inclusion in India with different approaches of financial inclusion with reference to the model of Self Help Group-Bank Linkage Programme for financial inclusion in India.

Key words: Financial Inclusion, Self Help Groups, Microfinance, Non Government Organization,

JEL code: G21, G23

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SELF HELP GROUPS: A POTENTIAL TOOL FOR FINANCIAL INCLUSION

INTRODUCTION

In developed countries, banking system plays prominent role in the formal financial system and serves most of the population but in developing countries, mainly the low-income group, which is a large segment of the society, excludes from banking services, as a result, poor people have to depend either on their own sources or informal sources of finance at high cost.

In developing countries, majority of poor public is not a part of formal financial sector and excludes from financial activities like access to credit, savings and insurance, India is not exception of it. India has a various types of people who are financially excluded like women, landless laborers, marginal farmers, slum dwellers, small vendors, migrants etc. According to Committee on Financial Inclusion, in India, only 27% of total farming households have access to formal sources of credit. On the other hand, 51.4% of farmers are financially excluded from both formal and informal sources of credit. According to NABARD, in the Central, Eastern and Northeastern regions, more than half i.e. 64% of farming households are financially excluded.[1]

The Government of India and the Reserve Bank of India have raised a lot of steps to tackle the issue of financial exclusion by providing banking services to untouched people, like formation of self- help groups, cooperative movement, nationalization of banks, Lead Bank Scheme, establishing regional rural banks etc. Even, in this respect, RBI, NABARD, commercial banks and NGOs are working in their own ways, but the experience of self-help groups (SHGs) in India have proved their effectiveness to buildup strong relationship between the formal financial systems and the excluded poor people.

OBJECTIVES

The objectives of this paper are:

1. to explain the existing scenario of financial inclusion in Indian Financial System,
2. to study the various approaches of financial inclusion and
3. to analyse the contribution of SHG microfinance in financial inclusion in India.

SELF HELP GROUP: CONCEPTUAL FRAMEWORK

The main development approach for NGOs working with local communities that has emerged over the past 30 years is through self-help groups (SHG). This approach originated in Karnataka in the mid-1970s, has since been widely adopted by NGOs across the country and is now strongly supported by government through its national five-year plans. The SHG movement distinguishes itself from other models of social organization for development programmes. It is less about the delivery of services and more about the empowerment of group members to be able to make and act on expanded choices, and so advance their interests.

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. This collective fund is accumulated by contributing small savings on a regular basis by each member of the group. The group fund is then provided to their members as loan, with a nominal interest. The loan amount is small, frequent and for short period and this interest is very less than normal interest charged by informal source. After period of six months, groups become eligible to avail government schemes if their functioning found smooth and satisfactory. SHGs has low transaction cost and very low risk cost for banks.

In India, SHGs are encouraged towards saving within the group, giving loans to their members, managing their savings with a bank and finally, negotiating with the bank for credit facilities. SHGs has revealed that there is no need of loan at subsidized rate of interest to poor people on liberal terms but they may become efficient managers of finance and credit if the adequate credit is available for their enterprises. Availability of timely and adequate finance is necessary for them rather than subsidies.

FINANCIAL INCLUSION IN INDIA

Financial inclusion goes beyond opening of bank accounts; it is a comprehensive set of services that needs to be offered to the clients so that they can choose based on their needs from the services. The financial products services for the weaker sections and low income groups need to be in such a way that they unleash hidden potential to save, enhance the credit absorption levels to go beyond basic consumptive credit needs and insulate them from a wide range of risks and vulnerabilities.

Financial inclusion has been defined by RBI as the “provision of affordable financial services” to those who have been left unattended or under-attended by formal agencies of the financial system. These financial services include “payments and remittance facilities, savings, loan and insurance services”.[2]

In Indian context, Rangarajan Committee defines[3] that "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." The financial services include the entire gamut - savings, loans, insurance, credit, payments etc.

According to C. Rangarajan committee, there are following six approaches[3] in the system of Financial Inclusion:

1. credit to the farmer households is one of the important elements of financial inclusion among them.
2. 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.
3. in district where population per branch is much higher than national average commercial banks may be encouraged to open the branches.
4. simplification of the procedures should be adopted in relation to granting of loans to small borrowers.
5. more strengthening the SHG-Bank Linkage Programme, as it has proved to be an effective way of providing credit to very small borrowers.
6. the business facilitator and correspondent model needs to be effectively implemented.

ROLE OF SELF HELP GROUPS IN FINANCIAL INCLUSION IN INDIA

In India, the concept of micro finance encourages SHGs as means of savings and loan providers. Micro finance has to act proactively not for financial inclusion but also has to work to reduce dependence of poor borrowers on different informal financial sources.

As define by RBI, microfinance as the “provision of thrift, credit and other financial services and products of very small amounts to the poor enabling them to raise their income levels and improve living standards".[4] There are two popular approaches of microfinance sector: SHG-bank linkage (SBL) and microfinance institutions (MFI). In 1992, NABARD launched Self-help group Bank linkage programme to fill the gaps between banking sector and excluded poor segment. In terms of outreach, it is a largest micro finance programme in the world and many other countries are keeping replicating this model.[5]

Through this model, the poor borrowers are able to take advantages of formal sources of finance by actively participation in different financial activities, which can work towards effective inclusion of excluded poor people into the formal banking system. SHGs create positive impact on lives of poor households in a significant way. They reduce poverty through increases in income and enable the poor to build their assets. Savings play a critical role in the livelihoods of the poor households. One of the distinctive features of the SHGs is that it is a savings-led model providing opportunities to the members to pool their small savings within the group.[5] Many studies have shown that creation of a safe opportunity for savings on which interest is earned, is an attractive feature of SHGs, which had led to significant promotion of savings.

After financial sector reforms in 1991, there are following linkage models[6] using by banks to finance SHGs.

Model I Banks provide finance to NGOs for lending to SHGs.

Model II Banks provide finance directly to SHGs for lending to micro entrepreneur.

Model III Banks provide finance directly to SHGs for lending to micro entrepreneur with the intervention of NGO as facilitators.

Model IV Bank provide finance loans directly to individual members of SHGs upon recommendations of the SHGs and NGO.

Indian rural credit delivery structure comprising commercial Banks, Regional Rural Banks and Cooperative Banks with a large network of more than 1,53,000 retail credit outlets. But reaching the excluded poor is still a difficult task. On the other hand informal source of finance (Sahukars) continues plays the important role as main agency. The credit requirements of the rural poor cannot be determined on project lending approach as in formal sector, financial requirement of rural poor is very small, frequent and unpredictable. To meet out the requirement of such rural poor, there is a need of an informal credit supply system, which can be developed through SHGs. The introduction of the "Kishan Credit Cards" scheme is also useful for expansion the scope of lending to agriculture by commercial banks and strengthening of rural credit system as it has its access even in the remotest and backward area. The table no. – 1 shows the agency-wise and period wise number of KCC issued.

Table No. – 1

Agency-wise and Period-wise Number of Kisan Credit Cards Issued

(Number in '000) (Amount in Rs Crore)

Year	Cooperative Banks		RRBs		Commercial Banks		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
2006-07	2298	13141	1406	7373	4808	26215	8511	46729
2007-08	2091	19991	1772	8743	4606	59530	8470	88264
2008-09	1344	8428	1415	5648	5834	39009	8592	53085
2009-10	1743	7606	1950	10132	5313	39940	9006	57678
2010-11	2812	10719	1774	11468	5582	50438	10168	72625
Total**	40700	151313	15195	65432	47946	283628	103841	500373

Source: Report of Trend and Progress of Banking in India, RBI ** cumulative total since inception of the KCC scheme in August 1998

The loan amount sanctioned against KCCs by banks has increased from Rs. 46729 crore in2007 to 72625 crore in 2011. At end-March 2011, the total number of KCCs issued by cooperative Banks, RRBs and Commercial Banks all over the country stood at 103.84 million. Of the cumulative 103.84 million credit cards issued as at 31st March 2011, 47.94 million card were issued by commercial banks, followed by 40.70 million cards by cooperative banks and 15.20 million cards by RRBs.

The financially excluded sections require products which are customised to meet their needs. They clearly require a range of financial services, such as opportunities to safeguard earned income or credit to enable them to maintain minimum levels of consumption throughout the year. In case of poor, credit is needed for consumption and emergencies because of fluctuating cash flows and seasonality of income. Credit support is also required to fulfill their life cycle needs and meet the social obligations and family commitments. Finally poor need credit for creating assets for increasing incomes and to improve their living conditions.

In establishing a strong relationship between the organised financial system, like commercial banks, and those people who need credit, the SHG-Bank linkage scheme is of extreme importance for them. The SHG-bank linkage programme has emerged as a suitable model for financial inclusion, mainly for people belong to rural and backward areas and who have no access of formal banking services. The main purpose of SBL model is to form small, consistent and participative groups of the poor and encourage them to contribute their savings regularly and provide such savings to their members at small rate of interest. Bank credit facility is also available to the group for the purpose of lending to its members. If the lead bank finds SHGs transactions satisfactory during at least three months, then such SHGs are given credit link by extending loan facilities. The financial services need to be designed guided by the development policies so that they can impact on the poverty issues. Ultimately, the financial inclusion process needs to be sustainable bringing in business viability for the financial providers and stabilized livelihoods for the clients.

The SHG-bank linkage program has proved as useful channel for credit delivery system with a wide acceptance by banks, NGOs and various government departments. The following tables show the agency-wise savings of SHGs and loan disbursed to SHGs.

Table No. – 2

Savings of SHGs with banks (Agency-wise position as on 31st March 2012)

Amount (Rs in lakh)

Sr. No	Name of Agency	Total Saving of SHGs with Banks as on 31st March 2012	
		No of SHGs	Saving Amount
1	Commercial Banks	4618086	415298.04
2	Regional Rural Banks	2127368	130013.93
3	Cooperative Banks	1214895	109829.49
Total		**7960349**	**655141.46**

Source: Annual Report, NABARD, 2011-12

Table No. – 3

Banks Loans disbursed to SHGs (Agency-wise position during 2011-12)

Amount (Rs in lakh)

Sr. No	Name of Agency	Loans disbursed to SHGs	
		No of SHGs	Saving Amount
1	Commercial Banks	600807	994204.49
2	Regional Rural Banks	304809	502605.15
3	Cooperative Banks	242262	156667.23
Total		**1147878**	**1653476.87**

Source: Annual Report, NABARD, 2011-12

NABARD has a key role to play in initiating and nurturing India's unique SBL programme. It was largely responsible for the RBI. Beginning as a pilot in 1992 with 500 SHGs, by March 2006, over 22 lakhs SHGs had been provided with bank loans. They covered over by three crores households and disbursed Rs.11,398 crores to their members.[5] In comparison, the loans outstanding of 162 MFIs in India were estimated to be around Rs.1,600 crores in March 2006. While in 2001, the proportion of rural bank credit disbursed through SHGs was less than 1 %, this figure has risen to over 6 percent. The following table shows the SHG bank linkages results in terms of saving and loan amount from 2006-07 to 2010-11.

Table No. – 4

SHG-Bank Linkages: Saving and Loans Amounts (As on 31st March)

Year	Savings with Banks		Bank Loan Disbursed	
	No. Of SHGs (in lakh)	Amount (Rs in crore)	No. Of SHGs (in lakh)	Amount (Rs in crore)
2006-07	41.61	3512.71	11.06	6570.39
2007-08	50.01	3785.39	12.28	8849.26
2008-09	61.21	5545.62	16.10	12253.51
2009-10	69.53	6198.71	15.87	14453.30
2010-11	74.62	7016.30	11.96	14547.73

Source: Status of Micro Finance in India, NABARD (from 2007-08 to 2010-11)

Business viability of lending to the SHGs has been well demonstrated and SHG-bank linkage is no more a charitable activity. The SHG-bank linkages not only create impact in the lives of the poor household but also enhance the business viability of the banks. It is also argued that the banks will not survive the new competitive environment of the banking industry, unless they strengthen their bond with SHGs and their federations. If a bank feels that this will become a profitable business in future, it should be first prepared to invest in this business.

CONCLUSION

The conclusion may be drawn from the above discussion that SHGs have high potential to achieve financial inclusion and have greater scope to grow in number and volume. On the other hand, the financial inclusion attained through SHGs is sustainable and scalable of its positive features. India has an extensive network of banking systems and it will need to find ways to bring improvements within the existing financial credit delivery mechanisms and adopt new models for extending their outreach from financial delivery. The potential needs to be duly recognized as a strategy to achieve financial inclusion. SHGs account in the bank should be treated as account for the entire individuals. Even though the individual members may not have direct account with the bank, the groups have the account representing the members. The SHG-bank linkage programme therefore needs to be taken as a part of the financial inclusion process since it brings to the formal banking fold the excluded category of poor segments of societies who are not able to access banking services individually.

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