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The Role of SHGS in Financial Inclusion. A Case Study

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Abstract- Inclusive growth is much needed to include common people into the orbit of development. Social and economic justice can be provided only with the inclusion of hitherto excluded deprived section of people. Lot of measures was undertaken by the Government of India and Reserve bank of India together to mitigate the problem of financial exclusion. It leads to particularly, development of all sections of people. To achieve this multi-model approach was adapted. Service Area approach, priority sector lending. Differential rate of interest, Lead Bank Scheme, issue of General credit card and Kisan credit card and so on help to overcome financial hassle to get credit from formal institutions. In this direction emergence of Self Help Groups(SHGs) and then SHG- Bank Linkage Programme help extensively to strengthen the poor specially women folk. SHGs play a vital role to improve the socio-economic condition of women folk by developing thrift habit and providing micro finance in times of need and also encouraging micro entrepreneurs.

This study highlighted the role of SHGs in financial inclusion. The primary data was collected through random sampling method and it reflects the positive relationship between SHGs membership and financial inclusion. The study shows after the membership to S H Gs there was enormous increase in the number of bank accounts by members to the extent of 82.7 percent from 17.3 percent before membership. With that, the credit availed by the members and annual repayment of the loan also shows positive trend. Thus SHGs help the deprived section of people to enter into formal financial sector and through that social and economic empowerment.

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

I. Introduction

In India a majority of population especially at the bottom of economic pyramid, those mainly include poor, backward, women and people of rural and distant places remain without access to formal financial services. Lot of exclusion can be seen among States, Sectors, Regions and communities. The development with exclusion cannot achieve social justice. The Growth strategies cannot succeed without the commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth (The Growth Report 2008).

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.

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 reformative measures like rural branch expansion, branch regulations, priority sector lending, differential rate of interest, interest rate ceiling, subsidized rate to priority sector lending, etc. Lead Bank Scheme 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 the major steps taken to boost financial inclusion. Beck.et.al(2000) disclosed the relationship between financial intermediary development and economic development. They show positive effect of total factor productivity with financial intermediary development and in turn economic development. Khan Committee recommended permitting banks to make use micro finance institutions as business correspondents/business facilitators to increase the reach of banks for more financial inclusion. Since 1990 Micro finance approach was considered as best 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 the weaker 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 Linkage Programme (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 for extending financial inclusion. They help poor by providing need based financial services.

II. Significance of the Study

Financial inclusion is very much needed to reach the unreached section of people and to bring them to the mainstream economy. A World Bank NCAER Survey (2003) on ‘Rural Access to Finance’ indicates that 70% of the rural poor do not have a bank account and 87% have no access to credit from a formal source. In the era of financial globalization, financial inclusion has been considered as a major requirement. Micro finance being used in India for the purpose accomplishing universal financial inclusion(Economic Research Journal 2009).SHGs with bank linkage provide the peer group, safe custody for their savings. They can protect themselves against risks and shocks by using micro finance facility. The income earning opportunities will increase. Micro insurance provides security to the life of poor people. SHGs have been recognized as a decentralized, cost effective and fastest growing micro finance initiative in the world, enabling over 103 million poor households’ access to a variety of sustainable financial services (Status of Micro finance in India 2011-2012). Puhazhendi and badatya (2002) studied about the saving behavior of SHGs members and observed a positive impact after becoming SHGs members. Empirical study by B.V Sanjeev and K.Thangavel (2012)shows there has been some improvement in the members ‘self-confidence and awareness.

Financial inclusion through Self-Help Group (SHG) and Bank Linkage Programme

A revolutionary step in rural banking is the introduction of SHG-Bank Linkage programme (SBLP).The formal financial institutions like commercial banks and Regional Rural Banks play significant role in financial inclusion, but sparse presence of these institutions and shrinking share of micro credit to total credit disabused by banks showed the essence of programme like Self-Help Group and Bank Linkage. This fills the gap existing between formal financial networks and unbanked poor weaker sections which is the intention of financial inclusion. This links formal financial system (public and private sector commercial banks, Regional Rural Banks, Co –operative banks) with the informal SHGs. SHG-Bank Linkage Programme was started with the intention of extending the outreach of formal banking to poor who mainly consist of women, small and marginal farmers, daily wage labourers, landless farmers, small businessmen, craftsmen etc. To begin with pilot project was launched by NABARD by linking 500 SHGs with banks in 1992. It has increased to 0.5 million in 2002. As on March 2012 total number of SHGs linked with banks were 79.60 lakhs with balance of Rs 6550 crore with banks (Status of Micro finance in India 2011-2012).

III. Objective

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

IV. Methodology

The area selected for the study is Hunsurtaluk of Mysore district of Karnataka State. An empirical study was conducted with 300 members, to test the hypotheses of the study. Random Sampling method was adopted. Primary data was collected through Sample Survey method, for which structured questionnaire and interview method was used. After joining SHGs the increase in bank accounts, increase in avail of credit, percentage of repayment are used as parameters of financial inclusion. Percentage, and paired T test are the methods adopted to check the results of the collected data.
Result and discussion

Table- 1 Number and percentage of SHGs members having Bank account

No.	**parameter**	**No. of SHG members**	**Percentage**
1	Before	52	17.3
2	After	248	82.7
3	Total	300	100

Financial inclusion is an important tool deployed for poverty reduction and income generation of poor and weaker sections of society. In this regard the above collected data for study area highlights the role of SHGs in financial inclusion. Table- 1 shows the number and percentage of bank accounts before and after joining the SHGs. The Sample consists of 300 members; out of 300 members only 17.3 percentage of the members having bank accounts before joining SHGs. But after joining it has been increased to 82.7 percentages. It shows that after joining the SHGs, more financial inclusion had taken place.

Credit availed by SHG members:

The null hypothesis (Ho): There is no significant difference between the mean values of the two variablesnamelycredit availed by SHGs members before the introduction of Self-Help Group and Bank Linkage Programme.(SBLP) andcredit availed by SHGs membersafter the introduction of SBLP.

The alternative hypothesis (Ha): There is a significant difference between the mean values of the two variablesnamelycredit availed by SHGs members before the introduction of Self-Help Group and Bank Linkage Programme.(SBLP) andcredit availed by SHGs membersafter the introduction of SBLP.

Table- 2 Result of research on Credit availed by SHGs members

Paired samples statistics

		Mean	N	Std.Deviation
Pair 1	CAA	15410.00	300	12656.32
	CAB	8103.33	300	9684.63

Paired samples test:

		Std.Deviation	T	df	Sig.(2-tailed)
Pair1	CAA-CAB	12851.84	9.85	299	.000

Table- 2 indicates that, in order to test the hypothesis framed in this connection, paired T- test was applied. The average mean value of credit availed after (CAA) and before (CAB) introduction of SBLP is Rs 15410 and Rs 8103.33 respectively and the standard deviation is Rs12656.32 and Rs 9684.63 respectively. Since the result of the analysis indicates that the null hypothesis is rejected at 1% significant level and hence the alternative hypothesis that there is statistically significant difference between the mean values of the two variables after the introduction of SBLP and before the introduction of SBLP, is accepted.

The research further confirmed that, there is an increase in the credit availed by the members of the SHGs. It is also observed that NGOs and Bankers actively participated in SHGs activities and encourage SHGs members to get some training in animal husbandry, sheep and goat rearing, poultry, tailoring etc. Here to quote Dr.PrakashBakshi, Chairman, NABARD,"SHGs help the banks to generate new business like housing, pension schemes insurance and hence the need for banks to help SHGs members to access banking services". The generalized result is that there is a significant increase in income generating activities of members of SHGs through credit availed. The mean value of the credit availed has increased from Rs 8103.33 to Rs 15410.00 after the intervention of the SHGs.

Individuals can improve their financial position by engaging themselves in income earning activities. To invest in business they require capital, for which one has to approach banks or other financial institutions. But banks lend money only to those who have repaying capacity and offer collaterals for the loan sanctioned. In this respect the system of SHGs help its members to borrow money without collateral security.

With this, the collected data exhibits that the loan amount availed by the SHGs members has increased after becoming members. The quantum of loan availed was classified into five categories such as below Rs 5000, Rs5001-10000, Rs 10001-20000, Rs 20001- 30000, Rs 30001 and above. The data shows that before intervention of SHGs most of the members (44.4%) could get a loan amount of below Rs 5000. After the intervention of the SHGs most of the members (74.3%) could borrow above Rs 20000. This shows the borrowing of the members has considerably increased after the intervention of the SHGs.

V. ANNUAL REPAYMENT PERCENTAGE

The null hypothesis (Ho): There is no significant difference between the mean values of the two variables, AnnualRepayment before the intervention of SHGs(ARPB) and Annual Repayment after the intervention of SHGs(ARPA).

The alternative hypothesis (Ha): There is a significant difference between the mean values of the two variables, annual Repayment before the intervention of SHGs and annual Repayment after the intervention of SHGs.

Table- 3 Annual Repayment percentage result

Paired samples statistics

		Mean	N	Std.Deviation	Std.Error Mean
Pair 1	ARPA	90.32	300	10.67	0.62
	ARPB	55.36	300	13.89	0.80

Paired samples test:

		Std.Deviation	T	df	Sig.(2-tailed)
Pair 1	ARPA-ARPB	18.15	33.439	299	.000

Table- 3 reveals that, in order to test the hypothesis framed in this connection, the T- test was applied. The average mean value of annual repayment after and before intervention of SHGs is Rs 90.32 and Rs 55.36 respectively and the standard deviation is Rs10.67 and Rs 13.89 respectively. Since the result of the analysis indicates that the null hypothesis is rejected at 1% significant level and hence the alternative hypothesis that there is statistically significant difference between the mean values of the two variables and before the intervention of SHGs is accepted.

The research further confirmed that, there is an increase in the annual repayment of the members of the SHGs after the intervention of the SHGs. The research also observed that NGOs and Bankers actively participating in SHGs activities and encourage SHGs members to take part in income earning activities. With increased economic strength of members, the research generalized the result that there is a significant increase in repayment level of SHGs members in study area. The mean value of annual repayment has increased from 55.36% to 90.32% after the intervention of the SHGs. The result of the analysis indicates the fact that the repayment percentage by the respondents has increased considerably after the intervention of the SHGs. The analysis states that majority (84.7%) of the SHG members have 50% repayment before the intervention of the SHGs, but after the intervention of the SHGs, the members (89.3%) have above 90% of repayment. The result shows that the level of percentage of repayment has considerably increased from 50% to 90% after the intervention of the SHGs.

VI. CONCLUSION

The Present paper attempted to study the impact of SHGs on financial inclusion. Calculation of percentage and paired T test exhibit the positive impact of SHGs on financial inclusion. The number of bank accounts, credit availed and repayment of credit showed positive increase with the membership of SHGs. The Global Financial Inclusion Data base(2012)found that the women are particularly disadvantaged, when comes to the access to financial services. Only 37% of women in developing countries have bank account, where as 46%of men do. The relative gender gap in formal account ownership is highest in South Asia.41%of men and 25%of women have an account. SHGs are mainly women groups help them to enter formal financial system and thereby become socially and economically empowered.

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