A Study of Self –Help Groups for Financial Inclusion in Indian Context

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This paper is based on the savings' mobilization initiative by the Government of India through means of financial inclusion. It has been intended to explore and suggest increased savings mobility to SHG's, so as to enhance the governments' initiative in mobilizing savings. Bank linkage schemes like saving linked SHG's andfresh loans to SHG's by banks have been analyzed. Further, measures have been suggested to banks to strengthen SHG-Bank linkage programme. Thus, a need of inclusive financial system that will facilitate financial services efficiently to financially exclude at affordable cost has evolved this study.

Keywords: Savings' Mobilization, Self-Help Group (SHG), Financial System, Financial Services

1. Introduction

Financial Inclusion refers to a process of providing the financial products/services to weaker section of the society at affordable cost. Financial inclusion is delivery of financial services to poor people and low-income group at reasonable price. People may be financially included through Commercial Banks, Regional Rural Banks (RRBs), Insurance services, Post Office Saving Banks (POSB). Planning Commission (Government of India) has targeted the Faster Inclusive Growth in Twelfth Five Year Plan (2012-17). In the present era, financial inclusion has become a policy priority of the government. In India, RBI has taken a number of initiates to achieve more financial inclusion viz. No-Frill Account, General Credit Card (GCC), Know Your Customers (KYCs) norms, Business Correspondence Model, Business Facilitators (BF) Model, and Bank Branches & ATMs expansion etc.

Financial inclusion refers to the timely delivery of banking/financial services to the vast section of disadvantaged and low income groups of society at an affordable cost. The various financial services include credit, savings, insurance, payments and remittance facilities. 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.

In India, Self Help Groups or SHGs represent a unique approach to financial intermediation. The approach combines access to low-cost financial services with a process of self-management and development for the women who are SHG members. A self-help group (SHG) is a village-based financial intermediary committee usually composed of 10–20 local women or men. Members make small regular savings contributions over a few months until there is enough capital in the group to begin lending. Funds may then be lent back to the members or to others in the village for any purpose. In India, many SHGs are 'linked' to banks for the delivery of micro-credit. For the rural women, economic empowerment can be harvested through the concept of Self-Help Groups (SHGs) based on group approach to rural development. SHGs are indeed a boon to the rural poor women who undertake viable economic activities on their own. SHGs are voluntary association of people formed to attain some common goals.

A self-help group may be registered or unregistered. It typically comprises a group of micro entrepreneurs having homogeneous social and economic backgrounds all voluntarily coming together to save regular small sums of money, mutually agreeing to contribute to a common fund and to meet their emergency needs on the basis of mutual help. They pool their resources to become financially stable, taking loans from the money collected by that group and by making everybody in that group self-employed. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment. This system eliminates the need for collateral and is closely related to that of solidarity lending, widely used by micro finance institutions.

2. Objectives

1. To study savings mobility among self-help group members.
2. To study the impact of financial inclusion on mobility in savings.
3. Scope of the Study.

The scope of this study is wider because it's not only includes self-help group's savings but also includes financial aspect as a whole. Financial inclusion speaks about the commercial banks, different financial institutions, rural development banks, post office different savings schemes and RBI's different policies to include all financial exclusion especially self-help group's savings which is mainly from rural area where this savings amount has not been included in any banking sector nor any financial sector. So in brief scope of this study is wider and it is not limited to the only one sector. Its covers the area of financial sector where different types of banks and financial institutions, self-help organizations or micro finance institutions and economy as a whole.

3. Literature Review

Rangarajan (2008) accessed that to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. Sharma (2009) studied the financial inclusion by channelizing existing recourses. His conclusions are that (i) use of technology in the banking system is the most feasible solution for achieving financial inclusion, and (ii) the implementation of technology should follow a top down approach. Anamika (2009) analyzed the efforts made by the government of India in the implementation of financial inclusion, identifies the barriers in the process and suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas. (Collard, 2007)Financial inclusion must include the three essential dimensions of banking, consumer credit and insurance and the importance of the concept has become more felt in cashless economies. S. K., (2011), analyzed the role of microfinance and observed that SHG membership and SHGbanking/MFP linkage could promote financial inclusion and households with SHG members achieve medium level of financial inclusion than non-members. The study observed that non-members had the lowest financial inclusion index, while SHG members had higher index and those having a linkage with banks/MFPs achieved even higher index. Uma, H. R. and Rupa, K, N., (2013), studied the impact of SHGs on financial inclusion with parameters of increase in bank accounts, increase in avail of credit and percentage of repayment during pre- and post-SHG situations. The study revealed positive impact of SHG on financial inclusion. The study found that the percentage of members having bank accounts, credit availed and repayment of credit had increased in post-SHG situation.

4. The Present Status of Shg-Bank Linkage Model

The new micro-credit approach involves the participation of banks, NGOs and SHGs through financial inclusion. In India, the SHG-Bank-Linkage-Program was first implemented by NABARD thoughbranches of commercial, co-operatives and regional rural banks in 16 states. It also gave banks some experience in working with SHGs. RBI encouraged by this experience recommended, adoption of the SHG-Bank Linkage Program at the national level and asked all the banks to make it a part of theircorporate strategy.

There are Three Models of Linking SHG and Banks in India

Model 1- provides all assistance directly to SHGs without any intervention facilitation by anyNGOs.

Model 2-provide all assistance directly to SHGs with facilitation by NGOs and otherformal agencies.

Model 3-provide all assistance through NGOs as facilitator and financing agency. While the SHG-Bank linkage program has surely emerged has dominant microfinancedispensation model in India, other models too have evolved as significant microfinanceproviding 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.

Present Status

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 31.3.2015. 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 North Eastern States. 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 end of 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 groups to total number of SHGs during the year, which implies more and more coverage of existing SHGs under NRLM / SGSY and NULM / SJSRY during the year.

Overall Progress under SHG-Bank Linkage Programme during last Three years (2012-15)
(Numbers in lakh/ Amount in Cr.)

Particulars		2012-13		2013-14		2014-15	
		No. of SHGs	**Amount**	**No. of SHGs**	**Amount**	**No. of SHGs**	**Amount**
SHG Savings with Banks as on 31st March	Total SHG Nos.	73.17 (-8.1%)	8217.25 (25.4%)	74.30 (1.53%)	9897.42 (20.45%)	76.97 (3.59%)	11059.84 (11.74%)
	All women SHGs	59.38 (-5.7%)	6514.86 (27.6%)	62.52 (5.27%)	8012.89 (22.99%)	66.51 (6.38%)	9264.33 (15.61%)
	Percentage of women groups	81.1	79.3	84.15	80.96	86.41	83.77
	Of which NRLM/SGSY	20.47 (-3.6%)	1821.65 (30.6%)	22.62 (10.46%)	2477.58 (36.01%)	30.52 (34.92%)	4424.03 (78.56%)
	% of NRLM/SGSY Groups to total	28.0	22.2	30.45	25.03	39.65	40.00
	Of which NULM/SJSRY	NA	NA	NA	NA	4.33	1071.81
	% of NULM/SJSRY Groups to total	NA	NA	NA	NA	5.63	9.69

Source: Nabard

(Numbers in lakh/ Amount in Cr.)

Particulars		2012-13		2013-14		2014-15	
		No. of SHGs	**Amount**	**No. of SHGs**	**Amount**	**No. of SHGs**	**Amount**
Loans Disbursed to SHGs during the year	No. Of SHGs extended Loan	12.20 (6.3%)	20585.36 (24.5%)	13.66 (12.02%)	24017.36 (16.67%)	16.26 (19.03%)	27582.31 (14.84%)
	All women SHGs	10.37 (12.4%)	17854.31 (26.3%)	11.52 (11.02%)	21037.97 (17.83%)	14.48 (25.69%)	24419.75 (16.07%)
	Percentage of women groups	85.1	86.7	84.3	87.6	89.05	83.53
	Of which NRLM/SGSY	1.81 (-13.8%)	2207.47 (-16.5%)	2.26 (24.56%)	3480.60 (57.67%)	6.43	9487.69
	% of NRLM/SGSY Groups to total	14.8	10.7	16.52	14.49	39.54	34.40
	Of which NULM/SJSRY	NA	NA	NA	NA	1.05	1871.55
	% of NULM/SJSRY Groups to total	NA	NA	NA	NA	6.46	6.79

Source: Nabard

(Numbers in lakh/ Amount in Cr.)

Particulars		2012-13		2013-14		2014-15	
		No. of SHGs	**Amount**	**No. of SHGs**	**Amount**	**No. of SHGs**	**Amount**
Loans Outstanding against SHGsas on 31st March	Total No. Of SHGs linked	44.51 (2.2%)	39375.30 (8.4%)	41.97 (-5.71%)	42927.52 (9.02%)	44.68 (6.46%)	51545.46 (20.06%)
	All women SHGs Linked	37.57 (2.2%)	32840.04 (7.8%)	34.06 (-9.34%)	36151.58 (10.08%)	38.58 (13.27%)	45901.95 (26.97%)
	Percentage of women SHGs	84.4	83.3	81.2	84.2	86.35	89.05
	Of which NRLM/SGSY	11.93 (-1.9%)	8597.09 (6.7%)	13.07 (9.55%)	10177.42 (18.38%)	18.46 (41.24%)	19752.74 (94.08%)
	% of NRLM/SGSY Groups to total	26.8	21.8	31.1	23.7	41.32	38.82
	Of which NULM/SJSRY	NA	NA	NA	NA	3.18	3462.62
	% of NULM/SJSRY Groups to total	NA	NA	NA	NA	7.12	6.72

Source: Nabard

Saving Linked SHGs

The number of SHGs has shown a steady progress since the launch of the SHG programme 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 programme in other resource poor states is still quite slow. However, potential for new SHGs exist in all region other than Southern Region.

Fresh Loans to SHGs by Banks

Fresh credit linkage of SHGs through institutional sources has been steadily increasing over the years. There was an increase of 19% in the number of SHGs being extended fresh loans during 2014-15 as compared to the previous year while the quantum of fresh loans went up by nearly 15% (16.26 lakh and Rs. 27,582 crores respectively during 2014-15 compared to 13.66 lakh SHGs and Rs. 24,017 crores during 2013- 14). During the year 2014-15, Southern Region accounted for more than 62% of the SHGs credit linked followed by Eastern Region which accounted for more than 21% of the credit linked SHGs. There was a rise in credit linkage in all major states except West Bengal over the previous year.

5. Suggestions for Strengthening SHG-Bank Linkage Program (Financial Inclusion)

1. **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.
2. **Capacity Building of Government Functionaries:** There is a need for sufficient training for SHG staff and members on SHG concept
3. **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 utilisation of loans (like revolving loan for money lending, luxurious consumption).
4. **Identification of Poor by the NABARD:** NABARD has already identified 16 States with large population of the poor, but exhibiting low performance in implementation of the programme. The ongoing efforts of NABARD to upscale the programme in the identified States need to be given a fresh impetus.
5. **Transparency in Maintenance of Records**: Banks, with the help of NABARD, should evolve a common checklist for all SHGs with very simple record keeping.
6. **SHGs to Evolve Norms for Distribution of Surplus:** There is a need to evolve norms for distribution of surplus especially at the time when a member drops out of the group.
7. **Need to restructure design & direction of SGSY subsidy**: All subsidy component of SGSY should be used for income generating activities.
8. **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 branch to be established to address this aspect.
9. **Federations:** Federations, if they emerge voluntarily from amongst SHGs, can be encouraged.
10. **ICT Technology and Product Innovation:** In the ever changing technology 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.

6. Conclusion

In India, microfinance in the formal sector has assumed the form of SHG-bank linkage program. Through this program, the Reserve Bank of India and NABARD has tried to promote relationship banking i.e., “Improving the existing relationship between the poor and the bankers with the financial inclusion. The SHG-bank linkage program in India is rapidly expanding its outreach under the pioneering initiative of NABARD, the monitoring and supervision of RBI, and the promotional policies of the government of India.

The NITI AYOG of India (Planning commission) is considering six major steps to be undertaken for universal financial inclusion. *First,* India needs an organizational structure that facilitates inclusion by promoting small banks despite their lack of viability due to high fixed costs. They must be able to provide both asset and liability products to small clients. *Second* is the focus on risk mitigation whereby vulnerable sections of society may afford low-cost insurance protection for life, healthcare, agricultural output and any other contingency through formation of micro-insurance firms. *Third,* norms pertaining to priority sector lending targets and the, use of government subsidies must be revisited and institutional changes need to be introduced including a deregulated interest rate environment. *Fourthly,* the use of technology must become prevalent to reduce the effective cost of delivery of financial products. Overall improvement of infrastructure for financial inclusion and the propagation of financial literacy are the last two items for implementation.

India is still developing country, where most of the part of India is of rural area with poor people. Most of the rural area does not have proper banking systems and due to this problem rural poor women cannot save their petty savings effectively and for the loan purpose they are ending up with private money lenders where they charge very high rate of interest by exploiting them. This SHGs through bank linkage helping them to save their petty savings with nationalized and commercial banks with full security and easily they can avail bank loan through SHGs at minimum rate of interest. The SHGs and linking their savings account to bank through financial inclusion has made drastic changes in the life of rural people and even on their standard of living. If we include like this all SHGs and small NGOs savings accounts of almost all rural areas to banking sector through financial inclusion than within a short span of time we can see good changes in the rural area and which in turn help us to reduce the gap between urban and rural area leading to the development of the country.

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