

# Financial Inclusion Through Self Help Groups for Rural Livelihoods – An Analysis

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## ABSTRACT

Financial inclusion has becoming central to Indian policy making over the past few years and various attempts have been made to expand its scope. Social and economic justice has to be provided for common people through inclusive growth. Since beginning several measures were undertaken by the Government of India and Reserve Bank of India for financial inclusion with a view to develop all sections of the people. In order to achieve this subjective multi model approach was adopted. Service areas approach, priority sector lending differential rate of interest, leading bank scheme issue of general credit and kisan credit and so on to overcome financial hassle to get credit from financial institutions. In this backdrop NABARD has started an innovative programme 1992 from a linking of the banks to SHG groups of rural poor. It now boasts of the worlds largest microfinance initiatives with over 7.4 million representing 97 million rural households directly becoming parts of this great movement.

With the emergence of SHGs and SHGs-Bank Linkage programme contributed large for improving the livelihoods especially women folk. SHGs play a significant role by developing thrift habit and providing credit as and when required. In this paper an attempt is made to examine the performance of SHGs, Bank Linkage for financial inclusion and rural livelihoods.

**Keywords:** Financial inclusion, rural livelihoods, self help groups, bank linkage programme

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 fruits of growth.

The concept Inclusive Growth gained much importance as the solution to problem of financial inclusion. Eleventh Five Year Plan (2007-12) advocates for inclusive growth. This is to reduce poverty and other disparities

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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 they were live (World Bank- 2004).

Financial inclusion has become central to Indian policy making over the past few years and various attempts have been made to expand its scope. Financial inclusion can be defined as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. In the case of credit, the proper definition of the financially excluded would include households who are denied credit in spite of their demand. Although credit is the most important component, financial inclusion covers other financial services such as savings, insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded.

By nationalization of commercial banks in 1969 and 1980 multi-model approach was adapted to financial inclusion in India. The Reserve Bank of India introduced various reformative measures like rural branch expansion, branch regulations, priority sector lending, differential rate of interests, 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 scheme in 2001 recently Pradhan Mantri Jan-Dhan Yojana in 2014 are the major steps taken to boost financial inclusion.

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 intragroup lending. SHGs act as business correspondents to banks for extending financial inclusion. They help poor by providing need based financial services.

## DATA BASE AND METHODOLOGY

The study has been collected based the secondary data. The secondary data has been collected from various sources i.e. planning commission, NABARD, Journals and publications etc. simple percentages have adopted in the analysis.

## RESULTS AND DISCUSSION

India has been adopting rural development through various public policies since independence and the policy makers have been emphasizing upon the need of rural development ever since the advent of planning process in the country. The ultimate objective of rural development was the eradication of poverty and providing livelihoods of masses. IN formulating rural development policy the whole approach has been fundamental and has been targeted towards alienating rural poor from the clutches of poverty. Estimates of the numbers of people below the poverty-line vary quite widely, but the figure of 40 percent of the population is quite commonly used.

The table-1 given below shows the percentage of population and number of persons below poverty line in India over various years.

**Table 1:** Percentage and Number of Rural Peoples below Poverty Line In India over various Years

| Year    | Percentage of People Below Poverty Line in India | Number of Persons Below Poverty Line (in Millions) |
|---------|--|--|
| 1973-74 | 56.4   | 261.3  |
| 1977-78 | 53.1   | 264.3  |
| 1982-83 | 45.7   | 252.0  |
| 1987-88 | 39.1   | 231.9  |
| 1993-94 | 37.3   | 244.0  |
| 1990-00 | 27.1   | 193.2  |
| 2003-04 | 28.3   | 220.90   |
| 2009-10 | 33.8   | 278.21   |

Source: Planning Commission

Poverty is a crucial problem in all developing countries in the present day world. It is felt that the problem of poverty can be solved through a concerted effort by the State. Sustainable livelihood opportunities can be provided to the deprived and the destitute by means of lending asset creating facilities. From last several years microfinance have been recognized world over as an effective tool for livelihoods of rural poor. Microfinance interventions in various countries has helped in initiating a range of economic and social development activities and had created positive impact on the status of rural poor in their houses and communities. Providing microfinance through SHGs has been one of the major policies of RBI in India since 1996. Formations of SHGs were encouraged with a motive to keep them away from bureaucracy, corruption and unnecessary red-tape hassles. This has resulted in the formation of a large number of self help groups in the country. These small groups are encouraged to pursue democratic culture where all members are expected to participate actively in debate and decision making process.

### ***Self-Help Groups***

A self-help group is an informal association of 10 to 20 rural women, socio-economically homogeneous, with a background of affinity, who meet regularly to transact the business of Savings and Credit. It mobilizes the savings from individual members and extends credit from the funds so mobilized, to the needy members for consumption and investment purposes. The primary purpose of the SHG is to facilitate the members to save and extend to them credit, as necessary. These funds may be supplemented by funds accessed from external institutions. The group may take up agenda other than savings and credit, for fulfillment of common interests, without diluting its primary focus. The operational guidelines of the group would be generated through participatory processes. For these purposes the group would maintain an accounting and documentation system as suitable". The SHG will state the objectives and evolve its rules for functioning. Such rules will include savings, lending, group meetings, penalties for any deviant behavior, election and rotation of leaders and duties of leaders and the members. The group will meet regularly, on specified dates/days, at

the specified place and time. The meeting will be at a common venue or if need be, held at each member's house, by rotation. Each SHG will elect two leaders/representatives, to represent the group. The SHG is to have regular elections – at least once in a year – when the leaders will have to seek the mandate of the members. Some promoters prefer the terms representatives, and not leaders, so that the "position" is seen as more of a responsibility than authority. The SHG operations are based on democratic principles and participatory processes, which means decision making will be done with the participation of all and by majority opinion. The initial loans will be small in size and therefore, predominantly for consumption purposes. As the fund availability increases (through internal mobilization, revolving fund grants and borrowings), and the group gains confidence, the loan size also increases and will be utilized, more for income generation and investment purposes. The SHG depends peer pressure for collecting repayments, in case of default by any members.

### ***Genesis Of SHG-Bank Linkage Programme***

A series of research studies conducted by NABARD during the early 1980s revealed that despite having a wide network of rural bank branches which implemented a variety of poverty alleviation programmes seeking creation of self-employment opportunities through bank credit for almost two decades, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking system. These studies also showed that the existing banking policies, systems and procedures, and deposit and loan products were, perhaps, not suited to meet the most immediate needs of the poor. It also appeared that what the poor really needed was better access to these services and products, rather than cheap subsidized credit.

Thus began a search for alternative policies, systems and procedures, savings and loan products, other complementary services and new delivery mechanisms which would fulfill the requirements of the poorest, especially the women members of such households. The emphasis therefore was on improving the access of the poor to microfinance rather than just microcredit. As a huge network of state-owned bank branches already existed, NABARD focused not on creating alternative

organizations, but on finding ways and means to improve the access of the poor to the existing banking network. Many research studies, done in-house as well as sponsored by professional institutions, and some action research projects funded out of the research and development fund of NABARD, led it to develop the SHG-bank linkage model as the core strategy that could be used by the banking system in India for increasing its outreach to the poorest of the poor, hitherto bypassed by them. The strategy involves forming small, cohesive and participative groups of the poor, encouraging them to pool their thrift regularly and using the pooled resources to make small interest-bearing loans to members, in the process learning the nuances of financial discipline. Bank credit then follows. It needs to be emphasized that NABARD views the promotion and bank linking of SHGs not merely as a credit programme but a part of an overall arrangement for providing financial services to the poor in a sustainable manner and also an empowerment process for the members of these SHGs. NABARD, however, also took a conscious decision to experiment with other successful strategies such as replicating the Grameen Bank (Bangladesh) model. Above all, the need for evolving suitable mechanisms for meeting the economic aspirations of the poor was considered necessary.

| Credit form                    | % Share |
|--------------------------------|---------|
| Landlords                      | 4.0     |
| Agricultural Moneylenders      | 7.0     |
| Professional Moneylenders      | 10.5    |
| Relatives and Friends          | 5.5     |
| Others                         | 9.0     |
| All Non-Institutional Agencies | 36.0    |
| All Institutional Agencies     | 64.0    |
| All Agencies                   | 100.0   |

It was in this scenario that the SHG-bank linkage programme was launched by NABARD in 1992, with the firm policy backup of the Reserve Bank of India.

#### **Objectives of SHG-Bank Linkage**

- ❖ Provision of supplementary credit to SHGs.
- ❖ Reduction in transaction cost for both the banks as well as SHGs by reducing paper work.

- ❖ Building mutual trust and confidence between banks, NGOs and rural poor.
- ❖ Mobilizing small savings among poor rural women.
- ❖ Creating healthy relations between SHG members and the linking agencies.
- ❖ Constant supervision and monitoring by banks through NGOs.

#### **Principles of SHG-Bank Linkage**

- ❖ Savings first, no credit without savings
- ❖ Savings as partial collateral
- ❖ Bank loans to the SHG for on-lending to their members
- ❖ Interest rates and other terms and conditions for loans to members to be decided by the group
- ❖ Joint liability as substitute for physical collateral
- ❖ Ratio between saving and credit contingent upon credit worthiness and could increase over a period due to good repayment record, if needed.
- ❖ Small loans to begin with the different credit cycles clearly defined.

#### **Benefits of SHG-Bank Linkage Programme**

- ❖ An effective rural credit deliver system
- ❖ Reduction in transaction cost improvement in recovery performance
- ❖ Ensuring better end – use of the loan
- ❖ Profitable proposition as 100% refinance is available from NABARD at cheaper rate.
- ❖ Simple loaning procedure and documentation
- ❖ Pool of savings mobilized from rural poor
- ❖ Fostering rural publicity that builds/improves bank linkage
- ❖ Above all, the rural poor reposing confidence on banks

#### **Current trends: A pointer to Financial Inclusion**

As per the 2011 census reveals the low level of banking usage among Indian households in general (table-2). This reflects on the latent demand for general banking needs in rural areas.



**Table 2:** Usage of Banking services by Indian households (HHs)

|                                       | Total No. | % of HHs | Rural | % of Total HHs | Urban | % of Total HHs |
|---------------------------------------|-----------|----------|-------|----------------|-------|----------------|
| Total No. of HHs                      | 24.66     | 100      | 16.78 | 68.04          | 7.88  | 31.96          |
| No. of HHs which use banking services | 14.48     | 58.7     | 9.13  | 54.5           | 5.34  | 67.8           |

Source: Census of India 2011

### *NABARD's Initiatives*

NABARD has been playing the role of propagator and facilitator by providing a conducive policy environment, training and capacity- building besides extending financial support for the healthy growth of the SHG-bank linkage programme in the country.

### *Over the years, Various Promotional steps taken are Enumerated as Under*

- ❖ Conceptualization and introduction of pilot programme in February 1992 for linking 500 SHGs with banks after consultations with Reserve Bank of India, banks and NGOs.
- ❖ Introduction of Bulk Lending Scheme in 1993 for encouraging the NGOs which were keen to try group lending approach and other financial services' delivery innovations in the rural areas.
- ❖ Developing a conducive policy framework through provision of opening savings bank accounts in the names of SHGs (though they are informal groups), relaxation of collateral norms, simple documentation and delegation of all credit decisions and repayment terms to SHGs.
- ❖ Training and awareness building among the stakeholders.
- ❖ Provision of capacity-building among the stakeholders
- ❖ Mainstreaming the SHG-bank linkage programme as part of corporate planning and normal business activity of banks in 1996 and internalizing training, monitoring and review mechanism.

- ❖ Encouraging banks for promotion of SHGs
- ❖ Financial support to NGOs for promotion of SHGs
- ❖ Encouraging rural individual volunteers in promotion and nurturing of SHGs.
- ❖ Close monitoring
- ❖ Dissemination through seminars, workshops, occasional papers and print media.
- ❖ Constitution of a high powered task force to look into the aspects of policy and regulation of microfinance and suggest policy, legal, regulatory measures for smooth, unhindered growth of the microfinance sector.
- ❖ Setting up a Microfinance development fund in NABARD for meeting the promotional costs of up scaling the microfinance interventions. The fund has since been re-designated as microfinance development and equity fund (MFDEF)
- ❖ Initiating the credit rating of MFIs through accredited credit rating agencies in India by meeting 75 per cent of the cost of the rating as grant. This is done to enable the MFIs to approach banks for commercial borrowing and extending microcredit to the poor.

### *An Analysis of SHGS bank linkage Programme*

The SHG-bank linkage programme continued to be the main micro-finance model by which the formal banking system reaches the micro entrepreneurs (including farmers). Table-3 manifests the broader components of the programme, namely inclusive growth, savings, loans and the recovery performance.

An overall decline in the number of SHGs linked to banks for their savings accounts under the SHG-Bank linkage programme noticed during 2012-13 – first time since the programme was launched two decades back – has been reversed during the current year though with a marginal increase of 1.53% with 74.30 lakh SHGs savings linked to Banks as on 31.3.2014 as against 73.18 lakh during the previous year. Correspondingly, the coverage of rural households having access to regular savings through SHGs linked to banks also went up to 96.6 million from 95 million as on 31 March 2013. Another highlight of the year's performance under the programme was the

spurt in the number of SHGs being sanctioned fresh loans by banks during the year. 13.36 lakh SHGs were sanctioned fresh loans during the year – a 12% increase over 12.20 SHGs getting fresh loans during 2012-13. The quantum of fresh loans issued by banks also rose by nearly 17% during the year (Rs.24017 crore). This is indicative of increasing confidence in lending to SHGs by banks. Number of SHGs credit linked with banks, however, showed a decline of nearly 6% to 41.97 lakh as against 44.51 lakh a year back though the amount of loan outstanding has gone up by 9%. The total loan outstanding by SHGs stood at Rs.42928 crore as on

31.3.2014. The average loan outstanding of SHGs with banks is Rs.1,02,273 against Rs.88,500 a year back. The share of exclusive women SHGs in the total number of SHGs linked to banks now stands at 84% (up from 81% last year) while the groups formed under the NRLM/SGSY/Other Government sponsored programmes now constitutes 30% of the total number of groups.

Table gives the growth of SHGs – saving as well as credit linked – during 2011 -12 to 2013-14, separately for all Groups, Groups under NRLM/SGSY/Other Government sponsored programmes and exclusive Women Groups.

**Table 3:** Overall Progress under SHG-Bank Linkage during 2011-12 to 2013-14

(Amount Rs. in crore/Numbers in Lakhs)

| Particulars   |  | 2011-12            |                     | 2012-13            |                     | 2013-14            |                      |
|---|--|--------------------|---------------------|--------------------|---------------------|--------------------|----------------------|
|   |  | No. of SHGs (lakh) | Amount              | No. of SHGs (lakh) | Amount              | No. of SHGs (lakh) | Amount               |
| SHG savings with Banks as on 31 <sup>st</sup> March | <b>Total SHGs</b>  | 79.60<br>(6.7%)    | 6551.41<br>(-6.7%)  | 73.1%<br>(-8.1%)   | 8217.25<br>(25.4%)  | 74.30<br>(1.53%)   | 9897.42<br>(20.45%)  |
|   | Of which NRLM/ SSY/ Other Govt. spoons. Programmes             | 21.23<br>(5.0%)    | 1395.25<br>(-23.2%) | 20.47<br>(-3.6%)   | 1821.65<br>(30.6%)  | 22.62<br>(10.46%)  | 2477.58<br>(36.01%)  |
|   | % of NRLM/SGSY/ Other Govt. spoons. Programme Groups to total  | 26.7               | 21.3                | 28.0               | 22.2                | 30.45              | 25.03                |
|   | All women SHGs   | 62.99<br>(3.3%)    | 5104.33<br>(-3.7%)  | 59.38<br>(-5.7%)   | 6514.86<br>(27.6%)  | 62.52<br>(5.27%)   | 8012.89<br>(22.99%)  |
|   | Percentage of Women Groups                                     | 79.1               | 77.9                | 81.1               | 79.3                | 84.15              | 80.96                |
| Loans Disbursed to SHGs during the year             | <b>Total SHGs</b>  | 11.48 (-4%)        | 16534.77<br>(13.7%) | 12.20 (6.3%)       | 20585.36<br>(24.5%) | 13.66<br>(12.02%)  | 24017.36<br>(16.67%) |
|   | Of which NRLM/ SGSY/ Other Govt. spoons. programmes            | 2.10<br>(-12.9%)   | 2643.56<br>(6.6%)   | 1.81<br>(-13.8%)   | 2207.47<br>(016.5%) | 2.26<br>(24.56%)   | 3480.60<br>(57.67%)  |
|   | % of NRLM/SGSY/ other Govt. spoons. Programmes Groups to total | 18.3               | 16.0                | 14.8               | 10.7                | 16.52              | 14.49                |
|   | All Women SHGs   | 9.23<br>(-9.2%)    | 14132.02<br>(22.0%) | 10.37<br>(12.4%)   | 17854.31<br>(26.3%) | 11.52<br>(11.02%)  | 21037.97<br>(17.83%) |
|   | Percentage of Women Groups                                     | 80.4               | 85.5                | 85.1               | 86.7                | 84.3               | 87.6                 |

## Financial Inclusion Through Self Help Groups for Rural Livelihoods – An Analysis

|   |  |                  |                     |                  |                    |                   |                      |
|---|--|------------------|---------------------|------------------|--------------------|-------------------|----------------------|
| Loans Outstanding against SHGs as on 31 <sup>st</sup> March | <b>Total SHGs</b>  | 43.54<br>(-9.0%) | 36340.00<br>(16.4%) | 44.51<br>(2.2%)  | 39375.30<br>(8.4%) | 41.97<br>(-5.71%) | 42927.52<br>(9.02%)  |
|   | Of which NRLM/ SGSY/ Other Govt. spoons. programmes            | 12.16<br>(-5.4%) | 8054.83<br>(2.9%)   | 11.93<br>(-1.9%) | 8597.09<br>(6.7%)  | 13.07<br>(9.55%)  | 10177.42<br>(18.38%) |
|   | % of NRLM/SGSY/ Other Govt. spoons. Programmes Groups to total | 27.9             | 22.2                | 26.8             | 21.8               | 31.1              | 23.7                 |
|   | All Women SHGs   | 36.49<br>(-8.4%) | 30465.28<br>(16.6%) | 37.57<br>(2.9%)  | 32840.04<br>(7.8%) | 34.06<br>(-9.34%) | 36151.58<br>(10.08%) |
|   | Percentage of Women SHGs                                       | 83.8             | 83.8                | 84.4             | 83.8               | 81.2              | 84.2                 |

(figures in the parenthesis indicates growth/decline over the previous years)

**Source:** NABARD, Mumbai 2013.

### CONCLUSIONS

In spite SHG-bank linkage has contributed well towards achieving the objective of equitable financial inclusion yet to expand financial inclusion is essentially a small step in a long journey. The financial inclusion attained through SHGs is sustainable and scalable on account of various positive factors. One of the distinctive features of SHG-Bank Linkage programme has been very high on time recovery. SHGs are playing vital role in providing livelihoods of the rural people. Rural India has been busy setting up micro-enterprises by forming good number of SHGs. The group members use collective wisdom and peer pressure to ensure appropriate use of fund and members come together towards collective action for common cause. They good able to meet economic needs without depending on external assistant in emergency time. SHGs have also been taken as a means for empowerment of rural women. It also proved successful not only in improving the social economic conditions through income generation but in creating awareness about health and hygiene, sanitation and cleanliness, environmental protection, importance of education and response for developmental programmes. However, the programme confronts many challenges for further scaling up, these challenges needs to be addressed.

- ❖ Expansion of the branches of banks should be the main thrust by establishing branch in every

village panchayat with adequate staff and banking network.

- ❖ Banks should support SHGs to acquire functional skills, entrepreneurial capabilities, technology, raw-material support, market exposure and infuse capacity building among the group members to take up income generating activity and to make the groups reliable.
- ❖ There is need to enhance the loan amount to the groups since the costs increased abnormally in order to start economic activity.
- ❖ Co-operative banks and regional rural banks should be brought into the effort to expand financial inclusion for improve the efficacy of rural credit delivery mechanism.
- ❖ It is better for placing a tenth class educated local SHG women member with leadership skill in the premises of bank to assist illiterate SHG members in transacting with the banks.
- ❖ Pradhan Mantri Jan-dhan Yojana programme which aims to ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittance facility, insurance and pension to the excluded section has to be implemented effectively by deputing bankers to grama sabha meeting in order to sensitize among rural people for financial inclusion.

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