ROLE OF SELF – HELP GROUPS IN FINANCIAL INCLUSION – A Study With Reference to Women Self – Help Groups in Virudhunagar District

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Abstract

Financial inclusion is emerging as a priority for a nation's economic development. The Reserve Bank has been pursuing a multi – pronged strategy for enhancing the outreach of financial services including the delivery channels across on sections. 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. There are a number of plausible ways by which matured SHGs could have been participants in the financial inclusion initiative, including being agents of providing direct banking services to the poor at their doorsteps, as a low-cost and efficient alternative.

Key word: *Self help group, women employment, economic development, poverty.*

INTRODUCTION

Financial inclusion is emerging as a priority for a nation's economic development. The Reserve Bank has been pursuing a multi – pronged strategy for enhancing the outreach of financial services including the delivery channels across on sections. The entire Spectrum of the financial system which comprises Commercial Banks, Regional Rural Banks (RRBs), Union Co-operative Banks (UCBs), Primary Agricultural Credit Societies (PACs), and post offices is, therefore, geared for this purpose. Besides, Self-Help Groups (SHGs) and Microfinance Institutions (MFIs) also meet the financial service requirements of the poorer segments. Furthermore, banks have been encouraged to use a combination of strategies which include provision of new products and relaxation of processes coupled with leveraging Information and Communication Technology (ICT) for efficient handling of low ticket large volume transactions.

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 have low transaction cost and very low risk cost for banks. In India, the concept of micro finance encourages SHGs as means of savings and loan providers. 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 one of the largest micro finance programmes in the world and many other countries are keeping replicating this model.

SELF HELP GROUP BANK LINKAGE PROGRAMME

Despite having a wide network of rural bank branches in India reaching the poorest, whose credit requirements were very small, frequent and unpredictable, was found to be difficult. This poses the biggest challenge to achieve hundred percent financial inclusions before Indian formal financial system. Therefore, need was felt for alternative policies, systems and procedures, savings and loans products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest. As a result NABARD launched the Self Help Group Bank Linkage Programme in 1992. The 'Status of Microfinance in India' report observed that a successful programme such as the SHG-BLP, which could link millions of rural poor to the formal banking system, could have been the main instrument for financial literacy and financial inclusion in the country. "There are a number of plausible ways by which matured SHGs could have been participants in the financial inclusion initiative, including being agents of providing direct banking services to the poor at their doorsteps, as a low-cost and efficient alternative"

STATEMENT OF THE PROBLEM

Out of 19.9 crore households in India, only 6.82 crore households have access to banking services. As far as rural areas are concerned, out of 13.83 crore rural households in India, only 4.16 crore rural households have access to basic banking services. In respect of urban areas, only 49.52 per cent of urban households have access to banking services and 34 per cent of the India's urban population with annual income less than Rs. 50,000 have access to banking services.

Poverty and exclusion continue to dominate socio-economic and political discourse in India as they have done over the last six decades in the post-independence period. Poverty reduction has been an important goal of development policy since the inception of planning in India. Various anti-poverty, employment generation and basic services programmes have been in operation for decades in India. The ongoing reforms attach great importance to removal of poverty and to addressing the wide variations across states and the rural-urban divide. Though the Indian economy recorded impressive growth rates until recently, its impact has sadly not fully percolated to the lowest deciles. Despite being one of the ten fastest growing economies of the world, India is still home to one-third of the world's poor.

The Government and the Reserve Bank have been pursuing this goal over the last several decades through building the rural cooperative structure in the 1950s, the social contract with banks in the1960s and the expansion of bank branch networks in the 1970s and 1980s. The seinitiatives have paid off in terms of a network of branches across the country. Yet, the extent of financial exclusion has been staggering. Out of the 600,000 habitations in the country, only about 30,000 had a commercial bank branch. Just about 40 percent of the population across the country had bank accounts.

Another major challenge is that banks are yet to develop sustainable and scalable business and delivery models to guide their FI initiatives. While several alternate models have been tried out, the time has come for banks to zero in on the models that they find most suited to their goals and to focus on scaling up the same.

While access to financial services has improved, the usage of the financial infrastructure continues to be tardy. While more than 2.70 lakh banking outlets are available across the country, the number of transactions in these accounts remains unimpressive. For instance, nearly half of the Basic Savings Bank Deposit accounts are not seeing transactions. This not only restricts the potential benefits that could accrue from increased financial access but also reduces the viability of FI activities for banks and BCs. The reduced viability, in turn, impacts the scalability of the model, thereby hampering FI efforts.

While banks have innovated on technology, the same has not resulted in significant reduction in the cost of providing financial services. Beneficiaries/ stakeholders often complain of constraints in digital/ physical connectivity. This coupled with delays in issuance of smart cards, reliability issues in hardware infrastructure such as hand held devices, etc. have impacted the quick roll out of financial services across the country.

There are a number of factors affecting access to financial services by weaker sections of the society in India. The lack of awareness, low income and assets, social exclusion, illiteracy is the barriers from demand side. The distance from bank branch, branch timings, cumbersome banking procedure, and requirements of documents for opening a bank account, unsuitable banking products/schemes, language, high transaction costs and attitude of bank officials are the barriers from supply side.

In this context, the present study is undertaken to explore the practical impediments in the implementation of Financial Inclusion initiatives to the weaker sections of people in the study area.

OBJECTIVES OF THE STUDY

1. To present the mechanism of various financial inclusion models
2. To focus on the developments in financial inclusion initiatives in India such as Business Correspondents, Basic Savings Bank Deposit Account, OD Facility, Kisan Credit Card Scheme General Purpose Credit Cards and ICT-Based Accounts
3. To analyse the perception and experience of Self – Help Group members towards financial inclusion in Virudhunagar District.
4. To provide viable suggestions for effective implementation of Financial Inclusion measures.

RESEARCH METHODOLOGY

The present study is based on both primary and secondary data. The primary data has been collected with the help of a sample survey of members of Self-Help Groups.

First hand data are collected from the field through interview schedule and observation. The interview schedule drafted at first instance was circulated among a few research scholars and field experts for a critical review with regard to wordings, format and sequence. It was redrafted in the light of their comments. The schedule has thus become an undisguised structured data gathering instrument suitable for a personal interview.

Virudhunagar district has 11 Blocks. 400 Self-Help Group members have been selected from these 11 Blocks on the basis of convenient sampling method. The sample size for the survey of Self-Help Members was 400. Each respondent was contacted to collect information regarding the reach of financial inclusion.

FINDINGS OF THE STUDY

SHG MEMBERSHIP DURATION

The survey has collected information as to how long the respondents have been the members of Self-Help Groups. Of the 400 respondents surveyed, 5.5% has been the members for less than 2 years. The Self-Help Group membership duration has been 2 – 4 years in the case of 11.5% of the respondents, 4 – 6 years in the case of 31% of the respondents, 6 – 8 years in the case of 37% of the respondents and more than 8 years in the case of 15% of the respondents.

TABLE – 1
SHG MEMBERSHIP DURATION

Duration	No. of Respondents	Percentage
Less than 2 Years	22	5.50
2 – 4 Years	46	11.50
4 – 6 Years	124	31.00
6 - 8 Years	148	37.00
8 Years and Above	60	15.00
Total	**400**	**100.00**

Source: Primary Data

It is observed that as many as 83% of the respondents have been a part of the Self-Help Groups for more than 4 years.

REASONS FOR JOINING SELF-HELP GROUP

The Self-Help Group meetings serve as a helpline to initiate saving habits among the members. Such meetings also help to exchange ideas and possible solutions regarding social and business issues. The internal lending is another benefit available in Self-Help Groups. The Self-Help Groups motivate their members to conduct suitable business activities so that the members can generate income out of such business. The reasons for joining the Self-Help Group as noted by the members showed that 'savings' was the major reason (39%) followed by 'Benefit of internal lending' (27%), 'exchange of ideas' (20%) and 'generating income out of business' (14%).

TABLE – 2
REASONS FOR JOINING SELF-HELP GROUP

Reasons	No. of Members	Percentage
Savings	156	39.00
Exchange of Ideas	80	20.00
Benefit of internal lending	108	27.00
Generating income for the member	56	14.00
Total	**400**	**100.00**

Source: Primary Data

It was observed that savings and internal lending had constituted main reasons (66%) for joining Self-Help Groups.

LOAN UNDER SHGs – BANK LINKAGE PROGRAMME

Of the 400 Self-Help Group members surveyed, 368 members accounting for 92% have obtained loans under SHGs Bank linkage programmes and only 32 respondents (8%) have stated that no loan was obtained.

TABLE – 3

LOAN UNDER SHGs – BANK LINKAGE PROGRAMME

Status	No. of Members	Percentage
Loan obtained	368	92
Loan not obtained	32	8
Total	**400**	**100**

Source: Primary Data

It is observed that loan under SHG bank linkage programme have reached majority of the Self-Help Group members in Virudhunagar District.

PURPOSE OF BANK LOAN

The members availed bank loan from the banks for different purposes. Out of the 368 members of the Self-Help Groups who had obtained bank loan, 83% had received bank loan to meet emergency expenses like buying medicine for their family members, buying books or dress for a school-going child, or buying food when there is no work. 13% of the members had availed the bank loan to meet previous small loan. A small 4% of the members had used the bank loan in income generation activities.

TABLE – 4

PURPOSE OF BANK LOAN

Purpose	No. of members	Percentage
To meet emergency expenses	306	83.15
To meet previous small loan	49	13.32
To use in income generation activities	13	3.53
Total	**368**	**100**

Source: Primary Data

EFFECT OF REACH OF FINANCIAL INCLUSION: AN ANALYSIS USING *Mc Nemar Test*

In order to test whether there is any significant difference in effect of reach of financial inclusion among the sample members before and after joining the Self-Help Groups, the following null hypotheses were framed and tested using Mc Nemar test setting the level of significance at 5% (i.e., 0.05).

1. There is no significant difference in savings bank account among the sample members before and after joining the Self-Help Groups.
2. There is no significant difference in income level among the sample members before and after joining the Self-Help Groups.
3. There is no significant difference in savings among the sample members before and after joining the Self-Help Groups.
4. There is no significant difference in capacity to spend amount among the sample members before and after joining the Self-Help Groups.
5. There is no significant difference in the value of assets among the sample members before and after joining the Self-Help Groups.
6. There is no significant difference in recognition in the family among the sample members before and after joining the Self-Help Groups.
7. There is no significant difference in loan availed from banks among the sample members before and after joining the Self-Help Groups.

The P value method is used to identify a region of rejection. The P values are found out and the results of the Mc Nemar Test are given in the following table.

TABLE – 5
EFFECT OF REACH OF FINANCIAL INCLUSION -
AN ANALYSIS USING *Mc Nemar Test*

Effect of Reach of Financial Inclusion	P value	Level of Significance	Remarks
Savings Bank Account	0.047913	0.05	H_0 Rejected
Income Level	0.02591	0.05	H_0 Rejected
Savings	0.214847	0.05	H_0 Accepted
Capacity to Spend Amount	0.231998	0.05	H_0 Accepted
Value of Assets	0.070952	0.05	H_0 Accepted
Recognition in the Family	0.014577	0.05	H_0 Rejected
Bank Loan Availed	0.014577	0.05	H_0 Rejected

It is clear from the above table that remarkable improvement is noticed after joining Self-Help Groups in four out of seven variables governing self-worth**:** Savings Bank Account, Income Level, Recognition in the Family, Bank Loan Availed. In all these cases, the P value is less than the level of significance and hence, the null hypotheses are rejected implying that there is a considerable improvement in respect of these variables as a result of joining the Self-Help Groups.

In the case of other three variables – Savings, Capacity to Spend Amount, Value of Assets – the P value is more than the level of significance and hence, the null hypotheses are accepted implying that there is no considerable improvement in respect of these variables as a result of joining the Self-Help Groups.

SUGGESTIONS

1. The idea of financial inclusion will be better served in the medium term if specialised banks like the payments only bank and lending only banks are allowed to flourish.
2. One of the reasons for the losses being suffered by banks is the low transaction volume across the accounts opened under the financial inclusion drive. The study shows that the bank account was non-operative in the case of about 31% of the Self-Help Group members. SHG – Bank Linkage programme should ensure more frequent bank penetration by offering the financial services like asset insurance, ATM and credit card services.
3. The structure and functioning of an SHG should not be restricted to small loans for consumption smoothening. The loans taken by SHG members are considered comparatively small and many of them do provide an income but may not be adequate to meet rising expectations of the SHG members. The trend of loan by SHG- linked banks should be towards one large loan rather than several small loans.
4. NABARD should provide special funds to the banks that should be used particularly in those areas where SHG bank linkage program is not performing well due to various reasons. These funds should act as incentives to the banks to intensify their efforts in those regions.
5. NGOs need to focus on providing proper information and guidance to cover the currently un-reached segments of members and motivate them to take up more productive activities to enhance the income of the household in order to avail these facilities.

CONCLUSION

To recapitulate, the two-decade old self-help group-bank linkage programme for the economic betterment of rural poor is not receiving bankers' attention. There are a number of plausible ways by which matured SHGs could have been participants in the financial inclusion initiative, including being agents of providing direct banking services to the poor at their doorsteps, as a low-cost and efficient alternative. This model is certainly a more cost effective and reliable alternative to the existing inclusion agenda and millions of households, now members of SHG-BLP, would have been the immediate beneficiaries.