Research Paper Economics

Role of Self Help Groups for Inclusive Growth in India

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ABSTRACT

This paper is an attempt to study the role of self help groups in inclusive growth in India, wherein a large population is deprived of the financial services which are very much essential for overall economic development of a country. In this paper we have also tried to focus on performance of self help groups in India and suggest policy measures for inclusive growth of the economy.

Microfinance has made tremendous progress in India. The RBI recognized it as part of priority sector lending and normal banking business. Micro finance is a powerful tool for social and economic development. It has been recognized as an effective strategy for the empowerment of women as well. It is very useful for repayment of loan to bank, reduction in transaction cost to the poor and to the banks, door step savings and credit facilities to poor in rural India. However, we cannot ignore the failure of this movement. In some states their interest rate is higher compare with formal banking system, political interference has increased in SHGs. As a result the main objective of this movement to generate self employment through rural entrepreneurship is found to be ignored.

Keywords : Financial Inclusion, Micro Finance, Self Help Groups

Introduction:

If the benefits of development do not percolate at the root level, it results in to imbalanced economic or inequitable distribution of national income. It is not creditable thing for any democratic nation like India, where a major part of their population is not involved in the main stream. So it is essential to say that there should be involvement of poor and vulnerable groups into the overall economic growth of a country. According to Sen, Amartya (2000) poverty is not merely insufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and political systems. In the mid-term review of the Tenth Five-Year Plan; The Planning Commission was worried about the inequitable benefits of development. Thus the title of Eleventh Five-Year Plan, 'faster and more inclusive growth', indicated that the need for inclusive growth of Indian economy.

This paper is an attempt to study the role of self help groups in inclusive growth in India, wherein a large population is deprived of the financial services which are very much essential for overall economic development of a country. In this paper we have also tried to focus on performance of self help groups in India and suggest policy measures for inclusive growth of the economy.

Financial Inclusion:-

Poverty alleviation has been a one of the prime objectives of Planning Commission, but meaning of inclusive growth isn't limited to poverty alleviation. It is essential for the government to initiate steps along with the SHGs for social and economic development necessary for inclusive growth.

During the last decade (2001-10), Indian economy grew by 8.5 per cent. Per capita income of the country also increased substantially during the last decade. This performance was quite impressive but not sufficient, because growth has been failed to be sufficiently inclusive. It means after liberalization period, Indian economy grew at a higher growth rate without inclusion of weaker sections of the society. Such economic development has been lopsided with the country is trailing behind essential social and environmental parameters of economic development. It is essential for any economy to aim at inclusive growth involving each and every citizen in the development process. In this context, financial inclusion should be aimed at inclusive growth and for financial inclusion it is necessary to promote the movement of micro finance or self help groups in India.

Initiatives for Inclusive Finance in India:

RBI has appointed Rural Credit Survey Committee in 1954 headed by Shri Gorwala A D. The Gorwala Committee recommended the empowerment of cooperative credit societies and need for strengthening the cooperative movement in India. However, it was found that the cooperatives alone would not be able to meet the full requirement of agricultural credit. It resulted into the nationalization of the 14 major commercial banks in July, 1969 to meet the requirements of the priority sector of the economy. These banks opened their branches in rural area to provide the credit and tried to involve the rural poor in institutional financial structure. Later Regional Rural Banks were set up in the year 1975 to focus exclusively on the financial needs of the weaker sections in the rural society. In 1982, NABARD was established for providing and regulating credit and other facilities for the promotion and development of agricultural and allied activities in the rural areas. As a result the number of rural branches of commercial banks increased to 31796 in June 2009, which constituted 39.6 per cent of total branches of commercial banks in India. Though the performance of Commercial Banks is quite impressive, it failed to meet the financial needs of weaker sections of the rural society. According to survey of National Council for Applied Economic Research (2002), the 67 per cent of population had no bank account and 80 per cent population had not received loan facility. Thus, it is to be noted that only 20 per cent of population is engaged in formal banking in rural area. In short, many people depend either on their own sources or informal sources of finance which are generally at high cost.

Organized bank business has significantly increased in the rural areas. But it is not succeed to meet the demand of the weaker sections and their credit needs due to limitation of organized banking system Some of important limitations are risk perception, cost of its assessment and management, lack of rural infrastructure and vast geographical spread of the rural areas with more than half a million villages; limited need of credit, frequency of credit need and mostly demand for credit for unproductive or consumption purpose. Due to all these limitations, organized banking system does not cover the financial needs of the larger groups in rural area.

Thus it can be said that the micro finance can play important role for the financial inclusion of financially excluded sections which comprise large section of rural area in India.

Self Help Groups and Micro Finance:-

Self – Help Group (SHG) is a small, economically homogeneous and affinity group of 10 to 20 poor persons which comes together to save small amounts regularly, mutually agree to contribute to a common fund, met their emergency needs, have collective decision making, resolve conflicts through collective leadership and mutual discussion. The SHG is formed and groomed by a NGO or a bank branch or a government agency acting as a Self Help Promoting Institution (SHIP). The members are encouraged to collect regular thrift on a weekly to monthly basis and use the pooled thrift to provide interest bearing small loans to needy members. The SHG model was largely inspired by the successful experiment of the 'Grameen Bank' set up in 1979 in Bangladesh by Prof. Mohammad Yonus to empower the rural poor by means or the formation of 'saving' & 'credit' groups. Generally after 6 month, bank provids credit to these groups. The credit supplied by bank is on the group basis and not on individual basis. However, the use and rate of interest is decided by group members under collective decision.

In recent times, it is seen the large scale proliferation of micro finance companies in India. It is also seen that the NGO also have registered themselves as a non bank companies and all these institution are now involved in micro finance sector. Thus Indian and foreign financial institutions are ready to provide credit to these institutions. But objective of these institutions are to earn profit. It is seen that the financial institutions also provide credit to micro finance institution because RBI has recognized micro finance as a part of priority sector lending. Micro Finance Institutions (MFIs) are intermediate between banks and beneficiaries. These institutions provide credit to members of the groups. However, other functions like distribution and recollection of loan amount has been on the group basis. It is also seen that the rate of interest of MFIs is very high compare to the interest rate of SHG.

Development of Micro Finance Movement in India:-

In India government made many attempts to supply credit to rural areas and rural poor. Integrated Rural Development Programme (IRDP) was launched by govternment as a poverty alleviation programme through credit supply to rural poor. It can be regarded as first micro financing scheme in India. After that NABARD started SHGs project in 1986-87 with the help of Mysore Resettlement and Development Agency (MARYADA) and other NGOs. Then in 1992, NABARD launched 'Pilot Project', initially 500 SHGs were linkage with bank under this project. Thus RBI has announced guideline for credit supply to SHGs. Indian government has integrated various credit programme and started a new scheme namely Swarnajayanti Gram Swarojgar Yojana (SGSY) in 1999. Under this scheme, government is providing grant on loan of Bank to rural poor through SHG for generate self employment.

Today after a decade of implementation of the 'Self Help Groups' or 'Linkage Banking' approach, NABARD has been able to increase the outreach of banking in rural India, substantially. The linkage banking approach of providing financial services is to provide banking services to poor so far excluded from financial services. These services now cover 1/6th rural poor in India.

Table No. 1
Self – Help Groups Bank Linkage Programme

Year	No. of SHGs Linked		Bank Loan (Rs. Millions)	
	During the Year	Cumulative	During the Year	Cumulative
1993-94	365	620	0.36	0.65
1994-95	1502	2122	1.79	2.44
1995-96	2635	4757	3.62	6.06
1996-97	3841	8598	5.78	11.84
1997-98	5719	14317	11.92	23.76
1998-99	18678	32995	33.31	57.07
1999-00	81780	114775	135.91	192.98
2000-01	14950	263825	287.89	480.87
2001-02	197653	461478	545.47	1026.34
2002-03	255882	717360	1022.33	2048.67
2003-04	361731	1079091	1855.53	3904.20
2004-05	539365	1618456	2994.26	6898.46
2005-06	620109	2238565	4499.00	11397.46
2006-07	1105749	2924973	6570.00	18041.00
2007-08	1227770	5009794	8849.26	---
2008-09	1609586	6121147	12253.51	---
2009-10	1586822	6953250	14453.30	---

Note: 1. Data for 2009-10 are provisional
2. Data relates to Commercial Banks, RRBs and Co-operative Banks.

Source: NABARD, Status of micro finance in India, 2009-10.

Table no. 1 shows the progress of SHGs in India. In 1993-94 there were 620 SHG, linked to the banks which considerably increased to 6953250 in 2009-10, thus registering ten-fold increase. Also the bank loans linked to SHGs were just Rs. 0.36 million during the year 1993-94 and it then increased to Rs. 14453.30 million at the end of 2006-07. It means 14453.30 million loan amount was disbursed to 1586822 SHGs during the year 2009-10. Thus numbers of SHGs and bank loan have increased considerably during the last decade.

Regional Spread of SHGs Bank Linkage:-

The year-wise increase of SHG bank linkage across all the regions is indicated in table no. 2.

Table No. 2
Regional Spread of SHGs Bank Linkage

Region	March 2003	March 2004	March 2005	March 2006	March 2007	March 2008	March 2009	March 2010
Northern Region	34923	52396	86018	133097	182018	---	---	351801
North Eastern Region	4069	12278	34238	62517	91754	---	---	292188
Eastern Region	90893	158237	265628	394351	525881	---	---	1374242
Central Region	81583	127009	197365	267915	332729	---	---	765965
Western Region	42180	54815	96266	166254	270447	---	---	945620
Southern Region	463712	674356	938941	1214431	1522144	---	---	3223434
All India	712360	1079091	1618656	2238565	2924973	---	---	6953250

Source: NABARD, Status of Micro Finance in India, 2009-10.

The table No. 2 describes the regional spread of SHG – Bank Linkage programme in India. It is observed from the table no. 2 that North Eastern region accounts for the lowest number of SHGs Bank Linkage with 292188 against the highest number of 3223434 in the Southern region during 2009-10. It also observed that share of southern region was continuously above 50 per cent during the period under study. During this decade the growth of SHGs Bank Linkage was quite impressive registering 25 times increase.

Conclusions:
Microfinance has made tremendous progress in India. It has become a household name, in view of the variety of benefits reaped by the poor from microfinance services. SHGs have become the common vehicle of development process, converting all development programmes. At present, a large number of Self Help Promoting Institutions (SHPIs), all the banking agencies and Microfinance Institutions (MFIs) are pursuing this programme for upliftment of the poor. The RBI also recognized it as part of priority sector lending and normal banking business. The programme is also the main contributor towards financial inclusion in the country. Micro finance is a powerful tool for social and economic development. It has been recognized as an effective strategy for the empowerment of women. It is very useful for repayment of loan to bank, reduction in transaction cost to the poor and to the banks, door step savings and credit facilities to poor in rural India.

However, we cannot ignore the failure of this movement. Experiences in Andhra, Karnataka and also Maharashtra are very bad, about the Micro Finance Institutions. Their interest rate is higher compare with formal banking system. Thus SHGs movement has become a political, due to intervention of political groups. Thus, the main objective of this movement i.e. to generate self employment through rural entrepreneurship is almost ignored and it is significantly reduced to just credit provider group.

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