



Role of Self Help Groups in Financial Inclusion

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ABSTRACT

This paper provides valuable insights into the importance and functioning of SHGs to ensure financial inclusion and hence economic empowerment of women in India. Therefore the paper is divided into two sections, Section A discussing the Financial inclusion and SHG and Section B discuss the SKDRDP program, its objectives, approaches, and achievements and finally discussing about conclusions.

Objectives:

- To explain the role and importance of financial inclusion in Indian financial system.
- To examine the role of SHGs in financial inclusion.
- To evaluate the achievements and approaches of SKDRDP microfinance in including the excluded section of the society.

Method of Study: In the present study data is collected both from primary collected from SKDRDP office in Pavagada, and secondary sources like books, journals, magazines and research articles.

KEYWORDS

Micro Finance, Inclusion, Stakeholders, Marginalized

Role of SHGs in Financial Inclusion

Introduction: Women's lack of economic empowerment not only impedes growth and poverty reduction, but also negatively impacts education and health outcomes for children. Thus, it is extremely important to ensure that women are economically empowered. Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit- where needed by vulnerable groups, such as women-at an affordable cost.

India's Self Help Group-Bank Linkage Program was launched in 1992 as a flagship program by the country's National Bank for Agriculture and Rural development. The objective is to meet the financial needs of the poor by linking SHGs with the formal credit agencies. Financial inclusion of India's women can be best ensured through SHGs. This collection contains paper that provides valuable insights into the importance and functioning of SHGs to ensure financial inclusion and hence economic empowerment of women in India. An attempt has been made to analyze the progress of the SHG-bank linkage program. Therefore the paper is divided into two sections, Section A discussing the Financial inclusion and SHG and Section B discuss the SKDRDP program, its objectives, approaches, and achievements and finally discussing about conclusions.

Section-A

Financial system in India and Objective of financial inclusion:

As on March 2009 India has a very intensive financial system with 170 commercial banks of which 166 are scheduled commercial banks. These scheduled commercial banks have 80325 branches, out of which 31796 branches are in rural areas. Apart from these, there are 97782 co-operative banks in India out of which only 1721 are operating in urban areas the rest being in rural areas. Thus, a massive network of banks prevails both in urban and rural India. Despite this, rural poor still rely and approach informal sources such as moneylender for their financial needs, which exploit them in many ways. For bringing these poor people in the mainstream of financial system

and developing them, the government of India and the Reserve bank of India have set up the objective of 100 percent financial inclusion of the poor and backward people. Financial inclusion implies increased access to formal financial system for financially excluded and thereby achieving their economic development. For the attainment of the objective of financial inclusion and inclusive growth it is assumed that the banking system will perform the central task in this process of development. Banks are performing well in this context but for attaining the objective of 100 percent financial inclusion banking will have to be made a household habit with the bank account in every household.

The broad 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 attempts must be lift the poor from one level to another so that they come out of poverty. Reduction of poverty and income and ensuring everyone a basic minimum standard of living are the objective of inclusive growth. In this context access to finance by the poor and vulnerable groups has to be recognized as a pre requisite for poverty reduction and social cohesion. It has to become an integral part of the efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups.

What is micro finance?

Microfinance is a financial service of small quantity provided by financial institutions to the poor. These financial services may include savings, credit insurance, leasing, money transfer, equity transactions etc. That is any type of financial service provided to customers to meet their normal financial needs life cycle, economic opportunity and emergency.

What is Self Help Group?

A Self Help Group is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily, coming together to save small amounts regularly, to mutually agree to contribute to a com-

mon fund and to meet their emergency needs on mutual help basis. It is a voluntary association of people formed to attain certain collective goals, both economic and social. Each group consists of 10-20 members. A group could be exclusively male or female or even mixed. However majority of SHG's are female groups.

SHG Approach and Financial Inclusion as an innovative credit channel, the Self Help Group (SHG) approach was introduced 1992, to link poor people with bank credit. Under this programme, about 40 million rural families have been linked with banks up to March 2007(NABARD). The distinguishing feature of this approach as compared to other sponsored credit schemes is learning the art of management of own money by the poor before availing bank loan. Moreover, the SHG approach does not involve any subsidy; hence, it is sustainable with its own strength. A number of studies have found that SHG approach reduces the transaction cost for banks have been replaced by peer group pressure and hence this approach has enabled social and economic inclusion of women by waiving the requirement of collateral.

Benefits of SHGs

The SHG has given the poor women an identity, access to information, and bargaining power. Some benefits to members are:

Providing platforms for the poor women to discuss and resolve their problems;

Helping members manage cash flow deficits (maintaining food intake and overcoming emergencies), leading to improvement in quality and productivity of their only capital/resource-human capital/ resource;

Helping members avoid money lenders, especially to meet food and health emergencies;

Helping members invest in asset creation, diversify their occupations, and improve their risk-bearing capacities;

Promoting leadership qualities among their members;

Fostering women, even from conservative communities and regions, to interact with outsiders, particularly officials, including men; and

Establishing the linkage between banks and marginalized citizens, especially the women.

Section- B Financial inclusion and SKDRDP

The Sri Kshethra Dharmasthala Rural Development Program, an organization in the field of self employment generation programs in the district, has intended to form 2,142 Pragathi Bandhu groups and to add 20,206 members to the groups for the year 2011-12 (Vishwanath Shetty).

Developed by SKDRDP, "Pragathi Bhandu" groups are unique models of self-help groups that center on the cultivation of waste lands through labour sharing. Such groups organize and empower small and marginal farmers and laborers through the transference of governance to the village level. By promoting compulsory labour sharing for performing individual and community tasks, each village member works for the other members for one day in a week. This has helped thousands of small farmers to achieve important farm works.

A plan of action has been designed to distribute Rs. 145 crore for the needy under micro-finance business programs and Rs. 631.97 lakh has been earmarked for the expansion and developmental work.

Annual Report 2010-11: During the year 32,005 SHGs were linked to the branches of SBI resulting in a cumulative saving of Rs. 21.39 crores and a credit outgo of Rs. 227.53 crores.

At SKDRDP, charity is one of the virtues we value the most. During the year SKDRDP has spent Rs.9.32 crores for various developmental activities. These include donations for community projects, gohar gas installations, construction of sanitation units, Krishi mela, water harvesting projects, Organic village etc. In addition to this, during the current year a sum of Rs.13.00 crores has been spent on house construction to the people in the flood affected areas of Dharwad, Gadag and Haveri Districts. The workers of SKDRDP identify the poorest of the poor for a monthly sustenance support. During the current year a sum of Rs. 43.15 lakhs has been paid as monthly pension to the poorest of the poor constituting 1,801 members.

Under the System of Rice Intensification program during the current year 9,453 farmers were assisted to cultivate paddy in 12,783 acres of land with a loan assistance of Rs. 7.66 crores for equipments and crop cultivation. The program has created awareness on SRI and the importance of cereal cultivation. SKDRDP supports the acquisition of basic infrastructure facilities, to make a better living habitat for the poor. In this regard during the last year 35,409 sanitation units, 53,101 houses were constructed by the stakeholders. SKDRDP Subsidy to the extent of Rs. 400/- to Rs. 1,500/- was given for sanitation units besides loans. Long duration loans were also extended for construction of dwelling units. A total of 2,308 Gobar gas units, 541 solar units were acquired with capital support and finance from SKDRDP. Under our Sampurna Suraksha micro insurance program 15,82,000 members enrolled during the current year. So far a record number of 76,588 members have received benefit to the extent of Rs. 25.06 crores under the scheme during the year. The total claims settled since the inception of the scheme surpassed Rs. 100.00 crores and stood at Rs. 120.00 crores as on March 31, 2011.

SKDRDP is presently working with 13,13,042 families. For their convenience 1,18,918 self help groups have been promoted. These members contribute loan margins, borrow money, share it among themselves and repay at weekly intervals. The total loan margin available Rs. 304.05 crores so far. In order to meet the financial need of the members SKDRDP has borrowed funds from commercial banks and disbursed to the SHGs for onward lending to the members. During the current year Rs.951.51 crores were disbursed to total of 1,12,000 SHGs. As on 31.3.2011 SKDRDP could show 64% growth in outstanding over the last year. The micro finance outstanding went up from Rs.662.00 crores as on 31.3.2010 to Rs. 1,025.85 crores during the year.

The SKDRDP Pavagada branch is presently working with 58,194 families and is promoting nearly 2935 Self Help Groups. The SKDRDP Pavagada is covering 9 divisions. Each division is sub divided in to 10 sectors. The members of the SHG, borrow money, share it among themselves and repay at weekly intervals. In order to meet the financial need of the members, SKDRDP has borrowed funds from commercial banks and disbursed to the SHGs for onward lending to the members. The Pavagada branch was started in 2011. For the past two years it has disbursed Rs. 29,54,18,600 crores to the SHGs. By 31-March-2013 the micro finance outstanding is Rs. 19,51,41,868 crores. The beneficiaries have successfully repaid a loan amount of Rs. 10,02,76,732 crores.

Conclusion

It is apparent from the above discussion that though the scheduled commercial banks played a crucial role in the growth and advancement in urban areas yet in the context of the rural area these banks have not lived up to the expectations. Diminishing branch network of the banks in the rural areas indicates that rural areas are not given much importance and kept outside the periphery of growth. This goes against the objective of serving the rural people and more inclusive financial growth. This situation becomes even worse in the light of the fact that India is an agrarian economy. Share of smaller credit in the total credit disbursed by the scheduled commercial banks, has been decreased to a very insignificant

proportion. Smaller credit represents the poor, unprivileged people and its diminishing share shows that these people are not being provided with the adequate credit. Microfinance has been promoted through the SHG- bank linkage program with the objective of bringing the prevailing gap in the financial network and spreading banking facilities to the poor in rural and urban areas. The Pavagada branch is assisting the excluded through SHGs a subsidiary to the process of financial inclusion.

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