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A Study on the Impact of Banks and SHG on Financial Inclusive Growth

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Abstract

Financial inclusion is delivery of financial services at an affordable cost to disadvantaged and low income groups particularly in rural and semi urban areas. Financial inclusion includes not only opening a savings bank account or a current account but also includes loans, insurance products and much more. The industry of micro finance plays a very important role in India facilitating for the development of social standard of rural mass, semi urban and urban areas through different tailor made financial instruments. In India on one hand the formal banks and financial institutions have not been able to do justice to the financial inclusion due to structural rigidities, high cost of making small loans, organizational philosophy toward recognizing the poor as credit worthy, low levels of recovery due to loan waiver programs and low rate of interest with easy repayment options.

On the other hand, it is an obligation on the banks and financial institutions from RBI to actively participate in financial inclusive growth. In order to accomplish this banks are targeting poorest segment with the support of NGO's and informal sector comprising small Self Help Groups (SHGs). The study has attempted to examine the performance and impact of selected banks and SHGs on financial inclusion.

Key words: Financial Inclusion, Self Help Group (SHG), bank and inclusive growth

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Introduction

Reserve Bank of India (RBI) has taken initiative to extend financial services at an affordable cost to the vast section of the disadvantaged and low-income groups in the Eleventh Five Year Plan 2007-12. The Indian economy, though achieved a high growth momentum during 2003-04 to 2007-08, could not bring down unemployment and poverty to tolerable levels. In order to lift the poor from one level to another so that they come out of poverty, RBI has used 'Financial Inclusion' mantra. One of the ways to bring the poor into the fold of financial services is to link Self Help Group (SHG) with banks for credit and payment transactions. The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, banks have not been able to reach and bring vast segment of the population, especially the underprivileged sections of the society. This is because of high operating cost, high maintenance cost, small size transactions, suitable communication mode with illiterate people and offering non-collateral loan. Keeping all these constraints, it is interesting to examine the performance of RBI, Government of India (GOI), National Bank for Agriculture and Rural Development (NABARD), how far RBI's initiative is taken forward by the banks and whether SHG are participating and benefiting in this initiative.

Financial inclusion is defined as the process of ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost (Kamath, 2007). Financial inclusion was envisaged and embedded in Indian credit policies in the earlier decades also, though in a disguised form and without the same nomenclature (Rao, 2007) and emphasis. Increasing access to credit for the poor has always remained at the core of Indian planning in fighting against the poverty. Starting in the late 1960s, India was home to one of the largest state intervention in the rural credit market (Khandelwal, 2007).

Review of Literature

In a country like India with significant sections of unbanked population and regions, financial inclusion is vital for sustaining long term equitable development; the Finance Minister Pranab Mukherjee said and announced further relaxation of rules for opening small and rural banking facilities by Scheduled Commercial Banks. As part of the financial inclusion drive, scheduled commercial banks have been opening 'no frills' accounts either with 'nil' or very low minimum balances, he noted and said these banks have opened 3.3 crore such accounts so far. The RBI has announced a further relaxation in this direction by allowing the scheduled commercial banks to set up off-site ATMs without prior approval, subject to reporting, he said.

Sharma (2008), through cross country empirical study examined a close relationship between financial inclusion and development. Further, the study found a positive relation between financial inclusion and different socio-economic variables like income, inequality, literacy, physical infrastructures.

Financial inclusion also imparts formal identity, provides access to the payments system and to savings safety net like deposit insurance. Hence it is considered to be critical for achieving inclusive growth; which itself is required for ensuring overall sustainable overall growth in the country. (Thorat, 2007).

Bekaert et.al (2004), in their study examined a positive impact of equity market liberalization on real economic growth. Further, they also observed the positive impact of capital account liberalization and quality of financial institutions on economic growth.

Goodwin.et.al (2000) emphasized the role of level of employment of a country as another important factor of financial inclusion. Access to affordable financial services especially credit and insurance - enlarges livelihood opportunities and empowers the poor to take charge of their lives. Such empowerment aids social and political stability. Beck.et. al (2000), in their paper tried to evaluate empirically the relationship between level of financial intermediary development and economic growth. They observed a positive impact of financial intermediary development on the growth of total factor productivity which will lead to economic development.

Kempson and Whyley (1998) argued that possibility of financial exclusion is more likely to occur in the lower income section of society than amongst others. Beside this, geographical factors and income inequality are also important factors in determining financial inclusion of a country.

Greenwood et.al (1990), tried addressed two important issues in economic growth theories in a single model. They are relationship between economic growth and inequality and relation between financial structures and economic development. They argued that financial development facilitates economic growth as it gives high return on capital. On the other hand economic development also provides means to financial development.

A few empirical studies on the impact of SHG bank linkage model also revealed the importance of SHG model in achieving financial inclusion and inclusive growth in India.

Puhazhendi and Satyasai (2000), studied the improvement in level of income of SHG members between pre and post SHG situations.

Chavan and Ramakumar (2002) in their study compared NGO led micro credit programme of various countries with state led poverty alleviation scheme and observed marginal improvement in member's income as a result of micro credit programme.

Puhazhendi and Badatya (2002), observed a significant improvements in the savings SHG members during post SHG situations. The programme also improves the borrowing pattern of SHG member households in terms of strengthening credit widening and credit deepening.

Sanghwan (2006), studied the extent financial inclusion across various states. He also tried to examine the role of SHG bank linkage programme in achieving financial inclusion. The study suggested a significant role of SHG led programme in achieving financial inclusion. Beside this, it also tried to examine the role of other factors like banking density, financial literacy and per capita income in achieving financial inclusion.

Sahoo et.al (2008), had attempted to develop index of financial inclusion to examine the progress of financial inclusion and various determinants of financial inclusion using secondary data from various sources. In their study, they observed a positive impact of infrastructure development, education, self help group formation on financial inclusion both from financial widening and deepening perspectives.

Objectives and Research Methodology

Objectives

- To study the financial inclusion performance of banks in India.
- To study the effectiveness and the efficiency of the functioning of SHG.
- To study the impact of SHG on financial inclusion in Peenya in Bangalore.
- To know the special benefits obtained by the members from the banks.

Data Source

Primary Data: in this study the primary data was collected among the respondents using questionnaire.

Secondary Data: in this study the most secondary data was collected from the published websites and other data collected from news paper, magazines and articles.

Sampling size, Sampling Techniques and Methodology

The sample size that was found to be appropriate for the study was 88 and non-probability sampling method has been selected and convenient sampling technique is being used. The area of the research was concentrated in peenya in Bangalore and the period of study is from 2010-2011. Respondents include the members of the SHG. Simple percentage analysis and Chi-Square test are the main statistical tools used for the study. Percentage analysis was used owing to the constraints imposed by the nature of data. Also, tabular analysis of data on socio-economic condition, micro credit lending, utilisation, repayment and economic activities were carried out. Class interval technique was used to analyse the age.

Limitations of the Study

- Self-Help Group as a wide coverage of aspects, it is difficult to study every possible aspect of them.
- Self-Help Group is highly subjective in nature, it is difficult to measure them accurately.
- Time was main constraint.

Analysis and Findings

Analysis and findings of the study includes the financial inclusion performance by banks in India and the contribution of SHG for the financial inclusive growth.

Financial Inclusion Performance by banks

In 2007-08, Dr. Rangarajan, Chairman of the Financial Inclusion Committee, recommended to set up the Financial Inclusion Fund (FIF) to develop and promote financial inclusion, and Financial Inclusion Technology Fund (FITF) for technology adoption in NABARD. The corpus of each Fund was Rs. 500 crore, contributed by GoI, RBI and NABARD in the ratio of 40:40:20 in a phased manner over five years. GoI and NABARD made initial contributions of Rs. 10 crore and Rs. 5 crore, respectively, to each of these Funds. As on 31 March 2011, the contribution to this corpus by GoI stood at Rs. 30 crore in each of the Funds, and by NABARD at Rs. 30 crore (FIF) and Rs. 40 crore (FITF). During the year 2010-11, RBI contributed Rs. 3.46 crore (Rs. 3.05 crore towards FIF and Rs. 0.41 crore towards FITF), on a reimbursement basis (NABARD Annual Report, 2010-11).

Fund Utilization during 2010-11

Table 1 reveals that Rs. 19 crore under FIF and Rs. 101.10 crore under FITF were sanctioned towards Financial Inclusion during the year. As against the targets of Rs. 22 crore and Rs. 28 crore to be disbursed, respectively under FIF and FITF during 2010-11, Rs. 9.21 crore and Rs. 54 crore were disbursed. It indicates that funds were underutilized in case of FIF and over utilized in FITF. Only 52.20 per cent of the sanctioned funds were disbursed during the year.

Table 1: Funds Utilization – FIF and FITF during 2010-11

(Rs.Crore)

Name of the Fund	Target	Commercial Banks		RRB		Co-operative Banks		Others		Total	
	D	S	D	S	D	S	D	S	D	S	D
FIF	22.00	0.15	0.70	2.31	1.52	0.22	0.24	16.32	6.75	19.00	9.21
FITF	28.00	2.72	0.41	97.75	52.27	0.09	1.24	0.54	0.08	101.10	54.00
Total	50.00	2.87	1.11	100.06	53.79	0.31	1.48	16.86	6.83	121.10	63.21

Source: NABARD Annual Report 2010-11
S: Sanctioned, D: Disbursed

No-Frill Accounts

Table 2 indicates that the no-frill accounts are increased by 72.35 per cent from March 2009 to 2010 while the growth rate was reduced to 50.12 per cent in 2011. The growth rate of ICT based accounts through BC's was very high compared to EBT accounts in the year 2011.

Table 2: No-Frill Accounts from 2009 to 2011

Particulars	2009	2010	2011
Total No. of Frill A/cs	287.52	495.53 (72.35)	743.90 (50.12)
ICT based A/Cs through BC's	107.50	125.96 (17.17)	281.08 (123.15)
EBT A/Cs through BC's	-----	75.28	155.73 (106.87)

Source: RBI
Values in parentheses indicate percentage of growth

Loans disbursed to SHG

Table 3 shows loans disbursed to SHG, loans outstanding and SHG saving accounts with banks during 2009 and 2010. It is observed that number of loans disbursed from 2009 to 2010 was decreased by 22,764 whereas the amount of loan disbursed increased from Rs.12,253.51 to Rs. 14,453.30. There has been progress in savings accounts of SHG in the same period.

Table 3: Progress of SHG during 2009 and 2010

(Rs.Crore)

Particulars	2009		2010	
	Number	Amount	Number	Amount
Loans disbursed	16,09,586	12,253.51	15,86,822	14,453.30
Loans outstanding	42,24,338	22,679.84	48,51,356	28,038.28
Saving accounts with banks	61,21,147	5,545.62	69,53,250	6,198.71

Source: NABARD Annual Reports

Participation of SHG in Financial Inclusion Growth

Inference: 35% of the respondents are between the age group of 20 and 29 and 46% of them are between the age group of 30 and 39, 18% of them are between 40 and 49 years of age and 1% of the respondents are 50 and above years of age.(Chart1)

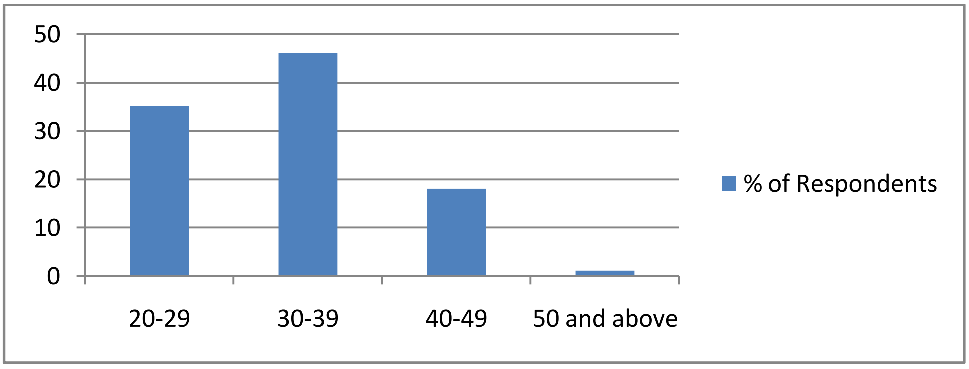

Chart 1: Age

Inference: 27% of the respondents have made use of SHG less than a year, 48% of them have made use of SHG between 1-3 years, 18% of them have made use of SHG between 3-5 years and 7% of the respondents have made use of SHG more than 5 years. (Chart2)

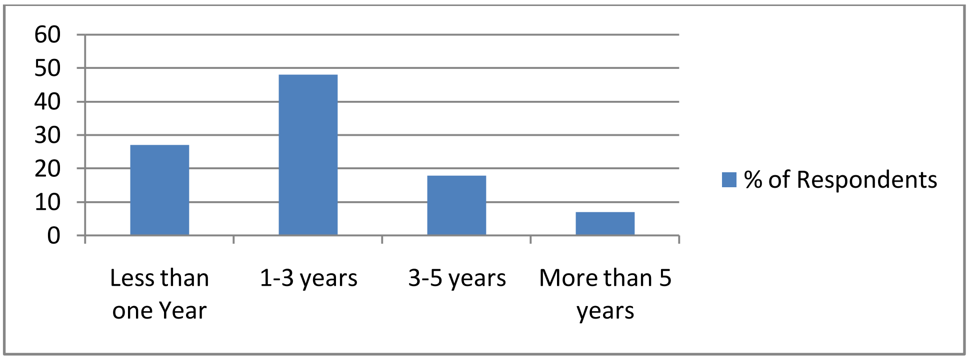

Chart 2: Number of Years in SHG

Inference: 20% of the respondents have 20 members in their group, 27% of them have 30 members and 53% of the respondents have more than 30 and less than 40 as the size of the members. (Chart 3)

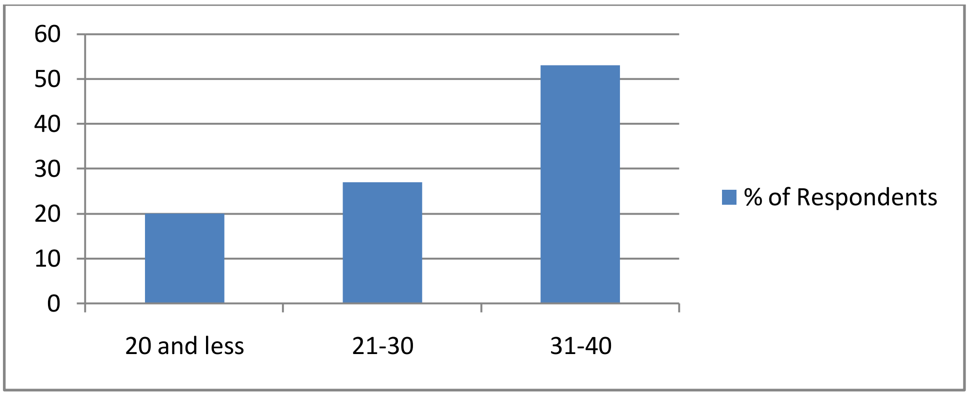

Chart 3: Members in SHG

Inference: 97% of the respondents get the required amount of loan and only 3% of them do not get the required amount of loan. (Chart 4)

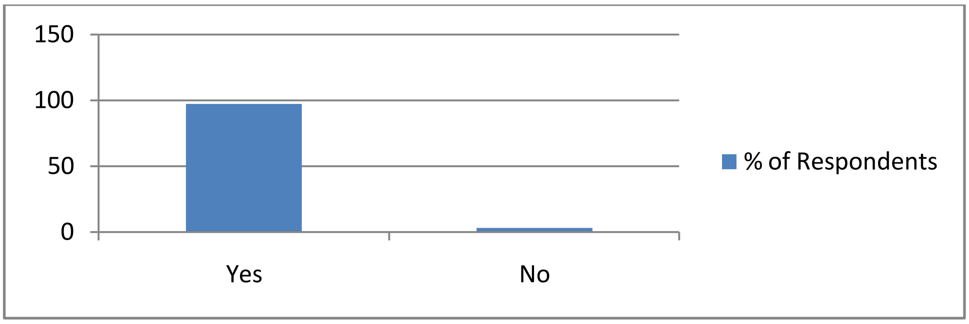

Chart 4: Required Loan Amount

Inference: 20% of the respondents felt that the interest rates are reasonable, 28% of them felt interest rates are low, 52% of them felt that the interest rates are very low and none of the respondents felt that the interest rate are high and very high. (Chart 5)

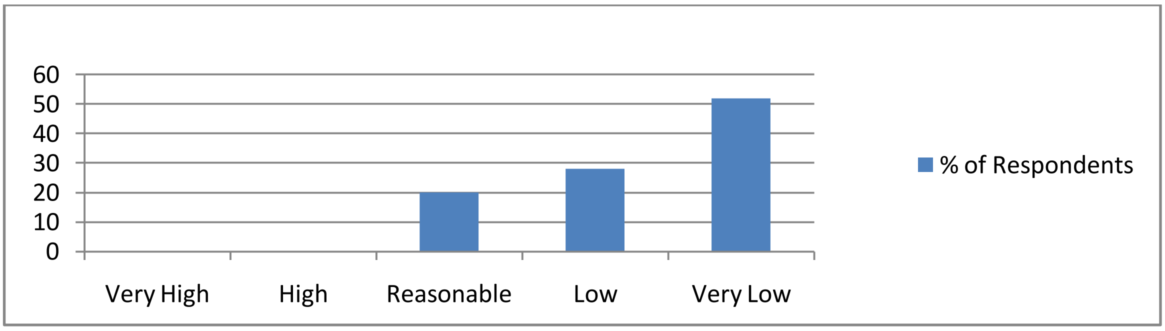

Chart 5: Interest Rate

Inference: 5% of the respondents have got loan amount of less than Rs.10,000, 53% of the respondents got between Rs.10,000 and 20,000, 42% of them got loan between Rs.20,000 and 50,000 and none of them got loan amount more than Rs.50,000. (Chart 6)

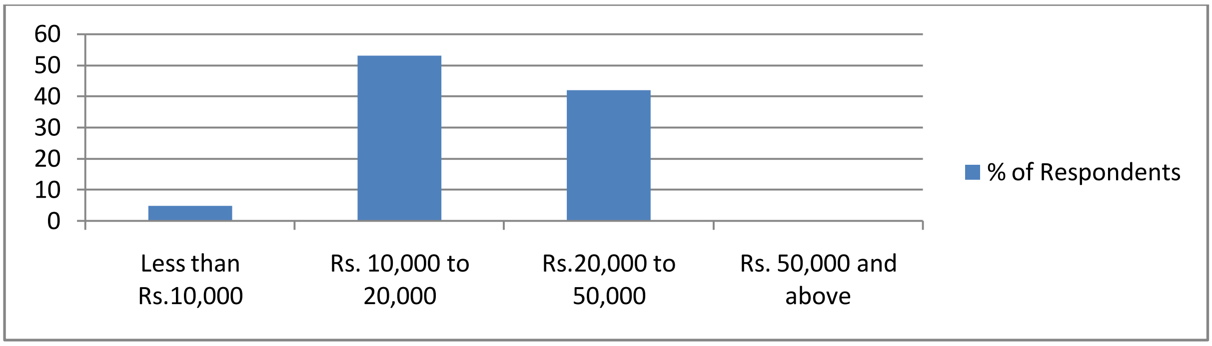

Chart 6: Loan Amount

Inference: 42% of the respondents divide the loan amount according to their need based, 38% of them opine that the loan amount is divided based on demand of the members, 17% of the respondents divide loan amount equally and only 3% of the respondents divide loan amount based on seniority. (Chart 7)

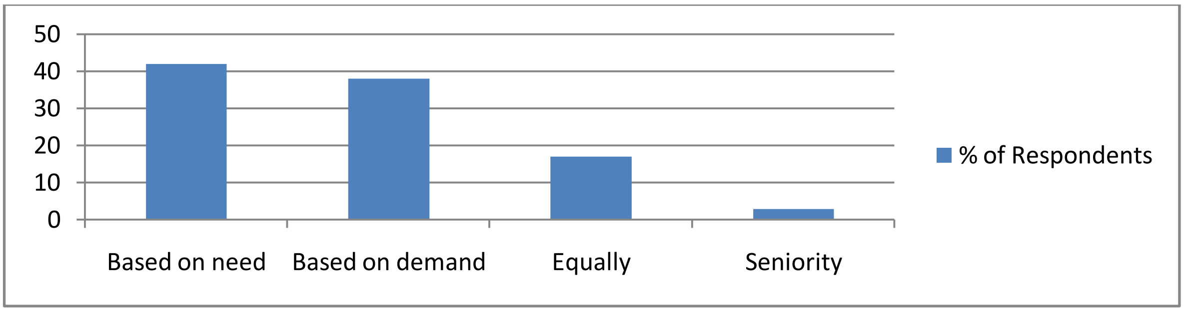

Chart 7: Division of Loan Amount

Inference: 77% of the respondents said that the leader is responsible to repay the loan amount, 23% of them said that they are jointly responsible for repaying loan amount and none of the respondents said that only member is responsible for repaying loan amount. (Chart 8)

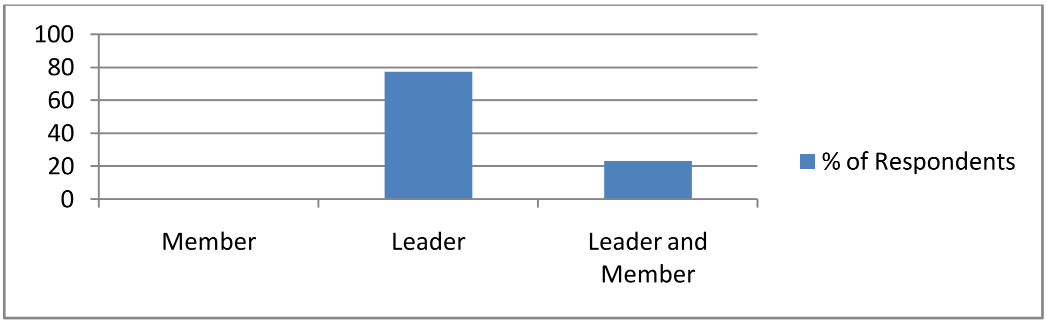

Chart 8: Responsibilities to repay the loan

Inference: 32% of respondents take loan for the purpose of personal financial requirements, 35% of them for family requirements, 18% of them for educations of children and 15% of the respondents take loan for the purpose of business. (Chart 9)

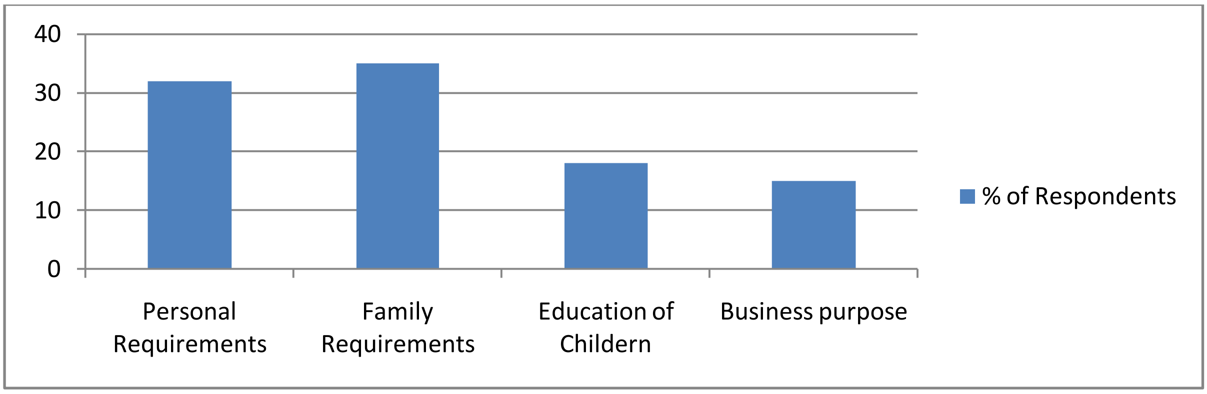

Chart 9: Purpose of Loan

Inference: 48% of the respondents have ranked low interest rate, 50% of them ranked easy installments, 1% of them have ranked help in marketing/selling the product and 1% of the respondents have ranked special benefits from the bank. (Chart 10)

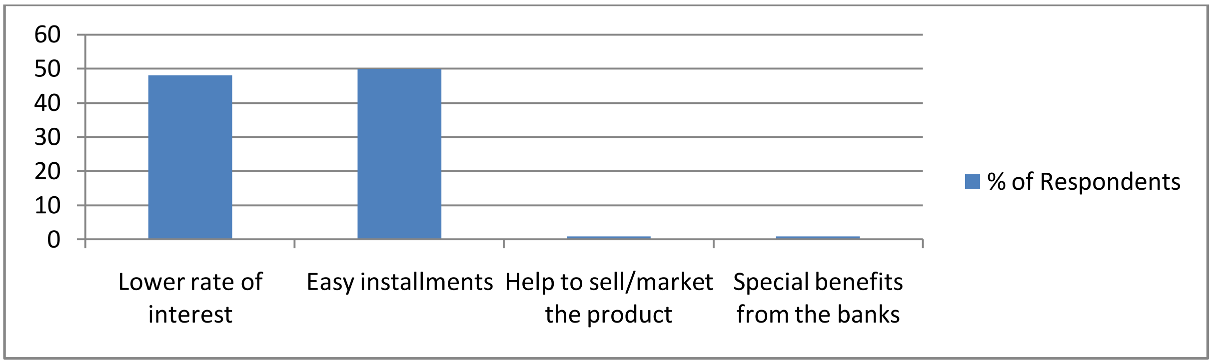

Chart 10: Special Benefits

Inference: cent percent of the respondents pay their loan amount on monthly basis. None of the respondents pay their dues weekly, fortnightly or quarterly. (Chart 11)

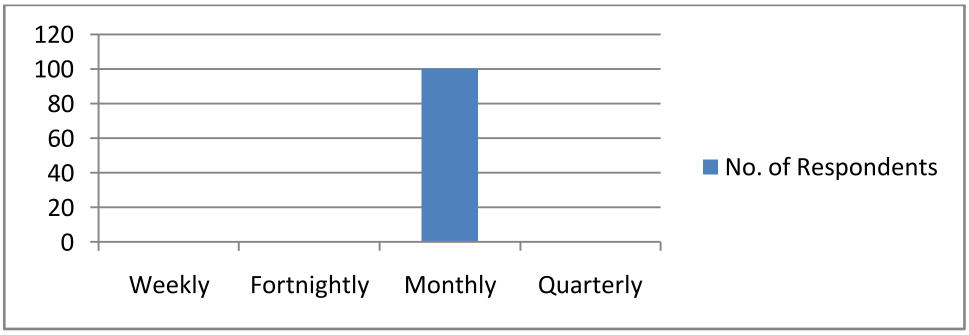

Chart 11: Basis of Payment

Inference: 68% of the respondents are highly satisfied with the collection of dues, 32% of them are moderately satisfied and none of the respondents are highly dissatisfied and moderately dissatisfied with the collection of dues.(Chart 12)

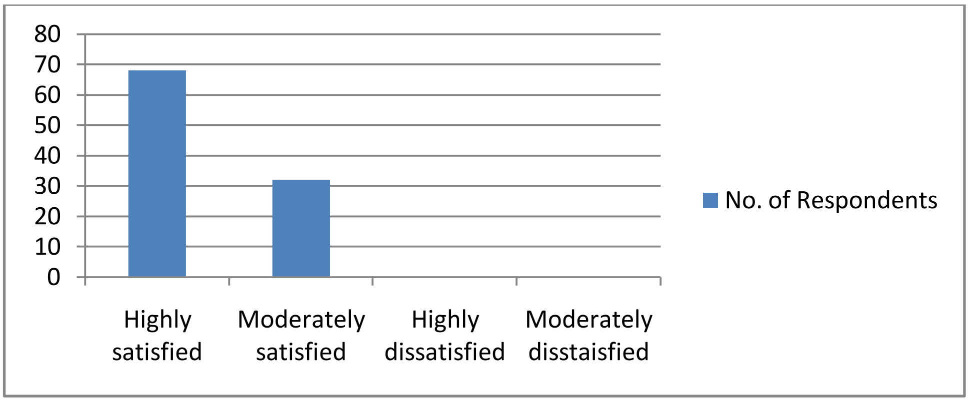

Chart 12: Collection of Dues

Inference: 58% of the respondents gained less than Rs.1,00,000 from SHG, 36% of them gained Rs.1,00,000 to 3,00,000 and 5% of them gained Rs.3,00,000 to Rs.5,00,000. (Chart 13)

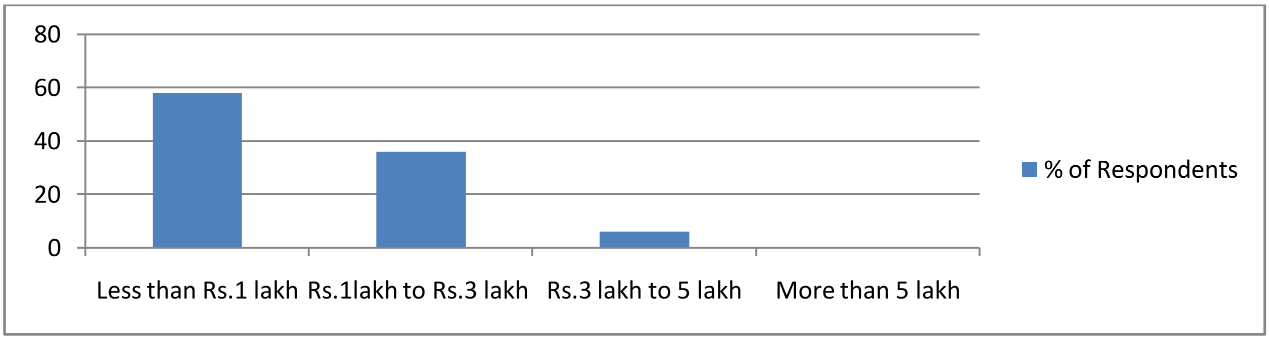

Chart 13: Profits from SHG

Inference: 45% of the respondents said that the SHG have helped them in improving economic status, 35% of them said that the SHG have helped them in improving their social status and 20% of them said that the SHG helped them in self reliance. (Chart 14)

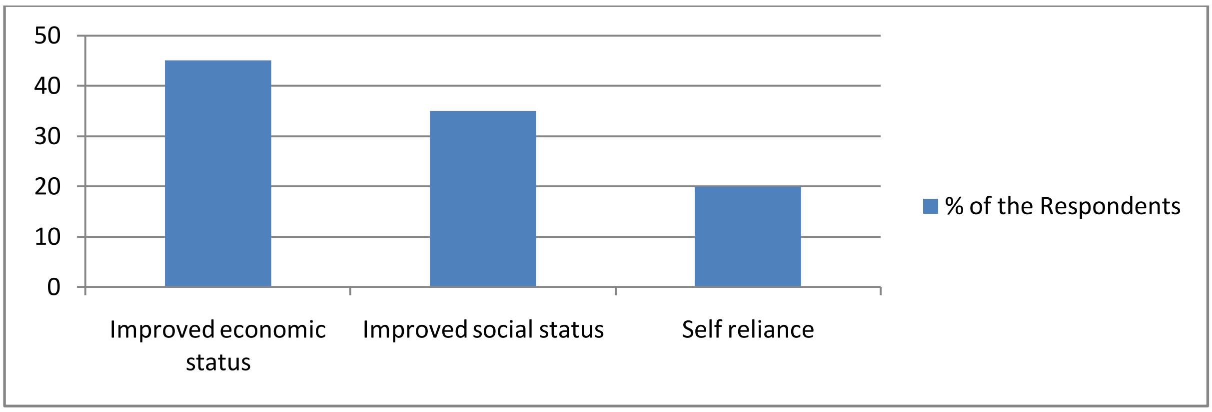

Chart 14: Benefits to Group

Hypothesis

Problem: to know the relation between interest rate and collection of dues.

H0 – There is no relation between interest rate and collection of dues.

H1 – There is relation between interest rate and collection of dues.

Observed Frequency

Factors	Highly satisfied	Moderately satisfied	Highily dissatisfied	Moderately dissatisfied	Total
Interest rate	25	19	0	0	44
Collection of dues	30	14	0	0	44
Total	55	33	0	0	88

Expected Frequency

Factors	Highly satisfied	Moderately satisfied	Highily dissatisfied	Moderately dissatisfied	Total
Interest rate	27.5	16.5	0	0	44
Collection of dues	27.5	16.5	0	0	44
Total	55	33	0	0	88

Factors	Level of significance	Degree of freedom	Table Value	Calculated Value
Relation between interest rate and collection of dues	5%	3	7.81	8.32

Result: The table value of degree of freedom 3 @ 5% level of significance is 7.81. Hence the calculated value 8.32 is above the table value 7.81. Hence we reject the null hypothesis and accept alternative hypothesis that there is relation between interest rates and collection of dues.

Major Findings

- SHG bank linkage programme witnessed a decline in no-frill accounts by registering 50.12% in financial inclusive growth.
- SHG members reflect a diverse membership covering different social and economic categories, including the poor.
- Recovery of loans by banks is excellent without any default. Other loans issued to the members are also rapid without any delay. Only 4% of the loans were found to be over due at the group's level.

Conclusion

The study has attempted to examine the performance of selected SHGs and its impact on financial inclusion. It was observed that both external and internal factors play an active role in making the groups self-reliant. When the roles of the co-ordinator and the promoting agency were identified as the most important external factors, it was the group leaders who determined the pace of growth of the group in the long run. All the groups have taken up individual economic activities but group activities are very few. There was apprehension among the leaders about the success of group enterprises because cases in which the group activity failed had led to financial imbalances and difficulty in loan repayment for all the members of the groups concerned. The situation was not so complex in the case of failure of individual units. It is felt that individual activity is better especially in the first two years until the group attains sufficient maturity and confidence in taking up group enterprises.

However, the concept of group activity is gradually catching up. Beyond financial intermediation, SHGs can and should bring about drastic changes in the lives of the poor. It has been clearly established that delivering credit alone may not produce the desired impact. The supporting services and structured through which credit is delivered, ranging from group formation and training to awareness raising and a wide range of other supporting measures are critical to make the impact of group activity strong and sustainable. Here, financial inclusion has an important role to play. Financial inclusion is no longer an option but a compulsion.

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