International Journal of Advanced Research in Management and Social Sciences ISSN: 2278-6236

ROLE OF FINANCIAL INCLUSION THROUGH SELF HELP GROUP: A STUDY OF SELECTED SHGS IN YAMUNA NAGAR (DISTRICT HARYANA) INDIA

Rekha Rathore*

Manika Garg**

Abstract: *The financial inclusion emphasizes on conversion of unbanked area into banked ones. Having a bank account does not mean financial Inclusion. The significant steps have been taken by Reserve Bank of India to penetrate unbanked areas. The future lies with those companies who see Bottom of pyramid as their customer. We need to have comprehensive methods to measure the reach of financial system to foster the financial inclusion across the country. In financial inclusion index rank, India occupies 50th place above Russia (83 rd position) but below china. Microfinance through Self Help Groups (SHGs) has become an important vehicle to meet the savings and credit needs of the poor, especially women in rural areas. The purpose of study is to know the role of financial inclusion through self help group and for this the data will be collected from NGOs, SHG, NABARD, Gramin Banks by using interview method. Study is limited to Yamuna Nagar district only. This study help to give an outlook about the current status of SHGs in Financial inclusion , by conducting this study we are able to find out the problems faced by NGOs, SHG, NABARD, Gramin Banks and able to improve the success rate of SHG for the development of economy and make it as a powerful tool in financial inclusion.*

*Asst. Professor & Research Scholar, S.D. Institute of Mgt. and tech., Jagadhri.

***Student MBA, S.D. Institute of Mgt. and tech., Jagadhri.

INTRODUCTION

Financial Inclusion is a very important initiative for the sustainable growth of a country. With a huge rural population, that is economically challenged, Government in India has rolled out many initiatives like Rural Employment Guarantee Scheme, Sarva Shiksha Abhiyan (Education for All), Bharat Nirman Programme. But to support the growth, a committee on Financial Inclusion (FI) was also formed in **June 2006, with Dr. C Rangarajan as Chairman to recommend** a strategy to achieve a higher Financial Inclusion in the country. India in last 15 years has witnessed unprecedented growth in financial services, unfolded by liberalization and globalization of financial services due to adoption of Information Technology and unlocking of the regulatory framework. But alongside this positive development there are evidences that the formal financial sector still excludes a large section of population. As on March 2006, the saving accounts per 100 adult populations were 63 and credit accounts were only 16 in all India (RBI, BSR 2006). In 1992, India's National Bank for Agricultural and Rural Development (NABARD) piloted the concept with 500 groups. Since then, the SHG movement has witnessed tremendous growth that brought about one of the world's largest and fastest-growing networks for micro-finance. In 2007, some 40 million households were organized in more than 2.8 million SHGs that borrowed more than US$ 1 billion of credit from banks in 2006/7 alone (Reserve Bank of India 2008). Cumulative credit disbursed to SHGs amounted to some US$ 4.5 billion (or about 10% of total rural credit) in India (Garikipati 2008).

[1]**According to IISS** (Invest India Incomes and Savings Survey, 2007), 55 percent of all the households do not have bank accounts, 97 percent do not have any health insurance and 61 percent do not have life insurance

FINANCIAL INCLUSION

Financial Inclusion is delivery of basic banking services at an affordable cost to the vast sections of disadvantaged and low income groups. It includes access to formal financial system such as financial institutions, markets and instruments, like savings, loans, remittances and insurance services, at affordable prices.

Financial Inclusion can be thought of in two ways: One is exclusion from the payments system –i.e. not having access to a bank account. The second type of exclusion is from

[1] **http://www.idfresearch.org/Financial-Inclusion-0901.pdf, accessed on dated 02-04-2010.**

formal credit markets, requiring the excluded to approach informal and exploitative markets. Access to formal banking services has been available through the use of intermediaries such as Self Help Groups (SHGs) and Microfinance Institutions (MFIs). SHGs are usually groups of women who get together and pool their savings and give loans to members. Usually NGOs and National Bank for Agriculture and Rural Development (NABARD) promote and nurture these groups. The recovery experience has been very good from SHGs and there are currently 2.6 million SHGs linked to public sector banks reaching almost 40 million households through its members.

GROWTH

India in last 15 years has witnessed unprecedented growth in financial services, unfolded by liberalization and globalization of financial services due to adoption of Information Technology and unlocking of the regulatory framework. The banking sector responded quickly to the new technology; diversified in multiple services and thus the share of finance & related services in the gross domestic product increased to about 14 per cent in 2006-07 from 11 per cent in 1991-92 (RBI, Annual Report 2006-07). But alongside this positive development there are evidences that the formal financial sector is still excludes a large section of population. As on March 2006, the saving accounts per 100 adult populations were 63 and credit accounts were only 16 in all India (RBI, BSR 2006). Reserve Bank of India (RBI) and Government of India (GOI) are very much concerned about the financial exclusion as expressed in various issues of Monthly Bulletins of RBI during 2006 & 2007 and Central Budget of 2007-08(5,1). One aspect of inclusive growth is financial inclusion. The process of financial inclusion is an attempt to bring within the ambit of the organised financial system the weaker and vulnerable sections of society.

Financial inclusion can be defined as the delivery of credit and other financial services at an affordable cost to the vast sections of the disadvantaged and low income groups. The Indian state put stress on providing financial services to the poor and underprivileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan able funds, at a concessional rate, to the priority sector. The priority sector included agriculture and other rural activities and the weaker strata of society in general. The aim was to provide resources to help the poor to attain self sufficiency. They had neither resources nor employment opportunities to be financially independent, let alone meet the minimal consumption needs. To supplement these efforts, the credit scheme Integrated Rural Development Programme (IRDP) was launched in 1980. But these supply side programs (ignoring the demand side of the economy) aided by corruption and leakages, achieved little. Further, 'The share of the formal financial sector in total rural credit was 56.6%, compared to informal finance at 39.6% and unspecified sources at 3.8%. [RBI 1992]. Not only had formal credit flow been less but also uneven. The collateral and paperwork based system shied away from the poor. The vacuum continued to be filled by the village moneylender who charged interest rates of 2 to 30% per month (Rural Credit and Self Help Groups- Microfinance needs and Concepts in India- K.G.Karmakar 1999). 70% of landless/marginal farmers did not have a bank account and 87% had no access to credit from a formal source.(World Bank NCAER, Rural Financial Access Survey 2003)

OBJECTIVES OF THE STUDY:

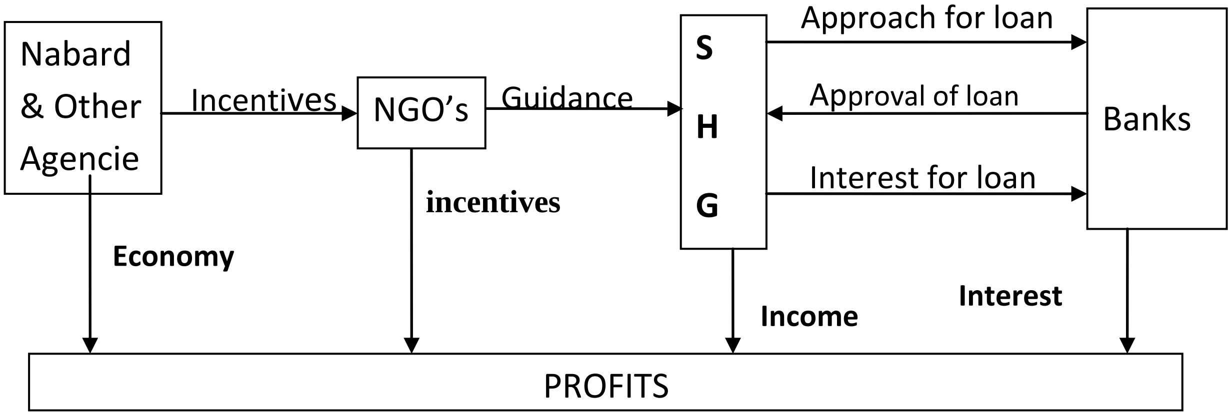
1. To know the problems being faced by NABARD, NGO, bank & SHG.
2. To develop a framework for improvement in financial inclusion.
3. Suggestions for Role of financial inclusion through Self help group

REVIEW OF LITERATURE:

Khawari (2004) revealed that the establishment of microfinance institutions (MFIs) world-wide for the provision of collateral free loans to the poor through mechanisms and instruments not known to normal commercial banks has set new milestones in the field of financial services. With 900 million households in the less developed countries left without any access to formal financial services. **Firpo (2005) suggested that** the Micro development Finance Team (MFT) carried out pilot projects in Uganda to determine the role technology could play in increasing the reach of microfinance. The conclusions drawn from the study that business process change and the implementation of new technology should proceed in tandem; creative technology solutions are required to be tailored to the unique and often challenging needs in emerging markets and local contexts; and partnerships between MFIs and local companies assist in reducing infrastructure costs. Technologies such as the RTS can evolve and provide functionality that serves to build bridges between MFIs and the formal financial sector.**Ghosh (2005)** traced the evolution of the Microfinance revolution in India as a powerful tool for poverty alleviation and women empowerment. Where institutional finance failed Microfinance delivered, but the outreach is too small. **Pahuja (2007)**

concluded that at analyzing the historical and the present state of the rural financial system in India .The paper is divided into three major segments where Segment (I) presents the background of the rural financial system and also studies the problem of Financial exclusion, (II) segment deals with the institutions working for the rural financial system, segment (III) focuses on Micro Finance Institutions and deals with the analysis of the overall paradigm as it holds for the Micro Finance Institutions in India **Yang, whitefeild & Boehme (2007)** described that an empirical study of investigating recent trend and development of the application of e-banking in rural areas and its economic impact on local financial institutions. The data used in this research are collected through a web-based questionnaire survey. The research objective is to investigate how those smaller and community banks located in rural areas have attempted to catch up with their counterparts in larger cities in terms of the application of e-banking, focusing on emerging issues and challenges. The results are discussed with managerial implications along with suggestions for future research. **Rangarajan (2008)** accessed that to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion . The 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 attempt must be to lift the poor from one level to another so that they come out of poverty. **Sharma (2009)** studied the financial inclusion by channelizing existing recourses. His conclusions are that (i) use of technology in the banking system is the most feasible solution for achieving financial inclusion, and (ii) the implementation of technology should follow a top down approach. **Anamika (2009)** analyzed the efforts made by the government of India in the implementation of financial inclusion, identifies the barriers in the process and suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas. **Prasher (2009) suggested that** the root cause for advancement in banking sector in rural areas is the cost factor. Technology can help in cutting down the cost factor. Use of IT reduces the costs of financial transactions, improves allocation of resources, and increases competitiveness and efficiency. Most importantly, it enables to take any product or service to the general masses. IT has also enabled efficient, accurate and timely management of the increased transaction volume that comes with a larger customer base.

WORKING



In the pursuit of economic development NABARD (National Bank for Agriculture and Rural Development) who takes the initiative to develop SHG's (Self Help Group) with the help of an NGOs(Non Government Organization) and banks to empower the rural people to get self employed and generate some income. SHG is group of people from a homogeneous social or economic class, all of who come together for addressing their common problems. After the six month of commencement of SHG, they people approach to bank for the loan. After analysing the working and documentation of last six months bank approve the loan to the SHG and this loan will be used by the group for the working of SHG. Interest rate on the loan is nominal and the NABARD also provide subsidies to SHG. As the NABARD leading the Indian economy towards i.e higher GDP and national income. NGO'S earning profits in form of incentive from NABARD. SHGs are earning income by utilising the loans for productive purposes. Interest paid by the NGO's on loans are the income for the Banks.

RESEARCH METHODOLOGY:

Sample:

50 SHGs, and 3 banks will be randomly selected with in Yamuna Nagar & Jagadhri.

Sampling: Random sampling **Sampling Design:** Descriptive Research

Tools: For this few public and private banks will be selected to know that how these banks provide financial education to underprivileged persons and debt counselling to individuals who are indebted to formal and/or informal financial sectors. Different SHGs will be selected and data will be collected through **interviews**. To know the role of financial literacy and credit counselling centre Punjab National Bank, State Bank of India, ICICI Bank and HDFC Bank will be selected. To study the third objective and its sub objective, a primary study will be made through interview of bank managers, using unstructured interview and questionnaires filled by vulnerable group.

Analysis: Data collected for first and second objective will be through primary method i.e. interview and for third objective data will be through secondary data i.e. journals, literature review.

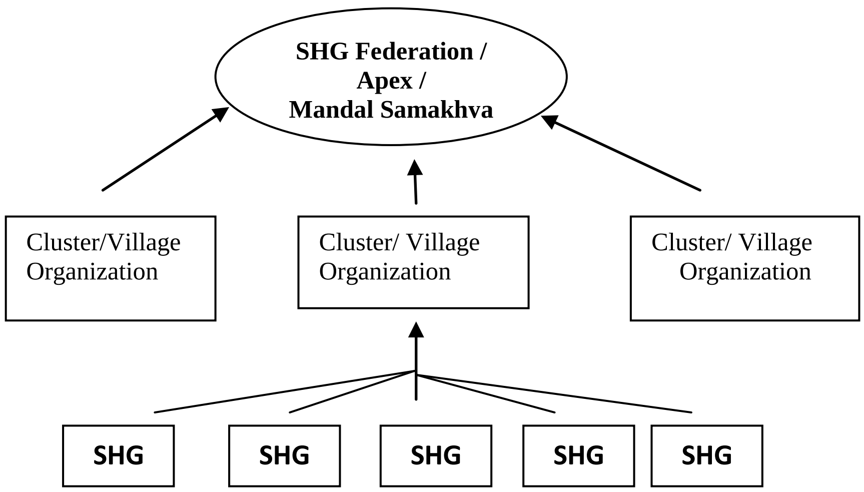
DATA ANALYSIS & INTERPRETATION:

Mainly, members of the SHGs are women. Consequently, participation of women in the country's economic development is increasing. They also play an important role in elevating the economic status of their families. This has led boost to the process of women's empowerment.

The SHG is the dominant microfinance methodology in India. The operations of 15-25 member SHGs are based on the principle of revolving the members' own savings. External financial assistance –by MFIs or banks – augments the resources available to the group-operated revolving fund. Savings thus precede borrowing by the members. In many SHG programmes, the volume of individual borrowing is determined either by the volume of member savings or the savings of the group as a whole. Some NGOs operate microfinance programmes by organising federations of SHGs to act as the MFI which obtains external loan funds in bulk to be channelled to the members via the SHGs. NABARD has facilitated and extensively supported a programme which entails commercial banks lending directly to SHGs rather than via bulk loans to MFIs. NABARD re-finances the loans of the commercial banks to SHGs. Self-help group is a method of organising the poor people and the marginalized to come together to solve their individual problem. The SHG method is used by the government, NGOs and others worldwide. In 1991-92 NABARD started promoting self-help groups on a large scale. And it was the real take-off point for the 'SHG movement'. In 1993, the Reserve Bank of India also allowed SHGs to open saving accounts in banks. Facility of availing bank services was a major boost to the movement.

In Figure 1, a graphic illustration is shown of a SHG Federation. Typically, about 15 to 50 SHGs make up a Cluster / VO with either one or two representatives from each SHG. Depending on geography, several clusters or VOs come together to form an apex body or an SHG Federation.

Figure 1 Illustrative SHG Federation

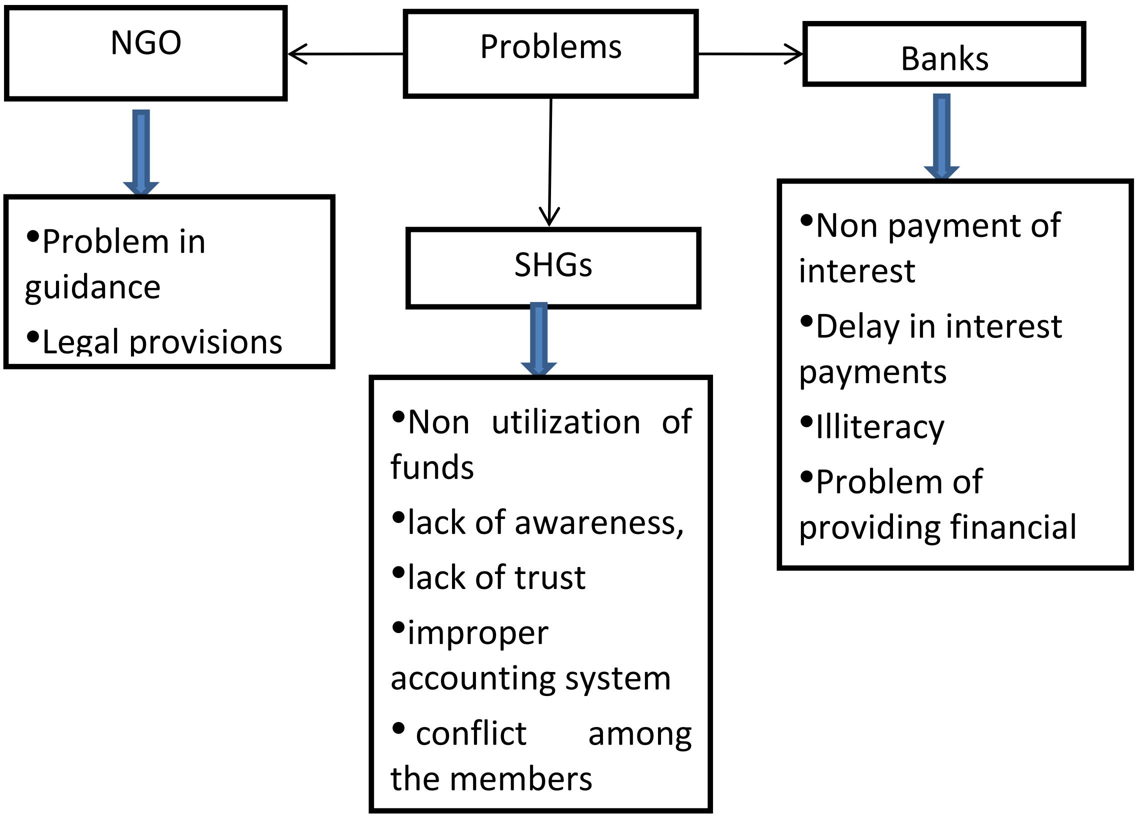


SHG model in India

In India three different models of linkage of SHGs to the financial institutions have emerged. They are:

- Banks, themselves, form and finance the SHGs.
- SHGs are formed by NGOs and other agencies but financed By banks.

Banks finance SHGs with NGOs and other agencies as financial intermediaries.



CHALLENGES FACED BY SELF HELP GROUPS:

1. Security risk

Pooled savings are often guarded by a designated sub-group or individual, and while these individuals may be trust worthy, the money could still be easily misplaced, if not stolen altogether.

2. Risk of fraud

Well established self-help groups may not face the perils of fraud because their longevity relies on the adoption of good governance principles; however, recently-formed self-help groups are susceptible to fraudulent activity by the designated accountants or even by group member.

3. Lack of capital

The loan requirement of the self-help group may easily exceed the pool of funds generated through savings from group members, especially considering money lost through bad debts.

4. Lack of management skills

Self-help groups are often initiated by a small cluster of individuals from low-income groups. Even though the members have little formal education or exposure to running thriving businesses, they may manage the group efficiency when the group size is small.

5) **Limited financial strength hence limited borrowing capacity**

The another problem faced by the self help groups are limited financial strength which creates the problem to borrow the fund from outside,even if their paper work already get completed.

6) **Lack professionalism**

Members of the self help groups are illitrate and less qualified,due to which they are not having the perfect knowledge of starting the business and proceed it further.this shows that members of self help groups do not have the professional knowledge.

7) **Marketing of production poses a major challenge for the SHG**

In today’s modern era, marketing of the product play a very important role to launch and proper enhancing the sale in cut throat competition. So, this is very difficult for financially weak self help groups to spend money marketing.

HOW SELF-HELP GROUPS PROMOTE WELLNESS

Large Variety of Wellness-Focused Groups: There exists a large variety of groups focused on specific areas of wellness. These include weight loss, smoking cessation, alcohol or drug abuse, diabetes education, stress reduction, and all types of illnesses and disorders.

Wellness Activities: Groups for arthritis, weight loss, stroke, diabetes and others have many activities to help patients feel better, gain strength or mobility, or to live better with the ailment.

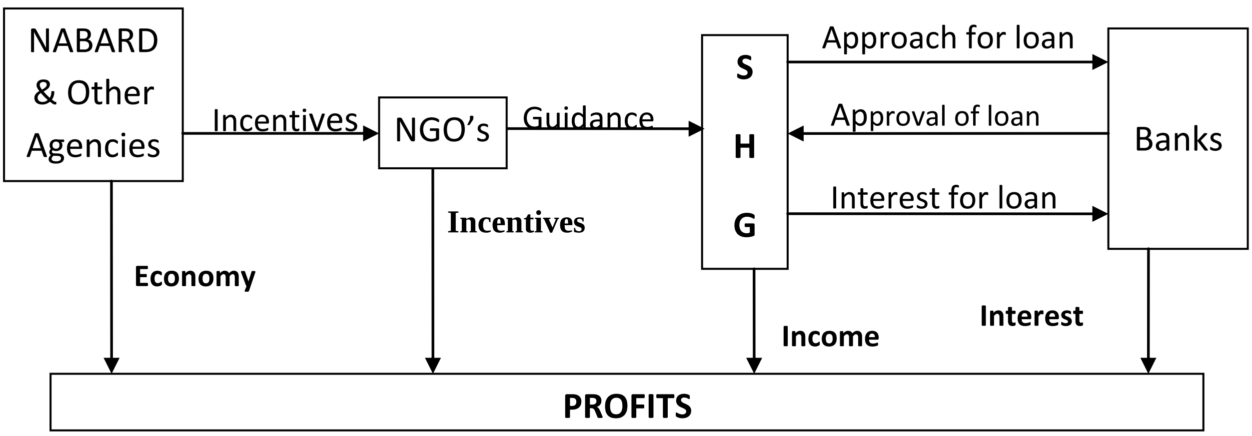
Prevention Activities: Many groups include a prevention component for both their members as well as for persons unaffected by the condition.

Peer Support is Stronger than Willpower. Sharing stories, offering suggestions and tools, and mentoring have been found to promote healthy behaviors.

Education Helps People Gain Greater Control: With the wealth of knowledge on the internet, people are beginning to educate themselves more about their health issues.

Having Meaningful Rituals – Many groups have rituals or "check outs" during their meetings which solicit positive responses. Some questions that members may respond to before the end of the meeting might be: "This one thing I'll do for myself this week is..." "The main lesson I learned today is...," "This week I will look for strengths in this part of my life...," etc

Framework of Financial Inclusion



In the pursuit of economic development NABARD(national bank for agriculture and rural development) who takes the initiative to develop SHG's (self help group) with the help of an NGOs(non government organization) and banks to empower the rural people to get self employed and generate some income. SHG is group of people from a homogeneous social or economic class, all of who come together for addressing their common problems. After the six month of commencement of SHG, they people approach to bank for the loan. After analysing the working and documentation of last six months bank approve the loan to the SHG and this loan will be used by the group for the working of SHG. Interest rate on the loan is nominal and the NABARD also provide subsidies to SHG. As we talk about the profits, it is clearly defined from the figure that not only the SHG but all the other organisations also achieving their objectives. As the NABARD leading the Indian economy towards i.e higher GDP and national income. NGO'S earning profits in form of incentive from NABARD. SHGs are earning income by utilising the loans for productive purposes. Interest paid by the NGO's on loans are the income for the Banks. We have conducted interview with different banks in order to find out the problems faced by the banks from SHGs. Conversations with the banks conclude some basic problems as follows:

Punjab National Bank Jagadhri:

As per the conversation with Mr. M. Goel (Commercial Tax Officer) of Punjab National Bank, Jagadhri, we came to know that Punjab National Bank is providing loan for self employment to a group of women which is known as SHG which are established by NGO or by other agencies. They generate income by cooperative way. The main problem faced by banks from SHGs is **lack of knowledge**, **lack of mutual understanding within group** and **improper utilization of funds**.

The suggestions are given by him to improve the efficiency of banking system is inclusion of bank representative in village committee. They also have special cell for SHGs on the state level but not on Branch banking level.

Bank of Baroda Jagadhri:

As per the conversation with Mr. S.R. Thakur CTO, Jagadhri, we came to know that Bank of Baroda, Jagadhri is currently associated with two SHGs i.e. Luxmi SHG and Bala Sundri SHG. They are providing loan to SHGs according the rules and regulation. At this time, Bank is providing the subsidy of Rs. 125000. They do not have special cell for facilitating to SHG.

Problem is that these banks are working only because of target basis. Not going in meeting. Default in payment. The main problem faced by them from SHGs are lack of knowledge, Illiterate members , take the loan for the investment purpose but use the same for consumption purpose not for income generation and the non utilization of funds. NGOs in Yamuna Nagar are not so active as they are working in Gujrat. The suggestions are given by him that proper training programme should be conducted for illiterate persons and tell them how they can properly and effectively use the new techniques in SHGs. Proper awareness programme should be conducted for the Business. NGOs should support them in best and effective way. Financial Discipline should be in SHGs i.e. Rule regulation and code of conduct of the business. As per interview taken by Bank of Baroda and Punjab National Bank CTO in Jagadhri region, we are able to find the problems which banks are facing and it leads to default in payment by SHGs.

BENEFITS

Financing through SHG's effects quite a few benefits viz; (i)savings mobilized by the poor; (ii) access to the required amount of appropriate credit by the poor; (iii) meeting the demand and supply of credit structure and opening of new market for financing institutions; (iv) reduction in transaction cost for both lenders and borrowers; (v) tremendous improvement in recovery; (vi) heralding a new realization of subsidy-less and corruption-less credit; and (vii) remarkable empowerment of poor women.

RECOMMENDATIONS:

1. Proper Regulation: The regulation was not a major concern when the microfinance was in its nascent stage and individual institutions were free to bring in innovative operational models. However, as the sector completes almost two decades of age with a high growth trajectory, an enabling regulatory environment that protects interest of stakeholders as well as promotes growth, is needed.

2. Field Supervision: In addition to proper regulation of the microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action if needed.

3. Encourage rural penetration: It has been seen that in lieu of reducing the initial cost, MFIs are opening their branches in places which already have a few MFIs operating. Encouraging MFIs for opening new branches in areas of low microfinance penetration by providing financial assistance will increase the outreach of the microfinance in the state and check multiple lending. This will also increase rural penetration of microfinance in the state.

4. Complete range of Products: MFIs should provide complete range of products including credit, savings, remittance, financial advice and also non-financial services like training and support. As MFIs are acting as a substitute to banks in areas where people don't have access to banks, providing a complete range of products will enable the poor to avail all services.

5. Transparency of Interest rates: As it has been observed that, MFIs are employing different patterns of charging interest rates and a few are also charging additional charges and interest free deposits (a part of the loan amount is kept as deposit on which no interest is paid).

6. Technology to reduce Operating Cost: MFIs should use new technologies and IT tools & applications to reduce their operating costs. Though most NBFCs are adopting such cost cutting measures, which is clearly evident from the low cost per unit money lent (9%-10%) of such institutions.

7. Alternative sources of Fund: In absence of adequate funds the growth and the reach of MFIs become restricted and to overcome this problem MFIs should look for other sources for funding their loan portfolio.

CONCLUSION:

SHGs contribute to solving the problems of inadequate housing and urban services as an integral part of poverty alleviation programmes. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrower without imposing unbearably high cost of monitoring its end use upon the lenders. A promising solution is to provide multipurpose loan or composite credit for income generation, housing improvement and consumption support. Consumption loan is found to be especially important during the gestation period between commencing a new economic activity and deriving positive income. "***fortune at the bottom of the pyramid.***"

REFERENCES:

1. Basu, P., Shrivastava, P. (2005), "Scaling-up microfinance for India's rural poor". Available at URL: http://ideas.repec.org/p/wbk/wbrwps/3646.html, accessed on dated 23-04-2012.
2. Chavan, A., Arora, S., Kumar A., Koppula, P (2009), **"**How Mobile Money Can Drive Financial Inclusion for Women at the Bottom of the Pyramid (BOP) in Indian Urban Centers". Available at URL: http://portal.acm.org/citation.cfm?id=1610926.1610984, accessed on dated 06-03-2012.

3. Chethan Vanitha, Krishnamurthy B 2004. Swarnajayanthi Grama Swarozgar Yojana for empowerment of rural women in Karnataka. In: Kiran Prasad (Ed.): *Communication and Empowerment of Women*. Vol. 2. New Delhi: The Women Press, pp. 558-591.
4. Firpo, J. (2005), "Banking the Unbanked: Technology's Role in Delivering Accessible Financial Services to the Poor". Available at URL: http://www.gdrc.org/icm/govern/banking-unbanked.pdf, accessed on dated 25-03-2012.
5. Ghosh, R. (2005), "Microfinance in India- A Critique". Available at URL: http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN024232.pdf, accessed on dated 25-04-2012.
6. Khawari, A. (2004), "Microfinance: Does it Hold its Promises?". Available at SSRN: http://ssrn.com/abstract=556213, accessed on dated 22-02-2012**.**
7. Kumari A, Malathi N 2009. Micro credit and rural development. In: Anil Kumar Thakur, Praveen Sharma (Eds.): *Micro-credit and Rural Development*. New Delhi: Deep & Deep Publications, pp. 1-10.
8. Luzzi Ferro, G., Weber, S. (2006), "Measuring the performance of Microfinance Institutions". Available at SSRN: http://ssrn.com/abstract=918750, accessed on dated 25-04-2012.
9. Murali, D. (2008), "Financial Inclusion from an Opportunist Perspective". Available at URL: http://www.cab.org.in/ICTPortal/Lists/News%20Room/DispForm.aspx?ID=8, accessed on dated 03-04-2012.
10. Nair, A. (2005), "Sustainability of microfinance self help groups in India: would federating help?" Available at URL: http://ideas.repec.org/p/wbk/wbrwps/3516.html, accessed on dated 26-04-2012.
11. Pahuja, N. (2007), "Financial Inclusion and Micro Finance in India". Available at URL: http://www.shvoong.com/social-sciences/economics/1617280-financial-inclusion-micro-finance-india/, Accessed on dated 23-03-2012.
12. Ramanunny, M. (2005), " Poverty Reduction through Micro Enterprise development in Kerala", India. In: Vineetha Menon, PR Gopinathan Nair, KN Nair (Eds.): *Alleviating Poverty.* NOIDA: Rainbow Publishers, pp. 252-263.

13. Rangarajan, C. (2008), "Reports on the Financial Inclusion". Available at URL: http://www.microfinancefocus.com/resources/2009/08/29/reports-on-the-financial-inclusion/, accessed on dated 06-04-2012.
14. Sharma, A. (2009), "Challenges: For Building Financial Inclusive India". ICFAI Reader, pp.14-20, May 2009. Available at SSRN: http://ssrn.com/abstract=1445306, accessed on dated 11-04-2012.
15. Sharma, P. (2009), "Financial Inclusion by Channelizing Existing Resources in India". The India Economy Review, pp. 76-82, 2009. Available at SSRN: http://ssrn.com/abstract=1477765, accessed on dated 10-04-2012.
16. Yang, J., White Field, M. and Boehme, K. (2007), "New issues and challenges facing e-banking in rural areas: an empirical study". International Journal of Electronic Finance, Vol. (1), Issue 3, PP. 336-354.