

Financial inclusion through SHGs: A Initiatives for Inclusive Growth

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Abstract:

The contribution of financial inclusion as an intervention of inclusive growth for Indian economy has been well documented. However, what remains under-investigated is the extent to which the financial inclusion initiatives are being implemented for sustainable growth in rural areas. There is a struggle seen to connect financial inclusion with rural households for generating income and savings. In these contexts, the objective of this study is to present a detailed review of the financial initiatives and bank linkage systems have promoted inclusive growth and sustainability in rural areas. The contribution of this study will be twofold. First, the study will provide an in-depth review regarding the initiatives and their extent of effectiveness within the rural areas. Second, the study will help examine how the present status of SBLP initiatives and its contribution beyond savings mobilization and credit delivery could serve to formulate and re-invent schemes for infiltration of financial inclusion in the rural areas and will provide implications for strengthening the linkage through financial inclusion

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I. INTRODUCTION

India with around 1.22 billion population is still in developing stage, where major proportions of the people (65% of the total population) reside in rural areas. India has witnessed unparalleled growth in financial facilities due to the adoption of various financial programs in the last 15 years. But in conjunction with this development, the infiltration of sustainable financial services, whether it is savings mobilization, credit delivery, or compensation facilities in rural areas is at a very much nascent stage (Shetty, 2016). The economic development in India is dependent on the development of economic conditions of the

rural poor people. The non-penetration of the rural people to banking facilities make these people unable to initiate savings account to save their negligible earnings nor they can avail any credit facilities and thus, end up taking credit from private money lenders with extremely high rates of interest. Thus, financial inclusion is imperative in these areas to bring the rural economy into the mainstream economy (Shah & Dubhashi, 2015).

Financial inclusion implies not just holdings of bank accounts, but it indicates a complete network of services for the weaker sections, low-income groups, and the rural society to enable them select the service depending on their requirements.

These services are developed for the clients in such a way that they are provided with scope to save, utilize the credit facilities which is not just restricted to basic consumption needs, and facilitate the credit as a compensation for vulnerabilities and risks (Rangarajan, 2008). Financial inclusion is one of the financial gateways to ensure access to need-based and timely credit facilities like loans, savings, and insurances through some financial institutes to the poor people who are devoid of any financial assistance (Garg&Agarwal, 2014). Self Help Groups (SHGs), in a developing country like India, represent a unique approach to involve the excluded population in financial intervention (Microfinance Report, 2019). The approach involves integration of cost-effective financial services with a voluntary management process to achieve the developmental goals of women who are SHG members. SHGs comprises a small homogenous group of rural women (10-20 members) who voluntarily come together for purposes, like making small savings regularly, consent for mutual contribution to a common fund, meeting their emergency needs, making group decisions, solving conflicts through shared leadership and collective discussion, and availing loans without any security deposit with terms decided by the group based on the market rates (Das &Bhowal, 2013). In India, SHGs are linked to banks through SHG-Bank Linkage programs (SBLP) for the delivery of small amounts of finance. The SBLP initiative helps these rural poor people to save their negligible earnings with commercialized and nationalized banks from where they get the facilities to avail credit through SHGs at a nominal rate of interest (Nagayya&Rao, 2016). Financial inclusion allows the SHG members to link their savings account with banks, which is known to bring about massive transformation in the living conditions of the rural people. This linking of SHGs with banks through financial inclusion, in turn, is known to

facilitate to alleviate the gap between rural and urban development in India. Sanjeev and Thangavel (2012) reported some positive effects of financial inclusion among SHG members in their self-confidence and literacy levels. Uma and Rupa (2013) highlighted the impact of financial inclusion through SHGs. Shah and Dubhashi (2015) reported Mangalam village as the first Indian village where all families received banking facilities.

Further, the contribution of financial inclusion has not been reported in-depth in rural areas, and what needs to be investigated is the extent to which the financial initiatives and bank linkage schemes have promoted inclusive rural growth and led to sustainability of inclusive growth. Therefore, it is evident that there is a need to understand the initiatives which reflect sustainable inclusive growth in rural areas. Moreover, this leads to a need to understand the gaps, which arise with regard to availability and penetration of financial inclusion in rural areas. In doing so, the current study presents a detailed summary of existing literature as how financial inclusion serves as a means of overall growth and the government initiatives in India for strengthening the financial inclusion system. The study also emphasizes the present status of SBLP initiatives and its contribution beyond savings mobilization and credit delivery to improve infiltration of financial inclusion in the rural areas and also provide implications for strengthening the linkage through financial inclusion.

This review article focuses primarily on research articles published between 2007 and 2019 related to financial inclusion through SHGs for inclusive growth.

1.1 Inclusive growth

The overall economic growth in India is driven by supply oriented and demand oriented determinants of the financial sector. The supply oriented determinants are regulated by banks and other financial institutes through enabling access

to simple financial facilities to the poor and deprived sections. The access to financial facilities is restricted by factors like lack of financial literacy about financial schemes, expensive services, elevated banking costs, and inflexible and low-quality services. The demand oriented determinants, which include low income levels and negligible asset base also influence inclusive growth. Chakrabarty (2010) illustrated that constraint in the access to formal financial services by rural poor households forced them to rely on internal sources or individual savings for consumptive and other necessities. Chattopadhyay (2011) reported an insignificant achievement in financial inclusion despite the expansion of banking facilities in rural areas of West Bengal. Financial inclusion holds a major contribution in attaining economic stability and inclusive growth. Haque et al. (2017) illustrated the effectiveness of financial literacy on household income and savings and revealed that the knowledge and skills of these people in properly utilizing the credits helped in increasing the income and savings of the people.

1.2 Financial inclusion initiatives

The present situation in India marks the establishment and incorporation of financial inclusion as a priority by government and other non-government bodies. In this context, various initiatives were taken by the Government of India (GoI), Reserve Bank of India (RBI), and public and private sector banks to achieve the

multidimensional aspects of financial inclusion and to overcome the difficulties in receiving credit from formal financial institutes. The nationalization of banks between 1969-1980 was followed by the introduction of many initiatives by RBI, like banking regulations, expansion of rural branch, ceiling the maximum limit for repayment rate, priority sector lending, etc. Beck et al. (2007) demonstrated the positive association between financial intermediation and economic development. Ravi et al. (2012) reported the absence of proper guidance for accessibility to external finance, thereby hindering the establishment of the enterprises followed by other factors like, unawareness of loan schemes and financing institutes among the women. Banerjee et al. (2015) reported a visible gap in the accessibility to financial schemes by the rural households. Gupta and Aggarwal (2015) suggested the necessity for the formulation of initiatives to promote women entrepreneurship and to address changes in the mindset of the people towards financial activities. Usman (2015) discussed the apprehensions of the low-income people towards the accessibility of loan facilities from financial institutes, indicating the need for appropriate financial schemes for the poor people. Table 1 presents the important schemes to alleviate the previous ambiguities in the system and at the same time illustrated the extent of achievement of the schemes in rural areas.

Table 1: Initiatives and achievement of financial inclusion schemes in India

Initiative	Initiating Body	Objective	Status	Benefits and issues	References
Financial Inclusion Fund (FIF; 2007-2008)	GoI, RBI, NABARD (40:40:20)	Finance for development and promotion activities	Public and private sector banks provided net credits of INR20,723 and INR 8,046 billion to rural households	<ul style="list-style-type: none"> Not applicable for normal bank transactions Subsidies will reach directly to the beneficiaries' bank account 	Shah and Dubhashi (2015)
Financial Inclusion Technology Fund	GoI, RBI, NABARD (40:40:20)	Finance for technology adoption	Transformed 27 economically weak RRBs to core	<ul style="list-style-type: none"> Improve digital finance High 	Shah and Dubhashi (2015)

Initiative	Initiating Body	Objective	Status	Benefits and issues	References
(FITE; 2007-2008)			banking solutions	financial payoff	
Adhaar card	GoI	Support financial institutions for simplification of the business process	Adhaar Information used for providing wages to workers under the MGNREGA scheme pioneered in Jharkhand	<ul style="list-style-type: none"> Minimized delay in benefits availed by the user Reduced corruption chances 	Shah and Dubhashi (2015)
Swabhiman	GoI, Banks	Opening of bank accounts and financial literacy in rural India	Provided 100 days of employment to youths from low-income sections	<ul style="list-style-type: none"> 50% rural households availed banking facilities through this scheme 	Shah and Dubhashi (2015)
Integrated Rural Development Programme (IRDP)	GoI	Commercial banks provided loans (< 15,000 INR to poor rural people in nearly 20 years	Financial assistance to households from 250 billion to around 55 million.	<ul style="list-style-type: none"> Misutilization of funds due to repayment rates of fund (25-30%) 	Sinha (2013)
Rural Cooperative Credit Societies, Regional Rural Banks (RRBs) and Microfinance institutions (MFIs)	GoI	Provide basic banking services to rural clients	> 16,000 programs supported at the village level with a total grant of INR 534.37 lakh covering 2,77,581 beneficiaries	<ul style="list-style-type: none"> Inactive and serve only to exhibit agreement with government objectives 	Herd et al. (2011); NABARD (2019)
No-Frills Account (NFAs; 2005)	RBI	Access of rural people to basic banking facilities	Banks introduced facilities like a savings account, debit card, internet banking, cheque book, overdraft limits at a nominal rate. Total of 12.31 crores NFAs were opened from which 60% accounts belonged to rural areas.	<ul style="list-style-type: none"> Number of transactions were limited to prevent misuse of accounts 	Garg and Agarwal (2014)
Kisan Credit cards (KCCs; 2001)	RBI	To provide smart card facilities to farmers	Public and private banks supplied 1.2 million smart cards (KCCs) to farmers.	<ul style="list-style-type: none"> Provides hassle-free credits to farmers Flexible repayments 	Thapa (2019)
General Purpose Credit Cards (GCC)	RBI	To provide credit (maximum INR 25,000) without any requirement of physical security	Banks provided 161.2 million GCCs (LaghuUdyami Card, Artisan Credit card, Weaver's Card, Swarojgar Credit Card, etc.)	<ul style="list-style-type: none"> Limitations on loan amount for farming-based activities Security norms applicable to security-free loans to micro units 	Garg and Agarwal (2014)

Initiative	Initiating Body	Objective	Status	Benefits and issues	References
Saving account with Overdraft facility (OD)	RBI	To provide OD facilities in saving account and NFAs	2094.40 OD facilities provided to rural households 67.5% increase in rural household access to savings accounts	<ul style="list-style-type: none"> Access to timely credits High repayment rates 	Garg and Agarwal (2014)
Financial Literacy Centres (FLC)	RBI	Rural commercial banks to conduct financial literacy workshops	Establishment of 718 FLCs Educated 2.2 million people through FLCs	<ul style="list-style-type: none"> Promoted financial literacy and inclusive growth 	Garg and Agarwal (2014)
SBPL in 1992	Bank-led approach	To provide credit to SHG members on behalf of their savings account in the banks	SBPL expanded to around 53.4% of the rural households	<ul style="list-style-type: none"> Inadequate outreach, delay in loan disbursement 	Nagayya and Rao (2016)
Business Correspondents (BCs)	Bank-led approach later supported by RBI	BCs are led by banks to provide credit facilities	Bridged the gap between service providers and service seekers	<ul style="list-style-type: none"> Threats of cash management and compatibility of technology 	Shah and Dubhashi (2015)
SHG-2 model in 2011-12	GoI	Voluntary savings of SHG members by reviving NFAs	Overall SHG domain includes 85.2% women SHG groups	<ul style="list-style-type: none"> Transformation from community banking to personal banking 	Nagayya and Rao (2016)
Women SHGs Development Fund	GoI	Funding of INR 500 crore for management of SHGs through FIF and FITF	<ul style="list-style-type: none"> This initiative managed nearly 50,000 crores in India. Number of women SHGs increased to 12.70 lakh 	<ul style="list-style-type: none"> Improvements in financial literacy and entrepreneurial skills Challenging in terms of capacity building 	AIHR (2017)
Swarnjayanti Gram Swarozgar Yojana (SGSY)/ National Rural Livelihood Mission (NRLM; 2011)	Ministry of Rural Development (MORD), GoI	Promoting the formation of rural SHGs	Facilitated capacity building training and linking groups to banks	<ul style="list-style-type: none"> Provided income generating activities among 40% rural women Introduced interest subsidy for loan repayments Provided market linkage 	Nagayya and Rao (2016)

Initiative	Initiating Body	Objective	Status	Benefits and issues	References
The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	To provide a minimum of 100 days of salary/year to rural families	To generate employment opportunities among rural households	Promote generation of savings and assets	<ul style="list-style-type: none"> Establishment of 4.68 crores assets among rural households 12.15 crores active borrowers 	Garg and Agarwal (2014); Nagayya and Rao (2016)
Prime Minister's Jan Dhan Yojana (PMJDY)	GoI	Access to ICT-enabled banking	Jan Dhan Yojana, Aadhaar, and Mobile Numbers are linked for credit transfer to beneficiaries		Thapa (2019)

Source: Compiled from various sources

1.3 Present status of SHG-Bank linkage model

SHGs linked with banks is a functional intervention of financial inclusion for economic up-gradation of the sections present at the bottom level of the livelihood pyramid. The significance of financial inclusion in the overall economic empowerment of the people in India has been acknowledged, and in this regard, the banks have been keenly contributing to the outreach of microfinance programs through the growth of loan facilities and savings linked with SHGs. The innovative financial inclusion approach involves the participation of banks, SHGs, and other institutes. Kumar Belli and Raghavendra (2014) reported the contribution of the NGOs more than the banks and the government bodies towards the establishment of the SHGs but played a limited role in marketing activities. Banerjee et al. (2015) reported less than half (33%) positive influence of SBLP on rural women households. Padmavathi (2016) illustrated that SBLP facilitated the contribution of only a small amount of funds to the rural women during any emergency. According to reports of NABARD (2019), among the various initiatives of the multi-model initiatives, the SBLP model became the most

popular model in bringing about economic growth in rural areas. This model support for the 100.14 lakh SHGs which covered more than 1200 lakh households as recorded on March 31st, 2019. During 2018-19 a good number of SHGs were introduced in some of the states and there was an estimation of 12.7 lakh savings of SHGs linked with banks. The increase in the number of SHGs availing loans from banks and credits from institutions accounted for 19.33% and 23.6% respectively during 2018-19. This implies the willingness to economically uplift the households living in poverty-rich areas through the linkage program. The overall SHG domain includes 85.2% women SHG groups for empowering the poor rural women in India. This platform initially considered for facilitating expansion of services provided by the banks among the poor has graduated to a delivery model for individual banking, promoting poverty alleviation and economic empowerment. Along with expansion of SBLP, this initiative must undergo reformation to improve its developmental activities. The present status of implementation of SHG-Bank linkage model has been presented in Table 2.

Table 2. Present status of SBLP model as on March 31st, 2019 in India

SHG-Bank Linkage Initiatives	Commercial Banks	RRBs	Cooperative Banks	Total
Total no. of SHGs with a bank savings account	5476914	3078473	1458856	100.14 (14.52%)
Savings amount (INR lakh)	1324023.23	769201.27	239223.65	2332448.15
Total no. of women SHGs linked with banks	3916051	2665229	1308055	85.31 (15.44%)
Number of SHGs with bank loans	1512907	940818	244675	26.98 (19.33%)
Amount of loan disbursed (INR lakh)	3449246.74	1955264.43	427251.71	5831762.88
Total no. of women SHGs credit linked with banks	1223215	908618	233010	23.65 (13.98%)
No. of SHGs with outstanding bank loans	2901209	1695534	480589	5077332 (1.14%)
Amount of outstanding bank loans	5564111.05	2619598.85	526105.53	8709815.43
Total no. of women SHGs with outstanding loan portfolio	2442156	1569992	449180	44.61 (-1.93%)
The estimated number of families covered by SBLP program	-	-	-	1224
Cumulative JLGs promoted during 2018-19	-	-	-	50.76

Source: Compiled from Microfinance Pulse Report, 2019; NABARD, 2019

1.4 Role of SBLP beyond savings and credit

The microfinance services mediated through the SHGs aimed to achieve and maintain the economic development of Indian women, both rural and urban (Banerjee et al., 2015). Taruna and Pushkar (2016) reported that access to SBLP services is the key approach for the fast recovery of the marginalized economy, which otherwise faced constraints in availing loan from any formal financial organization Krishnan and

Sivramkrishna (2017) reported that extensive services of SBLP increased the number of beneficiaries as well as their investments diversified leading to the formulation of more such organizations. The services apart from savings facilities and the credit delivery include local area bank's (LAB) service, financial literacy programs, MICRO INSURANCE, and micro pension facilities (Nagayya&Rao, 2016). These services are presented in Table 3.

Table 3. Extended services under SBLP model

Services	Objectives	Initiatives	Status
Local Area Bank's Approach (LAB)	Providing credit and promoting rural savings	Uses microfinance as the business model	<ul style="list-style-type: none"> 4 LABs operational (Andhra Pradesh, Punjab, Maharashtra, and Karnataka) Establishment of 59 BCs
Financial literacy	Provide basic concepts of financial	SEWA Bank in Ahmedabad, Indian School of Microfinance	<ul style="list-style-type: none"> Suryodaya in Maharashtra is an innovative approach for

	management for rural women	for Women	promoting financial literacy <ul style="list-style-type: none"> • MahilaAbhivruddhi Society in Andhra Pradesh provides financial literacy to women SHGs.
Micro insurance	To provide compensation facilities for low-income people.	Rashtriya SwasthyaBimaYojana and MGNREGS beneficiaries under this scheme	<ul style="list-style-type: none"> • 50 insurance schemes provided by NGOs • JeevanJyotiBima Yojana provides insurance coverage of INR 2 lakhs
Micro pension	To provide pension facilities with linkage schemes	NPS-Life, the Invest India Micro Pension, and the AbhayaHastham	<ul style="list-style-type: none"> • Initiation of AbhayaHastham pension scheme for SHG members • Atal Pension Yojana for women

Source: Adapted from Nagayya and Rao, 2016

1.5.Implications for strengthening SBLP

The implications suggested for strengthening SBLP include the following:

- *Promoting SHGs in excluded areas*

According to the Microfinance Pulse Report (2019), West Bengal, Tamil Nadu, Bihar, and Karnataka reported highest credit borrowers through SBLP. However, the poor banking network and lack of societal progress is one of the reasons for less SHG activities in some of the rural areas, particularly in Eastern, Northern and North-Eastern India. Thus, modifications must be incorporated in the SBLP model to facilitate complete penetration of SHG activities in these areas.

- *Capacity Development of government officials*

Further, sufficient training must be provided to the SHG members on skill development and understanding financial literacy.

- *Overcome misutilization while approving and disbursing credit*

The malpractices at the lower level must be checked to avoid rotation of credit to the wrong people for lavish consumption.

- *Identification of weaker sections through NABARD's initiative*

NABARD (2019) report states that 16 Indian states were identified with the highest amount of poor population with low levels of implementation of SBLP. The SBLP model must be upgraded in the 16 states with NABARD'S initiative.

- *Effective standards for distribution of credit within SHGs*

SHGs must establish standards for additional credit disbursement, particularly when a member leaves the group.

- *ICT-(Information and Communication Technology)enabled services*

The financial facilities must be equipped with ICT tools for the benefit of both SHGs and banks.

Conclusions and implications for future research

The present study covered financial inclusion initiatives and effectiveness in considerable depth

which might contribute to some possible explanations on the insufficient penetration of financial inclusion within rural areas as cited in the previous studies. The present study covered the current status of SBLP initiatives in India, which might help to formulate strategies for strengthening the SBLP model. In conclusion, there lies much scope for future exploration of effectiveness of initiatives and attributes which determine the involvement of SHGs and financial inclusion within the rural backdrop.

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