

Self Help Groups (SHGs) As A Medium of Financial Inclusion and Economic Growth

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Abstract

Financial inclusion plays a significant role in achieving the inclusive and sustainable growth of an economy. It is an efficient tool of global and national level policy makers which is used in alleviation of poverty and increase equity. It may be defined as the availability and accessibility of formal financial services at an affordable cost to those segments of the population of an economy which have been historically excluded from the formal financial sector either because of their low income, backwardness, location, gender or level of financial literacy. These financial services include savings, credit facility, insurance, pension funds, payment, remittance facility, etc. Thus by providing the well functioning financial infrastructure to the weaker section, financial inclusion enables them to develop their human and physical capital. In India, more than 40 per cent of the households don't have access to banking services. In rural areas, 44 per cent households and in urban areas, 33 per cent still don't have a bank account. The purpose of the present study is to identify the channels through which financial inclusion promotes economic growth and performance and to ascertain the role of Self Help Groups (SHGs) in financial inclusion. The study shows that there are macro and micro level economic factors which channelize economic growth and performance of an economy through financial inclusion. It creates an urgent need of financial inclusion in a nation. On the other side Self Help Groups (SHGs) mobilizing the resources of weaker section for their economic development. By raising the level of income and standard of living of weaker section of society through self employment, Self Help Groups (SHGs) plays an important role in financial inclusion.

Key Words

Financial Inclusion, Economic Growth and Performance, Self Help Groups (SHGs)

INTRODUCTION

The economic growth in India has been accelerating but it has failed to be inclusive. India is a fastest growing country. The GDP growth rates are the evidence of the development of Indian economy. Despite this growth and development, the benefits of development had not reached all sections of population. A sustainable growth is achieved only through inclusive development. As per the Economic Planning Commission of India "the term "inclusive" should be seen as a process of including the excluded as agents whose participation is essential in the every design of the development process and not simply as welfare targets of development programmes". The Eleventh five year plan 2007-12 (Towards Faster and More Inclusive Growth) advocates for inclusive growth. It stresses that benefits of development should reach all section of population and emphasizes to promote social justice. The key component of inclusive development is financial inclusion. Broadening access to financial services by a large section of society will mobilize savings of them and invest in a manner to capital formation and helps in achieving sustainable growth of economy. Financial inclusion is defined by Rangarajan Committee Report 2008 "As the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost" Thus financial inclusion plays a significant role in the inclusive and sustainable growth of an economy. It may be defined as the availability and accessibility of formal financial services at an affordable cost to those segments of the population of an economy which have been historically excluded from the formal financial sector either because of their low income, backwardness, location, gender or level of financial literacy. Thus by providing the well functioning financial infrastructure to the weaker section, it enables them to develop their human and physical capital. The process of financial inclusion plays a significant role in alleviation of poverty and creates income equality. The three main elements of financial inclusion are accessibility of financial market, accessibility of credit market and financial literacy.

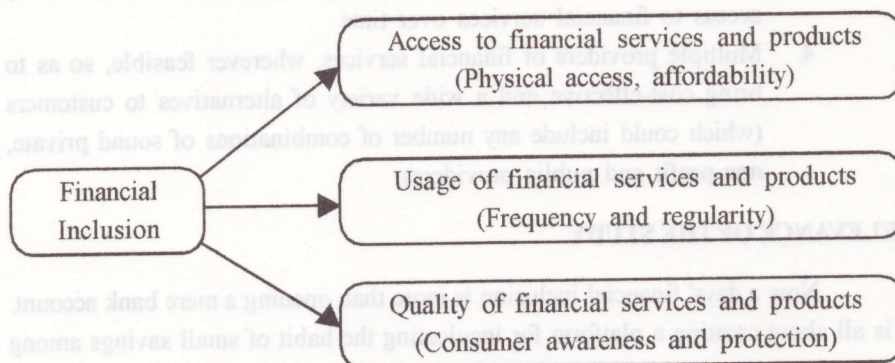
Indian banking system, financial regulators and Government plays significant role in providing formal financial services to the weaker section. By providing strong banking network through the establishment of Regional Rural Banks (RRBs), Microfinance Institutions (MIs), Self Help Groups (SHGs) etc. and ease to access the financial services, banking sector has taken a lead role in promoting financial inclusion. Multiple crucial measures have been taken by Reserve Bank of India (RBI) to overcome the problem of financial exclusion. The banking nationalization, priority sector lending requirements for banks, lead bank scheme,

establishment of Regional Rural Banks (RRBs), service area approach, self help group-bank linkage programme, etc., are the initiatives taken by Reserve Bank of India. Despite of these efforts, a vast majority of population in India is deprived of the formal financial services. More than 40 per cent of the households in India don't have access to banking services. In rural areas, 44 per cent households and in urban areas, 33 per cent still don't have a bank account. There are both demand and supply side barriers of financial inclusion. The demand side barriers are cultural factors, psychological barriers, lack of financial literacy etc. and the supply side barriers are poor bank penetration, high transaction cost, documentation barriers etc. seem to be some likely reasons of financial exclusion.

CONCEPTUAL FRAMEWORK OF FINANCIAL INCLUSION

It is a process of delivering formal financial services to the lower income group and weaker section at an affordable cost to promote financial and economic growth of a nation. These financial services include savings, credit facility, insurance, pension funds, payment, remittance facility, etc.

Figure 1 : Main Dimensions of Financial Inclusion



Financial inclusion has three aspects : Access to financial services and products, usage and quality of financial services and products. The first aspect may be achieved only through physical approach to those backward segments of an economy which are specifically present in the rural areas. It may also be required to provide them suitable products that can be easily afforded by them. Access to financial services is necessary but without proper usage of those services, financial inclusion is impossible. So the regularity and frequency of transactions is necessary for the proper usage of financial services and products. The third aspect, quality of financial services and products can be attained only through providing the

financial services and products according to their needs and income level of clients. It is also required to make poor rural and urban people aware about the right and suitable product and services for them and make them financial literate enough to choose the suitable financial services and products.

NEED OF FINANCIAL INCLUSION

The main objectives of inclusive finance, according to the United Nations are as follows :

1. Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.
2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required
3. Financial and institutional sustainability as a means of providing access to financial services over time
4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

RELEVANCE OF THE STUDY

Now a days' financial inclusion is more than opening a mere bank account. It is all about creating a platform for inculcating the habit of small savings among rural and urban poor, providing them formal credit facility, plugging the leaks in public subsidies and welfare programmes providing by government, insurance facility including life insurance, accidental insurance and pension schemes. Financial inclusion is an important step towards social and economic development. There are several initiatives taken by Government of India and financial regulators. The Prime Minister of India has announced an ambitious scheme Jan Dhan Yojana for comprehensive financial inclusion on August 15, 2014. It is the financial inclusion scheme under which all the segment are covered with banking facilities. It is ensuring a bank account for each household. There is a need to identify some channels through which financial inclusion promotes economic growth and

performance. On the other side SHGs have been recognized as an efficient tool in accelerating financial inclusion which is more concerned to rural development. The role of SHGs in financial inclusion in India can be ascertained through the savings of SHGs with banks and loan disbursed to SHGs with agency wise.

REVIEW OF LITERATURE

There has been a lot of research on financial inclusion and its relationship with economic growth, financial stability, women empowerment etc. and role of financial institutions in promoting it. An attempt has been made to review some of the studies among them.

Chakravarty and Pal (2010) demonstrated that the axiomatic measurement approach developed in Human Development literature can be usefully applied to the measurement of financial inclusion. They developed a conceptual framework for aggregating data on financial services in different dimensions. They suggested index of financial inclusion allows calculations of percentage contribution of different dimensions to the overall achievement. They also illustrated the index using cross country and sub-national level data.

Negi and Dangwal (2011) ascertained the current scenario of micro finance and SHGs in India and Uttarakhand and explored how the SHGs could reach to the maximum number of poor rural women of high hill terrains of Uttarakhand. They concluded that only a few women are actually getting benefitted through SHGs. Micro credit increases opportunities for livelihood and enhances income levels of households, its impact cannot be said to be so significant as to change people or women's lives phenomenally. They suggested that the banks particularly private banks should extend linkages with SHGs and nationalized banks may support emerging MFIs in the state with near market loans and credit for on-lending.

Dixit and Ghosh (2013) focused on to understanding inclusive growth phenomenon, its need and financial inclusion as an instrument to attain it with reference to its extent in Indian states. Analysis of natural hierarchical grouping cluster is done considering parameters like GDP per capita, literacy rate, unemployment rate and index of financial inclusion (Johnson R.A. & Wichern D.W, 2000) on few of Indian states. They concluded that inclusive growth attainment depends a great deal on equitable distribution of growth opportunities and benefits. And financial inclusion is one of the most crucial opportunities which need to be equitable distribution in the country in order to attain competence growth.

Paramasivan and Kumar (2013) attempted to discuss the overview of

financial inclusion in India. They concluded that literacy is a prerequisite for creating investor awareness, and hence intuitively it seems to be a key tool for financial inclusion. They observed that literacy alone cannot guarantee high level of financial inclusion in a state. It is not possible to achieve financial inclusion only by creating investor awareness, without significantly improving the investment opportunities in India.

Savita Shankar (2013) analyzed if Micro Finance Institutions (MFIs) adequately break down barriers to financial services access in India. For study, the spread of microfinance penetration in country was analyzed and field interviews of 103 MFI field officers were conducted. Researcher found that while MFIs do break down many barriers to financial inclusion, there are limitations in the extent of their outreach to those excluded. First, MFI penetration in the country is skewed and excludes some areas neglected by the banking sector, suggesting a need for policy incentives to encourage expansion to those areas. Second, even in areas in which MFIs operate they are unable to provide services to some financially excluded individual on account of their methods of operation. To provide greater and more long lasting access to more individuals there is a need for MFIs to consider adopting more flexible operating models and to offer portability of accounts.

Sharma and Kukreja (2013) highlighted the basic features of financial inclusion and its need for the social and economic development of the society. They focused on the role of financial inclusion in strengthening the India's position in relation to other country's economy. For analyzing such facts data for study has been gathered through secondary sources including report of RBI, NABARD, books of financial inclusion and other articles. The study concluded that undoubtedly financial inclusion is playing a catalytic role for economic and social development of society but still there is a long road ahead to achieve the desired outcomes.

Uma and Rupa (2013) identified the role of Self Help Groups (SHGs) in financial inclusion. The primary data was collected through random sampling method and it reflects the positive relationship between SHGs membership and financial inclusion. The study showed that after the membership to SHGs, there was enormous increase in the number of bank accounts by members to the extent of 82.7 per cent from 17.3 per cent before membership. With that the credit availed by the members and annual repayment of loan also shows positive trend. Researchers concluded that SHGs help the deprived sector of people to enter into formal financial sector and through that social and economic empowerment.

Arif (2014) explained the existing scenario of financial inclusion in India

with different approaches of financial inclusion with reference to the model of Self Help Group Bank Linkage Program for financial inclusion in India. He analyzed the contribution of SHG microfinance in financial inclusion in India. He concluded that self help groups have high potential to achieve financial inclusion and have greater scope to grow in numbers and volume.

Sarania and Maity (2014) examined the impact of Self Help Groups (SHGs) on financial inclusion of rural people in the district of Baska, Assam. For the purpose of study, a total of 180 respondents (90 participants and 90 non participants) were selected. The overall results revealed that the SHG- Bank Linkage Programme increased the degree of financial inclusion among SHG households as compared with non participant's households.

Shabna Mol TP (2014) discussed about the conceptual aspects of financial inclusion, point out the reasons of financial exclusion, highlighted the measures taken by Reserve Bank of India (RBI) for the promotion of financial inclusion and the role of banks towards financial inclusion. The study was based on secondary data. Researcher concluded that more financial access will attract more global market players to the country that will result in increasing employment and business opportunities.

These few studies have helped a lot in understanding the concept of financial inclusion and role of banking and financial institutions in promoting it. The present study distinct itself from the above studies with the objective to identify the channels through which financial inclusion promotes economic growth and performance. The channels are divided into two levels: micro economic and macro economic variables. The second objective of this study is to identify the role of Self Help Groups (SHGs) in financial inclusion in India.

OBJECTIVES OF THE STUDY

1. To identify the channels through which financial inclusion promotes economic growth and performance.
2. To ascertain the role of Self Help Groups (SHGs) in financial inclusion in India.

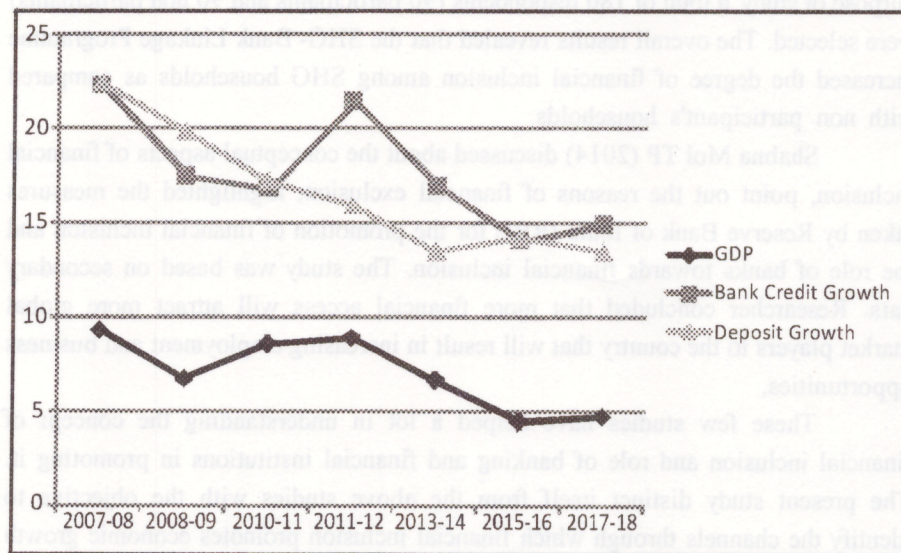
RESEARCH METHODOLOGY

This paper is partly descriptive and partly exploratory in nature based on the secondary data. The study is divided into two parts. In first part, the channels through which financial inclusion promotes economic growth and performance identified. For the purpose, data is collected from various research paper and

articles. To ascertain the role of SHGs in financial inclusion in India, the data is collected from the annual reports of NABARD and reports on the status of micro finance in India published by NABARD for various years. The data has been tabulated and analyzed by using percentage method (growth/decline).

FINANCIAL INCLUSION AND ECONOMIC GROWTH

Figure 2 : Period Wise Growth of GDP, Bank credit and Deposit



Source : Author, Compiled from India Macro-Economic Summary, Planning Commission of India

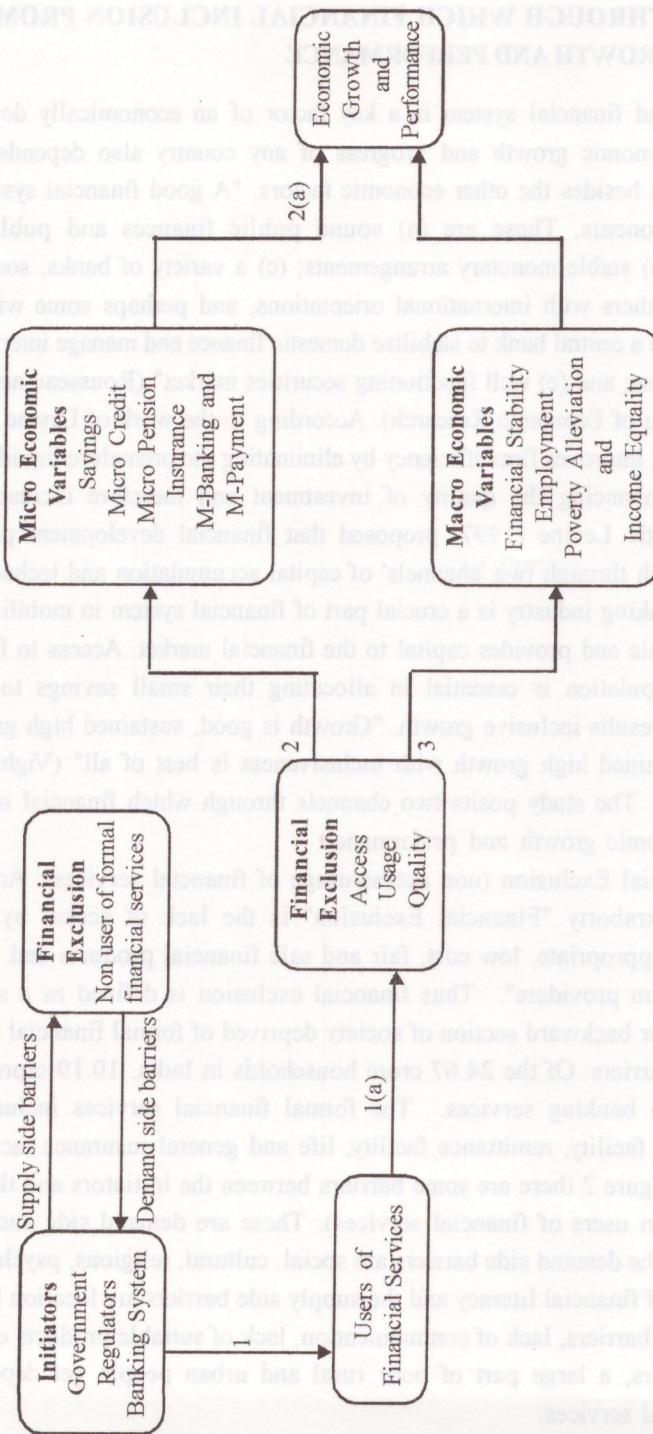
Figure 1 shows the period wise comparison of GDP as the parameter of economic growth and bank credit growth and deposit growth as the parameters of financial inclusion to create the relationship between economic growth and financial inclusion. After analyses the graph, it is concluded that GDP is growing from 2008-09 to 2010-11 and from 2010-12, it be falling continuously till 2012-13 and slightly growing in 2013-14. Similarly the maximum growth of bank credit can be notice in 2010-11, like GDP, it is also continuously falling till 2012-13 and slightly growing in 2013-14. The deposit growth is not satisfactory and falling continuously from 2007-08 till 2011-12. The relationship is found somewhere between the GDP (economic growth) and bank credit and deposit growth (financial inclusion).

CHANNELS THROUGH WHICH FINANCIAL INCLUSION PROMOTES ECONOMIC GROWTH AND PERFORMANCE

A sound financial system is a key factor of an economically developed nation. The economic growth and progress of any country also depends on its financial system besides the other economic factors. "A good financial system has five key components. These are (a) sound public finances and public debt management; (b) stable monetary arrangements; (c) a variety of banks, some with domestic and others with international orientations, and perhaps some with both orientations; (d) a central bank to stabilize domestic finance and manage international financial relations; and (e) well functioning securities market" (Rousseau and Sylla, National Bureau of Economic Research). According to the work of Levine (1991), financial market improves firm efficiency by eliminating the premature liquidation of firm capital, enhancing the quality of investment and therefore increasing the economic growth. Levine (1997) proposed that financial development promotes economic growth through two 'channels' of capital accumulation and technological innovation. Banking industry is a crucial part of financial system in mobilizing the savings of people and provides capital to the financial market. Access to financial services by population is essential in allocating their small savings to capital formation and results inclusive growth. "Growth is good, sustained high growth is better and sustained high growth with inclusiveness is best of all" (Vighneswara Swami, 2010). The study posits two channels through which financial inclusion promotes economic growth and performance.

Financial Exclusion (non access/usage of financial services): According to K. C. Chakraborty "Financial Exclusion" is the lack of access by certain consumers to appropriate, low cost, fair and safe financial products and services from mainstream providers". Thus financial exclusion is defined as a situation where a weak or backward section of society deprived of formal financial services due to some barriers. Of the 24.67 crore households in India, 10.19 crore do not have access to banking services. The formal financial services include bank account, credit facility, remittance facility, life and general insurance facility. As shown in the figure 2 there are some barriers between the initiators and the target population (non users of financial services). These are demand side and supply side barriers. The demand side barriers are social, cultural, religious, psychological barriers, lack of financial literacy and the supply side barriers are location barriers, documentation barriers, lack of communication, lack of suitable products etc. Due to these barriers, a large part of poor rural and urban people get deprived of formal financial services.

Figure 3 : Channels through which Financial Inclusion Promotes Economic Growth and Performance



Source : Author

The process starts from the initiators who initiate the financial inclusion in urban and rural areas of country. The question arises here is that, who are these initiators? These may be Government, regulatory bodies, financial and banking institutions of any country. In India, its banking system, financial regulators and Government plays significant role in providing formal financial services to the weaker section. With different policies programmes and schemes, government and financial regulators provides financial infrastructure to society and promotes financial inclusion. Banking sector is the backbone of financial system. It develops banking habits among poor rural and urban people. By removing the demand and supply side barriers, these initiators approaches the target population and provides them formal financial services. Hence, in figure 2 it shows that the target population (users of financial services) (1) is getting formal financial services from the initiators and promoting financial inclusion 1(a) in country. Financial inclusion has mainly three dimensions access to financial services, usage and quality of financial services. Access to financial services and products includes the availability of formal financial services at an affordable price to poor rural and urban people. Usage of financial services includes regularity and frequency of transactions by those who access to those services. Quality describes the right and suitable products for the right person at right time. Now financial inclusion promotes economic growth and performance through two channels: microeconomic (2) and macroeconomic variables (3).

MICRO ECONOMIC VARIABLES

Financial inclusion promotes economic growth and performance 2(a) through several micro economic factors. These are as follows :

Saving

In economic terms, saving is the share of disposable income which is accumulated in a bank or invested in capital goods instead of spending in materials and consumption goods. Access to financial services will mobilize household savings and capital for investment. The accumulated capital is invested in entrepreneurs and expands their class which will give opportunity to more people to invest in themselves and their families. Savings enables households to manage their funds in a specific manner which helps them to improve their consumption and standard of living. Evidence has been found that there is strong correlation between savings and economic growth and performance in developed and developing economies. Aghion, Comin and Howitt (2006) developed a theory according to which domestic saving affects economic growth even in a world of capital mobility.

Savings provide the local entrepreneurs with co financing which will give opportunities to them in their new and innovative projects. Dipendra Sinha (1996) found that gross domestic product is co integrated with gross domestic savings as well as gross domestic private savings. The relationship between savings and growth is not direct one. It is necessary to channelize the savings into productive investments otherwise it may be tenuous.

Micro Credit

Most of the world's poorest people are the part of rural area. Micro credit/finance is a way for increasing the standard of living and reducing poverty, particularly in rural areas. It is an effective tool in reduction of poverty and developing the rural economy. Access to credit makes poor rural people to increase its sources of incomes. It provides them an income opportunity through self employment. There are lot studies found the impact of micro credit on reduction of poverty and empowering rural people. According to Rajendran and Raju (2010), micro finance and self help groups (SHGs) are effective in reducing poverty, empowering women, creating awareness and ensure sustainability of environment which finally results in sustainable development of nation. Arun and Annim (2010) showed that loans for productive purposes were more important for poverty reduction in rural than urban areas. According to researchers, those using micro credit have better living standards than before because of income and asset growth. Using micro credit, also creates more job opportunities and varieties of economic activities, provides more jobs for women, improved household education and family welfare. It helps poor rural to built their confidence and explore more opportunities and ways to self employment. Paul J. Salia (2014) concluded that micro credit had contributed to the improved welfare of women borrowers' households by enabling them to own long term assets.

Micro Pension

A low income earner can't avail the facility of pension due to instable income general unemployment, cultural barriers, financial illiteracy etc. Micro pension scheme is basically formed for low income groups, to provide them stable and regular stream of income at the time of their old age by mobilizing their small savings. Pensions generate capital growth by enabling poor people to invest in various assets through institutionalized programmes. The (micro) pension's spectrum runs from: contractual savings on the one hand to a longevity risk sharing insurance (Dulleman and Bruijn, 2011). To the extent this is true, pension funds may enhance economic growth by increasing aggregate level of savings available for investment (Vincent P. Apilado, 1972).

Insurance

Insurance is an instrument to mitigate the risk and manage the losses. Without insurance, a person has to face instability in income due to death and disability; even the whole family suffers due to the death of the head of family. Due to the adverse agricultural outcomes, the rate of consumption and investment falls down. MFIs and other financial institutions have initiated to diversify into insurance products. Rural people are now purchasing life insurance along with savings and micro credit. The weather insurance has enormous potential to improve the performance of under developed economies, because lower income economies tend to be more affected to high volatility in income due to fluctuations in commodity prices. According to Rao and Srinivasulu (2013) there is strong tendency in poorer economies for households to bear responsibilities for paying a much higher proportion of overall health cost out of pocket than in richer economies, which leads to underinvestment in health services and vulnerability to health related consumption shocks. They found that insurance has had a very positive impact on India's economic development.

M-Banking and M-Payment

The problem of poor banking branch network can be sort out through mobile banking in rural areas. It is also called branchless banking. It significantly reduces the cost of financial services and provides affordable modern financial services to the rural poor. Therefore, it plays a significant role in rural economic development by alleviating the uneven distribution of rural and urban financial services and eliminates financial inequality. The success of M-PESA in Kenya, launched in 2007, is an evidence of the revolution of mobile banking. It gives cheap service with speed, convenience and transparency of payment transactions to its client. Several agency functions of banking can be easily performed by mobiles with speed and less cost as compared to traditional one. For a rural poor, it is less expensive to transfer funds at a distance, particularly small amounts of money by using m-banking and m- payment methods. With an active and regular use of m-banking/ m-payment, one can easily saves due to its cost effectiveness. Offering a way to lower the costs of moving money from place to place and offering a way to bring more users into contact with formal financial systems, m-banking/m-payments systems may prove to be an important innovation for the developing world (Donner and Tellez 2008).

MACRO ECONOMIC VARIABLES

Financial inclusion promotes economic growth and performance 3(a) through several macro economic factors. These are as follows :

Financial Stability

Financial stability refers to a situation in which a financial system exists with less frequent disruptions and with smooth flow of savings and investments. A financial system comprises financial intermediaries (financial and non financial institutions), financial market and market infrastructures. There have been a lot of empirical and descriptive studies suggesting the both positive and negative impact of financial inclusion on financial stability. An empirical study of Morgan and Pontines, 2014 found that an increased share of lending to small and medium-sized enterprises (SMEs) aids financial stability, mainly by reducing non-performing loans (NPLs) and the probability of default by financial institutions. H.R.Khan, 2011, advocated three ways in which financial inclusion positively promotes financial stability. First, increased lending to smaller firms could reduce the overall riskiness of bank's loan portfolio (greater diversification of bank assets). Second, with the increasing number of small savers, one can see a positive impact on the size and stability of deposit base both. It reduces the bank's dependence on "non-core" financing, which tends to become volatile during a crisis. Third, it could also contribute to greater financial stability by contributing to a better transmission of monetary policy.

Employment

There is lot of studies which found the positive impact of financial inclusion on social development. Employment is an indicator of social development. Financial institutions provides the micro credit and loan facility under which small and medium size enterprises and small scale entrepreneurs can invest in their new projects and generates employment with self employment. Parsad, 2010 observed that there has an adverse effect on overall employment growth due to lack of adequate access to credit by small and medium size enterprises and small scale entrepreneurs. Since these enterprises tend to be much more labour intensive in their operation. In nutshell the growth of new ventures and enterprises can be possible only through proper financial infrastructure which in turn depends on financial inclusion. The growth of these enterprises significantly generates employment opportunities which help in the social and economic development.

Poverty Alleviation and Income Equality

The problem of income inequality and poverty is still a challenging issue among the policy makers of Indian economy. To make available a suitable financial product according to the low income group at an affordable rate improves their access to financial services, which in turn helps them to undertake productive activities. There is a strong correlation found between financial access and poverty rates and increasing financial inclusion or reducing involuntary financial exclusion lowers income inequality, (Park and Mercado, 2015). Financial inclusion is, thus by providing the well functioning financial infrastructure to the weaker section enables them to develop their human and physical capital. The process of financial inclusion plays a significant role in alleviation of poverty and creates income equality. The Scheme of financial inclusion along with Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy (Murari and Didwania, 2010)

Thus, in the nutshell, financial inclusion is a significant tool for policy makers to achieve economic growth. It promotes economic growth through micro and macro level variables.

ROLE OF SELF HELP GROUPS (SHGS) IN FINANCIAL INCLUSION IN INDIA

Self Help Groups (SHGs)

After independence Indian government has to face a big issue of rural poverty. To overcome this problem Indian government took many aggressive steps which were concerned with improving the access of rural poor people to formal financial services. Indian banking system approached rural poor by taking several measures, like by spreading strong banking network to far-flung rural areas, introduction of new services and products and different credit programmes to provide formal financial services to them. SHGs are the organizations originated in India in the mid-1970s with the basic objective of the upliftment and welfare poor people rather than providing financial services. Since then, it has been widely adopted by the NGOs across the country. To achieve this basic objective, SHGs prepares their skill as an entrepreneur by training and development and by giving them financial assistance, banks help them in establishing their business.

It is group formed voluntarily by rural and urban poor people having homogenous background with their small savings to common fund regularly and lending to their members whenever they need money for consumption or production

at specific rate of interest. It may be a group of ten to twenty members where they discuss their economic and social development for common welfare. It enables its poor member self reliant and self dependent. By raising the level of income and standard of living of weaker section of society through self employment, Self Help Groups (SHGs) play an important role in financial inclusion.

OBJECTIVES OF SHGS

1. It mobilizes the small savings of individual members and provides them credit on their need. It creates saving habit among them and increases their financial awareness (financial literacy).
2. Its main aim is to empower the rural poor and uplift their living conditions. It develops their entrepreneur skills by providing them training and workshops and generates self employment opportunities.
3. It provides solutions to the problems of their member by identifying and analyzing them. It develops linkage with other institutions like banking, NGOs and other financial institutions.
4. It removes vulnerability by providing them funds in case of emergency for both consumer and productive use.
5. It acts like a media which helps Government and policy makers in socio-economic development by reducing income inequality and poverty.

Self Help Groups (SHGs) -Bank Linkage Programme

Two decades ago, SHG-Bank Linkage Programme (SBLP) was the major institution innovation in India after linking a pilot of 500 SHGs of rural people for attaining a complete financial inclusion in which banks lend directly to SHGs. Due to the location barriers banks and other financial institution can't provide financial services to rural backward poor but the SBLP helps in financial inclusion by acting as an intermediary. It is widely accepted as one of the efficient model for providing the facility of micro finance to the rural and urban poor. This serves as an important link between banks and the SHGs. It is the most successful initiative in financial inclusion to provide micro finance services to rural poor. More than 7.4 million SHGs representing 97 million rural households are part of this initiative (status of micro finance, 2013-14, NABARD). According to this programme, savings are accepted from the members of SHGs and loan disbursed to them according to their needs. A majority of woman are the members of SHG-Bank Linkage Programme (SBPL). The growth of the number of SHGs with SBLP is increasing over the years. Many rural and urban poor people are taking benefits of micro finance by SBLP. The savings of SHGs with banks are given below in a table 1, which is an agency wise position :

Table 1

Savings of SHGs with Banks

Agency-wise Position of as on 31st March 2014

Amount in Lakhs

Sr. No.	Name of the Agency	Total savings of SHGs with banks as on 31st March 2014			
		No. of SHGs	Percentage	Saving Amount	Percentage
1.	Commercial Banks	4022810	54.2	663145.63	67.0
2.	Regional Rural Banks	2111760	28.4	195985.73	19.8
3.	Cooperative Banks	1294930	17.4	130610.18	13.2
	Total	7429500	100	989741.54	100

Source : Status of Micro Finance in India-2013-14, NABARD

Table 1 show the three agent banks which mobilizes the savings of the individual members of SHGs. The number of SHGs as on 31st March 2014 is highest with commercial banks 54.2 % and lowest with cooperative banks 17.4% and the saving amount is highest with commercial banks 67% and lowest with cooperative banks 13.2%. Thus commercial banks play an important role in the development of SHGs by accepting their deposit. Total numbers of SHGs having savings with banks are 7429500; a huge number of SHGs comprising rural and urban poor mobilize greater household savings, marshal capital for investment and raising the class of entrepreneurs. The total saving amount with all the agent banks is 989741.54 lakhs.

The bank loans disbursed to SHGs are given below in a table 2, which is also an agency wise position :

Table 2

Bank Loan Disbursed to SHGs

Agency-wise Position of as on 31st March 2014

Amount in Lakhs

Sr. No.	Name of the Agency	Total savings of SHGs with banks as on 31st March 2014			
		No. of SHGs	Percentage	Saving Amount	Percentage
1.	Commercial Banks	767253	56.1	1603749.35	66.8
2.	Regional Rural Banks	333420	24.4	628813.35	26.2
3.	Cooperative Banks	265748	19.5	169173.14	7.0
	Total	1366421	100	2401735.85	100

Source : Status of Micro Finance in India-2013-14, NABARD

Table 2 shows that the bank loan disbursed to SHGs according to agency wise position. Loan disbursed by commercial bank to 56.1% of total number of SHGs and 19.5% of total number of SHGs by cooperative banks. The amount of loan disbursed is highest by commercial bank 66.8% and lowest by cooperative banks 7%. The total amount of loan disbursed is 2401735.85 to the total number of SHGs which is 1366421.

Overall progress under SHG-bank linkage for last 6 years is shown in table 3 as under :

Table 3

Overall Progress under SHG- Banks Linkage for last 6 years

(Amount in crore/Numbers in lakhs)

Year	Savings of SHGs with Banks		Loan Disbursed to SHGs	
	No. of SHGs	Saving Amount	No. of SHGs	Loan disbursed
2008-09	61.21 (22.40%)	5545.62 (46.50%)	16.10 (31.11%)	12253.51 (38.47%)
2009-10	69.53 (14%)	6198.71 (11.78%)	15.87 (-1.43%)	14453.30 (18%)
2010-11	74.53 (7.19%)	7016.30 (13.19%)	11.96 (-24.64%)	14547.73 (01%)
2011-12	79.60 (6.80%)	6551.41 (-6.63%)	11.48 (-4.01%)	16534.77 (14%)
2012-13	73.18 (-8.07%)	8217.25 (25.43%)	12.20 (6.27%)	20585.36 (24%)
2013-14	74.30 (1.53%)	9897.42 (20%)	13.66 (11.97%)	24017.36 (16.67%)

(Figures in parenthesis indicates growth/decline over the previous year)

Source : Status of Micro Finance in India, NABARD, from 2007-08 to 2013-14

Table 3 reveals the overall progress under SHG-Bank linkage scheme for last six year. Number of SHGs savings with banks in 2008-09 increased by 22.40%, in 2009-10 by 14%, in 2010-11 by 7.19%, in 2011-12 by 6.80%. It shows the number of SHGs having savings with banks is increasing but with diminishing rate and the decline in number of SHGs having savings under the SHG-Bank Linkage Programme noticed during 2012-13 by 8.07%. Saving amount of SHGs under SHG-Bank Linkage Programme was increasing till 2010-11, after that it falls by 6.63% in 2011-12. Number of SHGs taking facility of loan under SHG-Bank Linkage Programme is decreasing

continuously till 2011-12. It increased in 2012-13 and 2013-14 by 6.27% and 11.97% respectively. The amount of loan disbursed is increasing with diminishing rate.

The savings of SHGs with banks are given below in a table 4, which is a region wise position :

Table 4

Savings of SHGs with Banks

Region-wise Position for last 3 years

(Amount in crore/Numbers in lakhs)

Sr. No.	Regions/ Years	2011-12		2012-13		2013-14		% growth/decline 2011-12 to 2013-14	
		No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount
1.	Northern Region	4.09	252.77	3.73	291.19	3.65	282.95	(10.76)	12
2.	North Eastern Region	3.67	152.52	3.24	130.11	3.16	128.82	(13.9)	(15.5)
3.	Eastern Region	16.26	947.26	14.61	1393.26	14.69	1526.56	(9.66)	61.16
4.	Central Region	8.13	613.58	7.02	624.22	6.86	790.56	(15.6)	28.84
5.	Western Region	10.62	871.94	9.06	695.86	8.97	929.91	(15.5)	6.65
6.	Southern Region	36.84	3713.35	35.42	5082.63	36.96	6238.62	0.33	68
	Total	79.61	6551.42	73.18	8217.27	74.20	9897.42	(6.8)	51.1

(Figures in parenthesis indicates decline over the 2011-12)

Source : Status of Micro Finance in India, NABARD, from 2011-12 to 2013-14

Table 4 shows the progress of savings of SHGs with banks according to region wise position for last three years. By assuming the 2011-12 base year, it is found that number of SHGs is decreasing almost in all the regions except in the southern region increased by 0.33%. The highest decline in the number of SHGs having savings with banks is in the central and western region by 15.6% and 15.5% respectively. The total number of SHGs is declined by 6.8%. It is also found that the saving amount is increasing with the decreasing number of SHGs except in the North Eastern region. The highest growth in saving amount is achieved by eastern

region by 61.16% and by Central region by 28.84% respectively. The total saving amount is increased in 2013-14 with the base year 2011-12 by 51.1 %. Besides diminishing the number of SHGs in all regions, banks are mobilizing higher savings from the members of SHGs.

The bank loans disbursed to SHGs are given below in a table 5, which is also a region wise position :

Table 5

Bank Loan Disbursed to SHGs

Region-wise Position for last 3 years

(Amount in crore/Numbers in lakhs)

Sr. No.	Regions/ Years	2011-12		2012-13		2013-14		% growth/decline 2011-12 to 2013-14	
		No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount	No. of SHGs	Saving Amount
1.	Northern Region	0.30	335.43	0.31	342.30	0.24	280.48	(20)	(16.4)
2.	North Eastern Region	0.51	451.29	0.25	180.22	0.16	128.19	(69)	(71.6)
3.	Eastern Region	2.01	1624.06	1.83	1290.18	2.97	1510.67	47.8	(6.98)
4.	Central Region	0.58	709.37	0.64	698.89	0.66	618.07	13.79	(12.9)
5.	Western Region	1.01	752.86	0.70	709.94	0.88	864.44	(12.87)	14.82
6.	Southern Region	7.05	12661.76	8.46	17363.83	8.75	20615.50	24.11	62.8
	Total	11.46	16534.77	12.19	20585.36	13.66	24017.35	19.2	45.25

(Figures in parenthesis indicates decline over the 2011-12)

Source : Status of Micro Finance in India, NABARD, from 2011-12 to 2013-14

Table 5 shows the bank loan disbursed to SHGs according to region wise position for last three years. By assuming base year 2011-12, it is found that number of SHGs declined in Northern region, North Eastern and Western region by 20%, 69% and 12.87% respectively. On the other side it revealed the growth of the number of SHGs in Eastern, Central and Southern region by 47.8%, 13.79% and 24.11% respectively in 2013-14. The overall growth rate in number of SHGs

is 19.2%. The amount of loan disbursed is declined almost in all the regions except Western and Southern region. The overall growth rate of loan disbursed is 45.5%.

CONCLUSION

In today's competitive and integrated economy, the relevance of financial inclusion is undoubtedly higher for a developing and under developed economies. Therefore, need to get 100% financial inclusion or inclusive financing is the main target of any economy. To achieve this target, it is necessary to get inform about the consequences of financial inclusion and its impact on economic growth and performance. This paper is focusing on consequences of financial inclusion by identifying the channels through which it promotes economic growth and performance. The channels divided into two variables : micro economic and macro economic variables. The study showed that at micro level, savings enables households to manage their funds in a specific manner which helps them to improve their consumption and standard of living. By providing micro credit to low income group, creates more job opportunities and varieties of economic activities, provides more jobs for women, improved household education and family welfare. Pensions generate capital growth by enabling poor people to invest in various assets through institutionalized programs. M-Banking significantly reduces the cost of financial services and provides affordable modern financial services to the rural poor. Therefore, it plays a significant role in rural economic development by alleviating the uneven distribution of rural and urban financial services and eliminates financial inequality. At macro level, with the increasing number of small savers, one can see a positive impact on the size and stability of deposit base both. It reduces the bank's dependence on "non-core" financing, which tends to become volatile during a crisis (Khan, 2011). Growth of micro and small enterprises significantly generates employment opportunities which help in the social and economic development. The Scheme of financial inclusion along with Micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy (Murari and Didwania, 2010).

On the other side, the study ascertained the role of SHGs in financial inclusion in India. The study clearly shows that the agency wise growth in number of SHGs having savings with banks and their saving amount are increasing for the last six years. But the number of SHGs taking facility of loan has decreasing from 2009-10 to 2011-12. From 2012-13 it is increasing. The

region wise growth of savings shows that number of SHGs is decreasing almost in all the regions except in the southern region increased by 0.33%. The number of SHGs having loan facility declined in Northern region, North Eastern and Western region by 20%, 69% and 12.87% respectively. On the other side it revealed the growth of the number of SHGs in Eastern, Central and Southern region by 47.8%, 13.79% and 24.11% respectively in 2013-14. Self Help Groups (SHGs) mobilizing the resources of weaker section for their economic development. By raising the level of income and standard of living of weaker section of society through self employment, Self Help Groups (SHGs) plays an important role in financial inclusion. It is required to make more transparency of the transaction of SHGs with bank linkage.

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