

Self Help Groups - Imperative for Financial Inclusion in India

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Abstract

India, in the last couple of decades, has witnessed competent growth in the financial service sector. However, several questions have often been raised for majority of impoverished population that is excluded from formal financial system. The exclusion is very high in which one of the surveys shows that 59 percent of the rural household do not have deposit account and 79 percent of the rural households are outside the purview of credit from formal sources. The degree of such vast financial exclusion raise questions towards the Financial Inclusion Policies (FIPs) of the government and demands new mechanism and interventions to address the same. The Self – Help Groups (SHGs) in the recent past have been found as an effective tool to streamline poor with formal financial system. The present study, therefore, is a micro attempt where the current scenario of Financial Inclusion (FI) and the role of SHGs on the promotion of FI in India have been studied. The secondary data from NABARD, RBI, government departments, journals and websites form the sources of the study. The percentages and Linear Growth Rate (LGR) of different financial variables have been calculated to draw proper inferences. The study at the end infers that SHGs play pivotal role in bridging the hiatus between poor and financial institutions. The SHG Bank Linkage (SBLP) programme has been effective for streamlining poor with formal financial system. Over the years, the number of savings and credit linked SHGs have been increased. With the increased number of SHGs, the volume of loan outstanding and savings bank balance have also been increased. Besides, the roadmap prepared by the RBI for providing banking outlets in unbanked villages and preparation and implementation of board approved FIPs have been found significant for FI.

Keywords: Financial Inclusion, Self Help Groups, Microfinance, Poverty

Introduction

Financial Inclusion (FI) protects the financial health of low income groups by streamlining them with formal financial system. Also, the easy access of credit extenuates the exploitation of vulnerable sections of the society from usurious moneylenders. The Committee on Financial Inclusion, chaired by Dr. C Rangarajan has defined the term FI as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Albeit credit is

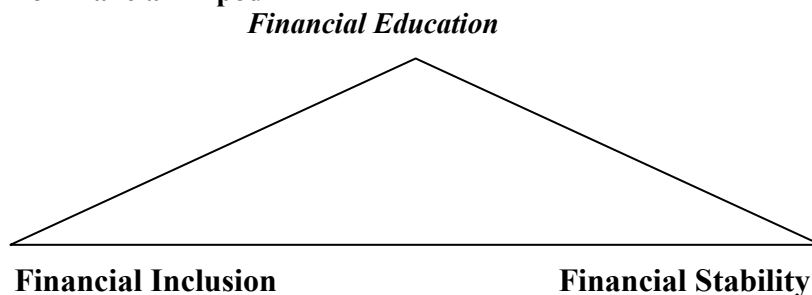
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the most important component, financial inclusion covers various financial services such as savings insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded (Dev, 2006). Eleventh five year plan (2007-2012) advocates for inclusive growth in India. This is to reduce poverty and other disparities and raise economic growth. Besides, FI has been given prime importance by the Reserve Bank of India (RBI) to accelerate the inclusive growth process of the economy. Apart from formidable challenges, the SHG Bank Linkage Model (SBLP) as recommended by S K Kalia Committee and introduced in the year 1992 has been demonstrated itself as one of the efficient and effective mechanisms to enhance financial inclusion. Under SBLP, the SHGs are linked to banks in a gradual way – initially through savings and later through loan products. The programme is found effective for ensuring financial inclusion (Rangappa, et al. 2010). Over the years, it has been helping to reduce poverty, increase living standards of the poor, and help multiplying paltry income of the poor by way of venturing Income Generation Activities (IGAs). The estimated number of families covered by SBLP upto 31st March, 2012 were 1030 millions, registering more than 6 percent growth as compared to the immediate previous year.(NABARD, 2011-12), Apart from SBLP, the Government of India (GoI), in the recent years has introduced a few policy measures/mechanisms for effective financial inclusion in which rollout of Financial Inclusion Plans and expanding the scope of the Business Correspondent (BC) model, improving credit delivery procedures for the Micro and Small Enterprises (MSE) sectors, encouraging the adoption of Information and Communication Technology (ICT) solutions, and introduction of Kisan Credit Cards (KCCs) are important.

In its endeavor to reduce financial exclusion, the RBI has been providing financial awareness programme through its '*Financial Literacy Initiatives*'. This

programme enables the poor to know and understand the benefits of small financial products of the formal financial sector. *Financial education, Financial inclusion and Financial stability* are the three elements of this initiative, as shown in Figure 1. While financial inclusion works from supply side of providing access to various financial services, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions.

Figure 1. The Financial Tripod



The Pradhan Mantri Jan Dhan Yojana (PMJDY) is the recent interventions in India and is considered as one of the effective schemes for comprehensive financial inclusion (GoI, 2014). The scheme was launched by the Prime Minister of India, Narendra Modi on 28 August, 2014. On the day of launching, 1.5 Crore (15 million) bank accounts were opened under this scheme (ET Bureau, 2014). A brief summary of this scheme in terms of number of accounts opened through different banks is highlighted in Table 1.

Table 1 Pradhan Mantri Jan - Dhan Yojana (Accounts Opened as on 31.01.2015)

Sl. No	Types of Banks	No. of Accounts (In Lacs)		No. of Rupay Debit Cards (In Lacs)	Balance In Accounts (In Lacs)	No. of Accounts With Zero Balance (In Lacs)
		Rural	Urban			
1	Public Sector Banks	533	451.47	984.48	912.32	817463.04
		(54.15)	(45.85)	(100)	(82.34)	(77.86)
2	Regional Rural Banks	184.89	32.98	217.87	149.68	159948.08
		(84.86)	(15.14)	(100)	13.51	(15.23)
3	Private Banks	32.26	20.12	52.38	45.93	72551.5
		(61.59)	(38.41)	(100)	(4.15)	(6.91)
	Total	750.15	504.57	1254.73	1107.93	1049962.62
		(59.79)	(40.21)	(100)	(100)	(100)

Source: <http://www.pmjdy.gov.in/account-statistics-country.aspx>

Note: The above information is based upon the data as submitted by different banks/SLBCs.

The majority of the rural folk in India are excluded from the financial services of financial institutions. The PMJDY has played a crucial role in this front and recently more than 750 lakhs of accounts were opened in this scheme from the rural areas. The data signifies 60 percent rural participation as compared to urban part as on 31st January, 2015. The Regional Rural Banks have been the most proactive in financial inclusion followed by public sector banks and private banks. Among all the banks, the public sector banks shares the highest (78 percent) in account balance and also in terms of opening new accounts with zero balance (78 percent). The number of Rupay Debit Cards was also found more in public sector banks (82 percent) as compared to other banks. All these components of the PMJDY look promising to reduce financial exclusion especially from the rural areas. The present research is an exploratory effort and is primarily depending upon secondary data obtained from various sources. Data have been pooled from those resources which are significant and appropriate for the study. The Linear Growth Rate (LGR) of important variables has been checked to find out the trend of FI in the country vis-a-vis the role play of SHGs in FI.

Objectives

- (i) To study the present scenario of financial inclusion in India and
- (ii) To examine the role of SHGs for enhancing financial inclusion in India.

Scope and Methodology

Financial exclusion has always been a case of concern for the government of India. The Financial Inclusion Policies (FIPs) have been given much emphases in due course of time by the policy makers. The present scenario of FI in India has been traced in this paper with due emphasis on the role of SHGs for enhancing

the same. To draw the proper inferences, secondary data relating to FI, Self –Help Groups (SHGs), and SHG Bank Linkage Programme (SBLP) have been thoroughly examined covering the period of 4 – 5 years. The financial data of different variables have been captured from the Annual Report of RBI and NABARD, several research papers, journals, articles, and various websites.

To meet the first objective of the study as it has been mentioned above, the board approved FIPs of the banks have been examined. Besides, the recent roadmap prepared by the RBI for providing banking outlets in unbanked villages in phase-wise manner has also been assessed. The analyses of these phenomena facilitate in understanding the current scenario of financial inclusion in India. To achieve the second objective of the study that is role of SHGs for enhancing financial inclusion in India, different financial inclusion indicators such as savings, loan disbursement and loan outstanding of the SBLP have been analysed. The increasing trend in all these variables generally expected to enhance financial inclusion in the country.

The MFI Bank Linkage Programme which is yet another conduit for extending financial services for the SHGs where financial institutions are given loans for on-lending to the SHGs has also been taken as one of the indicators for examining FI via SHGs. Also, the outreach status of the groups has been evaluated through other variables such as the estimated number of families covered for the financial assistance, promotion of Joint Liability Groups (JLGs), Refinance released to banks, and Grant assistance to Self – Help Promoting Institutes (SHPIs) for promotion of SHGs. The results from all these components are expected to give good insight about the role of SHGs for promotion of FI in India.

Literature Review

Designing of small financial products that suit most to the poor has always been a major challenge for the government. A study made by Basu (2005) on Improving Access to Finance for India's Rural Poor delineates that 59 percent of the rural household in India do not have deposit account and 79 percent of the rural households are outside the purview of credit from formal sources. The census 2011 reveals that only 58.7 percent of households are availing banking services in India. However, compared to census 2001, the number of persons availing banking services has increased significantly. To enhance outreach and provide appropriate credit to the poor, the Government of India (GoI) from time to time has been strengthening the role and function of Commercial Banks (CBs), especially the Regional Rural Banks (RRBs) and Cooperative Banks (CoBs). The '*social banking*' policies as adopted by the country resulted in wider establishment of commercial banks in the rural areas in the period that followed nationalization of banks (Shetty, 1997). Since late 1960's India has established as one of the largest state intervention in rural credit market (Khandelwal, 2007).

The mainstreaming of the poor with formal financial systems has been found proffering due importance by the government. The quality network of banking and wide range of effective financial services in place is generally expected to ensure financial inclusion. The financial development and improved access to banking and related services not only accelerate economic growth but also reduce income inequality and poverty (HM Treasury 2007). Further, empirical evidence shows that inclusive financial system significantly raises growth, alleviate poverty and expand economic opportunity (iosrjournals.org). Over the last few years, the interventions of microfinance through various governments' supported programmes have been seen as one of the well accepted tools to enhance financial inclusion and to fight against poverty. Apart from the government, many other

agencies like Donors, NGOs, Financial Institutions and different Community Development Bodies have also accepted and supported this tool as financial inclusion, poverty alleviation, employment generation, job creation and self empowerment through venturing of small enterprise for IGAs. Stephen et al. (2005) has narrated the role of NGOs and added that they can play a decisive role for an effective delivery mechanism in rural development as they have innate advantage to involve people and ensure their participation in the agencies.

Apart from continuous effort of the government, large segment of the poor from rural areas are yet to streamline with the formal financial system in India. Besides good banking network and significant improvements in the areas such as financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services (Thorat, 2007a). Among many, lack of financial literacy, and lack of appropriate awareness programmes about the benefits of banking services are significant for financial exclusion. The non-fulfillment of banking norms, especially in case of collateral by the poor is yet another plausible reason for financial exclusion in the country. The exclusion of the poor from formal financial institutions is more throughout the world. The degree of exclusion ranges from partial to full or nearly full exclusion in developed and less developed countries (Dev, 2006). The index developed by Patrick Honohan to measure the access of financial services in 160 countries is tilted towards the developed countries (Agarwal, 2008). The Indian scenario though reveals spread of banking branches in the rural areas, improvements in the banking business, and lowering Non Performing Assets (NPAs), but often questions have been raised about exclusion of vast segments of the poor from formal financial system (Leeladhar, 2005). Addition of new institutional mechanism

to address the rural finance has not helped improving the situation (Agarwala, et al., 1997). Also, it has been observed that rural credit has been associated with high cost of servicing, poor repayment, and diversion of fund to local elite. Most of the time, funds were captured by the people who were not poor (Adams & Pischke, 1992).

The emergence of Self-Help Groups (SHGs) and Non-Governmental Organisations (NGOs) as intermediaries for enhancing the banking outreach has been found effective for the reduction of financial exclusion. Group lending approach through SHGs has been successful in terms of outreach and viable banking business. Also, lending through SHGs has been found vital in reducing transaction costs for the financial institutions. (Srinivasan & Satish, 2001). Besides, the formal banking sector has found this technology appropriate to expand its business portfolio for microenterprises at low transaction costs and risk costs (Satish, 2005). Further, in financing SHGs, the requirement of collateral by banks has been replaced by peer group pressure and hence this approach has enabled social and economic inclusion of women by waiving the requirement of collateral.

SHGs vis-a-vis Financial Inclusion in India

1. Financial Inclusion

Financial Inclusion ensures access of financial products and services to all the sections of the society especially that of underprivileged at an affordable cost and in a fair and transparent manner. The primary aim of financial inclusion is to mainstream low income groups with formal financial system. The financial products are designed in such a way that they suit these segments of people. Micro financing is one of the effective tools that have been adopted to enhance financial inclusion in India. It is the process of designing and delivering small

financial products to the weaker sections of the society so as to help them to increase their living standards. In addition, it is a gamut of financial services in which microcredit is popular among the poor. Delivery of micro-credit to the needy has been found effective in multiplying their paltry income by way of venturing micro businesses.

The banking services of a country are primarily viewed as public goods and are expected to spread evenly in every corner of the country. The Indian scenario, if analysed, shows uneven distribution throwing up challenges for achieving financial inclusion. The nationalization of commercial banks in 1969 and in 1980 with the objective of providing financial services to all the sections of the society is yet to fulfill. The vast sections of the poor from the rural areas are still outside the purview of formal financial system. An appropriate financial inclusion policy therefore, is expected to provide financial services to all those who are bankable, insurance facilities to those who are insurable and savings and payments services to every citizen. The Reserve Bank, however, has recently prepared a roadmap for providing banking outlets in unbanked villages in a phase-wise manner. During Phase I, 74,414 unbanked villages with a population of more than 2,000 were identified and allotted to various banks through SLBCs for coverage through various modes, that is, branches, BCs or other modes such as ATMs and satellite branches. All these unbanked villages have been covered by opening banking outlets comprising 2,493 branches, 69,589 BCs and 2,332 through other modes (RBI Annual Report, 2013-14). In Phase II, under the roadmap for provision of banking outlets in unbanked villages with population of less than 2,000, about 4,90,000 unbanked villages have been identified and allotted to banks for coverage in a time bound manner by March 31, 2016. As per the progress reports received from SLBCs, banks had opened banking outlets in 1,83,993 unbanked

villages by March 2014, comprising 7,761 branches, 1,63,187 BCs and 13,045 through other modes (RBI Annual Report, 2013-14).

The Reserve Bank has encouraged banks to adopt a structured and planned approaches to financial inclusion with commitment at the highest levels through preparation of board approved FIPs. The first phase of FIPs was implemented over 2010-13. During this period upto 31st March, 2014, the performance was satisfactory in many of the variables (Table 2).

Table 2 Financial Inclusion Plan-Summary Progress of all Banks including RRBs

Sl. No	Particulars	March 2010	March 2011	March 2012	March 2013	March 2014	Absolute change 2010-2014	LGR (%) 2010-2014
1	Banking outlets in villages >2000	37,949	66,605	1,12,288	1,19,453	-	81,504*	48.62*
2	Banking outlets in villages <2000	29,745	49,603	69,465	1,49,001	-	119,256*	67.71*
3	Banking Outlets in Villages – Branches	33,378	34,811	37,471	40,837	46,126	12,748	8.40
4	Banking Outlets in Villages – Total	67,694	1,16,208	1,81,753	2,68,454	3,83,804	316,110	53.84
5	Urban Locations covered through BCs	447	3,771	5,891	27,143	60,730	60,283	225.34
6	BSBD A/c through branches (No. in millions)	60	73	81	101	126	66	19.82
7	BSBD A/c through branches (Amt. in billions)	44	58	110	165	273	229	59.94
8	BSBD A/c through BCs (No. in millions)	13	32	57	81	117	104	70.29
9	BSBD A/c through BCs (Amt. in billions)	11	18	11	18	39	28	28.81
10	BSBD A/c Total (No. in millions)	74	105	139	182	243	169	34.02
11	BSBD A/c Total (Amt. in billions)	55	76	120	183	312	257	54.50
12	OD facility availed in BSBD A/c (No. in millions)	0.2	1	3	4	6	6	126.79

13	OD facility availed in BSBD A/c (Amt. in billions)	0.1	0.3	1	2	16	16	233.59
14	KCCs – (No. in millions)	24	27	30	34	40	16	13.34
15	KCCs – (Amt. in billions)	1240	1600	2068	2623	3685	2,445	30.64
16	GCC- (No. in millions)	1	2	2	4	7	6	58.17
17	GCC - (Amt. in billions)	35	35	42	76	1097	1,062	115.23
	ICT A/Cs-BC Total							
18	Transaction (No. in millions) (During the year)	27	84	156	251	329	302	83.95
	ICT A/Cs-BC Total							
19	Transactions (Amt. in billions) (During the year)	7	58	97	234	524	517	172.54

Source: Reserve Bank of India - Annual Report, 2009-10 to 2013-14

<http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=1122>

Note: * indicates absolute change and LGR of 2010-2013 data, BSBD = Basic Savings Bank Deposit

Banking outlets have been provided in all those villages which have either more or less than 2000 population. The LGR of 49 percent and 68 percent respectively suffices this fact. The number of banking outlets has gone up to nearly 3, 84,000 in March, 2014. The provision of banking services through BCs has been recorded much better as compared to other modes. The growth rate of more than 200 percent of banking outlets in Urban Locations covered through BCs in five years looks significant. With the addition of around 6 and 4 millions small farm and non farm sector credits respectively during 2013-14, there are 40 and 7 millions of such accounts as on March 31, 2014. To tap the unbanked areas of the country and to meet the credit requirements of the farmers, banks have been advised to issue Kisan Credit Cards (KCCs), General Credit Cards (GCCs), and ICT based banking services through Business Correspondence (BC) model. Also, RBI has given advice to banks to provide small overdrafts in BSBD accounts. Over the years an impressive growth has been captured in BSBD through BCs (70 percent), OD facility in BSBDs (127 percent), KCCs (13 percent), GCCs (58 percent), and other (ICT-based) modes.

2. SHGs and Financial Inclusion

The SHGs are small and homogeneous groups having 5-20 members. The poor are encouraged to form such groups so as to pool their individual resources and help group members by providing loans at an affordable rate. The NGOs promote these groups and help getting linked with the banks to obtain revolving funds and project loans. Financial institutions would wish to grant more loans to the group as compared to the individuals as they have innate advantage of reducing transaction costs in particular and increase recovery rates from SHGs in general. Over the last few decades, SHGs financing has been increasing at higher rates. There have been many success stories of the poor SHG members showing exemplary entrepreneurial qualities to come out of the vicious circle of poverty

and indebtedness with the help of SHGs (NABARD, 2013). The SHG Bank Linkage Programme (SBLP) which started its pilot project in the year 1992 by linking 500 SHGs with the banks becoming the largest microfinance programme in the world today. The number of SHGs availing fresh loans by banks showed an increase of 6.3% during the year 2013-14 and the quantum of fresh loans issued increased by 24.5% over the previous year. The growth in the loan outstanding of SHGs with banks (8.4%) is almost 4 times the growth in the number of SHGs having outstanding loans with banks (2.2%). The savings balance of SHGs with banks shot up by over 25% during the year (Rs 8,217 crore as against Rs 6,551 crore a year back). All except the North Eastern and Western region recorded higher savings bank balance with banks. The Eastern States recorded 47% increase while the Southern States accounted for 37% increase in savings with the banks (NABARD, 2013). Under SBLP the banks use the following models of SHG finance.

Model I Banks provide finance to NGOs for on-lending to SHGs.

Model II Banks provide finance directly to SHGs for lending to micro entrepreneur.

Model III Banks provide finance directly to SHGs for lending to micro entrepreneur with the intervention of NGO as facilitators.

Model IV Bank provide finance loans directly to individual members of SHGs upon recommendations of the SHGs and NGOs.

The banks have been providing loans through all the above models for long. The status of SBLP over the last 6 years as reflected in Table 3 shows satisfactory performance of SHGs performance in terms of savings, loan disbursement, and loan outstanding. The number of savings linked SHGs with the banks have shown the positive growth rate of 8 percent with that of 14 percent growth in savings with the banks. The increased number of bank account holders and their amount

in the savings bank account delineate improvement in financial inclusion over the years. These data also support the FIPs of the Reserve Bank of India (RBI). Recently, the RBI in its FIPs has given special emphasis on providing banking outlets to unbanked regions. The number of SHGs that availed loan during the year has recorded a negative growth of 4 percent but the positive growth rate of 16 percent in the loan amount and 18 percent in the loan outstanding amount looks satisfactory. This also supports the positive role of SHGs towards financial inclusion. On the other hand, SBLP seems to be effective not only for the SHGs linkage with the banks but also for the reduction of financial exclusion. SHGs linkage with the banks through SBLP is considered to be an effective strategy to ensure financial inclusion in India (Rangappa, et al. 2010)

Table-3 Status of SHG-Bank Linkage Programme

A. SBLP Model

S I · N o	No of years	Savings A/c with banks as on 31 st March:		Loan disbursed during the year:		Loan outstanding with SHGs as on 31 st March:	
		No. of SHGs (in lakhs)	Amount (in billions)	No. of SHGs (in lakhs)	Amount (in billions)	No. of SHGs (in lakhs)	Amount (in billions)
1	2007-08	50.10	37.85	12.28	88.49	36.26	170.00
2	2008-09	61.21	55.46	16.10	122.54	42.24	226.80
3	2009-10	69.53	61.99	15.87	144.53	48.51	280.38
4	2010-11	74.62	70.16	11.96	145.48	47.87	312.21
5	2011-12	79.60	65.51	11.48	165.35	43.54	363.40
6	2012-13	73.18	82.17	12.20	205.85	44.51	393.75
Growth Rate (%)		8.18	13.72	-3.73	15.77	3.20	17.76

B. MFI Model: Profile of Microfinance Institutions

Sl. No.	No of years	Loan disbursed during the year:		Loan outstanding with MFIs as on 31 st March:	
		No. of MFIs	Amount (in billions)	No. of MFIs	Amount (in billions)
1	2007-08	518	19.70	1109	27.49
2	2008-09	581	37.32	1915	50.09
3	2009-10	691	80.63	1513	101.48
4	2010-11	469	76.05	2176	106.89
5	2011-12	465	52.05	1960	114.50
6	2012-13	426	78.40	2042	144.26
	Growth Rate (%)	-5.64	25.13	10.47	36.23

Source: Compiled from "Status of Microfinance in India" - NABARD Annual Report 2007-08 to 2012-13

Note: Actual number of MFIs availing loans from Banks would be less than the figures shown as most of MFIs avail loans from more than one Bank.

The MFI Bank Linkage Programme is yet another conduit for extending financial services for the SHGs where financial institutions are given loans for on-lending to the SHGs. There were 518 MFIs who took loans from the banks in the year 2007-08 whereas only 426 MFIs took loan in the year 2012-13 for on-lending to SHGs. Over the period of 6 years, a negative LGR of nearly 6 percent has been recorded in this but the spurt of 25 percent in loan disbursement over the same period looks promising. All these indicators along with 36 percent growth of loan outstanding with MFIs indicate better linkages of SHGs with the banks and a step forward for financial inclusion. Hence SHGs may be considered as an effective tool for the vibrant financial inclusion in India.

Besides savings and loan components, the outreach status of the groups has been evaluated through other variables. (Table 4). The estimated number of families covered for the financial assistance has been increased upto 1030 in March, 2012 but went down to 950 in the year 2013. Similarly, a negative growth of 10 percent has been recorded in terms of coverage of various participants such as SHGs and JLGs. This negative growth perhaps is a case of concern for the whole programme. On the other hand, a rise has been recorded in terms of the promotion of Joint

Table 4 Status of outreach under SHG Bank Linkage Programme (SBLP)

Particulars	March 10	March 11	March 12	March 13	LGR (%)
Estimated number of families covered (No. in lakhs)	970	970	1030	950	-0.02
Joint Liability Groups promoted during the year (No. in lakhs)	-	-	1.92	1.97	2.60
Number of participants covered during the year (SHG + JLG) (No. in lakhs)	2.54	2.06	1.87	1.85	-9.95
Refinance released to banks during the year (Rs in crore)	3173.56	2545.36	3072.59	3916.64	8.54
Grant assistance to SHPIs for promotion of SHGs during the year (Rs in crore)	28.78	37.86	37.95	42.33	12.30

Source: Status of Microfinance in India, NABARD Annual Report, 2009-10 to 2012-13

Liability Groups (JLGs) (2.60 percent), refinance released to banks (8.54 percent), and grant assistance to Self-Help Promoting Institutes (SHPIs) for the promotion of SHGs (12.30 percent). The overall analyses of all these variables support FIPs of the government but demands acceleration in future.

Financial Inclusion – A Visible Impact in India

Financial inclusion can well be adjudged from the banking scenario of the country. The increasing trend of the establishment of financial institutions in the rural areas indicates government's effort of streamlining rural population with formal financial institutions. Over the last four years, the growth rate of 6 percent and 10 percent (Table 5) has been observed in the establishment of scheduled commercial bank branches in the country in rural and semi-urban areas as against 7 percent of the total. As compared with rural areas, the number of branches in semi-urban areas has increased more rapidly.

Table 5 Banking scenario in India (Branches of SCBs) (No. in '000)

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	LGR (%)
1	Rural	32.29	33.33	35.36	37.95	5.59
2	Semi Urban	20.36	22.42	25.08	27.23	10.34
3	Urban	16.65	17.71	18.54	19.33	5.06
4	Metropolitan	14.70	15.66	17.08	17.84	6.90
5.	Total	84.00	89.12	96.06	102.35	6.91

Source: Basic Statistical Returns, RBI and DFS, GoI

The positive growth rate of bank branches indicates governments' effort to reduce financial exclusion but the growth rate as it is visible may not be sufficient and needs further acceleration to achieve faster and full financial inclusion in the near future. The number of SCBs branches opened during the year however shows impressive growth of 21 percent (Table 6) in the rural areas over a period of 4 years. This increase perhaps delineates the concentrated effort of the government of establishing new branches in rural areas and may be considered as one of the strongest indicators of financial inclusion.

Table 6 Number of branches of Scheduled Commercial Banks opened during four years

Sl No.	Particulars	2009-10	2010-11	2011-12	2012-13*	LGR (%)
1	Rural	1021	1422	2453	1598	20.79

*Source: Basic Statistical Returns, RBI and DFS, GoI. * Provisional*

SHGs have been in the favourite customers' list of the banks in the recent past. Banks preferred to give loans to the SHGs because of low transaction cost and good recovery rate. The outsourcing of cost that is associated with monitoring and appraisal of loans tend to reduce transaction costs substantially for the lending institutions. A study conducted by Puhazhendi, 1995 for costs incurred by banks in India to lend the rural poor directly and through NGOs and SHGs as intermediaries concluded that lending through NGOs and SHGs reduced transaction costs for the banks in screening, client selection and contract enforcement. The study undertaken in four states revealed the fact that transaction costs of lending to SHGs might be slightly more than the normal lending for the first loan, but in case of subsequent advancement of loans, the significant reduction in transaction cost was observed. Another study on the commercial aspects of the SHG-bank linkage also found substantial cost advantage of

microfinance programme (Seibel, et al., 2002). Along with the reduction in costs, the high recovery rate in the hands of lenders also encourages the intervention of SHGs as significant intermediary for financial inclusion. A study of North-Eastern state of Assam (Purkaystha, 2004) concluded that the high recovery rate from SHGs had encouraged many banks to provide microcredit through SHG route which ultimately led to the microcredit movement in the state on the one hand and high degree of financial inclusion on the other. A good number of SHGs, as it is visible in Table 3, above have opened their savings bank account with the banks over a period of 6 years indicating that they might be the viable groups for financial inclusion in India.

Along with the establishment of bank branches, the rural and semi-urban areas have also been facilitated with ATMs to have easy access of financial transactions (Table 7). As of 31st March 2013, 8,552 ATMs have been installed in the rural areas whereas this figure stands at 18,445 in the semi-urban areas. Among all the agencies, Public Sector Banks (PSBs) have established maximum ATMs in all parts of the country including that of 74 percent in the rural areas. This indicates the focused effort of the government for providing financial services to the rural and far flanged areas in particular and enhancement of financial inclusion in general. Along with the PSBs, the private sector and foreign banks have also established ATMs but the comparative share with that of PSBs is not appealing.

Table 7 Number of ATMs in the country as on 31st March, 2013

Sl. No.	Particulars	Rural	Semi Urban	Urban	Metropolitan
1	Public Sector Banks	8552 (73.95)	18445 (66.56)	22518 (62.36)	20137 (52.13)
2	Old Private Sector Banks	768 (6.64)	2760 (9.96)	2354 (6.52)	1684 (4.36)
3	New Private Sector Banks	2214 (19.15)	6484 (23.40)	10995 (30.45)	15842 (41.01)
4	Foreign Banks	30 (0.26)	21 (0.08)	244 (0.68)	966 (2.50)
5	Total	11564 (100)	27710 (100)	36111 (100)	38629 (100)

Source: Basic Statistical Returns, RBI and DFS, GoI

Conclusion

Financial inclusion is an inevitable part of the government policy. The overall analyses show that the SHGs are effective agents of financial inclusion in India. The SBLP has been growing since its inception and alongside there is a greater scope for the SHGs to grow in number and volume. On account of their productive linkage with the banks, the accomplishments of FI become easy for the government. The SHGs are found playing major role for the fulfillment of the FIPs of the government. Also, they become the important agents for the pooling of financial resources from the banks and augmenting their paltry resources by venturing IGAs. The study at the end infers that the SHGs are imperative for financial inclusion in India.

Findings and Recommendations

Financial inclusion is one of the important tools to streamline poor with formal financial system. The overall findings of the study infer that SHGs are important intermediaries for bridging gap between poor and financial institutions. The SHG Bank Linkage has been the important programme so far in India. On the other hand, the emphasis on FIPs and steps taken thereon by the government such as

'provision of banking outlets through board approved plans' looks promising for the promotion of FI. The following points summarize the findings of the study and brief recommendations for the better FI in the country.

- (i) The roadmap prepared by the RBI for providing banking outlets in unbanked villages has been found effective. During Phase I and Phase II, the banking outlets have been opened through branches, BCs, and other modes. In future these steps may be strengthened further to achieve vibrant financial inclusion in the country.
- (ii) Preparation and implementation of *board approved FIPs* have been found significant for provisioning of banking services to the poor. Such kind of policies may be continued with necessary adjustments such as redesigning of policies based on the financial need of the poor and other underprivileged sections of the society.
- (iii) The provision of banking services covered through BCs (more than 200 percent) has been significant. The other modes however, also need to be revived. The coverage of banking outlets by all the modes may boost FI in future.
- (iv) Kisan Credit Cards (KCCs) have been used by the banks to tap the unbanked areas and to meet the credit requirements of the farmers. The growth of 13 percent in KCCs does not look impressive and need acceleration in future.
- (v) The status of SBLP delineates satisfactory performance of SHGs in terms of savings, loan disbursement, and loan outstanding. All these phenomena suffice SHGs as significant agent for the promotion of FI in the country.
- (vi) The MFI Bank Linkage Programme also shows satisfactory performance in terms of SHG credit linkages. However, the negative growth rate of 6 percent in

the number of MFI raises concern. In future, the government may encourage more MFIs to come forward by giving more banking licenses to them. This will help more SHGs to streamline with the formal sources of finance in one hand and enhancement of FI on the other.

(vii) Improvement has also been observed in terms of promotion of JLGs (2.60 percent), refinance released to banks (8.54 percent), and grant assistance to SHPIs for the promotion of SHGs (12.30 percent). However, a further improvement on all the above indicators may bring significant impact on FI.

(viii) Microfinance through SHG route might be made easier and transparent. Often it is alleged that the finance is routed to local elites who even do not feel obligated to repay the same. Hence, right amount of loan at right time with right conduit of sources/mechanism might help the needy poor. This in turn is expected to enhance the financial inclusion in the country.

(ix) The result derived from the quality research might be used by the government in terms of framing future FIPs. This will help to assess long term implications of big policy decisions such as loan waiver, designing new microfinance models for effective credit delivery, and continuity of subsidy etc.

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