

## **Inclusive Growth through SHG-Bank Linkage Programme: An Assessment**

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### **Abstract**

*The absence of easy and affordable access to banking facilities has remained a major constraint for rural development. As Mahatma Gandhi rightly said long ago “If the world is standing on self, India is standing on its villages” around 60 percent of the population of the country is dwelling in rural economy of India. The challenge of present is therefore to cover all the rural households under the same banner called Self-Help-Groups for their upliftment and poverty alleviation through its linkage with banks. The SHG-Bank Linkage Programme (SBLP) has been proved to be a milestone strategy to improve rural people’s access to formal credit system in a cost-effective and sustainable manner by making use of SHGs. In a nutshell, The real Financial Inclusion and Inclusive Growth not only requires to bring people into banking population, but to make sure the benefits of the financial services reaches to those people.*

**(Keywords:-**Financial Inclusion, Self-Help-Groups, Micro Finance, Marginal farmers, Inclusive Growth, etc.)

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### **I. Introduction.**

“Financial Inclusion is not a matter of philosophy, but can lead to a win-win situation for banks and the customers”-**Dr .Y.V.Reddy**,former RBI Governor.

India has been experiencing micro credit in the form of Self-Help-Groups (SHGs) as a part of formal credit delivery system giving freedom to Non-Government Organizations (NGOs) to set up SHGs on various models. They have been recognized as useful tools to help the poor and as an alternative to meet the urgent credit needs of the poor. The country has witnessed a rapid growth of Self-Help-Groups (SHGs) in the last one decade or so. The growth of SHGs assumed the form of a movement represents a massive grass root level mobilisation of rural poor especially women into small informal associations. The SHGs capable of forgoing links with formal systems to help and access financial and other services needed for their socio-economic advancement. The SHG-Bank Linkage Programme (SBLP) is a milestone strategy to improve rural people’s access to formal credit system in a cost-effective and sustainable manner. The absence of easy and affordable access to banking facilities has remained a major constraint for rural development. Therefore, banks should “look through the eyes of their customers” at grass root level and provide what they want.

Financial Inclusion has become the central theme of India’s development policy and is now being implemented through the PradhanMantri Jan DhanJojana (PMJDY) Programme. The focus of financial inclusion is to ensure 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. In a nutshell, Financial Inclusion refers to delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Hence, in a layman’s sense Financial Inclusion is the process of bringing new customer into the premises of banks. Financial Inclusion has become one of the most critical aspects in the context of inclusive growth and development of rural masses. Therefore, banks should try to go all out in their efforts towards capacity building in rural sector to improve rural productivity and rural income.

Shri Kshetra Dharmasthala Rural Development Project (SKDRDP) is the biggest NGO micro finance institution in the country. This is popularly known as PragathiBandhu model. In this model 5-8 farmers form an SHG, take loan for cultivation and pay it back in weekly installments by going for mixed farming and getting daily income. This experiment has transformed almost 95% of the 200000 of small and marginal farmers in Dakshina Kannada District. Hence, the American City Bank has recognized and awarded ‘PragathiBandhu’ as a “Change maker Model”. The SHG movement with bank credit linkage has definitely proved as an appropriate instrument for financing rural poor particularly women hitherto by-passed by the banking system in the district. Hence, this has been regarded as one of the best examples for SHG-Bank-Linkage Programme in the district.

## II. Literature Review

Some of the literatures narrating the financial inclusion and inclusive growth strategies are summarized as under.

**Rangarajan** (2008) recommended that the Banks and other financial institutions should make some efforts on their own to improve the absorptive capacity of the borrowers. Credit has to be an integral part of an overall programme aimed at improving the productivity and income of such farmers and farmer households. **SubbaraoDuvvuri** (2009) stated that financial inclusion signifies giving people an opportunity to build better lives for themselves and their children. Financial inclusion will make it possible for Governments to make payments into the bank accounts of beneficiaries through “Electronic Benefit Transfer” (EBT) method. **Ammannaya** (2010) pointed out that for the financial inclusion of rural areas people should be trained enough how bank loans can be obtained and utilized in most prudent way for increasing their earnings and their economic lot. **Leeladhar**(2010) reported that in India the focus of the financial inclusion is confined to ensuring a bare minimum access to a savings bank account without frills at all. But in a broader sense having a current account or savings account on its own is not regarded as an accurate indicator of financial inclusion. **Manjunath**(2010)stated that millions of the small farmers hold half to one and half hectares of land for whom the life is dependent on this small piece of land. In spite of the problems and challenges in implementing financial inclusion the banks have responded splendidly to the problems of rural poor. **Girish Kumar and Susy Paul** (2010)confirmed that the SHGs-Bank linkage scheme has proved its efficacy as a main stream programme for banking with the poor and as a means to achieve “inclusive growth” and financial inclusions. **Swain** (2010)found in his study on development strategy for micro finance that micro finance has changed many lives in diverse societal settings across the globe and is being exploited as a tool for financial liberation in under developed, developing and even developed countries. **AnupamaHazra** (2011) is of the opinion that despite a large banking network across the country, the critical gap in rural credit still exist resulting into exploitation of the rural masses in the credit market, which is one of the most pervasive and persistent features of rural life in India.

**Objectives:** The study attempts to throw light on the following objectives:

1. To study the role of SHGs in Microfinance.
2. To assess the progress made by the banks under SHG-Bank Linkage Programme.
3. To suggest suitable strategies for strengthening SHGs-Bank Linkage Programme.

## III. Methodology of the Study:

The present study has been undertaken in Dakshina Kannada District of Karnataka state. The study is based on both primary as well as secondary sources. The primary data and information was collected through field survey with the help of structured questionnaire served on 85 Bank branches of Dakshina Kannada district. Dakshina Kannada Districts has 44 banks having 427 branches spreading over 5 taluks such as Bantwal, Belthangady, Mangalore, Puttur and Sullia. The respondent bank branches are composed of Nationalised Banks, Private Commercial Banks, RRBs and Co-operatives. Stratified Random sampling techniques was usedfor data collection from banks.

### Statement of the Problem:

With a vast network of Nationalised Banks, Private Commercial Banks, RRBs, Co-operative Banks and other financial institutions, no significant progress could be achieved on the increased poverty position existing in rural India. More than three billion people do not have access to the basic financial services which is very much essential for their sustenance. Micro financing programmes through SHGs have the potential to minimize the problem of inadequate access of banking services to the poor. The Self-Help-Groups and Bank Linkage Programme (SBLP) in terms of physical targets, apparently seems to have produced desired results. But, not many studies are available to assess the pros and cons of SBLP. Hence, the present study is a small attempt to bridge the aforesaid gap.

**Table No.:1 Bank category wise distribution of respondents**

| Sl. No. | Bank Category      | Frequency | Percentage   |
|---------|--------------------|-----------|--------------|
| 1.      | Nationalized Banks | 38        | 44.7         |
| 2.      | RRBs(KVGB)         | 10        | 11.8         |
| 3.      | Private Banks      | 10        | 11.8         |
| 4.      | Co-Operative Banks | 27        | 31.8         |
|         | <b>Total</b>       | <b>85</b> | <b>100.0</b> |

**Source: Compiled by the researcher**

There are 427 bank branches in total in Dakshina Kannada District, consisting of 368 branches of Commercial Banks, 19 Regional Rural Bank Branches, 39 Co-operatives banks and 1 KSFC. Out of 427 branches, 196 branches are urban oriented branches, which are excluded for the purpose of sampling. Therefore, total 85 branches were taken as sample size, of which 44.7% Commercial Bank branches, 31.8% Co-operative Banks and 11.8% each from Regional Rural Banks and Private Banks.

**Table No: 2 Responses of Banks regarding provision of loans to SHGs**

| provide loans to Self -Help Groups | Type of Bank       |                                |               |                    | Total        |
|------------------------------------|--------------------|--------------------------------|---------------|--------------------|--------------|
|                                    | Nationalised Banks | Karnataka Vikasa Grameena Bank | Private Banks | Co-Operative Banks |              |
| No                                 | 2<br>5.3%          | 0<br>.0%                       | 0<br>.0%      | 3<br>11.1%         | 5<br>5.9%    |
| Yes                                | 36<br>94.7%        | 10<br>100.0%                   | 10<br>100.0%  | 24<br>88.9%        | 80<br>94.1%  |
| Total                              | 38<br>100.0%       | 10<br>100.0%                   | 10<br>100.0%  | 27<br>100.0%       | 85<br>100.0% |

**Source: Field study**

**Test result:** Fisher’s Exact Test result shows that there is no significant difference between the banks with respect to provision of loans to SHGs as  $p= 0.613 > 0.05$ . But as a whole, Karnataka Vikasa Grameena Bank and Private Banks play a dominant role in case of loans granted to SHGs when compared to Nationalised banks and Co-operatives.

**Table No: 3 Distribution of Nature of Loans Granted to SHGs.**

| Types of Credit | Nationalised Banks (n=36) |      | Karnataka Vikasa Grameena Bank (n=10) |       | Private Banks (n=10) |      | Co-operative Banks (n=24) |      | Total (n=80) |      |
|-----------------|---------------------------|------|---------------------------------------|-------|----------------------|------|---------------------------|------|--------------|------|
|                 | Freq                      | %    | Freq                                  | %     | Freq                 | %    | Freq                      | %    | Freq         | %    |
| Micro credit    | 31                        | 86.1 | 10                                    | 100.0 | 9                    | 90.0 | 14                        | 58.3 | 64           | 80.0 |
| Micro Insurance | 0                         | 0.0  | 0                                     | 0.0   | 2                    | 20.0 | 2                         | 8.3  | 4            | 5.0  |
| Personal loans  | 13                        | 36.1 | 2                                     | 20.0  | 2                    | 20.0 | 14                        | 58.3 | 31           | 38.8 |
| Gold loans      | 5                         | 13.9 | 1                                     | 10.0  | 3                    | 30.0 | 4                         | 16.7 | 13           | 16.3 |

**Source: Field study**

The above table shows the bank wise distribution of nature of loans granted to SHGs. It is clear that 80% of the banks provide micro credit, 38.8% banks provide personal loans, 16.3% banks provide gold loans and 5% banks provide micro insurance to SHGs.

**Table No: 4 Progress made under SHGs- Bank Linkage Programme**

| Category of Banks  | No. of SHGs   | Percentage to Total | Amount of Loans (in Lakhs of Rs) | Percentage to Total |
|--------------------|---------------|---------------------|----------------------------------|---------------------|
| Nationalised Banks | 19563         | 63.12%              | 60709.96                         | 91.13%              |
| Private Banks      | 2324          | 7.50%               | 700.18                           | 1.05%               |
| RRBs (KVG Bank)    | 479           | 1.55%               | 1102.00                          | 1.65%               |
| Co-operative Banks | 8624          | 27.83%              | 4125.00                          | 6.17%               |
| <b>Total</b>       | <b>30,990</b> | <b>100%</b>         | <b>66,837.14</b>                 | <b>100%</b>         |

**Source: Field study**

From the above table, it is confirmed that nationalised banks played a significant role with respect to number of SHGs as well as total amount of loans granted to SHGs when compared to other categories of banks.

**Findings:** The following are the key findings of the study.

- **“Savings first, credit next”:** This cardinal principle is assumed to be the strength of the programme and which inspires to inculcate the habit of savings among members.

- **A milestone programme:** It has proved as a milestone programme for banking as well as rural people as a means to achieve financial inclusion and inclusive growth as the rate of interest on borrowings is comparatively low.
- **Creates thrift and self-reliance:** The SHG-BLP has contributed a lot towards the empowerment of rural women by creating the awareness of thrift, mutual confidence and self-reliance.
- **Avoids village moneylenders:** It has proved to be a vital tool for poverty alleviation and emancipation of the rural poor by means of increased self-reliance and self-development by doing away with village moneylenders.
- **No frills Account:** As regards number of No Frills A/c (NFA), the Nationalised Banks have opened 104277 accounts, Co-operative banks 9072 accounts, the Private Sector Banks have opened 2993 accounts and Karnataka Vikasa Grameena Bank (KVGB) opened 2574 no frills account. Thus, the nationalised banks played a significant role.
- **Significant role by Nationalised Banks:** The role played by the Nationalised Banks with respect to linking of SHGs with them and loans granted to SHGs are praiseworthy when compared to other types of banks.
- **Lack of Participative Efforts :** Poor participative efforts by the stakeholders such as, Bankers, State Governments, Technology providers, Regulators and other Developmental Agencies is a major setback should to achieve the goal of financial inclusion.
- **Lack of Awareness:** Most of the rural people are not aware of modern services and latest developments taking place in the field of banking. Lack of financial literacy and technical knowledge on the part of rural people are the main obstacles in the implementation of Financial Inclusion targets.
- **Poor Infrastructure:** Poor infrastructure in many part of the countryside is an impediment for the development process. It is important that adequate road, rail, digital connectivity and adequate power and infrastructure facilities are required for operation of a banking outlet.

**Suggestions:** The following points are suggested for strengthening SHGs-Bank Linkage Programme.

- **Strengthening the SHG-Model:** The Self-Help-Group is a wonderful mechanism to help the poor from self-reliance and self-development perspective. So, it is inevitable to strengthen the SHG-Model.
- **Reframing as SHGs-NGOs-Bank Linkage Programme:** The Self-Help-Group Bank Linkage chain should be reframed as SHGs-NGOs-Bank Linkage programme in order to achieve the desired results.
- **Opening up of literacy centers:** Most of the SHGs members are illiterate; as a result they cannot maintain proper records and accounts. Therefore, literacy centers are to be opened in order to create awareness and to update their knowledge.
- **SHGs-Post Office linkage programme:** Similar to that of SHG -Bank linkage programmes, SHGs – Post Office linkage programme should be initiated so as to reach out to many numbers of rural poor especially in unbanked and under banked areas.
- **Efforts to be made by RRBs and Private Banks:** The RRBs and Private sector banks still have to take many efforts in the direction of SHG-Bank Linkage Programme.
- **Farmer-friendly and pro-poor banking:** Rural branches of banks have to be farmer-friendly, because rural lending requires a specific type of organizational ethos, culture and attitude
- **Opening up new branches:** The commercial banks may be opened up new branches where the population per branch is much higher than the national average.
- **Innovative use of mobile phones:** Banks must allow liberally and innovatively the use of mobile phones as a tool to facilitate transactions, to let people make payments to one another electronically.
- **Effective Use of B/Fs and B/Cs:** The Business Facilitators and Bank Correspondents model must be effectively implemented.
- **Attitudinal change:** There should be change in organisational structure, innovative delivery model and above all attitudinal change among bankers and borrowers.

#### **IV. Conclusion**

As Mahatma Gandhi rightly said long ago “**India lives in her villages**” around 60 percent of the population of the country is dwelling in rural economy of India. The challenge of present is therefore, to cover all the rural households under the same banner called Self-Help-Groups for their upliftment and poverty alleviation. But the long-term prospect and sustainability of SHGs is depending upon its linkage with banks, especially in financing point of view. The various studies evidently brought out many operational shortcomings of SHGs that most of the SHGs were formed only for availing the benefit of subsidies by the government. Another area of concern is the political interference; political parties consider SHGs as another vote bank and make all efforts to control them. However, financial inclusion is the only way out for the development of everyone as proclaimed by the Prime Minister “**SabkaSath, SabkaVikas**”.

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