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BANK LINKAGE PROGRAMME AND FINANCIAL INCLUSION IN INDIA: THE ROLE OF SELF-HELP GROUPS"

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ABSTRACT

The importance of the rural banking and microfinance in the economic development of a country cannot be overlooked. As Mahatma Gandhi pointed out "Real India Lives in Villages", and village economy is the backbone of Indian economy. The existing extensive formal banking structure is still not sufficient to meet the growing demand of rural credit. Financial inclusion is 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. Financial inclusion also facilitates in efficient allocation of resources and enables the economy to maximize welfare by reducing the spread of informal source of avenues. Micro-finance approach can be considered as an alternative solution to provide financial services to common section of the society. Micro-finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. In this background, the present paper is to study the SHG bank linkage model and progress of SHG linkage programme in India. The study shows that impact of self-help group bank linkage programme in achieving financial inclusion across the country. Microfinance has emerged as a vital approach to meet the heterogeneous needs of the poor. In India, microfinance in the formal sector has assumed the form of SHG-bank linkage program.

Keywords: Financial Inclusion, SHGs, Bank linkage Model and Microfinance

INTRODUCTION

Indian economy continues to suffer from the problems of poverty, sectoral divergences in growth and employment opportunities and a poor progress of various socio-economic indicators, despite of higher economic growth in recent past. The importance of the rural banking and microfinance in the economic development of a country cannot be overlooked. As Mahatma Gandhi pointed out "Real India Lives in Villages", and village economy is the backbone of Indian economy. The existing extensive formal banking structure is still not sufficient to meet the growing demand of rural credit. Financial inclusion is delivery of financial services more especially the banking services at an affordable cost to vast sections of disadvantaged and low income groups. Attaining the objective of hundred percent financial inclusion is today one of the biggest challenges for Indian banking system. Greater Financial Inclusion shall be a catalyst for accelerating the pace of economic growth with equity. Financial inclusion can be relied upon to achieve inclusive growth which is one of the major objectives of 12th five year plan. There are various literatures which have studied the relationship between financial inclusion and economic growth and considered financial inclusion as a major determinant to economic growth. In fact there exists a two way relationship between financial inclusion and economic growth. On one hand, higher the financial inclusion, higher will be economic development. On the other hand greater infrastructural development and economic development facilitate higher financial inclusion.

Financial inclusion is 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. Financial inclusion also facilitates in efficient allocation of resources and enables the economy to maximize welfare by reducing the spread of informal source of avenues. A large number of earlier studies often suggest that development of the financial sector and better access to financial services are imperatives for facilitating economic growth with equity. Without an inclusive financial system, poor individuals and small enterprises have to rely on their limited savings and earnings to invest in their education and entrepreneurship to take advantages of growth opportunities (World Bank, 2008).

Achieving financial inclusion through formal banking system is a cumbersome task. Unavailability of adequate financial services like credit, insurances, and remittances to majority population at an affordable cost is a major roadblock for the growth of financial sectors. In this context, Micro-finance approach can be considered as an alternative solution to provide financial services to common section of the society. Micro-finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. Microfinance consisting of micro credit, micro savings and micro insurance, is regarded as an important tool to reduce risk, poverty and vulnerability of common people. The micro finance sector started getting recognition in India after the launch of the self help group linkage model in the year 1992. Micro-finance through self help group bank linkage model can provide sustainable mechanism to meet the unmet financial needs of un-banked poor.

FINANCIAL INCLUSION IN INDIA

Impeded and higher cost of access to adequate financial services like credit, insurances, and remittances to majority population are major roadblocks for the growth of primary sectors like agriculture. Financial inclusion can create win-win environment for both customer and financial institution in an economy (Thorat, 2006). It enables customer to avail various kind of financial products for productive purposes. It also helps customers in availing micro remittance facilities, micro credit at an affordable cost. The Government also can use the bank accounts of people for providing various social security services for the vulnerable section of society. Thus, financial inclusion can be considered as prerequisite to achieve inclusive growth which would further helps in achieving sustainable economic growth.

LITERATURE REVIEW

Sharma (2008), through cross country empirical study examined a close relationship between financial inclusion and development. Further, the study found a positive relation between financial inclusion and different socio-economic variables like income, inequality, literacy, physical infrastructures.

Kempson and Whyley (1998) argued that possibility of financial exclusion is more likely to occur in the lower income section of society than amongst others. Beside this, geographical factors and income inequality are also important factors in determining financial inclusion of a country.

Beck.et. al (2000), in their paper tried to evaluate empirically the relationship between level of financial intermediary development and economic growth. They observed a positive impact of financial intermediary development on the growth of total factor productivity which will lead to economic development.

Chavan and Ramakumar (2002) in their study compared NGO led micro credit programme of various countries with state led poverty alleviation scheme and observed marginal improvement in member's income as a result of micro credit programme.

Puhazhendi and Badatya (2002), observed a significant improvements in the savings SHG members during post SHG situations. The programme also improves the borrowing pattern of SHG member households in terms of strengthening credit widening and credit deepening.

Sanghwan (2006), studied the extent financial inclusion across various states. He also tried to examine the role of SHG bank linkage programme in achieving financial inclusion. The study suggested a significant role of SHG led programme in achieving financial inclusion. Beside this, it also tried to examine the role of other factors like banking density, financial literacy and per capita income in achieving financial inclusion.

Sahoo et.al (2008), had attempted to develop index of financial inclusion to examine the progress of financial inclusion and various determinants of financial inclusion using secondary data from various sources.

OBJECTIVES AND METHODOLOGY

In this background, the present paper is to .study SHG bank linkage model and progress of SHG linkage programme in India. The study is based secondary data and collected from various sources like NABARD reports, RBI reports, Census of India etc.

FINANCIAL INCLUSION IN INDIA: AN OVERVIEW

Financial inclusion ensures ease of availability, accessibility and usage of formal financial system to all members of the economy (Sharma, 2008).Financial inclusion has been widely recognized as important means to achieve inclusive growth on India. During the post nationalization of banking period, there has been spectacular progress in formal banking networks across the country. In the course of time, Reserve Bank of India has been adopting various measures like priority sector lending, KYC norms, banking correspondent model to ensure financial inclusion. In fact, measuring financial inclusion in a developing country like India is different from other developed countries. Financial inclusion can be measured in two ways. One is inclusion in the payments system i.e. having access to a bank account. The second type of inclusion is towards formal credit markets, thus requiring the excluded to approach informal and exploitative markets.

Previously various studies on financial inclusion have identified various factors which are responsible for financial exclusion in an economy. Some of these factors responsible for financial exclusion have been mentioned below:

- Lack of proper infrastructural development

- Geographical factors: Remote and hilly areas
- From demand side lack of awareness, income and asset constraints, limited literacy especially financial literacy and social exclusion act as major barriers.
- From supply side cumbersome documentation procedure, unavailability of diversified products and services, high transaction costs, and easy availability of informal credits are major barrier to achieve financial inclusion. (Thorat,2007).
- Other factors like gender issues, nature of occupation, social security payment systems are also playing vital roles in influencing access to financial services(World bank ,2008).

Individual indicators like number of bank accounts, number of bank branches, size of credit and deposit to GDP are also used to measure the extent of inclusiveness of financial system. Financial services provided by various financial institutions like banks, postal saving banks, non-banking finance companies; micro finance institutions are also form the basis to measure the level of financial inclusion in an economy. Number of bank account per thousand adults is considered as one of the common measure of financial inclusion.

SELF HELP GROUP LINKAGE MODEL AND FINANCIAL INCLUSION

In spite of Indian banking sector having witnessed a spectacular progress in spread of banking networks and extending financial outreaches across the country in the recent past, the relative decline in the supply of credit in rural areas poses the biggest challenge to achieve hundred percent financial inclusion before Indian formal financial system. In this context, self help group bank linkage model launched by NABARD (1992) can be conceived as an alternative model to bridge the gaps which could not be filled up by formal banking system. It facilitates extending financial services to unbanked vulnerable section of society. NABARD led SHG bank linkage model is widely accepted as one of the largest and successful micro finance model in the world.

SHG – BANK LINKAGE MODEL

There are three models of linking SHG and Banks in India:

Model I - provide all assistance directly to SHGs without any intervention facilitation by anyNGOs.

Model II – provide all assistance directly to SHGs with facilitation by NGOs and other formal agencies.

Model III – provide all assistance through NGOs as facilitator and financing agency.

While the SHG-Bank linkage program has surely emerged has dominant microfinance dispensation model in India, other models too have evolved as significant microfinance providing channels.

- An Intermediate Model also works on banking principles, which focus on both savings and credit activities and where banking services are provided to the clients either directly or through SHGs.

- There is also a wholesale banking model, where the client comprises of NGOs, MFIs and SHGs federations. This model involves a unique package of providing both loans and capacity building support to its partner.
- There is an individual banking – based model that has its clients as individual or joint liability groups. While program management and client appraisal in it may be challenged, this model is best suited to lending to enterprises.

CONCLUSION

The present study shows that impact of self-help group bank linkage programme in achieving financial inclusion across the country. Microfinance has emerged as a vital approach to meet the heterogeneous needs of the poor. In India, microfinance in the formal sector has assumed the form of SHG-bank linkage program. Through this program, the Reserve Bank of India and NABARD has tried to promote relationship banking, i.e., "Improving the existing relationship between the poor and the bankers with the social intermediation of the NGOs." The SHG-bank linkage program in India is rapidly expanding its outreach under the pioneering initiative of NABARD, the monitoring and supervision of RBI, and the promotional policies of the government of India. At the grass root the commercial banks, cooperatives, and regional rural banks, with government agencies like DRDA/DWDA actingas facilitators, are implementing level the program. As reported by NABARD, the cumulative number of SHGs opening savings account in banks (savings linked) increased from 255 SHGs in the pilot project taken up during 1992 to 69.53 lakh SHGs (including SGSY groups) at the end of March 2020 of whom 53.10 lakh were exclusively women SHGs in the entire country. Total number of SHGs having loan outstanding as on 31.3.2020 was 48.51 lakh of which 38.98 lakh were women SHGs

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