A Study on Role of SHGs in Financial Inclusion of Excluded Section of the Society with Special Reference to Udupi District

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Abstract

Despite witnessing substantial progress in financial sector reforms in India, it is disheartening to note that nearly half of the rural households even today do not have any access to any source of funds- institutional or otherwise. Hardly one-fourth of the rural households are assisted by banks. Hence the major task before banks is to bring most of those excluded, i.e. 75% of the rural households, under banking fold. But the task is not so easy since they are illiterate, poor and unorganized. They are also spread far and wide. What is needed is to improve their living standards by initiating new/increased economic activities with the help of banks, NGO’s and local developmental agencies. To start with, it is necessary to develop a fair understanding of their profile. In addition, their perception about the bank and its services needs to be understood. So there is a need for the formal financial system to look at increasing financial literacy and financial counseling to focus on financial inclusion and distress amongst farmers. Indian banks and financial market players should actively look at promoting such programs as a part of their corporate social responsibility. Banks should conduct full day programs for their clientele including farmers for counseling small borrowers for making aware on the implications of the loan, how interest is calculated, and so on, so that they are totally aware of its features. There is a clearly a lot requires to be done in this area. SHGs play vital role in involviong the excluded population in financial inclusion. Keeping the above background this paper study the role of SHGs in financial inclusion with special reference to udupi district. Here primary and secondary data has been used for analysis purpose. Simple random sampling method is used.

Keywords: Financial inclusion, SHGs , excluded population
INTRODUCTION
The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. The United Nations defines the goals of financial inclusion as follows:

- Access to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance at a reasonable cost for all households;
- Sound and safe institutions as service providers, governed by clear regulation and industry performance standards;
- Financial and institutional sustainability, to ensure continuity and certainty of investment; and competition to ensure choice and affordability for clients.

India in last 15 years has witnessed unprecedented growth in financial services, unfolded by liberalization and globalization of financial services due to adoption of Information Technology and unlocking of the regulatory framework. The banking sector responded quickly to the new technology; diversified in multiple services and thus the share of finance & related services in the gross domestic product increased to about 14 per cent in 2006-07 from 11 per cent in 1991-92 (RBI, Annual Report 2006-07). But alongside this positive development there are evidences that the formal financial sector is still excludes a large section of population. As on March 2006, the saving accounts per 100 adult populations were 63 and credit accounts were only 16 in all India (RBI, BSR 2006). Reserve Bank of India (RBI) and Government of India (GOI) are very much concerned about the financial exclusion as expressed in various issues of Monthly Bulletins of RBI during 2006 & 2007 and Central Budget of 2007-08(5,1). The purpose of this paper is to study the relevance of Self Help Groups (SHGs) in achieving the financial inclusion in the background of initiatives taken so far by RBI and GOI.

A SHG is a group of about 20 people from a homogenous class, who come together for addressing their common problems. They encouraged making voluntary thrift on a regular basis. They use this pooled resources to make small interest bearing loans to members. The process helps them imbibe the essentials of intermediation, prioritization of needs, setting conditions, and accounts keeping. This gradually builds discipline and credit history for them, as the money involved in the lending operations is their own hard earned over time with great difficulty. They also learn to handle resources of a size that is much beyond their capacities. Once the groups show this mature financial behaviour, banks are encouraged to make loans to the SHG in certain multiples of the accumulated savings of the SHG. The bank loans are given without any collateral and at market interest rates.

Origin of research problem: Former United Nations Secretary-General Kofi Annan, on 29 December 2003, said: “The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude
people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.”
More recently, Alliance for Financial Inclusion (AFI) Executive Director Alfred Hannig highlighted on 24 April 2013, progress in financial inclusion during the IMF-World Bank 2013 Spring Meetings: "Financial inclusion is no longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leadership."
The Reserve Bank of India (RBI) set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). Financial inclusion is thus an area of prime importance for per-capita as well as overall national development. A study of the extent of practical implementation of this blooming concept is the origin of the research problem of this paper.

REVIEW OF RESEARCH AND DEVELOPMENT IN THE SUBJECT
REVIEW OF LITERATURE: Khawari (2004) revealed that the establishment of microfinance institutions (MFIs) worldwide for the provision of collateral free loans to the poor through mechanisms and instruments not known to normal commercial banks has set new milestones in the field of financial services. With 900 million households in the less developed countries left without any access to formal financial services. Firpo (2005) suggested that the Micro development Finance Team (MFT) carried out pilot projects in Uganda to determine the role technology could play in increasing the reach of microfinance. The conclusions drawn from the study that business process change and the implementation of new technology should proceed in tandem; creative technology solutions are required to be tailored to the unique and often challenging needs in emerging markets and local contexts; and partnerships between MFIs and local companies assist in reducing infrastructure costs. Technologies such as the RTS can evolve and provide functionality that serves to build bridges between MFIs and the formal financial sector. Ghosh (2005) traced the evolution of the Microfinance revolution in India as a powerful tool for poverty alleviation and women empowerment. Where institutional finance failed Microfinance delivered, but the outreach is too small. Pahuja (2007) International Journal of Advanced Research in Management and Social Sciences ISSN: 2278-6236 Vol. 2 | No. 2 | February 2013 www.garph.co.uk IJARMSS | 125 concluded that at analyzing the historical and the present state of the rural financial system in India. The paper is divided into three major segments where Segment (I) presents the background of the rural financial system and also studies the problem of Financial exclusion, (II) segment deals with the institutions working for the rural financial system, segment (III) focuses on Micro Finance Institutions and deals with the analysis of the overall paradigm as it holds for the Micro Finance Institutions in India Yang, whitefeild & Boehme (2007) described that an empirical study of investigating recent trend and development of the application of e-banking in rural areas and its economic impact on local financial institutions. The data used in this research are collected through a web-based questionnaire survey. The research objective is to
investigate how those smaller and community banks located in rural areas have attempted to catch up with their counterparts in larger cities in terms of the application of e-banking, focusing on emerging issues and challenges. The results are discussed with managerial implications along with suggestions for future research. Rangarajan (2008) accessed that to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. Sharma (2009) studied the financial inclusion by channelizing existing recourses. His conclusions are that (i) use of technology in the banking system is the most feasible solution for achieving financial inclusion, and (ii) the implementation of technology should follow a top down approach. Anamika (2009) analyzed the efforts made by the government of India in the implementation of financial inclusion, identifies the barriers in the process and suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas. Prasher (2009) suggested that the root cause for advancement in banking sector in rural areas is the cost factor. Technology can help in cutting down the cost factor.

OBJECTIVES
The objectives for this paper are as follows:
- To highlight the role of Self-Help Groups in financial inclusion.
- To explain the role and importance of financial inclusion in Indian Financial System.
- To analyze the different roles of SHGs
- To enumerate the achievements of SHG microfinance in including the excluded section of the society.

METHODOLOGY
The area selected for the study is udupi taluk of udupi district of Karnataka State. An empirical study was conducted with 200 members. Random Sampling method was adopted. Primary data was collected through Sample Survey method, for which structured questionnaire and interview method was used. After joining SHGs the increase in bank accounts, increase in avail of credit, percentage of repayment are used as parameters of financial inclusion.
ANALYSIS AND INTERPRETATION

1. Socio economic characteristics

<table>
<thead>
<tr>
<th>Class</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower class</td>
<td>152 members</td>
</tr>
<tr>
<td>Middle class</td>
<td>48 members</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
</tr>
</tbody>
</table>

2. Caste category

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>OBC</td>
<td>120</td>
</tr>
<tr>
<td>SC</td>
<td>48</td>
</tr>
<tr>
<td>ST</td>
<td>32</td>
</tr>
</tbody>
</table>

3. Sex

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>48</td>
</tr>
<tr>
<td>Women</td>
<td>152</td>
</tr>
</tbody>
</table>

4. Level of literacy

<table>
<thead>
<tr>
<th>Literacy</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiterate</td>
<td>113</td>
</tr>
<tr>
<td>Primary</td>
<td>57</td>
</tr>
<tr>
<td>Secondary</td>
<td>25</td>
</tr>
<tr>
<td>Intermediate</td>
<td>5</td>
</tr>
</tbody>
</table>

4. Marital status :

<table>
<thead>
<tr>
<th>Status</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>152</td>
</tr>
<tr>
<td>Unmarried</td>
<td>30</td>
</tr>
<tr>
<td>Widowed</td>
<td>18</td>
</tr>
</tbody>
</table>

5. Occupation

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coolie, Beedi, laundry, tailoring</td>
<td>145</td>
</tr>
<tr>
<td>Fishing</td>
<td>35</td>
</tr>
<tr>
<td>Cashew factory labourers</td>
<td>20</td>
</tr>
</tbody>
</table>
7. All are living in their own house

8. Reasons for joining the SHGs:
   - Financial needs
   - Mobilising savings
   - Maintenance of the house
   - Education of their children

9. People taken financial assistance from their group :- 100 %

10. For which purpose the loan amount is utilised
    - Household purpose: - 176
    - Production purpose: - 24

   **Household purpose include:**
   - Building house
   - Repair of house
   - Purchase of home appliances
   - Repayment of bank loan
   - Purchase of own land
   - Education of their children’s

   **Production purpose include:**
   - Purchase of sewing machine
   - Purchase of cow

   **Interpretation:**
   SHGs will play vital role in financial inclusion.

**From the above analysis it is clear that**
1. People join SHGs to meet their financial requirement because if they go to banks the rules and regulation is stringent and time consuming whereas they get loan here very easily.
2. They are educated towards banking norms only after joining the group
3. the group also helped them in their personality development
4. they also arrange tours to various places and by this it helped them to know about different places
5. it also help them in understanding the group dynamic
6. their participation in social activities are improved after joining this group
7. Women members learnt to come from the home and take active participation in social activities organised by all groups together in a mandal.

**CONCLUSION**
SHGs contribute to solving the problems of inadequate housing and urban services as an integral part of poverty alleviation programmes. The challenge lies in finding the
level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrower without imposing unbearably high cost of monitoring its end use upon the lenders. A promising solution is to provide multipurpose loan or composite credit for income generation, housing improvement and consumption support. Here we can conclude that SHGs helps in financial inclusion of rural mass. They also help in including the excluded section of the society.

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