

## The Role of SHGs in Financial Inclusion

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Making strides of Economic development and standing in top notches, India still has to go a long way to become a truly developed nation in all fronts. As has been pointed out by reports of IMF as well as World Bank, Inequality is a great barrier to overall development of the nation. A nation with lower inequality, be it in terms of gender or economic, does better progress than the unequal societies.

Financial inclusion is an effective way to bring everyone onboard on the path of development. It also gives opportunities as well as helps to distribute the benefits of development, thus reducing dissatisfaction among the poor and marginalized sections of society. SHGs have contributed a lot in this regard bringing economically backward section into mainstream. In this respect, SHGs should be continued and also, more thrust should be provided by the Govt. for spread of such programmes into all regions of nation.

Financial Inclusion is the way of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by the mainstream.

### ***Financial Literacy and Financial Inclusion are two sides of the same equation—***

Financial Inclusion acts from supply side by providing financial services that people demand whereas Financial Literacy stimulates the demand side by making people aware of what they can actually demand. Therefore, access to Financial Education and financial services must happen simultaneously and must be a continuous and ongoing process and must target all sections of the population.

In a nation with around  $\frac{1}{4}$  of its population poor, financial inclusion is crucial for development of the poor and the country as a whole. An important way of promoting financial inclusion is

through the use of Self-Help groups (SHGs), as it has helped in accumulating member savings, internal loans to group members and access to bank loans. Through micro-finance, these have been linked with banks which prove cost-effective for banks and better finance for members. Some Micro-finance institutions are now standalone and have become giant players. SHGs have often resulted in low delinquencies through group enforcement, which has been a major concern of bank lending in rural areas. Moreover, it results in a multiplier effect- Bank does not link just one entity to the formal finance sector but all of its members. Therefore, opening of one savings account means linking of all its members to the bank account. It has resulted in an increase in branch penetration, deposit penetration and credit. It is a prime microfinance programme for poor and backward people in which group loans are provided to them at cheaper rates. It serves the purpose of reviving rural economies by securing the livelihood of poor strata. Women remain aloof from the financial matter in traditional systems but women constitute more than the 50% membership of the SHG which brings them in to the formal financial system. Hence it leads to an increase in women participation by giving them training, confidence building and leadership skills, thus fulfilling the objective of women empowerment at the same time. It also saves the government infrastructure cost in setting up banks in rural areas and that cost can be utilized in other social welfare schemes for the benefit of the poor. Rural/Poor people often have to go a long distance for banking needs and being illiterate at the same time, often subject to consistent rude behavior of the bank correspondents. Now with the help of SHG, people can acquire loans easily from their own community members without facing any harassment. It also promotes the concept of EQUALITY, treating every member at an equal stake while providing loans. Hence, SHG appears to be a promising institution in resolving the financial needs of poor people. There is a need to set more SHG groups in villages so that poor don't have to depend outside for financial needs in fulfilling their basic requirements.

SHG Bank Linkage Programme could have a multiplier effect of SHGs as by linking an SHG with a bank goes beyond linking one entity (SHG) to the formal financial sector, by enabling all group members to access savings, credit and other financial services from the bank, so effort to promote financial inclusion through SHG should continue. In this context, SHG-Bank linkage programme was pioneered by NABARD that seeks to mobilize small, cohesive, participatory groups to enable them to access financial services which the members are unable to do at

individual levels. The programme has achieved considerable success despite stagnation in rural bank branch penetration during the period 2000-12, SHG-bank linkage has contributed to improved deposit and credit penetration in rural areas .It proved to be cost effective for banks as group loans lowers the operational costs. It played an instrumental role in securing livelihoods and reviving local economies thereby contributing to economic growth. As a large proportion of SHGs are all women groups, provision of financial services and training sessions have empowered women through confidence building and leadership development. Thus groups like SHG's help in strengthening participation at grass root level and nullifying its gains would be absurdity.

But a major chunk of population still lacks financial Inclusion. Illiteracy which prevents people from going to banks as they find the paperwork cumbersome and also feel that they might be cheated due to their poor knowledge. Location of Formal Banks also create a major hurdle .There is a mandate by RBI to open 25% of branches in Rural areas still many villages don't find a bank nearby. Moreover they find difficulty in getting Loans because banks are reluctant to give loans to poor people as they doubt their capacity to repay. Next, SHGs don't have much financial capacity as there source is limited. Sometimes, powerful members influence the Loan disbursal. Links to tribal community are lacking, savings are generally not a part of culture among tribes and therefore, challenges in their financial inclusion continue. High interest rates attached to microfinance have often led to SHGs suffering. Several issues of corruption have also arisen. Lack of enough financialsupport, training and infrastructure also create problems. Most of the members are often illiterate and need to be trained on basics of the operation of SHGs. Large number of SHGs promoted by banks without even analyzing actual requirements on the ground level.

Despite these shortcomings SHGs do provide for financial Inclusion of poor people and government should include such SHGs in their financial inclusion programmes.

Various regulatory steps were taken by RBI and schemes were launched by Government of India (like PMJDY) to promote financial inclusion, they have not been much effective due to lack of branch penetration, deposit penetration and credit penetration. Suggestions to promote Financial Inclusion Wherever banks are not accessible or not responsive, federations may be prepared to take up the command, use of "payment banks" for SHG, keeping a vigilant eye on the notorious SHGs

where one party benefits, regular checking of the funding of SHGs, boosting its penetration to urban poor communities too, imparting management and entrepreneurial skills and educating and replicating the best practices. The Government can also promote quality of SHGs through village/ cluster level, sub district/ block level and district level federations.

Thus, SHGs need to be put forward as a 'flagship programme' by central, state and local governments to reach 'social inclusion' target in a most effective and efficient way as SHGs play a significant role in women empowerment, infuse awareness in marginalized section, bring employment to rural strata and act as an alternative to agricultural activities etc. SHGs also play an important role in saving poor from clutches of moneylenders, bringing unity among subjugated groups of society and act as a tool for the growth and development. Seeing the positive spillover effects, SHGs must be continued in a more comprehensive manner.

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