MEDIATING ROLE OF SELF HELP GROUPS FOR STIMULATING RURAL FINANCIAL INTERMEDIATION IN INDIA

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Abstract

This paper presents a conceptual research on the role and performance of the SHGs in economic development. SHGs are instrumental in facilitating financial inclusion in developing countries however there are innumerable glitches which restrict the performance of the SHGs. The paper evaluates the challenges faced by the SHGs in reviewing the sustainable strategy for SHGs in collaboration with the commercial banks for eradicating financial exclusion. The paper reviews the existing self-help linkage
program in India and recommends a new business proposition of the existing SHG Linkage program. Strategic associations and consolidations strategies are prerequisite for accomplishing cost effective social development.

Keywords: Self Help Groups, Financial Inclusion, Sustainability, Economic Development, Self Help Linkage Program

JEL Classification: O16, O18

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INTRODUCTION

Banking sector in India had been instrumental in bringing about growth and prosperity of the economy since 1969; tremendous changes have taken place in the banking industry. The banks have shed their traditional functions and have been innovating, improving and coming out with new types of services, however there exists a large segment outside the formal banking sector. Financial inclusion has been defined by RBI as the “provision of affordable financial services” to those who have been left unattended or under-attended by formal agencies of the financial system. These financial services include “payments and remittance facilities, savings, loan and insurance services” Commercial banks business model are two fold inclusive growth and business profitability, banks have been reasonably good in maintaining the profitability however financial inclusion initiatives has been successful to quite an extent but access to financial services by the underprivileged sections still remains questionable. Banks have been able to achieve financial inclusion to a certain extent; however there still are present financially excluded sections in the developing economies hindering the process of economic development.

There has been a massive expansion and transformation in the Indian banking sector over a decade on account of varied financial sector reforms; these reforms have expedited financial growth nevertheless financial exclusion is a concern even today for the banks. Efforts targeted on the Indian rural sector are: poverty alleviation, employment generation, women empowerment, education, financial literacy and social upliftment thus justifying the government interventions. Despite of the growing interest for promoting financial literacy amongst the underprivileged it is important to review the efficacies of the strategies of financial inclusion for making it viable and sustainable model especially in India. Financial inclusion also imparts formal identity, provides access to the payments system and to savings safety net like deposit insurance. Hence it is considered to be critical for achieving inclusive growth; which itself is required for ensuring overall sustainable overall growth in the country [1].

Notwithstanding the phenomenal physical outreach of the formal credit institutions achieved during the past several decades, the rural poor still continue to depend on
informal sources of credit for their financial needs on account of the cumbersome procedures associated with formal credit channels.

The accessibility of financial services to the poor household did not get institutionalize, the major cause being large number of small borrowers, illiteracy and poverty.

**Synopsis of Indian Economy**

The term “unbanked” refers to people who have no access to formal financial services, but rather rely on either family, or informal providers of finance, such as the village moneylenders nevertheless it is an undeniable fact that financial services is a prerequisite for poverty mitigation.

The appended table indicates the poverty distribution in India for the years 2005 and 2012, it is indicative that poverty is high in rural areas as against the urban. Largely there has been a steady decline in the poverty rate during these 5 years however the rate of decline is higher for urban as to rural population. Nearly 25% of the population is in the poverty bracket which substantiates that nearly this segment is financially excluded also which is evident from the pace of decline in the poverty rate (Table 1).

**Table 1: Poverty in India.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Poor (millions)</th>
<th>Poverty Ratio (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td>2004-05</td>
<td>326.3</td>
<td>80.8</td>
</tr>
<tr>
<td>2011 – 12</td>
<td>216.5</td>
<td>52.8</td>
</tr>
</tbody>
</table>

Source: Government of India, 2015

Poverty and its impact on the socio-economic aspect of life can be referred to as the most viable question which needs to be addressed properly in different directions. However, although poverty ratio in India is declining, its tenacity and the weakening in quality of employment in terms of increased casualization of labour and rising inequality since the initiation of 1991 reforms policy have resulted in a rise in human deprivation in the country as per National Sample Survey (2006). As suggested by Prahalad when the bottom of the pyramid i.e. four billion people are converted into micro producers, opportunity for global growth becomes obvious whilst delineation between the rural and urban needs to be redefined. The real effectiveness and success depends on alleviating poverty by converting the poor into producers which will increase the income of the rural families and channelization of these incomes into productive sectors will supplement the growth of the economy. Well-functioning financial markets depend on participants making informed decisions however survey conducted by S&P (2015) indicates nearly 76% of the adults do not understand the financial concepts further the number is lower than the worldwide average of financial literacy, but it is roughly in line with other BRICS. The World Bank estimated that 59.5 per cent of rural households did not have a savings bank account; the figure was 70 per cent in the case of the landless/marginal farmers’ category which ascertains major section of the society being financially
excluded. Data from the 2011 Census of India indicates that 58.7 per cent of the households in India avail of banking services (144.8 million out of 246.7 million) — 54.5 per cent in rural areas and 67.7 per cent in urban areas evidencing a major section being deprived from financial access and tapping these disadvantaged sections becomes a major challenge for the financial institutions. Accessibility to financial services at rural level depends upon the service delivery channels, identifying new strategic alliances for service delivery at rural level at lower cost will facilitate in higher financial outreach.

Theory of SHG in Indian Context

Microfinance is evolving as an influential instrument for poverty alleviation. In India, Microfinance is dominated by Self Help Group as a cost effective mechanism for rendering financial services to the financially excluded which has been successful in meeting their financial needs of the rural poor women but also building voluntary collective groups for mutual benefit. SHGs play an important role in harnessing the economic growth and development of the nation, this concept has been in existence since last two decades. Bangladesh is the pioneer in the area of microfinance. Dr. Mehmud Yunus was the initiator of “Grameen Bank” a microfinance institutions for providing loans to landless poor and for promoting self-employment.

In India SHG was first emerged by Mysore Resettlement and Area Development Agencies in 1985. Parthasarathy [2] indicates MYRADA pointed out that SHG movement does not focus on the provision of credit rather it focuses on the management of savings and credit, the experience of managing finance that gives poor people the confidence and skill to initiate and manage change in society however social challenges create hurdle for the growth and functioning of SHG. India’s National Bank for Agricultural and Rural Development (NABARD) steered the concept of self-help group with 500 groups though SHG movement has witnessed tremendous growth that brought about one of the world’s largest and fastest-growing networks for micro-finance however operational restructuring and transparency is vital for rendering it fruitful. In the 8th Five Year Plan, NABARD identified SHG use of possible microfinance sources as ‘underdeveloped’ and from 1992 it began to specifically promote more extensive links between SHGs and a more diverse set of formal credit sources based on access to mainstream bank institutions. SHG accounts were now also placed in commercial banks. This became the SHG-Bank Linkage Program. In 1993, the Reserve Bank of India (RBI) allowed SHGs to open saving accounts in banks and avail the banking services and it was the major boost to the movement.

The self-help group (SHG) approach is a new paradigm into the field of rural development which main objectives are to increase the well-being of the poor people, provide access to resources and credit, increase self-confidence, self-esteem and increase their creditability in all aspects of lives. Das Gupta [3] confers the self-help group as a voluntary and self-managed group of, belonging to similar socio-economic characteristics, who come together to promote savings among themselves.
Most of the SHGs are women run voluntary organisation which focuses on the empowerment and upliftment in the status of women from the rural areas. For poverty alleviation and empowering the rural household’s micro financial institutions have become indispensable, since 1987 Credit Management Groups has been promoted by Mysore Resettlement and Development Agency (MYRADA) aiming to achieve financial inclusion.

In the year 1991-92 NABARD started the SHG Linkage program was the real take off point for the SHG movement in India. India has three different types of SHG linkage models but in India namely SHG formed by NGO and financed by banks, Banks themselves form SHGs and finance them and Banks finance SHGs with NGOs and other agencies as financial intermediaries, the first type of SHGs are more predominant in India howsoever the second model can be a viable model for inclusive growth. The self-help group bank linkage conception was derived for mutual benefit, social upliftment and to promote the habit of thrift amongst rural households. Initially SHGs were not futile neither they were profitable nor could reach out to the poorest. Conversely there has been a significant growth in the SHGs which is evidenced from Table 2.

### Table 2: Region wise Savings and Loan outstanding for SHGs.

<table>
<thead>
<tr>
<th>Region</th>
<th>Savings per SHG (Crores)</th>
<th>Loans outstanding (Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>Northern</td>
<td>6175</td>
<td>7810</td>
</tr>
<tr>
<td>North Eastern</td>
<td>4196</td>
<td>4017</td>
</tr>
<tr>
<td>Eastern</td>
<td>5827</td>
<td>9471</td>
</tr>
<tr>
<td>Central Region</td>
<td>7549</td>
<td>8889</td>
</tr>
<tr>
<td>Western</td>
<td>8210</td>
<td>7680</td>
</tr>
<tr>
<td>Southern</td>
<td>10080</td>
<td>14352</td>
</tr>
</tbody>
</table>

Source: NABARD & RBI Database

Average savings and loan outstanding were higher for southern region and steady growth rate was witnessed for other regions however the north eastern region has shown a decline in the savings and loan outstanding for SHG. The table is indicative the thrust was on savings and credit; however access to other financial products by rural households was still outside the ambit of the SHG.

### Issues in Self Help Group Bank Linkage Program

SHGs at a local level leveraged on the available infrastructure to create appropriate entrepreneurial activities, it has become a way by which greater access to credit has been extended into poor rural areas supplementary it is an approach through which banks have extended their operations to newer markets and processes in rural India. SHG can be an effective service delivery channel for banks for reaching out the financially excluded sections of the society. The presence of SHG at each village level is self-explanatory of its network and about the existence of financial necessities at the
rural level. Self-Help groups find their financial resources inadequate due to their lower saving capacities while on the other hand; profitable investments are limited by social restrictions and lack of marketable skills amongst group members. In order to help groups to grow in terms of volume and socio-economic development peripheral help becomes indispensable. Sharma [4] in his study discussed the role of self helps groups in the development of the tribal people study indicated that self-help groups have a flexibility of approach and working, but they have failed to develop a work culture. Kulshrestha [5] points out that the lack of capital is a serious constraint to the development of rural women. Often, the barriers like legal provisions, loan policies and procedures make credit inaccessible to women at a rural level. Kumar [6] states that SHGs are mostly homogeneous in terms of their socio-economic background; the savings level was reasonably satisfactory, irregularity in repayment of loan, adherence to the norms set by the group and lack of mutual trust among group members were common reasons for defunct SHGs. Das Lipishree [7] research indicates rise in the rural credit through microfinance however there exists need for improved governance. Study by Basu et al. advocates that micro credit for entrepreneurship is essential however along with the credit for enterprise development provision of support services ensures overall growth of the enterprise which has been overlooked by banks.

Traditional efforts by Non-Government organizations to reach poor clients were unsustainable.

**Necessity for Alternate Channel for Financial Service Delivery**

The prime objective of commercial banks was to narrow down the gap between the demand and supply side for financial products however banks have not yet been able to cater entirely to the ever changing financial requirements of diversified customers as penetration of financial services in rural areas is low further there exists mismatch between financial product offerings by banks in terms of savings, insurance, payments and remittances as demanded by rural population. Major challenge faced by banks was reaching the remotest corner of the nation for provision of financial necessities, thus need arises for identifying a low cost service delivery channel that will offer the possibility of massive outreach to people in locations that remain underserved.

SHGs are an effective credit delivery channel for mid segments however there exist inadequacies on the operational front such as lack of adequate transparency in the maintenance of books of accounts, standardization of processes, technological infrastructure, financial training and capacity building. Banking sector in India had been instrumental in bringing about growth and prosperity of the economy since 1969; tremendous changes have taken place in the banking industry. However there still exists a large segment from the formal banking sector thus SHG was identified as a plank for delivering financial services to the poor in a sustainable manner however these groups are capital scarce, labour surplus by and large bereft of proper knowledge as well as management skill, at the same time it also remains a fact that rural areas do throw ample opportunities for micro enterprises by making use of untapped manpower resources, available raw material of various forms, and existing market channels.
Sharma [4], through cross country empirical study examined a close relationship between financial inclusion and development [8]. Further, the study found a positive relation between financial inclusion and different socio-economic variables like income, inequality, literacy, physical infrastructures.

RESEARCH OBJECTIVES AND METHODOLOGY

Research paper emphasizes on the collaborative arrangements and innovative practices between SHGs and MFIs that may assist banks for reaching out to the secluded group. The research aims in identifying new practices for leveraging the Self Help Group Linkage Model. The study is limited to public sector banks collaborations. The basic framework of the study is dependent on literature based on the self-help linkage model; the paper intends to recommend a revised proposition strategy of the suggested model to expedite financial inclusion and overcome the shortfalls of SHGs [9,10]. Strategic alliances and development partnerships can be used to scale up the access of rural households and micro-businesses to financial services. The study is considered at two approaches first approach discusses how scaling up the access to financial services at rural level through strategic alliances and second approach discusses the probable benefits anticipated from the proposed extended model of SHG Bank Linkage program to all its stakeholders.

Proposed Model for Collaborative Arrangements

The proposed model is an extension of Self Help Linkage Program; it focuses on the decentralization of the activities undertaken by SHG Linkage Program. Initially public sector banks to collaborate with SHGs and MFIs for financial intermediation at grass root level subsequently cascaded to private sector and cooperative banks. SHGs will function as financial intermediary for retail bank products such as savings, micro credit, micro insurance, payments and remittances facility; they will also act as business correspondent and financial literacy centers [11]. SHG will be an intermediary facilitating financial outreach and will be the liasioning agent between the banks and customers for micro credit, micro insurance, payments and remittances, all procedural compliances will be at bank level.

MFIs role will encompass entrepreneurial finance, advisory and project finance, their main emphasis will be promoting entrepreneurship at rural level. Decentralization of activities will enable the specific entities to concentrate in specialized areas whereby enabling in identifying the specific financial demand of the rural households.

Model Proposition for SHG Bank Linkage Program

The base model of SHG Bank Linkage has been used for the construct of the proposed model. The existing model focused only on savings and credit, other financial services were external to the purview of rural finance [12]. The model proposition is based on two tier system, where tier one will be SHGs as the service delivery partner for retail bank products/services and also as act as financial literacy/counselling centers and
business correspondents which will facilitate in retail product penetration and financial awareness amongst the rural households further it will reduce the operational cost for the banks, only thrust area will be providing training to the SHGs on the retail products. SHGs will be the act as institutional agent between bank and rural customer's however efficacy of financial and technological training by banks to SHGs will determine the success of this model (Figure 1).

Figure 1: Proposed Extended Model of SHG Bank Linkage Program.

Tier two focuses on project and entrepreneurship finance to be routed through MFIs, which will act as specialized agency for start-ups at rural level [13]. Plunge is on increasing the accountability at the rural levels through increased participation of SHG/MFIs. Use of real time technology is the principal aspect that will ensure the viability of these propositions.

NABARD has recently launched a pilot project for the digitization of all self-help groups (SHGs) in two districts, viz., Ramgarh (Jharkhand) and Dhule (Maharashtra). Based on the encouraging results, the pilot project is being extended to cover another 22 districts across the country during 2016–17. SHGs can become low cost service delivery channels for banks for financial intermediation at the grass root level in India through technological interventions. Dissemination of financial product information to the SHGs on continual basis will equip them to understand the latest financial products and services. Operational standardization can be achieved through digitization enabling faster information processing of the beneficiaries further it will facilitate in promoting financial literacy at village level.

**Anticipated Paybacks from Digitization of SHGs**

The paybacks from the proposed model can be measured in term of six attributes which are decisive for sustainable business entities (Table 3).
Table 3: Anticipated Paybacks from Digitization of SH.

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Banks</th>
<th>Self Help Groups</th>
<th>Rural Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Centricity</td>
<td>Rural Market outreach</td>
<td>Increased number of beneficiaries</td>
<td>Easy accessibility of financial products and services</td>
</tr>
<tr>
<td>Technological Innovation</td>
<td>Digitization of financial training to SHGs</td>
<td>E learning financial centers</td>
<td>Access to Digital financial learning.</td>
</tr>
<tr>
<td>Cost Efficiency</td>
<td>Low cost Service Delivery Channel.</td>
<td>Standardization in operational procedures</td>
<td>Increased Accessibility of banking services</td>
</tr>
<tr>
<td>Market Penetration</td>
<td>Lowered training costs</td>
<td></td>
<td>Less dependency on informal financial sector</td>
</tr>
<tr>
<td>New Revenue Model</td>
<td>Cross selling of products</td>
<td>Higher Market visibility</td>
<td></td>
</tr>
<tr>
<td>Societal development</td>
<td>Increased customer life cycle</td>
<td>Role of Business correspondent/Financial counseling centers</td>
<td>Sustainable livelihood, Increased financial awareness</td>
</tr>
</tbody>
</table>

DISCUSSIONS AND FINDINGS

There is a skewed development of SHG programme in different States and regions. There is a need to evaluate State-wise gaps in data on SHG promotion and take corrective action to promote SHG linkage model. Demand and supply needs are to be assessed at micro level for building a sustainable SHG linkage model [14,15]. Proposed model ensures lower operational costs for banks and focused approach to secluded sections. Integrating technology, factoring, securitization and refinancing facilities to SHGs and MFIs will lead to win-win situation for stakeholders. SHGs as an intermediary between banks and rural households will marginalize the gap in demand and supply of rural financial services.

The financially excluded sections require products which are customized to meet their needs which are driven by their demographic characteristics. Heterogeneity in the demand of financial products can be identified at grass root level by SHG facilitating banks in designing tailor made products and services.

Rural households need a range of financial services, such as maintenance of their earned income with assured return, credit to maintain their liquidity and short term financial needs throughout the year, insurance for safeguarding their property and life and payments/remittances to their family [16]. Financial awareness drives should also contemplate on creating of assets out of the small incomes for their economic and social upliftment. The second part of the model focuses on the role of other micro financial institutions for promoting and nurturing entrepreneurship for sustained livelihood.
MFI entrusted with only provision of entrepreneurial finance will empower in building new ventures at village level alleviating unemployment and poverty. Linkage of SHGs/MFIs with developmental agencies/financial institutions for concessional finance at macro level will deliver cheaper finance to rural household ensuring sustainable livelihood, financial independence and security. SHG Linkage Model and MFIs can be effective mechanism for financial outreach in rural areas if focused on explicit products and services based on demographics rather than a blanket approach implemented by banks for all the retail bank customers [17]. MFIs in collaborations with other agencies should provide services such as organizational building, consultancy and advisory at the various stages of the entrepreneurial ventures ensuring its survival and sustenance in addition to its credit facility which in turn will empower in building customer loyalty for the banks.

As an innovative credit channel, the Self Help Group (SHG) approach was introduced in 1992, to link poor people with bank credit, restructuring of the existing model and incorporating other financial services will result into enhanced financial awareness about banking products and services further decreasing the dependency on the informal sector for the financial needs. SHGs can be viewed as a cost effective, scalable and sustainable tool for financial inclusion in India. Eventually, the financial inclusion progression needs to be sustainable bringing in sustained business viability for the financial providers and assured livelihoods for the households. The future scope of research lies in designing a roadmap for the implementation of the proposed model for assuring its viability and sustainability.

REFERENCES