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Self Help Group – A Panacea for Financial Inclusiveness

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Abstract

Rapid and sustained poverty requires inclusive growth that allows people to contribute to and benefit from economis growth. Rapid pace of growht is unquestionably necessary for substanitial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country's labour force, In this content it is interesting to note to school of thoughts- OECD Development Assistance Committee's pro-Poor approach' which is mainly interested in the welfare of the poor. India has an extensive network of banking systems and it will need to find ways to bring improvements within the existing financial credit delivery mechanisms and evolve new models for extending their outreach instead of promoting parallel systyms of financial delivery. Financial literacy is the key for financial inclusion but it is weak particularly among rural population. There is a need to simultaneously focus on the financial literacy besides the delivery and access.Significant investment from various players such as banks, governments, NGOs and academia has to be made. SHGs have proved to be a sound platform to educate their members on financial parameters.

1. INTRODUCTION

Economic growth is the most effective way to reduce poverty, This is an irrefutable and unalloyed truth. Due to interplay of multitude of factors, the benefits of economic growht are not encompassing each economic strata oof the society. Those who require it more are grnerally the maximum suffers of economic proflieration. The void between the Have's and have-not's widens;l leaving a trail of clusters of people in persistent poverty.

Rapid and sustained poverty requires inclusive growth that allows people to contribute to and benefit from economis growth. Rapid pace of growht is unquestionably necessary for substanitial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country's labour force, In this content it is interesting to note to school of thoughts- OECD Development Assistance Committee's pro-Poor approach' which is mainly interested in the welfare of the poor. The World Bank, however, propounds the concept of 'inclusive growth' which is concerned with opportunities for the majority of the laboru force, poor and middle- class alike. The findings of World Bank Committee on strategies for Sustained Growth and inclusive Development (Commission on Growth and Development, 2008) notes that inclusiveness – a concept that encompasses equity and equality of opportunity – is an essential ingredient of any successful growth strategy. The systematic inequality of opportunity "toxic" as it will derail the growth process through political channels or conflict.

The Planning Commission in its 11th Five year plan notes that ' The vision of inclusiveness must go beyond the traditional objective of poverty alleviation to encompass equality of opportunity, as well as economic and social mobillity for all sections of society, with affirmative action for SCs, STs, OBCs, minorities and women, There must be equality of opportunity to all with freedom and dignity, and without social or political obstacles. This must be accompanied by an improvement in the opportunities ofr economic and social advancement. In particular, indilviduals belonging to disadvantaged groups should be provided special opportunities to develop their skills and participate in growth process. The strategy for inclusive growth must be not just a conventional strategy for growth to which some elements aimed at inclusion have been added. It is a strategy which aims at achiveving a particular type of growth process which will meet the objectives of inclusiveness and sustainablility. This strategy must be based on sound macroeconomic policies which establish the macroeconomics preconditions for rapid growth and support key drivers of this growth. It must also include sector- specific policies which willl ensure that the structure of growth that is generate, and the institutional enveronment in which it occurs, achieves the objective of inclusiveness in all its many dimensions.

Access to finance by the poor and vulnerable groups in a prerequilsite for poverty reduction and social cohesion. This must be the integral part of governmental efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial inclusion denotes delivery of financial services at an affordable cost to the vast sections of7 the disadvantaged and low- income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial systen 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.

A major causes of poverty among rural people in India in the lack of access for both individuals and communities to productive assets and financial resources. High levels of illiteracy, inadequate health care and edtremely limited access to social services are common among poor rural people. Financial inclusion offers incremental and complementary solutions to tackle poverty, to promote inclusive development. Vast sections of the society continue remain away from formal financial systems. They are basically the underprivileged sections of the society, i.e.m farmaers, small vendors, agricultural or industrial labourers, people engaged in unorganised sectors, unemployed people, women, chidren, old people, and the physically challenged.

Rangarajan's committee on financial inclusion defines it as : "Financial inclusioin may be defined as the process of ensuring access to financial services and timely and adequeate credit where needed by vulnerable groups surh as weaker sections and low income groups at an attordable cost."

The financial services include the entire gamut- savings, loans, insurance, credit, payments etc. The financial system has to provide its funciton of transferring resources from surplus to deficit units but both deficit and surplus units are those with low incomes, poor background etc.

2. RATIONALE FOR FINANCIAL INCLUSION

Dr. Vijay Kelkar, Chairman, Finance Commission in NP Sen Memorial Lecture at Hyderabad (dated 13/0/08) said financial inclusion is a quasi- public good as ' consequent to fuller participation by all in the financial systen makes monetary policy more effective and thus enhances the prospects of non- inflationary growth.

3. FINANCIALL INCLUSIOIN IN INDIA– POLICY PERSPECTIVE

Financial Inclusion has become a buzzword now but in India it has been practiced for quite some time now. RBI has made efforts to make commercial banks open branches in rural areas. Priority sector lending was instituted to provide loans to small and medium enterprises and agricultural sector. Further special banks were set up for rural areas like Rural Cooperative Banks, Regional Rural banks. The governement also set up national level instituions like NABARD,SIDBI to empower credit to rural and small and medium enterprises. Despite the rural policy- push, above staistics, suggest majority of the population continues to be financially excluded.

For decades, the Government fo India and the Reserve Bank of India have been taking measures to tackle the issur of financial exclusion. One of the prime aims of the cooperative movement was bringing financial inclusion. The setting up of the State Bank of India in 1956, the nationalisation of banks, the introduction of the Lead Bank Scheme, establishing reginal rural banks, evaluation of the service area approach, and formation of self-help groups were all steps taken to take banking services to the general masses. But despite such measures, only 10 Per cent of the population has access to institutional credit systems. Quite a bit of experimentation has happened across the country and mulitple stakeholders such as the Reserve Bank of India, NABARD, commercial banks and NGOs have tried to contribute in their own ways.

Self-Help Groups (SHGs) in India have proved their effectiveness in building relationship between the formal financial systems and the poor people. However, the contributions of SHGs towards financial inclusion have not appropriately been recognized. SHGs are economic organisation. Small funds are raised for day today needs. The saving groups when transformed to earning groups not only increase the productivity of women but the credibility also.

4. BENEFITS OF SHGS

(a) Sustainable access to financial services

(b) Stronger livelihood support systems

(c) Enhancement of collective bargaining power

(d) Self- reliance and sense of dignity

(e) Improvement in overall standard of living and empowerment

(f) Doorse are wide open to women to understand and gain knowledge about Banking, Gram Panchayats, Zilla parishad, Law and Judiciary etc.

(g) As economical solutions are available, the family structure is maintained.

(h) SHG is a good way to stop the exploitation of consumers.

(i) Broadening of view is a major gain. The ascending order of family, group, village, Tahsil. Zilla, Zone, State, Nation, World, makes the vision global.

(j) Development of self- confidence is achieved.

(k) A common platform is available for a dialogue and sharing of views.

5. APPROACHES OF SHGS

Two broad approaches charcterize the microfinance sector in India: SHG- Bank linkage (SBL) and Micorfinance Instituions (MFI). The SBL is larger model and isunique to India; the MFI model is more established internationally. In establishing a strong relationship between the organised financial system, like commercial banks, and those people who need credit, the SHG-Bank linkage scheme in of extreme importance. Self- help groups have become a very established institution in our country.

The SBL approach dates from the NABARD initiated pilot of 500 SHGs in 1992. NABARD has a key role to play in initiating and nurturing India's unique SBL propramme. It was largely responsible for the RBL including linkage banking as a mainstream activity of banks under " priority sector" lender in 1996. NABARD's work with its partner NGOs also led to the government according "national preority" to the programme in the union budget of 1999. Beginning as pilot in 1992 with 500 SHGs by March 2006, over 22 lakhs SHGs had been provided with bank loans.

While the MFIs are growing faster in terms of outreach and volulme, there is a pertinent argument not to create any new institions for providing credit to the excluded, but to enable the existing institions to extend their outreach. What is required is not be create any new institution for providing credit to the excluded, but to enable the existing institutions to extend their outreach. There is a need to find ways and means to effect improvements within the existing financial credit delivery mechanism and evolve new models for extending their outreach.

India has an extensive network of banking systems and it will need to find ways to bring improvements within the existing financial credit delivery mechanisms and evolve new models for extending their outreach instead of promoting parallel systyms of financial delivery. As far as the banks are conerned, two pillars which will help the organized banking system to widen its outreach is the strengthening of the SHG- bank linkage scheme and the strenghthening of the business correspondent models. The potential needs to be duly recognized as strategy to achieve financial inclusion. SHGs account in the bank shouk be treated as account for the entire individuals . Even though the individual members may not have direct account with the bank, the groups have the account representing the memberd. The SHG- bank linkage programme therefore needs to be taken as a part of the financial inclusion process since it brings to the formal banking fold the excluded category of poor segments of societes who are not able to access banking services individurally.

The SHG- bank linkage not only create impact in the lives of the poor household but also enhance the business viability of the banks. Business viability of lending to the SHGs has been well demonstrated and SHG-bank linkage is no more a charitable activity. It si also argued that the banks will not survive the new competitive envirmnment of the banking industry, unless they strengthen their bond with their federrations. Hence, if bank feels that this will becomes a profitable business in future, it should be first prepared to invest in this business. Federations play a major role in financial inclusion in terms of product develoment, professional management, facilitating linkages, sustaining relationship with the banks, providing financial literacy to the members, monitoring the portolio, etc. In this backrop, the role of SHG fedenrations needs to be recognized toward achieving the goal financial inclusion.

6. CONCLUSION

Financial literacy is the key for financial inclusion but it is weak particularly among rural population. There is a need to simultaneously focus on the financial literacy besides the delivery and access.Significant investment from various players such as banks, governments, NGOs and academia has to be made. SHGs have proved to be a sound platform to educate their members on financial parameters. Ther straegies by the governments and banks for financial literacy need to include SHGs also. The SHG federations could take up the role of Financial Literacy and Counseling Centres (FLCC). Along with financial literacy, vocational skill building for the SHG members is fo vital importance and due attention needs to given on this. There exist regional imbalances in the spread of SHGs in India. There is a concern about SHG model that is has not penetrated in the most backward states like Orissa, Bihar, Chhattisgarh, Jharkhand, Madhya pradesh, Rajasthan, Uttar pradesh etc. However, it has been proved that the SHG model works in all the regions and contexts. Investments have to be made to take the SHG model of microfinance to the unreached areas. Governement. NGOs and donor agencies have to play an active role in SHGs.

SHGs are like locally run banks in rural areas. Thanks to the capacity building initiatives by the promoting agencies, these groups have developed basic financial managenment systems to handlu the financial transactions at local level. Certain SHG programmes have expericence of integrating technology applications like computerization of accounting and MIS (Vasimalai and Narender,2007). A serious observation on business correspondence (BC) model of banking is that the majority of no-frill accounts opened by BC are non- operational. It is said that retaining customers after initial transactions proves to be a big challenge (Reserve Bank of India, 2009). Given this situation, SHGs and their federations have greater poterntial to implement the BC model. Pilots need to be undertaken on implementing BCs through SHG federations to standardize systems and processes.

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