

# Role of Microfinance in Financial Inclusion Concerning Through Self Help Groups

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## Abstract

The development of the Indian economy is correlated with the development of its human assets. An ultimate solution for the growth of manpower is a difficult task. But finance can resolve this problem. As a problem solver Microfinance (MF) in India has played a significant role in this regard. Microfinance has in a lot of ways facilitated India to achieve a target of reduction in inequality of income and wealth. Microfinance has led to the growth and development of the financially weaker section of the economy. Some growth generating factors have been analysed in this paper (study period) especially SHG's. The self-help group is one such medium of microfinance through which finance facility is obtained in the form of small loans. The main object of this paper is to analyze the growth of microfinance in financial inclusion especially through SHG's. The major findings and recommendations of this paper are encouraged in rural penetration and field supervision of self-help groups on large scale.

**Keywords:** Microfinance, Self-Help Groups, Financial Inclusion, Inclusive Growth, Financial Literacy, NABARD.

## Introduction

The concept of microfinance is not new but its gradual rise as a famous poverty alleviation tool may be respectively new to nearly every one of us. Informal credit and savings institutions for the poor have been working for many decades for those who were usually neglected due to the development of financial institutions, credit through the co-operatives, and commercial banks. Micro Credit originated the giving of small loans to rural poor through self-help groups, nongovt. the organization, and microfinance institutions.

The Self-Help Group's movement is the fastest-growing microfinance program in India. Self-help groups are economically homogeneous and small affinity groups of the voluntarily rural poor coming collectively:

1. To save a small amount on a regular basis.
2. To mutually agree to contribute to a common foundation.
3. To meet their emergency needs
4. To increase financial knowledge
5. To learn how to access financial decisions
6. To crack conflicts through collective leadership and mutual discussion.
7. To supply collateral-free loans on terms decided by the group.

Financial Inclusion is the delivery of basic banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. It includes access to a formal financial system such as financial institutions, markets, and instruments, like savings, loans, remittances, and insurance services, at affordable prices. Financial Inclusion can be thought exclusion from the payments system like not having access to a bank account and exclusion is from formal credit markets. Access to formal banking services has been available through the use of intermediaries such as Self Help Groups (SHGs) and Microfinance Institutions (MFIs). National Bank for Agriculture and Rural Development (NABARD) promotes and nurtures these groups. The policymakers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for the most important pressing needs-

1. Stop gaps and leaks in public subsidies and welfare programs – A considerable sum of money that is meant for the poorest of poor do

2. not reach them. All these efforts require an efficient and affordable banking system that can reach out to all. Therefore, there has been a push for financial inclusion.
3. Creating the habit to save money in formal banking system.
4. To boosted capital formation in Indian economy through banking facility.
5. The unbanked population has been vulnerably dependent on informal channels of credit like family, friends, and moneylenders. The availability of sufficient and transparent credit from banking channels shall allow the entrepreneurial spirit of the masses.

#### **Objectives of The Study**

1. To analyze the impact of Micro Finance in the growth of the nation through self-help-groups (SHGs)-bank linkage program with support from the largest financial institution viz. NABARD.
2. To recognize the impact of self-help group's on the saving habits of beneficiaries.

#### **Review of Literature**

Bilal Bilgin (2018) worked on the topic "Microfinance –Evolution, and Microfinance- growth in India" and analyzed the Microfinance –evolution, and Microfinance growth in India. It stated that Microfinance uplifts and improves the living condition and status of the poor especially in rural areas of India. The microfinance industry is growing and evolving with time and can lead to large financial benefits to our country. It is a very tool to achieve financial inclusion in India and poor households of the nation including services of saving accounts, transfer of money, insurance facilities, and loan facilities.

Audil Rashid Khaki, Mohi-ud-Din Sangmi (2018) in their work on "Microfinance and Self - Help Groups: An Empirical Study" studied the efforts in the field of microfinance in the district of Anantnag by SHG-Bank Linkage program And it was found that it has made a significant impact on the of microfinance in India of the SHG members of that area or region. This contribution was seen in terms of raised income and savings levels, better housing facilities, sanitation levels, educational improvements, employment generation, and better health facilities.

Sandhya P.S, Sri Ranjini S.(2018), in her work "The Impact of Microfinance through Self Help Groups (SHG): A Study of the Economic Status of Urban Women Working in Production and Manufacturing Industries in Mysuru District" the authors in the study concluded that women of the poor section are helped financially by self-help groups by providing credits. This has increased the savings of women in poor areas. The respondents' responses showed that the business of small scales has increased which made them independent economically and raised their income. Microfinance leads to the success of microenterprises. All this has to lead to raised living standards and the number of self-generating activities has come up. The living conditions of rural women have shown improvements after being associated with self-help groups. Thus, changes in the social and economic status have been seen in women through self-help groups.

Alka Mittal (2016) in her work on "Current Scenario of Microfinance Industry in India" highlighted and focused the position and status of microfinance in India. It was concluded that the microfinance industry is a significant and effective tool for uplifting the living condition and status of the poor people but it is still not so much sufficient in India. Though the potential of the Microfinance Industry in India is very high and is expected to expand on high speed in the country. The microfinance Industry of India is taken to be one of the largest microfinance industries in the world. It can provide help to the poorest sections of our country.

Asha Bhatia, Ankit Agarwal (2016) in their work on the subject "A Contemporary Study of Microfinance- A Study of India's Underprivileged", concluded that microfinance is much needed in the present times. It can help to fight against the problems of poverty in our country. Microfinance can also be a great relief in raising the living standard of our country's people. Not only has this, but the facility of microfinance also helped in providing employment and financial inclusion in the nation. Thus, is the most efficient and powerful tool available to us for development and growth?

#### **Research Methodology**

The paper uses an exploratory research technique based on past literature from respective journals, reports, newspapers, and magazines covering a wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is descriptive in nature. Available secondary data was extensively used for the study. Secondary data is used which is collected from various annual reports of NABARD.

#### **Impact of Micro Finance in Growth Through Self Help Group Bank Linkage Program**

The SHG Bank Linkage programme (SHG-BLP), launched in 1992 as a pilot project. SBLP has grown in reach and fold to become the worlds' largest community based micro finance program. SBLP covering nearly 12.40 crore households as on 31 March 2020. SBLP programs providing financial empowerment to the rural poor. Financial empowerment providing poor and rural people socially and economically empowered. Micro finance initiatives have played a major role in making credit accessible. As per the Global Findex Database 2017 of World Bank, India's gender gap in financial inclusion was reduced by 14 percentage points in three years. It decline from 20% in 2014 to 6% in 2017. This gender gap may get further declined as there was a net addition of 2.3 lakh savings linked SHGs during 2019-20. Table-1 shows that 2017 to 2020 Self Help Groups are improving their condition year by year. According to the data south region condition is better than the other region, But North Region and North Eastern Region lag behind the rest of the region. South region has the highest number of SHG 36, 89,236, and the highest saving amount 1470084.74 in the entire region.

**Table-1 Region-wise progress of saving Linked SHGs with Banks (2017-18 to 2019-20)**

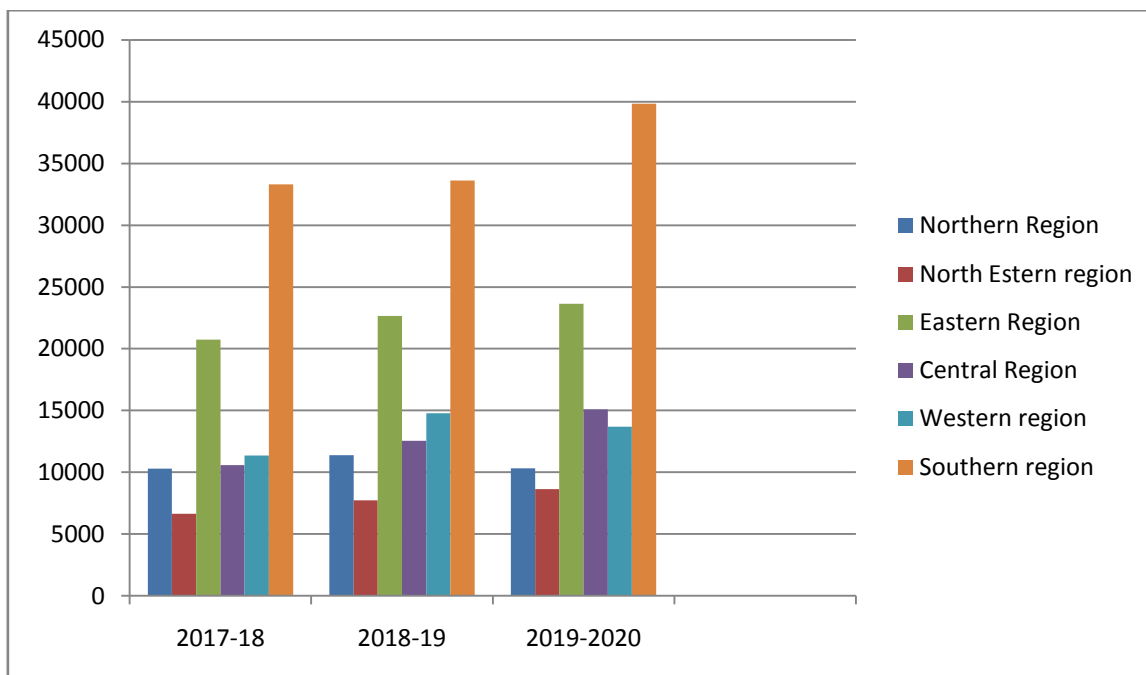
S. No.	Region	2017-18		2018-19		2019-20	
		No. of SHG	Saving amount	No. of SHG	Saving amount	No. of SHG	Saving amount
A	Northern region	478883	49293.91	548624	62452.82	577122	59549.73
B	North eastern region	485591	32207.59	523469	40407.50	556899	4814.55
C	Eastern region	2130997	441803.18	2654358	601151.88	2811130	664332.73
D	Central region	902222	95385.11	1062759	1333230.00	1135083	171217
E	Western region	1097448	124694.93	1388615	205275.15	1473853	201880.14
F	South region	3649296	1215826.80	3836418	1289928.25	3689236	1470084.74
	TOTAL	8744437	1959211.52	10014243	2332448.15	10243323	2615204.89

Source- NABARD annual report

**Impact of Self Help Group's on Saving Habit**

Effortlessly saving savings will change the situation of women. Individuals are also prepared for adverse conditions from saving habits. SHG Bank Linkage program is an effective contribution in economic upliftment and financial inclusion is must for those who at the bottom of the pyramid. A proven platform initially conceived for increasing the outreach of banking services among the poor has since graduated to a program for the promotion of

livelihoods and poverty alleviation. All major parameters like the increment in saving amount through SHGs with savings bank accounts. Increasing savings have shown positive growth during the past three years (Grap-2). The below graph shows the region-wise per self-help group saving habit. According to the data southern region is increasing which is a good signal of saving habit. If the saving habit will increase so the socio-economic condition of beneficiaries will increase.



Source: NABARD Annual Report

**Challenges Faced By Self Help Groups**

1. Risk of fraud - In the old self help group, money is safe because their honor does not allow them to manipulate it. But the risk remains in the new self-help groups.
2. Lack of capital- There is a possibility of sinking money in the self-help group because of shortage of capital.
3. Lack of management skills is the basic and big issue in self help groups they may manage the group efficiency when the group size is small.
4. Another problem faced by the self-help groups is limited financial strength which creates the problem to borrow the fund from outside.
5. Members of the self-help groups are mostly illiterate and less qualified, due to which they are lacking of starting the business and proceed it further. This shows that members of self-help groups do not have professional knowledge.
6. Marketing is important to sale there product and SHGs are lacking in marketing because this is very difficult for financially weak self-help groups to spend money on marketing.

**Findings and Recommendations:**

1. Encourage rural penetration: Encouraging MFIs for opening new branches in areas of low microfinance penetration by providing financial assistance it will increase the outreach of the microfinance in the state. This will also increase rural penetration of microfinance in the state.
2. Proper rules and regulation- It is important to make rules and law for self help groups so that any kind of risk can be avoided.
3. Supervision of field: Field visits (self help groups meetings) can be adopted as a medium for monitoring the conditions on the ground and initiating corrective action if needed.
4. Interest rates analysis: It has been observed that, Micro Finance Institutions are applying different patterns of charging interest rates and few SHGs are also charging additional charges and interest-free deposits.
5. Reduce Operating Cost by using Technology: Micro finance Institutions should use new technologies and IT tools & applications to reduce their operating costs.
6. Micro Finance Institutions are acting as a substitute to banks in areas where people don't have access to banks, providing a complete range of products will enable the poor to availability of all services.
7. In absence of adequate funds the growth and the reach of MFIs become restricted and to overcome this problem MFIs should look for other sources for funding their loan portfolio.

**Conclusion**

Financial inclusion is an important step to provide all facility directly to the beneficiaries. For that reserve bank of India, Government, political will and bureaucratic make sure do some important steps for unbanked masses. SHGs contribute to solving the problems of inadequate housing and urban services as an integral part of poverty alleviation programs. 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 an unbearably high cost of monitoring its end-use upon the lenders. A promising solution is to provide the multipurpose loan or composite credit for income generation, housing

improvement, and consumption support. Consumption loan is found to be especially important during the gestation period between commencing a new economic activity and deriving positive income. "Fortune at the bottom of the pyramid."

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