

# Financial Inclusion through SHGs: A Case Study of Narnaul Block in Haryana

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**Abstract:** This paper focuses on financial inclusion which may be through Self-Help Groups (SHGs). People may be financially included through Commercial Banks, Regional Rural Banks (RRBs), Insurance services, Post Office Saving Banks (POSB). SHGs linkage programme is one of several alternative channels of financial inclusion. In the rural area, large number of population does not have bank account, insurance schemes and other financial services. Thus, there is need of inclusive financial system that will facilitate financial services efficiently to financially excluded people at affordable cost. In this paper, a case study is made especially for the rural women because women can play a vital role in global economic growth as well as men. The present study attempts to compare the human development indicators between Kerala and Haryana and tries to find out the financial condition of women members of SHGs (pre and post joining of Self Help Groups). It is tried to examine the financial literacy of women members of SHGs and to highlight the relationship between Financial Inclusion and Inclusive Democracy. This paper is based on primary survey which is conducted in Narnaul block's villages namely as Nashibpur and Shekpura in highly backward district Mahendergarh of south Haryana. A structured interview method of primary data collection is used to obtain the information and data on factor associated with financial literacy, financial inclusion, economic decisions, and participatory democracy. The result of survey shows no one member of groups have ATMs, Mobile banking, Net banking, and financial literacy. It is found that women's family income is very low, although 60 percent of them have got a job in mid-day meal in schools. These women could not take decision for domestic expenditure, but after joining the groups, they are able to expend money without any hesitations and restrictions of family. So it can be said that these women have improved their social and financial conditions after joining the SHGs.

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## Introduction

Financial Inclusion refers to a process of providing the financial products/services to weaker section of the society at affordable cost. Financial inclusion is delivery of financial services to poor people and low-income group at reasonable price. In other word, financial inclusion is access of safe, easy and affordable financial services to financially disadvantaged people. People may be financially included through Commercial Banks, Regional Rural Banks (RRBs), Insurance services, Post Office Saving Banks (POSB). Planning Commission (Government of India) has targeted the Faster Inclusive Growth in Twelfth Five Year Plan (2012-17)<sup>1</sup>. In order to achieve the inclusive growth, Government of India has launched several development and employment programmes such as MGNREGS, Development of Women and Children in Rural Areas (DWCRA), Swarnajayanti Gram Swarojgar Yojana (SGSY) especially for women development, National Rural Health Mission (NRHM) etc. Financial inclusion is one of the major areas, on which government is paying attention to achieve the inclusive growth. An inclusive financial system is necessary to reduce informal financial system where people borrow money from neighbours, relatives, and village money-lenders by paying high rate of interest. In the rural area, large number of population does not have bank account, insurance schemes and other financial services. Thus, there is need of inclusive financial system that will facilitate financial services efficiently to financially excluded people at affordable cost. The financial development and access to banking or financial services not only help out to accelerate the economic growth but also reduce income inequality and poverty<sup>2</sup>. Financial excluded individual/households cannot be expected for financial inclusion without inclusive financial system.

In the present era, financial inclusion has become a policy priority of the government. In India, RBI has taken a number of initiatives to achieve more financial inclusion viz. No-Frill Account, General Credit Card (GCC), Know Your Customers (KYCs) norms, Business Correspondence Model, Business Facilitators (BF) Model, and Bank Branches & ATMs expansion etc. The German Bankers' Association introduced a voluntary code in 1996, so that people can make basic financial transaction through this code. The South African Banking Association has introduced a low cost bank account for financial excluded people in 2004.

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<sup>1</sup> Approach Paper to 12<sup>th</sup> Five Year Plan, Planning Commission, Government of India.

<sup>2</sup>Sangwan (2007).

### **Financial Inclusion vs. Financial Exclusion**

In the earlier studies, a number of scholars have defined the financial inclusion and financial exclusion. *World Bank (2008)* considers financial inclusion as broad access to financial services implying an absence of price and non-price barriers in the use of financial services; it is difficult to define and measure because access has many dimensions. *Mandira Sarma and Jesim Pais (2008)* define financial inclusion as a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy. Financial inclusion usually refers to the delivery of banking services at an affordable cost to the vast sections of the disadvantaged and low-income groups (*Leeladhar, 2006*). *Carbo et al. (2005)*, have defined financial exclusion as broadly the inability (however occasioned) of some societal groups to access the financial system. *Leyshon and Thrift (1995)* define financial exclusion as referring to those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system. According to *Usha Thorat (2007)*, financial inclusion means the provision of affordable financial services, (viz. access to payments and remittance facilities, savings, loans and insurance services) by the formal financial system to those who tend to be excluded. After reviewing previous studies, it can be concluded that financial inclusion is to easily access to financial services by vulnerable groups or weaker sections of the society from formal financial system.

### **Historical Background of Financial Inclusion**

Financial inclusion is not a new concept. It emerged during the first decades of 20<sup>th</sup> century when cooperative movement took place for the first time in India. It is highlighted at time of nationalisation of 14 major commercial banks in India in 1969. Large number of bank branches was opened to include the people in formal financial system. Bangladeshi Economist and Nobel Laureate Prof. Muhammad Yunus Khan developed a Grameen Model and finally he named his model as Grameen Bank in late 1980 to provide loan to poor people of Bangladesh. The planning commission of India constituted a committee on financial inclusion in 2005. C. Rangarajan was chair person of this committee and the report of the committee was published in 2008. The Rangarajan committee defined Financial Inclusion is a process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income group at affordable cost. Many other eminent scholars highlighted the issue of financial inclusion and have done research on financial inclusion. *Sarma and Pais (2008)* examined the cross country empirical analysis of the relationship between financial inclusion and development. Index of financial inclusion developed by Mandira Sarma is used to identify the associated factors with financial inclusion. It was found out that index of human development and index of financial inclusion are strongly correlated except few factors and non-performing assets which are inversely associated with financial inclusion. It was also found that capital asset ratio is negatively associated with financial inclusion. *Ghosh (2007)* tried to examine the role of micro finance in improving the financial inclusion vulnerable groups of the society such as marginalized farmers, low income groups etc. The study used the time series data from 1991 to 2007 on selected variables like bank branches, financially excluded population and impact of SHGs linkages programme with banks. Data were obtained from various sources such as Hand Book of Statistics on Indian Economy, RBI and Economic Survey. In this study, he examined the problems of formal banking in providing micro credit to the poor of rural and urban areas in the present era and suggested that programs like Post Office Saving Banks (POSBs), SHGs and micro finance can be used to cater the financial needs of rural India. *Ganghaiah and Nagaraja (2009)* tried to examine the impact of Self-Help Groups on income and employment. They determined some objectives such as to include the savings and banking habits among members, to secure them from financial, technical and moral strengths, and to gain economic prosperity through loan/credit.

### **Self Help Group and Financial Inclusion**

The SHGs approach was introduced in 1992 to include the vulnerable groups such as poor people and low income group who were excluded from financial services and informal financial system. The SHG is a group of people belonging to same socio-economic conditions; they are associated for eradication of poverty. These people are often residing in same location. The SHGs make a common fund and open a group's bank account for doing a small business and to fulfil livelihood requirement of the groups. Women members of SHGs are encouraged to save amount of rupees within range of approximately Rs. 20 to Rs. 100 per month. Non-Government Organizations (NGOs), Regional Rural Banks (RRBs) are playing a vital role in promoting the SHGs in India. The government is monitoring and implementing several wage employment and economic developments such as Mahatma Gandhi National Rural Employment Scheme (MGNRES), Swarnjayanti Gram Swarajgar Yojana (SGSY) through District Rural Development Agencies (DRDA). SGSY was launched by the Union Ministry of Rural Development with effect from April 1, 1999 which was replaced Integrated Rural Development (IRDP) and its allied schemes. The main objectives of SGSY are to cover all aspects of self-employed activities such as SHGs and to provide financial assistance and subsidies to Below Poverty Line (BPL) families. Therefore, SGSY is making very key role in promoting the SHGs for greater access of financial inclusion. The SHGs have given a life-line to the women in villages for their social and economic development. Social and economic developments both are playing a significant role for the growth of women in society. The SHGs are playing very significant role in access to financial services by working women of groups. Women members of SHGs can get loan under the scheme of SGSY through DRDA.

### Rationale of Study

In this paper, a case study is made especially for the rural women because women can play a vital role in global economic growth as well as men. Women should be participated in economic activities, access to capital, markets and opportunities according to their talent. At the same time, women are at top such as in education, employments in prestigious posts, and decision making. According to chief economist of Department of State, USA, source of global economic growth is women<sup>3</sup>. In present case study, it is tried to find out that how women members of SHGs can improve their livelihood and can contribute in economic growth.

### Objectives of the Study

The present study attempts to achieve following objectives:

- To compare the human development indicators between Kerala and Haryana.
- To find out the financial condition of women members of SHGs (pre and post joining of Self Help Groups).
- To examine the financial literacy of women members of SHGs.
- To highlight the relationship between Financial Inclusion and Inclusive Democracy.

### Research Methodology

An innovative model is developed to make linkage between financial inclusion and inclusive democracy. The model highlights that how financial inclusion can achieve the inclusive democracy? In this model, it is tried to achieve inclusive democracy through financial inclusion. On the other hand, the primary survey is conducted in the present study in order to fulfil above mentioned objectives. A structured interview method of primary data collection is used to obtain the information and data on factor associated with financial literacy, financial inclusion, economic decisions, and participatory democracy. A structured interview method of data collection is a very vibrant technique for statistical collection and quantitative as well as qualitative research. Five SHGs are randomly selected from Narnaul block of Mahendergarh district in Haryana for obtaining the quantitative as well as qualitative information. The pradhan members of the SHGs are selected from each group. Some questions were asked from the members of SHGs on financial literacy and pre & post financial condition of women members of SHGs.

### Human Development Indicators

**Table 1: Comparison of Human Development Indicators between Haryana and Kerala**

States	Index of Financial Inclusion (IFI)	HDI Rank	Population Density	Literacy Rate (percent)	Life Expectancy Rate (years)	Infant Mortality Rate
Haryana	0.32 (10 <sup>th</sup> )	.552 (9 <sup>th</sup> )	25353081 (573)	76.64	66.2	48
Kerala	0.54 (1 <sup>st</sup> )	.790 (1 <sup>st</sup> )	33387677 (819)	93.91	74.0	13
India	-	.547 (134)	1210193422 (382)	74.04	63.5	48

Data compiled by author which are collected from different sources:

- Source: 1. India Human Development Report 2011: Towards Social Inclusion  
 2. Human Development Report, UNDP 2011<sup>4</sup>  
 3. Census 2011  
 4. WPS (DEPR): 8/2011, RBI Working Paper Series

Note: Figures in parentheses show ranking.

Today, microfinance is covering the unbanked area and disadvantaged sections of the society. Microfinance is playing a pro-active role in south region of India. But MFIs has a biggest drawback of providing credit on higher rate of interest vis.

<sup>3</sup> Speech by the chief Economist, Department of United State of America on May 10, 2012 in George C. Marshall Auditorium on the occasion of the launch of the OECD Development Center's 2012 Social Institutions and Gender Index (SIGI).

<sup>4</sup> Human Development Report, UNDP 2011, Retrieved on May 11, 2012 from online link [http://hdr.undp.org/en/media/HDR\\_2011\\_EN\\_Table1.pdf](http://hdr.undp.org/en/media/HDR_2011_EN_Table1.pdf)

30%, to 50% p.a. Recently, government of Andhra Pradesh passed a finance bill and took initiatives to promote SHGs in state.<sup>5</sup>

In the present study, comparison is made between Haryana and Kerala in respect of financial inclusion and human development indicators. Kerala has top rank in the IFI and HDI, while Haryana is having tenth rank in IFI and ninth in HDI. Moreover, Kerala has highest 93.91 percent literacy rate and 74 year life expectancy rate, but Haryana has 76.64 percent literacy rate and 66.2 years life expected. But in case of GDP, Kerala has lower GDP than Haryana.

### Case Study

A sample survey was conducted in completion of the present study. Five SHGs' women are selected Nashibpur and Shekpura villages of Narnaul Block in Mahendergarh district. It is situated in south Haryana and has very poor economic development. An interview was taken from five women of five SHGs namely Bimla Devi, Saroj, Indira Devi, Mamta and Rekha from above mentioned SHGs respectively. Bimla Devi is pradhan member of IshJyoti group that is running in Nashibpur village. She joined this group five years back. She did not open bank account in any bank. After joining the group, she has opened bank account in Punjab National Bank. She got credit of amount Rs. 18,700/- @ 1 percent rate of interest per annum under SGSY through DRDA and received a subsidy of Rs 10,000/-. Meanwhile, she is depositing amount Rs. 500 per month for repayment of credit and Rs. 50/- for saving. She started a small business of making Ladi, Kathputli, and Bandarwal etc. DRDA provides opportunities to their products in Mela at different places. She feels freedom in making economic decisions and also socially uplifted after joining group.

**Table No. 2: Composition of Sample of Self Help Group**

<i>Sr. No.</i>	<i>Name of SHGs</i>	<i>Year of SHG Formation</i>	<i>No. of Members</i>	<i>No. of women Members (Percent)</i>
1	IshJyoti	2007	11	10 (90.9)
2	Jai Bajrang Bali	2007	10	10 (100)
3	SantoshiMaa	2008	10	10 (100)
4	Shree Mahadev Baba	2009	10	10 (100)
5	Shyam Baba	2009	11	10 (100)

Source: Field Survey conducted on 23.02.2013

Mrs. Saroj Devi is pradhan member of Jai Bajrang Bali group in Shekpura village. She joined this group before three years. She opened a bank account in Punjab National Bank and got credit of amount Rs. 23,600/- @ 1 percent rate of interest per annum under SGSY after joining the group. She is returning the amount of credit Rs. 500/- per month and depositing amount Rs. 50/- per month as a saving. She also got a job in village's government school in mid day meal. She is moved to socially upliftment and has freedom in making decisions socially and economically.

Mamta Devi is pradhan member of Shree Mahadev Baba that is running by 10 members in Shekpura village. She joined the group around three years back. She has opened a group bank account in Punjab National Bank. She got a loan of amount Rs. 23,600/- @ 1 percent rate of interest per annum under SGSY through DRDA. She did not use this amount for special purpose, just spent on house expenditure. She is depositing amount Rs. 500/- per month for repayment of loan and Rs. 50/- per month in savings.

Another Mrs Rekha Devi is a pradhan member of Shyam Baba SHG that is running by 11 members in Shekpura village. She joined the group three years back. She got an amount of credit Rs. 1800/- @ 1 percent rate of interest under SGSY through DRDA, although she could not take more economical benefits of SGSY scheme.

Mrs Indira Devi is pradhan member of Santosh Maa SHG that is running by 10 members in Shekpura village. She joined this group around before five years. She has opened a group bank account and also has a separate bank account in Punjab National Bank. She got loan of amount Rs. 1800/- and 25000/- @ 1 percent rate of interest under SGSY through DRDA. She is depositing amount Rs. 500/- per month for repayment of loan and Rs. 50/- per month in savings. The amount of loan is used to buy some goat and sheep. Her husband is taking care of live stock. They have four children, who are studying in village's government school. She got a job in government school in mid day meal. She is uplifted morally as well as socially and has freedom to make decision for family's economic development.

<sup>5</sup> The Economic Times, May 10, 2012, page 1.

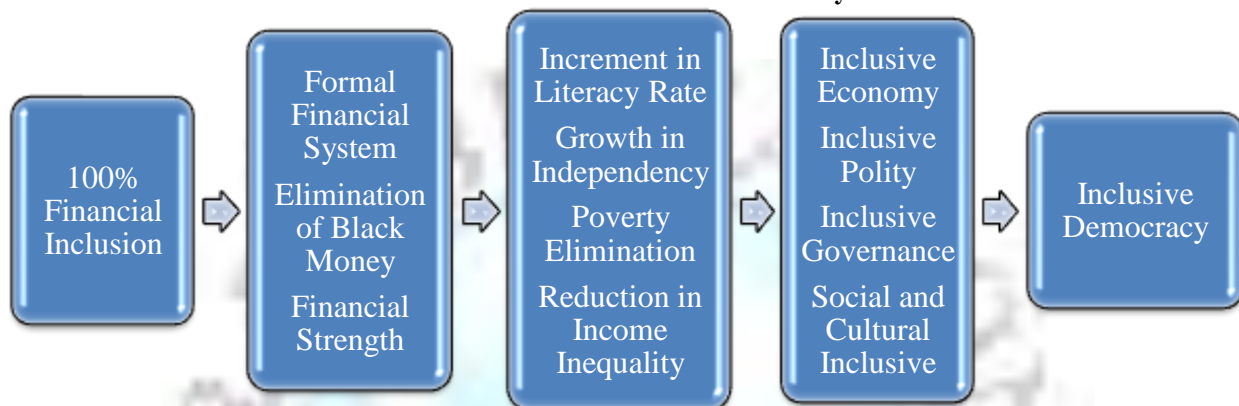
**Table No. 3: Self Help Group Members' Statistics**

Sr. No.	Name of SHGs Members	Family Income p.m.*(Rs.)	Age	Education	Life Insurance	Separate Account
1	Bimla Devi	5000	36	Illiterate	Yes	No
2	Saroj Devi	4000	30	8 <sup>th</sup>	No	No
3	Indira Devi	3000	35	5 <sup>th</sup>	Yes	Yes (PNB)
4	Mamta	4000	25	8 <sup>th</sup>	No	No
5	Rekha	2000	34	Illiterate	No	No

Source: Interview conducted on 23.02.2012

\*(Family Income of members in approximately amount)

**A Model towards Inclusive Democracy**



An innovative model is developed which revealed that inclusive democracy can be achieved through financial inclusion. Financial inclusion leads to inclusive democracy. Supposed to that we have achieved 100 percent financial inclusion, it will lead to formal financial system, elimination of black money, financial strength, then it will lead to literacy rate, poverty reduction, income inequalities, inclusive governance and inclusive economy and finally it will approach to inclusive democracy as per model shown above.

**Facts and Findings of the Study**

- No member is aware of financial services provided by commercial bank.
- No one member has post office savings.
- The selected members do not have life-insurance except one member.
- No one member has ATM, Net Banking, and Mobile Banking. Even, they do not know about net banking and mobile banking.
- Pradhan members of these SHGs feel troubles on holding the position of pradhan of group, because some time they face over burden at the time of distributing loan amount and collecting monthly instalment from group's members.
- None has No-Frill Account.
- Before joining the SHGs, they did not open the bank account, but they have opened group bank account after joining the group.
- Some of them have taken benefits by getting job in mid-day meals in schools.
- SHGs women members do not have separate bank account except one member.

**Conclusion**

In this paper, the status of financial inclusion among rural women with special reference of SHGs women members has been analysed. By conducting a sample survey, it is found that SHGs members have included in formal financial system, while, they had not been opened separate bank account in any public or private bank before joining the SHGs. Although, 80 percent of women members have only group account after joining the SHGs. The result of survey shows no one member of groups have ATMs, Mobile banking, Net banking, and financial literacy. It is found that women's family income is very low, although 60 percent of them have got a job in mid-day meal in schools. These women could not take decision for domestic expenditure, but after joining the groups, they are able to expend money without any hesitations and restrictions of family. So it can be said that these women have improved their social and financial conditions after joining the SHGs.

Poor people or low income groups or disadvantaged people cannot participate in inclusive growth, inclusive economy, and inclusive polity without uplifting their financial and social status. First of all, everyone tries to fulfil physiological need such as food, air, water, home, and then he/she can think about safety needs, social needs, esteem needs and self-actualisation needs.

If we want to achieve 12<sup>th</sup> five year plan's target and inclusive democracy, disadvantaged people are needed to come under umbrella of formal financial system, so that they can become a part of participatory democracy.

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