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SELF HELP GROUP BANK LINKAGE PROGRAMME AND THE EXTENT OF FINANCIAL INCLUSION OF THE SOCIALLY BACKWARD GROUPS

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ABSTRACT

The major objective of the study is to analyze the influence of SHG Bank Linkage Programme on the extent of financial inclusion among Scheduled Caste (SC) population. It also aims to understand the influence of Self Help Groups (SHGs) on the Incidence of Informal borrowings of SC households**.** The study conducted an empirical analysis by an extensive survey, covering 425 sample SC households in Pathanamthitta district of Kerala state with the help of a detailed Interview Schedule. In interpreting the role of SHGs, households were classified into households whose family members have association with SHGs and households who do not have any association with SHGs (Non-member). The study has employed financial service usage dimension for constructing an indicator measuring the extent of financial inclusion. The study has found that the membership in SHGs influenced the inclusion status of SC households. The study has also found that the dependence on informal source is more among the SHG members than non members.

Keywords: Self Help Group, Bank Linkage Programme, Financial Inclusion, Scheduled Caste population, Informal borrowing.

1. INTRODUCTION

India started development planning soon after independence with the motto "Growth and development with Social Justice". Since the inception of planning in India, poverty reduction has been an important goal of development policy. A variety of socio-economic and welfare strategy programmes have been activated in the county, in order to improve the socio- economic condition of the people. Despite these efforts, poverty in India continues to be a matter of serious

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concern. This is because the push was given on economic development, without including linkage to the social aspects of the deprived and suppressed sections.

Numerous studies on poverty have revealed that, one of the major hurdles obstructing the households in taking part in the development process is their exclusion from the financial system. This is the elemental fault of our mainstream formal financial systems. As a result, these households find it extremely difficult to take advantage of economic opportunities, build assets, finance their children's education, and protect themselves against external financial shocks (Kochhar, 2009).

The Eleventh Five Year Plan (2007-12) aimed at faster and more inclusive growth. It tried to obtain inclusiveness through significant improvements in literacy, education and health, greater employment opportunities and greater focus on disadvantaged groups. The 12th Plan also maintained the objective of "accelerated and more inclusive growth" for the period 2012-2017. Inclusive growth tries to bridge the different divides in an economy and society. One aspect of inclusive growth is financial inclusion. In India, the government and the banks co-operate to promote financial inclusion.

Likewise in other countries, in India also, Self Help Groups (SHGs) have been recognized by policy makers as an effective instrument for accomplishing the distributive objectives of monetary policy. The Self Help Group (SHG) -Bank Linkage Programme launched by NABARD in February 1992 is one of the most powerful initiatives for delivering financial services to the rural poor in a sustainable manner. SHGs are small informal associations of 10 to 20 people formed with the aim of facilitating them to acquire economic benefit of mutual help, team spirit and joint responsibility. These small and homogeneous groups involved in savings and credit activities are capable of taking care of the risks through peer monitoring (Rajasekhar, 1997). SHGs are considered as an agent to bridge the gap between banks and the weaker sections.

Scheduled Castes are one of the underprivileged sections in our social order, who were positioned at the bottom in the conventional caste system. The economic status of SCs was found to be very poor. The low income level of SCs forces them to stay in the low level of living. Access to formal credit, for meeting unforeseen expenditures, is particularly a problem of SC households, since there is certain impediment to the flow of institutional credit to the disadvantaged sections. A number of factors may be attributed to the failure of India's rural banks to deliver finance to the Scheduled Castes. Rural banks have considered serving the Scheduled Caste is highly risky because of the problem of uncertainty. Studies have shown that the repayment capacity of the SCs is uncertain and their income streams and expenditure patterns

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are irregular or unstable. Problems of uncertainty are worsened by the borrowers' vulnerability to provide collateral.

As the flow of bank credit is low on account of the assumed non-creditworthiness of Scheduled Castes due to their subsistence economy, lack of entrepreneurial skill and scheme/assets management ability, financial inclusion that provided mere access to bank account cannot alone serve as a solution. In this context the role of Self-Help Groups has assumed a critical challenge. The SHG-Bank linkage programme, which facilitated the groups to link with banks in a regular way, initially through savings and later through credit, has been able to make sure financial inclusion to a certain extent. In Kerala also the SHG system has became a movement and has gained popularity among the poor with the success stories of Kudumbasree, a programme under the Poverty Eradication Mission of the Government of Kerala. Hence Self-Help Groups is emerging as a powerful mechanism to financial inclusion of SC people. Against this background, the present study has been carried out in Pathanamthitta district of Kerala to assess the role of SHGs on the Financial Inclusion.

1.1 OBJECTIVES

1. To analyze the influence of SHG Bank Linkage Programme on the extent of financial inclusion among the Scheduled Caste population.
2. To understand the influence of Self Help Groups on the Incidence of Informal borrowings of SC households.

1.2 REVIEW OF LITERATURE

The concept of Financial Inclusion can be traced back to the year 1904, when co-operative movement took place in India. It gained momentum in 1969, when 14 major commercial banks of the country were nationalized and lead bank scheme was introduced shortly thereafter. Branches were opened in large number across the country and even in the area which were hitherto being neglected. Even after all these measures, a sizeable portion of the country could not be brought under the fold of banking system. In fact, there is a severe gap in financial access which needs special attention (Chattopadhay, 2011). Of late, the essence of including the vast excluded people into the formal financial system has been realized, which in the present days is called Financial Inclusion.

There is no unanimously accepted definition of financial inclusion across the world. At times it is easier to define a phenomenon, by uttering what it is not, i.e., define financial exclusion instead of financial inclusion. Leyshon and Thrift (1995) defined financial exclusion as referring to those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial system. Sinclair (2001) defined financial exclusion as the inability to access

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necessary financial services in an appropriate form and exclusion can come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions. Carbo et al. (2005) have defined financial exclusion as broadly the inability (however occasioned) of some societal groups to access the financial system. According to Conroy (2005) financial exclusion is a process that avoids poor and disadvantaged social groups from gaining access to the formal financial systems of their countries.

According to Mohan (2006) financial exclusion signifies the lack of access by certain segments of the society to appropriate, low-cost, fair and safe financial products and services from mainstream providers. The Government of India's 'Committee on Financial Inclusion in India' (Rangarajan Committee 2008) begins its report by defining financial inclusion as 'the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost'. Sarma and Pais (2008) defined 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. According to Corr and Conroy (2009) financial exclusion is not only about the 'access' to financial products but it is more about the 'use' of the financial products.

In general, the term financial inclusion is recognized in variety of ways in various contexts. One view is that only access to credit can be considered as financial inclusion; meanwhile the other view argues that it takes account of all the services extended by the financial institutions. Merely having a bank account may not be a good indicator of financial inclusion (Rangarajan, 2008). Added, indebtedness as enumerated in the NSSO[i] may also not be an absolutely insightful indicator. Hence, the most excellent definition should take a look at people who want credit, but are left without the same. However, the bankers need not extend credit to everyone who contacts them. If faithful applicants for credit are denied their chance, then there is a case of exclusion. Hence, obviously it means that all cases of denial of credit may not be exclusion. In addition, the details of denial of credit should be explored further. As this element raises the question of creditworthiness or bankability it was also considered carefully on what could be done to make the 'institutionally excluded', bankable or creditworthy (Rangarajan, 2008). Consequently, financial inclusion may well be all about money and finance, but with the eventual objective of honestly abolishing the state of social exclusion in the economy.

NABARD has played a very important role for the promotion of financial inclusion in rural areas. The SHG-Bank Linkage Programme launched by NABARD in 1992 is one of the largest and fastest growing microfinance programmes in the developing world and it is also an important strategy in promoting financial inclusion and inclusive growth. The SHG Bank linkage model is the indigenous model of micro-credit evolved in India and has been widely acclaimed as a

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successful model (Kumar & Golait, 2009). The programme has been proven as effectual in promoting savings in the initial stage and linking with financial institutions in the later stages.

Joshi (2011) suggested the need for banks to change their mindset in favour of social inclusion and also discussed the important role played by banks and their linkages with Microfinance institutions and Self-Help Groups (SHGs) which make penetration to the poorest of the poor people and provide them with hope and assistance. In addition to the various supply side measures, the author strongly argues for measures to raise the demand for productive credit from the hitherto neglected sections for sustaining financial inclusion in the long run. For achieving this, the author suggests a strategy for broad based development by giving adequate priority to agriculture, poverty alleviation, infrastructure development and human resource development.

According to Chattopadhay (2011) although various measures have been undertaken for financial inclusion in India, the success is not found to be noteworthy. Apart from the formal financial institutions, the role of the SHG movement and microfinance institutions is important to improve financial inclusion. Political interference of the financial system should be avoided, in order to maintain the viability of the formal financial institutions. Banking correspondent model has to be made more effective by involving more local people. Many rural people are still not aware of banking products and they are reluctant to take the advantage of banking facilities.

With the support of Ministry of Finance, Government of India and Reserve Bank of India CRISIL[ii] launched the Inclusix tool in the year 2013. CRISIL Inclusix, India's first comprehensive measure of financial inclusion in the form of an index, follows a statistically strong and transparent and easy to understand methodology. It is a relative index on a scale of 0 to 100, with 100 indicating the maximum score achievable, and combines three critical parameters of basic banking services- branch penetration (BP), deposit penetration (DP), and credit penetration (CP) -into one metric.

As CRISIL defines financial inclusion in terms of coverage, reach and penetration and not in terms of size or volume, all CRISIL Inclusix parameters are measured in non-monetary units (CRISIL, 2013). Presently, the index has been calculated based on the data related to the banking system (scheduled commercial banks and RRBs) provided by the RBI. Data from a large network of non-banking Financial Companies (NBFCs) and MFIs with over 10,000 branches largely in the rural areas is not included. However, they cannot be ignored as their client base almost entirely comprises people unserved or under-served by the formal banking network (Nair & Tankha, 2014).

At the end of fiscal 2012, the all-India CRISIL Inclusix score stood at 42.8 on a scale of 100, which is an increase of 2.7 over 2011. The Index has been showing continuous improvement -

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from 35.4 in 2009 to 37.6 in 2010 (up 2.2) and 40.1 in 2011 (up 2.5). As per CRISIL Inclusix the top five states in financial inclusion for 2012 are Puducherry, Chandigarh, Kerala, Delhi and Goa; while the bottom five are Manipur, Bihar, Nagaland, Arunachal Pradesh and Chhattisgarh. Smaller states (population< 3 crores) and Union territories such as Puducherry (rank 1), Chandigarh (rank 2), and Goa (rank5) perform better than larger states. Amongst the large states (population >3 Crores) Kerala has the highest score at 80.4 followed by Andhra Pradesh and Tamil Nadu both of which score 64.8. Out of the top 10 states/UTs with highest CRISIL Inclusix score, 6 are from Southern region and most of the states (9 out of 10) with least CRISIL Inclusix scores belong to the Eastern and North- Eastern regions (CRISIL, 2014).

The District level performance once more reflects the same picture. According to the CRISIL Inclusix 2014, there is wide disparity in the Inclusix score across districts. Only 238(one-third) of the 638 districts have scored higher than the all India score of 42.8. Most districts in the Southern region (103 out of a total of 107 districts) have CRISIL Inclusix score higher than the all -India average. Moreover, all the top 5 districts with highest CRISIL Inclusix scores are from the Southern region; four of them are in Kerala. Kerala has the highest proportion of districts; 13 of Kerala's 14 districts figure in the top 50 scoring districts. *Pathanamthitta* (Inclusix score of 100) in Kerala has the highest CRISIL Inclusix score in the country. It had the highest CRISIL Inclusix Ranks in 2011 (Inclusix Score of 96.2), 2010 (Inclusix Score of 94.2) and also in 2009 (Inclusix score of 91.6).

1.3 JUSTIFICATION OF THE STUDY AREA

As compared to other states in India, Kerala had a higher percentage of people with bank accounts. Again as per the Population Census 2011, Scheduled Caste households in Kerala have much greater access to banking services than an average SC household in India. According to a study conducted by CRISIL'CRISIL Inclusix', Pathanamthitta district has been ranked first in the country in financial inclusion programme. CRISIL conducted this study with the support of the Union Finance Ministry and the Reserve Bank of India to measure the progress on financial inclusion by evaluating the penetration of banking services in all the districts in India. According to CRISIL, there is no unbanked village in Pathanamthitta district and banking penetration had reached 100 per cent of the population in the district (CRISIL 2014).

The disbursement of credit against deposit in Pathanamthitta was the lowest in Kerala (Economic Review 2013) with the Credit-Deposit (CD) ratio of 31.1%, while the state average is 82.03, indicating that banks in the district have idle funds for which there is inadequate demand. As on 31.03.2014, the CD ratio of the district is 37.27% (District Credit Plan 2014-2015).

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The credit needs of the poor and weaker sections such as Scheduled Castes are modest but often occur at unpredictable times and are by and large of an emergent nature. Hence it would be of much interest to analyze how far the credit needs of the Scheduled Castes in Pathanamthitta district, the top most districts in the country in financial inclusion and a district having banks with idle funds, are satisfied by the formal banks here.

1.4 METHODOLOGY

Both primary and secondary data have been used for the study. The study conducted an empirical analysis by collecting primary data from the sample households. In the present study, the term population/universe is meant to mean all the SC households that fall under the revenue administrative boundary of the district of Pathanamthitta in Kerala.

The study area covers 8 Block Panchayats and 3 Municipal Corporation/ Urban Local Bodies. Out of the 3 Municipal Corporations, one Municipal Corporation, i.e., Pathanamthitta Municipality, representing urban population and from 8 Block Panchayats, 4 Block Panchayats, representing rural population, have been randomly selected by using the lottery method. Further from each of these 4 Block Panchayats, 2 Grama Panchayats were randomly selected by using lottery method for data collection. The size of the sample was decided using the procedure for sample size estimation and the sample size is estimated at 423. For convenience, the sample size is fixed as 425. We decided to select sample households on the basis of the proportion of population in each block Panchayats. Accordingly we have chosen 120 households from Pandalam Block Panchayats, 150 from Parakkodu, 70 from Elanthoor, 65 from Konni and 20 households from Pathanamthitta Municipality, by using random number tables. In interpreting the role of SHGs, households were classified into households whose family members have association with SHGs and households who do not have any association with SHGs (Non-member). The sample pattern revealed that 41.4 %(176) of the households belonged to the category of non-members and 58.6% (249) were SHG members having linkage to commercial banks or co-operative banks. In order to collect data from the sample households, one set of pre-tested interview Schedule has been prepared and it was administered during March 2014-September 2014.

2. RESULTS AND DISCUSSION

2.1 Determining Financial Inclusion

Financial services influence all sections of the society. The objective of financial inclusion is to extend financial services to the large hither to un-served population of the country to unlock its growth potential. As already discussed financial inclusion is the provision of affordable financial services, viz, access to payments and remittance facilities, savings, loans and insurance services

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by the formal financial system to those who tend to be excluded. With a clear definition of financial inclusion in hand, in order to analyze the current state of affairs with respect to financial inclusion among the Scheduled Caste people, a strong and broad measure of financial inclusion is important. This segment focuses on constructing an indicator measuring access to and use of financial services by household.

Indicator for Measuring Financial Inclusion

As a term, financial inclusion has acquired universal acceptance both in the sheer access to financial services as well as deeper examination of processes. There is also universal consensus that financial inclusion should pertain to the use of financial services, not merely the access to financial services. Numerous studies in India have exposed that measures such as the opening of no-frills accounts have been largely unproductive. Bulk of such accounts have remained inoperative/ dormant and the estimates of dormancy going up to 80 percent of the total. Hence the study employed financial service usage dimension for constructing an indicator measuring the extent of financial inclusion. The variables for constructing the indicator were identified on the basis of extensive literature available on the subject. The variables used are the access to and usage of the financial services such as payment and remittance facilities, deposits, credit and insurance. The study evaluated households' usage of the said financial services for the last three years (2011-2014) by means of field survey.

Usage of banking services with the help of Cheque or Demand Draft, usage of ATM card/ Debit Card for withdrawal of money, making or accepting remittance through bank, receipt of money from various sources as part of welfare measures are classified as payment and remittance facilities. Hence usage of payment and remittance facilities has been used as an indicator to measure financial inclusion. The study also looks into households' access to savings bank account, fixed deposits, and recurring deposits with any of the financial services providers like Commercial banks/Cooperative banks. Moreover, savings with SHGs are also considered as savings bank account even though it can be accounted as group savings. Since access to timely and adequate credit at an affordable cost to weaker sections and low income groups accorded prime importance in the concept of financial inclusion, credits accessed by household from commercial banks or co-operative banks or from SHG Bank Linkage have been accounted in the study. In the case of insurance the study has found a very few Scheduled Caste households holding non mandatory insurance products like the life insurance policies. It surely is a sign of the influence of economic situation in inspiring them to avail such services. Hence the study also considers insurance from any source or type for measuring financial inclusion, while insurance products mandatorily provided to the households by the government are not considered in the study. Consequently the study considers households' access to and use of deposits, credit,

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payment and remittance facilities and insurance as indicators of financial inclusion. Meanwhile, pension, one of the aspects of finance is skipped in this study as SC households hold welfare pensions and not any other pension schemes. Thereafter, to calculate the extent of financial inclusion, the variables identified were assigned appropriate weight, and was appraised by experts in the field of academic, banking, research etc. The following table (Table 1) illustrates the procedure followed to measure the extent of financial inclusion among the Scheduled Caste households.

Table 1: Measuring the Extent of Financial Inclusion: Accessibility and Usage Basis

Services	Indicators	Weight	Sub total
Payment &Remittance facilities	1.Usage of cheque/DD	1	3
	2.Usage of ATM/Debit card/Credit Card	1	
	3.Social security pensions or Payment of bills	1	
Deposits	4. SB	3	6
	5. FD	1	
	6. RD	2	
Credit	7. Credit availed from commercial bank	3	9
	8. Credit availed from co-operative bank	3	
	9. Credit availed from SHG	3	
Insurance	10. Any source or Type	2	2
Total		**20**	**20**

The scale varies between the values 0 and 20. The value 0 indicates complete financial exclusion and the value 20 indicates full financial inclusion. The value ranges from 1 to 5 indicates low inclusion, 6 to 12 medium inclusions and from 15 to 19 high inclusions.

The following figure (Fig.1) exhibits the percentage of SC households falling under each category. Analysis of the extent of financial inclusion shows that, 53.4 percent SC households attained medium inclusion and 29.4 percent had low inclusion. But among the SC households 16.2 percent were financially excluded who had no access to any of the formal financial services and a very few (0.9%) had high inclusion. According to 2011 Population Census, percentage of Scheduled Caste households having access to available banking services in Kerala is 60.15,

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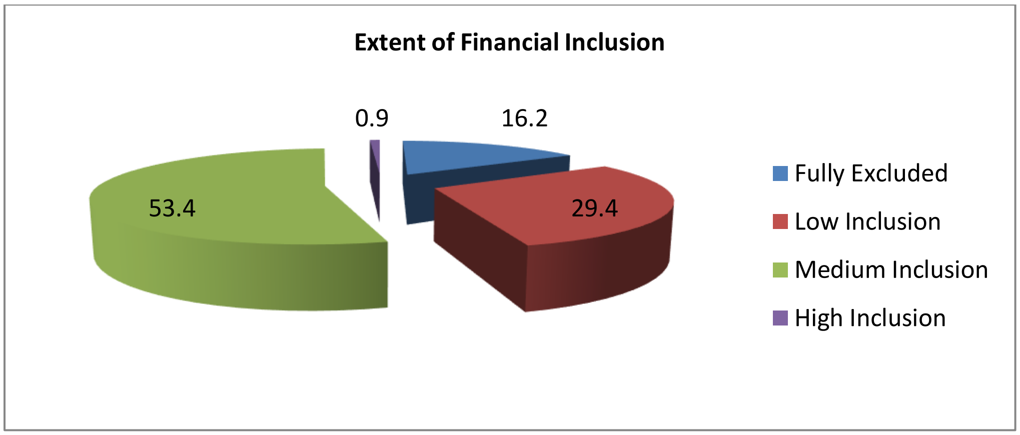
while the study found that Scheduled Caste households having access to available banking services in Pathanamthitta district is higher (83.7%) than the state average.

Fig. 1: The Extent of Financial Inclusion



Source: Field Survey

2.2 Extent of Financial Inclusion and SHG Bank Linkage

It is obvious that in the field of banking and financial operations, Self Help Groups Bank Linkage Programme has started playing unparallel roles. In recent years Self Help Groups have become popular and hence the penetration of them among the scheduled castes is obvious. In interpreting the role of SHGs on the extent of financial inclusion, households were classified into households whose family members have association with SHGs and households who do not have any association with SHGs (Non-member). The interaction between the extent of financial inclusion and the membership in SHG Bank linkage Programme is represented in the table (Table 2).

Table 2: Extent of Financial Inclusion and SHG Bank Linkage

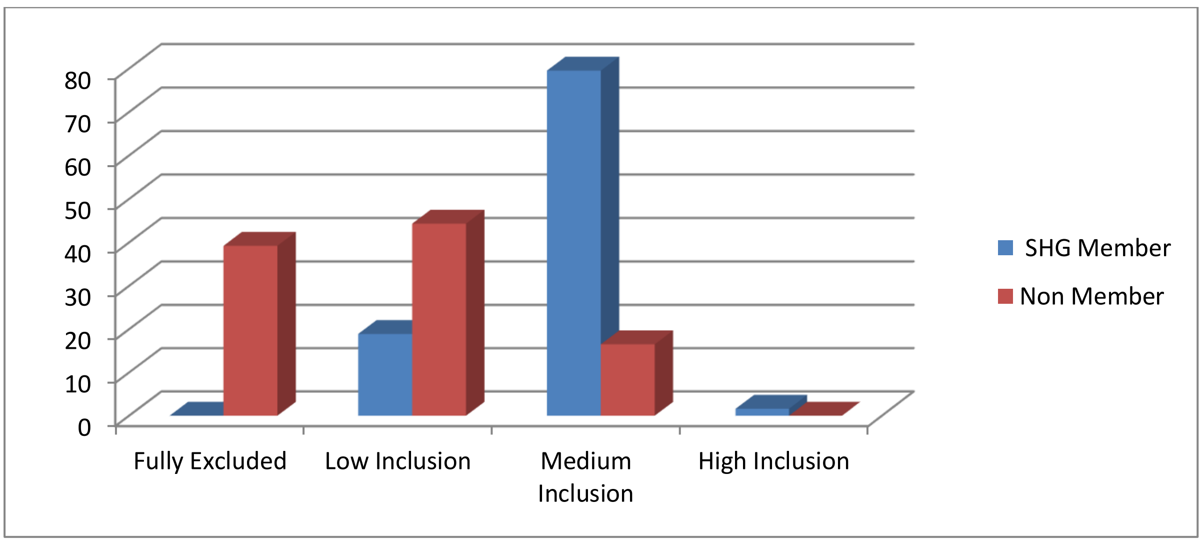
FI Index	**SHG member** (No.)	**%**	**Non Member(No.)**	**%**	**Total** (No.)	**%**
Fully excluded	0	0	69	39.2	69	16.2
Low inclusion	47	18.9	78	44.3	125	29.4
Medium inclusion	198	79.5	29	16.5	227	53.4
High inclusion	4	1.6	0	0	4	0.9

Total	**249**	**100**	**176**	**100**	**425**	**100.0**

Source: Field Survey

From the table (Table 2) it is apparent that there exist a clear association between the extent of financial inclusion and the membership in SHG. What is worthy of mention is that among the non members, 39.2 percent of the households remained outside the purview of the formal financial system, where as among the members no one fell in the category fully excluded. Moreover, among the SHG members 79.5 percent have medium inclusion and 1.6 percent could attain high inclusion. Meanwhile, among the non members majority could achieve only low inclusion and only 16.5 could achieve medium inclusion and nobody is enjoying high inclusion. Hence households which are members of Self Help Groups enjoy higher levels of financial inclusion. Extent of financial inclusion among SHG members and non-members is represented in the figure also (Fig. 2).

Figure 2: Extent of Financial Inclusion among SHG members and non-members



Source: Field Survey

2.3 Incidence of Informal borrowings of SC households and the Influence of SHGs

Credit is important in the lives of the rural poor to bridge the gap between income and expenditure. They do not have sufficient and reliable access to credit from the formal banking system due to a number of reasons. Therefore the most remarkable problem faced by poor in the rural credit market is the 'dependence on usurious moneylenders and the operation of a deeply exploitative grid of interlocked, imperfect markets' (Shah, Rao, & Shankar, 2007). Too much

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dependence on informal sources is normally considered as something which weakens the economic and social welfare of the community. Prima facie, it appeared that the rate of interest charged by the informal financial agencies was unreasonably high which led to perpetual indebtedness of the rural poor. Nevertheless the easy and timely accessibility, flexibility in delivery to the needy clients positioned them better as compared to the formal financial agencies. Even though regulatory mechanisms act as a supervisory body over the charging of interest rate, the cumbersome and time consuming banking procedure restricted the accessibility of the poor to formal credit institutions. Under this situation, a non-formal agency of credit supply to the poor in the form of 'Self Help Groups' appeared as a potential partner of the formal agencies. The SHG linkage to banking sector is able to combine the merits of both the formal and informal financial system and also facilitate larger and faster coverage of rural poor.

Realization of the SHG-Bank Linkage Programme led to the emanation of new channels of credit for the poor with NGO/ SHG as financial or non financial intermediaries. The distinctive feature of SHG is that it inculcates the habit of thrift and banking among the poorest of the poor. Self Help Groups have an average size of about 10-20 members. They get together for tackling their common problems and are encouraged to make voluntary thrift on a regular basis. Each group acts as a bank. They use their pooled resources to make small interest bearing loans to the members and also monitor the utilization of loan amount and enforce repayment. Normally the Group distributes the loan amount among the members at a mutually agreed interest rate. The process help out them to take in the nuts and bolts of financial intermediation such as urgency of needs, setting terms and conditions, account keeping etc. In due course of time the groups attains financial discipline and they learn to manage common pool of resources of a size that is much beyond individual capacities of any of them. Gradually, the SHG members begin to realize that the common pool of resources, i.e., savings becomes inadequate for meeting the varied credit needs of the members, the group applies for external assistance mostly from banks. With a good track record of financial and credit performance, banks are encouraged to give loans to the SHG in certain multiples of the accumulated savings of the SHG. Banks provide loan without any collateral and at market rate of interest. Groups borrow both for production and consumption purposes. Thus the access of SHG members to internal loan and group loan is expected to reduce their dependence on informal borrowings for consumption purposes. As loans are available for productive purposes also, the income generated from such activities are expected to increase their income levels and it also helps them to escape from the formidable hands of moneylenders. With this brief not on the role of SHGs in the credit needs of the poor, now the study proceeds to analyze the picture that emerges in the present study.

The informal borrowings by the SC households with or without membership in SHGs have been analyzed here to estimate how far SHGs influenced the households' informal borrowings. The

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study considers the households which are active in SHG groups for the last three years and credit accessed by households from any formal or informal sources of finance in the three preceding years have been recorded by recall method. Astoundingly it was seen that while 81.81 percent of non member households accounted for informal source of borrowing, 87.95 percent of SHG households tend to borrow from informal lenders (Table 3).

Table 3: Incidence of Informal Borrowings of SC Households.

Status of households	**Not borrowed from informal source**		**Borrowed from Informal source**		**Total**	
	No.	%	No.	%	No.	%
SHG member	30	12.04	219	87.95	249	100
Non member	32	18.18	144	81.81	176	100
Total	**62**	**14.6**	**363**	**85.4**	**425**	**100**

Source: Field Survey

Though SHGs have made achievement in penetrating into the areas of SC community, many households continue to access the services of the informal institutions. More precisely, even if majority of the SC households in the study area joined in SHGs and availed loan facilities from the mechanism, their dependence on money lenders is still high. This highlights the weakness in the features of the SHG products. SHGs provide only one loan at a time for its members and they are unable to provide a second or a third loan even when it is within the repaying capacity of the borrowing member. That is, under the mechanism, there is no provision for multiple need-based credits. In such a situation, emergency needs of the households cannot be serviced through SHGs. Generally, the poor people need only loans of very small amount, but their requirement is quick delivery at their doorsteps. In other words, they need smaller loans repeatedly. These factors necessitate the households to borrow from the informal sources, especially from the moneylenders.

3. CONCLUSION

To summarize, the membership in SHGs influenced the inclusion status of SC households. Surprisingly, the study has found that the dependence on informal source is more among the SHG members than non members highlighting the weakness in the features of the SHG products. Thus the study has revealed that the membership in SHG cannot influence the indebtedness to informal sources. At present SHGs are providing only one loan at a time. Hence the members could take a second loan only after the repayment of the first loan. If the members are honest and

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repaying debts promptly, SHGs should provide multiple need based credit. This would also help to reduce the dependence of SHG members on informal source of financing.

Notwithstanding the significant progress achieved, it is concluded that the concept of linking Self Help Groups with the formal sector as a medium for facilitating the process of financial inclusion has not yet run its full course in attaining its objectives. From the long term perception, SHGs should be viewed as a tool for financial inclusion based on concrete ground level planning. Further efforts in redesigning and reshaping the existing products, done in consultation with the potential customers, can ensure furtherance of effectiveness of SHGs in the process of deepening financial inclusion.

NOTES

[i] National Sample Survey Organization [As per the NSSO (59th Round, 2003) data, 45.9 million farmer households out of a total 89.3 million households in the country do not access credit either from institutional or non-institutional sources. Only 27 percent of total farm households are indebted to formal sources of which one-third also borrow from informal sources. In other words, 73 percent of farm households do not have access to formal credit sources.]

[ii] CRISIL or Credit Rating Information Services of India Limited is a global analytical company providing ratings, research and risk and policy advisory services. It is India's leading rating agency and its head quarter is in Mumbai in Maharashtra.

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