

## Strategies of Indian Banks in the Financial Inclusion: a new Paradigm

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### Abstract

It would not really be wrong to say that “*the soul of India lives in its villages*” as 60 percent of the population of the country is dwelling in rural economy of India. The challenge of present is therefore to cover all the rural households under the same banner called Self-Help-Groups and linking them with banks for their upliftment and poverty alleviation. The various studies evidently brought out that it is one of the effective tools to help the poor from a self-development and self-reliance perspective. It is to be remembered that microfinance is not a panacea, but. The principle of ‘*one micro entrepreneur-one micro loan*’ is overlooked by profit hungry MFIs who end up targeting the same individual for many loans and cause multiple borrowings. By and large, Microfinance has changed many lives in diverse societal settings across the globe and is being exploited as a tool for financial liberation in underdeveloped, developing and even developed countries.

(**Key words:** Microfinance, Self-Help-Groups, Financial Inclusion, Micro Credit, No Frills Account, etc)

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### I. Introduction.

“Financial Inclusion is not a matter of philosophy, but can lead to a win-win situation for banks and the customers”- **Dr .Y.V.Reddy**, former RBI Governor.

India has been experiencing micro credit in the form of SHGs as a part of formal credit delivery system giving freedom to Non-Government Organizations (NGOs) to set up SHGs on various models. They have been recognized as useful tools to help the poor and as an alternative to meet the urgent credit needs of the poor. The country has witnessed a rapid growth of Self-Help-Groups (SHGs) in the last one decade or so. The growth of SHGs assumed the form of a movement represents a massive grassroot level mobilisation of rural poor especially women into small informal associations. The SHGs capable of forgoing links with formal systems to help and access financial and other services needed for their socio-economic advancement.

Basically, SHGs are being promoted as a part of the micro finance institutions aimed at helping the poor to easily obtain financial services like savings, credit and insurance. The SHG-Bank Linkage Programme (SBLP) is a milestone strategy to improve rural people’s access to formal credit system in a cost-effective and sustainable manner by making use of SHGs. The absence of easy and affordable access to banking facilities has remained a major constraint for rural development. Therefore, banks should “**look through the eyes of their customers**” at grass root level and provide what they want.

Financial Inclusion has become the central theme of India’s development policy and is now being implemented through the Pradhan Mantri Jan Dhan Yojana (PMJDY) Programme. The focus of financial inclusion is to ensure access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. In a nutshell, Financial Inclusion refers to delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Hence, in a layman’s sense Financial Inclusion is the process of bringing new customer into the premises of banks. Financial Inclusion has become one of the most critical aspects in the context of inclusive growth and development of rural masses. Therefore, banks should try to go all out in their efforts towards capacity building in rural sector to improve rural productivity and rural income.

Shri Kshetra Dharmasthala Rural Development Project (SKDRDP) is the biggest NGO micro finance institution in the country. This is popularly known as Pragathi Bandhu model. In this model 5-8 farmers form an SHG, take loan for cultivation and pay it back in weekly installments by going for mixed farming and getting daily income. This experiment has transformed almost 95% of the 200000 of small and marginal farmers in Dakshina Kannada District. Hence, The American Citi Bank has recognized and awarded ‘**Pragathi Bandhu**’ as a “**Change maker Model**”. The SHG movement with bank credit linkage has definitely proved as an appropriate instrument for financing rural poor particularly women hitherto by-passed by the banking system in the district. Hence, this has been regarded as one of the best examples for SHG – Bank Linkage programme in the district.

## II. Literature Review

Some of the literatures narrating the role of financial inclusion strategies in the inclusion of excluded sections of the society are summarized as under.

**Rangarajan** (2008) recommended that the Banks and other financial institutions should make some efforts on their own to improve the absorptive capacity of the borrowers. Credit has to be an integral part of an overall programme aimed at improving the productivity and income of such farmers and farmer households. **Subbarao Duvvuri** (2009) stated that financial inclusion signifies giving people an opportunity to build better lives for themselves and their children. Financial inclusion will make it possible for Governments to make payments into the bank accounts of beneficiaries through “Electronic Benefit Transfer” (EBT) method. **Ammannaya** (2010) pointed out that for the financial inclusion of rural areas people should be trained enough how bank loans can be obtained and utilized in most prudent way for increasing their earnings and their economic lot. **Koteshwar and Akbar Ali** (2010) revealed that SHGs members have considerable access to financial services resulting in positive impact on the socio-economic conditions. It promises affirmative action in favour of deprived sections of the society including minorities and women. **Leeladhar** (2010) reported that in India the focus of the financial inclusion is confined to ensuring a bare minimum access to a savings bank account without frills at all. But in a broader sense having a current account or savings account on its own is not regarded as an accurate indicator of financial inclusion. **Lingdoh and Pati** (2010) found that micro finance has helped in increasing the level of income and savings of clients. The micro finance based financial inclusions has ensured that the under privileged and downtrodden are taken special care. **Manjunath** (2010) stated that in spite of the problems and challenges in implementing financial inclusion the banks have responded splendidly to the problems of rural poor. Many districts have been declared as financially inclusive where at least one member from each identifiable household has an account with bank branch. **Girish Kumar and Susy Paul** (2010) confirmed that the SHGs-Bank linkage scheme has proved its efficacy as a main stream programme for banking with the poor and as a means to achieve “inclusive growth” and “financial inclusion”. **Swain** (2010) found in his study on development strategy for micro finance that micro finance has changed many lives in diverse societal settings across the globe and is being exploited as a tool for financial liberation in under developed, developing and even developed countries. So micro finance is not a panacea, but is one of the effective tools to help the poor from self-development perspectives.

**Objectives:** The study attempts to throw light on the following objectives:

1. To study the role of SHGs in Microfinance.
2. To assess the progress made by the banks under SHG-Bank Linkage Programme.
3. To suggest suitable strategies for strengthening SHGs-Bank Linkage Programme.

## III. Methodology of the Study

The present study has been undertaken in Dakshina Kannada District of Karnataka state. The study is based on both primary as well as secondary sources. The primary data and information was collected through field survey with the help of structured questionnaire served on 85 Bank branches of Dakshina Kannada district. Dakshina Kannada Districts has 44 banks having 427 branches spreading over 5 taluks such as Bantwal, Belthangady, Mangalore, Puttur and Sullia. The respondent bank branches are composed of Nationalised Banks, Private Commercial Banks, RRBs and Co-operatives. Stratified Random Sampling techniques was used for data collection from banks.

### Statement of the Problem:

The growth of bank's participation in the rural development through increased financial services in the post independence and post nationalization era was significant. It is the part and parcel of the socio-economic development efforts in rural areas. Nevertheless, with a vast network of Nationalised Banks, Private Commercial Banks, RRBs, Co-operative Banks and other financial institutions, no significant progress could be achieved on the increased poverty position existing in rural India. Microfinancing programmes through SHGs have the potential to minimize the problem of inadequate access of banking services to the poor. The Self-Help-Groups and Bank linkage programme (SBLP) in terms of physical targets, apparently seems to have produced desired results. But, not many studies are available to assess the pros and cons of SBLP. Hence, the present study is a small attempt to bridge the aforesaid gap.

**Table No.:1 Bank category wise distribution of respondents**

Sl. No.	Bank Category	Frequency	Percentage
1.	Nationalized Banks	38	44.7
2.	RRBs(KVGB)	10	11.8
3.	Private Banks	10	11.8
4.	Co-Operative Banks	27	31.8
	<b>Total</b>	<b>85</b>	<b>100.0</b>

Source: Compiled by the researcher

There are 427 bank branches in total in Dakshina Kannada District, consisting of 368 branches of Commercial Banks, 19 Regional Rural Bank Branches, 39 Co-operatives banks and 1 KSFC. Out of 427 branches, 196 branches are urban oriented branches, which are excluded for the purpose of sampling. Therefore, total 85 branches were taken as sample size, of which 44.7% Commercial Bank branches, 31.8% Co-operative Banks and 11.8% each from Regional Rural Banks and Private Banks.

**Table No: 2 Responses of Banks regarding provision of loans to SHGs**

provide loans to Self-Help Groups	Type of Bank				Total
	Nationalised Banks	Karnataka Vikasa Grameena Bank	Private Banks	Co-Operative Banks	
No	2 5.3%	0 .0%	0 .0%	3 11.1%	5 5.9%
Yes	36 94.7%	10 100.0%	10 100.0%	24 88.9%	80 94.1%
Total	38 100.0%	10 100.0%	10 100.0%	27 100.0%	85 100.0%

Source: Field study

**Test result:** Fisher's Exact Test result shows that there is no significant difference between the banks with respect to provision of loans to SHGs as  $p = 0.613 > 0.05$ . But as a whole, Karnataka Vikasa Grameena Bank and Private Banks play a dominant role in case of loans granted to SHGs when compared to nationalised banks and Co-operatives.

**Table No: 3 Distribution of Nature of Loans Granted to SHGs.**

Types of Credit	Nationalised Banks (n=36)		Karnataka Vikasa Grameena Bank (n=10)		Private Banks (n=10)		Co-operative Banks (n=24)		Total (n=80)	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Micro credit	31	86.1	10	100.0	9	90.0	14	58.3	64	80.0
Micro Insurance	0	0.0	0	0.0	2	20.0	2	8.3	4	5.0
Personal loans	13	36.1	2	20.0	2	20.0	14	58.3	31	38.8
Gold loans	5	13.9	1	10.0	3	30.0	4	16.7	13	16.3

Source: Field study

The above table shows the bank wise distribution of nature of loans granted to SHGs. It is clear that 80% of the banks provide micro credit, 38.8% banks provide personal loans, 16.3% banks provide gold loans and 5% banks provide micro insurance to SHGs. It is also proved that 86.1% nationalised banks grant micro credit, 36.1% personal loans and 13.9% banks provide gold loans and no micro insurance is provided by nationalised banks.

**Table No: 4 Progress made under SHGs- Bank Linkage Programme**

Category of Banks	No. of SHGs	Percentage to Total	Amount of Loans (in Lakhs of Rs)	Percentage to Total
Nationalised Banks	19563	63.12%	60709.96	91.13%
Private Banks	2324	7.50%	700.18	1.05%
RRBs (KVG Bank)	479	1.55%	1102.00	1.65%
Co-operative Banks	8624	27.83%	4125.00	6.17%
<b>Total</b>	<b>30,990</b>	<b>100%</b>	<b>66,837.14</b>	<b>100%</b>

Source: Field study

From table 4, it is evident that Nationalised Banks have provided loans for about 19,563 Self-Help-Groups that is 63.12% of the total SHGs and the amount of loans granted were 60909.96 lakhs of rupees. i.e, 91.13% of the total percentage of loans granted. Hence, it is confirmed that nationalised banks played a significant role with respect to number of SHGs as well as total amount of loans granted to SHGs when compared to other categories of banks.

**Table No 5: Progress made under Financial Inclusion Plan**

Category of Banks	No frills Account	Number of GCCs Issued	Amount of Loans(Rs in lakhs)	Percentage
Nationalised Banks	104277	8173-	1171.47	60.92%
Private Banks	2993	278	680.00	35.36%
KVG Bank	2574	305	71.54	3.72%
Co-operative Banks	9072	-	-	-
<b>Total</b>	<b>118,916</b>	<b>8756</b>	<b>1923.01</b>	<b>100%</b>

Source: Field study

From the above table it is proved that as far as no frills accounts, issue of GCCs and total amount of loans granted are concerned the nationalised banks have played a dominant role when compared with other types of banks in the district.

#### IV. Findings:

- **A milestone programme:** It has proved as a milestone programme for banking as well as rural people as a means to achieve financial inclusion and inclusive growth as the rate of interest on borrowings is comparatively low.
- **Creates thrift and self-reliance:** The SHG-BLP has contributed a lot towards the empowerment of rural women by creating the awareness of thrift, mutual confidence and self-reliance.
- **Avoids village moneylenders:** It has proved to be a vital tool for poverty alleviation and emancipation of the rural poor by means of increased self-reliance and self-development by doing away with village moneylenders.
- **Fosters multiple income generating activities:** It has been instrumental in augmenting the earning capacity of the rural poor by undertaking multiple income generating activities and thereby higher volumes of savings from rural areas could be achieved.
- **No frills Account:** As regards number of No Frills A/c (NFA), the Nationalised Banks have opened 104277 accounts, Co-operative banks 9072 accounts, the Private Sector Banks have opened 2993 accounts and Karnataka Vikasa Grameena Bank (KVGB) opened 2574 no frills account. Thus, the nationalised banks played a significant role.
- **Significant role by Nationalised Banks:** The role played by the nationalised banks with respect to linking of SHGs with them and loans granted to SHGs is praiseworthy when compared to other types of banks.
- **Lack of Participative Efforts :** Poor participative efforts by the stakeholders such as, Bankers, State Governments, Technology providers, Regulators and other Developmental Agencies is a major setback should to achieve the goal of financial inclusion.
- **Lack of Awareness:** Most of the rural people are not aware of modern services and latest developments taking place in the field of banking. Lack of financial literacy and technical knowledge on the part of rural people are the main obstacles in the implementation of Financial Inclusion targets.
- **Poor Infrastructure:** Poor infrastructure in many part of the countryside is an impediment for the development process. It is important that adequate road, rail, digital connectivity and adequate power and infrastructure facilities are required for operation of a banking outlet.

## V. Suggestions:

- **Reframing as SHGs-NGOs-Bank Linkage Programme:** The Self-Help-Group Bank Linkage chain should be reframed as SHGs-NGOs-Bank Linkage programme in order to achieve the desired results.
- **Increased People participation:** The people's participation should be enhanced in SHGs, micro finance and poverty alleviation programmes so as to take collective decisions.
- **Opening up of literacy centers:** Most of the SHGs members are illiterate; as a result they cannot maintain proper records and accounts. Therefore, literacy centers are to be opened in order to create awareness and to update their knowledge.
- **SHGs-Post Office linkage programme:** Similar to that of SHG -Bank linkage programmes, SHGs – Post Office linkage programme should be initiated so as to reach out to many numbers of rural poor especially in unbanked and under banked areas.
- **Efforts to be made by RRBs and Private Banks:** The RRBs and Private sector banks still have to take many efforts in the direction of SHG-Bank Linkage Programme.
- **Farmer-friendly and pro-poor banking:** Rural branches of banks have to be farmer-friendly, because rural lending requires a specific type of organizational ethos, culture and attitude
- **Innovative use of mobile phones:** Banks must allow liberally and innovatively the use of mobile phones as a tool to facilitate transactions, to let people make payments to one another electronically.
- **Effective Use of B/Fs and B/Cs:** The Business Facilitators and Bank Correspondents model must be effectively implemented.
- **Attitudinal change:** There should be change in organisational structure, innovative delivery model and above all attitudinal change among bankers and borrowers.

## VI. Conclusion:

It is opined that the real Financial Inclusion and Inclusive Growth not only requires to bring people into banking population, but to make sure the benefits of the financial services reaches to those people. The challenge of present is therefore, to cover all the rural households under the same banner called Self-Help-Groups for their upliftment and poverty alleviation by linkage with banks. The various studies evidently brought out many operational shortcomings of SHGs that most of the SHGs were formed only for availing the benefit of subsidies by the government. Another area of concern is the political interference; political parties consider SHGs as another vote bank and make all efforts to control them. However, financial inclusion is the only way out for the development of everyone as proclaimed by the Prime Minister “**Sabkasath, Sabkavikas**”.

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