

# Self Help Group Bank Linkage Programme- An Index of Measuring Financial Inclusion

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## Abstract

**Background/Objectives:** In India the largest population falls under rural category. People from rural areas have experiences several issues for getting banking services to meet their basic requirements. To manage these challenges Self Help Group were formed consisting of 10 to 20 members in a group with a very low income and residing in unreached segments in our society. The major objective for forming the group is to get an access on financial services at an affordable cost. The members existing in these groups save their money which is utilized for loans. Even if there are several ways to fulfill the objectives of financial inclusion, Self Help Group Bank Linkage Programme is named to be an esteemed platform to meet the expectations of banking services among poor people. Therefore this paper has done an investigation on facilitating banking services to the poor people from the members of self help groups in the various districts of Tamil Nadu, India. **Methodology:** The study has measured an Index of Financial Inclusion using Multidimensional approach by considering three different dimensions such as Bank Penetration, Credit Penetration and Penetration of Self Help Groups in various districts of Tamil Nadu. **Findings:** The Districts were ranked based on the Index Scores generated through various parameters and the level of financial inclusion among various districts has been highlighted in the study. **Novelty:** When considering the banking services facilitated to Self Help Groups many districts in Tamil Nadu have very low level of financial inclusion. Out of all the models designed by our government, Self Help Group Bank Linkage Model is said to be the Successful model which are acceptable by the poor people. Therefore to revamp the status of financial inclusion, the Government of India and concern banking authorities should consider the members of self help groups for obtaining credit facilities in order to satisfy their basic requirements.

**Keywords:** Banks, Bank Penetration, Credit Penetration, Districts of Tamil Nadu, Financial Inclusion, Financial Inclusion Index, Self Help Groups Penetration

## 1. Introduction

The Reserve bank of India has advised commercial banks to facilitate banking services directly to the Self Help Groups. Registered or unregistered SHGs which are engaged in promoting savings habits among the group members are eligible to open savings accounts in the banks. Verification of Know your Customers (KYC) documents for all the members enrolled in a group were not done by the commercial banks. Simple documentation procedures were carried out by the commercial banks for facilitating credit facilities to SHGs<sup>1</sup>. The main focus of Self Help Group Bank Linkage programme was to

increase the income of poor households by enabling financial services in formal financial institutions<sup>2</sup>. In our country rural areas occupies a primary role in productive growth through construction, agriculture, self employment, services, etc<sup>3</sup>. The term Financial Inclusion is said to be an Endeavour taken by the government to support low income group people through enabling them getting an access over banking services. So far our Indian Government has developed different models for assisting low income groups people. Out of all Self Help Group Programme is considered to be most successful, profitable and extensively accepted model among the poor people in India<sup>4</sup>.

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## 2. Objectives

- To analyze various dimensions of measuring financial inclusion through self help group bank linkage programme.
- To calculate the index of financial inclusion through self help group bank linkage programme in the various districts of Tamil Nadu.

### 2.1 Dimensions of Measuring Financial Inclusion through Self Help Group Bank Linkage Programme

#### 2.1.1 Self Help group- Bank Linkage Programme

Self help group is the association of poor and low income group people from the same economic and social back ground. The self help group was formed in order to promote the saving habits among the group members and those savings are deposited in a bank by the name of their SHG as a collaborative fund<sup>5</sup>. SHG- Bank linkage programme was first started by with an objective of providing financial services to the unreached poor people in the society. The first project of self help groups was introduced by NABARD (National Bank for agriculture and Rural Development) by linking about 500 members in a group with the bank in the year 1992. Commercial banks are said to be the formal financial institutions which plays a very important role in facilitating the financial services to the rural poor and providing microcredit directly to the self help groups<sup>6</sup>. Self help groups are said to be an effective intermediately in achieving financial inclusion by cultivating the voluntary savings in the banks and they help the poor by understanding the need based financial services<sup>7</sup>. The banks uses the self help groups as an intermediaries for providing banking services to the rural people by promoting the financial products of the bank through conduct of meetings and campaigns especially in the rural areas<sup>8</sup>. Many members in the group of SHGs has considered as an achievement for accessing banking services such as raising loan directly from the banks. Moreover members of SHGs have stated that making transactions with the banks and approaching them for credit facilities has boosted their confidence level to meet their credit requirements<sup>9</sup>.

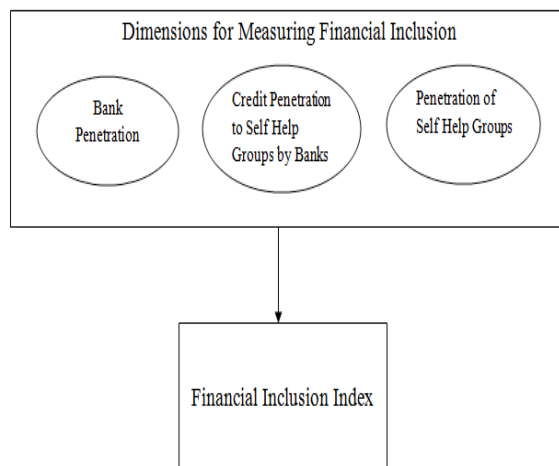
#### 2.1.2 Bank Penetration in the Rural Areas

According to Reserve bank of India penetration of bank

branches especially in rural areas has increased the saving habits among rural households<sup>10</sup>. Commercial banks are said to be the road map to improve the growth of economic conditions in our society. The banks facilitate their financial services which in turn indirectly reduce the level of poverty and inequality among the rural people<sup>11</sup>. Still there exists in demand for rural areas to the brick and mortar branches. Therefore if there is more inflow of bank branches in rural areas, the status of financial inclusion gets increased automatically<sup>12</sup>. Entry of bank branches in rural areas increases the trust level of rural people towards banking industries which in turn supports to increase their saving habits to meet their credit requirements<sup>13</sup>. Nearly 50% of population in India is in rural areas. Though the Indian commercial banks are penetrating the rural areas to meet the rural customer's need they find it difficult in providing financial services to them<sup>14</sup>.

#### 2.1.3 Conceptual Framework

As displayed in Figure 1 the study has taken three different dimensions namely Bank Penetration, Credit Penetration and penetration of self help groups among various districts of Tamil Nadu to measure the Index of financial Inclusion.



**Figure 1.** Dimensions that measures financial inclusion index.

#### 2.1.4 Credit Penetration for Self Help Groups

Self Help Group Bank Linkage programme are said to be the mile post for poor people in rural areas to get a credit access in a formal financial institution in a suitable way

by utilizing Self help Groups<sup>15</sup>. The main aim of Self Help Group Bank Linkage Programme is to provide door step delivery of credit facilities to the rural people at a very less transaction cost. This programme helps the rural people to get an easy access of banking services on a cost effective manner<sup>16</sup>. The members of SHGs maintain a separate document containing simple records, account details and transactions of SHG's Operations. After monitoring those operations of SHGs the banks directly provide credit facilities to them<sup>17</sup>. Promotion of Self help group bank linkage programme has been launched to increase the attempts of micro credits for the beneficiaries in the rural areas in the formal financial institutions<sup>18</sup>.

## 2.2 Methodology

### 2.2.1 Index of Financial Inclusion (IFI)

The Study consists of three different dimensions with three different parameters. In this study the reliability will be found for each different parameters consisting of different units of measurements. Hence it has to be normalized by using the below listed formula called Min-Max Method of Normalization.

$$Xi(\text{Normalized}) = \frac{Xi - X(\text{Min})}{X(\text{Max}) - X(\text{Min})} \times 100$$

Where as,

$X_i$  represents the value of the parameter for the particular district 'i'.

X (min) represents the minimum value that has been observed over all the districts for a particular parameter.

X (max) represent the maximum value that has been observed over all the districts for a particular parameter.

The data of each parameter of all the districts has been converted between the numbers of 0 to 100 by using the Min- Max Method of Normalization. The method indicates that 100 is the best performer for the particular parameter of the district 'i' and 0 is the worst performer for the particular parameter of the district 'i'. Each Districts of Tamil Nadu are characterized by the particular point in between the three dimensional space (0, 0, 0) to (100,100,100). The value of index of financial inclusion in the districts of Tamil Nadu is measured using the listed formula:

$$\text{Index of Financial Inclusion (IFI)} = 100$$

$$= \frac{\sqrt{(100 - BP)^2 + (100 - CP)^2 + (100 - SHGs)^2}}{\sqrt{3}}$$

BP= 1<sup>st</sup> Dimension to measure Branch Penetration in the District.

CP= 2<sup>nd</sup> Dimension to measure Credit given to Self Help Groups by the commercial banks.

SHGs= 3<sup>rd</sup> Dimension to measure number of members in SHGs in the particular district.

### 2.2.1 An Index of Financial Inclusion through Self Help Groups Bank Linkage Programme

Table 1 indicates the various dimensions for measuring financial inclusion. The secondary data of number of branch penetration and credit given to self help groups by banks for the year 2015 were retrieved from the website of state level banker's committee<sup>19</sup>. The penetration of self help groups around various districts of Tamil Nadu has been taken from Tamil Nadu Corporation for Development of Women<sup>20</sup> and the district populations were retrieved from census 2011<sup>21</sup>. CRISIL in June 2015 has generated a report of Crisil Inclusix by an index value for measuring India's Progress on Financial Inclusion. Table 2 indicates the Crisil Inclusix Scores for indicating the level of financial inclusion in various districts of Tamil Nadu. Through these categories the researcher could rank the region based on its scores generated by the particular district of Tamilnadu<sup>22</sup>. This Study has ranked the various districts of Tamil Nadu by calculating the overall Financial Inclusion Index based on the three different parameters such as Branch Penetration, Credit Penetration and Self Help Groups Penetration. An investigation has been done to measure the level of financial inclusion in various districts of Tamil Nadu using four different dimensions namely Credit penetration, Branch Penetration, Deposit Penetration and availability of Business Correspondent Models in the unreached rural areas for accessing banking services. The study has highlighted that Ariyalur has scored highest Score of financial inclusion Index in the year 2015 when comparing with other districts of Tamil Nadu by considering those dimensions<sup>23</sup>. In Table 3 indicates that the only district Thiruvarur has above average level of financial inclusion (say 42.029). The districts Karur, Perambalur, Krishnagiri, Nagapattinam, Ramanathapuram, Ariyalur, Theni, Nilgiris and Sivagangai have below average level of financial inclusion (Between 25.0 to 40.0). The districts Pudukottai,

**Table 1.** Various dimensions that measures index of financial inclusion

Dimensions	Parameters	Significance
Branch Penetration	Number of Bank Branches per 1Lakh Population in the District	Measures the facilities of Banking Services in the Districts of Tamilnadu
Credit Penetration	Credits given by banks to Self Help Groups	Measures the access of credit facilities given to Self Help Groups in various districts of Tamilnadu
Penetration of Self Help Groups	Numbers of Members in Self Help Groups	Measures the Numbers of People existing in Self Help Groups in various districts of Tamilnadu

**Table 2.** Index scores of financial inclusion based on CRISIL inclusix

Index Score	Level of Financial Inclusion
>55	HIGH
Between 40.1 and 55.0	ABOVE AVERAGE
Between 25.0 and 40.0	BELOW AVERAGE
< 25	LOW

Source: CRISIL Report 2013

**Table 3.** Index of financial inclusion through self help groups bank linkage programme

District Name	District Population	Dimension 1: Number of Bank Branches Per 1lakh Population	Dimension 2: Number of Members in SHGs Per 1Lakh Population	Dimension 3: Credits given to SHGs by banks per 1Lakh Population	Index of Financial Inclusion (IFI)	Rank
Thiruvavur	1268094	12.302	100	51.109	42.029	1
Karur	1076588	14.49	46.037	35.00874	30.601	2
Perambalur	564511	17.006	36.778	38.21387	29.992	3
Krishnagiri	1883731	9.98	17.78	100	29.609	4
Nagapattinam	1614069	10.904	45.129	34.94409	28.861	5
Ramnad	1337560	11.588	35.157	40.31154	27.924	6
Ariyalur	752481	9.303	52.825	26.5331	27.314	7
Theni	1243684	12.543	53.417	21.37115	26.965	8
Nilgiris	735071	15.917	51.05	17.05011	26.181	9
Sivagangai	1341250	18.043	33.835	27.20356	26.074	10
Pudukottai	1618725	13.097	35.62	26.9676	24.653	11
Thanjavur	2402781	12.694	28.963	33.52078	24.526	12
Dharmapuri	1502900	8.916	18.053	48.97477	23.371	13
Virudhunagar	1943309	12.916	24.763	28.5104	21.778	14
Kanyakumari	1863174	14.76	35.353	13.72659	20.650	15
Kancheepuram	3990897	14.132	16.662	31.65765	20.438	16
Thiruvannamalai	2468965	7.939	28.043	26.7999	20.392	17
Thoothukudi	1738376	13.403	20.917	22.91322	18.972	18
Erode	2259608	15.135	26.027	13.98365	18.199	19
Cuddalore	2600880	9.535	24.459	20.02973	17.767	20
Namakkal	1721179	13.595	24.196	15.27648	17.555	21
Villupuram	3463284	7.421	19.422	24.97786	16.947	22
Dindigul	2161367	12.677	21.472	13.88358	15.918	23
Chennai	4681087	30.356	10.99	3.17476	14.075	24
Thirunelveli	3072880	12.627	5.712	21.93607	13.168	25
Trichy	2713858	14.408	17.944	5.784073	12.560	26
Salem	3480008	10.259	8.848	13.29915	10.780	27
Madurai	3041038	13.943	5.775	11.93118	10.480	28
Vellore	3928106	9.037	0.00045	23.08345	10.201	29
Coimbatore	3472578	20.158	0.256	7.357123	8.881	30
Thiruvallur	3725697	10.28	7.957	2.286856	6.778	31
Tiruppur	2471222	13.556	1.635	0.021419	4.876	32

Thanjavur, Dharmapuri, Virudhunagar, Kanyakumari, Kancheepuram, Thiruvannamalai, Thoothukudi, Erode, Cuddalore, Namakkal, Villupuram, Dindigul, Chennai, Thirunelveli, Trichy, Salem, Madurai, Vellore, Coimbatore, Thiruvallur and Tiruppur has low level of Financial inclusion (<25). Therefore from this study we conclude that Self Help Groups (SHGs) play an active role in alleviating poverty and also for the successful implementation of financial inclusion in rural India.

### 3. Discussion and Conclusion

The Model of Self Help Group Bank Linkage Programme is said to be a platform for escalating the financial services to the people especially from the rural areas which in turn elevates the potential of our country with proper empowerment. Self Help Group Bank Linkage Model is said to be the successful model which are acceptable by the poor people. Therefore to revamp the status of financial inclusion, the Government of India and concern banking authorities should consider the members of self help groups for obtaining credit facilities in order to satisfy their basic requirements.

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