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FINANCIAL INCLUSION-A MICRO STUDY

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Abstract

In the present era, majority of the developing nations are striving hard for financial inclusion. Financial inclusion is the process of ensuring access of financial services, timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at affordable cost. The present study is aimed at assessing the role of Co -operative Societies in financial inclusion in Sringeri Taluk, Chickmagalur district of Karnataka State between 2007-08 and 2011-12. The study is based on secondary source of data, which are maintained by the banks. The study revealed that the Co-operative societies play a vital role in financial inclusion, excepting the insurance scheme and bank assets due to absence of separate arrangements for providing banking services and core-banking system in Co-operative societies.

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1. Introduction

Inclusive growth is the prime objective of the eleventh five-year plan of India. To achieve the goal, financial inclusion is sine qua-non. Inclusion of all sections of the society, especially the disadvantaged sections, in the process of development is known as inclusive growth. Whereas financial inclusion is the process of ensuring access of financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at affordable cost.[1]

Inclusive growth and financial inclusion are considered to be two faces of the same coin. In India, though the country has achieved substantial progress in all aspects, almost half of the country is still unbanked. Only 55 percent of the population has deposit accounts and 9 percent has credit accounts with banks. India has the highest number of households (145 million) excluded from banking.

In India, Co-operative Societies play a vital role in achieving financial inclusion. Therefore, the role of Co-operative societies in financial inclusion in Sringeri Thaluk, Chikmagalur district of Karnataka State has been taken up here for an analysis.

According to the World Bank report, "financial inclusion or broad access to financial services is defined as an absence of price or non-price barriers in the use of financial services."[2] The former U.N. Secretary General, Kofi Annan has emphasized on financial inclusion. He says, "the stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full

[1] .The Report of the Committee on financial Inclusion, January 2008, pp.35, data are gathered from www.google.co.in,date:24-02-2-14,time-11.57am.

[2]. Finance for All? Policies and pit falls in expanding Access: World Bank Report-2008, Washington DC, data are gathered from www.google.co.in,date:24-02-2-14,time:1.48pm.

participation in the financial sector. Together we can and must build inclusive financial sectors that help people improve their lives”.[3]

The term financial inclusion needs to be interpreted in a relative dimension depending on the stages of development. The degree of financial inclusion differs among countries. For example, in a developed country non-payment of utility bills through banks may be considered a case of financial exclusion, and not so in developing nation as the financial system is not yet developed to provide sophisticated services. The World Bank Report also recognizes that financial inclusion does not imply that all households and firms should be able to borrow unlimited amounts or transmit funds across the world for some fee. It makes the point that the credit worthiness of a costumer is critical in providing financial services. The report also stresses the distinction between ‘access to’ and ‘use of’ financial services as it has implications for policy makers. ‘Access’ essentially refers to the supply of services whereas ‘use’ is determined by demand and supply.

The term ‘financial inclusion’ has gained importance since the early 2000s and it is the result of identification of financial exclusion and also its direct correlation with poverty. Financial inclusion is now a common objective for many central banks among the developing nations including that of India. In India, the history of efforts towards inclusion began by setting up of the Khan Commission in 2004 by the RBI to look into financial inclusion and the recommendations of the commission were incorporated into the midterm review of the policy during 2005-06. In the report the RBI exhorted the banks to take suitable action with a view of achieving greater financial inclusion to make available a basic “no frills” banking account. In India financial inclusion for the first time featured in 2005, when K.C. Chakraborthy introduced it, the then Chairman of Indian

[3] . An Article,Financial Inclusion(Kofi Annan’s address on Financial Inclusion,dated on29th December, 2003),Wikipedia,data gathered from www.google.co.in,date:10/03/2014,time-3.35pm.

Bank. Mangalam village of Union Territory Pondicherry[4] became the first village in India where the households were provided banking facilities. In January 2006, the RBI permitted Commercial Banks to make use of the services of Non-Governmental Organizations (NGOs/SHGs), Microfinance Institutions and other Civil Society Organizations as intermediaries for providing financial and banking services. The RBI's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels leveraging on IT. Nevertheless, in India the issue of financial inclusion along with its various facets was deliberated in detail by the Committee on "Financial Inclusion: Government of India 2008" under the chairmanship of C.Rangarajan. The Committee observed that the essence of financial inclusion is in trying to ensure that a range of appropriate financial services are available to every individual and enabling the people to understand and access these services. Apart from the regular form of financial intermediation it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flow of a poor household, money transfer facilities, insurance (life and non-life) etc, to provide a whole gamut of financial services. However, in a restricted sense, financial inclusion can be achieved is some of the financial services, to start with credit can be offered.

2. SHG - Bank Linkage Programme Model and Financial Inclusion

SHG-Bank linkage model plays a pivotal role in financial inclusion. There was a misconception among the providers of credit that poor are not bankable. But the poor is grossly misunderstood by bankers and planners, which is evident from the success of Grameena Bank of Bangladesh, the pioneer of Micro Finance through SHGs in the seventies, by Mohammed Yunus. Mohammed Yunus is known as the father of SHGs.In India, for the first time, NABARD initiated SHGs in 1986-87.However, they took real shape after 1991-92 by the linking of SHGs with banks.

[4]. Mangalam village 100% Financial Inclusion a massive task: Gokarn-The Hindu, date: 10—08-2010,data gathered from www.google.com.in,date:25-03-2014,time:8.12pm.

The word SHG can be defined as a term and a concept. As a term, SHG literally means helping ourselves, and as a concept "I am for you and you are for me". It indicates that we must help ourselves and also help others to create an overall win-win situation. In general, SHG is a small economically homogeneous affinity group of the rural poor voluntarily coming together to save small amounts regularly which are deposited in common fund to meet members' emergency needs to provide collateral free loans decided by the group.

Nevertheless, inspite of the wide network of rural bank branches in India, which implemented specific poverty alleviation programmes that sought creation of self-employment opportunities through bank credit, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking systems.[5]

Due to market-oriented reforms in banking sector, the lacuna between rich and poor has increased. As a result, in rural areas 70 percent of borrowings of the richest households were institutional in nature, while this share was18 percent for the poorest households. To overcome this, the SHG-Bank Linkage Program (SBLP) was launched by NABARD in 1991-92 by linking SHGs with banks through a pilot project. The RRBs programme was upgraded to a regular banking programme in 1996. The scheme has since been extended to RRBs and Co-operative banks.

These formal banking systems already have a vast branch network in rural areas and, it was perhaps wise to find ways and means to improve the access for rural poor to the existing banking network.The SHG-bank linkage programme in which SHGs are linked to banks in a gradual way, initially through savings and later through loan products, is considered to be an effective strategy to ensure financial inclusion. The SHG-Bank linkage programme model has attracted attention as a possible way of delivering Micro Finance services to poor populations that have been difficult to reach directly through banks or other institutions. By aggregating their individual savings into a single

[5] NABARD (1999), Task Force Report on Supportive Policy and Regulatory Framework for Micro Finance, Mumbai,India. Data gathered from www.google.co.in, date: 27-02-2014, time 9.56pm.

deposit,Self-Help Groups minimize the banks transaction costs and generate an attractive volume of deposits. Through SHGs, banks can serve small rural depositors while paying them the market rate of interest. The present study has focused on the role of Co-operative societies in financial inclusion through Self-Help Groups,taking a particular Cooperative Societies for analysis/investigation.

3. Scope of the study

3.1 Study Area

The present study is an analysis of the role of Co-operative Banks/Societies in financial inclusion in Sringeri Taluk, Chickmagalur district of Karnataka State. The study focuses on the financial inclusion in terms of services like advances, savings and recoveries extended by the Co-operatives in Sringeri Taluk.

The name Sringeri has originated from *Rushyashrungagiri – Shrungagiri*, the hills connected with the great sage *Rushyashrunga*, whose legend is mentioned in the great epic Ramayana. It is the site where Adi Shankaracharya established a *math* almost 12 centuries ago for the propagation of the *Advaitha* Philosophy. Then onwards Sringeri has been well known all over the world and has developed into one of the most important centers of pilgrimage. Sringeri is situated on the banks of the river Tunga. Sringeri, even though a small taluk is culturally and economically one of the most advanced taluks in Chickmagalur district.

There are many commercial banks and rural banks functioning along with Co-operatives. Co-operatives are dominating compared to commercial and rural banks in terms of coverage in rural areas in India. Co-operatives play a vital role in financial inclusion due to the wide network of rural branches and also the rate of interest on loans of SHGs is lower than that of the commercial banks. So, maximum numbers of SHGs have linkages with Co-operatives and are also sponsored by Co-operatives in Sringeri Taluk. Hence, the present study is concerned only with Co-operatives in financial inclusion through SHGs. There are six Primary Co-operative Societies and one branch of

District Central Cooperative Bank functioning in rural areas and the town of Sringeri respectively.

4. Objectives of the study

The major objective of this study is to analyze the role of Co-operative societies in financial inclusion. The specific objectives are;

i) To analyze the role of Co-operative societies in providing advances to the SHGs.

ii) To study the role-played by the Co-operative societies in mobilizing the savings of SHGs.

iii) To identify the recoveries of the SHGs in Co-operative societies.

iv) To analyze the role played by Co-operatives in provision of bank services like, ATM cards, Credit cards and Money Transfer.

5.Methodology

5.1. Data collection and analysis

The present study is based on secondary source of information. The secondary data are gathered from the records maintained by the offices of the Co-operative societies and their annual balance sheets. The required information is gathered through face-to-face interaction with the Managers and staff of the banks. The so gathered data are analyzed through simple tables and bar diagram. Data from2007-08 to 2011-12 related to the number of SHGs, members of SHGs, advances, savings, recoveries from the SHGs and insurance holders of the SHGs of Sringeri taluk are used in the study for analysis carried.

6. Brief Review of Literature

A number of studies have been carried on various aspects of SHG-Bank Linkage Programme, Micro Finance, Co-operative Societies and financial inclusion. It will be appropriate here to review briefly some of them.

Rangarajan in his report, ***Committee on Financial Inclusion (2008),*** has stated that the process of ensuring 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 is to be made popular and effective.

Savita Shankar (2006), in her study entitled ***Efficient Credit Models in Micro finance in Tamil Nadu,*** opines that the most popular model for the dispensation of micro credit in India is the group lending model.

Priya Basu (2005), in an article, ***A Financial System for India's Poor,*** emphasizes that, if India is serious about building a more inclusive financial system that works for the poor, it must re-think its rural financing strategy, and policies. Institutions and markets need to be transformed with an eye on improving the efficiency of the formal rural finance sector.

Karmakar K.G (2008), in his edited book entitled ***Micro Finance in India*** discussed the major issues such as Micro Credit and Microfinance concepts, SHGs and Women Empowerment, SHG-Bank Linkage Programme and their role in financial inclusion.

Radhakrishnan R. (2006), the Chairman of ***the Expert group on Agricultural Indebtedness,*** has made a large number of recommendations covering immediate credit measures, financial architecture, institutional architecture, risk mitigation and other measures.

Erhard W Kropp and B.S Suren (2002), in their study, ***Linking Banks and (Financial) Self - Help Groups in India - An assessment,*** have worked on SHGs and their origin, the role of NABARD in SHG-Bank Linkages to reach banking services to the poor of the country through micro finance system and the performance level of the SHG-Bank Linkage Programme in India.

7. Co-operatives and Financial Inclusion

According to the guidelines of the RBI, it is mandatory for the Co-operative societies to take part in the task of financial inclusion. Co-operative Societies are financial entities belonging to its members, who are at the same time the owners and the customers of their bank. Persons belonging to the same local or professional community or sharing a common interest often create co-operative banks. Co-operatives generally provide their members with a wide range of banking and financial services, such as loans, deposits, banking accounts etc. They are regulated by the RBI, and governed by the Bankings Regulation Act of 1949 and Banking Laws (Co-operative societies) Act 1965.

7.1 The structure of Co-operative banks is three tiered.

1) The State Co-operative Bank works at the apex level i.e. at State level.
2) The Central Co-operative Bank works at the intermediate level, i.e., District Co-operative Banks work at District level.
3) The Primary Co-operative Credit Societies work at base level i.e. at village level.

The present study has focused on the role of Primary Co-operative Credit Societies in financial inclusion in Sringeri taluk of Chickmagalur district. The Primary Co-operative Credit Banks are an association of borrowers and non–borrowers residing in a particular locality. The funds of the society are derived from the share capital and deposits of members and loans from the Central Co-operative Banks. The borrowing powers of the members as well as of the society are fixed.

As a part of SHG–Bank Linkage Program, Primary Co-operative Credit Banks are rendering yeoman financial services to the rural poor through SHGs, this leads to financial inclusion in terms of lending, and mobilizing savings of the members of SHGs. Apart from this, they promote formation of SHGs in their coverage area. Loans are given to the SHGs depending on the amount of the savings. Soon after an SHG is formed initially an amount equal to the savings of the SHG is given as loan. Later second and third time loans are given at the ratio of 2:1 and 3:1 respectively. The maximum ceiling of the loan amount is Rs 3 lakhs to one SHG and the rate of interest is 4 percent per annum. The loan period is 36 months and according to the loan period EMI is fixed.

Repayment of loans is the shared responsibility of all members of SHGs. Hence, due to peer group pressure, the recoveries of the loans are very good and there is a complete absence of defaulters.

There are six Primary Co-operative Societies and one branch of District Central Cooperative Bank functioning in rural areas and the town of Sringeri respectively. All the Cooperatives are taken for the study. The performance of the Primary Co-operatives could be estimated by the data as presented in the Table-1.

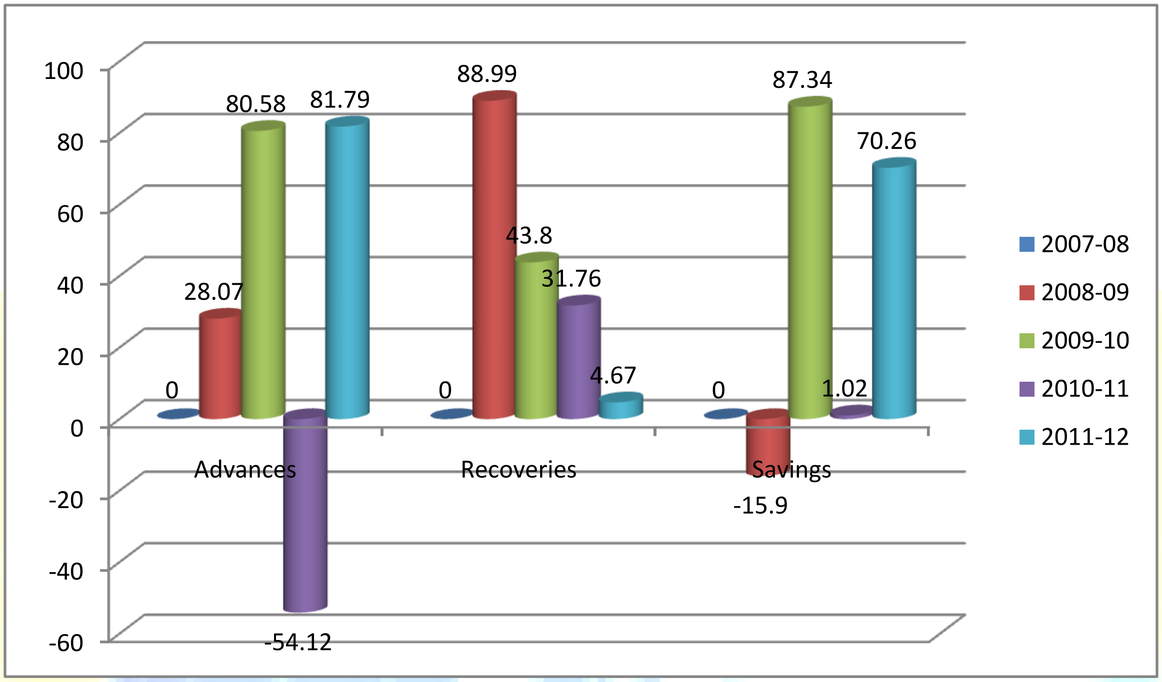
Table-1:Growth Performance of Financial Inclusion through SHGs.

Description		2007-08	2008-09	2009-10	2010-11	2011-12	Grand Total
1.Advances	1.number of SHGs that obtained loans	39	82 (110.26)	94 (14.63)	65 (-30.86)	73 (12.3)	353
	2. Number of SHG members who obtained loans	498	929 (86.54)	1056 (13.67)	795 (-24.71)	868 (9.18)	4146
	3.Total amount of loans(in Rs)	35,41,000	45,35,100 (28.07)	81,89,500 (80.58)	37,56,700 (-54.12)	68,29,500 (81.79)	2,68,51,800
2.Recoverise	1.Total recoveries from the SHGs(in Rs)	961000	1516227 (88.99)	26.11.875 (43.80)	3441487 (31.76)	3602296 (4.67)	12432825
3. Savings	1.Number of SHGs that made savings	138	173 (25.36)	176 (1.73)	199 (13.06)	178 (-10.55)	864
	2. Number of members of SHGs who made savings	1807	1604 (-11.23)	2280 (42.14)	2480 (8.77)	2648 (6.77)	10.819
	3. Total amount of savings from the SHGs(in Rs)	4020400	33.80.800 (-15.90)	63.33.659 (87.34)	3.98.532 (1.02)	1,08,94,481 (70.26)	3,10,27,872
4.Other bank assets	1.ATM Cards	00	00	00	00	00	00
	2.Credit Cards	00	00	00	00	00	00
	3.Money Transfer	00	00	00	00	00	00

Source: Records maintained by the Co-operative Bank.

Note: Figures in parentheses are growth-rate percentage change over previous year.

Diagrams: The percentage of growth rate is presented in Graphs with respect to Loans, Savings and Recoveries are as following:



The data presented in Table-1, consist of four parts; they are Advances, Recoveries, Mobilization of Savings and other bank Assets provided by the Co-operatives of Sringeri taluk.

The first part is concerned with advances to the SHGs amounts to Rs. 2, 68,51,800 for five Years advanced to 353 SHGs and with a total of 4146 members. The data represents that in all aspects and in particular, the number of SHGs' members and amounts increased significantly during 2007-08 to2011-12, except in 2010-11. The year 2010-11 reveals a negative annual growth, with the growth rate-30.86, -24.71 and -54.12 concerning the number of SHGs, members and amounts respectively. The study found that this is due to the fact that majority of SHGs were formed in the year 2007-08 and secured loans during 2008-09.Hence, the growth rate shows the highest percentage of 80.58 and as the term period of loans is 36 months, there is no borrowing for 3 Years. Therefore, the growth rate has been negative during 2010-11.The highest growth rate is recorded during 2011-12 at 81.79 percent. In the case of number of SHGs, 2008-09 has highest growth rate of 110.26 and the number has increased from 39 to 82. The least growth rate is recorded during 2010-11 i.e. -30.86.

In recoveries area the records show Cent Per Cent repayment of monthly installments fixed by the banks to the SHGs. The highest percentage of recoveries is observed at the rate of 88.99 percent during 2008-09. The least growth rate at 4.67 percent is seen during 2011-12, but as for amounts, it is higher than the previous year.

As for mobilization of savings, it is more than of loan amounts. It recorded a total amount of Rs. 3,10,27,572 for 5 Years as against the total loan amount of Rs. 2,68,51,800.It is one of the significant achievements of the Co-operatives because they have more branches in rural areas, and it is certainly impossible for others who lack this network. The percentage of growth rate varies from year to year. The data reveal negative growth of savings at -15.90 percent during 2008-09. The reason for this is the withdrawal of savings by the SHGs to use this amount for giving internal loans to earn profit by charging interest. The highest growth rate is recorded during 2009-10, at 87.34 percent. The number of members who are included in savings during 2011-12 is 2648.

In the financial inclusion of other bank assets like the use of ATM Cards, Credit Cards and money transfer, no activity has taken place. The table shows Zero Per Cent of growth rate, it may be due to absence of core banking system in co-operatives.

8. Findings and suggestions

The study has found many things in the role of Co-operatives in financial inclusion as follows:

1. The growth rate of financial inclusion of loans, mobilization of savings, recoveries and other bank assets vary from year to year.
2. Compared with other services, mobilization of savings has achieved considerable progress.
3. The Co-operatives have carried out the task of providing banking services to the SHGs. This process of financial inclusion has been carried out by the Societies

along with the day-to-day business of the banks and there is no separate infrastructural or functional set up.

4. The inclusion of bank assets like ATM cards, Credit Cards, Money transfer has not taken place due to absence of core-banking system in Co-operative societies.
5. The repayments of monthly installment of the loans are quite satisfactory and the achievement is hundred percent in the cases that have been studied. It proves that the poor of the rural areas are also bankable.

8.1 Suggestions

Following suggestion**s** are given for a better working of Co-operative Societies in the process of financial inclusion:

1) To provide banking services like ATM Cards, Credit Cards and Money transfer Facilities, Co-operatives should be brought into the fold of core-banking system.
2) To promote effectively the task of financial inclusion through Co-operatives, there should be separate and effective infrastructure in them.
3) Arrangements for bringing the rural poor into the fold of insurance through SHGs have to be made. Separate measures can be taken by appointing separate staff or promoting agencies.
4) The ceiling of loan amount is limited to Rs 3lakhs to SHGs have to be increased.

9. Conclusion

In the absence of branches of Co-operatives in rural area, nothing could be achieved in the field of financial inclusion. Because the branches of commercial banks and Regional Rural Banks are sparsely located in a taluk like Sringeri, the branches of Cooperatives assume a lot of importance. With certain changes made as suggested in this study, Co-operatives could make remarkable progress in this field.

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