Financial Inclusion through Micro Finance: The way to Rural Development.A Case Study of Rajapalayam Block in Virudhunagar District

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Abstract

Financial Inclusion is a key factor in shaping the growth process of the economy. In India, Micro Finance has emerged as a powerful tool for financial inclusion, which links low income groups with banks. Micro Finance is dominated by the Self Help Groups. So SHGs are playing a very important role in the process of financial inclusion. Motivation to save is the first and for most reason for opening an account. All the beneficiaries of micro finance accept that they have gained greater economic and social security due to the access to micro finance services.Though financial inclusion has become the buzzword in present – day financial circles, there are miles to go, before it becomes a reality among the rural population.

Key Words: *Financial Exclusion, Financial Inclusion, Micro Finance, Self Help Groups and Rural Development*

Introduction

Financial Inclusion is an integral part of the growth process. It is critical for achieving inclusive economic growth and only such a growth is sustainable. It is an acknowledged fact that Indian economy is one of the fastest growing economies in the world. (GDP growth rate was 7.4 percent in 2009 – 2010 in India as against global growth rate of 3.1 per cent). Majority of the population in India resides in rural areas. According to 2011 census, total population of India is 121,01,93,422 crores. Out of which, the rural population is 83,30,87,662 and the urban population is 37,71,05,760. Thus development of rural India is a key for economic development. Credit is one of the very important inputs of economic development. The timely availability of credit at an affordable cost has a big role to play in contributing to the well being of the weaker sections of the society. Proper access to finance to the rural people is a key requisite to employment, economic growth and poverty alleviation which are primary tools of economic development. Micro Finance, Self –Help Groups and Financial Inclusion are the three dimensional approach to eliminate poverty and ensure rural development. Micro Finance has emerged as a powerful tool for financial inclusion, which links low income groups with banks. But in India, Micro Finance is dominated by the SHGs. It is a bank linkage programme. Through a cost effective mechanism it aims at providing financial services to the unreached poor. So SHGs are playing a very important role in the process of financial inclusion.

Financial Exclusion

To understand the concept of financial inclusion, it is necessary to know the meaning of financial exclusion.

Financial exclusion refers to a situation where people encounter difficulties in accessing and/or using financial services and products in the mainstream market that are appropriate to their needs which enable them to lead a normal life in the society. The poor, socially under-privileged, disabled, old as well as children, women, uneducated, ethnic minorities and unemployed are financially excluded in India

Financial Inclusion

Financial Inclusion is a delivery of banking services at affordable cost to vast sections of disadvantaged and low income groups.

Micro Finance

"Micro Finance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of the society.

Self Help Groups

SHG means small, economically homogeneous and affinity groups of rural and urban poor, voluntarily formed to save and contribute to a common fund to be lent to its members as per group decision and for working together for social and economic up liftment of their families and community.

Rural Development

Rural Development has been described as a challenge for a mission to fight against poverty, illiteracy, stagnancy, unemployment, ill-treatment and various socio-economic backwardness. According to Prof. Mohamad Yunus, rural development is primarily concerned with addressing the needs of the rural poor in matters of sustainable economic activities.

Need for Financial Inclusion

In most developing countries, a large segment of society, particularly low-income people, have very little access to financial services, both formal and semi-formal. As a consequence, many of them have to necessarily depend either on their own or high cost informal sources of finance such as moneylenders. This is particularly true for the sporadic financing requirements of low income households for non-productive consumption purposes and other emergency requirements such as medical expenditure. Benefits of growth, therefore, tend to concentrate in the hands of those already served by the formal financial system.

Despite the rapid spread of banking over the years, significant segment of the population, predominantly in the rural areas, is excluded from the formal financial system. It is well-known that poor people, potential entrepreneurs, small enterprises and others are excluded from the financial sector, which leads to their marginalization and denial of opportunity for them to grow and prosper. Therefore, access to a greater proportion of the population to the organized financial system should be high on the agenda of the Government of India. The key issue, however, is how to mainstream the institutional sources so as to achieve wider coverage in terms of extending credit. There are also a large number of households with low income and small savings, which need to be mobilized.

Apart from the rural areas, there is significant degree of financial exclusion in urban areas as well. The cost of financial exclusion is recognized to be enormous for the society as well as for individuals, particularly in terms of inability to realize full potential due to financial constraints.

The recent developments in banking technology have transformed banking from the traditional brick-and-mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATMs), credit/debit cards, internet banking, online money transfers etc. However, the access to such technology is restricted only to certain segments of the society.

The essence of financial inclusion is trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those 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 flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (Life and non-life) etc. While financial inclusion, in the narrow sense, may be achieved to some extend by offering any one of these services, the objective of comprehensive financial inclusion would be to provide a holistic set of services encompassing all of the above.

Significance of the Study:

Even after more than six decades of planned economic development and despite various attempts made to provide financial assistance, poor people in rural area still remain in poverty. The success of poverty alleviation and employment generation program lies in the evolution and participation of community based organizations at the grass root level. People's participation in the credit delivery and recovery and the linking of the formal credit institutions and borrowers through intermediaries (SHGs) have been recognized as a supplementary mechanism for providing credit support to the rural poor. The primacy of community organizations and people's participation in the financial service sector has been the central theme of most of the micro finance centered poverty alleviation program. There is a social intermediation through SHGs so that financing is cost effective and the system of group lending avoids the intermediation of credit brokers between banks and the clients and also reduces individual's borrowing transactions costs.

Formation of SHGs is an important method which enables the downtrodden in the rural areas to become self reliant and obtain financial independence and freedom so that they can play an active role in the process of development. SHGs help in inculcating the positive values of cooperation, mutual help and mutual trust among the members. Since most of the SHGs comprise of women members, the functioning of SHGs helps in the attainment of community development through development and empowerment of poor women.

It is important to note that the most significant area of operation of SHGs is micro finance. Micro finance is a system of providing financial assistance to the poor, to free them from the clutches of local money lenders and enable them to undertake economically productive activities for attaining community development. The poor and the needy in the rural areas, always have to depend on money lenders and land lords for getting financial assistance. These local money lenders always charge exorbitant rate of interest on the amount of credit advanced by them. It is, therefore, important to know whether the inception of SHGs have significantly reduced the dependence of poor on the money lenders. The SHGs provide financial assistance based on the amount of saving made by the beneficiaries. Hence it is worthwhile to analyze the role of the SHGs in the saving habit of its members. It is mandatory to analyze the utilization of loans and its subsequent impact on income generation and employment and its further reflections on the trend in increasing the standard of living and consequent development of the society. SHGs in the country have reached greater heights in terms of number of SHGs formed, number of beneficiaries, amount of savings and amount of loans availed. Definitely SHGs have achieved a lot in quantitative and qualitative terms. The present study attempts to review the role of SHGs, towards the development of rural community.

Statement of the problem

It is proposed to conduct a study on Financial Inclusion and its impact on rural development through micro finance in Rajapalayam Block, Virudhunagar District. Policy makers recognize the relationship between well developed financial systems and Economic Growth as well as Economic Growth and poverty reduction. A paradoxical question arises here, can a well developed financial system serve the poor? It is a fact that banking services are in the nature of public good. It is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of public policy. Before nationalization of the banks the Financial services were available only for the elite group of the population in India. Even after forty years of nationalization of the banks, 60 per cent of the rural population does not have bank accounts and nearly 90 per cent do not get loans. Reserve bank of India's vision for 2020, is to open nearly 600 million new customers' accounts and serve them through a variety of channels by leveraging on IT. However illiteracy, low income, low savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Economic growth with equity follows Financial Inclusion. A micro level research can be undertaken to analyze the change in the economic status of the rural people and the availability of the financial services. Micro Finance has come into existence as an alternative program to finance the poor. At the present juncture, it is important to analyze the effectiveness of micro finance in solving the problems of the poor people and its repercussion on income, assets, savings, and acquisition of new skills, networking, social capital and employment generation. In this context, the role of SHGs on women has assumed a critical challenge. SHGs approach is the key element of social mobilization and linked with Micro finance, SHG approach and movement has now been accepted as an effective intervention strategy for rural development.

Objectives of the present study

The tentative objectives of the present study are:

- Understanding the present status of India's Financial Inclusion
- Estimating the financial inclusion index for various states in India.
- Studying the relationship between Financial Inclusion Index and socio economic variables.
- Examining the role of financial inclusion on rural development through micro finance beneficiaries in the study area.

Methodology

The researcher has selected Rajapalayam block, to examine the objectives of the study, based on both primary and secondary data which is empirical in nature. The first three objectives have been analyzed purely with the help of secondary data, collected from various journals and magazines such as Economic Survey, The Planning Commission Report, RBI report, Hand book of Statistics of Indian Economy, NABARD Reports, Newspapers, Journals, books, websites and records of 'Mahalir Thittam' Office in Virudhunagar district and Block Development Office in Rajapalayam. A well-structured interview schedule has been administered to collect primary data from the sample respondents. Virudhunagar district consists of eleven blocks. Due to certain constraints, and to have a microscopic analysis, Rajapalyam block has been selected for this study. There are 1320 SHGs functioning in this block, out of which 25 SHGs have been selected at random. From each of these selected SHGs 10 members have been selected. Altogether 250 members have been selected as respondents of the study. Simple random sampling technique has been adopted to locate the respondents. Statistical tools like, the percentage, mean, Z-test, correlation, regression, dummy variable model and Garrett's ranking techniques are used to analyze the collected data.

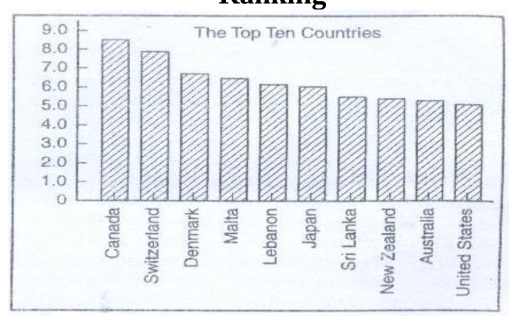
Profile of the study area

Rajapalayam, is one among the 11 blocks in the Virudhunagar district with 36 panchayats and 58,600 households. Total population of this block is 1,55,695. Out of this, the total numbers of male literates are 54,125 and female literates are 52,860. Around 1320 SHGs are functioning under 8 NGOs. The total loan amount availed is approximately Rs. 357.95 lakhs and 126 SHGs have availed repeated loans to the extent of Rs. 295 lakhs. It is observed that greater part of the Micro Finance services availed by SHG members are from Nationalised banks like SBI, CB, UBI, PGB and TNMB. Though the formation of SHGs started in the year 1998-1999, loans are availed from 2004-2005 from the banks. Hence it has been justified to choose Rajapalayam block as our study area to analyze its impact of Financial Inclusion through Micro Finance on rural development.

Present Status of Financial Inclusion in India

To understand the present scenario, a systematic study has been made by using the secondary data. The financial Inclusion ranking of 81 top countries gives a clear picture about the position of India's financial accommodation as depicted in figure 1.

Fig. 1: Index for Financial Inclusion Ranking



Source: Ruddert Datt, K.P.M Sundharam, Indian Economy

From figure 1, it is observed that Canada tops the list among the group of 81 countries US is in 10th place, China in 19th place and UK in 20th place. India is in 50th place.

Banking scenario

In India around 59 per cent of the population has bank accounts. Out of this 40 per cent are in rural areas and 60 per cent in urban areas. National Sample Survey Organisation (NSSO) estimates that out of a total of 89.3 million households which do not have access to credit 45.9 million are farmer households in the country. Reserve Bank of India shows that as many as 139 districts suffer from massive financial exclusion with the adult population per branch in these districts being above 20,000 and only three per cent with borrowing from banks. Roughly 80 per cent of Indian population is living without health, life and non-life insurance coverage.

Financial Inclusion: Indian perceptive

The various financial services considered by Financial Inclusion Committee (2008) is summarized in figure 2.

Figure 2-Products of Financial Inclusion

Source: Ruddert Datt, K.P.M Sundharam, Indian Economy

Financial Inclusion and Micro Finance

The concept 'financial inclusion' marks a major paradigm shift from the now well-known concept of micro finance in retail banking services for customers excluded by banks that serve the wealthier sections of the market. Recently, it has been seen as an important element in financial exclusion. An inclusive financial sector, on the other hand, is defined as one that offers a range of financial services to the entire active population. It is characterized by (i) competition among financial service providers, (ii)a wide range of financial service providers, (iii) sustainability with respect to the permanence of access to financial services, and (i*v*)legal and regularity environments that are built to ensure the integrity of the financial sector and access to financial services. Micro Finance in India has emerged as a powerful tool for Financial Inclusion. Micro Finance is a novel approach to "banking with the poor".

Self Help Groups: Viable tool for Financial Inclusion

Self Help Groups play a very important role in the process of financial inclusion. SHGs provide rudimentary banking services to members at a cost effective basis and meet urgent credit requirements in time and ensure cent per cent repayment of loans. Usually they are working with the support of an NGO. The SHG is given loans against the group members' guarantee. Peer pressure within the group helps in improving recoveries. Through SHGs nearly 40 million households are linked with the banks.

Microfinance Program through SHG-Bank Linkage

The SHG-Bank Linkage program plays a predominant role in the Financial Inclusion of poor. Bank linkage has been launched by the government of India as a strategy of poverty alleviation and rural development. The SHG-Bank linkage program, introduced and encouraged by NABARD, is now being implemented in more than 30,000 branches of commercial banks, RRBs and Cooperative Banks in over 520 districts in 30 States and seven Union Territories. Micro finance has tremendous progress in India during the last few decades. The SHG- Bank Linkage Program has been an initiative towards financial inclusion, which the government of India is striving for a long time. The progress of the SHG-Bank Linkage Program is depicted in Table 1.

Table 1: Bank Loan to Micro Finance Institutions

Agency	Years	Amount of Loan Disbursed to NGOs/MFIs		Amount of Loan outstanding against NGOs/MFIs		Percentage Recovery
		No. of MFIs	**Rs. In Crores**	**No.of MFIs**	**Rs. Crores**	
Commercial Banks	2007-2008	497	1968.60	1072	2745.24	82-100
	2008-2009	552	3718.93	1762	4977.89	70-100
RRB's	2007-2008	8	1.51	24	3.58	90-100
	2008-2009	59	13.40	153	31.20	87-100
Co-operative Banks	2007-2008	13	0.04	13	0.02	100
	2008-2009	0	0	0	0	NA

Source: www.nabard.com

In the year 2007-08, 1072 MFIs had outstanding loan to be repaid to the commercial banks to the extent of Rs. 2475 crores and it was reported that recovery rate was 82 to 100 percent. In the very same year, 497 MFIs got new loan amounting to Rs. 1968 crores. The number has increased to 552 MFIs getting new loans to the extent of Rs. 3719 crores in 2008-09, which made the recovery rate to slip down to 70 to100 per cent. As per data in the table 1, only eight MFIs got loan from RRBs in 2007-08. In the very next year the number has increased to 59. The outstanding loan to be repaid by MFIs to RRBs have increased to Rs.31.20 crores in 2008-09 from hardly Rs.3.58 crores Co-operative Banks play an insignificant role in the distribution of loan to MFIs. The main focus of this programme is on the rural poor who have no sustainable access to the formal banking systems. The progress of SHG Bank Linkage Program in India is presented in Table 2.

Table 2

Progress of SHG Bank Linkage Program in India

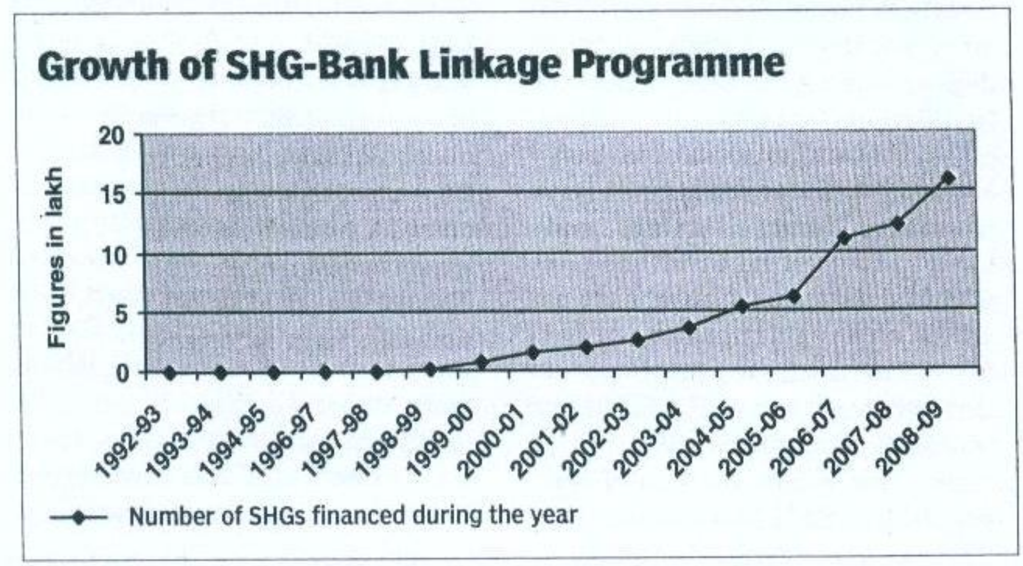
Year(as on 31st March)	Cumulative No. of SHGs	Cumulative bank loan disbursed(Rs. in crore)	Cumulative refinance provided by NABARD (Rs in crore)
1992-93	255	0.29	0.27
1996-97	8,598	11.84	10.65
1999-2000	1,14,775	193.00	150
2000-01	2,63,825	481.00	395.00
2001-02	4,61,478	1,026.00	790.00
2002-03	7,17,360	2,049.00	1,423.00
2003-04	10,79,091	3,904.00	2,118.00
2004-05	16,18,456	6.898.00	3,086.00
2005-06	22,38,565	11,398.00	4,154.00

2006-07	28,94,505	12,366.49	6,570.39
2007-08	36,25,941	16,999.90	6,849.26
2008-09	44,24,338	22,679.85	12,256.51

Source:www.nabard.com

The table 2 represents a steady growth pattern of SHGs and their disbursement of bank loans and the refinance structure of NABARD. In the year 1992-93, only 255 SHGs were in existence and in 2008-09 the number reached 44,24,338. The cumulative bank loan disbursed was Rs.0.29 crores in1992-93 and it has increased to Rs.22,679.85 crores in 2008-09. The refinance from NABARD also increased from Rs.0.27 crores to Rs.12,256.51 crores during this period. The progress of SHG bank linkage program is presented in figure 3.

Figure 3



The SHG Bank linkage has many advantages. It enables to tap the savings of the economically active rural poor. It also reduces lending risks because if one borrower cannot repay, others will come to their rescue. Bankers need not study all the borrowers as SHGs take up that job. This reduces transaction costs for the banks. The beneficiaries, who borrow small amounts initially, can get larger amounts at a later stage. The Progress of Micro Finance as on 31st march 2009 is presented in Table 3

Table 3
Progress of microfinance as on 31 March 2009(Rs. in Crores**)**

Particulars	Commercial Banks	Regional Rural Banks	Co-operative Banks	Total
Total Savings				
Number of SHGS	35,49,509	16,28,588	9,43,050	61,21,147

Amountof Savings	2,772.99	1,989.75	782.88	5,545.62
Loan disbursed during 2008 – 2009				
Number of SHGs	10,04,587	4,05,569	1,99,430	16,09,58 6
Amount of loans disbursed	8,060.53	3,193.49	999.49	12,253.5 1
Loans outstanding				
Number of SHGs	28,31,374	9,77,834	4,15,130	42,24,33 8
Amount of loans outstanding	16,149,43	5,224.42	1,306.00	22,679.8 4
Non Performing assets as a % to outstanding banks loans	2.4	4.2	6.8	2.9

Source: Microfinance World, Jan, - Mar 2010

More than 42 lakh SHGs have loan outstanding to the tune of Rs 22,679.85 crore with the banking system as on 31 March 2009. The banking system has mopped up low-cost deposits to the tune of Rs 5,545 crores through 61 lakh SHG saving bank accounts. The SHG-Bank Linkage program has amply proved that banking with the poor is no longer an impractical and far-fetched idea. Banking with the poor is here to stay. On 26th February 2011 SHG-Bank linkage program completed 19 years of progress. The SHG-Bank Linkage Program has impacted the lives of eight crore rural people all over India with scope for further expansion.

Indian Scenario-Measures taken by RBI towards 100% Financial Inclusion

The Reserve Bank provides an overall macro policy direction and support, new products and services such as the 'No Frills Accounts', GCC and relaxed regulatory dispensation on branch authorization & KYC norms, besides providing financial support through the two funds operationalized through NABARD namely Financial Inclusion Technology Fund and the Financial Inclusion Fund.

- Bank nationalization in India marked a paradigm shift-shift the focus from class banking to mass banking.
- A post office card account (POCA) has been created for those who are unable or unwilling to access a basic bank account.
- Encouraging banks to open no frills accounts with low or zero minimum balances.
- As on March 2011, 7.44 crore 'no frills accounts' have been opened by banks with outstanding balance of Rs. 6565.68 crore.
- Banks have been advised to provide small overdrafts in no frill accounts. Up to March 2011, banks had provided 41.77 lakh overdrafts amounting to Rs. 198.73 crore.
- Banks have been asked to consider introduction of a General Purpose Credit Card(GCC) facility up to Rs.2500/- at their rural and semi-urban branches.
- As on March 2011, banks had provided credit aggregating Rs. 1287.66 crore in 8.83lakh General Credit Card (GCC) accounts.

- Relaxing Know-Your Customer (KYC) for deposits upto Rs.50000 and credit upto Rs. 1 lakh.
- Using NGOs/MFIs as business facilitators/business correspondents.
- The average population per branch office has decreased from 64000 to13756 by June 2008.
- Regarding credit counseling/Financial education, RBI launched website in 13 Indian languages.
- National Rural Employment Guarantee Act was enacted and its coverage extended to 614 districts in 2008-09; 100 days employment per annum is provided to 5 crore households; 4.6 crore bank/institutional accounts have been opened. This is the largest Financial Inclusion effort since independence.
- In November 2009, banks were advised to draw up a road map to provide banking outlet in every village with population over 2,000, extending financial inclusion to more than one lakh villages. A total of 72,814 such unbanked villages were identified and as on March 2011, 24,710 banking outlets have been opened in various villages across the country.
- Corporates are given chance to open a bank, if they have ten years service and with capital of Rs.500 crores.
- As a part of strategy towards Financial Inclusion, government is planning to provide financial services to the door steps of senior citizens by offering a package of banking services.

Current status of Financial Inclusion in Tamil Nadu

- Pertaining to the availability of data 100 per cent Financial Inclusion has been achieved in the districts of Cuddalore, Kanyakumari, Madurai, Theni, Nilgiris and Tiruvarur with regard to the opening of 'No Frills account'.
- By the end of March 2009, 3378165 'No Frills accounts' have been opened and 25040 General purposes Credit Cards (GCC) have been issued by the banks in the state.
- Some of the banks like SBI and Lakshmi Vilas Banks (LVB) have adopted the Business Correspondent/Business Facilitator (BC/BF) model introduced by RBI. SBI is making use of their retired employees as BC/BF. Branches of SBI are using SHGs Business Facilitators in extending their business outrage as well as for recovery of loans.
- Under Kshetriya Gramin Financial Services (KGFS, two districts of Thanjavur and Thiruvarur are covered. Pudhuaaru bank branches under KGFS scheme are opened in 57 places in Thanjavur district and 70,000 customers are benefited through these banks and they rely on this for microfinance.

Computation of Index of Financial Inclusion for various states in India

The second objective of this study is to estimate the financial inclusion index for various states. This index is the multi dimensional index, which follows the work done by Mandra Sharma (June 2008, Indian Council for Research on International Economic Relation). The index is calculated separately for three dimension, i.e.1) Banking Penetration (BP)-it is calculated by using the bank population, i.e. number of people having bank account is a measure of the banking penetration of the system.2) Availability of banking services (BS) is measured using the number of bank branches per state. 3) By incorporating the usage of the banking system dimension (UB), the researcher has considered two basic services of the banking system i.e credit and deposit. Accordingly, the volume of credit and deposit as proportion of the state's NSDP has been used to measure this dimension.

Results

Index of Financial Inclusion has been computed, based on the data available in respect to all three dimensions-penetration, availability and usage, for 29 states in India for the year 2009. Considering the above three dimensions, the researcher considered a state i, a point (P_i, U_i, A_i) in the three dimensional Cartestian space, the point (0,0,0) indicates the worst situation (complete financial exclusion) and the point (1,1,1) indicates the best or ideal situation (complete financial inclusion) such that $0 \leq P_i, U_i$ and $A_i \leq 1$. Here the IFI is calculated by the normalized inverse Euclidean distance of the point (P_i, U_i, A_i) from the ideal point (1,1,1). Algebraically IFI = 1 – $\sqrt{}(1 - P_i^2) + (1 - U_i^2) + (1 - A_i^2) / \sqrt{3}$

States are categorized into three types on the basis of following values of IFI

- $0.5 \leq$ IFI ≤ 1 – High financial inclusion
- $0.3 \leq$ IFI ≤ 0.5 – Medium financial inclusion
- $0 \leq$ IFI ≤ 0.3 – Low financial inclusion

Table 4
Index of Financial inclusion

States	**P_i**	**U_i**	**A_i**	**IFI**	**Rank**
Chandigarh	*0.002*	*0.638*	*0.455*	*0.311*	*2*
Delhi	*0.136*	*1.000*	*0.294*	*0.356*	*1*
Haryana	0.192	0.094	0.142	0.142	23
Himachal Pradesh	0.118	0.085	0.153	0.118	27
Jammu & Kashmir	0.222	0.137	0.108	0.105	28
Punjab	0.111	0.156	0.201	0.156	19
Rajasthan	0.341	0.080	0.067	0.153	21
Arunachal Pradesh	0.424	0.113	0.050	0.179	13
Assam	0.494	0.042	0.055	0.170	16
Manipur	1.000	0.005	0.002	0.186	12
Meghalaya	0.315	0.075	0.062	0.142	23
Mizoram	0.244	0.056	0.018	0.101	29
Nagaland	0.599	0.017	0.000	0.158	18
Tripura	0.537	0.028	0.069	0.178	14
Andaman & Nicobar Island	0.230	0.055	0.186	0.154	20
Bihar	0.746	0.092	0.047	0.226	5
Orissa	0.304	0.087	0.054	0.141	25
Skikkim	0.147	0.178	0.076	0.132	26
West Bengal	0.378	0.120	0.94	0.187	11

Madhya Pradesh	0.568	0.095	0.051	0.203	6
Uttar Pradesh	0.503	0.092	0.086	0.203	6
Goa	0.019	0.202	1.001	0.270	4
Gujarat	0.246	0.098	0.098	0.145	22
Maharashtra	0.275	0.485	0.127	0.281	3
Andhra Pradesh	0.257	0.143	0.140	0.178	14
Karnataka	0.172	0.262	0.168	0.200	8
Kerala	0.127	0.154	0.198	0.159	17
Pondicherry	0.239	0.112	0.242	0.195	10
Tamil Nadu	0.213	0.214	0.174	0.200	8

Source: Report on Currency and Finance(2008 - 2010), Reserve Bank Of India, Bulletin.

Observations from table 4 spreads a shocking note that no state in India belongs to high IFI group. The first two states namely Chandigarh and Delhi belong to medium IFI, and rest of the states have low IFI values.

Factors associated with financial inclusion

The third objective is to analyze the relationship between IFI (Index of Financial Inclusion) and socio-economic variables such as HDI (Human Development Index),PNSDP(Per Capita Net State Domestic Product**),** income inequality etc. IFI and HDI in different states of India are presented in Table 5.

Table 5
IFI and HDI

States	**IFI**	**HDI**
Himachal Pradesh	0.118	0.509
Rajasthan	0.153	0.537
Arunachal Pradesh	0.179	0.424
Orissa	0.141	0.367
Skikkim	0.132	0.404
Madhya Pradesh	0.203	0.472
Uttar Pradesh	0.203	0.394
Goa	0.270	0.388
Maharashtra	0.281	0.479
Andhra Pradesh	0.178	0.523
Karnataka	0.200	0.416
Kerala	0.159	0.478
Pondicherry	0.195	0.531
Tamilnadu	0.200	0.638

Source: Reserve Bank of India (2005): "Annual Policy Statement for the Year 2005-2006"

The Table 5 depicts IFI and HDI which tend to move in the same direction. In summation the states having high level of human development index will tend to have a high level of financial inclusion.

IFI and Per Capita Net State Domestic Product (PNSDP)

An attempt is made by the scholar to examine the relationship between IFI and PNSDP. For that regression is fitted. In the regression equation, the IFI variable is regressed over PNSDP which is a proxy for income. PNSDP values were taken from RBI website

$IFI = f\ (PNSDP) + U_i$

$IFI = 0.128 + 0.00000271\ (PNSDP) + Ui$

(Sig) 0.002

$R^2 = 0.376$

The coefficient of PNSDP is positively associated with financial inclusion. R^2 value shows that 37 per cent of the change in financial inclusion index is explained by per capita net state domestic product.

IFI and GINI coefficient

In order to ascertain the association between the income inequality and the financial inclusion, GINI coefficient values for the states were taken from different sources.

$IFI = f(GINI) + U_i$, GINI = income inequality index

$IFI = 0.212 – 0.0758(GINI) + U_i$

$R^2 = 0.23$

It is inferred that income inequality is negatively associated with financial inclusion. R^2 value indicates that 23 per cent of the change in IFI is explained by GINI coefficient.

Literacy Rate and Education Index are the other two variables closely associated with IFI. National University of Education Planning and Administration has developed an Education Development Index which depends on access, infrastructure, teacher related indicators, elementary education outcome and literacy rate. Education index is not significantly related with IFI. Literacy Rate is positively and significantly associated with financial inclusion implying that higher the literacy rate, higher will be the financial inclusion.

Impact of Micro Finance through SHGs on the development of rural poor women in Rajapalayam block

Micro-finance is definitely a good scheme which has brought a revolutionary change in the world map. In India, Micro Finance is dominated by the self help groups. In Rajapalayam Block alone nearly 1320 SHGs are functioning effectively. Out of which 25 SHGs have been selected at random and from each of these selected SHGs 10 members have been chosen at random to collect the necessary primary data. 250 members have been selected. These 250 respondents have been stratified into different groups based on their different occupational patterns such as agriculture, Daily wage Labourer, construction labour, tailors, weaving, and Petty business. The distribution of respondents according to the occupational status is presented in Table no: 6

Table 6: Distribution of sample respondents on the basis of occupation

S.No	Occupation	No. of Respondents	Percentage
1	Agriculture	55	22
2	Daily wage Labourer	30	12
3	Construction work	50	20
4	Tailoring	45	18
5	Weaving	30	12
6	Petty business	40	16

	Total	250	100

Source: Primary Data

From Table 6, it is found that 22 percent of the respondents are engaged in agriculture followed by 20 percent of the respondents in construction work.

Banking Profile:

Regarding the possession of savings bank account, nearly one – third of the respondents have savings bank accounts even before joining Self Help Groups. Now all respondents have their accounts either in public sector banks or in urban cooperative banks. Almost all respondents have their bank accounts in the vicinity of their residence. Significantly none of the respondents have an account with any private sector bank. This poor percentage of respondents having bank account formerly speaks of the poor state of financial inclusion. It high-lights the pressing need to step up efforts towards including the excluded. Among those who have no bank account, only eight per cent have tried to open a bank account but were unsuccessful. The remaining have never approached any bank before joining SHG. Only 29 percent of the respondents with bank accounts possessed ATM cards. Out of the respondents who do not have a bank account, only one-fifth saved privately. They are the potential persons who could be tapped by banks and brought within the fold of the formal financial institutions. Hence, the thrust for efforts towards financial literacy needs to be stronger.

BANKING PROFILE:

The study area has 16 bank branches, operating within two kilometers radius. Out of these, 10 are public sector banks, two are private sector banks and the remaining four are cooperative banks. Information obtained from these branches revealed that they had about 1.03 lakh saving bank deposit accounts at the end of the March 2009. The number of No-Frills accounts was only 1894, out of which 987 accounts had been opened in the year 2010 – 2011

Reasons for Opening an Account:

All the respondents have opened account in the bank for varied reasons such as the distance, safety and security of funds, motivation to save, rate of interest, accessibility, door delivery – door to door collection, motivation by bank staff, easy withdrawal facility, easy loan availability and finally benefits of Government Scheme. With the help of Garrett's ranking technique, the reason for opening an account is analyzed and it is presented in table 7.

Table 7
Garrett's Score for the reason for Opening an Account

S.No	Reasons	Total Score	Average Score	Rank
1.	Distance	20716	82.864	III
2.	Safety and Security of funds	21517	86.064	II
3.	Motivation to save	21594	86.376	I
4.	Rate of interest	16229	68.116	IX
5.	Accessibility	17960	71.84	VIII
6.	Door delivery–Door to door collection	18363	73.452	VI

7.	Motivation by bank Staff	18121	72.484	VII
8.	Easy withdrawal facility	17029	64.916	X
9.	Easy loan availability	19624	78.496	V
10.	Benefits of Government Scheme	20445	81.78	IV

Source: Computed from primary data

Garrett's score indicates that the first rank for opening an account is assigned to motivation to save, safety and security of funds occupied the second place in Garrett's score.

Impact of Micro Finance on monthly family income

Income is the one of the major determinant of the standard of living of the people. The revolutionary trend, in the introduction of SHG has uplifted the members, economically by boosting their income level, which enables them to meet their daily and household expenditures. Distribution of the respondents on the basis of family income before and after joining SHG is being presented in Table 8.

Table 8
Family income of the respondents before and after joining SHGs

S.No	**Monthly Income (In. Rs)**	**Before Joining SHG**		**After joining SHG**	
		No. of respondents	**Percentage**	**No. of respondents**	**Percentage**
1	Below 1000	99	39.6	0	0
2	1000-2000	111	44.4	101	42
3	2000-3000	20	8.0	56	21.2
4	3000-4000	15	6.0	46	18.4
5	4000-5000	5	2	27	10.4
6	5000-6000	0	0	20	8.0
	Total	250	100	250	100

Source: Primary data

Table 8 illustrates that before joining SHG 99 of the respondents (39.6 per cent) had monthly income of less than Rs.1000. After becoming the members of SHG no respondent has less than Rs. 1000 as monthly income. It is evident that after becoming members of SHG, the respondents' income has been increased substantially.

The hypothesis framed for the study focuses that there is no significant difference in family income of the respondents before and after joining the group.

Table 9
Results of testing the hypothesis

Particulars	**Before Joining**	**After Joining**
Mean (in Rs.)	3578	4394

Standard Deviation	1417	1447
Sample size	250	250

$Z = X1 - X2 / \sqrt{s_1^2/n_1 + s_2^2/n_2} = 3578 - 4394 / \sqrt{(1417)^2/250 + (1447)^2/250} = -5.31$

Since the calculated Z value -5.31 is greater than the critical value -1.95 at 5% level of significance, the hypothesis is rejected. Hence, it is inferred that there is significant difference in the family income of the members of SHG.

The income and expenditure pattern of the respondents over the years is presented in Table 10.

Table 10
Average monthly Income and Expenditure of the Respondents.

S.No	Category	Before their entry into SHG (Rs.)	After their entry into SHG (Rs.)	Increase in Amount	Increase in Percentage
1.	Average Income	3,280	5,130	1,850	56.4 percent
2.	Average Expenditure	4,138	5,836	1,698	41.0 percent

Source : Compiled from primary data

From Table 10, it is observed that the average income of the respondents, before joining the SHG was Rs. 3,280 and it has gone up to Rs.5,130 after joining the SHG and the increase in their net income is Rs.1,850 (56.4 per cent). The average expenditure before and after becoming the members of SHG is Rs.4, 138 and Rs.5,836, with an increase of Rs.1,698 (41 per cent).

Estimation of consumption function

For accelerating economic development and to improve the standard of living of the people, income and expenditure analysis serves as an important evaluation program. The researcher has used dummy variable analysis to show the change in the marginal propensity to consume before and after becoming members of the SHGs.

The dummy variable model is estimated as:

$Yi = a_0 + a_1Di + ß_0 X_i + ß_1 (D_iX_i) + U_i$

Where Y_i = Total expenditure of the family in rupees per month.

X_i = Total income of the family in rupees per month.

D_i = 0 before joining in the group

= 1 after joining in the group

a_0 = intercept (minimum expenditure before)

a_1 = Differential intercept (addition into minimum expenditure after)

$ß_0$ = Marginal Propensity to consume before

$ß_1$ = change in Marginal Propensity to consume after

U_i = stochastic error term.

The researcher estimated the above ANCOVA (analysis of covariance) dummy variable model and the resulted equation has been given as:

$Y_i = 536.24 + 18.16\ D_i + 0.791\ X_i + 0.083\ (D_iX_i) + e_i$

t-value (1.43) (3.58) (2.67)

sig.value [0.123] [0.001] [0.042]

R^2 = 0.872

F = 132.49

These results show that the income is significantly influencing the consumption expenditure. The differential slope coefficient shows that there is significant change in the marginal propensity to consume after they have become the member of SHGs. An increase of one rupee income brings about 0.79 paise change in consumption expenditure. An additional expenditure of eight paise has been the significant change after becoming member of the SHGs.

Business started after joining the SHG

The ultimate motive of SHGs is to motivate their members, to acquire a new business and to help them subsequently to improve their existing business. Table 11 shows the new venture of SHGs

Table 11
Business started after joining the SHG

S.No	Business started after joining the SHG	No.of respondents	Percentage
1	Handlooms	54	21.6
2	Cattle rearing	45	18.0
3	Ready made garments	95	38.0
4	Tailoring	56	22.4
	Total	250	100

Source: Primary data

Diversified new business avenues were adopted by the members of SHGs. As per the data in the table 11, 95 respondents (38per cent) are engaged in readymade garments making business, 56 respondents (22.4 per cent) in tailoring and 54 respondents (21.6per cent) in handlooms.

Assets bought after joining the SHGs:

After joining the SHG the members earn more income and profit. It helps them to buy new assets. The active participation of respondents in such economic activity of improving the living standards through Micro Finance enabled them to earn more income in the form of profits, enabling them to purchase both moveable and immovable assets. The value of assets owned by the respondents after availing Micro Finance is presented in Table No. 12.

Table 12
Assets bought after joining the SHG

S.No	Value (Rs)	No. of Respondents	Percentage
1	Below 10000	78	31.2
2	10000 – 15000	100	40
3	15000 - 20000	35	14
4.	20000 - 25000	25	10
5.	Above 25000	12	4.8
		250	100

Source: Primary Data

Table 12 illustrates that 40 percent of respondents acquired assets to the tune of Rs. 10000 – 15,000 followed by 31.2 percent of the respondents having assets to the extent of less than Rs.10000.

Savings of the respondents

Saving habit and saving potentials of the members of the SHGs is another important indicator of financial inclusion. Saving, the key factor, serves as a source of security and banks provide a safe abode for such savings. Amount saved by our respondents after joining SHG is presented in table 13.

Table 13
Savings of the respondents

S. No	Amount of Savings (Rs.)	No. of Respondents	Percentage
1	Less than 500	0	0
2	500-1000	100	40
3	1000-1500	60	24
4	1500-2000	79	31.6
5	Above 2000	11	4.4
	Total	250	100

Source: Primary data

Table No.13 shows that after being members of SHG, the saving potential increased and all the respondents have savings to the credit of the respondents. Around 40 per cent have Rs. 500-1000 as their savings now.

Loan Particulars

Internal loan received by respondents

SHG consists of 12 to 20 members, make monthly or weekly investments in bank regularly. The money saved in banks are provided as loan to the needy members in the form of internal loan with three per cent interest. The internal loan received by the respondents is given in Table 14.

Table 14
Internal loan received by respondents

S.No	Loan (Rs.)	No of Respondents	Percentage
1.	Below 5000	146	58.4
2.	5000 – 10000	96	38.4
3.	Above 10000	8	3.2
	Total	250	100

Source: primary data

It is clear from table 14 that 146 respondents (58.4 per cent) took internal loan which is less than Rs. 5000 and eight respondents (3.2 per cent) availed loan exceeding Rs. 10000 for further expansion.

Members of the group save in a particular bank and bank in return, after six months provides loan amounting to three times of their savings to the members with interest rate of 1.75 per cent.

Bank Loan received by the Respondents

Table 15- Bank Loan received by the Respondents

S.No	Loan (Rs.)	No of Respondents	Percentage
1.	Below 10000	98	39.2
2.	10000 - 12000	71	28.4

3.	12000 - 14000	45	18.0
4.	Above 14000	36	14.4
	Total	250	100

A vivid picture of borrowing from bank is being depicted in table 15, stating that 98 respondents(39.2 per cent) tend to take up a loan from the bank amounting to less than Rs. 10000. Only 36 respondents (14.4 per cent) have opted for more than Rs. 14000 as bank loan.

Purpose of availing loan

The respondents take loan for different purposes such as to start a business, education of children, marriage and medical expenses, redemption of loans, to maintain household expenses and to meet festival expenses. With the application of Garrett's ranking technique, the purpose of getting loan is analyzed.

Table 16
Garrett's score-purpose of getting loans

S.No	Reasons	Total Score	Average Score	Rank
1	Starting a business	10701	71.34	II
2	Educational expenses	11288	75.25	I
3	Marriage expenses	7121	47.47	V
4	Medical expenses	5545	36.97	VI
5	Redemption of loans	8957	59.71	III
6	Household expenses	8749	58.33	IV
7	Festival expenses	5170	34.47	VII

Source: Primary data

By means of Garrett's scores, it is inferred from Table 16 that the educational expenses of children tops the list with first ranking, followed by starting new business, redemption of loans, household expenses, marriage expenses, medical expenses and festival expenses in the ranking score.

Repayment of Loan

The loan recovery performance of SHGs have been consistently good due to 'peer group monitoring' and 'peer group pressure'. The repayment of loans by the respondents is given in Table 17.

Table 17
Repayment of Loan.

S.No	Particulars	No of Respondents	Percentage
1	Recovery in time	154	61.6
2	Recovery in advance	76	30.4
3	Delayed Recovery	20	8.0
	Total	250	100

Source: Primary data

The recovery pattern of the respondents shows a positive sign. The table 17 shows that 154 respondents (61.6 per cent) are prompt in their repayment and only 20 respondents (8 per cent) show negligence in repayment.

Participation in Panchayat level activities

The participation in socio-economic and political activities such as panchayat elections, communication programmes, medical camps, health camps etc. by the members of SHGs reveals the empowerment and enhancement of the living standards. It is entirely due to the strong motivation and assistance given by the SHGs. The participation of the respondents in panchayat level activities is presented in Table 18.

Table 18- Participation in Panchayat level activities

S.No	Programmes	No. of Respondents	Percentage
1	Leadership and Communication Programmes	129	51.6
2	Panchayat Members- group members	57	22.8
3	Organisation and Co-ordination	19	7.6
4	Exhibition	24	9.6
5	Health and medical camp	21	8.4
	Total	250	100

Source: Primary data

The level of empowerment of the members of SHGs is being clearly stated in table 18. It clearly indicates that 129 respondents (51.6 per cent) are involved in Leadership and Communication Programmes. It reflects that SHGs can serve as an engine for rural development.

Economic empowerment

Empowerment of women is the secret of success for sustained economic development. Women empowerment paves a way towards eliminating many economic and social evils. In the present study, attempt is made to assess the attitude of women towards economic empowerment.

Table 19

Distribution of Respondents in relevance to economic empowerment

S.No	Scores obtained-Empowerment status	Before	Percentage	After	Percentage
1	Less than25% (to be empowered)	148	59.2	32	12.8
2	25% - 75% (in line with empowerment)	62	24.8	78	31.2
3	Above75% empowered	40	16.0	140	56.0
	Total	250	100	250	100

Source: Primary data

Economic empowerment of women is shown in table 19. This table illustrates that 148 respondents (59.2 per cent) come under the group less than 25per cent status, after becoming members the percentage has come down to 12.8 with 32 respondents. Similarly 40 respondents (16 per cent) were empowered above 75 per cent and after they enrolled as members, the percentage increased to 56 with maximum of 140 respondents.

Findings

- Among 29 states in India, shockingly, no state belongs to the high IFI group.
- A comparison of IFI with human development index (HDI) shows that the states with comparatively high IFI values, moves in the same direction with high human development.
- Higher the income level, higher is the financial inclusion both at the individual level and state level.
- Income inequality is negatively associated with financial inclusion.
- Literacy rate is positively associated with financial inclusion. This implies that higher the literacy, higher will be the financial inclusion.
- One - third of the respondents have savings bank accounts, none of the respondents have an account with any private sector banks.
- Only 29 percent of the respondents with bank accounts possessed ATM card.
- Motivation to save is the first and for most reason for opening an account.
- 39.6 percent of the respondents had monthly income of less than Rs.1000 formerly. Whereas after availing Micro Finance no respondent has monthly income of less than Rs. 1000. There is significant difference in the family income of the respondents before and after availing Micro Finance.
- 61. 6 percent respondents repaid the loan in time and 75.25 percent of the respondents used the loan amount to educate their children.
- 51.6 percent of the respondents are engaged in Leadership and Communication Programmes.
- 56 percent of the respondents are economically empowered.
- All the respondents are unanimous in saying that they are able to make use of banking services by themselves.
- All the beneficiaries of micro finance accept that they have gained greater economic and social security due to the access to micro finance services. Before the introduction of micro finance they were compelled to borrow from the money lenders at very high rate of interest. But now they get rid of the clutches of village money lenders. They visit bank regularly and make financial transactions on their own. They visit NGOs, BDO office and other offices at a regular interval

to discuss their difficulties and to resolve their disputes.

Conclusion:

Socio-economic development of the rural poor is the pressing need of the day. A problem cannot be viewed in isolation. The present study provides ample evidence to the fact that financial inclusion through Micro Finance, laid the seeds for rural development because, the all round economic development depends upon rural development. Banking the 'unbankable' through Micro Finance is a valuable contribution to the development planning as it presents an alternative way to development. It has aided in making the passage from darkness to light for thousands of poor people struggling to breathe. The finest is yet to come. SHGs should not only be used to redress poverty but it should be used as a tool to bring the rural under privileged into total financial inclusion. If the SHGs are made an effective intermediary in the implementation of rural development programs, greater financial inclusion would be possible. Though financial inclusion has become the buzzword in present day financial circles, there are miles to go, before it becomes a reality among the rural population.

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