International Journal of Humanities & Social Science Studies (IJHSSS)
A Peer-Reviewed Bi-monthly Bi-lingual Research Journal
ISSN: 2349-6959 (Online), ISSN: 2349-6711 (Print)
Volume-I, Issue-III, November 2014, Page No. 137-146
Published by Scholar Publications, Karimganj, Assam, India, 788711
Website: http://www.ijhsss.com

Self Help Groups (SHGs) and Financial Inclusion- A Case Study in Baksa District of Assam

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Abstract

Financial inclusion has become a policy priority to "inclusive growth" in India. Financial inclusion of the poor can ultimately result in reduction of poverty instigating inclusive growth. Financial inclusion refers to a situation where people in general have basic formal banking/financial practices. Conversely people in general having no such basic habits are financial excluded. The north eastern region of India is having the highest number of population outside the ambit of formal banking system with more than 70 percent of the districts of Assam with an exclusion rate of 96.1-98.5 percent. The SHG-bank linkage programme has emerged in as an effective instrument for basic financial services to common section of the society. The programme has helped in providing banking services to the uncovered rural poor.

This paper examines the impact Self-Help Groups (SHGs) on financial inclusion of rural people in the district of Baksa, Assam. A total of 180 respondents [(90 participants) and (90 nonparticipants)] were selected for the purpose of the study and the overall results revealed that the SHG-Bank linkage programme increased the degree of financial inclusion among SHG households as compared with non-participants households.

Key Word: Financial Inclusion, Financial Exclusion, Inclusive Growth, Microfinance, SHG.

1. Introduction: Financial inclusion is sine-quo-non for the developing regions like north eastern region of India. Access to finance will empower the disadvantaged groups by giving them an opportunity to have a bank account, to save and invest, to insure their homes or to partake of credit, thereby facilitating them to break the chain of poverty (Committee on Financial Inclusion, 2008). The financial development and access to financial services will not only help out to accelerate the economic growth but also reduce income inequality and poverty. The stark reality is that poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance (United Nations, 2006). The impressive growth of banking sector is unable to include vast segments of the population into the fold of basic banking services - especially the underprivileged sections of society (Thorat, 2007). Building an inclusive financial system, thus, becomes global importance to achieve inclusive growth.

Financial inclusion refers to the timely delivery of banking/financial services to the vast section of disadvantaged and low income groups of society at an affordable cost. The various financial services include credit, savings, insurance, payments and remittance facilities. Though other services are included, credit has been accorded the prime importance in financial inclusion definition in India (GOI, 2008). This is because the disadvantaged sections of population are resource poor; they need timely formal credit at an affordable cost of borrowing which helps them to generate resources. Accordingly, since the late nineties, sophisticated and competitive services of a wide range of financial products and opportunities have become accessible to meet the emerging credit needs of these groups of people (Sangwan, 2008). By providing these services, the aim is to help them come out of poverty.

Financial exclusion is a common phenomenon in rural areas. A large number of small and marginal farmers, agricultural labourers and rural artisans are still excluded from wide range of financial services. NSSO Survey data (59th Round) reveals that 51.4 percent of farmer households are financially excluded from both formal and informal sources. Of the total farmer households, only 27 per cent have access to formal sources of credit and one third of these groups also borrowed from non-formal sources. Overall, 73 per cent of farm households have no access to formal sources of credit. Exclusion is most acute in central, eastern and north eastern region having a concentration of 64 percent of all financially excluded farmer households (from formal source) in the country with north eastern region having only 4.09 percent indebted to formal source of finance. Financial inclusion of the poor can ultimately result in reduction of poverty prompting inclusive growth.

2. Measuring Financial Inclusion and Exclusion: Outreach of financial services or financial inclusion measures how many people have access to financial services including savings, credit, transferring money and other services. In the present era, the importance of financial inclusion is widely accepted in developed and developing countries. But there is no widely accepted measure of financial inclusion (exclusion) at aggregate level as well as at individual level. At the aggregate level the common measure is the percentage of adult population having savings bank account or number of bank branches per thousand population. In India, focus of financial inclusion at the individual level, is more or less confined to ensuring a bare minimum access to a savings bank account. However, having a current account/savings account on its own, cannot be regarded as an accurate indicator of financial inclusion. This is due to the fact that access does not always lead to usages. A bank account should enable poor households to perform important financial functions such as saving money safely outside the house, accessing credit, making loan or premium payments, and transferring money (Mohan, 2006). In this construction, a bank account should determine access to and usage of these services (Beck et al, 2006; Mohan, 2006, Littlefield et al, 2006, Ramji, 2009). The study takes into account individuals' access to savings, credit, transaction banking and insurance as indicators of financial inclusion.

3. Importance of the Study: Level of financial inclusion has been seen with strategic importance by the development planners and policy makers in India. At the aggregate level country studies to estimate financial inclusion index as an indicator for assessing the level of financial inclusion has been attempted by authors including Sharma, 2008, Swiston, 2008, Arora, 2010, Kendall et al, 2010. The level of access to finance from the formal sources and other financial services measured using primary data sources has been sparingly attempted by researchers except a few notable studies like that of Rangappa et.al, 2008, Delvin, 2009 and Prathap, 2011. The primary level assessment calls for the individual household level estimation of access to and usage of finance. For this purpose households' access to formal financial services has been quantified using usage dimension variables representing banking transaction services (ATM, DD/Cheque), credit services, deposit services and access to insurance.

4. Review of Literature: Sharma, M., (2008), through cross country empirical study examined a close relationship between financial inclusion and development. Further, the study found a positive relation between financial inclusion and different socio-economic variables like income, inequality, literacy, physical infrastructures. A few empirical studies on the impact of SHG bank linkage model also revealed the importance of SHG model in achieving financial inclusion and inclusive growth in India. Puhazhendhi, V. and Badatya, K. C., (2002), observed a significant improvement in social and economic condition of the SHG member households during post-SHG period. The programme also improves the borrowing pattern of SHG member households in terms of institutional credit deepening and widening with substantial reduction of loans from money-lenders and other informal sources. Sangwan, S. S., (2008), studied the extent of financial inclusion and the role of Self Help Groups (SHGs) in achieving financial inclusion. The findings substantiated that the persons having low income and less geographical access to bank (e.g., agricultural labourers, marginal and small farmers, migrant labourers, tribal and women) were excluded from the financial inclusion. The study revealed a significant role of SHG led microfinance programme in achieving financial inclusion especially for women and low-income families. Sahoo, B. B., et.al, (2009), attempted to develop an index of financial inclusion to examine the progress of financial inclusion and its various determinants using secondary data from various sources for the year 2004-05. In their study, through regression analysis, they found a positive impact of infrastructure development, education and SHG formation on financial inclusion both from financial widening and deepening perspectives. Rangappa, K. G., et al, (2009), and Anjugam, M., (2010), analysed the impact of SHG- bank linkage programme on financial inclusion among households of landless labourers, marginal farmers, small, medium farmers and the results revealed that SHG's increased the flow of formal institutional credit to landless and marginal farm households and discouraged non-institutional borrowing through thrift creation. Based on the index values, the percentage of households that reached the medium and high level of financial inclusion increased with the size of land holding; and that the percentage of households that reached the higher degree of financial inclusion is relatively more among SHG member households when compared to non-member households. Adhikary, M. and Bagli, S., (2010), revealed that SHG membership and duration of SHG membership had reduced significantly the frequency of informal borrowing (financial exclusion) and increased the accessibility to formal credit (financial inclusion). The study suggested a significant role of SHGs in achieving financial inclusion of the poor in the area under study. In their study, Kumar, P. and Sharma, C. S., (2011), suggested a significant role of microfinance programme in achieving women empowerment and financial inclusion in India. Prathap, S. K., (2011), analysed the role of microfinance and observed that SHG membership and SHG-banking/MFP linkage could promote financial inclusion and households with SHG members achieve medium level of financial inclusion than non-members. The study observed that non-members had the lowest financial inclusion index, while SHG members had higher index and those having a linkage with banks/MFPs achieved even higher index. Uma, H. R. and Rupa, K, N., (2013), studied the impact of SHGs on financial inclusion with parameters of increase in bank accounts, increase in avail of credit and percentage of repayment during pre- and post-SHG situations. The study revealed positive impact of SHG on financial inclusion. The study found that the percentage of members having bank accounts, credit availed and repayment of credit had increased in post-SHG situation.

5. Self Help Group and Financial Inclusion: Despite having a wide network of rural bank branches in India reaching the poorest, whose credit requirements were very small, frequent and unpredictable, was found to be difficult. This poses the biggest challenge to achieve hundred percent financial inclusions before Indian formal financial system. Therefore, need was felt for alternative policies, systems and procedures, savings and loans products, other complementary services and new delivery mechanisms, which would fulfill the requirements of the poorest. As a result NABARD launched the self help group bank linkage programme in 1992. SHG-Banking is a programme that helps to promote financial transactions between the formal banking system in India comprising public and private sector commercial banks, regional rural banks and cooperative banks with the informal Self Help Groups (SHGs) as clients. SHGs are small informal associations of 10-20 people belonging to same socio-economic background created for the purpose of enabling members to reap economic benefit out of mutual help, solidarity and joint responsibility. The SHGs make a common fund and open a bank account in the name of group for doing a small business and to fulfill livelihood requirement of the groups. They usually start by making voluntary thrift on a regular basis. Members of SHGs generally save amount of rupees within range of approximately Rs. 20 to Rs. 100 per month. They use this pooled resource (as quasi-equity) together with the external bank loan to provide interest bearing loans to their members. Such loan provides additional liquidity or purchasing power for use in any of the borrower's production, investment, or consumption activities. These banking services (depositing savings, taking loans) are made available at low cost, are easily accessible and flexible enough to meet poor people's needs (Kropp and Suran, 2002). The main advantage to the banks of their links with the SHGs is the externalisation of a part of the work items of the credit cycle, viz, assessment of credit needs, appraisal, disbursal supervision and repayment, reduction in the formal paper work involved and a consequent reduction in the transaction costs (Rangarajan, 1996).

Since 1992, SHG-bank linkage programme has been promoting microfinance facilities to the poor. The SHG-bank linkage programme is considered to be an effective strategy to ensure financial inclusion. It facilitates extending financial services to unbanked disadvantaged section of society. NABARD led SHG bank linkage model is widely accepted as one of the largest and successful microfinance model in the world. In this backdrop, this case study has been undertaken to assess the impact of SHGs on promotion of financial inclusion in Baksa district of Assam.

6. Objective of the Study: The specific objectives of the study are,

1. To analyse the impact of SHG-bank linkage programme on promotion of financial inclusion in terms of access to banks, savings, borrowing and insurance by the SHG member participants as compared with non-participants.
2. Based on findings, to suggest some policy prescriptions.

The hypothesis formulated for the empirical verification is that ''There is association between the participation in SHGs and the degree of financial inclusion"

7. Research Methodology:

7.1 The Study Area: Baksa district is one of the relatively backward districts within the state of Assam. The district covers an area of 2007 kilometers which support a total population of 9.54 lakh out of which 9.42 lakh live in rural areas and only 0.12 lakh in urban areas. The rate of literacy rate for Baksa district is 70.53 percent with male literacy rate 78.55 percent and female literacy rate 62.23 percent in the district. The people of the district are basically dependent on agriculture and allied sector, which represent the presence of lesser number of industries in the district. The absence of industries and huge damage to the agriculture sector by flood time to time causes unemployment problem. The district consists of 9 scheduled commercial bank branches, 8 regional rural bank branches, 18 post offices, and 125 sub-post offices only. People often need to depend on informal source of moneylenders who charge exorbitant rate of interest ranging from Rs 120-240 per annum. In such a situation, financial inclusion continues to be a major challenge. Government agencies and many NGOs are promoting SHGs to face this challenge. The socio economic background of the district provides strong case for the purposeful selection of the district.

7.2 Sampling Design and Data Collection: Multistage purposive random sampling technique was applied to select the sample respondents. The sample frame as follows:

In the first stage, Baksa district was selected purposively since it has a large number of SHGs linked with banks are provided with credit along with government subsidies. In the second stage, two blocks were chosen for conducting the field study. The selection of blocks was done carefully so that these would properly represent the implementation of SHG programme under SGSY in the district. In the third stage, 30 SHGs from each of the block were randomly identified, 15 SHGs each were matured groups which completed at least three years since their inception and received at least once bank credit for 'participant' households and the 15 SHGs each were formed in this current year with less than six month of their age to represent 'nonparticipant' households. Individual members and leaders were the final sampling units. In the last stage, three members from each of the groups were randomly selected to make the total final sample size of 180 units comprising 90 SHG-programme participant households and 90 SHG nonparticipant households.

The primary data on the demographic profile of the family, land holding, borrowing and saving details, involvement in SHG were elicited from these households by using well structure schedule. Data were collected through face to face interview from the respondents. Data has been collected during June and December, 2012.

7.4 Analytical Framework

The impact of SHGs on financial inclusion has been assessed by comparing the participant in SHG and non participant households. The results of this kind of comparison would be dependable only if the two groups are comparable. Thus, Care has been taken to make these two groups comparable and to avoid selection bias. The study takes into account individuals' access to savings, credit, transaction services of banking and insurance as indicators of financial inclusion. Financial inclusion index was developed to measure the degree of financial inclusion, by giving appropriate weights to the selected financial services. The selected financial services were assigned values for computing the financial inclusion index according to the importance of the variable (Table 1) based on extensive literature survey. The total 'weights' of an individual household show its degree of financial inclusion. The mean values of the borrowings from the formal and informal sources are also computing separately using t-test, the relative share in total borrowing is considered as one of the indicators of the degree of financial inclusion for the participants and non-participants households. Chi-square ($\chi 2$) test is applying to test the significance of the association between the membership in SHG and the degree of financial inclusion (Rangappa *et al.* 2008, Prathap, 2011).

<Table 1 about here>

The index varies between ‘0 and 100’. Value ‘100’ implies full Financial Inclusion of the households and value ‘0’ implies complete Financial Exclusion of the household. Value of ‘1-29’ implies low financial inclusion, value of ‘30-60’ implies medium financial inclusion and 61-99 implies high level financial inclusion (Table 1).

8. Results and Discussion:

8.1 General Profile of sample respondents: The general characteristics of the selected sample households revealed that the mean age of the sample respondents is 39.62 years, the average family size is 4.77 of which adult and children comprised 4.16 and 0.62 respectively. It showed that the respondents were middle aged irrespective of SHG or non-SHG member households. Out of the total sample, 58 per cent of the respondents were found to be illiterate, and it was higher in non-SHG members (34 percent) than SHG participant households (24 percent). Majority of the sample households (33.9 percent) depends on agriculture as their main source of income, followed by labour (28.3 percent) and regular Government job (19.4 percent). Only 18.3 percent of the households depend on business related activities for their livelihood. The number of households who derived income from government job is found to be higher in member participant households (12.2 percent) as compared to 7.2 percent in non-participant households.

The asset position of the households showed that around 22 percent of the households do not have livestock (cow, goat, buffalo, etc). Group-wise, livestock asset not possessed was highest in non-SHG households (12.8 percent) as compared with SHG participant households (4 percent). In respect of transportation facility (two/three wheelers) overall 75 percent of the households do not possess any facility irrespective of participant and non participant households.

8.2 Access to Banking Transaction Services: It was revealed from the table 2 that about 14.4 per cent of the households use Cheques or Demand Drafts (DDs), and use of these facilities was more in respective of nonparticipant households when compared with member households. However, the used of ATM facility was 18.9 per cent by the households, where there were earning members in government sector. Financial illiteracy underscores ignorance of procedures of banking. Financial transactions through banks are less preferred due to lesser distribution of service outlets in rural areas. For example one may have to travel to the bank branch or even further to operate an ATM (table 2).

<Table 2 about here>

8.3 Access to Borrowing: It was observed that out of 180 sample households only 12.8 and 25 percent of the households borrowed credit from formal sources (bank and SHG-bank linkage) in 2011 and 2012 respectively. Group-wise study have revealed that the percentage of households who borrowed loan from formal source is larger (17.8 and 43.3 percent respectively in the year 2011 and 2012) in SHG participant households as compared with non-member households (only 7.8 and 6.7 percent). Another important finding that revealed from the table 4 was that overall 56.7 percent of the total sample households irrespective of membership accessed to informal sources of credit in 2012. However, percentage of households who borrowed from informal sources was higher in non-participant households (67.8 percent) as compared with participant households (54.4 percent). Thus SHG had a negative impact on access to informal credit (table 3).

<Table 3 about here>

The calculation of mean value of the amount borrowed from formal source was found to be higher (Rs.5400) for participant households as compared to non-participant households with mean value Rs.555.56 only. Opposite was the case for informal borrowing which on average was Rs.818.89 and Rs.2530.56 respectively for participant and nonparticipant households (table 4).

<Table 4 about here>

8.4 Access to Deposit and Insurance: Deposit access usually occurs complementarily with access to credit. While all the SHG participants were having their joint account in the name of the Group, where all members have to contribute compulsorily a certain amount as per decision of the group. Thus, deposit inclusion by the SHG participant was around 97 percent in SHG, whereas it only 8 percent in non participant household. Household having Savings Bank Account was also found to be lower in case of non participant household (60 percent) as compared with participant household (68.9%), RD/FD with formal bank and insurance cover was almost similar in both participant and non participant household and was less than 23 percent (table 5).

<Table 5 about here>

8.5 Financial Inclusion Index: Percentages of households included in selected financial services (table 1) were consolidated to compute the financial inclusion index and the degree of financial inclusion of each household is given in table 6. The two-way classification in table 6 revealed that nearly 41 percent have been totally excluded from formal sources in case of nonparticipant whereas only 1 percent financially excluded in case of member participant. The percentage of households reaching the medium and high of financial inclusion increases with membership in SHG. The calculated value of Chi-square was found to be significant at 5 percent level of significant. Therefore it could be concluded that SHG-bank linkage programme increased the degree of financial inclusion among the participant households.

<Table 6 about here>

Conclusion and Policy Recommendations: It has been observed that being an SHG member participant with SHG-bank linkage could increase access of various financial services. This was a clear depiction that being a member of SHG could improve levels of financial inclusion than a non member. The microfinance concept rests on the principle of forming a group by collecting thrift that would support the group as a revolving fund to provide internal loans to members. This activity is further extended to linking with a microfinance provider, i.e., a bank that would provide subsidised credit to the group for initiating an earnings option to support their livelihoods. Only those who are the member of SHGs were able to access more formal credit especially from SHG-bank linkage. However, other services of banking like use of cheque/DD, ATM, etc. or insurance are seldom taken care of by the microfinance providers as they do not fall in the mainstream category of formal financial service providers. Therefore this must be made to provide these services through microfinance sector. Based on the index value, households were classified into the households with low, medium and high degree of financial inclusion. Percentage of household reaching the medium and high degree of financial inclusion increased with membership with SHG. The chi-squire results ($\chi 2$) lead to the conclusion that the SHG-Bank linkage programme increased the degree of financial inclusion among SHG households as compared with non-participants of this programme. This result is similar to the one given by Rangappa, K. G., et al, (2009), and Anjugam, M., (2010). Their study revealed that SHG's increased the flow of formal institutional credit to 'with-SHG' households belonging to landless and marginal farm groups and discouraged non-institutional borrowing through thrift creation and reached higher degree of financial inclusion when compared with 'without SHG'. Though SHGs cannot be considered as agencies that provide comprehensive access to financial services; however, SHG-bank linkage programme is one of the best solution to the problem of bringing the excluded, disadvantaged, not having collateral poor people under the ambit of financial inclusion.

Based on the results, it is suggested that SHG members be given a better understanding on financial services- such as opening of savings account in formal institutions, participation in fixed/recurring deposit scheme, and availing of life insurance for the entire family. NGOs and other agencies need to increase the awareness by providing proper information and training to reach the currently un-reached segments of population and should motivate members to take up more productive activities to enhance the income of the household in order to avail these facilities. The paper was concluded with the stress that more and more number of SHGs should be encouraged to form among the poor household in the study area to avail the benefit and cross poverty line.

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TABLES

Table 1
Distribution of Weightage for Construction of Index of Financial Inclusion

Indicators		Sources of Finance	Weight	Sub Total
Formal Credit	a	From formal agencies directly and/or through SHG-bank linkage during 2012-13	30	50
	b	From formal agencies directly and/or through SHG-bank linkage during 2011-12	20	
Savings	c	Operating SB Account in Bank/Post office/Co-operative Banks	10	25
	d	Fixed Deposit/Recurring Deposit Account with any formal financial Institutionals	10	
	e	Savings in SHG	5	
Insurance	f	Any source/type of insurance	10	10
Transaction Services	g	Usages of ATM/credit card	10	15
	h	Usages of Cheque/DD	5	
Total			**100**	**100**

TABLE 2
Usage Of Banking Transaction Services

INDICATOR	STATUS	HOUSEHOLD		Total
		N-SHG	M-SHG	
USAGE OF ATM	NON USER	70(77.8%)	76(84.4%)	146(81.1%)
	USER	20(22.2%)	14(15.6%)	34(18.9%)
USAGE OF DD/CHEQUE	NON USER	74(82.2%)	80(88.9%)	154(85.6%)
	USER	16(17.8%)	10(11.1%)	26(14.4%)
Total		90(100.0%)	90(100.0%)	180(100.0%)

TABLE 3
Access to Credit

IINDICATOR	STATUS	HOUSEHOLD		TOTAL
		N-SHG	M-SHG	
FORMAL CREDIT IN 2011	NON USER	83(92.2%)	74(82.2%)	157(87.2%)
	USER	7(7.8%)	16(17.8%)	23(12.8%)
FORMAL CREDIT IN 2012	NON USER	84(93.3%	51(56.7%)	135(75.0%)
	USER	6(6.7%)	39(43.3%)	45(25.0%)

Informal credit in 2012	NON USER	29(32.2%)	49(54.4%)	78(43.3%)
	USER	61(67.8%)	41(45.6%)	102(56.7%)
TOTAL		90(100.0%)	90(100.0%)	180(100.0%)

(Figures in parentheses indicate the percentage to total in each group)

TABLE 4
Sources of Access to Borrowing

SOURCE OF BORROWING	HOUSEHOLD	N	Mean	Std. Deviation	't' VALUE	Sig. (2-tailed)
FORMAL	N-SHG	90	555.56	3024.659		
	M-SHG	90	5400.00	26082.217	-1.750	.082
INFORMAL	N-SHG	90	2530.56	3021.958		
	M-SHG	90	818.89	1377.010	4.890	.000
SEMI-FORMAL (i.e., FROM SHG)	N-SHG	90	.00	.000		
	M-SHG	90	1511.11	2283.278	-6.279	.000

Table 5
Deposit with institutional source and Insurance Cover

INDICATOR	STATUS	HOUSEHOLD		TOTAL
		N-SHG	M-SHG	
SB A/C	NON USER	54(60.0%)	62(68.9%)	116(64.4%)
	USER	36(40.0%)	28(31.1%)	64(35.6%)
RD/FD IN FORMAL BANK	NON USER	83(92.2%)	83(92.2%)	166(92.2%)
	USER	7(7.8%)	7(7.8%)	14(7.8%)
SAVING IN SHG	NON USER	83(92.2%)	3(3.3%)	86(47.8%)
	USER	7(7.8%)	87(96.7%)	94(52.2%)
INSURANCE	NON USER	71(78.9%)	70(77.8%)	141(78.3%)
	USER	19(21.1%)	20(22.2%)	39(21.7%)
TOTAL		90(100.0%)	90(100.0%)	180(100.0%)

Table 6
Association between Degree of FI and membership in SHG

HOUSEHOLD	DEGREE OF FINANCIAL INCLUSION				Chi-square ($\chi2$)
	EXCLUDED	LOW (1-29)	MEDIUM (30-60)	HIGH (61-99)	
N-SHG	37(41.1)	39(43.3)	12(13.3)	2(2.2)	53.586*
M-SHG	1(1.1)	40(44.4)	41(45.6)	8(8.9)	

(Figures in parentheses indicate the percentage to total in each group)
* Indicates Significant at 5 percent level

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