

## **Extent of Financial Inclusion, Financial Services Offered, & Disbursal of Government Payments of Government Schemes – A Study of Self Help Groups on Financial Inclusion Through Microfinance in the Select Districts of Mysore & ChamaraJanagara.**

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### **Abstract:**

*The study is based on the title “Financial Inclusion through Microfinance – A Study Of Self Help Groups In Select Villages Of The Districts of ChamraJanagar & Mysore, Karnataka”. This paper aims at analyzing the extent of financial inclusion; the range of financial services available to individuals; and if Post offices or Banks could be used to disburse Government incentives; Wages to individual beneficiaries of Govt., Schemes. Towards this study data has been collected from the SHG members; NGOs and Banks.*

**Key Words:** *Microfinance; Financial Exclusion; Millennium Development Goals; Financial Inclusion; Self Help Groups.*

### **Introduction:**

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world.

Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. Microfinance clients are typically self-employed, micro entrepreneurs. In rural areas, they are usually small farmers and people who are engaged in small income-generating activities such as food processing and petty trade. In urban areas, clients of microfinance may be shopkeepers, service providers, artisans, street vendors.

A **Self-Help Group** (SHG) is a small voluntary association of poor people of comparable socio-economic background. Usually, these are groups who come together for mutual assistance in a number of areas. The SHG promotes small savings among its members. The savings are kept with a bank. This common fund is in the name of the SHG. Usually, the number of members in one SHG does not exceed twenty.

**Financial exclusion** signifies the lack of access by certain segments of the society to appropriate, low-cost, fair and safe financial products and services from mainstream providers. **Financial Inclusion** currently is seen as at least one member of a family having a bank account. It is a drive that wants the poor to get linked with formal banking institutions. It denotes delivery of credit and other financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups which include savings, credit, insurance and payments and remittance facilities. Government of India has been actively pursuing the agenda of Financial Inclusion, with key interventions in four groups, viz. expanding banking infrastructure, offering appropriate financial products, making extensive and intensive use of technology and through advocacy and stakeholder participation.

According to Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India “The extent of financial exclusion is staggering. Out of the 600,000 habitations in the country, only about 36,000+ had a commercial bank branch. Just about 40 per cent of the population across the country has bank accounts. The proportion of people having any kind of life insurance cover is as low as 10 per cent and proportion having non-life insurance is abysmally low at 0.6 per cent. People having debit cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent of the population. Challenges of financial exclusion are faced by most countries globally and each country has to develop its own customized solutions drawing upon its own experiences and those of its peers across the globe.”

### **Methodology**

The Study is based on **primary survey** conducted in the districts of Mysore and Chamarajanagara. The questionnaire was administered to 60 Self-Help Groups comprising 1200 beneficiaries distributed across the two districts of Mysore and Chamarajanagara. The SHGs comprise both the Private and the Government SHGs.

**Secondary data** collected from the internet -published articles; Books; papers presented; and data from NGOs archives. Information has been collected through Opinionnaire, personal interview and group interview with various SHGs; banks, and NGOs.

### **Statement of the Problem:**

**Poverty alleviation** is the burning issue that confronts India. It is the crux of every problem in India. Although Indian economy has grown steadily over the last two decades, its growth has been uneven when comparing different social groups, economic groups, geographic regions, and rural and urban areas.

While India's growth makes it an economic and political player to watch in the next decades, the country remains desperately poor. India cannot live in isolation from the Global goals set for eradicating poverty which is popularly called “**Millennium Development Goals**” for developing a global partnership for development. The **extent of financial exclusion** as per NSSO data reveal that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources.

Despite vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one-third also borrow from informal sources). Farm house-holds not accessing credit from formal sources as a proportion to total farm households is especially high. Credit has to be an integral part of an overall programme aimed at improving the productivity and income of small farmers and other poor households. **Putting in place an appropriate credit delivery system** to meet the needs of marginal and sub-marginal farmers must go hand in hand with efforts to improve the productivity of such farm households. The credit delivery system in rural areas of commercial banks, Regional Rural Banks, and micro finance institutions needs to be strengthened to ensure financial inclusion.

This calls for Institutional Changes. Creating new institutions is not necessary instead **finding ways and means to effect improvements** within the existing formal credit delivery mechanism and evolve new models for extending out-reach. In a broad sense, the issues to be addressed are on the supply side and demand side. Unless steps are taken on the demand side, which is in the “real sectors”, mere supply side solutions from the financial sector will not work. There are over 33500 commercial bank branches in rural and semi urban centers in the country. The study was aimed at making these rural banks more **effective in terms of delivering credit** to the small and the very small borrowers.

**Results and Discussion:**

**Table 1**  
**Table showing the Availability of Post Office**

Particulars	Mysore	Chamarajnapagara	Total	Pearson Chi-Square
Is there a Post Office in your village?	412 (53.51)	191 (60.25)	603 (55.47)	1.22
Is the distance to the PO from your residence substantial?	400 (51.95)	175 (55.21)	575 (52.90)	6.89*
Do you incur travelling expenses by public transport to reach the PO/Bank?	344 (44.68)	166 (52.37)	510 (46.92)	20.31*
Do you have an account in the Post Office?	139 (18.05)	78 (24.61)	217 (19.96)	4.56*

Figures in parenthesis denote percentage.

From the above table it is clear that overall 55.5 percent of respondent confirmed the presence of post office in their village but at district level in Chamarajnapagara is having more post offices than Mysore district. Substantial distance from the place of residence of the SHG member is also significant. Distant Post offices result in additional travelling expenses and when the cost-benefit analysis is made the desire to open an account in the Post office doesn't seem to be beneficial when compared to the interest on their meagre deposits. Most importantly only 18 percent of Mysore and 24.6 percent of Chamarajnapagara i.e. overall around 20 percent of respondent are having an account in the post office.

There is significant difference on the Availability of the Post Office and its utility in financial inclusion between Mysore and Chamarajnapagara districts as the statistical figure on the distance; travelling expenses and having an account in the Post Office shown in the table gives the Pearson Chi square critical value as greater than 3.841 at 95% confidence level (Degree of Freedom = 1).

**Table 2**  
**Table showing Performance of NGO in Savings mobilisation and loan disbursement**

Particulars	Mysore	Chamarajnapagara	Total
Amount of Savings mobilised from the Members (Rs. Lacs)	559	1583	2142
Amount of loan disbursed to the Members (Rs. Lacs)	343	140	483
Total number of loan accounts.	3030	1600	4630
Number of Bank Accounts Opened for Members	2500	2000	4500

In terms of savings mobilisation, Chamarajnapagara is doing three fold of the Mysore amount i.e. compared to 1583 Lakhs in Chamarajnapagara, saving mobilisation in Mysore is only 559 lakhs. On the other hand, in terms of loan disbursement Mysore is 343 lakhs in comparison of 140 lakhs in Chamarajnapagara and same thing is happening in loan account also. The number of bank accounts opened for the SHG members is just 4500 which indicate that bank accounts are opened for a SHG and not for individual members of the SHG.

**Table 3**  
**Table showing Multiple Sources of finance**

Source		Mysore	Chamarajanagara	Pearson Chi-Square
Banks	No	496 (64.42)	196 (61.83)	0.65
	Yes	274 (35.58)	121 (38.17)	
	Total			
MFI's	No	561 (72.86)	229 (72.24)	0.05
	Yes	209 (27.14)	88 (27.76)	
	Total			
NGO's	No	489 (63.51)	170 (53.63)	9.18*
	Yes	281 (36.49)	147 (46.37)	
	Total			
Moneylender	No	565 (73.38)	246 (77.60)	2.12
	Yes	205 (26.62)	71 (22.40)	
	Total			
Chit Funds	No	589 (76.49)	286 (90.22)	26.95*
	Yes	181 (23.51)	31 (9.78)	
	Total			
Family Members	No	412 (53.51)	234 (73.82)	38.41*
	Yes	358 (46.49)	83 (26.18)	
	Total			
Friends	No	376 (48.83)	200 (63.09)	18.33*
	Yes	394 (51.17)	117 (36.91)	
	Total			

Figures in parenthesis denote percentage.

All the seven sources of finance have been analysed to understand statistically significant source for the SHG members.

Only 26.62 percent from Mysore and 22.40 percent from Chamarajanagara are taking money from moneylenders. This is a welcome shift. More than 35 percent household have their source of money from banks; more than 27% are obtaining funds from private micro finance institutions; significantly for more 35 percent of the household the source is NGO's; chit funds are another significant source; family members pooling in funds is another significant source with Mysore having a higher percentage; and finally friends pitching in is also quite significant source of funding. This dependence is evident from the fact that the chi square value for NGO's, Chit Funds, Family members and friends are way beyond the Pearson Chi square critical value at 3.841 at 95% confidence level (Degree of Freedom = 1).

**Table 4 - Table showing the SHG Members' access to the following financial services**

Particulars	Mysore	Chamarajanagara	Total	Pearson Chi-Square
Deposits	224 (29.09)	80 (25.24)	304 (27.97)	6.00*
Loans	264 (34.29)	74 (23.34)	338 (31.09)	4.56*
Remittance	357 (46.36)	95 (29.97)	452 (41.58)	1.21
Insurance services	301 (39.09)	88 (27.76)	389 (35.79)	2.34
Small & Rural Business Loans	368 (47.79)	97 (30.60)	465 (42.78)	7.90*
Housing Loans	321 (41.69)	115 (36.28)	436 (40.11)	8.84*
Personal Loans	292 (37.92)	91 (28.71)	383 (35.23)	9.62*
Child Future Plans	364 (47.27)	125 (39.43)	489 (44.99)	9.63*
Pension Plans	169 (21.95)	48 (15.14)	217 (19.96)	1.10
Risk Cover on Agricultural Crops	103 (13.38)	32 (10.09)	135 (12.42)	2.25
Risk Cover for Cattle	106 (13.77)	45 (14.20)	151 (13.89)	3.45
Are you covered under the National Rural Employment Guarantee Programme (NREGP).	114 (14.81)	44 (13.88)	158 (14.54)	34.80*
Do you withdraw the entire wages from your bank account	211 (27.40)	126 (39.75)	337 (31.00)	23.00*

Figures in parenthesis denote percentage.

The access to financial services is low in the study area. Only 27.97% have access of deposits, 31% of loans, 19.96% pension plans, 14.54% are covered under NREGP; over 12% have risk cover on agricultural crops and on cattle; 31% withdraw wages from their bank account; in this study area. Overall all the parameters indicated for measuring the financial services are below 50% and there is scope for improvement in these areas. There is a significant difference between Mysore and Chamarajanagara districts on the access to the financial services like deposits; loans like housing loans, small & rural business loans, personal loans; child future plans; among the people covered under NREGP and facility to withdraw wages from the bank account as their Chi Square value is above the critical value at 3.841 at 95% confidence level (Degree of Freedom = 1).

**Table 5 - Table showing Access to different services**

Particulars	Mysore	Chamarajanagara	Total
Reliable income stream.	69 (8.96)	40 (12.62)	109 (10.03)
ATM Facility	60 (7.79)	10 (3.16)	70 (6.44)
Point of Sale (POS) network	4 (0.52)	13 (4.10)	17 (1.56)
Engagement in any Credit Plus activities	110 (14.29)	77 (24.29)	187 (17.20)
Other sources of income	67 (8.70)	36 (11.36)	103 (9.48)
Other support you receive from outside institutions (other than banks)	96 (12.47)	82 (25.87)	178 (16.38)

Figures in parenthesis denote percentage.

The above table explains the access to different services through financial inclusion. From the above table it is clear that only 7.79% in Mysore and 3.16% in Chamarajanagara have ATM facility and 0.52% in Mysore and 4.1% in Chamarajanagara have POS network. According to the respondents 12.47% from Mysore and 25.87% from Chamarajanagara have other support from outside institution. A little over 8%

and 12% from Mysore and Chamarajanagara have reliable income stream and income from other sources respectively.

**Table: 6 - Table showing whether under the Integrated Rural Development Project (IRDP) if SHG members received credit through banks**

District		Frequency	Percent
Mysore	No	662	86
	Yes	108	14
	Total	770	100
Chamarajanagar	No	267	84.2
	Yes	50	15.8
	Total	317	100

One of the ways of financial inclusion is to make payment through banks for the work given by the Government for all project work undertaken by the Government in rural areas. Only 14 percent from Mysore and 16 percent from Chamarajanagar have received credit through banks under the Integrated Rural Development Project (IRDP).

**Table 7 - Table showing the following benefits obtained under one roof ie, either by the Banks; Post Offices or the MFI by SHG Members:**

Particulars	Mysore	Chamarajanagara	Total	Pearson Chi-Square
Life insurance	416 (54.03)	111 (35.02)	527 (48.48)	2.34
General insurance	207 (26.88)	54 (17.03)	261 (24.01)	1.33
Cattle insurance	71 (9.22)	89 (28.08)	160 (14.72)	14.5*
Pension Plans	53 (6.88)	31 (9.78)	84 (7.73)	1.90
Social Security Pension/National Old Age Pension (NOAP)	51 (6.62)	31 (9.78)	82 (7.54)	1.53
Short term savings	232 (30.13)	68 (21.45)	300 (27.60)	3.75
Investments	190 (24.68)	73 (23.03)	263 (24.20)	1.87
Remittances	165 (21.43)	46 (14.51)	211 (19.41)	4.45*
Loan products.	170 (22.08)	63 (19.87)	233 (21.44)	10.10*

Figures in parenthesis denote percentage.

The different benefits under one roof, provided by Banks, Post Offices or the MFIs have been statistically analyzed in the given table. Life Insurance benefit in Mysore (54%) is higher than Chamarajanagara (35%) and all other factors are almost similar in both the districts except short term savings which is 30% in Mysore compare to 21% in Chamarajanagara. Purpose of financial inclusion is availability of all facilities at a proximate distance which is encouraging to frequent these institutions and avail the facilities under one roof. Cattle Insurance, Remittances and Loan products are available in either of the institutions which indicate the Government policy of achieving financial inclusion within 2015 and are statistically significant as their Chi Square value is above the critical value at 3.841 at 95% confidence level (Degree of Freedom = 1).

**Table 8**  
**Table showing the bank providing branchless banking channels to Members**

Particulars	Mysore	Chamarajanagara	Total	Pearson Chi-Square
ATMs	213 (27.66)	22 (6.94)	235 (21.62)	12.22*
Electronic banking based on the Internet.	164 (21.30)	20 (6.31)	184 (16.93)	13.00*
Banking Correspondents and banking facilitators.	183 (23.77)	29 (9.15)	212 (19.50)	13.24*
Mobile Banking.	161 (20.91)	10 (3.15)	171 (15.73)	14.72*
Biometric teller machines	155 (20.13)	8 (2.52)	163 (15.00)	36.09*
Point of Sale Machines with attachments such as card readers, biometric information readers and printers/Kiosk Model	156 (20.26)	13 (4.10)	169 (15.55)	25.23*
Handheld devices	179 (23.25)	48 (15.14)	227 (20.88)	2.45
Online text processors	215 (27.92)	25 (7.89)	240 (22.08)	23.64*
Offline text processors.	157 (20.39)	12 (3.79)	169 (15.55)	23.87*
SMS text processors	157 (20.39)	9 (2.84)	166 (15.27)	37.89*
Internet-based connectivity to bank server or physical docking at bank branch	74 (9.61)	13 (4.10)	87 (8.00)	3.33
Mobile based connectivity to mobile operator's server and onwards to bank server	155 (20.13)	14 (4.42)	169 (15.55)	12.25*
Are you using GRPS based mobile technology	14 (1.82)	7 (2.21)	21 (1.93)	1.00
Have you tried out Customer service points (CSPs) method	27 (3.51)	12 (3.79)	39 (3.59)	1.11

Figures in parenthesis denote percentage.

Mysore is performing far better than Chamarajanagara. Saving time and effort of reaching the banks for manual service is presently resented by the people. Use of ATMs and mobile banking is gaining speedy acceptance. It is significant to observe from the study that there is a slow but steady advancement towards taking financial inclusion to the people through innovative means of using technology to take the banks to the people.

Banks providing branchless banking channels to Members has significant difference between Mysore and Chamarajanagara in the case of ATMs, Electronic banking; Banking Correspondents and Facilitators, Mobile Banking, Biometric Teller Machines, Point of Sale Machines, Handheld Devices, Online/Offline and SMSText processors, and Mobile based connectivity, as their Chi Square value is above the critical value at 3.841 at 95% confidence level (Degree of Freedom = 1)

**Table 9**  
**Table showing the Banking facilities offered by the Post Office**

Particulars	Mysore	Chamarajanagara	Total	Pearson Chi-Square
Mobile Savings	124 (16.10)	30 (9.46)	154 (14.17)	2.54
Issue Cheques	120 (15.58)	39 (12.30)	159 (14.63)	1.96
Cheque collections	47 (6.10)	22 (6.94)	69 (6.35)	1.02
Any Other	58 (7.53)	39 (12.30)	97 (8.92)	2.23

Figures in parenthesis denote percentage.

The above data is statistically not significant between the two districts with reference to the banking facilities offered by the Post office as the value of Chi Square is below the critical value of 3.841 at 95% confidence level (Degree of Freedom =1) .

In terms of Banking facilities offered by the Post Office, only 14% services provide through Mobile saving and issue Cheque. Only 6% cheque collections services provide both the districts. It could also be that issue and collection of cheques is not in practice by the rural members of the districts under study.

**Summary:**

- The Post offices have the disadvantage of distant location resulting in members incurring additional cost towards transportation. The members having a savings bank account in the post office is also very low.
- Mobilisation of savings from members; and loan disbursements is also remarkable. There are quite a few members with bank accounts, but when compared to the total SHG membership the numbers are low. Only few members have received credit through banks under the Integrated Rural Development Project (IRDP).
- There seems to be a decline in the dependence of SHG members on money lenders for financial support. Family members, friends, chit funds; NGOs; Banks and MFIs are the other sources of financing.
- There is wide scope for extending facilities such as deposits; loans; remittance; insurance services; pension plans; risk cover for agricultural crops and cattle; housing loans, personal loans; business loans etc are few financial services which are being extended to SHG members.
- Access to ATM facility is very low in both the districts. Point of sale machines with attachments such as card readers, biometric information readers and printers like the Kiosk models are very negligible even though are scantily found in the two districts. Other than banks in Chamarajanagara 25.86% have been receiving support from outside of the institution.
- Members have admitted that as far as Life Insurance is concerned they have been receiving it under one roof. General insurance cover; cattle insurance, pension plans, social security pension; short term savings; investments; remittances, loan products are also available though with a low percentage of coverage.
- Banks have made an attempt to move towards advanced technological use by providing ATM's; use of banking correspondents and facilitators; mobile banking; biometric teller machines; online/offline/SMS text processors; electronic banking based on the internet; internet based connectivity to bank server; mobile connectivity to mobile operator's server and onwards to bank server; using GRPS based mobile technology; and Customer service points method are some of the facilities in use.

**CONCLUSION:**

Initiating action on RBI initiative to open **Financial Literacy and Credit Counselling (FLCC)** Centres to ensure financial literacy of the masses is of vital importance to make financial inclusion successful. For this purpose, banks should draw up appropriate awareness modules and extend necessary financial support from the Financial Inclusion Fund administered by NABARD. Use of Post offices where the brick and motor banks are unavailable in a village is to be explored for financial inclusion. India is severely under-penetrated with only 54% adults having a bank account and only 40000 villages (less than 10% of Indian villages) out of 600000 villages have a bank branch. India has 155516 functional post offices as on end March 2012. The Indian postal department apart from the banks is the only organisation which can open bank accounts in India. Post offices can provide basic financial services such as savings accounts, simple saving products, basic life insurance etc. In particular, people lacked a detailed understanding of everyday financial products; the factors that determine access to financial products; financial services institutions; where to turn for information or advice on financial services.

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