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# Financial Inclusion through Self Help Groups (SHGs): A study of Aizawl District, Mizoram

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***Abstract:*** *GOI (2008) defines Financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial exclusion remains a major challenge for Northeast India. Since time immemorial, the poor village households were traditionally meeting their financial requirements through inappropriate informal and insecure means. However, in recent times, with the government initiative, Self Help Group (SHG) Model of microfinance service delivery has not only provided financial products and services to rural poor but also acted as a launching pad for livelihood intervention. The study attempts to explore and understand the extent of financial inclusion through SHGs in the State. The nature of the research used for the study was exploratory research to understand the actual scenarios of microfinance programme and its impact on financial inclusion of the SHG members. The study shows that participation in SHGs has indeed led to financial inclusion of the SHG members. Developing and nurturing SHG movement could pave a way for delivering microfinance product and services to poor household in the State, thereby enhancing livelihood and empowerment of poor, especially women in the state.*

***Keywords:*** *Self Help Group (SHG) ,Financial Inclusion, Microfinance*

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## I. Introduction:

Planning Commission (2009) defined Financial Inclusion as universal access to a wide range of financial services e.g. savings, credit, insurance, pension and financial literacy to the disadvantaged section of society at a reasonable cost. The rationale behind it being securing better standard of living and income for all.Inclusive financing or Financial inclusion is the delivery of financial services at reasonable costs to vast sections of low income population with the provision of equal opportunities. GOI (2008) defines Financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

Financial exclusion remains a major challenge for Northeast India. Since time immemorial, the poor village households were traditionally meeting their financial requirements through inappropriate informal and insecure means. However, in recent times, with the government initiative, SHG approach has been widely used as intervention strategy for poverty alleviation, income generation, capacity building and employment programme. The year 1992 to 2002 mark a decade of SHG – Bank linkage Programme in India. SHG Model of microfinance service delivery has not only provided financial products and services to rural poor but also acted as a launching pad for livelihood intervention. Appropriate and adequate capacity building and linking of SHGs to mainstream organizations act as a powerful instrument for empowerment and poverty alleviation in the rural segment especially among women.

## II. Statement of the Problem

The way the microfinance sector has grown in India, a huge regional skew has been created, with almost two thirds of the sector being concentrated in the southern region of the country. Northeast is among the least evolved microfinance markets in India. It is sad to state that when compared to other states in the northeast region, Mizoram is lacking behind in the provision of microfinance products and services.

While in SHG-bank linkages, the states of the Northeast rank among the last 5 states in the country, even the alternate channel of MFIs is only recently become active in the state. In the last few years, the sector has been growing at a brisk pace, particularly supported by initiatives of State government, NABARD, Banks and many emerging local as well as multi state microfinance institutions. SHG-BLP is slowly picking up in the state

About 20.4% of the population in Mizoram is living below poverty line (BPL); however, Mizoram has high literacy rates of 91.58%. There exist a huge human resource for the microfinance industry as well as for other sectors. The poor in Mizoram are resourceful and hardworking, they could be encouraged to come forward to take up microenterprise if they are given access to credit.

The region is endowed with ample natural resources. If it is developed using the appropriate techniques, technology and marketing support, it could provide livelihood options for many, and the credit needs for these interventions could be supplied through microfinance operations.

The research therefore, seek to identify the extent of financial inclusion through microfinance among SHGs members in Aizawl district. Thus, this study would not only reveal the state of microfinance and its impact on SHG members but also would be instrumental in identifying and developing microfinance product and service need of the state.

## III. Objectives of the Study

In order to explore and understand the extent of financial inclusion through SHGs in the State,the main objectives of the research study were as follows:

1. To examine the source of emergency loan of members, pre and post SHG participation.
2. To examine the increase in bank account holdings and credit from banks post SHG participation.
3. To suggest appropriate policy intervention for the effective performance and development of microfinance product and services.

## IV. Research Methodology

**Type of Research**

The nature of the research used for the study was exploratory research to understand the actual scenarios of microfinance programme and its impact on the SHG members participating in such activities at the grass root level.

**Sample Size**

The total number of savings linked Self Help Groups as on 31.03.2011 was 2,854 as recorded by State Focus Paper (2011-12). The average members in Self Help Group were found to be 10 members; therefore, the population of the study was taken at 28,540 individual SHG members.

With the help of Sample Size determination software, the calculated sample size was found to be 380 SHG members at 95% confidence level and confidence interval of 5.

**Sampling method**

A multistage sample design was adopted for selecting the sample SHGs and sample SHGs members to be interviewed in the survey. The primary data is collected through structured interview schedule by adopting the following process of multi- stage random sampling.

**First Stage:** Identifying the area of SHGs operating in all the 5 Rural Development Block in Aizawl District viz. Tlangnuam block, Thingsul block, Phullen block, Darlawn block and Aibawk block. List of SHGs were obtained from NGOs facilitating the groups.

**Second stage:** 38 SHGs were selected from each of the 5 Rural Development blocks of Aizawl District by using simple random sampling with replacement under probability sampling method. Thus, in all 190 SHGs were selected.

**Third stage:** From the selected 190 SHGs, 2 individual members were again selected by using simple random sampling. Thus, 380 SHG members were covered under the study.

## V. Sources of Data and Data Collection Method

The primary data were collected through interview schedule from SHG members. In order to analyze the impact of microfinance intervention on the individual members, the 'before" and "after" approach of impact assessment was primarily employed. Relevant data were collected through pre-structured questionnaire schedule, covering both qualitative and quantitative aspects of SHGs and their members before and after participation in microfinance programme.

**Data Analysis**

Excel and SPSS, a standard statistical software tool were used for analyzing the data collected. Descriptive statistics were used for summarizing the data.

**Report Presentation**

Descriptive style of presentation was used to report the findings of the study. Tabulation, charts and graphs are also used for easy grasping of the findings.

## VI. Major Findings:

**Source of Money for Meeting Emergency Needs**

Majority of the members (86.2%) borrow from friends and family for emergency needs before participation in microfinance programme, 7.4% of members borrow from banks, 5.3% of members from money lenders and

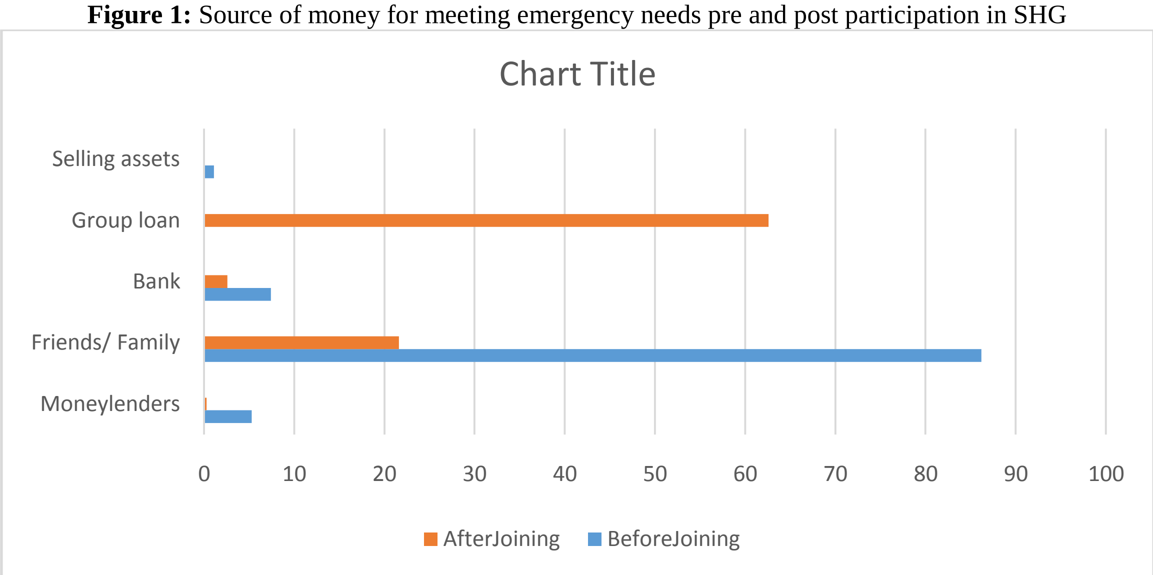
1.1% of members resort to selling of their assets before joining SHG. The scenario changed dramatically after the members' participation in microfinance programme with 62.6% of members borrowing from the group which leads to lessening the dependence on friends and family for emergency loans from 86.2% of members to 21.6% of members. 2.6% of members borrow from banks and 0.3 % of members borrow from moneylenders post participation in microfinance programme. Thus, 62.6% of the members has so far borrow from the group for meeting their emergency needs while 37.4% have not availed loan from the SHG.

**Table 1:** Source of money for meeting emergency needs pre and post participation in SHG

| Source of money | Before joining | After joining |
|---|---|---|
| | No. of members ( %) | No. of members (%) |
| **Moneylenders** | 5.3 | .3 |
| **Friends and family** | 86.2 | 21.6 |
| **Bank** | 7.4 | 2.6 |
| **Loan from Group** | - | 62.6 |
| **Selling of assets** | 1.1 | - |
| **Total** | **100.0** | **100.0** |
| **Availed Loan from group** | **No. of SHG members** | **No. of SHG members (%)** |
| **Yes** | 238 | 62.6 |
| **No** | 142 | 37.4 |
| **Total** | **380** | **100.0** |

*Source: Primary data*

**Figure 1:** Source of money for meeting emergency needs pre and post participation in SHG




*Source: Primary Data*

**Loan cycle**

The average loan cycle of SHG members was found to be 1.56. The table 2 shows that 30% of the SHG members have not availed loan from both the group and banks. Majority of the members (62.6%) have availed loan from the group and very few of the members (7.4%) availed loan from banks directly. This shows internal lending by the SHG is an effective credit delivery mechanism for the poor. The study shows that 29.7% of the members have availed loan once, 13.9% of the members have availed loan 2 times, 12.4 % of the members have availed loan 3 times, 5.8 % of the members have availed loan 4 times and 8.2% of the members have availed loan 5 times or more.

**Table 2:** Frequency distribution on Loan cycle of SHG members

| No. of loans availed | No. of SHG members | No. of SHG members in percentage |
|---|---|---|
| **Not availed** | 114 | 30 |
| **1** | 113 | 29.7 |
| **2** | 53 | 13.9 |
| **3** | 47 | 12.4 |
| **4** | 22 | 5.8 |
| **5 and above** | 31 | 8.2 |
| **Total** | **380** | **100.0** |

*Source: Primary data*

**Average Loan Size**

The average loan amount availed by the members was Rs. 8,908.816. Majority of the members have availed loan of less than Rs. 5,000. 17.4% of the members have availed loan amount between Rs.5,001 to Rs.10,000. 11.3% of the members have availed loan amount between Rs.1,0001 to Rs.15,000. 4.7% of the members have availed loan amount between Rs.1,5001 to Rs.20,000. 4.5% of the members have availed loan amount between Rs.20,001 to Rs.25,000. 3.7 % of the members have availed loan amount between Rs.25,001 to Rs. 30,000 and 5% of the members have availed loan amount of more than Rs. 30,001. The loan size of the Self Help Group members usually consist of small amounts because of the prevalent of internal group lending among members. It must be noted that majority of the SHG members did not directly avail loan from the banks or other financial institutions.

**Table 3:** Frequency distribution of loan amount availed by SHG members

| Amount of loan in rupees | No. of SHG members | No. of SHG members in percentage |
|---|---|---|
| **Loan not availed** | 114 | 30 |
| **Less than 5000** | 89 | 23.4 |
| **5001-10000** | 66 | 17.4 |
| **10001-15000** | 43 | 11.3 |
| **15001-20000** | 18 | 4.7 |
| **20001-25000** | 17 | 4.5 |
| **25001-30000** | 14 | 3.7 |
| **30001 and above** | 19 | 5.0 |
| **Total** | **380** | **100.0** |

*Source: Primary data*

**Use of Loan**

Majority of the members (60%) availed loan for financing productive activities, 3.7% of members availed loan for the education of their children, 2.6% of the members availed loan for medical treatment, 1.6 % of the members availed loan for repairs and construction of houses, 1.1 % of the members availed loan for repayment of old debts, another 1.1 % of the members availed loan for household expenditure and 0.8 % of the members availed loan for purchase of household assets. This indicates that majority of the SHG members use loan for productive purposes rather than for consumption.

**Table 4:** Frequency distribution on use of loan by SHG members

| Use of loan by SHG members | No. of SHG members | No. of SHG members in percentage |
|---|---|---|
| **Loan not availed** | 114 | 30 |
| **Financing productive activities** | 228 | 60.0 |
| **Repayment of old loans** | 4 | 1.1 |
| **Medical treatment** | 10 | 2.6 |
| **Repairs or construction of house** | 6 | 1.6 |
| **Education of children** | 14 | 3.7 |
| **Acquisition of household assets** | 3 | .8 |
| **Household expenditure** | 4 | 1.1 |
| **Total** | **380** | **100.0** |

*Source: Primary data*

**Difficulty in Repayment of Loan**

The study shows that 57.4% of the members have no difficulties in repayment of their loans however, 12.6% of the members experienced difficulties with the repayment of their loans.

**Table 5:** Frequency distribution of default in repayment of loan by members

| Difficulties in repayment of loan by members | No. of SHG members | No. of SHG members in percentage |
|---|---|---|
| **Not availed** | 114 | 30 |
| **Yes** | 48 | 12.6 |
| **No** | 218 | 57.4 |
| **Total** | **380** | **100** |

*Source: Primary data*

**Reason for Repayment Difficulty**

The main reason for facing difficulty in repayment of loan by members (75%) was business related problem (Sudden death of livestock, problems in selling their produce, etc.), 23% of the members faced difficulties in repayment due to illness and family problems. 2% of the members faced problem in repayment due to natural disaster that adversely affect their livelihood.

**Table 6:** Reason for difficulties in repayment of loan by members

| Reason for repayment difficulty | No. of SHG members | No. of SHG members in percentage |
|---|---|---|
| **Illness or family problems** | 11 | 23 |
| **Business related problems** | 36 | 75 |
| **Natural disaster** | 1 | 2 |
| **Total** | **48** | **100** |

*Source: Primary data*

**Personal Bank Account Holding by SHG Members**

While conceiving the SHG-BLP, it was presumed that once the "unbankable" poor are organised into SHGs with thrift and credit operations at the group level, they will first be linked to the financing banks as a group, for their savings as well as credit requirements. This was thought essential to build the necessary trust for the poor among the banking community so that they would ultimately graduate into individual customers of the banks. SHGs were, thus, conceived as trust building mechanism for banks to develop their potesntial customers and for the members of groups to learn to work with financial discipline while dealing with banking system.

**Table 7:** Frequency distribution of status of personal bank account held by the members

| Bank account status | No. of SHG members | No. of SHG members in percentage |
|---|---|---|
| **No personal account** | 76 | 20.0 |
| **Holds personal account before joining group** | 115 | 30.3 |
| **Holds personal account after joining group** | 189 | 49.7 |
| **Total** | **380** | **100.0** |

*Source: Primary data*

Number of SHG members who have their own personal saving account increased from 30 %of members to 80% of members with 49.7% of the members opening personal account with bank after joining SHG. 20% of the members did not have personal account but put their savings in the group account.

## VII. Conclusion:

The study shows that participation in SHGs has indeed led to financial inclusion of the SHG members. Developing and nurturing SHG movement could pave a way for delivering microfinance product and services to poor household in the State, thereby enhancing livelihood and empowerment of poor, especially women in the state. SHG is not only about accessing finance but about changing behavior and attitude. There is a need to build the sector by developing backward and forward linkages. Livelihood finance is not as simple as giving credit but requires institutional capacity building and also skill development.

The huge demand-supply gap provides ample opportunity for existing as well as new MFIs to expand. It is also an appropriate region for outside players as well as banks to lend to new institutions and increase their own portfolio in this region. As with any undeveloped region, the investment opportunities are enormous. As compared to the rest of the country, the microfinance movement started late in the region and is confounded by many regional complexities that must be understood, appreciated and incorporated by policy makers.

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