

ROLE OF DIGITIZATION IN FINANCIAL INCLUSION OF SELF- HELP GROUPS

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ABSTRACT

DOI URL: <https://doi.org/10.36713/epra2990>

India has always aimed at inclusive growth. A large part of population still resides in rural areas. Economic development of India is not possible without rural development. Several programs were introduced from time to time with the core objective of easing the accessibility of financial services to the poor but with little success.

One of the reasons for rampant underdevelopment of rural India is inaccessibility of funds at the grass root level. As the formal credit institutions were considered incapable of dealing with the financial requirements of the poor, microfinance emerged as an alternate credit system.

This has further gained momentum by using technology to provide financial services to the poor. This paper would focus on how digitization has influenced financial inclusion and what are the various challenges that must be tackled to make it more effective. As the focus is on SHG- BLP model, this paper would emphasize how the SHGs can utilize digital medium to reap more benefits out of this microfinance model.

The paper would give insight into how the impact of microfinance can be enhanced using technology.

KEY WORDS: *Microfinance, Self Help Groups, NABARD, Digital Inclusion, Digitization etc.*

INTRODUCTION

“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”

- Franklin D. Roosevelt

Till today two third of India’s population resides in villages. For India to become a developed nation it is

mandatory to have inclusive economic growth where the urban and rural folk develop together. As per the Census data, during 2001-11, the rural population has increased by 12.18%. But the increase is declining as the villagers are migrating toward urban areas in search of livelihood and better living standard.

This migration can only be checked by providing economic resources at their doorsteps.

Table1: Growth Rate of population in India: (Source: Census, 2011)

	1999-2001	2001-2011	Growth rate
India	21.5	17.6	-3.9
Rural	18.1	12.2	-5.9
Urban	31.5	31.8	+0.3

The above data shows that the growth rate in rural population is negative and urban population is increasing. If the Literacy Rates are taken into consideration, the

improvement in rural areas is two times that in urban areas. The rural urban literacy gap which was 21.2 percentage points in 2001, has come down to 16.1 percentage points in 2011.

FINANCIAL INCLUSION

The Committee on Financial Inclusion under the Chairmanship of Dr. C. Rangarajan has defined it 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.”

Planning in India has always considered the attainment of financial inclusion as its primary objective. Not only the government but also the Central bank of the country i.e. the RBI has been working towards making it a national objective. In order to promote it, several significant steps have been taken such as nationalizing the banks, introducing Regional Rural Banks and Co-operatives, encouraging scheduled commercial banks to open branches in remotest corners, fixing the targets of banks regarding lending to priority sectors, introducing the lead bank scheme, promoting and nurturing SHGs etc. The financial services are even being provided at the door step by BCs/ BF's which are appointed by the banks.

All these measures have been taken to bring the rural population under the ambit of formal financial sector as it is still dependent on unorganized sector for its credit needs. Through microfinance the poor are encouraged to save money in small amounts which can be used at the time of need. This leads to a habit of thrift among its participants and easy credit also helps in starting small business ventures. In this way, the poor become self-dependent which goes a long way in promoting economic development. When the savings are kept in bank, they stay secured, a rate of interest can be earned and further it can be used at the time of unfavorable conditions. Financial inclusion also reduces the exploitation of economically backward strata by the moneylenders who are ready to lend at high interest rates and find ways of stealing the poor of their life's precious possessions. The poor are encouraged to open bank accounts thereby they can easily get credit at simple repayment options.

This study is focused on how Financial inclusion is being promoted in the villages through the NABARD SHG-BLP model of microfinance and how its advantages are being multiplied using technology. How it can transform the lives of rural Indians. It is also going to talk about various challenges that have emerged in its proper implementation.

SELF HELP GROUPS

It includes the formation of group of about 10 to 20 members. The group formation is facilitated by a NGO working in this field or any Microfinance Institution operating or the bank itself. It can also be initiated by ROSCA or other locally started group.

All the SHG members choose the amount to be saved regularly. These savings are either kept with the elected head or put in the bank. From these savings, the group members can take loans at the time of need at a mutually decided rate of interest. The duration of loan is also worked out. In case the member is not able to pay the loan installment a nominal penalty is taken. Every group starts to save in a savings bank account and the account is assigned to the SHG group name with the bank or any microfinance institution. The surplus funds are deposited. On these deposits the members can avail loan from that bank. The loan is given by the bank or microfinance institution in the groups' name and the amount is equally divided among the group members. The group members can use these funds to fulfill their various household or business needs.

The SHG Programme is the biggest microfinance programme in the whole world. The SHG- BLP is the leader amongst all the various tools being used for the social and economic upliftment of the economically weak. The primary reasons for its good results are it is directly linked with the downtrodden, the presence of mutual trust between its various participants and stake holders and continuous innovations. It is the largest coordinated financial inclusion programme of the Government. As on March 31st, 2018, there are 8.7 million SHGs. Out of this total, there are 5.02 million SHGs with unsettled bank loans of Rs. 75598 Cr. The SHGs have a total deposit of are Rs. 19592 crores (Status of Microfinance in India- NABARD, 2018) with banks.

The success of this programme can be ascertained by the fact Self Help Groups currently are being promoted by over 100 Scheduled Banks, 300 DCCBs, 27 State Rural Livelihood Missions and more than 5000 NGOs.

Since 1992, 87.44 lakh SHGs have been added as on 31st March 2018 covering more than a hundred million rural households in India. As per NABARD, out of the total SHGs present in India in 2018, 85.4% are exclusively formed by women. (NABARD, 2018)

MEANING OF DIGITIZATION

It is the incorporation of digital technologies into daily life. Merriam Webster dictionary has defined it as the process of converting anything to digital form. Through digitization various kind of data such as a sound or text or image or even a voice is converted into digital format. Through it, any document can be saved and can be accessed by a person living in the other corner of the world. It also plays a significant role in social and economic development as it leads to better access to knowledge, better understanding and use of public services, can be used to earn more profits, provides better employment opportunities and improves the overall quality of life.

Digitisation has great utility in business as it can be used to restructure various processes such as production, communication, flow of information, marketing, promotion, distribution etc. As the various processes are improved, the costs are reduced that leads to higher profits. In this way it has a significant impact on the economy of a country.

DIGITIZATION IN INDIA

During the past years, the Indian government has successfully launched various initiatives to reduce income inequalities and helping the underprivileged to enjoy the benefits of technology. Promoting Digitization being the most prominent. The government has made all efforts to create such an ecosystem and an enabling environment by relaxing laws, easing procedures and removing barriers to foster growth which is going to facilitate financial inclusion and help in social empowerment.

The foundation of digital revolution was laid down in India through the introduction of the biometric identification program” Aadhaar”. It gave a unique identification number to every Indian and could be used as an ID proof. It was followed by several projects such as Jan-Dhan Yojana which aimed opening a bank account of every Indian. Others included PAHAL that entailed LPG subsidy for every holder of Aadhar Card and Digi Locker, through which the personal documents could be stored safely on a government server to ensure cyber safety.

One such initiative that helped rural people to get LPG cylinders was CSC: Common service centers. These CSC

provide several services such as booking of cylinders of any company, getting a new connection and delivery at CSCs. This is a step towards digital inclusion; using technology for the benefit of common men mostly in rural areas.

A study by Boston Consulting Group (BCG) studied the impact of using mobile financial services and concluded that a country can increase its GDP by 5%. India can increase its GDP by 5% by 2020 by using mobile financial services as it would lead to increased access to credit, more opportunities for investment and more setting up of own business. It is also going to lead to more employment opportunities and rise in living standard. The benefit might first be manifested in urban India but soon it would trickle down in the rural areas too.

LITERATURE REVIEW

Ozili (2018) concluded that digital finance and financial inclusion can be of great utility to all the stake holders such as the users of financial services, providers of digital financial services, the government and the economy as a whole but certain issues need immediate attention to make it work better for all. There is a need to understand the relationship between digital finance, financial inclusion and digital financial inclusion. Is it possible for the Fintech companies to help at the time of economic adversities through product innovations.

Ouma (2017) from his study stated that if the mobile phone is used for providing financial services, it can increase the possibility of saving at the house hold level. It is going to increase both type of savings, basic savings in mobile and the savings integrated with banks. Hence mobile phones can be used to promote thrift among the economically backward and to provide them access to formal financial services.

Kpodar (2017) studied the impact of Information and Communication Technology (ICT) on economic growth. The relationship was studied in terms of how mobile phones can aid in financial inclusion. The study was conducted in African countries during a period of 1988 to 2007. Through the study it was concluded that ICT through the development of Mobile phones has lead to financial inclusion which has further lead to economic growth in African countries.

Maiti (2017) concluded that digitization has a positive impact on overall economy and trade. He selected two crucial sectors for his study, services and MSMEs. Through the use of technology, the product and processes are improved which lead to better quality and more production. This enhances the profit margins, productivity and performance. Their improved performance has a significant contribution in the overall development of trade and leads to more inclusive growth of the economy.

Fan and Zhang (2017) studied the impact of financial inclusion on the formation of entrepreneurs in China. They covered 31 provinces and 19 industries during their study. They concluded that it has a positive impact in promoting entrepreneurship especially in sectors with low entry barriers. The prime reason being through financial inclusion the availability of credit becomes easier as the information asymmetry in financial transactions is reduced.

USE OF DIGITIZATION IN FINANCIAL INCLUSION

Digitization can help in reaching to the poorest of the poor in the following way:

- Increase the reach: More and more people can be encouraged to become members and use technology for financial transactions.
- Increase the volume and diversity of financial products and services available for the underserved, including the use of digital financial services.
- Build the capacity of the microfinance players to ensure they can design, offer, and oversee the implementation of these services
- Provide access to timely and relevant data to increase transparency and accountability of the SHGs
- Collect data to measure outreach, design new interventions, and track progress over time.

It can be said that financial inclusion is an important step in enabling every individual to engage in the digital economy and benefit from the tremendous opportunities digitization can bring to society and digitization is key to accelerating the impact of financial inclusion.

Project E- Shakti: Digitisation of SHGs

The apex body for promoting microfinance in India, the National Bank for Agricultural and Rural Development (NABARD) is working on creating a central database of all the SHGs present in India so that their performance can be monitored and solutions can be provided at the right time through its project E- Shakti. This project was launched in 2015. Initially only two districts were selected for the pilot study namely Ramgarh in Jharkhand and Dhule in Maharashtra. It was extended to 23 more districts in the next phase in 2016. In 2017 it was expanded to 75 more districts. Presently the project is covering about 100 districts of India.

A software has been developed with an app in local languages. All the data related with SHG and its members is fed in an input device that could be a mobile handset or tablet and uploaded on a secure and dedicated website. The data accuracy is ensured through SMS alerts and sample audit. MIS Reports are generated and the progress of each group is tracked in real time.

The significant features of the Project are

1. The book keeping of all the SHGs is done in digital format.
2. Construction of a comprehensive and strong Management Information System of all the members covered and their various transactions. This will help in involving them in various development schemes and projects.
3. Reports regarding their various activities can be generated as required by various stakeholders such as banks.
4. The grading of various SGHs automated as per norms.
5. Automatic generation of Loan application by bank on input of resolution to borrow.
6. Transfer of all the benefits that are being provided through various government schemes directly in their accounts with ease.

Table 2: Status of Project of E- Shakti:(Source: NABARD)

	On 15/6/2018	On 22/12/2019
No. of villages covered	58,004	63,124
No. of SHGs involved	3,88,915	4,49,365
Total No. of members	43,91,737	49,75,875
Cumulative Savings	1,635.17 crores	2,541.64 crores
No. of women members	42,54,637	48,10,872
No. of bank branches involved	10,641	12,423
Implementing agencies	306	450

From the above table, it can be concluded that NABARD is continuously working towards bringing more and more villages under the ambit of its project. But still a few areas need attention so that it can achieve its desired objectives. Some of the key challenges are:

1. The most critical challenge is that there is no access to digital technology in rural areas.
2. As the rate of literacy is also very low it is not easy to understand how to upload information related with credit and savings.
3. The use of Internet in remote areas is still very less.
4. Lack of training of officials associated with SHGs is also one the important factor along with co-operation from linked bank officials.
5. Matter related with linking of Aadhaar card with the bank account and other payment platforms is still subjudiced as there are major security concerns. It could lead to leaking of personal and financial details.

CONCLUSION

It is true that the government can achieve its goal of financial inclusion through digitization that can help in increasing the reach as well as scale of financial services. But lack of financial literacy and internet access are major constraints that need to be worked upon. There is a need for user friendly interface that can be understood and used easily even by an uneducated SHG member. The associated agencies can provide customized training to rural people and educate them how they can access various financial services by using mobiles etc. Issues such as data protection and data security must be ensured as it is very easy for SHG members to get cheated of their precious savings. All efforts should be made to make it a boon rather than a bane for rural India.

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