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FINANCIAL INCLUSION: AN OVERVIEW OF MICROFINANCE IN INDIA

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India has been historic progress and growth in the past decade while the growth story has been impressive; there are causes for concern on other dimensions. Low-income Indian household's economy often have to borrow from friends, family or money lenders. Unrestrained access to public goods and services is an essential condition of an open and efficient society. It is argued that as banking services are in the nature of a public good, it is essential that the availability of banking services to the entire population without discrimination is the prime objective of public policy. Expectations of poor people from the financial system is security and safety of deposits, low transaction costs, convenient operating time, frequent deposits and quick and easy access to credit and other products, including remittance suitable to their income and consumption.

In India ,as per the 61st round of National Sample Survey Organization's (NSSO) survey, it is estimated that about 27.7% of the country's population is considered to be poor putting the universe to be considered for the financial inclusion safely at about 300 million. As the rural poor are estimated to be 28.5% while the urban poor at 25.7%, the clarion call for financial inclusion at all levels is considered paramount. And here lies the major challenge.

Financial Inclusion is tool for development and part of economic growth process, this achieving inclusive growth is sustainable development. It is an acknowledged fact that Indian economy is one of the towards faster and inclusive growth this concept first initiatives 11th year plan in India. In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a saving bank account without frills to all. It is essential to ensure that a range of financial services is available to every individual. At this moment it would be interesting to discuss the involvement of technology to solve the problem of microfinance in India.

Microfinance is widely perceived as an approach with significant further potential for poverty alleviation and economic empowerment. Microfinance is about providing financial services to the poor who are not served by the conventional formal financial institutions. The needs of financial services that allow people to both take advantage of opportunities and better management of their resources. Government's initiative to reduce poverty by improving access to financial services to poor started since independence. India's overwhelming majority of poor is located in rural areas and this motivated the government to give special attention to rural credit.

Objectives

- To examine the relationship between financial inclusion and rural development through micro finance in India.
- To examine the performance of micro finance- SHGs Bank Linkage Programme.

Methodology

This research paper is based on secondary data. The help of secondary data, collected from various journals and magazines such as economic survey. The planning commission report, RBI report, NABARD report, books, websites and records etc.

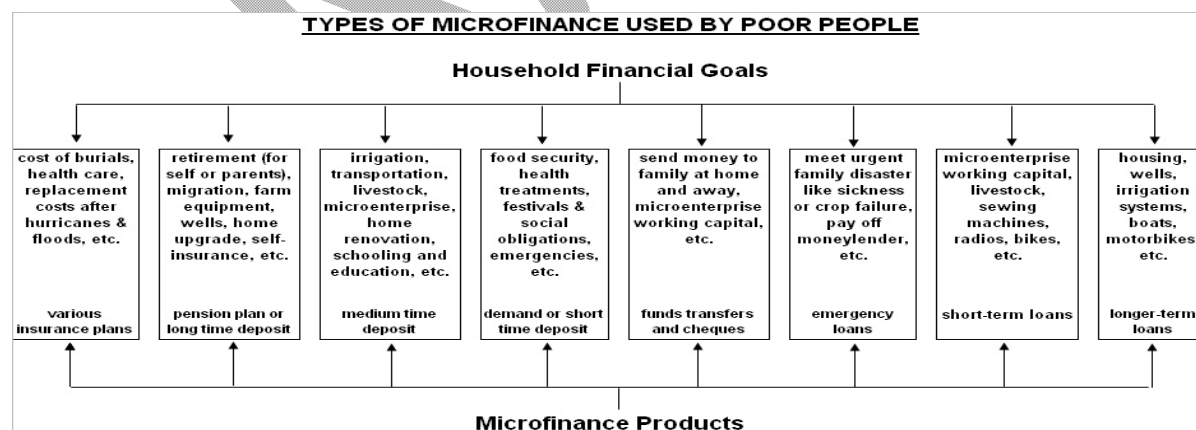
Financial Inclusion

To understand the concept of financial inclusion it is necessary to know the meaning of financial exclusion. This concept refers to a situation where people encounter difficulties in accessing and using financial services and products in the mainstream market that are appropriate to their needs which enable them to lead a normal life in society. The poor socially under privileged disabled old as well as children, women, uneducated ethnic minorities and unemployed are financially excluded in India.

The committee of financial inclusion, headed by Dr. C. Rangrajan, broadly defines financial inclusion as the process of ensuring access to financial services and timely/adequate credit, wherever needed at an affordable cost to the weaker sections and low income groups. Financial Inclusion mean the delivery of financial services and credit, at an affordable cost to the vast sections of disadvantaged and low income groups who tend to be excluded. The various financial services include access to savings, loans, insurance, payments and remittance facilities offered by the formal financial system. An Inclusion Financial sector would provide access to credit for all 'bankable' people, firms, to saving and payment service to everyone.

Rural Development and Micro Finance in India

Rural development has been described as a challenge for a mission to fight against poverty, illiteracy, stagnancy, unemployment 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. In India, the financial crises of the 1990's lead to the first economic liberalization including reform's in the financial sector. These included the slow reconstructing of the commercial and regional rural banks, the consolidation of the government's self employment schemes and autonomous of government control etc. The importance of microfinance lies in the fact that the formal/institutional banking sector has not lives up to its social responsibility of meeting the financial needs of the poor due to various reasons such as lack of adequate branch network in the rural areas, the inability of the poor to offer satisfactory collaterals for the loans and lack of education and awareness. Microfinance is defined by the process of formulating groups within a community to assist poverty stricken people by lending them money without the need of credit or collateral.



Source: Brett Matthews, Mathwood Consulting Company.

Microfinance refers to small-scale financial services primarily savings, credit and insurance provided to people. Microfinance is a movement whose object is “a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance and fund transfers.”

Channels to Microfinance

In India Microfinance operates through two channels:

1. SHG- Bank Linkage Programme (SBLP).
2. Microfinance Institutions (MFIs).

SHG- Bank Linkage Programme (SBLP)

The initiative of 1992 to make the traditional and formal banks to extend financial services to deprived sections through informal Self Help Groups (SHG), has now blossomed into a microfinance initiative. It has been recognized as a decentralized, cost effective and fastest growing microfinance initiative in the world.

Inspired by the success story of Bangladesh Grameen Bank in the field of micro banking for the upliftment of the poor, particularly women, the NABARD launched a pilot project to provide micro credit by linking SHGs with commercial, Co-operative and Regional Rural Banks (RRBs) in 1992. In 1999, the Reserve Bank of India set up a micro credit cell to make it easier to micro credit providers to pursue institutional development process and as a result of which a number of initiatives in India in recent in the field of micro finance have been taken a cost effective and sustainable way of expanding outreach of the banking system to the rural poor.

A self help group is defined as a group consisting of people who have personal experience of a similar issue or life situation, either directly or through their family and friends. Sharing experiences enables them to give each other a unique quality of mutual support and to pool practical information.

In 1996, Reserve Bank of India included financing of SHGs as a main stream activity of banks under the priority sector lending programmes. Under the SHG-Bank linkage programme, the coverage of rural households having access to regular savings through SHGs linked to banks came down by around 8% during the year to 95 million as on 31 March 2013. A similar decline of number of SHGs savings linked to Banks was also observed with only 73.18 lakh SHGs linked to Banks as against 79.60 lakh a year back. Number of SHGs

having outstanding credit with banks, however, showed a marginal increase of 2% to 44.5 lakh as against 43.5 lakh the previous year.

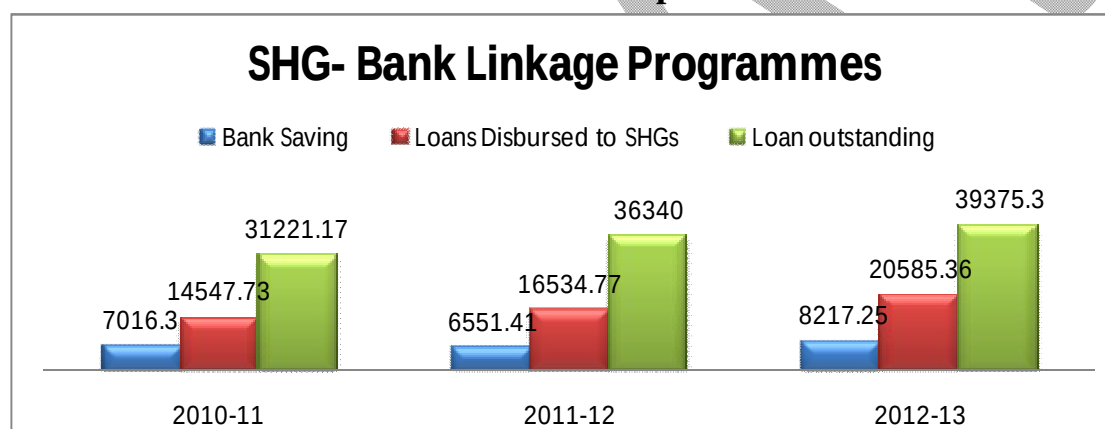
Table- 1
Progress under SHG- Bank Linkage Programmes for last three years
(Amt Rup. crore/ Numbers in lakh)

	2010&11		2011&12		2012&13	
	No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG savings with banks as on 31st March	74.62	7016.30	79.60	6551.41	73.18	8217.25
Loans Disbursed to SHGs during the year	11.96	14547.73	11.48	16534.77	12.20	20585.36
Loan outstanding against SHGs	47.87	31221.17	43.54	36340.00	44.51	39375.30

Source- Micro Credit Innovations Department, Status of micro Finance in India, 2012&13-

Table-1 gives the growth of SHGs - saving as well as credit linked for the last 3 years.

Graph-1



Source- Micro Credit Innovations Department, Status of micro Finance in India, 2012&13-

Table- 2
Grant Support to Partner Agencies

(Amt. in lakh)

Agency	Cumulative Sanction up to (31.03.2013)		cumulative Achievement (31.03.2013)	
	Amount	SHG No.	Amount	SHG No.
NGOs	19932.18	526699	6647.68	362803
RRBs	744.99	49250	185.43	45852
Coop. Banks	1046.23	73634	353.50	51266

IRVs	460.12	26883	77.04	11228
Farmers Clubs	40.63	2544	20.40	9832
SHG Federation	28.61	250	1.85	46
PACS	397.45	8533	4.28	85
Total	22650.21	687793	7290.18	481112

Source- Micro Credit Innovations Department, Status of micro Finance in India, 2012&13-

Table- 3
Region wise Savings Balance per SHG

(Amt. in lakh)

Region	2012	2013
Northern Region	6175	7810
North Eastern Region	4159	4017
Eastern Region	5827	9471
Central Region	7549	8889
Western Region	8210	7680
Southern Region	10080	14352

Source- Micro Credit Innovations Department, Status of micro Finance in India, 2012&13-

Graph-2

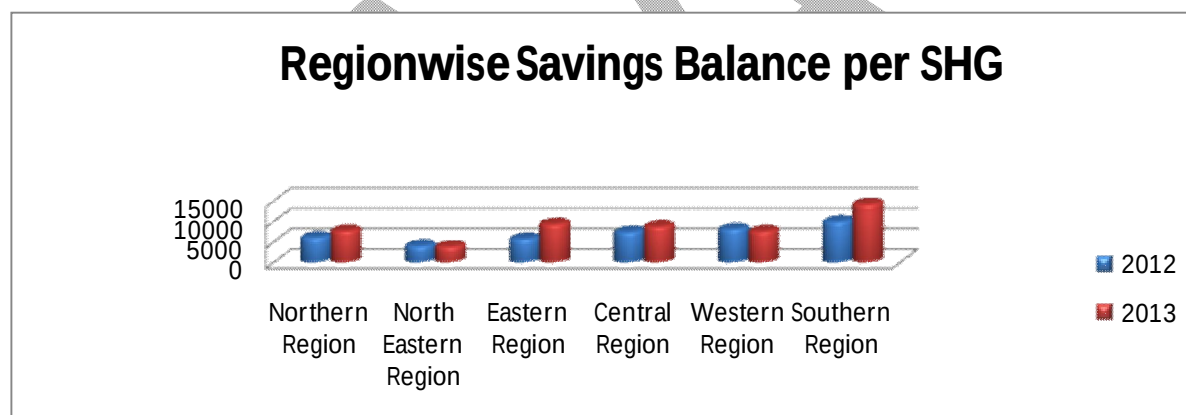
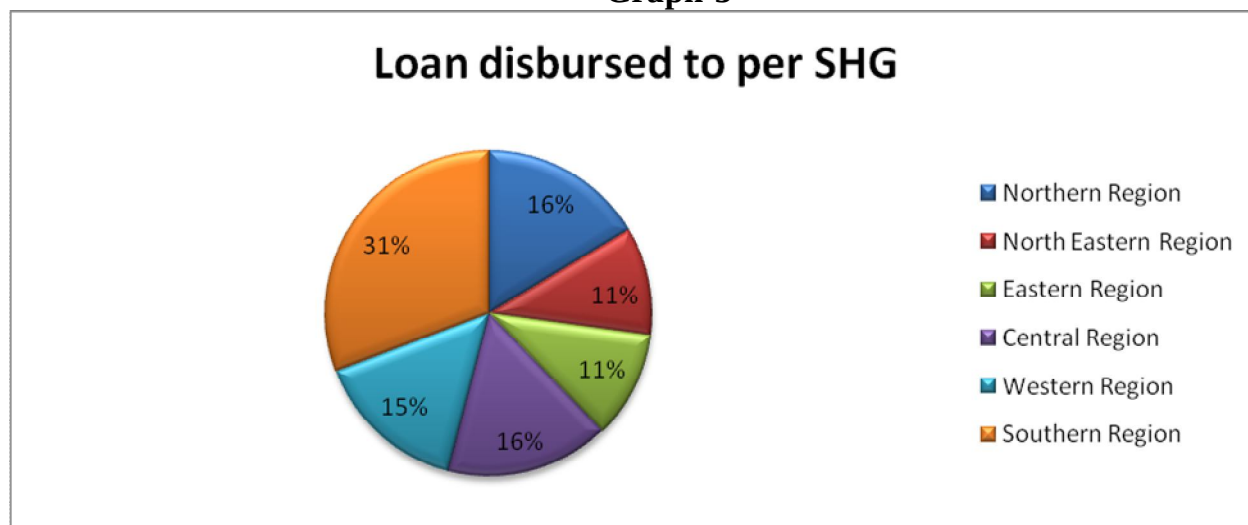


Table- 4
Region wise- Bank Loan disbursed to per SHG during 2012-13

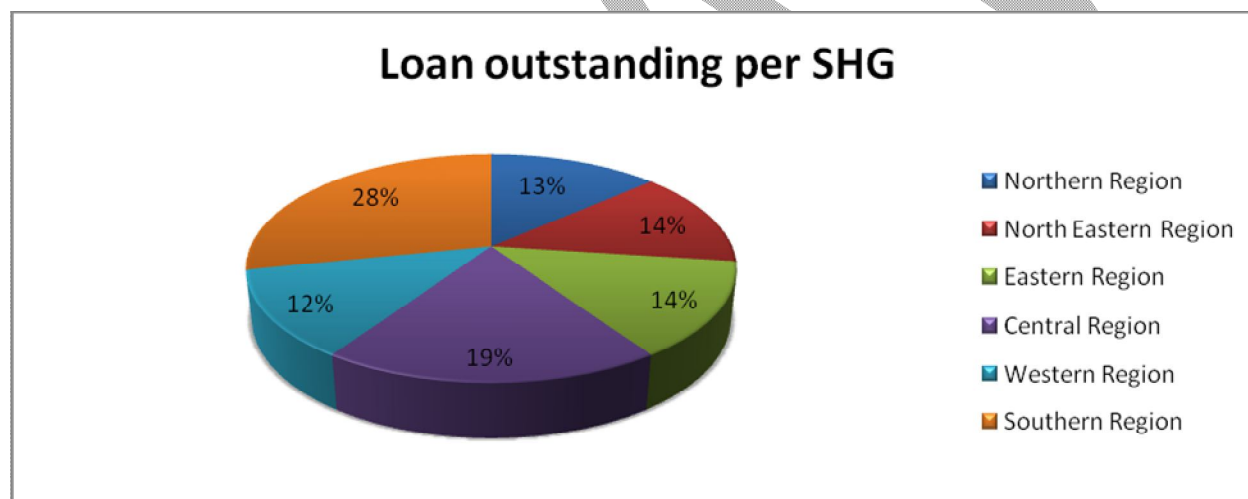
(Amt. in lakh)

Region	Loan disbursed to per SHG	Loan outstanding per SHG
Northern Region	109413	54249
North Eastern Region	71606	55461
Eastern Region	70570	54261
Central Region	108895	76598
Western Region	100803	49670
Southern Region	205262	114423

Source- Micro Credit Innovations Department, Status of micro Finance in India, 2012&13-

Graph-3

Source- Micro Credit Innovations Department, Status of micro Finance in India, 2012&13-

Graph-4

Source- Micro Credit Innovations Department, Status of micro Finance in India, 2012&13-

Microfinance Institutions (MFIs)

Microfinance Institutions (MFIs) those institutions which have microfinance as their main operation are known as Microfinance Institutions. A number of organizations with varied size and legal forms offer microfinance service. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 1 to 10 individual members who come together from the purpose of availing bank loans either individually or through the group mechanism

against a mutual guarantee. NABARD besides extending financial support for awareness creation / capacity building of all stakeholders also extends 100% refinance support to Banks on their lending to JLGs. About 1,96,500 JLGs were promoted and credit linked during 2012-13, as against 1,91,500 JLGs promoted during the previous year.

The reason for existence of separate institutions i.e. MFIs for offering microfinance are as follows:-

- High transaction cost- generally micro credits fall below the breakeven point of providing loans by banks.
- Absence of collaterals- the poor usually are not in a state to offer collaterals to secure credit.
- Loans are generally taken for very short duration periods.
- Higher frequency of repayment of installments.

Non-Banking Financial companies (NBFCs), Co-operating societies, societies and Trusts, all such institutions operating in microfinance sector constitute MFIs.

Table- 5
Progress under MFI-Bank Linkage Programme in India

(Amt. in crore)

	2010-11		2011-12		2012-13	
	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount
Loans Disbursed by banks to MFIs	471 (-39.5%)	8448.96 (-21.3%)	465 (-1.3%)	5205.29 (-38.39%)	426 (-8.4%)	7839.51 (-50.6%)
Loan outstanding against MFIs	2315	13730.62	1960	11450.35	2042	14425.84
Fresh loans as% age to Loans outstanding		61.5		45.5		54.3

Source- Micro Credit Innovations Department, Status of micro Finance in India, 2012&13-

Table- 6
Loans to MFIs by Banks/Financial Institutions

(Amt. in crore)

Agency	Year	Loan outstanding against MFIs		Loan outstanding against MFIs	
		No. of MFIs	Amount	No. of MFIs	Amount
Commercial Banks	2010-11	460	7601.02	2153	10646.84
	2011-12	336	4950.98	1684	9810.98
	2012-13	368	7422.66	1769	12467.72

Regional Rural Banks	2010-11	9	4.16	23	42.01
	2011-12	113	13.28	128	37.51
	2012-13	14	4.58	153	70.66
Cooperative Banks	2010-11	NA	NA	NA	NA
	2011-12	4	1.61	19	4.75
	2012-13	3	4.00	18	6.83
SIDBI	2010-11	2	843.78	139	3041.77
	2011-12	12	239.42	129	1597.11
	2012-13	41	408.27	102	1880.63
Total by all agencies	2010-11	471	8448.96	2315	13730.62
	2011-12	465	5205.29	1960	11450.35
	2012-13	426	7839.51	2042	14425.84

Source- Micro Credit Innovations Department, Status of micro Finance in India, 2012&13-

Problems & Challenges

Although steps have been taken by the banks to deliver the banking services and credit facilities to the vast sections of the population belonging to the disadvantaged and low income groups, it is still a challenging task. This is because of following reasons:-

- Due to limited literacy, especially there is lack of awareness about the financial services and products.
- The financial products are unsuitable for low income groups.
- The low income groups cannot fulfill KYC (Know-Your-Customer) norms due to lack of proper documents regarding identity address, income proof etc.
- There is lack of communication due to language barriers.

Suggestions

- Efforts should be made to motivate the banks to take active interest in the project and to reduce the time taken for processing the applications and disbursing loans.
- Awareness programmes should be prepared as per states of the target groups in local languages.
- Proper training, workshops, get together etc, should be organized by the government and financing agencies with the help of resource persons.
- There is a need for marketing and technology support to Swarojgarees.
- Monitoring and evaluation activities need to be given more importance for improved performance.
- The banks should focus on all the area of sector more particularly rural. This helps all the people to access for the financial services.

- MFIs should provide complete various services including credit, saving, remittance, financial advice and also non-financial services like training and support.

Conclusion

Financial Inclusion is a new innovative concept. It is the aim of banking and financial services to unbanked areas. At present microfinance institutions are becoming an engine for total financial inclusion by providing microfinance to socially weak section of society through collaboration with Self Help Group. Banks and financial institution in turn act as fund providers to these institutions. Microfinance activities has increased manifold since inception. Development of such institutions can be seen by evaluating the loan given by commercial banks, financial institutions and growth in number of these institutions.

Microfinance changing the face of poor India Micro-Finance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, micro-Finance scene is dominated by Self Help Groups (SHGs) - Banks linkage Programme, aimed at providing a cost effective mechanism for providing financial services to the unreached poor. Thus The Financial Inclusion are play vital role of economic opportunity and improve the living standard for inclusive growth.

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