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MICRO FINANCE-AN IMPERATIVE FOR FINANCIAL INCLUSION IN INDIA

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Abstract
Financial inclusion is a flagship programme started by the Reserve Bank of India to bring people under the ambit of formal financial inclusion. Along apart with from providing credit under this scheme, the Reserve Bank has adopted a policy of providing credit through multiple channels viz., involving self-help groups (SHGs) and MFI, expanding the scope of the Business Correspondence (BC) model, simplifying procedures and processes for Micro and Small Enterprises (MSEs) and Adopting information and Communication Technology (ICT) solutions for greater outreach and lower Transaction costs. This article is based on the premise that poverty has its own culture. Social system and sub systems of this culture are built on exploitation. Microfinance is an intervention based on Social Intermediation in which poor people can mobilize their savings, link it with credit and finally become self-employed. It results in building social capital. The study is based on secondary information from existing literature and some of the information has been collected from Nabard Reports, status of Microfinance and RBI reports.

Keywords: Financial Inclusions Plans, Joint Liability Groups, Microfinance Institutions, SGSY, SIDBI

Introduction

In India various estimates of poverty made so far reveal that, majority of the poor reside in rural areas comprising mainly small farmers and landless labours in urban areas most of the poor are either self-employed or are working in non-organized manufacturing or service sectors of economy. In order to accelerate reduction of poverty several programs are implemented by the Government of India (GOI) of which few involve bank credit as an input. The Reserve Bank of India's policy of financial inclusion has begun to change the profile of rural credit and poverty alleviation in India. "Inclusiveness" under priority sector has really two dimensions: one in terms of sector or segments of the economy which ought to be brought into the fold of a vibrant economy two in terms of enabling sections of the population whom the growth process has by-passed have to fully engage them with the development process. RBI's policy of financial inclusion the emergence of MF institutions and the inclusiveness under priority sector has begun to change the profile of rural credit.

Objectives

The paper has been conceived with the following objectives:

1. To examine the role of Microfinance in bringing financial inclusion.
2. To analyze various important regulatory initiatives taken by the Reserve Bank of India regarding FI.

Scope of the Study

The aim of the present study is to know the role of micro finance in providing financial services to the large section of the vulnerable groups of the society of India. The date relating to financial inclusion, micro finance, SHGs, SBLP, JLGs etc was examined with the help of a good deal of secondary sources such as Microfinance summit 2013, RBI Bulletin, Micro finance Report 2012-13 and other research papers, journals, articles, annual reports of the company and various other websites.

Financial inclusion

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players. As banking services are viewed as public goods, availability of banking and payment services to the entire population with discrimination. Financial Inclusion is a critical component of the inclusive growth envisaged for the overall development of the economy. The spread of banking facilities has been uneven in the country, throwing up

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challenges for achieving financial inclusion. Even after nationalization of commercial banks in 1969 and in 1980, a good proportion of households, especially rural, is still outside the coverage of the formal banking system. An inclusive financial sector would provide access to credit for all 'bankable' people and firms, to insurance for all insurable people and firms and to savings and payments services for everyone.

Considerable Progress

In 2010, SCBs adopted Board – approved Financial Inclusion plans (FIPs) containing self-set targets for Financial inclusion for a span of three years. In 2013, banks completed three years under these plans. Taking stock of the developments over the last three years indicates considerable progress with regard to financial inclusion; the major findings can be listed as follows in Table 1. Almost all identified unbanked villages with a population of more than 2,000 have been covered with a banking outlet. Greater attention is now being given to unbanked villages with a population of less than 2,000; there has been a steep rise in the number of villages with a population of less than 2,000, which were provided with banking outlets between 2012 and 2013. Dominance of BCS in the provision of banking services to villages as well as urban locations – The villages with a population of more / less than 2,000 are being provided with a banking outlet through branch. BCS and other (ICT-based) modes. Among these three, there is a dominance of BCS in the provision of banking services over opening bank branches. BCS have also been an important means of providing banking services to urban locations.

Table - 1

Progress under Financial Inclusion Plans, All SCBs including RRBs

No.	Variable	Mar-10	Mar-11	Mar-12	Mar-13	Absolute change (2010-2013)	Percentage change (2010-2013)
1	Banking Outlets in Villages >2,000	37,949	66,605	1,12,288	1,19,453	81,504	214.8
2	Banking Outlets in Villages <2,000	29,745	49,603	69,465	1,49,001	1,19,256	400.9
3	Banking Outlets in Villages - Branches	33,378	34,811	37,471	40,837	7,459	22.3
4	Banking Outlets in Villages - BCs	34,174	80,802	1,41,136	2,21,341	1,87,167	547.7
5	Banking Outlets in Villages - Other Modes	142	595	3,146	6,276	6,134	4,319.7
6	Banking Outlets in Villages - Total	67,694	1,16,208	1,81,753	2,68,454	2,00,760	296.6
7	Urban Locations covered through BCs	447	3,771	5,891	27,143	26,696	5,972.3
8	Basic Savings Bank Deposit Account (BSBDA) through branches (No. in million)	60	73	81	101	41	67.5
9	Basic Savings Bank Deposit Account (BSBDA) through branches (Amt. in ₹ billion)	44	58	110	165	120	271.5
10	Basic Savings Bank Deposit Account (BSBDA) through BCs (No. in million)	13	32	57	81	68	512.4
11	Basic Savings Bank Deposit Account (BSBDA) through BCs (Amt. in ₹ billion)	11	18	11	18	8	70.4
12	BSBDA Total (in million)	73	105	139	182	109	147.9
13	BSBDA Total (Amt. in ₹ billion)	55	76	120	183	128	232.5
14	OD facility availed in Basic Savings Bank Deposit Account (No. in million)	0.2	1	3	4	4	2,094.4
15	OD facility availed in Basic Savings Bank Deposit Account (Amt. in ₹ billion)	0.1	0.3	1	2	1.5	1,450.0
16	KCCs Total (No. in million)	24	27	30	34	9	39.0
17	KCCs Total (Amt. in ₹ billion)	1,240	1,600	2,068	2,623	1,383	111.5
18	GCCs Total (No. in million)	1	2	2	4	2	161.2
19	GCCs Total (Amt. in ₹ billion)	35	35	42	76	41	117.4
20	ICT A/Cs-BC Total Transactions (No. in million)	27	84	156	250	224	844.4
21	ICT A/Cs-BC Total Transactions (Amt. in ₹ billion)	7	58	97	234	227	3,279.8

Note: Absolute and percentage variation could be slightly different as numbers have been rounded off to million/billion.
Source: Reserve Bank.

Need For Micro Finance

According to the latest research done by the world bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day) though many Central Government and State Government poverty alleviation programs are currently active in India, micro finance plays a major contributor to financial inclusion in the past few decades it has helped out remarkably in eradicating poverty, reports show that people who have taken micro finance have been able to increase their income and hence the standard of living.

Channels to Micro Finance

In India micro finance operates through two channels: 1. SHG – Bank Linkage Programme (SBLP) 2. Micro Finance Institutions (MFIs)

1.SHG – Bank Linkage Programme : This is the bank-led microfinance channel which was initiated by NABARD in 1992. Under the SHG model the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings in the group periodically and from these savings small loans are provided to the members. In the later period these SHGs are provided with bank loans generally for income generation purpose. The group's members meet periodically when the new savings come in, recovery of past loans are made from the members and also new loans are disbursed. This model has been very much successful in the past and with time it is becoming more popular. The SHGs are self-sustaining and once the group becomes stable it starts working on its own with some support from NGOs and institutions like NABARD and SIDBI.

2. Micro Finance Institutions: Those institutions which have microfinance as their main operation are known as micro finance 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 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee.

Table -2, Overall Progress under SHG – Bank Linkage for last 4 Years

Particulars		2009-10		2010-11		2011-12		2012-13	
		No of ShGs (Lakh)	**Amount**	**No of SHGs (Lakh)**	**Amount**	**No of SHGs (Lakh)**	**Amount**	**No of SHGs (Lakh)**	**Amount**
SHG Savings with Banks as on 31 March	Total SHGs	69.53 (13.6%)	6198.71 (11.8%)	74.62 (7.3%)	7016.30 (13.2%)	79.60 (6.7%)	6551.41 (-6.7%)	73.18 (-8.1%)	8217.25 (25.4%)
	Of which SGSY Groups	16.94 (12.5%)	1292.62 (-17.3%)	20.23 (19.4%)	1817.12 (40.6%)	21.23 (5.0%)	1395.25 (-23.2%)	20.47 (-3-6%)	1821.65 (30.6%)
	% of SGSY Groups to Total	24.4	20.9	27.1	25.9	26.7	21.3	28.0	22.2
	All Women SHGs	53.10 (9.18%)	4498.68 (1.46%)	60.98 (14.8%)	5298.65 (17.8%)	62.99 (3.3%)	5104.33 (-3.7%)	59.38 (-5.7%)	6514.86 (27.6%)
	% of Women Groups to Total	76.4	72.6	81.7	75.5	79.1	77.9	81.1	79.3

Loans Disbursed to SHGs during the year	Total ShGs	15.87 (-1.4%)	14453.3 (17.9%)	11.96 (-24.6%)	14547.73 (0.01%)	11.48 (-4%)	16534.77 (13.7%)	12.20 (6.3%)	20585.36 (24.5%)
	Of which SGSY Groups	2.67 (1.0%)	2198 (9.1%)	2.41 (-9.9%)	2480.37 (12.8%)	2.10 (-12.9%)	2643.56 (6.6%)	1.81 (-13.8%)	2207.47 (-16.5%)
	% of SGSY Groups to Total	16.9	15.2	20.1	17.0	18.3	16.0	14.8	10.7
	All Women SHGs	12.94 (5.8%)	12429.37 (18.1%)	10.17 (-21.4%)	12622.33 (1.6%)	9.23 (-9.2%)	14132.02 (12.0%)	10.37 (12.4%)	17854.31 (26.3%)
	% of Women Groups to Total	81.6	86	85	86.8	80.4	85.5	85.1	86.7
Loans Outstanding against SHGs as on 31 March	Total SHGs	48.51 (14.8%)	28038.28 (23.6%)	47.87 (-1.3%)	31221.17 (11.4%)	43.54 (-9.0%)	36340.00 (16.4%)	44.51 (2.2%)	39375.30 (8.4%)
	Of which SGSY Groups	12.45 (27.5%)	6251.08 (6.6%)	12.86 (3.4%)	7829.39 (25.2%)	12.16 (-5-.4%)	8054.83 (2.9%)	11.93 (-1.9%)	8597.09 (6.7%)
	% of SGSY Groups to Total	25.7	22.3	26.9	25.1	27.9	22.2	26.8	21.8
	All Women SHGs	38.98 (18.9%)	23030.36 (23.9%)	39.84 (2.2)	26123.75 (13.4%)	36.49 (-8.4%)	30465.28 (16.6%)	37.57 (2.9%)	32840.04 (7.8%)
	% of Women Groups to Total	80.3	82.1	83.2	83.7	83.8	83.8	84.4	83.3

Source: Status of Microfinance in India 2012-13

In Table-2, The number of savings of the bank as at the end of March 2013 stood at 8275.25 Crores.But a similar decline of number of SHGs savings linked to Banks was also observed with only 73.18 lakh SHGs linked to Bank as against 79.60 lakh a year back. Over 81%of SHGs linked to banks are exclusive women groups ,which is one of the most distinguishing features micro finance sector in the country .The only Major state recording a positive growth during the year was Karnataka with a near 3%increase.It maintains the highest saving account balance of nearly Rs18,000 per SHGs closely followed by Andhra Pradesh .

Further 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. The average loan outstanding of SHGs with banks is Rs 88,500 against 83,500 a year back. There has also been a 6% spurt in the number of SHGs getting fresh loans from banks during the year to 12.2 lakh (up from 11.5 lakh the previous year) and the Quantum of fresh loans issued also showed a significant growth of about 24% during the year.Table-2 gives the growth of SHGs- saving as well as Credit linked for the 4 years, separately for all groups, groups formed under SGSY and exclusive women groups

Table - 3

Loans to mFIs by Banks/Financial Institutions

Financing Agency	Period	Loans disbursed to mFIs during the year (₹ crore)		Loan outstanding against mFIs as on 31 March (₹ crore)	
		No. of mFIs	Amount	No. of mFIs	Amount
All Commercial Banks	2009-10	645	8038.61	1407	10095.32
	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	2009-10	46	24.14	103	52.22
	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	2009-10	0	0	3	0.01
	2010-11	NA	NA	NA	NA
	2011-12	4	1.61	19	4.75
	2012-13	**3**	**4.00**	**18**	**6.83**
SIDBI	2009-10	88	2665.75	146	3808.20
	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	**2009-10**	**779**	**10728.50**	**1659**	**13955.75**
	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: Status of Microfinance in India 2012-13

Loan to Microfinance Institutions (MFIs) by Banks / Financial Institutions :-

In this table 3: commercial banks Loan out standing against MFI as on 2009-10 is 10095.32 crores in 1407 No . of MFIs but it in 2012-13 is 12467.72 croers in 1769 No. of MFIs whereas the Regional Rural Banks on the other hand have increased their lendings to MFIs during the year 2009-10 it is 52.22 crores in 103 No. of MFIs, but in 2012-13 is 70.66 crors in 153 No. of MFIs. The fat that Co-Operative Banks & Sidbi that there is MFIs; in Sidbi 2009-10 is 380 8.20 crores in 146 No. of MFIs but it is 2012-13 is 1880.63 crores in 102 No. of MFIs in the same way there is decline in co-operative Banks where as it is 6.83 crore in 18 No. of MFIs in 2012-13. The agencies lending funds to MFIs, the majr share belonged to commercial baks recording over Rs. 2,500 crore increased disbursements, over that of the previous Year.

Table – 4

Progress of Microfinance Programmes
(As at end-March)

Item	Self-Help Groups							
	Number (in million)				Amount (₹ billion)			
	2009-10	2010-11	2011-12	2012-13P	2009-10	2010-11	2011-12	2012-13P
Loans disbursed by banks	1.6	1.2	1.2	1.2	145	145	165	206
	(0.3)	(0.2)	(0.2)	(0.2)	(22)	(25)	(26)	(22)
Loans outstanding with banks	4.9	4.8	4.4	4.5	280	312	363	394
	(1.3)	(1.3)	(1.2)	(1.2)	(63)	(78)	(81)	(86)
Savings with banks	7.0	7.5	8.0	7.3	62	70	66	82
	(1.7)	(2.0)	(2.1)	(2.1)	(13)	(18)	(14)	(18)
	Microfinance Institutions							
	Number				Amount (₹ billion)			
Loans disbursed by banks	691	469	465	426	81	76	53	78
Loans outstanding with banks	1,513	2,176	1,960	2,042	101	107	115	144
	Joint Liability Groups							
	Number (in million)				Amount (₹ billion)			
Loans disbursed by banks	-	0.09	0.19	0.20	-	7	17	18

Note: Figures in brackets indicate the details about SHGs covered under Swarnajayanti Gram Swarozgar Yojana (SGSY). P: Provisional.
Source: NABARD.

In Table-4 there was a steady progress in the delivery of microfinance through self-help groups (SHGs). Joint liability groups (JLGs) too have emerged as successful non-collateralized credit instruments for financing livelihood activities for small farmers in general and tenant cultivators I particular. The SHG – bank linkage continues to be a more dominant mode of microfinance with banks financing over 1 million SHGs in 2012-13. A decline in the number of MFIs financed by banks By contrast, in recent years, there has been a decline in the number of microfinance institutions (MFIs) financed by banks. In part, this could be attributed to concerns about the operations of certain MFIs in Andhra Pradesh and the regulatory initiatives in response to these concerns in the recent past.

Initiatives taken by RBI
The Reserve Banks approach towards Financial Inclusion aims at connecting people with banking system and not just opening accounts. This includes meeting small credit needs of the people, giving them access to the payments system and providing remittance facilities.

Since past couple of years the Reserve Bank has adopted the following strategy towards financial inclusion: 1. No-Frills Banking Account with Overdraft facility 2. Relaxation on known-your-customer (KYC) norms for opening of no-frill accounts 3. Usage of Regional Language 4. Entrepreneurial Credit such as General Credit Card, and Kisan Credit Card 5. Business correspondents (BCs) and Business Facilitators (BFs) Model. 6. Extensive use of information technology for Banking services 7. Initiating Financial Literacy programme 8. Electronic Benefit Transfer (EBT) system. 9. 100 per cent financial inclusion drive: The RBI launched a

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financial inclusion drive targeting one district in each state for 100 per cent financial inclusion. 10. Bank branch and ATM expansion liberalized. 11. Cooperative Movement 12. Setting up of State Bank of India 13. Nationalization of banks 14. RRBs and 15. Self Help Groups.

Recommendations

1.Financial Literacy and Awareness. 2. Needs Strict Regulation 3. Attention to all areas 4. Continues Supervision 5. Encourage Rural Penetration 6. Number of Services 7. Limited understanding of client Needs8. Different Pattern of Interest rates 9. Weak legal Infrastructure 10. Incentives 11. Alternative source of Fund 12. Advanced technology

Conclusion

Although, the Government has launched several subsidized programmes for the benefit of the poor and the cooperatives weaker section of the society could not be turned around. Of late, micro finance has emerged as a catalyst of rural development, especially in the overpopulated country like India. The impact of micro finance programme especially through Self-Help Groups has been effective in making positive social change to all members, irrespective of the direct borrowers of the micro credit. Microfinance institutions (MFIs) in India exist as NGOs (registered as societies or trusts), Section 25 companies and Non-Banking Financial Companies (NBFCs). Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in providing refinance facility to MFIs. Banks have also leveraged the Self-Help Group (SHGs) channel to provide direct credit to group borrowers. With financial inclusion emerging as a major policy objective in the country, Microfinance has been found to be playing a vital role for extending financial services to unbanked sections of population. The credit plus services of microfinance not only uplifted the poor from income poverty but it also from the knowledge poverty. Hence, easily accessible and affordable “credit plus services” should be provided to the vulnerable poor who are excluded socially and economically for a long period time.

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