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Micro Finance: a Financial Inclusion in India

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ABSTRACT

In a developing country like India, the role and importance of rural areas are terribly significant so as to possess overall economic process government at first targeted its attention on development of urban areas however later it accomplished the numerous of rural areas and thus developed numerous plans and programmes for the their development. Financial Inclusion may be a key consider shaping the expansion method of the economy. In India, Micro Finance has emerged as a strong tool for financial inclusion that links low financial gain teams with banks. Financial inclusion is Associate in Nursing integral a part of the expansion method. It's crucial for achieving inclusive economic process and solely such a growth is property. Micro finance is dominated by the Self Help Groups. So SHGs are playing a very important role in the process of financial inclusion. Motivation to save is the first and for most reason for opening an account. All the beneficiaries of micro finance settle for that they need gained larger economic and Social Security because of the access to micro finance services. Though financial inclusion has become the buzzword in present - day financial circles, there are miles to go, before it becomes a reality among the rural population. The objectives of the present paper are to study the role and concept of micro finance, micro finance institutions and their role in promoting the poor. Understand the relationship between microfinance and financial inclusion and present status of India's Financial Inclusion.

Keywords: Financial Inclusion, Micro Finance, Self Help Groups.

Introduction

In a developing country like India where majority population resides in rural area, rural development becomes imperative for the economic development. Since independence though the Government of India has been initiated various poverty alleviation programs but a remarkable progress could not take place. The poor people are often deprived of the financial services by banks. Consequently, they have to rely upon the informal sources of finance which exploit them by charging an exorbitant rate of interest and results in their lifetime misery and indebtedness.

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Micro Finance is one such intervention that aims at poverty reduction by ensuring basic financial services to the underserved sections at affordable costs.

Finance is being thought-about joined of the key tools of development and financial condition alleviation. Realizing this relation of Access to money Services on inclusive growth, nations throughout the globe are attempting exhausting to realize the target of economic inclusion. Equally money Sector reforms in Asian country area unit driven by the target of inclusive growth and unrestrained access to Finance. Micro-finance has profound implications not simply from a finance perspective, however additionally from the attitude of economic development. Microfinance consisting of small credit, small savings and small insurance, is thought to be a crucial tool to scale back risk, financial condition and vulnerability of folk. Microfinance is one among the foremost outstanding socio-economic developments within the gift era. The small finance sector started obtaining recognition in Asian country when the launch of the self facilitate cluster linkage model within the year 1992.

Concept of Micro Finance and Financial Inclusion

Micro Finance is defined as the provision of thrift, credit and other financial service such as money transfer and micro insurance products for the poor to permit them to raise their income levels and get better living standards. It refers to the entire aspect of financial services such as saving, money transfer, insurance, production as well as investment credit and includes the need for perfection in skill and entrepreneurial development that would help them to overcome poverty. Micro Finance programs have significant potential to enhance the economic and social empowerment of SHGs' members.

Financial inclusion will be outlined as a “state during which all folks of operating age have access to a full suite of quality money services, provided at reasonable costs, in an exceedingly convenient manner, and with dignity for the clients” (Accion International 2009). The Rangarajan Committee outlined financial inclusion as "the method of guaranteeing access to money services and timely and adequate credit wherever required by vulnerable teams like weaker sections and low financial gain teams at an inexpensive value.” (2008). It includes access to banking services, credit, insurance, savings and assets, cash recommendation and money skill and capability.

Financial Inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. The main focus of financial

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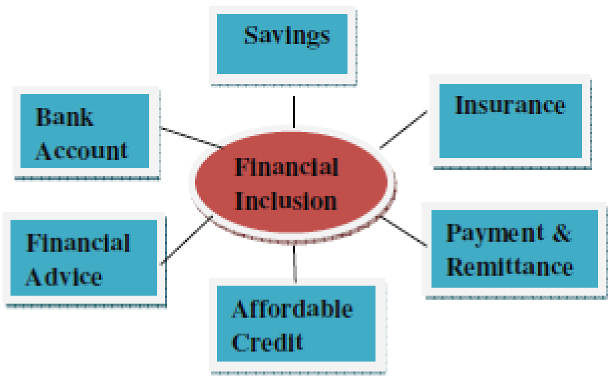
inclusion in India is to promote sustainable development and generating employment in rural areas for the rural population.



Need of Financial Inclusion

In most developing countries, an oversized phase of society, significantly low financial gain folks, have little or no access to money services, each formal and semi-formal. As a consequence, several of them ought to essentially rely either on their own or high value informal sources of finance like moneylenders. This can be significantly true for the no continuous funding necessities of low financial gain households for non productive consumption functions and different emergency necessities like medical expenditure. Advantages of growth, therefore, tend to concentrate within the hands of these already served by the formal national economy. Out of 19.9 large integer households in Asian country, only 6.82 large integer households have access to banking services. As so much as rural area unites are involved, out of 13.83 large integer rural households in Asian country, only 4.16 large integer rural households have access to basic banking services. In respect of urban areas, only 49.52% of urban households have access to banking services. Over forty first of adult population in India doesn't have checking account. There are number of factors affecting access to financial services by weaker section of society in India. The shortage of awareness, low incomes and assets, financial exclusion, illiteracy area unit the barriers from demand aspect. the gap from bank branch, branch timings, cumbersome banking procedure and necessities of documents for gap bank accounts, unsuitable banking merchandise schemes, language, high group action prices and attitudes of bank officers area unit the barriers from offer aspect. Hence, there's a requirement for financial inclusion to make uniform economic development, each spatially and

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temporally, and debut larger economic and social equity.

Status and Progress of Financial Inclusion

The process of financial inclusion in India can generally be classified into three phases. During the First Phase (1960-1990), the centre was on channelling of credit to the disused sectors of the economy. Special emphasis was also laid on weaker sections of the society. Second Phase (1990-2005) focused mainly on strengthening the financial institutions as part of financial sector reforms. Financial inclusion in this phase was encouraged mainly by the introduction of Self- Help Group (SHG)-bank linkage programme in the early 1990s and Kisan Credit Cards (KCCs) for providing credit to farmers. During the Third Phase (2005 onwards), the 'financial inclusion' was explicitly made as a policy objective and thrust was on providing safe facility of savings deposits through 'no frills' accounts. The Report Committee on Financial Inclusion headed by Dr.C.Rangarajan (2008) has observed that financial inclusion must be taken up in a mission mode and suggested a National Mission on Financial Inclusion (NMFI) comprising representation of all stakeholders for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives. Reserve Bank of India has taken an important policy initiative to increase the number of bank branches during 2011-12 as following table -

Table -1 Progress of banks in Financial Inclusion Plan in India

S.N	Particulars	Year ended March 10	Year ended March 11	Year ended March 12	Quarter ended June 12	Progress April 11-March 12
1.	Total no. of branches	85457	91145	99242	99242	8097
2.	No. of rural branches	33433	34811	37471	37635	2660
3.	No. of CSPs deployed	34532	60993	116548	120098	55555
4.	Banking outlets in village with population >2000	37791	66447	112130	113173	45683
5.	Banking outlets in village with population < 2000	29903	49761	69623	74855	19862

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6.	Banking outlets through brick & mortar branches	33378	34811	37471	37635	2660
7.	Banking outlets through BCs	34174	80802	141136	147167	60334
8.	Banking outlets through other modes	142	595	3146	3226	2551
9.	Total banking outlets	67694	116208	181755	188028	65545
10.	Urban outlets through covered through BCs	447	3771	5891	6968	2120
11.	No frill A/Cs (no. in millions)	73.45	104.76	138.50	147.94	33.74
12.	Amount in no frill A/Cs (amt in billions)	55.02	76.12	120.41	119.35	44.29
13.	No frill A/Cs with OD(no. in millions)	0.18	0.61	2.71	2.97	2.10
14.	No frill A/Cs with OD(no. in billions)	0.10	0.26	1.08	1.21	0.82
15.	KCCs-total-no in Million	24.31	27.11	30.23	30.76	3.12
16.	KCCs-total-amt in billion	1240.07	1600.05	2068.39	2094.00	468.34
17.	GCC- total- no in Million	1.39	1.70	2.11	2.29	0.41
18.	GCC- total- no in billion	35.11	35.07	41.84	43.21	6.77
19.	ICT based A/Cs-through BCs (no. in millions	13.26	31.65	57.08	62.77	25.44
20.	ICT based A/Cs-through BCs (no. in billions)	26.52	84.16	141.09	45.96	141.09

Source: RBI Report, 2012

Self Help Groups

SHG means small, economically homogeneous and affinity groups of rural and urban poor, voluntarily formed to save and contribute to a common fund to be lent to its members as per group decision and for working together for social and economic up liftmen of their families and community.

SHG-Bank Linkage Programme

Indian Micro finance is conquered by the operational approach Self-help Groups

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(SHGs). The approach is popularly known as SHG-Bank linkage model. This model is the leading model, initiated by the NABARD in the early 1990s. Today the SHG model also links the informal groups of women to the mainstream system and it has the largest outreach to micro financial clients in the world. SHGS comprise a group of 15-20 members.

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. The share of exclusive women SHGs in the total number of SHGs savings linked to banks now stands at 81% while the groups formed under the SGSY programme now constitutes 28% of the total number of groups. Table-2 gives the growth of SHGs - saving as well as credit linked - for the last 3 years, separately for all Groups, Groups formed under SGSY and exclusive Women Groups as following table-

Table-2 Progress under SHG-Bank Linkage for last 3 years

Particulars		2010-2011		2011-2012		2012-2013	
		No. of SHG	(Lakh) Amount	No. of SHG	(Lakh) Amount	No. of SHG	(Lakh) Amount
SHG Saving with banks 31St march	Total SHGs	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 group	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 total	27.1	25.9	26.7	21.3	28.0	22.2
	All women SHG	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	81.7	75.5	79.1	77.9	81.1	79.3
Loans	Total	11.96	14547.73	11.48	16534.77	12.20	20585.36

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Disbursed to SHGs during the year	SHGs	(-24.6%)	(0.01)	(-4%)	(13.7%)	(6.3%)	(24.5%)
	Of which SGSY group	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 total	20.1	17	18.3	16.0	14.8	10.7
	All women SHG	10.17 (-21.4%)	12621.3 (3 1.6%)	9.23 (-9.2%)	14132.02 (12.02%)	10.37 (12.4%)	17854.31 (26.3%)
	%of women groups	85	86.8	80.4	85.5	85.1	86.7
Loans Out-standing against SHGs as on 31st March	Total SHGs	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 group	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 total	26.9	25.1	27.9	22.2	26.8	21.8
	All women SHG	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	83.2	83.7	83.8	83.8	84.4	83.3

Source: Status of Micro Finance Report, 2012-13

Financial Inclusion through Microfinance Services

Microfinance has been recognized as a vital tool in connecting the unbanked population to thought finance. The clearance of the draft document of the Microfinance establishments (Development and Regulation) Bill by the Union cupboard is a sign of the Government's religion within the sector three. The run batted in and NABARD have supported the propagation of small finance significantly through the SHG-Bank Linkage Programme (SBLP) and have designed incentives to support small finance establishments in forming Joint Liability teams (JLGs). business Banks area unit incentivized to lend to small

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finance establishments (MFIs) by putting MFIs beneath priority sector loaning (PSL) PSL necessities mandate banks to make sure that four-hundredth of their combination internet banking credit goes to stipulated sectors that area unit thought-about vital to foster financial inclusion.

Micro Finance for Financial Inclusion

Since the 1970s microfinance has come to be seen as an important development policy and a poverty reduction tool for men, as well as women. Microfinance includes a suite of financial tools which aim to provide banking services for the unbanked, specifically the provision of small cash loans (micro-credit), the lending of productive assets (micro-leasing), facilities to save (micro-savings), and most recently insurance policies (micro-insurance) and money transfers. These instruments are seen as reducing and mitigating risks and vulnerabilities experienced by poor people (Hulme et al 2009). Some even argue (e.g. Littlefield et al 2003; Simanowitz and Brody 2004; World Savings Bank Institute 2010) that microfinance is a key tool to achieve the Millennium Development Goals (MDGs).

Conclusion

Finance is being considered as one of the major tools of development and poverty alleviation. In achieving inclusive growth and development in India, Financial Inclusion and micro finance will play a vital role and help the nation to drive away the not only rural poverty but also urban poverty in India. In India, micro-Finance scene is dominated by Self Hel Groups (SHGs) Banks linkage Programme, aimed at providing a cost effective mechanism for providing financial services to the 'unreached poor'. Based on the philosophy of peer pressure and group savings as collateral substitute, the SHG programme has been successful in not only designing financial products meeting peculiar needs of the rural poor, but also in strengthening collective self-help capacities of the poor at the local level, leading to their empowerment.

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