MICRO FINANCE AND FINANCIAL INCLUSION

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Abstract

Financial inclusion is an important ingredient for social and economic progress in developing countries. micro level financial inclusion helps poor households and small businesses to generate income, build assets, smooth consumption and better manage risks. An inclusive financial system also helps governments to better execute social policy in other priority areas such as education and health for example through more targeted financial transfers. Indian rural poor women are deprived of rural institutional credit because of high cost of administering small loans and lending risk involved. Micro-finance has been adopted to overcome this problem. This study analyses the role of micro finance in financial inclusion.

Introduction

A sizable population of the world particularly poor and vulnerable group remain excluded from most basic financial services provided by financial sector. Various financial services broadly include: access to savings, loans, insurance, payments and remittance facilities offered by formal financial system. Among the disadvantaged population, the women are the most socially vulnerable and financially excluded.

In India women constitute 48 percent of the total population and nearly perform two-thirds of the work and produce 50 percent of food commodities consumed. However they earn one third of the remuneration and own only 10 percent of the property or wealth of the country. Women have been an integral part of the social structure not only because of their importance in the reproduction and caring of human race but also by virtue of their significant contribution to socio-economic progress. Despite this, women have been subjected to discrimination because of the gender-bias prevalent in the social outlook and social practices resulting in its transference to all spheres. Women have been playing a crucial role in the development process since the early stages of civilized life. There is a widespread view among the scholars that the best way to judge a nation's progress is to find out the status of its women. The place of rural women in India in social, economic and political spheres is more distressing than that of their urban counterparts. Although the rural women have been contributing significantly to the social and economic progress of the country, their participation in development programmes has not been encouraging.

India is amongst the fastest growing countries in the world today. This high level of growth can, however, is sustained only when all sections of the society, especially women become equal partners in the development process. It is well recognised that societies which discriminate by gender tend to experience less rapid economic growth and poverty reduction than societies which treat men and women more equally.

Financial inclusion is an important ingredient for social and economic progress in developing countries. Post 2015 UN Development Goals included universal access to financial services as a critical enabler for job creation and equitable growth. At micro level financial inclusion helps poor households and small businesses to generate income, build assets, smooth consumption and better manage risks. At macro level the depth of financial intermediation under most circumstances spurs growth and reduces inequality. An inclusive financial system also helps governments to better execute social policy in other priority areas such as education and health for example through more targeted financial transfers.

History of Financial Inclusion in India

Year	Particulars
1793	Formal distribution of Taccavi loans
1883	Land Improvement Loans Act to finance agricultural loans to farmers to improve production
1904	Cooperative Credit Societies Act
1928	Subsequent to the Royal Commission on Agriculture in India,Land Mortgage Banks were created
1935	The Reserve Bank of India (RBI) set up its Agriculture Credit Department
1949	The RBI was nationalised
1955	The imperial Bank was nationalised and renamed the State Bank of India
1963	The Agriculture Refinance Development Corporation was set up
1969	Nationalisation of 14 Scheduled Commercial Banks
1970	Lead Bank Scheme
1972-76	Setting up of the Rural Electrification Corporation (REC),Small Farmer Development Agency(SFDA) and Regional Rural Banks(RRBs)
1981	Nationalisation of 6 Scheduled Commercial Banks
1982	Creation of National Bank for Agriculture and Rural Development(NABARD)
1989	Service Area Approach (SAA) was initiated
1992	NABARD's Self Help Group (SHG)- Bank Linkage Policy
1996	Local Area Banks were set up
1997	Targeted Public Distribution System (TPDS) introduced
2005	Task Force on Revival of Short Term Cooperative Credit Structure (STCCS)
2006	Policy initiative for Business Correspondents (BCs)/ Business Facilitators(BFs)
2007	Committee on Financial Inclusion (C Rangarajan)
2008	Agriculture Debt Waiver and Debt Relief Scheme
2009	The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGP) came in to being existence (NREGA since 2005)
2009	Formalisation of the Unique Identification Number -Aadhaar
2013	Direct Benefit Transfer Scheme

Source : Karmakar K G et. al (2011) ' Towards Financial Inclusion in India ' Sage Publications , New Delhi

Financial inclusion is the key to inclusive growth with its motto of empowerment of poor, underprivileged and low income/skilled rural/urban households. Amartyasen (2000) convincingly argued that poverty is not merely insufficient income rather the absence of wide range of capabilities , including security and ability to participate in economic and political systems. Financial inclusion is designed to bring about the capability to participate and contribute among the economically and socially excluded people by creating equal opportunities.

Empowerment of Women

Empowerment of women is essentially the vehicle of change to achieve gender equality that is meaningful and sustainable. Empowerment of women is a socio-political ideal, encompassing notions of dignity and equality, envisioned in relation to the wider framework of women's rights. It is a process of gaining control over self, over resources and over existing societal perceptions and attitudes and would be achieved only when an improvement in the 'condition' of women is accompanied by an advancement in their 'position' by enlarging the economic, social and political freedoms and choices available to them. The National Policy for the Empowerment of Women, 2001 views empowerment as an enabling process that must lead to their economic as well as social transformation. Government has sought to operationalise this approach through legislative and programmatic interventions as well as by mainstreaming gender into the development planning process. Numerous such initiatives were taken during the Eleventh Plan period. These initiatives need to be consolidated and built on during the Twelfth Five Year Planto enable women to challenge and change the contexts in which they live.

Progress of Financial Inclusion through Micro Finance

To ensure the overall growth of the economy in real terms it is essential to empower the women in all spheres of life. So the government of India and several State governments have implemented several developmental programmes for poverty reduction and empowerment of poor women in rural areas in the country. Now a days , it is recognised that a diverse range of financial services is required to the rural poor women so that they can participate in the mainstream of life, self-esteem and self dignity can be improved. It is a known fact that rural poor women are deprived of rural institutional credit because of high cost of administering small loans and lending risk involved. To solve this critical problem, the concept of micro-finance has been adopted in the country. Micro finance received extensive recognition as a strategy for poverty reduction and women's economic empowerment.

Models of Micro –finance in India

In India micro- finance operates in two channels

1. Self-Help Groups (SHG) bank linkage programme
2. Micro financial Institutions(MFIs)

Self-Help Groups (SHG) bank linkage programme

India has developed its own model of Micro finance organisation in the form of savings and credit groups known as Self –Help Groups(SHG). This model was largely inspired by the successful experiment of 'Grameen ' Bank set up in 1976 in Bangladesh by Prof. Mohammad Yunus to empower the rural poor by means of 'saving ' and 'credit' groups.NABARD initiated SHG model 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 for income generation purpose.

Overall Progress under SHG-Bank Linkage (Amount in crores/No in lakhs)

Particulars		2009-2010		2010-2011		2011-12	
		No of SHGs	Amount	No of SHGs	Amount	No of SHGs	Amount
SHG savings with Banks as on 31st March	Total SHGs	69.53 (13.6%)	6198.71 (11.8%)	74.62 (7.3%)	7016.30 (13.25)	79.60 (6.7%)	6551.41 (-6.7%)
	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%)
	% of SGSY Groups to total	24.4	20.9	27.1	25.9	26.7	21.3
	All Women SHGs	53.10 9.18%	4498.66 (1.46%)	60.98 (14.85)	5298.65 (17.8%)	62.99 (3.3%0	5104.33 (-3.75)
	% of Women Group	76.4	72.6	81.7	75.5	79.1	77.9
Loans Disbursed to SHGs during	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%)
	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%)
	% ofSGSY		15.2	20.1	17.0	18.3	16.0

the year	Groups to total	16.9					
	All Women SHGs	12.94 (5.8%)	12429.37 (18.1%)	10.17 (-21.45)	12622.33 (1.6%)	9.23 (-9.2%)	14132.02 (12.05)
	% of Women Groups	81.6	86	85	86.8	80.4	85.5
Loans Outstanding against SHGs as on 31st March	Total SHGs	48.51 (14.8%)	28038.28 (23.6%)	47.87 (-1.35)	31221.17 (11.4%)	43.54 (-9.05)	36340.00 (16.4%)
	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%)
	% of SGSY Groups to total	25.7	22.3	26.9	25.1	27.9	22.2
	No . of All Women SHGs linked	38.98 (18.9%)	23030.36 (23.9%)	39.84 (2.2%)	26123.75 (13.4%)	36.49 (-8.4%)	30465.28 (16.6%0
	% of Women SHGs	80.3	82.1	83.2	83.7	83.8	83.8

Source : Status of micro finance in India 2011-2012

From the table it was found that the number of saving linked SHGs now stands at 79.6 million with a membership of over 103 million poor households. While bulk of these savings is used for internal lending within the group (over 70 %)the balance is maintained in the savings account with the financing banks. Over 79% of SHGs linked to banks are exclusive women groups, which is one of the most distinguishing features of micro finance sector in the country. The balance in the savings account of the banks as at the end of March 2012 stood at Rs 6551.41 crore.

Micro Financial Institutions

MFIs act as an important tool for extending financial services to micro sector in the country by raising resources from banks and other institutions. MFIs could be

- NGO MFIs – registered under Societies Registration Act 1860 or Indian Trust Act 1880
- Co-operative MFIs- registered under State Co- operative Societies Act or Mutually Aided Co-operative Societies Act or Multi-Stage Co-operative Societies Act
- NBFC MFIs incorporated under Sec 25 f Companies Act 1956
- NBFC MFIs incorporated under Companies Act 1956And registered with RBI

Particulars	2008-09		**2009-10**		2010-11		2011-12	
	No of MFIs	Amount	No of MFIs	Amount	No of MFIs	Amount	No of MFIs	Amount
Loans disbursed by banks to FIs	581 (12.2%)	3732.33 (89.4 %)	779 (34%)	10728.50 (187.4%)	471 (-39.55)	8448.96 (-21.3%)	465 (-1.3%)	5205.29 (-38.39%)
Loans outstanding against FIs as on 31 march	1915 (72.75 %)	5009.09 (82.2 %)	1659 (-13.4%)	13955.75 (178.6%)	2315 (39.5%)	13730.62 (-2.0%)	1960 (-15.3%)	11450.35 (-16.6%)

Fresh loans as % Loan outstanding		74.5		76.9		61.5		45.5

Progress under MFIs -Bank Linkage Programme (Rs .Crores)

Source : Status of micro finance in India 2011-2012

From the table it is evident that in case of MFIs, commercial banks are losing confidence to provide loans to them. The fresh lending to MFIs by banks during the year declined by over 38% as compared to last year. There has also been a marginal decline in the number of MFIs availing fresh loans from bank inspite of the fact that the loan outstanding against MFIs has come down by almost 17 % during the year 2012. If the trend continues , this sector is likely to face resource crunch in the near future.

SHG and women Empowerment

SHG can bring enviable changes and enhancement in the standard of living of women. SHG is a group of women with common objectives are facilitated to come together voluntarily to participate in the development activities like savings, credit and income generation and thereby ensuring economic independence. The upper and lower limit of members in SHGs is respectively12-20. SHGs provides an opportunity to provide economic ,social and political rights to women.She can communicate with other persons, she also can interact with officials and politicians. So that she can acquire knowledge , it will help for their all- round development.

Financial Inclusion and aspects of micro finance in India

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society especially the vulnerable groups like weaker sections and low income groups. Financial inclusion is a critical component of the inclusive growth envisaged for the overall development of the economy. Though Central government and State government have implemented poverty allivation programmes, micro finance plays a major role to financial inclusion. In past few years it has helped in eradicating the poverty. Nobel Laurate Muhammad Yunus is credited with laying the foundation of MFIs with the establishment of Grameen Bank, Bangladesh in 1976. Today it has evolved in to a vibrant industry exhibiting a variety of business models.

With financial inclusion emerging as a major policy objective in the country, micro finance finance has occupied a very crucial role for extending financial services to unbanked section of population. By supporting women’s economic participation , micro finance helps to empower women, thus promoting gender-equality and improving household wellbeing.With the access to micro finance, poor women can cop up with sudden increased expences associated with death, serious illness and loss of assets.

Micro finance will continue to develop in to an important delivery mechanism to reach the poor and achieving financial inclusion and empowerment of women. Its role in enhancing human capital is considerable. Access to microfinance is a big step in helping various sections of a country’s population rise out of poverty. It has been universally acknowledged that financial inclusion plays a crucial role in inclusive development and sustainable prosperity. Large segments of the population need to be a part of the formal payment systems and financial markets. Financial inclusion would also broaden and deepen financial savings and lead to higher economic development. Vikas Batra (2013) has found positive impact of microfinance in reducing vulnerability. Pallavi Chavan and Bhaskar Birajdar have analysed the significance of limited scale and spread of micro finance in India . There is considerable scope for micro finance to evolve as a means of inclusion that is accessible and affordable for the excluded groups /regions and that can help loosen the grip of informal sources of finance & bring the excluded sections permanently in to the ambit of formal finance.

Conclusion

Financial inclusion of women is essential to strengthen the income generating capacity and increase their capacities to face the multifaceted dimensions of poverty, vulnerability and disempowerment. Financial inclusion among women is being achieved mainly through SHG Bank – Linkage programme, MGNREGS, Micro credit, Direct Benefit Transfer etc. Community based microfinance interventions could increase the status of women and should be undertaken with a broader view of achieving social and economic security through empowerment & increased capacities of women.

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