Micro Finance and Financial Inclusion in India

Ramya John
Assistant Professor, Department of Commerce Mercy College, Palakkad (India)

ABSTRACT

Many traditional banks have provided finance to only privileged people with sufficient collateral, because there is a high risk of default in case of low income people. But Micro finance has achieved success as a tool in providing credit to low income people. While there are reservations about the efficacy of MFIs in handling public money, their growth and achievements have been noteworthy. In addition it has even led to economic and social empowerment of women by encouraging them to carry out economic activities, leading to their overall growth. Thus, Micro finance is the step toward achieving financial inclusion. The main aim of financial inclusion is to make the financial services accessible to lower income group people and that is where role of micro finance comes in. For the achievement of financial inclusion, the most important goal is to make the banking facilities available to all the unbanked areas and to each and every household. This is made possible by the various Micro Finance Institutions (MFIs) whose main aim is to provide small amount of loans to lower income group people, without the collateral securities. Thus, MFIs through the various models are helpful for the development of lower income group people, thereby indirectly fulfilling the purpose of financial inclusion. This paper examines the role of microfinance in empowering people and realizing financial inclusion in India. They have immense opportunities in microcredit given increasing demand for rural finance and the inadequacy of formal sources. It further states that they have played a commendable role in promoting Self Help Groups and linking them with banks. The paper examines recent MFI experiences and identifies a need for qualitative growth.

1. Introduction

Microfinance has assumed immense importance throughout the world in view of its efficacy in credit dispensation, loan repayment and reduction of poverty. The world over has proved that hassle free and repetitive dose of credit is the basic need of the poor which has become the hallmark of microfinance. In the Indian context, the microfinance sector has witnessed an unprecedented growth in the last few years, and has firmly established itself as significant potential contributor in the government’s agenda of “Financial Inclusion”. Financial services for the poor have proved to be a powerful instrument for poverty reduction that enables the poor to build assets, increase incomes, and reduce their vulnerability to economic stress. Microfinance aims at providing broad range of financial services such as deposits, loans, payment services, money transfers, insurance to poor and low-income households and their micro enterprises. The present research paper is an attempt to examine the role of micro finance in the empowerment of people and the realization of financial inclusion in India.

2. Objectives

I. The paper aims to study the concept of Microfinance and its role in financial inclusion in India.

II. To study the impact of MFIs on financial inclusion with special reference to women empowerment.

3. Micro Finance- An Over View

Microfinance is buzzing word, used when financing for micro entrepreneurs. Concept of micro finance is emerged in need of meeting special goal to empower under-privileged class of society, women, and poor, downtrodden by natural reasons or men made; caste, creed, religion or otherwise. The principles of Micro Finance are founded on the philosophy of cooperation and its central values of equality, equity and mutual self-help. At the heart of these principles are the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their children.

Micro-finance in India is synonymous with micro credit; because savings, thrift and micro-insurance constitute a miniscule segment of the micro finance space. The motherland for Indian Microfinance is Andhra Pradesh, mainly because of the state government’s critical efforts in the late 1980s in building SHG-bank linkage models with loans from NABARD which built up a strong Micro-finance portfolio.

4. Microfinance Institution

A MFI is an organization that acts as an interface between the formal credit delivery institutions and credit seekers, with an aim to assist for the socio economic development of poor and marginalized people. MFIs are essential to encourage micro enterprises and empower local people including women. The geographical distribution of MFIs is very much concentrated in the Southern India where the rural branch network of formal bank is excellent.
Types of MFI

By taking into account legal structures, MFIs may be classified as follows:-

- Not For profit MFIs
- Mutual benefit MFIs
- For -Profit MFIs


The Microfinance Institutions have a vital role to play in achieving the objective of financial inclusion. Together, these institutions cover 30 million clients in the country operating across the length and breadth of the country. Today these institutions are important channel of delivery of credit at the doorstep of the clients and also provide a bouquet of credit plus services that empower the clients. The presence of MFIs has been a great respite to the poor as it provides an affordable and timely access to credit saving them from the exploitation from the spurious local moneylender. Reserve Bank of India, in 2011, constituted the Malegam Committee to study the issues & concerns of the MFI sector and to recommend appropriate regulation. Subsequently, RBI recognized the legitimate role of the Microfinance Institutions under its priority sector guidelines covering all legal forms. Further RBI has also recommended new category (NBFC-MFI) of NBFCs carrying out microfinance. The NBFC- MFI now comes under the regulatory purview of RBI. Microfinance Operating Model Strengths

- Self Help Group (SHGs) and Joint Liability Groups (JLG) models
- Low ticket size of loans
- Convenient, economical, doorstep credit delivery to poor
- Repayment options
- Microfinance Plus services: business development, financial literacy, health, water and sanitation
- Commitment of Microfinance Industry to Responsible Finance
- 100% compliance to credit bureau, the problem of multiple borrowing has been overcome largely
- Financial literacy for clients
- Transparent pricing
- Compliance to Code of Conduct
- Institutional policies and systems for client protection

Microfinance in India through its major channels served over 33 million Indians, out of which around 80% clients were women. Empowerment is a social action process that promotes participation of people, organization and communities in gaining control over their lives in their community. The formation of Self Help Group and Micro Financing will enhance their socioeconomic position in the society. It has been noticed that women in particular stand to gain a lot from micro-finance because it gives them an independent means of generating wealth and becoming self reliant in a society that does not offer them much scope for entrepreneurship. The success of microcredit initiatives has often been attributed to their particular focus on empowering women and encouraging their self-reliance through developing their own means of income. Various case studies show that there is a positive correlation between credit availability and women’s empowerment. It is observed that majority of rural women who are associated with self-help group activity positively succeeded to gain them empowered.

Women in rural India lived in virtual isolation, unable to access even the most basic of services. But, with the formation of Women’s Self-Help Groups, these women are now achieving social and physical mobility. It is recognized that while the empowerment of women is a process that will not happen automatically, SHG is a suitable means for the empowerment of women. The impacts of SHGs on socio-economic status of women were found significant.

7. Conclusion

Financial exclusion is a manifestation of social exclusion. All the five year plans have an objective of Financial Inclusion. As Financial Inclusion is a vital component of the inclusive growth envisaged for the overall development of the economy, both public and private sectors are working in tandem to leverage the strengths and drive for financial inclusion. Financial inclusion will be real and successful only when the small and marginal farmers and landless labourers have unhindered access to the financial services like Savings, Credit, Micro insurance and remittance facilities. Though there is variety of programmes to alleviate poverty and empower rural people, SHGs have done well in the country. The Plan provides a new vision of inclusive. MFIs and Commercial banks have played a pivotal and are the possible combinations of formal and non-formal institutions that are involved in channeling funds for loans to poor families.

References

1. AgarwalAmol (2008), The need for financial inclusion with an Indian perspective. IDBIGILTS
2. S. Porkodi; Dr. D. Aravazhi “Role of micro finance and self help groups in financial inclusion”
4. Dr. Jeet Singh, Dr, PreetiYadav “Micro Finance As A Tool For Financial Inclusion &
5. Reduction Of Poverty” Journal of Business Management & Social Sciences Research (JBM & SSR) ISSN No: 2319-5614 Volume 1, No.1, October 2012