

Micro Finance and Financial Inclusion (FI)

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ABSTRACT

The objective is to examine how Indian rural markets have been transformed from market seekers to market providers, to discuss about the new form of rural retailing, corporate-MFI partnerships and debate on the sustainability of such relationships. Integrated rural development and technology based programs leading to income generating opportunities for rural population by the use of micro financing. Efforts have to be taken to examine location specific technologies and its implementation.

1. Financial Inclusion (FI)

The bank Industry has shown tremendous improvements in the areas of financial viability, profitability and competitiveness. Still there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, This lead to the emergence of for Financial Inclusion as a strategy to bring so called 'excluded' people in to the mainstream.

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of low-income groups. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

Financial inclusion covers financial services such as savings insurance, payments and remittance facilities by the formal financial system. The broad objective of Financial Inclusion (FI) is to extend the scope of activities of the organized financial system to include people with low incomes.

2. Microfinance

Micro finance is a term for the practice of providing financial services, micro credit, micro savings or micro insurance to poor people. By helping them to accumulate usably large sums of money, this expands their choices and reduces the risks they face. The origin of microfinance is often dated as late as the 1970s. The micro finance organizations want to convey an impression of economic effectiveness. Micro finance (MF) in the recent past has emerged as a potential instrument for poverty alleviation and women empowerment.

Microfinance institutions (MFIs) can be small and medium enterprises at the heart of rural sustainable development. Their development positively correlates with rural business development. A new approach considers a wide range of flexible financial services for a variety of poor clients, not just

rural micro-entrepreneurs. The three factors have combined to support the growth of Indian microfinance:

- Rapid increases in equity investment...
- In an environment with easily available commercial financing...
- Increasing investment by MFIs into the loan portfolio

2.1 Features of Micro Finance

- Small transactions (whether loans, savings or insurance).
- Loans for entrepreneurial activity.
- Collateral-free loans.
- Group lending.
- Focus on poor clients.
- Focus on female clients.
- Market-level interest rates

2.2 Micro Finance and Rural Development

Integration of micro financing and technological application will definitely stimulate growth and overall development of the rural sector.

We have number of green technologies namely renewable energy from wind, water, tidal energy, solar energy, development of bio-fuels from natural resources, bio-gas plants, bio-fertilizers, bio-manures, bio-pesticides, bio-waste recycling, bio-conservation, cattle farming and aquaculture, dairy and dairy products, pollution control and water purification, water conservation, rejuvenation for plantation and development of forest etc.

After witnessing a dip in 2009 on account of global financial crisis, the green sector in India is once again attracting the attention of investors and banks.

Three reasons have been thought of which are favorable for investors in rural sector i.e. high REO's (returns on equity),

increasing investor comfort with renewable generation risk, and strong commitment from the central government to ensure renewable feasibility. The growth of the green sector is substantiated by pace of lending support financially through banks for implementing green technology projects. Cooperative banks in India finance rural areas under:

- Farming
- Cattle
- Milk
- Hatchery
- Personal finance

2.3 Self-Help Group-Bank Linkage Programme (SHG-BLP)

“SHGs, saving for the present, securing the future”

The Self-Help Group–Bank Linkage Programme (SHG–BLP) is one of the earliest initiatives of financial inclusion in India started at the initiative of NABARD in 1992. It is a step towards bringing the ‘unbanked’ poor into the mainstream banking channel. This programme continues to be the predominant Micro-Finance (MF) model in the country. Banks provide the resources and bank officials/NGOs/ government agencies organize the poor in the form of SHGs.

An SHG is a homogeneous group, comprising 15-20 members (mostly women), where members first pool in their savings and give out small loans to needy members. Once the SHG successfully undertakes savings and credit operations from its own resources, it can borrow from a bank (SHG-BLP) to enhance its pool of resources.

Under the SHG-BLP programme, three linkage models have broadly emerged.

- Model I: SHGs promoted, guided and financed by banks.
- Model II: SHGs promoted by NGOs/Govt agencies and financed by banks.
- Model III: SHGs promoted by NGOs and financed by banks using NGOs/formal agencies as financial intermediaries.
- Model II has emerged as the most popular model under the SHG-BLP programme. Commercial banks, co-operative banks and the regional rural banks have been actively participating in the SHG-BLP.

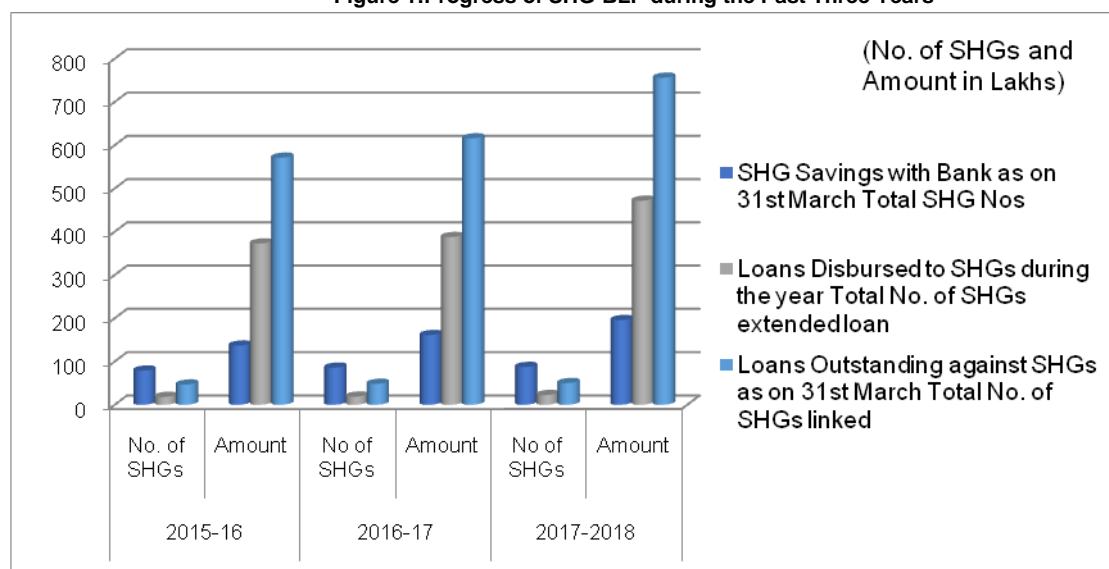
Table 1: Overall Progress under SHG-Bank Linkage Programme during Past

(Number in Lakhs/Amount in Crores)

PARTICULARS		2015-16		2016-17		2017-2018	
		No. of SHGs	Amount	No of SHGs	Amount	No of SHGs	Amount
SHG Savings with Bank as on 31st March	Total SHG Nos	79.03	13691.39	85.77	16114.23	87.44	19592.12
	All Women SHGs	67.63	12035.78	73.22	14283.42	73.9	17497.86
Loans Disbursed to SHGs during the year	Total No. of SHGs extended loan	18.32	37286.9	18.98	38781.16	22.61	47185.88
	All Women SHGs	16.29	34411.42	17.16	36103.13	20.75	44558.74
Loans Outstanding against SHGs as on 31st March	Total No. of SHGs linked	46.73	57119.23	48.48	61581.3	50.2	75598.45
	No. of all Women SHGs linked	40.36	51428.91	42.84	56444.24	45.49	70401.73

Source: Microfinance in India Report 2018 by NABARD

Figure 1: Progress of SHG-BLP during the Past Three Years



Source: Same as Table 1

3. Review of Literature

1. Vithal Rajan "Killing the MFI Golden Goose" Economic & Political Weekly VOL 45 No. 49 December 04 - December 10, 2010. With microfinance institutions being embroiled in controversies, the only viable way to reach much-needed credit to the poor might be to revitalize their own cooperatives. Through the intermediation of such bodies, large nationalized banks like the State Bank of India could completely cut out the middle class middlemen structure of the MFI and deal directly with poor village women, creatively extending the concept of "banking correspondents" to that of "barefoot bankers".

2. PrabhuGhate "Serving Migrants Sustainably" Economic & Political Weekly VOL 40 No. 17 April 23 - April 29, 2005. For historical reasons, and in order to minimize search costs, areas sending out migrants tend to specialize in particular destinations. Once the number of migrants from any particular area of origin reaches a critical minimum in a particular destination, it becomes feasible for a microfinance institution (MFI) to provide remittance services sustainably by establishing a presence in both areas.

3. Balasaheb Vikhe Patil "Rural Banking" Economic & Political Weekly VOL 40 No. 12 March 19 - March 25, 2005. While at no stage the government has denied the need for revitalization of credit cooperatives the appropriate decisions are getting delayed. It is quite important that we have a road map for their reform and development. In the absence of clear signals there is virtually no progress in this regard.

4. Rajkamal Iyer "Regulation of Cooperative Banks in India" Economic & Political Weekly VOL 40 No. 50 December 10 - December 16, 2005. A spate of failures in recent years has raised concern about the working of cooperative banks. The functioning of these banks can be improved through a variety of ways, including by enabling depositors to enforce market discipline.

5. Nilakantha Rath "On the Microfinance Regulation Bill 2007" Economic & Political Weekly VOL 42 No. 37

September 15 - September 21, 2007. The Microfinance Regulation Bill 2007, which seeks to regulate trusts and societies that help or promote self-help groups, is completely unnecessary since it does not address the needs of the SHGs. Legislation that enables these groups to register as cooperatives and borrow from banks or helps them to form private limited companies under the Company (Amendment) Act 2002 to facilitate borrowing from commercial banks would be more helpful.

6. Khoja, Faiza, Luta Fali, Shabnam "micro-financing: an innovative application of social networking" Ivey Business Journal Jan/Feb 2008 Vol.72 issue 1 p1-9, 9p. The article discusses the importance of micro-financing as a proven tool to provide financial and non-financial services to the poor or marginalized sectors in the U.S. Professor Muhammad Yunus says that micro-finance is a social business that creates economic and social development from below. It also mentions the mechanisms and structures that provide a sustainable growth model for micro-finance institutions (MFI).

4. Conclusion

Micro-finance plays an important role in integrating rural development and poverty alleviation. The impact of micro finance on rural development and poverty reduction has been measured in terms of several dimensions such as improved income, employment and household expenditure and reduced vulnerability to economic and social crisis.

People belonging to villages are unaware of the banking policies and credit systems. Villagers must be familiarized about the technologies by conducting training and awareness programmes and the aim of these programmes should be not only on lending and repayment of microfinance but proper use of micro finance for technology implementation. NGOs should also communicate to them and share their views with villagers. Banks should convert and build up professional system into social banking system for poor. In these efforts, the Government of India and the State Government should also provide the support for capacity building initiative and ensure transparency and enhance credibility through disclosures.

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