ENHANCING FINANCIAL INCLUSION-ROLE OF MICRO FINANCE

Dr. S. MAHABOOB BASHA, Associate Professor, Santhiram Engineering college

M.VINOD PRASANNA KUMAR, Research Scholar, JNTUA, Ananthapur

DEPARTMENT OF MANAGEMENT

ABSTRACT

Microfinance has assumed immense importance throughout the world in view of its efficacy in credit dispensation, loan repayment and reduction of poverty. The experience 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. Several countries like Bangladesh, Indonesia, Philippines, Kenya and Bolivia have implemented microfinance programmes with encouraging results.

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 paper highlights the roadblocks of micro finance in India. It looks into the attempts of selected organisations in the field of micro finance in India. The paper presents a glance into the government's efforts in the field of micro finance.

Micro finance serves as an umbrella term that describes the provision of banking services by poverty focused financial institutions (micro finance institutions) to poor parts of the population that are not being served by mainstream financial services providers.

Key Words: Financial Inclusion, Micro Finance, Poverty, Self Help Groups

I. INTRODUCTION

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. However, with nearly one billion people still lacking access to basic financial services, especially the very poor, the challenge of providing financial services to them remains. Convenient, safe, and secure deposit services are a particularly crucial need.

Microfinance sector is both old and new - people have always been borrowing, lending and saving for as long as there has been money (and in kind before). They have done this within their own communities, using their own systems and methods, without any external assistance or resources. The sector is new in that it has primarily developed as a response to the inability or apathy of commercial banks and the formal financial system to serve the needs of low income households and micro enterprises. Microfinance plays a significant role overarching goal to reduce poverty in India. Providing access to microfinance can prove to be an effective way of reaching the poor and improving their lives. The availability of adequate and timely microfinance services for low-income households has many effects on the development of a community. It can directly affect community organizing and development as a part of the microfinance activities, and it can also indirectly enable and facilitate community development as an externality of credit itself Microfinance is an enabling, empowering, and bottoms-up tool to poverty alleviation that has provided considerable economic and non-economic externalities to low-income households in developing countries. Microfinance is being hailed as a sustainable tool to combat poverty, combining a forprofit approach that is self-sustaining, and a poverty alleviation focus that empowers low-income households. Microfinance is increasingly becoming a tool to exercise developmental priorities for governments in developing countries.

In order to ensure that the poorest benefit from this growth, and also contribute to it, the expansion and improvement of the microfinance sector should be a national priority. Micro-finance programmes have, in the recent past, become one of the more promising ways to use scarce development funds to achieve the objectives of poverty alleviation. Furthermore, certain micro-finance programmes have gained prominence in the development field and beyond. The basic idea of micro-finance is simple: if poor people are provided access to financial services, including credit, they may very well be able to start or expand a micro-enterprise that will allow them to break out of poverty.

The Rangarajan Committee Report- 2008 objects on Financial Inclusion that "Financial Inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

Overview Of Microfinance

Micro finance refers to the provision of financial services to poor or low income clients, including consumers and the self-employed. The term also refers to the practice of sustainably delivering those services. More broadly, it refers to a movement that envisions "a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance and fund transfers. Micro finance can be defined as small loans that help poor people who wish to start or expand their small businesses but are not able to get banks to lend to them. Micro credit is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. It is helping millions of poor people, especially poor rural women; with tiny loans so they can start small, create self employment and improve their lives. Microfinance is the supply of loans, savings, and other basic financial services to the poor. People living in poverty, like everyone else, need a diverse range of financial instruments to run their businesses, build assets, stabilize consumption, and shield themselves against risks. Financial services needed by the poor include working capital loans, consumer credit, savings, pensions, insurance, and money transfer services. 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.

Financial Inclusion

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. 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. By financial inclusion we mean the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. In the policy framework for development of the formal financial system in India, there is always an emphasis on the need for financial inclusion and covering more and more of the excluded population by the formal financial system

In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the 'super-included', i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, we may have the financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers.

II. Financial Inclusion & Role of Microfinance

The U.N. Report defines an inclusive financial system as one which provides credit to all "bankable" individuals and firms; insurance to all insurable individuals and firms; savings and payment services for everyone

Financial Inclusion is defined as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at affordable cost" (Rangarajan, 2008)

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players" (Chakraborty, 2013). Financial inclusion is not an Indian specific problem, it is global one. All around the countries, there are population groups that are not adequately serviced by the formal financial system. India is a home to the second largest population in the world, with huge mass of people below poverty line spread across 600,000 villages in 640 Districts. So, for India it is a matter of utmost importance. The process of financial inclusion is an attempt to bring within the ambit of the organized financial system the weaker and vulnerable sections of society.

Financial inclusion is the most important initiative of Govt. of India. The financial inclusion has been pursued over the decade through number of policy and programmes, such as preparation of annual Financial Inclusion Plans (FIPs); introduction of BC/BF model and opening of bank accounts on target basis which are mostly dormant; various schemes / programmes at Central level such as Self Help Group-Bank Linkage Programme; Rashtriya Mahila Kosh (RMK); and at State level such as Kudumbashree Scheme in Kerala; Stree Nidhi Scheme in Andhra Pradesh etc

RBI has taken following steps to improve financial inclusion in India:

1. Encouraged the SHG-Bank Linkage Model, one of the largest micro finance models in the world, under which 4.79 million SHGs have been credit linked, covering 97 million poor households (till March 2012).
2. Mandated Commercial Banks including Regional Rural Banks to migrate to the Core Banking Platform.
3. Substantially liberalised the BC based service delivery model in phases.
4. Permitted domestic scheduled commercial banks to freely open branches in Tier 2 to Tier 6 centres.
5. Mandated banks to open at least 25% of all new branches in unbanked rural centres. vi. Substantially relaxed the Know Your Customer (KYC) documentation requirements for opening bank accounts for small customers.
6. Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel.
7. Pricing for banks totally freed; Interest rates on advances totally deregulated. Still, there are several factors affecting access to financial services to weaker section of society like: Place of living, Absence of legal identity and gender biasness, limited knowledge of financial services, level of income and bank charges, and rigid terms and conditions of traditional financial institutions.

Microfinance came into existence to serve specially this weaker section of society. And, since the beginning it has been playing a key role in financial inclusion in India. The success story of Bandhan bank has forced RBI to truly recognise the importance of microfinance institutions for financial inclusion. In autumn 2015, RBI granted specific banking licenses to 11 payments banks and 10 small finance banks. Eight of the 10 newly licensed small finance banks were MFIs. Financial inclusion has been recognized as a priority goal of the microfinance sector and efforts were made in this report to identify the critical areas of interventions for greater success of the initiatives in the future.

History Of Micro Finance In India

The Micro finance activity is the result of NABARD's work in the micro finance sector, which started in 1992 through a pilot project for promoting 500 self help groups (SHGs). As the idea gained acceptance from the banking system and the results were promising, the Reserve Bank of India (RBI) encouraged this positive initiative by issuing instructions to banks in 1996 to cover SHG financing as a mainstream activity under their priority sector–lending portfolio.

From 1999 onwards the Government of India (GOI) made linking SHGs with banks a national priority through its periodic policy and budget announcements. Today, the programme is growing at a pace of about 2.5 million households annually. It is the largest and fastest growing microfinance programme in the world in terms of its outreach and sustainability

OBJECTIVES OF MICRO FINANCE

objectives of micro finance can be highlighted herein below:

• It provides a model of development that is Bottom up;

• It promotes entrepreneurship and gives people the means to brawl poverty;

• Micro-finance can be a powerful device in initiating a cyclical process of growth and development;

• Micro-finance activity can improve the access of rural poor to financial services;

• The micro-finance interventions help in inculcating necessary habits for economic independence and self-reliance. Appropriate and participatory credit plans by the members of a group can help in social and economic empowerment;

• Increased access signifies the overcoming of isolation of rural women in terms of their access to financial services and denial of credit due to absence of collateral security;

• The collection of savings generated out of very small but regular voluntary contributions improves access of the poor women to bank loans;

• It could also help in strengthening poor families' resistance to external shocks and reducing dependence on moneylenders;

• The group utilizes its corpus to disburse loans of small amount amongst the needy members. In the beginning, the members meet out their consumption needs out of their own fund and afterwards they obtain loans from the Banks for taking up some economic activities for their sustained living.

IS MICRO FINANCING SUCCESSFUL IN INDIA?

Microfinance has no doubt improved the lives of the poor in India but sometimes it leads people to borrow too much, to the extent that over indebtness can lead to suicides in extreme cases. Microfinance does not directly address some structural problems facing Indian society and the economy, and it is not yet as efficient as it will be when economies of scale are realised and a more supportive policy environment is created. Loan products are still too inflexible, and savings and insurance services that the poor also need are not widely available due to regulatory barriers. Insufficient data exists on client-level impact, though new tools such as the Poverty Progress Index of Grameen Foundation and the work of Sa-Dhan (the association of Indian MFIs) on measuring client satisfaction are addressing this gap. The high interest rates and forced loan recovery practices of micro-finance institutions have been held responsible for the suicide of several farmers in Andhra Pradesh. It is evident that poverty makes good business sense to MFIs. The erring MicroFinance Institutions (MFIs) have been charged with exploiting the poor with 'usurious interest rates' and intimidating the borrowers by 'forced loan recovery' practices, the combined effect of which forced the debt-ridden poor to suicide.

Micro Finance As Tool Of Financial Inclusion

Indian microfinance has continued growing rapidly towards the main objective of financial inclusion, extending outreach to a growing share of poor households and to the approximately 80 per cent of the population, which has yet to be reached directly by the banks. Micro finance is the new fad in the Indian financial system. It is growing rapidly and getting a lot of attention from financial institutions, non-governmental organisations (NGOs) and the Government, as an instrument of financial inclusion that can transform the lives of the poor. A vibrant and developed micro-finance sector can significantly impact economic development and distribution of wealth.

III. CONCLUSION

Urban poverty is as much a reality as rural poverty. Micro-finance is an effective tool in poverty alleviation and there is an urgent need for proliferation of this tool in a systematic and steady pace even in the urban areas, so that there can be more inclusive growth across all parts of the country. In their efforts to alleviate poverty, the pioneers of modern micro finance made a remarkable discovery – the poor could serve as reliable borrowers – and developed this insight into a worldwide industry capable of leveraging the commercial capital markets to deliver financial services to millions of poor. As MFIs attempt to reach ever more of the world's poor, the role of commercialization is being widely debated. Critics of increasing commercialization propose a hybrid alternative combining non-profit and for-profit models. Advocates of this approach call for MFIs to return profits back to the poor in the form of lower rates. The 2006 Nobel laureate Mohammad Yunus, widely recognised as the founding father of modern micro finance, is perhaps the most prominent opponent of the idea of profits in micro finance.

REFERENCES

1] Asher Mukul G and Shankar Savita (2007): "Reconsider NABARD as the micro finance regulator"

[2] Morduch, Jonathan: "The Microfinance Promise" Journal of Economic Literature Vol XXXVII December 1999

[3] Ramkrishnan, R: "Micro Finance: Emerging Trends in Financial Management" Rasipuram

[4] Ravikumar, B. Ratna (2006): "A Primer on Micro Finance – The Paradox of Plenty in Poverty" The Chartered Accountant, May 2006

[5] Sanyal Kaushiki: "Microfinance bill" [6] Shankar Savita (2007): "Pluses and minuses of Micro Finance Bill"

[7] Srinivasan R and Sriram M.S.: "Micro finance: An Introduction"

[8] Reflections on the Microfinance Bill Contributed by Members of Karmayog, Mumbai

[9] Micro Financial Sector Development and Regulation Bill 2007