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MICRO FINANCE - AN ALLEYWAY TO FINANCIAL INCLUSION

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Introduction

In developing areas of the world with very little economic structure, not all tasks are carried out with money. In other words, not many activities are monetized as people in these areas do not have the expendable funds required. To confront this issue, micro finance has become increasingly more evident in these areas of distress. The idea of Micro Finance was thus developed by Famed economist Muhammed Yunus(Banker to the Poor), a noble prize winner as an economic development strategy that allows for those in need to take small-size loans, savings, insurance or other financial services to grow a business, building assets, managing risk. Furthermore, micro finance works as an alternative to provide loans to poor intellects with an aim to create financial inclusion. India is popular for its intellectual workforce around the world. However, due to lack of finance available to these eggheads, their intellect truncates and left themselves with no other option except to compromise with the life they live. On the one hand, poor people cannot provide the necessary collateral security often demanded by the banks as they are not well endowed and on the other hand, the banking institutions find it difficult to recover the high cost involved in dealing with initiators due to high risk involved. As they strive to satisfy their basic investment needs, they sometimes rely on informal sector money lenders whose loans attract exorbitant interest rates thereby putting borrowers in perpetual debt traps. Lack of access to finance is a key reason why poor people remain poor.

‘‘The Poor stay poor, not because they are lazy but because they have no access to capital.”- **Laureate Milton Friedman.**

Research aim, objectives and hypothesis

Research Aim

The aim of this study is to explain the concept of microfinance as a key driver of financial inclusion and to determine the growth and client outreach of micro financing.

Research Objectives

- To determine the progress of self help groups (SHGs)
- To assess client's outreach by MFI's

Proposed Methodology

Research Design

An exploratory research design is being used in this study to investigate growth of Micro Financing.

Source of Data

Secondary Data is being used

- Bharat Micro Finance Report 2020
- Nabard Report,2020

Review of Literature

"Microfinance is an idea whose time has come." **Kofi Annan - Former United Nations Secretary-General**

The term "microfinance was developed by Muhammad Yunus in 1970s when organization like **Grameen Bank** of Bangladesh were starting and shaping the modern industry of micro financing. Concept of Microfinance in India can map out its origins even back to the early 1970s when an association named as Self Employed Women's Association ("SEWA") in the state of Gujarat formed an urban cooperative bank, called the Shri Mahila SEWA Sahakari Bank, with an objective to provide banking services to poor women employed in an unorganized sector in Ahmadabad City, Gujarat.

Microfinance refers to a provision of financial services such as loans, savings, credit and insurance, available to poor and small entrepreneurs who aren't well endowed and have no collateral security to be provided and therefore are not qualified for a standard bank credit. The goal of micro financing is to provide individuals with money to invest in their cerebral pursuits to help get them out of poverty. Normally, to borrow micro finance loans one does not require collateral. For this reason only, many of these loans are to be repaid by co-guarantees and joint liabilities. This will further ensure timely repayment of loan and each member of joint liability group to be trustworthy and creditworthy borrower.

Example:

Joint Liability Group (JLG): includes team of borrowers who are individually selected to repay loan. In case any member fails to repay his/her portion of loan, and then remaining members agree to accept responsibility of sum left. Due to less burden, such loan allows for more borrowers to be involved. (Microfinance in India-Sector Overview, 2017)

Self Help Group (SHG): group of people interested in saving money in single accepted fund and sharing same economic background are included in SHG. In order to provide additional assistance, such fund can be combined with banks or microfinance companies.

Micro finance is the step towards achieving Financial Inclusion

Financial inclusion means accessibility of financial services which further means financial services to be available at affordable costs to disadvantaged and low-income segments of society. The term "financial inclusion" has gained importance since the early 2000s, as a result of identifying financial exclusion and its direct relation with poverty. One of the goal of financial Inclusion defined by The United Nations – "Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance."

In India, the term was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, The Then Governor of The Reserve Bank of India. With the time, this concept gained ground and came to be widely used internationally as well. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services.

As said by Murali Ramakrishna Regional Manager of Reserve Bank of India (RBI), "There is no banking facility present in remote areas and therefore, micro financing companies can play a major role in providing financial services in these areas and to the last man in the society." Micro finance is therefore one of the key drivers of financial Inclusion.

Financial Inclusion, has been the key focus area for policy makers in the last few decades as the utter size of our population is still below poverty line- then access to finance has to be the key.

The microfinance model of providing small collateral free loan to the 'bottom of pyramid' clients hitherto overlooked by the formal sector, has established itself as an effective and sustainable model for financial inclusion. It includes transparently delivering financial services and products at the doorstep of these very customers in a very simple to understand manner. This has helped microfinance gain trust and acceptability.

Micro finance has achieved success as a tool in providing financial inclusion. In addition, it has also lead to social and economic empowerment for bluestocking ladies by encouraging them to carry out their dreams, leading to their overall growth. Therefore, Micro finance is an alleyway towards achieving financial inclusion.

MODELS OF MICROFINANCE WIDELY USED IN INDIA

There are several types of groups/models organized by microfinance institutions for offering credit, insurance, and financial training to the rural population in India:

1. **JOINT LIABILITY GROUP (JLG)**

   This group consists of 4-10 individuals which includes farmers, tenants and rural workers and is usually an informal group who seek loans for agricultural purpose or associated activities. The loans are usually taken for against mutual guarantee. This group is simple in nature and works without any financial administration where every individual is equally responsible for the repayment of loan in a time-bound manner.

2. **SELF HELP GROUPS (SHG)**

   This group consists of individuals who share similar socio-economic backgrounds. They are generally small entrepreneurs who come together for a short duration for their business needs and create a common fund. The interest rates are generally low as well. Several banks have tie-ups with SHGs with an aim to increase financial inclusion in the rural parts of the country. Therefore, there is no

requirement of a collateral in this kind of group lending. These groups are also classified as non-profit organizations who takes care of the debt recovery.

Government of India have also been taking initiatives in implementing various programmes for the upliftment of the society, the most popular is 'SWARNA JAYANTI GRAMA SWAROJGAR YOJANA' (SGSY). This programme was launched on 1st April, 1999, with the cost sharing of Central and State Government in the ratio- 75:25. The main objective of SGSY is to provide Bank Credit & Government Subsidy to the rural poor through the establishment of SHGs. NABARD also took an initiative and launched SHGs- Bank Linkage Programme in 1992, a way to link the unorganized sector with the formal banking sector. Under this, banks open the saving accounts for SHGs and provide loan against group guarantee.

The three different models of SHGs- BLP have emerged on the basis of the recommendation of SK Kalia Committee.(Out of which the first two models are popular in India).

MODEL 1: SHGs promoted, guided & financed by banks.
MODEL 2: SHGs promoted by NGOs/ Government agencies & financed by Banks.
MODEL 3: SHGs promoted by NGOs & financed by banks using NGOs/formal agencies as financial intermediaries.

3. GRAMEEN MODEL BANK

The Grameen model was the idea of Nobel Laureate Prof. Muhammad Yunus in Bangladesh in the 1970s. It was formed to serve the poor, primarily women to impart small and non- collateralized loans. Five people come together voluntarily to form a group, in order to receive loan from Grameen. Borrowers meet weekly with centre lmanager regarding training, saving payments and loans. This mode has inspired the creation of Regional Rural Banks (RRBs) in India. The primary motive of this system is the development of the rural economy.

However in India, SHGs have been more successful as MFIs when compared to Grameen Banks.

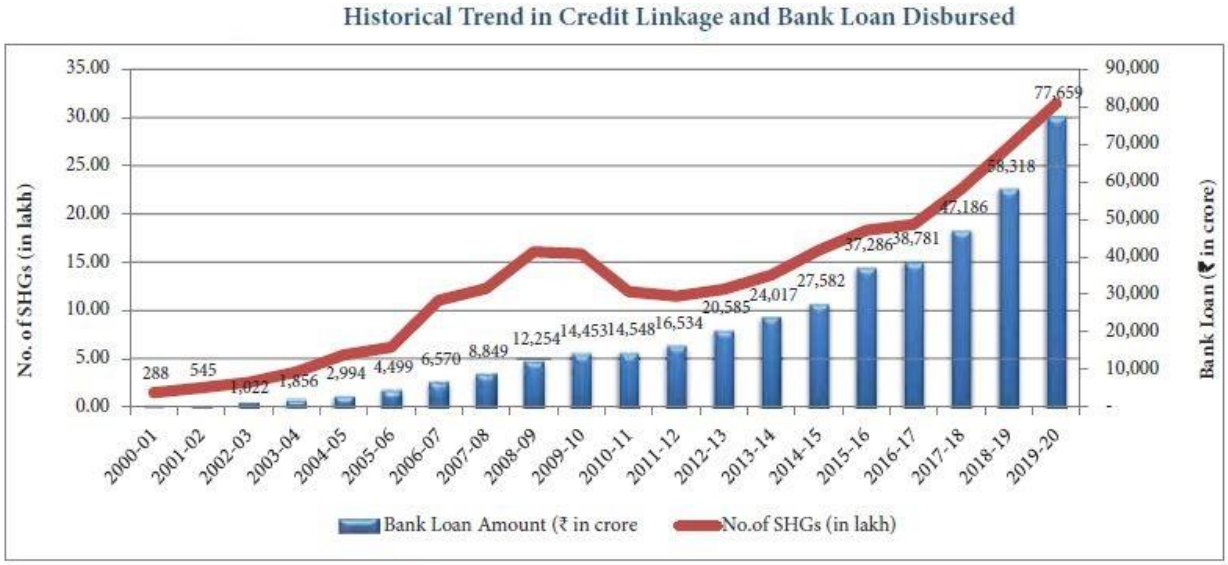
Growth of Micro Financing

1. Progress of Self-Help Groups

As per the following figures, it is clearly shown that Self- Help Groups have shown improved performance over the three years.
Number of SHGs with saving linkage has increased with an increased amount of outstanding savings. During the year nearly 33 lacs SHGs disbursed a loan 77,659 crores which has been widely increased from last three years, specifically last year. During the year, NABARD and NRLM/SRLM coordinated with an agenda to cover 7 crore rural poor households across the country with sustainable livelihood and ensured loans availability to SHGs and the table gives an account of savings , credit outstanding and credit disbursement of total SHGs under NRLM during past three years showing positive move to achieve their agenda.

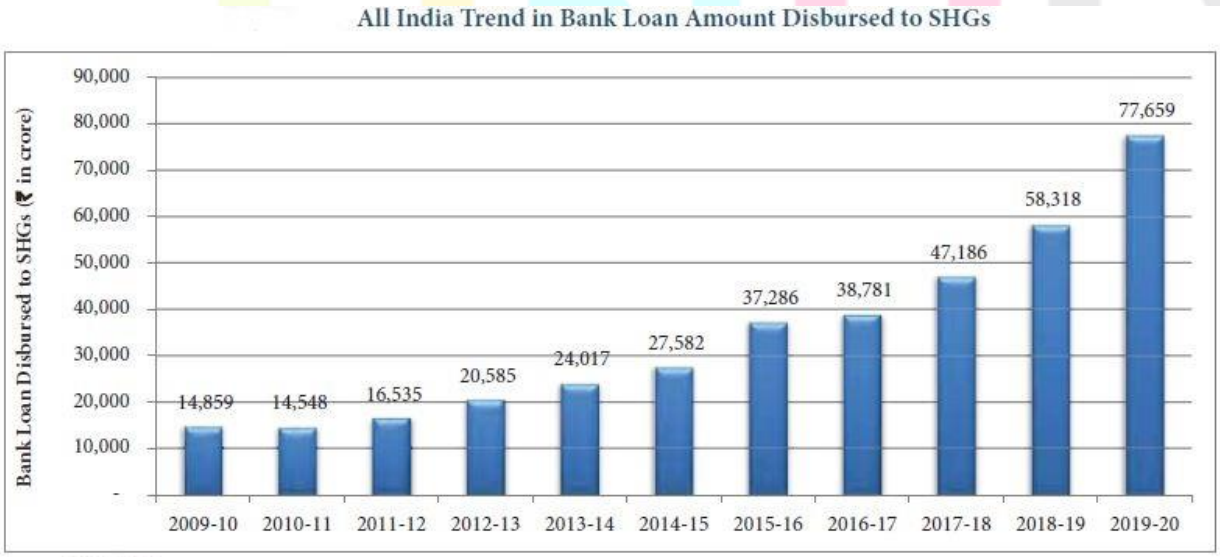
Over the years percentage of women's participation has been increasing which shows a strong intervention in financial inclusion.

SHG is a positive intervention in financial inclusion for financially backward which can be proved through the following figures showing increasing banking services amongst the poor and promoting poverty alleviation.



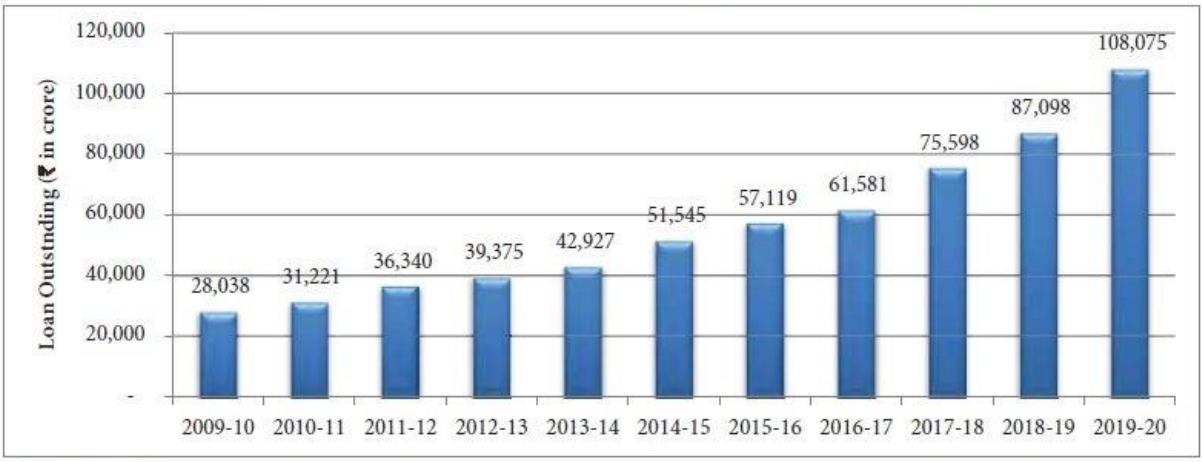
Source: Data compiled from various reports of NABARD

Source: NABARD



Source: NABARD

All India Trend in SHG Loan Outstanding in the Books of Banking System



Source: NABARD

2. Client's outreach by MFIs

(Source:- Bharat-Microfinance-Report-2020)

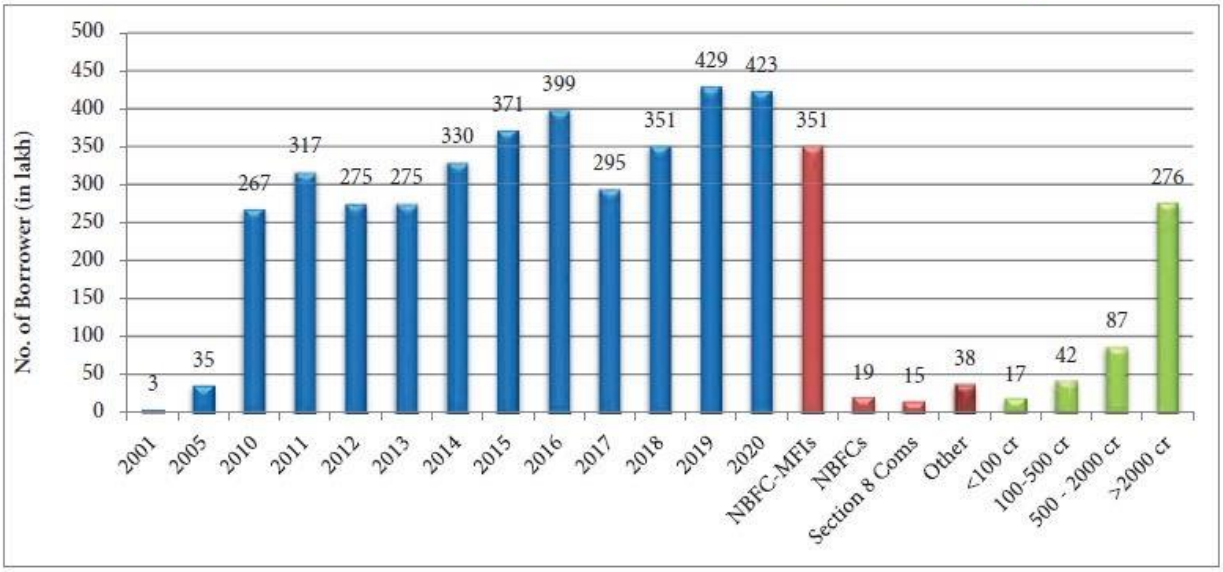
MFIs served 423 lakhs clients as on 31 March, 2020.

2005-2011- Client outreach of MFIs had reached at a level of 317 lakh, showing substantial growth. **2012-2013**- Trend slowed down and the number of clients slumped to 275 lakh.

2014- A reversal of trend was shown with a growth and reached a level of 330 lakhs.

2014-2016- The growing trend of 2014 continues till 2019 with a huge rise in clients/borrowers to an all time high of 429 lakh.

Outreach to Borrowers (in lakh): Yearly Trend and Category – wise Breakup for 2020



(Source: - Bharat-Microfinance-Report-2020)

Majority of these clients (84.94%) are being served by NBFC-MFIs.

Conclusion

MFIs are acting as vehicle to cater the need of the population. Financial inclusion is steered by culture and financial infrastructure of the nation. The journey of Microfinance has weathered serious setbacks like the one of 2016 Demonetization, the NBFC liquidity and the credibility crisis and its current battling COVID-19 global pandemic. All these events describe that microfinance is a risky asset class. However, on the other hand, MFIs as the 2nd largest sector after Mortgages serve around 6 crore unique customers in 28 states and 8 UTs. In recent two decades' apex intuitions of countries who have worked on concept of microfinance are regulating widely as per needs of population which is based on demographics. Microfinance penetration is ever evolving act as it depends upon population needs and demographics.

Microfinance consists of a broad range of financial services such as loans, deposits, payment services, insurance, money transfers, micro-credit etc. to the low income individuals and economic development of any country is severely influenced by easy availability of these financial services. A well-developed financial system promotes opportunities for investment in an economy. Therefore, to ensure inclusive growth , it is necessary for govt. of India to focus on extending financial services to both rural and urban areas and to take necessary measurements to create awareness among people to use the services of Microfinance institutions to strengthen their Economic status and improve their livelihood. The microfinance helped population in various ways but there is need to increase more transparency and institution work more towards customer-centric approach while putting interests of customers at priority.

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