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RESEARCH ARTICLE

Understanding the Role of Micro-Finance in Inclusive Growth & Financial Inclusion

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Abstract

Development of the Indian economy is correlated with development and growth of its human assets. Economy like India where population growth rate is 1.3% annually and an estimated 29.8% of Indians live below the country's national poverty line in 2010 finding an ultimate solution for growth of manpower is absolutely a difficult task. As a problem solver Micro finance (mf) in India has played an important role in this regard. It has in lot of ways facilitated India to achieve a target of reduction in inequality of income and wealth which has led to growth and development of financially weaker section of economy. Some growth generating factors have been analysed in this paper during 2007-2012(study period) to scrutinize important dimensions of growth of poor human asset of India impacting economic growth of India. It is observed from the results of above analysis that Financial Support, Knowledge Support and Effective Planning & Implementation Support are the main factors affecting growth of micro poor in India. The results of poor growth model (PGM) reveal that Financial Support, Knowledge Support and Effective Planning & Implementation Support variables exhibit a positive relationship (pull factors) with incremental savings of unreached weaker section of society.

Keywords: *Micro finance, Micro poor, Poor growth model, Financial support, Knowledge support, Effective planning & Implementation support.*

Introduction

One of the world's fastest growing economies is faced with a challenge to ensure the growth of each &every section of the society & so is its banking system which is faced with the issue of financial inclusion. The issues of inclusive growth & financial inclusions are not new; they have been envisaged & knitted in various policy programmes running from decades or so. Inclusive growth can here be defined as a growth which ensures that each &every section of the society grows along, whereas the other term FI is to ensure the availability & accessibility of affordable finance to the underprivileged groups. Rising access to credit & financial assistance to poor has always been the core of planning as a measure to curb poverty. No doubt the functional reach & geographical spread of Indian banking system has widened over the years & nationalization of banks is to be seen a stimulating force behind. "Microfinance has made tremendous strides in India. It has become a household name, in view of the variety of benefits reaped by the poor from microfinance services. Self-Help Groups (SHGs) have become the common vehicle of development process, converging all development programmes. SHG–Bank Linkage Programme launched by NABARD way back in 1992synthesising formal financial system and informal sector, has become a movement throughout the country.

It is considered as the largest microfinance programme in terms of outreach in the world and many other countries are keen to replicate this model. At present, a large number of Self-Help Promoting Institutions (SHPIs), all the banking agencies and Microfinance Institutions (MFIs) are pursuing this programme for up liftment of the poor. The RBI also recognised this as part of priority sector lending and normal banking business. It has removed the interest rate cap for the final beneficiaries under the mf investment. The programme is also the main contributor towards financial inclusion in the country." Today, despite of having a very wide network of banks operating in rural India with various programs of their own to ensure poverty alleviation & for creation of entrepreneurial opportunities through credit facilities, a very significant number of poor (hereafter referred to as a micro poor (The one who is poorest of poor, term coined by the contributors) were actually left behind & outside the sphere of formal banking system. So a need was felt to have a specific focus on them & keeping this point in mind the concept & facility of microfinance was introduced to take care of this micro poor sector of society. This paper examines the role of different supports on economic growth of micro poor during the period 2007-2012.This period is very important for a many reasons mainly because this period witnessed major crisis in micro finance in India . During this period there was a complete change in policy frame work, rules and regulations of RBI towards MFI (MICRO FINANCE INSTITUTIONS) owing to its benefits to money borrower's i.e. micro poor. Various support variables have been taken into account as explanatory variables so as to have a complete understanding of the nature of support during 2007-2012 (study period) to analyze important dimensions of growth of financially weaker section in India impacting economic growth of India. To achieve the objective of the study, this paper is divided into eight sections. Section I i.e. is the present section gives the insights of nature and concept of MF, Section II gives brief review of literature, followed by section III which gives research objectives, section IV, research methodology. Section V entails results and interpretations. Results & suggestions are included in Section VI, followed by references are covered in last section.

Review of Literature

The complete literature centred on Micro Finance. Marguerite S. Robinson presented in his book; the micro finance Revolution: Sustainable Finance for Poor [1] seven chapters related to micro finance& concluded that the institutions with the longest history of mobilizing micro savings profitably collect savings from public. Juliet Hunt [2] concluded that Poor women and men in the developing world need access to microfinance and donors should continue to facilitate this. Research suggests that the whole family is more likely to benefit from credit targeted to women, where they control income, than when it is targeted to men. Elizabeth Littlefield, Jonathan Murduch, and Syed Hashemi [3] concluded that access to financial services forms a fundamental basis on which many of the other essential interventions depend. Moreover, improvements in health care, nutritional advice and education can be sustained only when households have increased earnings and greater control over financial resources. Manchester 1824 EDP-0625 [4] maintained that for households in rural areas, significant results are observed only in the case where the access to MFIs is defined as household taking loans from MFIs for productive purposes and *not* in the case of simply having access to MFIs. In urban areas, such significant poverty-reducing effects are observed in both cases. As the large section of poor households is not only poor but also *vulnerable*, a stronger emphasis should be placed on microfinance schemes. Misra Alok [5] concluded that Microfinance is 'the new Mantra in Rural Finance'. His findings on microfinance are also dominated by the positive linkages between microfinance and achievement of Millennium Development Goals (MDGs).Thomas Dichter [6] concluded in his study that Economic Development and its consequent massive poverty reduction did not depend on micro credit being made more accessible. Batra Vikas and Sumanjeet [7] observed the linkages between banks and SHGs supported by the NABARD, on the one hand, and MFIs, on the other, have emerged as the two prominent means of delivering microfinance services in India. Narang Uma [8] assessed that through SHG-Bank Linkage Programme, the Reserve Bank of India and NABARD has tried to promote relationship banking, i.e., "Improving the existing relationship between the poor and the bankers with the social intermediation of the NGOs. The SHG-Bank Linkage Programme has provided a more favourable environment for enhancing India's potential for greater equitable growth with empowerment while considering the positive signs in their performance.

Dr. Naresh Singh [9] assessed that Micro-finance sector is the best option based on saving mobilisation of the poor people and credit linkages. Sheila Leatherman, linked health to microfinance to reduce poverty. She observed that the Single solutions are not enough to solve the prevalent and persistent problems of infectious disease, incidence of chronic illness etc. Poor populations need access to a coordinated set of financial and health services. Amrinder Singh & Sushil Kumar Mehta concluded that the rural people have been vastly benefitted by Microfinance & helped them in achieving a better standard of living [10].

Objectives of the Study

The object of this paper is to analyze the impact of

Micro Finance in growth of the nation through self-help-groups (SHGs)-bank linkage program with a support from the largest financial institution viz. NABARD. An attempt has also been made to understand the impact of micro finance products and services on the growth of micro poor.

Research Methodology

Data Collection

To achieve the objectives of the study secondary data is used which is collected from various sources i.e. Annual Reports of Nabard, publications from Ministry of Commerce, Asian Development Bank's Reports, Reserve Bank of India bulletins, Economic and Social Survey of Asia and the Pacific, Time series data and the relevant data have been collected for the period 2007 to 2012.

Model Building

A new model was structured and fitted, to study the impact of various supports on economic growth of unreached financially weaker sector of society. The model on poor growth shows the factors influencing the savings of economically weaker section in India. The model equation is expressed below:

FS-Financial Support

KS-Knowledge Support

EPIS-Effective Planning& Implementation Support

Correlation analysis between Amount of Loan Sanctioned to SHGs & their savings and correlation coefficient between Amount of Loan Sanctioned to MFIs & their SHGs Savings were carried out to achieve the objectives of the study. Coefficient of determination was used to assess the significance, desirability and reliability of model estimation parameters.

Analysis and Interpretations of Results

Financial Support that is availability & accessibility to various financial services & products to poor masses has a positive impact on the growth of the nation, ceteris paribus. Why? With having more finance or money at their disposal their purchasing power goes up as a result the standard of living rises. Not only this money begets money so with having the money in their hands they can have better chances as to education, health & entrepreneurial opportunities & can move in the direction of having a small business of their own & the up liftment of the poor is nothing but a contributor of inclusive growth.

Poor Growth Model (PGM) =f (FS, KS, EPIS)

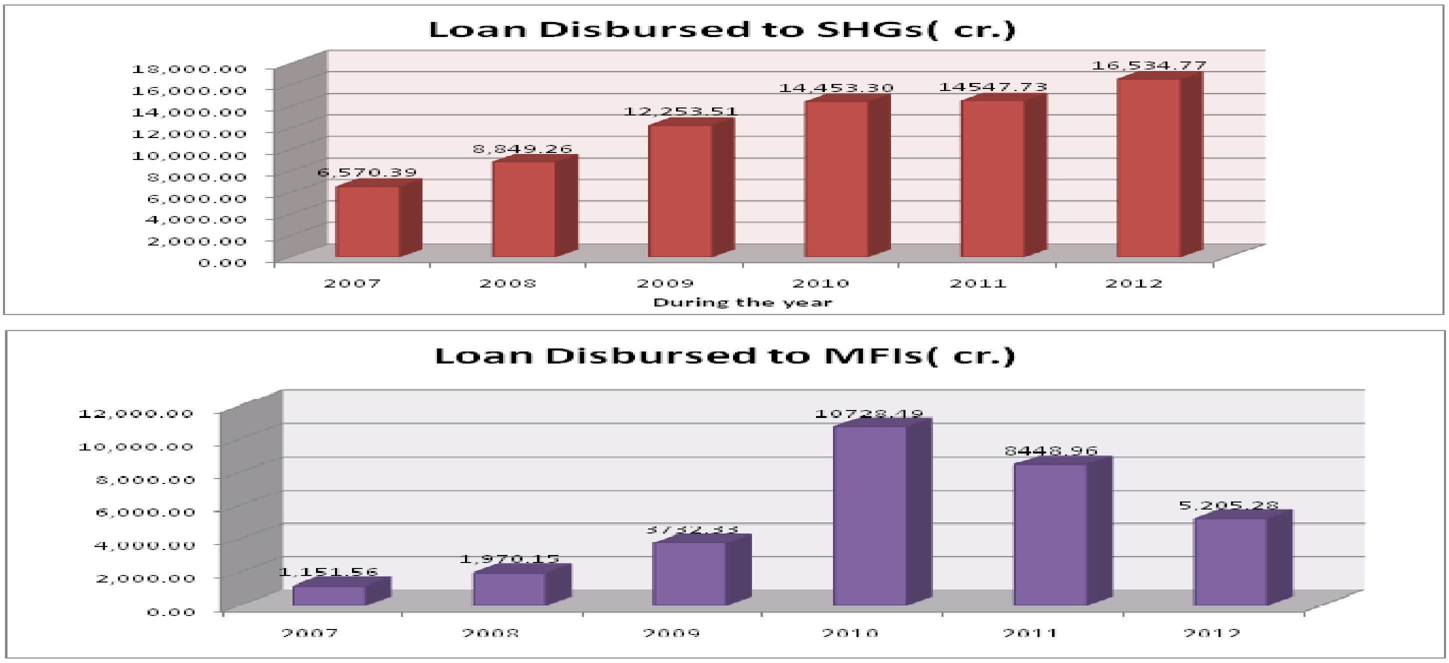
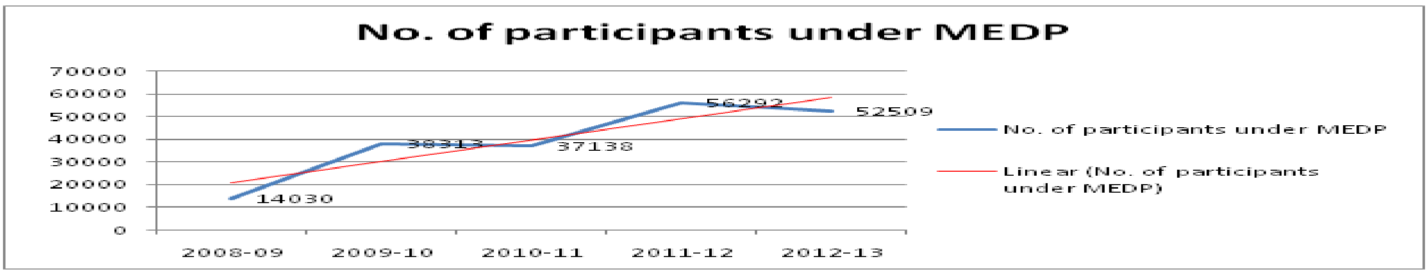


Chart 1: charts shows the amount of loan sanctioned & disbursed to SHGs & MFIs by NABARD

The charts above shows the amount of loan sanctioned & disbursed to SHGs & MFIs by NABARD. The amount of loan to SHGs shows a rising trend over the study period reaching to more than Rs. 16000 crore. The amount of loan to MFIs also shows a rising trend until 2011 after reaching to its peak amount of Rs. 10728.49 in 2010. The sharp decline is mainly due to three reasons, first by the end of the year 2009 there were uncertainties regarding the possible status of MFIs due the Micro Finance Institution (development & regulation) bill, 2012. Second the emphasis was to ensure direct transfer of funds to SHGs & third was the fact that major banks & other commercial banks also build up their interest towards this sector & due to these three reasons the amount of loan to SHGs increased but not the amount of loan to MFIs since now there were more alternatives for SHGs.

Knowledge Support suggests giving financial assistance alone is not sufficient. no entrepreneurial opportunities can be created out of any some of money unless people have the knowledge to utilize that money. Knowledge support includes all possible trainings & developmental activities needed to generate awareness about self employment& other entrepreneurial opportunities.

NABARD has been organizing for these programmes since a long time. Under KS we include various training & development programmes as run by NABARD viz. in the year 2008-2009 324 awareness-cum-refresher programmes for participants from banks and NGO & 45 sensitization programmes were arranged. NABARD also extended support for conducting 3,122 awareness creation and capacity building programmes covering 1,41,984 SHG members. Under the Micro-Enterprise Development Programme (MEDP), 564 such programmes covering 41,030 SHG members were conducted during the year 2008-2009*[1]. The coverage of such programmes was extended to a very great extent by the year 2012-2013. NABARD gave due recognition to training and capacity building of stakeholders engaged in microfinance programme by conducting 5,098 training programmes and trained around 1.82 lakh participants from various stakeholder/ groups during 2012-13. With this, cumulatively, around 30.30 lakh participants have been imparted training on various aspects of microfinance, which undoubtedly constitute a strong back up team for implementation of the programme. On scrutinizing the data related to training & development programmes, number of participants, number of households covered under the programmes& their savings, it was observed that number of training programmes is not sufficient as conducted by NABARD. It is a fact that till march 31st 2012 about 10.3 crore households were covered under the savings linked SHGs even though various training, awareness & development programmes of NABARD covered only 30 lakh households as shown in the chart 2. This represents not only a short fall of various programmes but also unwillingness on individual level to be a pt of these programmes. Chart 2 shows a decline of about 6% in number of participants (MEDP) even though the numbers of programme increased by some 7% during 2012-2013



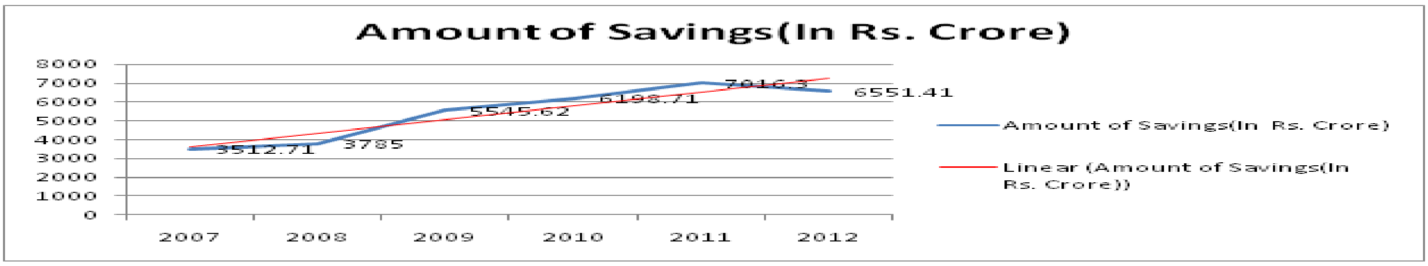


Chart 2: The charts above observe an increasing trend in both in the MEDP & the amount of savings.

The charts above observe an increasing trend in both in the MEDP & the amount of savings. An inference can here be made that various training programmes have a positive bearing on the amount of savings

Effective Planning& Implementation Support has always remained a challenge in India's fast growing economy. As far as growth is concerned (with the id of MFIs & SHGs) NABARD has always been at the forefront of planning & implementation. In fact the apex bank RBI has issued certain guidelines for these MFIs for effective planning & implementation of various schemes. These guidelines include

Capital Requirement-Entry Point Norms

Existing NBFCs

All registered NBFCs intending to convert to NBFC-MFI must seek registration with immediate effect and in any case not later than October 31, 2012, subject to the condition that they shall maintain Net Owned Funds (NOF) at Rs.3 crore by March 31, 2013 and at Rs.5 crore by March 31, 2014, failing which they must ensure that lending to the Microfinance sector i.e. individuals, SHGs or JLGs which qualify for loans from MFIs, will be restricted to 10 per cent of the total assets.

New Companies

All new companies desiring NBFC-MFI registration will need a minimum NOF of Rs.5 crore except those in the North Eastern Region of the country which will require NOF of Rs.2 crore.

Qualifying Assets

- NBFC-MFIs are required to maintain not less than 85 per cent of their net assets as Qualifying Assets. (Only assets originated on or after Jan 1, 2012)
- It has been decided that income generation activities should constitute at least 70 per cent of the total loans of the MFI so that the remaining 30 per cent can be for other purposes such as housing repairs, education, medical and other emergencies.

Multiple Lending and Indebtedness

It is clarified that a borrower can be the member of only one SHG or one JLG or borrow as an individual. However, a SHG or JLG or individual cannot borrow from more than 2 MFIs. Lending NBFC-MFIs will have to ensure that the above conditions are strictly complied with.

Ensuring Compliance with Conditionalities

Lending MFIs will have to ensure compliance with, among others, conditionalities relating to annual household income levels (Rs. 60,000/- for rural and Rs. 1,20,000/- for urban and semi urban households), total indebtedness (not to exceed Rs. 50,000). It is also reiterated that every NBFC-MFI has to be a member of at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005.

Pricing of Credit

As per the Malegam Committee recommendations, the interest rate cap on loans given by MFIs has been fixed at 26 per cent, under guidelines issued on December 2, 2011.

Customer Protection Initiatives

All elements of the Fair Practices Code issued by theBankvideDNBS.PD.CC.No.286/03.10.042/2012-13dated July 2, 2012will need to be adhered to by the MFIs. NBFC-MFIs must also ensure that greater resources are devoted to professional inputs in the formation of SHG/ JLG and appropriate training and skill development activities for capacity building and empowerment after formation of the groups.

Formation of SRO

All NBFC-MFIs will have to become member of at least one Self-Regulatory Organization (SRO) which is recognized by the Reserve Bank and will also have to comply with the Code of Conduct prescribed by the SRO.

Monitoring of Compliance

The responsibility for compliance to all regulations prescribed for MFIs lies primarily with the NBFC-MFIs themselves. In addition, banks lending to NBFC-MFIs will also ensure that systems practices and lending policies in NBFC-MFIs are aligned to the regulatory framework.

Analysis & Interpretation

Model: poor growth model

PGM= f (FS, KS, EPIS)

Correlation analysis between Amount of Loan Sanctioned to SHGs & their Savings between Amount of Loan Sanctioned to MFIs & SHGs Savings shows a high degree of positive correlation of .95& .81 respectively. This shows that savings which is an indicator of growth & for poor a means of their up liftment &thereby an ingredient of inclusive growth has a

Table 1: Correlation analysis between amounts of loan sanctioned to SHGs & their savings

Progress of MFPs								
Loan disbursed								
	To SHGs		To MFIs					
During the year	Number	Amount(Cr.)	Number	Amount(Cr.)	Amount of Savings(In Rs. Crore)	Percentage change in Loan Sanctioned & Disbursed to SHGs	Percentage change in Loan Sanctioned & Disbursed to MFIs	Percentage change in Savings
2007	11,05,749	6,570.39	334.00	1,151.56	3512.71			
2008	12,27,770	8,849.26	518	1,970.15	3785	34.68393809	71.08531036	7.75156503
2009	16,09,586	12,253.51	581	3732.33	5545.62	38.46931834	89.44395097	46.5157199
2010	15,86,822	14,453.30	779	10728.49	6198.71	17.9523255	187.4475194	11.7766814
2011	1196134	14547.73	469	8448.96	7016.3	0.653345603	-21.24744489	13.1896798
2012	1148000	16,534.77	465	5,205.28	6551.41	13.65876326	-38.39147067	-6.62585693

Source: Various annual reports of NBARD

direct link with the amount of loan sanctioned & disbursed. Also the coefficient of determination between Amount of Loan Sanctioned to SHGs & their Savings was .91 that explains 91% causation between the two variables.

Table 2: Micro-enterprise development programme (MEDP)

Year	no. of prog.	no. of participants	% change in prog.	% change in participants
2008-09	564	14030		
2009-10	1530	38313	171.2765957	173.0791162
2010-11	1606	37138	4.967320261	-3.066844152
2011-12	1904	56292	18.55541719	51.57520599
2012-13	2047	52509	7.510504202	-6.720315498

Source: Various Annual Reports of Nabard.

Table 2 shows total number of participants covered under MEDPs. As a matter of fact it is quite visible from the table that the number of programmes though increased over the years even though the participation rate could not keep pace with it. Number of MEDPs increased from 1904 to 2047 over 2011-2012 to 2012-2013 but number of participants shows a decline of 6.7% that ultimately shows the not so convincing role of these MEDPs [11, 12].

Conclusion and Suggestions

No doubt the extent of microfinance programs has grown many folds in various parts of the country and has also reached to the rural poor. There will not be any exaggeration if we claim that micro finance availability has actually become the most promising form of credit & finance available to the poor masses. These micro finance institutions have emerged as an important alternative to the traditional credit sources.

Results of the study clearly show that there exists a direct relationship between loan sanctioned & disbursed by MFIs & it serves as a tool of employment generation & providing entrepreneurial opportunities.

The analysis also observes causation between the well being of micro poor & MFPs. And since India is a country where majority of its population is poor, growth in employment opportunities through micro finance definitely leads to growth of the economy.

Though the results seem to quite promising but there is still a long way to go. Micro finance & SHGs are still in their infant stages & there is still a need to go layers deep. The basic idea behind the concept of micro finance is that poor just need the money to utilize their unutilized skills but the findings of the study shows that there is also a need of skill development programs among the poor to tap the sleeping skills. Apart from this there are some inherent inconsistencies & some possible suggestions viz. Number of participants in MEDPS recorded were found to be very low only some 30 lakhs participants were covered out of crores of beneficiaries that shows a very meagre proportion being part of these training& development programmes. Also it shows unwillingness on the part of beneficiaries also to attend such programmes. There is still need to create more awareness towards the possible results of attending such programmes.

Savings which we see as an indicator of growth as mentioned above is still very low and the major reason behind this is that the lending rate of 26% is still very high. Interest rates should be brought down. The question here is why to lend the reached section at a lower rate of interest & the unreached section at such high rate?? Possible brain storming is left for the authorities to decide. Also the definition of poor has not been provided on uniform basis anywhere with respect to SHGs.

Even the RBI guideline for MFIs stipulates an annual income requirement of Rs. 60000 in rural areas, how a person would show such income when he is poor & not even earning Rs 26 a day.

The capping of loan at Rs. 50000 should also be raised since the loan has seemed to be the primary motivator of income generating activities &thereby savings, an increment in the amount of loan may provide enhanced chances of having more savings &growth. Some new alternative can be thought about to boost the growth of credit. Amount of loan sanctioned can be on progressive basis linked with repayment cycle. Also rate of interest should be based on regressive basis.

In nutshell in order to ensure the growth of the economy the growth of each and every section of the society is to be ensured and this is possible only when the poorest of poor have access to & a participation in its financial system.

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Remark

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