

## **Role of Micro Finance in Financial Inclusion to help Self Employability**

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### **Abstract**

*Micro-finance can be referred as a financial service for people of rural and urban areas where the small amounts of money are distributed for doing agriculture and other supporting non-enterprise kind of activities and self-employment. MFIs are having a great role in funding the SHGs and both MFIs and SHGs are liable to take part in the growth of financial inclusion in the country. This present study will elaborate this relationship in the context of Madhya Pradesh. This Study is based on secondary data and results are obtained from MS-Excel.*

**Keywords:** MFIs, SHGs, Financial Inclusion, Financial growth.

## **Introduction**

The concept of microfinance in the country started in the early years of 14 century and at that time it was present in the form of collective lending. At the initial level the drive of micro-finance was limited to the rural areas of some European countries and that too in an informal manner. It took almost 150 years to bring micro-finance under the legal and regulatory framework. By the end of 16<sup>th</sup> century and in the starting years of 17<sup>th</sup> century most of the European countries initial communal funds were developed and the source amount was used for the development of agriculture in the country. Siebel (2008) stated that as far as India is concerned it all started in 1970 with the establishment of first Grameen Bank by Mohd. Yunus and since then more than 1236 microfinance institutions have emerged in the country.

The Micro-credit summit held in 1997 defines micro-finance as:

*It is a process by which the poor and deprived and section of the society is able to get appropriate credit or help for self-employment, this process also includes savings and technical assistance.*

Then in 1999 NABARD stated that:

*The micro-finance is able to lay down the provision of credit and related financial services to the rural and urban poor, this will raise the income level of incumbent and even improve the living standard of people.*

Dr. Kaladhar (2013) defined microfinance as:

*Micro-finance can be referred as a financial service for people of rural and urban areas where the small amounts of money are distributed for doing agriculture, herding and supporting non-enterprise kind of self-employment.*

Micro-finance groups like SEWA and MYRADA are working in the rural areas of the country since 1970 and today they had emerged as big organization and serving a number of states in the country. The next level as the establishment of SHGs (*Self Help Groups*) in the country and later on these SHGs were linked to a number of banks under the SBLP (*Self Help Groups-Banks Linkage Program*) and the process of the same was monitored and governed by NABARD. More

than 500 SHGs were linked to bank under this program till the end of 20th century. Here it is important to mention that NGOs all across the country played an important role in the development of micro-finance at this level. Other than this schemes like SGSY(*Swarnajayanti Gram SwarozgarYojana*) in 1999 and NRLM (*National Rural Livelihood Mission*) in 2013 helped in development of micro-finance in the country.

## **Financial Inclusion in Present times**

**C. Rangarajan** (*former governor of RBI*) stated that financial inclusion in India can be understood on the basis of following facets:

- Financial inclusion will be able to provide credit to farmers and rural households as a matter of fact this drive is more important for marginal and sub-marginal farmers and other borrowers in the rural areas,
- it is advised to the rural branches of all the commercial banks they are officially liable to provide service to the people registered under the scheme of financial inclusion, more than that they are also required to provide a helping hand to respective farmers,
- if it is required then more branches should be opened in the rural areas but it should be taken care of that not a single eligible candidate is left behind,
- the procedure of financial inclusion is easy but then again it should be made clear to all the incumbents, so that people from the deprived section of the society should not consider it as an alien activity and avoid it,
- The S-BLP (*Self Help Groups-Banks Linkage Program*) should be given more thrust and more possibilities should be added to the same so that it becomes a great success.
- In order to monitor the dues in incumbent's account, it is required that the respective business correspondents or the facilitators should pay attention and govern the respective flow of money.

In a country like India, where the population is just next to China and growth rate is just above the nearest Asian country, financial inclusion was the only remedy to uplift the people from the deprived section of the society, especially in the rural areas. It was the sole initiative of RBI, where the chosen individuals were provided with 'zero' balance saving accounts in banks and

every benefit of government schemes may directly credited to this account. This will help to realize the interest of people in certain schemes and intermediaries and agents will be removed. The main objective of this scheme was to widen the scope of financial system of the country and include the rural poor in the main stream of national financial system.

### **Linkage between MFI and Financial Inclusion**

Since the start of 21<sup>st</sup> century many of the national and international banks are joining hands with established MFIs in the country, even some of the foreign ventures are based on MFI. To a greater extent these ventures are in the form of partnerships and these partnerships are based on sole motive of increasing business reduce the default rate. As per the reports of **Micro-finance in India, 2013-14** agencies are considering the MFI/S-BLP ventures for investments and growth of business. Apparently in the rural areas the easy availability of credit from SHG and successful implementation of schemes like PMJDY (*PradhanMantri Jan DhanYojna*) has attracted a lot many of foreign ventures in the rural areas of the country.

This present study will evaluate the role of microfinance in financial inclusion and also throw some light on the establishment and advantage of micro-finance in the country as far as financial inclusion is concerned.

### **Literature Review**

**Parhusib et al (2012)** conducted a study on the legal and regulatory framework of micro finance institutions in the country and the results of the study stated that the MFI are responsible to credit distribution in the country and they are majorly responsible for serving the rural poor and other deprived section of the society. The findings of the study also stated that there is a need to revise the credit terms and provide subsidies on prevailing credits.

**Kahakiet al (2014)** conducted a study to evaluate the scale of micro-finance in the country, the findings of the study stated that there is a need to improve the scale of operation for MFIs in the country and also to review the regulatory framework of the same. This has to be done in the view to make the suitable infrastructure for national and international ventures and overall growth of the sector. As a matter of fact these initiatives will certainly support the drive of financial inclusion in the country and a new dimension of economic development can be discovered.

**Raya et al (2016)** evaluated the role of NGOs in the development of MFI in the country, the objective of the study also include the dimension of financial inclusion in this respect. Findings of the study stated that many of the SHGs in the rural areas are governed and run by rural women and they are more organized than any other agency, at this note if proper facilities and amenities are provided to these groups then they can act as individual agencies and support the drive of financial inclusion in the country. Here comes the role of NGOs as they are non-profit organizations and their support can widen the scope of operation of these SHGs and will also help in adding more members.

**Sanjay et al (2017)** conducted a study on the role of MFI in women empowerment, findings of the study stated that in the state of Andhra Pradesh MFIs have reached the most remote areas and added members, this has given rise to small SHGs that are directly linked to respective MFI for regulations and front line operations. Even the idea of micro-enterprise prevailed in the rural areas of the stated and women incumbents were directly benefitted.

## **Objectives**

The main objective of the study is to evaluate the role of micro-finance in the national drive of financial inclusion and to throw some light on the performance of MFI in rural areas.

## **Hypothesis**

H<sub>0</sub>: There is a significant role of microfinance in the financial inclusion.

H<sub>1</sub>: There is no significant role of micro-finance in the drive of financial inclusion.

## **Research Methodology**

### ***Population and sample selection***

This study is a mix of primary and secondary data. The researcher has considered the secondary data for the growth of MFIs in the country and specifically in the state of Madhya Pradesh.

The respective sample of the study is 100 respondents from the rural areas connecting to Bhopal.

### ***Data sources***

The researcher has considered the following sources for secondary data:

- Statistical Handbook of MP (2017-2019)
- Report of RBI for MFIs in India
- Reports of NABARD for regulatory framework

### ***Tools of Analysis***

Percentage, average, charts are used to elaborate and analyze data and MS-Excel is used to describe the collected data.

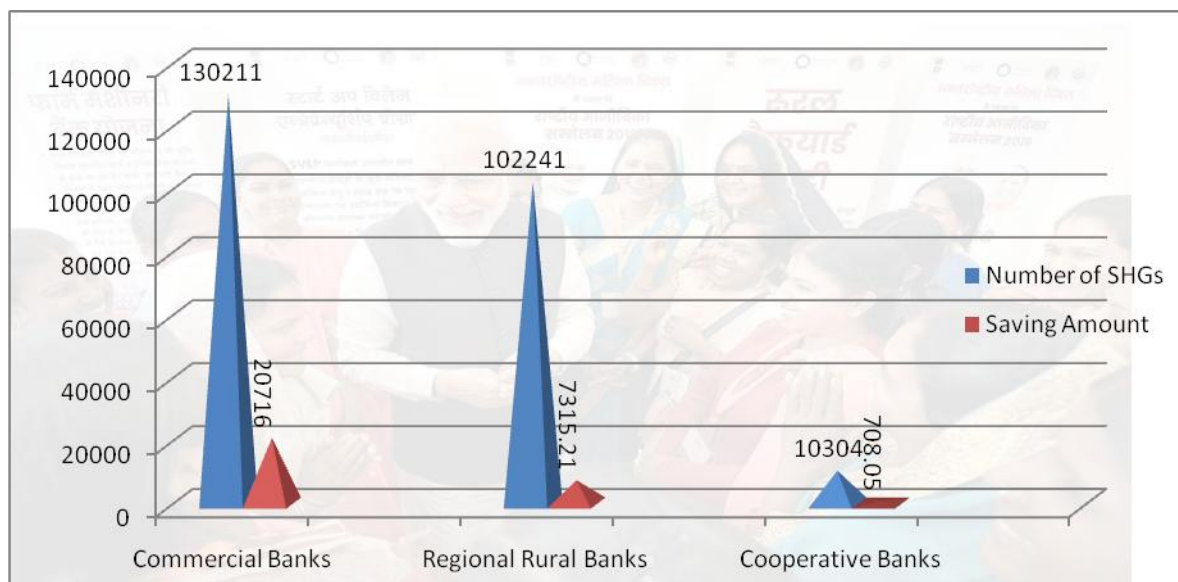
## **Data Analysis and Interpretation**

**Table 1: Savings at the level of SHGs (in Lakhs)**

<b>Commercial Banks</b>		<b>Regional Rural Banks</b>		<b>Cooperative Banks</b>	
<b>Number of SHGs</b>	<b>Saving Amount</b>	<b>Number of SHGs</b>	<b>Saving Amount</b>	<b>Number of SHGs</b>	<b>Saving Amount</b>
130211	20716	102241	7315.21	10304	708.05

### **Interpretation**

As can be seen from the above table that highest amount of savings are being done in commercial banks then at the second level there are regional rural banks and then the cooperative banks, this is an indication that most of the respondent groups have opened their SHG accounts in the commercial banks, as a matter of fact many of the respondent groups were from urban and semi-urban areas. RRB and cooperative banks are preferred by the people living in rural areas. In case of commercial banks/private bank, ICICI is the best performer and for cooperative banks JilaSehkariKendriya Bank Maryadit is the best option.



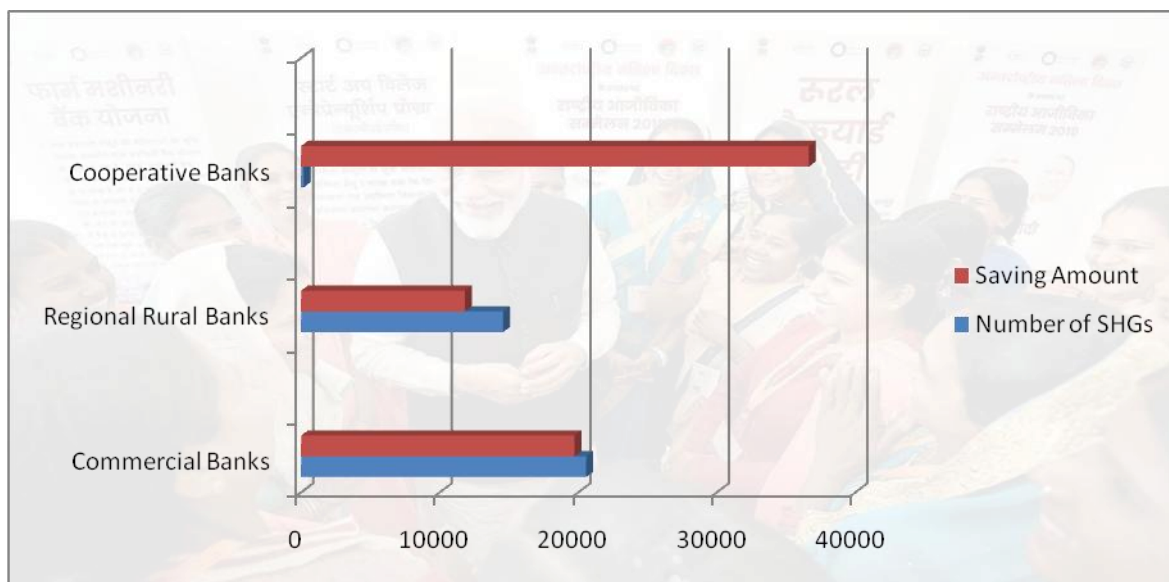
**Figure 1: Savings at the level of SHGs (in Lakhs)**

**Table 2: Distributed Bank Loans (in Lakhs)**

Commercial Banks		Regional Rural Banks		Cooperative Banks	
Number of SHGs	Loan Amount	Number of SHGs	Loan Amount	Number of SHGs	Loan Amount
20586	19742.56	14587	11829.65	193	36657

### Interpretation

As far as Madhya Pradesh is concerned, it is far behind the neighboring states i.e. West Bengal, Andhra Pradesh, etc. but then again NABARD is taking all the steps to refuel the situation. Here we can see that Narmada Jhabua Gramin bank is one of the most preferred source of loan disbursement. Then at the next level Central bank of India is the most preferred bank in case of commercial banks. Here it is important to mention that still there are many districts that are waiting to be assimilated in the drive of SHG formation, some of such districts are Rewa, Satna, Jhabua, etc.



**Figure2: Distributed Bank Loans (in Lakhs)**

**Table 3: Non Performing Assets (in Lakhs)**

Commercial Banks		Regional Rural Banks		Cooperative Banks	
NPA	NPA as % of outstanding	NPA	NPA as % of outstanding	NPA	NPA as % of outstanding
6854.38	31.08	4109.56	28.62	243.74	91.88

### Interpretation

As it is visible from the above given table that highest amount of NPAs are generated from Commercial banks and specifically in public sector, the reason for the same can be the reach of such banks are regional and rural level and their role in the drive of financial inclusion. As per the norms of RBI, the NPAs for any given bank should be below 3% of total loan outstanding but in MP this rate is higher than expected. If we consider the regional rural banks then Central M.P. Gramin Bank is showing the highest percentage of NPAs and JilaSahkari Bank, Jhabua is at the second level of NPAs.



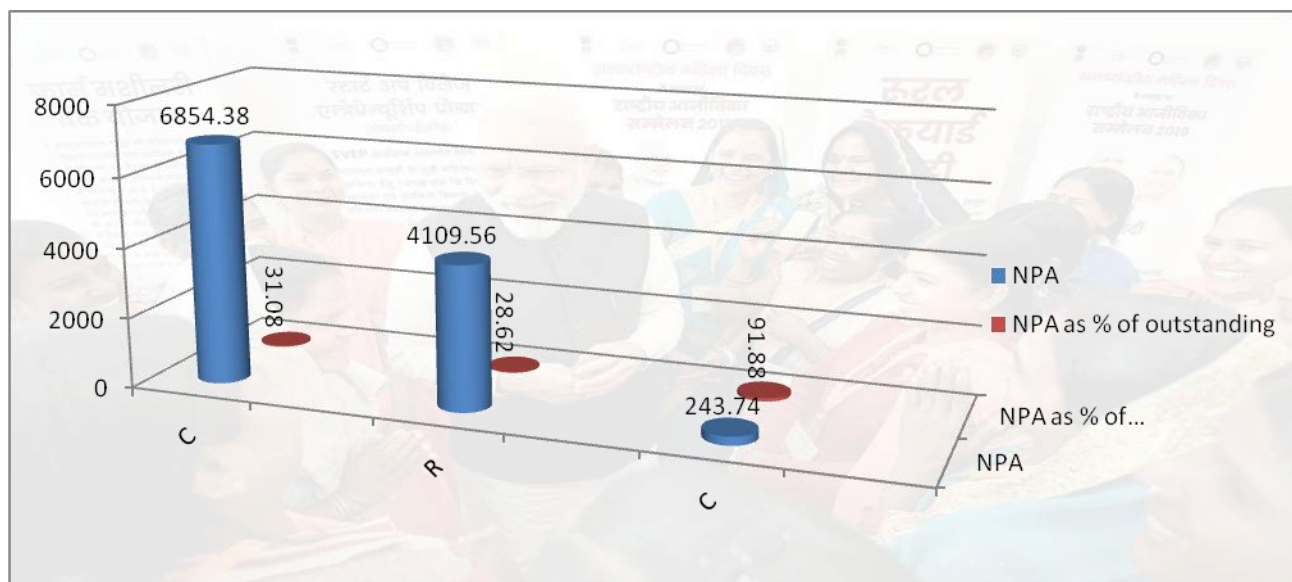


Figure 3: Non Performing Assets (in Lakhs)

Table 4: Performance of MFIs in Madhya Pradesh

2010		2015		2019	
Clients	Loans	Clients	Loans	Clients	Loans
175662	8547	412597	23667	441593	29775

### Interpretation

The growth of MFIs is great in terms of Madhya Pradesh and the same is visible from the above table also. This shows the efforts of the respective agencies in terms of increasing client base and number of loans in the particular time period. As a matter of fact, despite this notable growth of MFIs in the state many of the poor people from deprived section of the society are still waiting to be added in the main stream financial system of the country. Apparently there is more than 100% growth of MFIs in the state during the study period. The researcher also observed that there are a number of problem face by the agencies in the respective geographical locations.



**Figure 4: Performance of MFIs in Madhya Pradesh**

## Conclusion

As far as the state of Madhya Pradesh is concerned, MFI and SHGs both are in the growth stage and it will take time to spread the coverage in entire state. As per the results of above analysis and interpretation it can be said that the growth is comparatively slow but at the individual level state agencies are working hard to meet the parameters. It can be said that the promotion of MFIs and SHGs in Madhya Pradesh is not appropriate as many of the incumbents are not aware of the benefits of getting registered in SHGs. Then on the other hand the level of NPA is also increasing which shows that in order to meet the targets of financial inclusion banks are taking all the measures. Here it is important to mention that the respective philosophy of financial inclusion is based on the success of financial institutions of the country and all the banks i.e. commercial banks, cooperative banks, private banks and the regional rural banks are liable to take active part in the drive of financial inclusion. The results show that private banks like ICICI are at the top of the list for taking part in the drive of financial inclusion.

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