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STATUS & CONTRIBUTION OF MICROFINANCE IN BUILDING AN INCLUSIVE FINANCIAL SECTOR IN INDIA

Ms Prerna Trivedi*

Dr. Adeel Maqbool**

Abstract

There have been debates, discourses, and numerous interventions to make financial inclusion a reality. Approaches towards financial inclusion are changing from time to time though the spirit remains intact. Financial inclusion is aimed at providing composite formal financial services to the excluded population, thereby impacting lives and livelihoods of poor, and alleviation of poverty etc. These services include safe savings, credit for multiple purposes, insurance, pension, remittances and most importantly, basic financial literacy for making suitable financial decisions. It is believed that reaching out to the vast segment of excluded population into the mainstream financial architecture of the country will not only impact the lives of the poor but also lead to economic well being of the nation. The Government of India and the Reserve Bank of India and has taken a number of initiatives from time to time to promote financial inclusion. Recently, the Reserve Bank of India has created the Financial Inclusion and Development Department to cater to the needs and challenges of financial inclusion. Aim of this paper is To examine the progress & innovations of financial inclusion. The role of RBI ,NABARD & govt. in financial inclusion and the contribution of microfinance & SHGs in financial inclusion.

* **Research Scholar,Integral University, Lucknow**

** **(HoD),Department of Business Management Faculty of Management & Research Integral University, Lucknow**

Introduction

India is a developing country, where majority of the population resides in rural areas and for the rural development, poverty reduction needs to be the focus of all development programs. The basic cause of the problem of poverty has been the found to be the economic dependence and lack of access to the credit. Poor have been considered to be non bankable. They are deprived of the basic financial services in the lack of saving and collaterals to be offered to the finance provider. Consequently, the poor have to depend upon the informal channels of finance like private moneylenders who generally, exploit them in the name of financial help and often, lead to lifetime indebtedness among the borrowers. Development of an efficient financial services system is key enabler of capabilities which affects how well individuals can manage life cycle needs and also affects the functioning of enterprises and their prospects of growth. More broadly, it affects the extent of entrepreneurship and of competition. India is underserved by financial services on every parameter. More than 40 percent of households avail no banking service at all. The ratio of total bank credit outstanding to GDP is only about 57 percent as against over 140 percent in East Asia and Pacific. Insurance premium account for less than 1 percent of GDP, which is only about a third of international average (Govt. of India, 12thPlan, Document, Planning Commission).Census of India (2011Census) 58.7 Percent households availing formal banking service in India, out of this 54.44% in rural, 67.77% urban households availing banking services, in rural areas more than 45 percent households faraway or not available any banking services. More than 41 percent households throughout the India, they are excluded from the formal banking services. Especially those states Bihar, Odisha, MadhyPradesh, WestBengal, Chattisgarh, more than 50 percent households excluded from the formal banking services, in the case of north-estran states comprise(Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, Assam) average 47.6% households availing banking services.(Rao & Priyadarshini)

Financial inclusion is aimed at providing composite formal financial services to the excluded population, thereby impacting lives and livelihoods of poor, and alleviation of poverty etc. These services include safe savings, credit for multiple purposes, insurance, pension, remittances and most importantly, basic financial literacy for making, suitable financial decisions. It is believed that reaching out to the vast segment of excluded population into the mainstream financial architecture of the country will not only impact the lives of the poor but also lead to economic well being of the nation.

Financial inclusion has been of importance to policymakers due to its potential to contribute to key development objectives such as economic growth and increased welfare. Without access to formal financial services, poor and low income families have to rely on informal mechanisms for their financial needs: family and friends, informal groups, moneylender, money hoarding at home. Though these informal mechanisms represent important and viable value propositions, often, they are insufficient, unreliable, and very expensive. Financial exclusion tends to impose large opportunity costs on those who most need these services (CGAP 2014). While initiatives to expand financial services are in progress across banking institutions and states, whether the services are offered in a manner designed to protect customer interests and prevent harm being done to ill-informed customers through inappropriate products and services.

The Government of India and the Reserve Bank of India and has taken a number of initiatives from time to time to promote financial inclusion. Recently, the Reserve Bank of India has created the Financial Inclusion and, Development Department to cater to the needs and challenges of financial inclusion.

The biggest challenge before the RBI (for achieving financial inclusion)is that how to provide banking services in the hinterland like these areas and how to minimize high operational costs associated with the low value large volume transactions. The recent study concludes that the context of the availability and accessibility of the basic financial services is low, they states that More than One billion poor people have no access to basic financial facilities, which are essential for them to manage their precarious lives(Parida and Bandhu: 2012). In the case of rural India money lenders and other non-institutional financial sources still dominated. A study conducted by the (World Bank-NCAER Survey:2003) on „Rural Access to Finance" indicate that 70 percent of the rural poor do not have a bank account and 87 percent have no access to credit from a formal source. This study found in the case of Andhra Pradesh and Uttar Pradesh in terms of informal sector landings 21% rural household have access to formal sector credit, although as much as 41% had a deposit account in a formal institutions. Informal sector lenders remain a strong presence in rural India(Basu and Srinivastava:2005) Delivering other financial services such as savings accounts, life health and crop insurance also remains limited for the rural poor. In this situation microfinance as emerged to expanding financial services to the large population that remains largely excluded from the conventional financial system. The basic objective of the microfinance to provide basic financial services to the rural poor, women without collateral assurance. Microfinance institutions (MFIs) have expanded rapidly in recent years.

According to the Microcredit Summit Campaign, micro finance institutions had 154,825,825 clients, more than 100 million of them women, as of December 2007. In 2006, Mohammad Yunus and the Grameen Bank were awarded the Nobel Prize for Peace, for their contribution to the reduction in World Poverty. At the end of 2009, there currently are more than 3,100 microfinance institutions (MFIs) were providing microcredit over 128 million people in the world. Over 100 million loans to poor families and their businesses, many of which explicitly aim to increase economic development and lift their clients out of poverty (Banerjee and Duflo: 2010. Microcredit Summit: 2009). Microfinance outreach and impact in the Indian context, The number of self-help groups (SHGs) savings linked increased to about 7.5 million with a member base of 98.1 million.(for detailed see the table no.8). The SHG bank linkage programme (SBLP) and the microfinance institutions (MFIs) put together achieved a growth in their customer base by about 10.8 per cent. The combined borrowing customer base increased to 93.9 million (Srinivasan: 2011) The introducing of microfinance programme increased the borrowing options for the rural poor and it is supposed to work as a weapon to alleviate poverty and to save the rural poor from the clutches of moneylenders. Participation in SHGs (Self-Help Groups) has improved the access of women to credit. The access to credit has helped women to meet their consumption as well as production needs. Supporters of microcredit believe that, among other effects, it alleviates poverty, creates self-employment, promotes gender equality, empowers women (usually microcredit targets women as clients), and helps achieving universal primary education. The concentration of this programme is mainly on the women borrowers and this will brought out the improvement of their position in families and societies because of the economic independence gained by them participating in these institutions. The women have invested the credit obtained from SHGs in new economic activities and/or strengthening the old activities. They have contributed to the occupational diversification at the house-hold level. The non-agricultural activities undertaken by the women helped the households to obtain income from low risk activities. Thus, the quality of income of the households has gone up.

Micro-credit programmes and Microfinance institutions have generated a positive impact on the number of days of family employment. The quality of employment, indicated by shift from wage to self-employment, of women as well as their families (when the other family members also participated in the activity undertaken by the women) is enhanced. „All these indicate that the incomes of the poor have increased and as a result the intensity of poverty (poverty gap) among the poor has come down. The women acquired some non-land assets; health, nutrition and education status of children has improved. The reduction of gender inequalities is also recorded to some extent (Galab and Rao: 2003. Chavan and Ramakumar: 2002).

Many studies empirically proved microfinance as an effective intervention towards poverty and reducing the role of money lenders by empowering women borrowers. The main objective of micro finance system in India is to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility and sensitivity and responsiveness of the informal credit system with the strength of the technical and administrative capabilities and financial resources of the formal financial institutions.

The overall approach to financial inclusion being what it is currently, microfinance is no longer a sector exogenous to the country's financial system, but a distinct methodology of delivering rather limited financial services. The delivery of microfinance happens under multiple organizational identities that are governed by diverse legal regulations. Thus, the microfinance sector in India is an amalgam of diverse organizations that are critically dependent on the financial system players for their sustenance. The introducing of microfinance programme increased the borrowing options for the rural poor and it is supposed to work as a weapon to alleviate poverty and to save the rural poor from the clutches of moneylenders.

Objectives:-

To identify the plan progress & innovations of financial inclusion.

To examine the role of RBI ,NABARD & govt. in financial inclusion.

To Analyze the contribution of microfinance & SHGs in financial inclusion.

Financial inclusion:-

Financial inclusion was defined as the process of ensuring access to appropriate financial products and services needed by 'all' sections of the society in general and vulnerable groups such as 'weaker sections and low income groups' in particular at an 'affordable cost' in a 'fair and transparent manner' by mainstream institutional players. The defining statement, however, on financial inclusion in the Indian context was provided by the Report of the Rangarajan Committee on Financial Inclusion (2008),3 which stated: the essence of financial inclusion is in trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, etc. (Emphasis added) The Department of Financial Services of the MoF, which steers the financial inclusion plans (FIPs), however, provides a more generic interpretation— extension of financial services to the large hitherto un served population to unlock growth potential and achieve more inclusive growth.

Evaluation of Financial Inclusion Plans:-

The RBI created a conducive and enabling environment for access to financial services to extend door step banking facilities in all the unbanked villages in a phased manner. A structured and planned approach to financial inclusion was followed wherein banks prepared Board approved Financial Inclusion Plans (FIPs) congruent with their business strategies for a three-year period 2010–13 (Figure 2.1). The penetration of banking services in the rural areas increased to a great extent during the first phase, when 74,414 unbanked villages with population more than 2,000 were identified and allotted to various banks through State Level -Bankers' Committees (SLBCs) for coverage through various modes, such as branches, BCs, ATMs, and satellite branches. All these unbanked villages have been covered by opening banking outlets comprising 2,493 branches, 69,589 villages covered by BCs with 2,332 villages covered through other modes. In order to continue with the process of ensuring meaningful access to banking services to the excluded, banks were advised to draw up fresh three-year FIPs for 2013–16. Banks were also advised to ensure that the FIPs prepared by them were disaggregated and percolated down to the branch level so as to ensure the involvement of all the stakeholders in financial inclusion efforts and also to ensure uniformity in the reporting structure under FIPs. The focus under the new plan thus was more on the volume of transactions in the large number of accounts

opened.

In Phase II, under the roadmap for provision of banking outlets in unbanked villages with population less than 2,000, about 4,90,000 unbanked villages have

been identified and allotted to banks for coverage in a time-bound manner by 31 March 2016. RBI is closely monitoring the progress made by the banks under the

roadmap. By March 2014, according to reports received from State-Level Bankers' Committees (SLBCs), banks had opened banking outlets in 1,83,993 unbanked villages, comprising 7,761 branches, 1,63,187 BCs and 13,045 through other modes. However, villages covered by all modes still only represent less than 38 per cent of total unbanked villages. Undoubtedly the balance of smaller

and more scattered and remote villages that remain to be covered will pose a greater challenge than experienced ``thus far in order to achieve the ambitious nature of the target of full coverage by March 2016.2 However, it has been observed that the accounts opened and the banking infrastructure created has not

seen substantial operations in terms of transactions. A brief review of the performance of banks under FIPs up to 31 March 2014 (Table 1) reveals the following:

Table 1: Performance Evaluation of Financial Inclusion Plans of Banks

Particulars	**31 March 2010**	**31 March 2013**	**31 March 2014**	**Progress— April 2013 to March 2014**
Banking Outlets in Villages—Branches	33,378	40,837	46,126	5,289

Banking Outlets in Villages—Branchless Mode	34,316	2,27,617	3,37,678	1,10,061
Banking Outlets in Villages—Total	67,694	2,68,454	3,83,804	1,15,350
Urban Locations covered through BCs	447	27,143	60,730	33,587
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	100.8	126	25.2
Basic Savings Bank Deposit A/c through branches (Amt. in Rs. billion)	44.3	164.7	273.3	108.6
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.3	81.3	116.9	35.7
Basic Savings Bank Deposit A/c through BCs (Amt. in Rs. billion)	10.7	18.2	39	20.7
BSBDAs Total (No. in million)	73.5	182.1	243	60.9
BSBDAs Total (Amt. in Rs. billion)	55	182.9	312.3	129.3
OD facility availed in BSBDAs (No. in million)	0.2	4	5.9	2
OD facility availed in BSBDAs (Amt. in Rs. billion)	0.1	1.6	16	14.5
KCCs—(No. in million)	24.3	33.8	39.9	6.2
KCCs—(Amt. in Rs. billion)	1,240.1	2,623	3,684.5	1,061.5
GCC—(No. in million)	1.4	3.6	7.4	3.8
GCC—(Amt. in Rs. billion)	35.1	76.3	1,096.9	1,020.6
ICT A/Cs—BC—Transaction (No. in million) (during the year)	26.5	250.5	328.6	328.6
ICT A/Cs—BC—Transactions (Amt. in Rs. billion) (during the year)	6.9	233.9	524.4	524.4

Source: RBI (2014).
Note: Figures in column 5 might not tally due to rounding off of numbers.

The number of banking outlets has gone up to nearly 3,84,000. Out of these, 1,15,350 banking outlets were opened during 2013–14.

• Nearly 5,300 rural branches were opened during the last one year. Out of these, nearly 4,600 branches were
opened in unbanked rural centres (Tier V and Tier VI centres).

• Numbers of Business Correspondents have increased from 34,532 (end of FY 2010, i.e., 31 March 2010) to 337,678 (end of FY 2014). Nearly 33,500 BC outlets were opened in urban locations during the year taking the total number of BC outlets in urban locations to 60,730 as at the end of March 2014. Recognizing the special needs of the excluded urban population, under the PMJDY urban financial exclusion has been given special emphasis.

• More than 60 million basic savings bank deposit accounts (BSBDAs) were added during the 2013–14 taking the total number of BSBDAs to 243 million. Farm and non-farm sector credit cards continue to expand at a steady pace. With the addition of 6.2 million small farm sector credits during 2013–14, there were 40 million farm accounts [Kisan Credit Cards (KCC)] as on 31 March 2014. Besides, with the addition of 3.8 million small non-farm sector credits during 2013–14, there were 7.4 million non-farm accounts [General Credit Cards (GCC)] as on 31 March 2014.

Financial Literacy

An integrated approach has been adopted for achieving financial inclusion through financial literacy. As part

of RBI's financial literacy strategy the financial literacy centres (FLCs) and rural branches of Scheduled Commercial Banks are advised to undertake financial literacy activities in the form of awareness camps at least once a month. The Reserve Bank has advised all banks including RRBs to use the financial literacy material as standard curriculum to impart basic conceptual understanding of financial products and services. A review of the progress made by FLCs reveals that 514 centres were added during 2012–14 taking their total number from 428 as at end of March 2012 to 942 as at end March 2014. These FLCs are creating awareness about banking products and services through indoor and outdoor activities. During the year 2013–14 over 3.8 million persons participated in these activities. A quick study of FLCs conducted in 46 districts of 23 states in October 2013 covering 730 participants who had attended financial literacy camps during the last year revealed that almost all the participants (99 per cent) had got linked to the formal banking system. Savings account (89 per cent) was the most used banking product and 44 per cent of the participants had availed of credit products.

INNOVATIONS IN FINANCIAL INCLUSIONION

Role of NABARD

NABARD Funding for Financial Inclusion The apex agencies such as NABARD have supported the integration of regional rural banks and cooperative banks into the core banking system (CBS) and have also supported initiatives to ground BCs in these agencies apart from initiatives focusing on Information and Communication Technology (ICT) and universal financial literacy. NABARD continued to manage two dedicated funds i.e., (i) Financial Inclusion Fund (FIF) for meeting the

cost of developmental and promotional interventions and (ii) Financial Inclusion Technology Fund (FITF)

for meeting the cost of technology adoption for financial inclusion. With effect from 01 April 2012, the relative margin (interest differentials) available to NABARD in excess of 0.5 per cent in respect of deposits placed by banks under RIDF and STCRC is being credited to FIF/ FITF. Th e position of contributions/accruals to the FIF was Rs. 17,618.7 million and FITF was Rs. 2,030.4 million as on 31 March 2014. As on 31 March 2014, the cumulative sanctions under FIF and FITF were Rs. 5,028 million and Rs. 4,084.5 million, respectively, against which, disbursements were Rs. 1,353.5 million and Rs. 2,215.5 million, respectively.

The Micro Finance Development and Equity Fund (MFDEF) was closed on 31 March 2013 and the activities
being financed by it are now being covered under FIF. There is a proposal to further merge the **FIF and the FITF. The major initiatives under FIF have been:**

(i) support to cooperative banks and RRBs for setting up financial literacy centres

(ii) assistance to RRBs for demonstrating banking technology

(iii) support for migration of data of PACS to CBS of cooperative banks

(iv) financial education and literacy programmes in schools7 and through common service centres

The major initiatives under FITF have been:

(i) ICT solutions for RRBs adopting BC/ BF model

(ii) Support for CBS of weak RRBs

(iii) Assistance for CCBs and RRBs for RuPay KCC and RuPay Debit Card and for purchase of additional

PoS devices (Box 2.2)

(iv) Support to RRBs and cooperative banks for ATM inter-change charges

Government Initiatives

Several government initiatives have been launched in support of financial inclusion that have served to provide

effective and cost-efficient means of promoting the access to and use of financial services by poor and unbanked families. In this effort, government departments are involved as enablers in the use of communications and information technology to facilitate direct benefit transfers and a range of financial and non-financial services. Two of the most promising innovations are described below.

(a) Common Service Centres and Financial Inclusion National e-Governance Plan (NeGP) is being implemented with the objective of creating transparent and accountable governance. To achieve this mission, the Department of Electronics and Information Technology (DeitY), Government of India is rolling out Common Service Centres (CSCs) on a Public- Private-Partnership (PPP) model. The goal of the CSC Project is to empower rural communities and catalyze social change through application of ICT-based modern technologies. A Special Purpose Vehicle (SPV) named 'CSC e-Governance Services India Ltd' has been incorporated under the Companies Act 1956 to enable services through the CSC network. The CSC ecosystem comprises of about 1,40,000 Village Level Entrepreneurs (VLEs) spread across the country, 30 Service Center Agencies (SCAs) and 35 State Designated Agencies (SDAs). As on 31 May 2013, 1,29,266 CSCs were operational in thirty three (33) states/union territories The CSCs provide the following services for financial inclusion: (i) financial inclusion banking; (ii) insurance; (iii) loans; (iv) pension and others. Financial inclusion has started in the states of Andhra Pradesh, Jammu and Kashmir, Madhya Pradesh, Meghalaya, Maharashtra, Tripura and Uttar Pradesh.

Samriddhi Pro-poor Model, Madhya Pradesh8 Samriddhi9 is a financial inclusion model of government of Madhya Pradesh through which in addition to routine banking facilities, people are getting benefits from various central government schemes such as pensions for BPL families, senior citizens, destitute, disabled persons and widows and state government's economic assistance and pension benefits directly to their bank accounts. The model has come up with ultra-small bank branches or customer service points as the front end for opening bank accounts, transactions and ensuring last mile connectivity to ensure timely and accurate payments to beneficiaries. The model has also pooled in non-core banking financial institutions like the post offices and cooperative banks to transfer the benefts and financial services. According to the latest data, the model has resulted in the opening of 76.5 lakh bank accounts in the state. For this, 14,697 un serviced villages were identified where banking services were not available within 20 to 70 km and a drive was launched to open 2,998 USBs. These banks which were opened in 2,400 small villages across the state have transacted business worth Rs. 18 billion.11 Samriddhi model has received a lot of attention from other states and the central government has decided to implement the Madhya Pradesh model in the entire country.

'Jeevika' programme being implemented in Bihar by the Bihar Rural Livelihoods Promotion Society (BRLPS). Under Jeevika (Appendix 5.2), an integrated model of financial inclusion has been initiated involving SHGs. The model has been extended to 20 blocks in nine districts. It aims at providing financial literacy and credit counseling to SHG members to begin with. The pilot is based on the indigenous model of taking the services of

‘Vitta Mitras’ or ‘Community Resource Persons for Financial Services’, who are SHG women members. They reach out to the community by sharing information about financial services on a person-to person basis.

PRADHAN MANTRI JAN-DHAN YOJANA MISSION OBJECTIVES AND APPROACH TO IMPLEMENTATION23

Th e experience innovations described in previous sections have fed into the newly launched Pradhan Mantri

Jan-Dhan Yojana (PMJDY). The PMJDY seeks to ensure access to various financial services like availability of basic savings bank account, access to need-based credit, remittances facility, insurance and pension to the excluded sections, i.e., weaker sections and low-income groups. This deep penetration at affordable cost is possible only with the effective use of technology The Mission plan envisages providing a bank account to every household in the country and make available within 5 km distance of each village basic banking services facilities, i.e. (i) opening of bank account with RuPay debit card and mobile banking facility, (ii) cash withdrawal and deposits, (iii) transfer, (iv) balance enquiry and (v) mini statement. Other services are also to be provided in due course in a time-bound manner apart from financial literacy to make citizens capable of optimum utilization of available financial services. Comprehensive financial inclusion (FI) under the mission is based on six pillars indicated as follows. These are proposed to be achieved in two phases as under:

(a) Phase I (15 August 2014–14 August 2015)

1. Universal access to banking facilities.
2. Providing basic banking accounts for saving and remittance and RuPay debit card with in-built accident insurance cover of Rs. 1,00,000 and RuPay card.
3. Financial literacy programme.

(b) Phase II (15 August 2015–15 August 2018)

4. Overdraft facility of up to Rs. 5,000 after six months of satisfactory performance of saving/credit history.

(A Credit Guarantee Fund would be created for coverage of defaults in overdraft accounts.)

5. Micro-insurance.

6. Unorganized sector pension schemes like

Swavalamban. In addition, in this phase, coverage of households in hilly, tribal and difficult areas would be carried out. Moreover, this phase would focus on coverage of remaining adults in the households and of students. Under a comprehensive plan the mission proposes to channel all government benefits (from centre/state/ local bodies) available to the bank accounts of various beneficiaries and by pushing the Direct Benefits Transfer (DBT) scheme of the Union Government.

Micro finance

Microfinance best describes the idea of inclusive finance. The methodology of microfinance owes its genesis to global efforts to address the apparent imperfections in the financial services markets that particularly constrained poor households from fully participating in its functioning. Microfinance experiments in India had evolved through several phases over the past quarter of a century and have resulted multiple institutional models. SHGs, JLGs, federations, for-profit non-banking companies, non-profit NGOs and trusts, and mutually aided thrift and credit societies and all part of the microfinance sector in the country. While each such model has distinct working principles, they overlap each other in most of the markets. Collectively they have helped extend the reach of basic financial services to segments of population who were historically treated as outsiders to the mainstream financial markets. The savings-led model of SHGs and credit-led model of MFIs have both targeted these excluded sections served otherwise by high cost and exploitative informal agencies. Several enquiries have proven that microfinance has helped the poor build assets, enhance incomes and seek protection from external shocks Here we discuss the performance & contribution of two major components-SHGs & MFIs of microfinance sector in financial inclusion.

SHG–bank linkage (SBLP), PROGRESS AND PERFORMANCE

The SBLP has now completed more than 22 years of existence. Though SBLP is a savings-led and savings linked programme, its main thrust has been in the provision of microcredit. During much of this period, credit flow under SBLP grew uninterruptedly on account of support from public sector banks, NGOs and the implementation of government programmes of SHG promotion. However, the SBLP, which followed virtually an exponential growth path for around 18 years or so, has during the past three years shown signs of having levelled off. While the programme consistently performed better in the southern states, where conditions for its adoption were more favourable on many counts, the performance has been affected in these states as well.

Overall Performance

The progress of SBLP since 2010 is given in Table 2. The latest data (NABARD, 2014) shows a substantial

decrease of nearly 6 per cent in the number of SHGs with outstanding bank loans to 4.2 million at the end of March 2014 as compared to the previous year. This follows a small increase of 2 per cent during 2012–13 which to some extent had reversed the decline during 2010–12. The number, however, is far short of the peak

level attained with over 4.8 million SHGs as on 31 March 2010. The share of the southern states in SHG loan

accounts remained stable at around 53–54 per cent as on March 2014.

The volume of fresh loans issued by banks to SHGs during 2013–14 showed a significant growth of nearly17 per cent to reach Rs. 240.17 billion. This maintains the steady and substantial increase over the years building upon the over 24 per cent increase during 2012–13.

The average loan outstanding was Rs. 102,273 as on 31 March 2014 against Rs. 86,511 a year earlier. There was a 19 per cent increase in the number of SHGs getting loans from banks. This increase has been confined to a few states, mainly in the southern region. Despite significant growth (20.4 per cent) in bank savings of SHGs to nearly Rs. 99 billion, the number of savings-linked groups increased only marginally over

2013–14 with a consequent increase in average savings. At 7.42 million the total number of SHGs savings-linked to banks is still lower than that in March 2011

TABLE 2 Growth Trends in SHG Bank Linkage Program (SBLP)

Particulars	2010	2011	2012	2013	2014
No. of SHGs with outstanding bank loans	4,851,356	4,786,763	4,354,442	4,551,434	4,197,338
Of which in southern region	2,582,112	2,706,408	2,355,732	2,415,191	2,221,038
Share of southern region (%)	53	57	54	54	53
Share of SGSY/NRLM/Other govt. programme groups (%) 26	27	28	27	23	
Share of women's groups (%)	80	83	84	84	81
Loans disbursed to SHGs during the year (Rs. billion)	144.53	145.48	165.35	205.85	240.17
Average loan disbursed during the year per SHG (Rs.)#	91,081	121,625	144,048	168,754	175,768
Total Bank loan outstanding to SHGs (Rs. billion)	280.38	312.21	363.41	393.75	429.27
Average loan outstanding per SHG (Rs.)	57,794	65,224	83,457	88,455	102,273
Incremental groups with o/s loans (million)	0.63	(-)0.06	(-)0.43	0.10	(-)0.25
Incremental loans o/s (Rs. billion)	45.9	33.53	57.22	30.35	35.52
No. of SHGs with savings accounts with banks (million)	6.95	7.46	7.96	7.32	7.42
Total Savings of SHGs with banks (Rs. billion)	61.99	70.16	65.51	82.17	98.97
Average savings of SHGs with banks (Rs.)	8,915	9,402	8,230	11,229	13,321

Source: NABARD (2010 to 2014).
Note: # during the year ended 31 March.

The growth in SHG loan outstanding (9.0 per cent) is associated with a 6 per cent decline in the number of SHGs having outstanding loans with banks over the past one year. This anomalous situation is apprehended to

be the result of increased non-performing assets (NPAs) of SHG loans with banks. Indeed, as is discussed later,

NPA levels in most states have reached well in excess of 10 per cent. Annual growth rates of the major indicators of physical and financial progress of SBLP for the four-year period since 2010, the year of the AP crisis, confirm the impression of stagnation and decline (Tables 3 and 4).It is evident that both physical and financial performance of SHGs suffered during 2010–14. In the case of physical performance all indicators, except number of SHGs having bank savings, experienced negative growth as compared to the phenomenal increase during 2006– 10. There was a major deceleration in the growth rate of SHGs receiving loans and SHGs with loan accounts. The decline was sharper for the SGSY programme which was winding up before lending picked up under NRLM and other government programmes in 2013–14.

TABLE 3 Physical Performance of SBLP

Indicator	% Change				CAGR (%)	
	2010–11	2011–12	2012–13	2013–14	2010–14	2006–10
Number of SHGs having savings accounts with banks	7.3	6.7	–8.1	1.5	1.7	27.5
Number of SHGs receiving loans during the year	–24.6	–4	6.3	12.0	–3.7	26.4
Number of SHGs receiving loans during the year under SGSY/NRLM/Other						

govt. programmes	–9.9	–12.9	–13.8	24.7	–4.1	12.8
Number of SHGs with loan outstanding	–1.3	–9	2.2	–5.7	–3.6	18.7a
Number of SHGs with loan outstanding underSGSY/NRLM govt. Programmes	3.3	–5.4	–1.9	9.6	1.2	21.9a

Source: NABARD (2010 to 2014).
Note: For the period 2007–10.

TABLE 4 Financial Performance of SBLP

Indicator	% Change				CAGR (%)	
	2010–11	2011–12	2012–13	2013–14	2010–14	2006–10
Savings of SHGs with banks (Rs. billion)a	13.2	–6.7	25.4	20.5	12.4	26.9
Volume of loans disbursed to SHGs during the year# (Rs. billion)	0.7	13.7	24.5	16.7	13.5	33.8
of which under SGSY/NRLM/ other govt. programmes (%)	12.8	6.6	–16.5	57.7	12.2	16.25
Bank loans outstanding with SHGs (Rs. billion) (a)	11.4	16.4	8.4	9.0	11.2	31.3a
of which under SGSY/NRLM/ other govt. programmes (%)	25.2	2.9	6.7	18.4	13.0	24.2a

Source: NABARD (2010 to 2014).
Note: aFor the period 2007–10.

Savings Performance

The number of SHGs savings-linked with the banking system has grown steadily from 2007 since when record sare available, and had peaked at 7.96 million groups in2012. The number declined to 7.3 million as at the end of March 2013 (Figure 4.2) before increasing marginally to 7.4 million in March 2014 The total savings amount seems to have picked up momentum again in 2013 after a blip in 2012 (Figure4.3) to reach Rs. 99 billion in 2014. SHG savings as a proportion of bank loans outstanding to SHGs has been steadily growing. SHG savings now constitute over 23 per cent of outstanding loans—up from a little over 20 per cent in the previous year. This means that funding from SHG groups themselves accounts for nearly a quarter of the SHG lending portfolio of banks. It is also illustrative of the fact that SHGs have emerged not only as recipients of bank loans but also important contributors to resources being mobilized by banks

The average savings per SHG (Table 4.4) had registered an increase since 2012. Between 2012 and 2013 the average savings per SHG rose by nearly 36 per cent. It rose by another 17 per cent during 2013–14. As on 31 March 2014 average savings per SHG stood at Rs. 13,322, with the average SHG savings with commercial banks being Rs. 16,485.

NABARD SUPPORT FOR FINANCIAL INCLUSION THROUGH SHGs

NABARD spent a sum of Rs. 513.9 million during 2013–14 from FIF, Women Self Help Group (WSHG) Development Fund and Rural Promotion Fund (RPF) for various microfi nance-related activities such as formation and linkage of SHGs through SHPIs, training and capacity building of stakeholders, livelihood promotion, documentation, awareness and innovations, etc.4 Th is was up from Rs. 456.2 million the previous year. It continued to extend support to NGOs, RRBs, CCBs, Farmers' Clubs and Individual Rural Volunteers (IRVs) for promoting and nurturing SHGs. During 2013–14, grant assistance of Rs. 363.3 million was sanctioned to these agencies. Th e cumulative assistance sanctioned to various agencies was Rs. 2628.3 million for promoting 746,000 SHGs. Cumulative assistance of Rs. 790.4 million was released for formation of 499,000 SHGs as on 31 March 2014. Th e NGOs were the most dominant SHPI, forming more than 379,000 SHGs.

NABARD's special initiatives in backward regions included support to Rajiv Gandhi Mahila Vikas Pariyojana (RGMVP), a special initiative of the Rajiv Gandhi Charitable Trust (RGCT) for promotion and credit linkage of SHGs and formation of SHG Federations in select districts of Uttar Pradesh in association with participating banks. Under this project, as on 31 March 2014, 105,996 SHGs were promoted, of which, 34,417 SHGs were credit linked and 4,142 cluster level organizations and 115 block level organizations were also set up.

NABARD is the Lead Programme Agency for implementation of Women Empowerment and Livelihood Programme in Mid Gangetic Plains, known as 'Priyadarshini Programme'. With a total outlay of

US$32.73 million, the programme is assisted by International Fund for Agriculture Development (IFAD) and

Ministry of Women and Child Development (MWCD), GoI. It is being implemented in five districts of Uttar

Pradesh (Bahraich, Rae Bareli, Shravasti, Sultanpur and Amethi) and two districts of Bihar (Madhubani and

Sitamarhi). It envisages holistic empowerment of around 120,000 rural poor women and adolescent girls through formation and nurturing of around 12,000 SHGs over a period of eight years. NABARD engaged resource NGO for the purpose of capacity building of the programme staff and fi eld NGOs for implementation of the programme at the grass root level. A total number of 47 Community Service Centres, each covering about

200–250 SHGs have been set up in the programme area. The field NGOs have formed a total of 9,129

SHGs as on 31 March 2014, of which 6,861 SHGs have been savings-linked and 2,580 SHGs credit linked. An

amount of Rs. 39.5 million was released as seed capital to 3,122 SHGs. The scheme for promotion of women SHGs in backward/ Left Wing Extremism (LWE) affected districts is being implemented in association with GoI in 150 select districts spread across 28 states through Anchor NGOs. These Anchor NGOs work as SHPIs for promotion and credit linkage of SHGs with banks. They also act as business facilitator for tracking and monitoring the SHGs and are responsible for loan repayments. Under the scheme, around 149,000 women SHGs were savings linked and around 49,773 of these SHGs were credit linked as on 31 March 2014. A cumulative amount of Rs. 343.8 million was released as grant assistance out of the Women SHG Development Fund (WSHG) for various activities under the scheme.

MICROFINANCE INSTITUTIONS: PROGRESS AND PERFORMANCE

The microfinance institutions in India have evolved through different phases of crises and growth over the

years. A significant aspect of this evolution has been progressive movement towards formalization, regulation

and sustainability. the MFIs have improved their performance significantly in India during the past three years. The optimism kindled by a series of proactive initiatives by the central bank since 2012 to regulate microfinance business and protect consumer interests have particularly helped the ‘buoyant growth’ of MFIs through 2013–14 (CRISIL, 2014).

credit bureau data shows that up to April 2014 all the MFIs reporting to Equifax have cumulatively issued 12.7 million loans worth Rs. 1,508.61 billion. Th e outstanding amount of all loans reported to the credit bureau as on April 2014 stands at Rs. 349.69 billion. Large MFIs with more than Rs. 5 billion portfolio accounted for 80 per cent of this amount. Cumulatively 68.4 million customers have been provided microfinance till 2013–14. Going by the data published by MFIN pertaining to 42 of its NBFC members, the amount of loan outstanding for the year 2013–14 was Rs. 280 billion crore—the same as what Equifax reported for its Category 1 MFIs—with a client base of 28 million. For these MFIs (excepting those under corporate debt restructuring or CDR18) the growth rates of all parameters have improved quite significantly in 2013–14 compared to the previous year (Table 5). The gross loan portfolio registered 35 per cent growth rate, while the number of clients rose by 20 per cent during the period. Th e disbursal of fresh loans went up by 48 per cent in March 2014 indicating the enhanced ability of MFIs to access funds for on lending during the year. Though still below the 2011–12 level, employment figures too picked up after 2012–13, whereas the number of branches reached its level in 2011–12.

Table 5 Growth of NBFC-MFIs: Major Indicators

Parameters	2011–12	2012–13	2013–14	Growth rate 2011–12 to 2012–13	2012–13 to 2013–14	2011–12 to 2013–14
Gross loan portfolio (Rs. bn)	173.83	207.26	279.31	19.23	34.76	60.68
Clients (mn)	22.74	23.3	28.04	2.46	20.34	23.31
Loan amount disbursed (Rs. bn)	209.51	236.86	349.68	13.05	47.63	66.90
Number of Loans disbursed (mn)	17.65	18.57	24.38	5.21	31.29	38.13
Branches	9,777	9,103	9,780	–6.89	7.44	0.03
Employees	72,985	61,746	67,838	–15.40	9.87	–7.05
Loan offi cers	45,556	40,280	44,400	–11.58	10.23	–2.54

Source: MFIN (2014).

Table 6 indicates that the non-profit MFIs grew their GLP by 40 per cent and borrower base by 23 per cent. There has been some growth in human resources and physical infrastructure too. What is critical about this class of MFIs is that they have achieved this growth largely by remaining geographically focused.

TABLE 6 Non-Profi t MFIs: Some Growth Indicators

Parameters	2012–13 (N = 30)	2013–14 (N = 28)	Growth rate
GLP (Rs. billion)	34.13	47.90	40.34
Active borrowers (mn)	4.05	4.96	22.47
Offi ces	1,370	1,457	6.35
Loan offi cers	5,738	6,675	16.33

Source: www.mixmarket.org
Note: Samples are unbalanced.

The available data suggests that the total portfolio size of MFIs in India (combining NBFC and non-profi t MFIs
as also credit cooperatives) is close to Rs. 350 billion. This is about Rs. 80 billion less than the loan outstanding
under SHG Bank linkage programme.

PRODUCTIVITY AND PORTFOLIO QUALITY: PROMISING TRENDS

The profitability of MFI too has improved between 2013 and 2014, especially in the case of large MFIs with GLP more than Rs. 10 billion and the medium sized institutions with GLP Rs. 2 billion and Rs. 5 billion. What is also to be noted is the slight increase in the financial expense ratio, which indicates that MFIs spend more now to source their capital.

The productivity ratios have all increased between March 2012 and March 2014 across size classes (Table 4.24). Overall a typical branch of MFI handles 540 more clients in 2013–14 compared to 2011–12. This gain was the contribution of the large MFIs who improved their branch productivity by an average of 642 clients. The productivity of loan officers in smaller MFIs improved over the three years, but not as much as what the medium and larger ones could achieve. The rise in GLP per branch was to the extent of Rs. 2.5 million for all MFIs. In terms of GLP size classes it varied between Rs. 1.3 million for smaller MFIs to Rs. 3 million for the medium-sized ones

MFIs and Urban Financial Exclusion

The market potential for microfinance in urban poverty pockets like slums and low income neighbourhoods caught the attention of MFIs since the mid 2000s. Urban focused MFIs like Ujjivan, Janalakshmi, Satin Creditcare, SMILE and Arohan came up during this period. But microfinance still remained a predominantly rural phenomenon and did not attract much attention from banks and investors. Th e situation has changed dramatically over the past 5 to 6 years. It may be noted that the rapid pace of urbanization and urban expansion coupled with the peculiar demographic transition in favour of the youth (demographic dividend) has brought the ‘urban’ to the core of development debate in the 2000s. A study done by the McKinsey Global

Institute estimated that by the year 2030 cities could generate 70 per cent of the net new jobs created in India and account for 70 per cent of the country's GDP and increase per capita income by about four times (MGI, 2010). In 2011 for the first time since Independence, urban population registered an absolute increase greater than that in rural population. The urban population in the country increased by 91 million (from 286 million to 377 million) and the level of urbanization rose from 28 per cent to 31 per cent over the decade 2001–11 (Census of India 2011). The number of slum blocks stood at 108,227 in 2011 with 137.49 lakh households. This is the setting in which several MFIs have gradually shifted their business priorities to include more of urban clients. It is estimated that over a period of just 5 years the urban microfinance market has cornered one third of the gross loan portfolio of MFIs. In another three years the ratio is expected to change to 50:50.21 About half of the top 10 MFIs have substantial share of urban portfolio. They have introduced many innovations to replicate the retail banking model to micro lending. The growth in the urban portfolio has been more than the rural portfolio even in the case of Bandhan, the largest rural-based MFI, which is in the process transforming to a bank by early 2015.

Janalakshmi conducted a footprint enterprise survey in 2013 in one of its branches in Banglore. The survey covered all enterprises excluding large franchises, shopping malls and large retail chains. It included street vendors, both stationary and mobile. The sample was made up predominantly of enterprises with two or lesser employees, accounting for over 90 per cent of the enterprises. All enterprises in the sample have less than six employees. 98.2 per cent of the sample consists of proprietary enterprises. 70 per cent of micro-enterprises have a bank account. The percentage of respondents who reported accessing public or private banks for term

loans was just 5 per cent. As for working capital, the percentage of respondents who reported accessing public banks for was 0.5 per cent. None reported accessing private banks for working capital needs. The study found a large extent of informality among survey respondents. 90 per cent of the respondents never filed income taxes, 67 per cent had maintained no book of accounts and 65 per cent had no enterprises registration of any form. Not surprisingly, a majority of respondents accessed informal sources of finance for their credit needs. Over the previous two years the average credit requirement for micro enterprises in sample was estimated to be Rs.

439,911. With the estimated number of urban micro enterprises to be 420813 this would translate into an aggregate demand for credit of Rs. 189 billion. Since banks alone would not be able to meet this demand, other regulated local players like MFIs need to be facilitated to contribute to the process of financial inclusion of urban micro and tiny enterprises.

CONCLUSION

Despite their unclear role in the process of financial inclusion, microfinance purveyors have steadily emerged as an important component of the general scheme to liberalize the financial sector, which has accorded them a degree of salience in recent times. The recent policy pronouncements indicate that they are poised for a drastically different direction of growth thanks to the RBI's emphasis on restructuring and reforming the banking structure with a definite push towards opening up financial markets for more competition and deepening. The recommendations that have arisen from the current constellation of ideas see a distinct role of MFIs to be part of the financial inclusion arena either by linking with large banks as limited BCs to provide savings services, or, more importantly, become deposit taking small finance banks (Government of India, 2009). It appears that Indian MFIs—at least the bigger and the more efficient among them—will soon be playing a more independent and substantive role in financial inclusion.

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