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ROLE OF MICROFINANCE IN PROMOTING FINANCIAL INCLUSION IN URBAN POOR OF KOLKATA-

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Abstract

This research paper evaluates the contribution of microfinance programs in promotion of financial inclusion in Urban poor of Kolkata. An ample amount of literature on microfinance studies the Role of Microfinance inadvertently in context of Rural poor to the extent that Microfinance has become synonymous with rural poverty. This study has examined the role of microfinance in an urban setting studying the impact of membership with various models of microfinance on financial inclusion of the urban poor population of Kolkata.The sample population has been picked up after a multilevel random sampling of the city. A total of 547 constituting both members (Customers of Microfinance are generally referred as members) and non members from Kolkata have been studied. The members are primarily from Microfinance Institutions(MFI) with a few representations from Self Help Group(SHG) and Self help Bank Linkage Programmes (SBLP). A conglomerative index of Financial Inclusion has been used to arrive at the Financial Inclusion status of each respondent. The index has been compared across members of microfinance and non members so as to come to a conclusion that members of microfinance have better financial Inclusion status that the non members.

Keywords:Microfinance;Financial inclusion;Urban poor;Self Help groups;Financial Inclusion index.

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1. Introduction

Prime Minister Narendra Modi, in his maiden Independence day speech on 15th August 2014, touched upon a major drive that the government is planning on financial inclusion, marking a landmark leap towards propelling the economy for an all inclusive growth. Economic theory endorses direct relationship between investment and economic growth to saving rate. It is implied that financial exclusion of a vast majority represents a missed opportunity of an enormous potential for economic growth. So far financial inclusion was doing rounds among only the economists , it's for the first time that the government has taken a real and robust step towards achieving financial inclusion. Unveiling the 'Pradhan Mantri Jan Dhan Yojana', he said there were more mobile phones than bank accounts in the country. As part of the scheme, access to bank accounts will be made available to the poorest of the poor and each account holder will get a debit card (Ru-Pay card) and a Rs 1 lakh insurance cover. While Prime Minister Narendra Modi did not share any details of the scheme, some of this has already been put out by the Ministry of Finance on its Facebook page. The ministry says the efforts will be more than just opening bank accounts. The target would be individual households given that there are 7.5 crore households that do not have a bank account. The government's financial inclusion mission is to be done in two phases . The first phase has got over by August 14, 2015, and the second Phase will get over by August 14, 2018. Most activities are done in the first phase, and insurance and pension would be covered in Phase-II. This will help the government transfer subsidies directly to the accounts of the beneficiaries.

Enthused by the Centre's plan to open 7.5 crore bank accounts over the next few years, MFIs and other such financial institutions that are working in rural areas have charted out massive expansion plans. The Microfinance Institutions Network (MFIN) with 2.5 crore rural customers in its fold is ready to support the comprehensive financial inclusion programme. MFIs can help the programme by opening 2.5 crore bank account for the programme. As microfinance programs in India typically cater to low income financially excluded households, it is fast emerging as a possible means to expand access. Provision of financial services to low income segments of the population is particularly challenging. Microfinance specifically addresses this very segment, making such programs very useful in promoting financial inclusion. The news of robust expansion plans of various microfinance institutions in the next five years comes following the Prime Minister Narender Modi's Financial Inclusion drive testifying the relationship Microfinance has with Financial Inclusion.

Microfinance refers to the provision of a broad range of financial services such as deposits, loans, money transfers, and insurance to poor and low income households and their microenterprises. Provision of microcredit, namely loans for the poor, has however dominated the microfinance sector globally.

2. The need for the study

Urban Poor: A neglected class of poor

In India Poverty is synonymous with villages or Rural areas whereas the fact is that the Poor live in cities too. Beyond the glitz of new street lights and glass walled shopping malls of a city there lies a world of abject poverty where people live amidst the urban squalor and filth in inhuman conditions and barely manage to eek out a living .They are the urban Poor.

The Government including the various state governments have also shown apathy towards this ever mushrooming class of urban poor, evident from the extreme inhuman conditions under which they survive; the lack of basic amenities, infrastructure, health and hygiene. The larger the city, the larger the slums ,for example in Mumbai alone out of the population of 15 million people, almost 60 percent live in slums or in over 2000 "slum pockets" across the city. The popularity of Danny Boyle's film, *Slumdog Millionaire* led to a surge of media interest in the Mumbai slum of Dharavi which is partially depicted in the film. But there are slums akin to dharavi in Kolkata and in almost every metropolitan which are awaiting media and corporate attention for their welfare.

There is a general belief that Rural areas are the places where the Poor live, so Most of the Microfinance activities are based in villages or rural areas. MFIs pay more attention to rural areas and largely neglect the urban poor. Out of more than 800 MFIs across India, only six are currently focusing their attention on the urban poor. However, the population of the urban poor is quite large, amounting to more than 100 million. With increasing urbanization, this number is expected to rise rapidly in the coming years. Being poor also implies being financially excluded as one begets the other and the relationship is cyclical with reinforcement from the debt trap created by moneylenders. In this situation, MFIs can play an important role by infusing the power of credit at the right place in the cycle of financial exclusion and play a game changing role from exclusion towards financial inclusion**.**

3.The literature Gap

Since the inception of research in microfinance in the early 1960's after the success of ACCION International in Venezuela and Yunus's Grameen Bank in Bangladesh , there has been an extensive literature discussing the role of microfinance in alleviating poverty. The literature on microfinance spanning across decades discuss from how microcredit has become something of a cause celebre for its potential to help the developing world, to some serious and credible criticisms of its success. Others insist that microfinance is not a complete solution, charging that those who have benefited from the industry overstate its value in order to keep the model going. Institutions like the World Bank and the International Monetary Fund have also come under fire for funnelling into microcredit institutions money that could have gone to funding for education, health or other basic social infrastructure needs. There is a plethora of literature on role of microfinance in alleviating poverty in landless labourers, farmers and women, but all these are in context of rural settings, Microfinance has become synonymous to Rural poverty. Of late there have been a few researches discussing the role of microfinance in promoting financial inclusion but that too is in the context of rural poor. An important gap in the literature available on microfinance is that of it's role in promoting financial inclusion in the urban poor. Studies by Conroy (2006) and Jayasheela et al. (2008) suggest that microfinance can be a useful means of increasing financial inclusion in the context of the Pacific Islands and India respectively, but not on the basis of detailed studies. Further, while there is considerable literature on financial development and economic growth at the macro level, Fewer study examines if outcomes expected of financial inclusion are provided by microfinance at the individual level. There have been various studies to estimate financial inclusion index as an indicator for assessing the level of financial inclusion by authors including Sharma, 2008, Swiston, 2008, Arora, 2010,Kendall et al, 2010. Fewer studies have attempted to measure the level of access to finance from the formal sources and other financial services using primary data sources , notable studies are that of Rangappa et.al, 2008 and Delvin, 2009. The primary level assessment calls for the individual household level estimation of access to finance. For this purpose households' access to formal financial service providers has been quantified using usage dimension variables representing transaction banking, credit services, deposit services and access to insurance. Sangeetha Prathap (2011) has done a similar study on financial Inclusion of fisher households of Kerala where she has designed a conglomerative index to measure financial inclusion. The formula used for calculating the index is

$$\sum_{1-n} X = \Sigma(a*5)(b*5)(c*5)(d*30)(e*10)(f*10)(g*10)(h*10)(i*5)(j*10)$$

where Σ X represents the conglomerative index of financial inclusion. Alphabets a to j represents different usage dimensions of banking by the customers as shown in the table 1. The values assigned to each variable are either 1 or 0. Value 'one' implies respondent having association with the source of finance and value 'zero' implies having no association with the specified source of finance. The number 5,10 and 30 represent the different weightages assigned to the respective usage dimension. The index varies between '0 and 100'. Value '100' implies full Financial Inclusion and value '0' implies complete Financial Exclusion. Value of '1-29' implies low financial inclusion, value of '30-60' implies medium financial inclusion and 61 and above implies high level Financial inclusion.

Table 1. Usage dimensions and their symbols for calculation index of financial inclusion

a	Usage of Cheque/DD
b	Social security pension payments through banks/cooperatives
c	Usage of ATM
d	From institutional sources or through SHG bank linkage during 2012
e	From institutional sources or through SHG bank linkage during 2011
f	From institutional sources or through SHG bank linkage during 2010

g	Savings account with institutional sources (commercial bank, cooperative bank or post office or SHG bank linkage)
h	Fixed Deposit or Recurring Deposit account with institutional agencies
i	Informal savings in an SHG
j	Any source/type of insurance

4. Data collection and analysis

A multilevel random sampling is done where the city Kolkata is divided into eight zones based on the highest population and then zones rich in slums population are shortlisted. The next stage involves selection of samples from those slums colonies where Microfinance programms are popular. The non members also belong to the same locality and the same socioeconomic class for a level comparison of the impact of microfinance on their status of financial inclusion. A sample population of 547 constituting both members and non members from Kolkata have been studied. The members are primarily from Microfinance Institutions(MFI) with a few representations from Self Help Group(SHG) and Self help Bank Linkage Programmes (SBLP). Financial inclusion index for each of the sample is calculated as per the formula designed by Sangeetha Prathap (2011). The observed financial inclusion index in various categories of microfinance membership is represented in Table no.2

Research Questions

How does membership with Microfinance Institutions (MFI), Self help groups(SHG) and Self help group bank linkage model (SBLP) influence the level of financial Inclusion of a household?

Reseach objective

To evaluate the impact of microfinance on the state of financial inclusion of a household

Hypothesis

Financial Inclusion status is higher in households with membership in microfinance

Table 2.Distribution of Financial Inclusion Index according to membership Category

Financial Inclusion index	Non members	%	MFI	%	SBLP	%	SHG	%	Total	%
Financially excluded	51	27.2	23	7.8	8	20.5	12	42.9	94	17.2
1-29 (Low)	88	47.1	40	13.7	10	25.6	9	32.1	147	26.9
30-60 (Medium)	39	20.9	178	60.8	21	53.9	7	25	245	44.8
61 & above (High)	9	4.8	52	17.7	0	0	0	0	61	11.1
Total	187	100	293	100	39	100	28	100	547	100

Source: Survey

To find out the influence of Microfinance membership on Financial Inclusion, difference between groups with regard to level of ascertained financial inclusion index was assessed in Table No.3. The mean financial inclusion index of different categories showed that the non members had the lowest financial inclusion index, with the index gradually increasing with the level of microcredit i.e SHG, SBLP and the MFI with highest index.

Table 3. Mean Financial Inclusion Index of membership categories

Category of Household	Mean	N	Standard Deviation
Non member	13.57	187	16.054
MFI member	38.62	293	18.783
SBLP	32.64	39	13.360
SHG	29.13	28	15.265
Total	29.14	547	22.562

In order to confirm that there is difference in levels of financial inclusion among the SHG, SBLP, MFI and non members, one way ANOVA was conducted (Table 4).
Hypothesis test for difference of means (one way ANOVA)

Hypothesis

H0: Microfinance members and non members do not differ in level of financial Inclusion

H1: Financial Inclusion status is higher in households with membership in microfinance

One way ANOVA was conducted to test this hypothesis .The result was found significant at 1 per cent level. Hence the null hypothesis that members of MFI, SHG, SBLP and non members do not differ in level of financial inclusion can be rejected. Alternative hypothesis is accepted that financial inclusion index increases if the household has membership with Microfinance.

Table 4.Results of One way ANOVA

	Df	**F**	**Sig**
Between groups	3	79.636	0.000
Within groups	543		
Total	546		

The different membership categories differed significantly in their level of Financial Inclusion with **ANOVA (F(3,543) = 79.636, p = 0.000**

4. Results

It was observed that Microfinance membership had an impact on the financial inclusion levels of the member households.Members of microfinance significantly had higher Financial Inclusion levels than the non members. Membership, be it with MFI, SHG or SBLP has influence on the financial Inclusion of the household. A complete exclusion was observed in 94 respondents of which 51 were non members which is 27 percent of the total non members studied. This is in stark contrast to the 7 percent of MFI members who are completely excluded. On the other hand about 60 percent of the MFI members show medium financial inclusion as compared to 20 percent of the non members.

5. Conclusion

This study looked into the role of microfinance in promoting financial Inclusion in the urban poor of the city.. The study found out that those who availed microfinance loans showed better levels of financial inclusion as compared to those who resorted to borrowings from informal sources. A clear association with higher levels of FI Index and Microfinance membership was inferred.

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