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FINANCIAL INCLUSION THROUGH MICROFINANCE IN INDIA: AN OVERVIEW

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ABSTRACT

Microfinance means providing financial assistance in the form of small savings, loans etc. to the socially and economically backward sections of the society. Under this, financial services are provided to the deprived people on affordable terms. The concept of microfinance works to fulfill the goal of empowering the people by removing the disparities in the society as a result of natural or man-made factors like caste, religion etc. The pioneer of this concept is Professor Mohd. Yusuf of Bangladesh, who experimented in the direction of micro finance in 1970's and brought out its positive impact on rural development. Thus a model of microfinance emerged in the form of Grameen Bank. And now this concept is being adopted in almost all the developing countries of the world for financial inclusion, rural development and poverty alleviation. For the last several years, the concept of financial inclusion is being given importance as a tool to reduce poverty in developing countries. In India too, financial inclusion has been a priority in the context of poverty alleviation, rural development. It plays an important role in reducing financial inequality in the country. Microfinance creates livelihood opportunities and helps in income generation by providing financial services to disadvantaged sections of society who do not have access to formal banking. The aim of this paper is to study the role of microfinance in financial inclusion. It studies the various policies of microfinance institutions, related government institutions and various NGOs. This research paper discusses the types of micro finance institutions, their functioning, the current scenario of micro finance institutions is explained in it.For this, secondary data has been used, which has been taken from various research articles, research papers, reports and newspapers. The results of this study can be beneficial for policy makers and all concerned stakeholders.

Keywords: *Microfinance, Poverty Alleviation, Inclusive Growth, Rural Development, Women Empowerment, Micro Credit.*

Introduction

The focus of every five-year plan in the country has always been focused on poverty alleviation, continuous efforts are being made for this since the 1950s. In this context, the nationalization of banks was done in 1969 and 1980. Some of the steps taken were the beginning of Regional Rural Banks in the year 1975, after the establishment of NABARD these banks were further organized. The objective of these banks has been to provide loans at concessional rates to the primary sectors of the economy such as agriculture, small industries etc. A revolutionary step in the field of microfinance was the beginning of Self Help Groups in the country in the year 1992. Which promoted financial inclusion on a large scale. And accelerated the access of the common people to the formal source of finance i.e. banks. Ela Bhatt in India and Prof. Mohd. Yunus of Bangladesh did commendable work in this field. Ela Bhatt established the Self-Employed Women's Association in 1972. In 1975, its membership grew from 7,000 to more than 7,00,000. After this, many initiatives were started by the government to promote SHGs. And at present SHGs is the foremost in strengthening financial inclusion in the entire country. Financial inclusion is being acknowledged as a key driver of economic growth and poverty alleviation across the world. Easy access to economic finance leads to job creation, which generates income sources. People's access to formal credit frees them from the never-ending cycle of informal sources. At the macro level, financial inclusion

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supports inclusive socio-economic development. Microfinance plays an important role in financial inclusion and poverty alleviation. It helps individuals engage in income producing activities by providing them collateral free loans. This helps them become economically and socially empowered by making them financially independent. It improves the outcome of family welfare, education and health care. The ability to obtain credit, save and insure against risk helps in reducing the level of poverty.

Literature Review

Dr. Bina Sharma (2016) has concluded in the study "Role Of Micro Finance Institutions In Promoting Financial Inclusion In Rural India : A Comparative Analysis Of Self Help Group And Micro Finance Institutions" that MFIs and SHGs have played an important role in financial inclusion. Its positive results in rural areas have been analyzed in this study. And microfinance has positively affected financial inclusion and increased its range**.**

Amit Kumar Mishra & Dr. Chandrama Singh(2017) has examined in the study "Role Of Micro Finance In Financial Inclusion In Bihar: A Case Study" that microfinance has the potential to mobilize savings in the state of Bihar and provide loans for production and investment to the poor sections of the society. There are some challenges in front of microfinance, which include delay in opening the account, delay in loan disbursement, low awareness about the benefits of micro credit, etc. Microfinance is making a significant contribution to financial inclusion by becoming a financial intermediary for the poorest people in the economy.

Sakshi Verma & Khusboo Aggarwal (2014) has evaluated in their study "Financial Inclusion Through Micro Finance Institutions In India " that the reach of micro finance in India is still not as per the requirement. Its extent also varies across different states. But the need for financial inclusion for India to move on the path of economic development and the goal of poverty eradication can be met only through micro finance.

Rukmani & Dr. S. Brindha (2021) in the study "Role Of Micro Finance In Empowering Self Help Groups : An Opportunistic Approach" has presented the final conclusion that microfinance makes financial inclusion possible by providing financial assistance in the income generating activities of self-help groups. The social and economic status of the beneficiaries improves. And their standard of living improves. And they lead an empowered life by becoming financially self-dependent**.**

Ramesh kumar chturvedi & Roshni Kumari (2022) has examined in the study "Role Of Micro Finance In India :A Thematic Review" that the role of microfinance in poverty alleviation cannot be denied. It provides all financial services to marginalized people. It is acting as a regulatory mechanism for loan customers. Its more positive impact has been seen in rural areas.

Dr. V. Basil Hans has evaluated in the study "Initiatives and impacts of financial inclusion in india" that Financial inclusion in India has gained momentum today with smart technology. Financial literacy also plays an important role in the economic empowerment of the common man. Financial innovation is also an important aspect in increasing banking access. Positive results have been achieved from the initiatives and impact of financial inclusion in the country. Financial inclusion is a necessary condition for improving financial literacy in the country, promoting financial stability.

Research Objective

- To explain the concept of financial inclusion and micro finance.
- To study the financial inclusion initiatives that government has taken in India.
- To study the mechanism through which microfinance help in financial inclusion.
- To examine the role of microfinance in financial inclusion in India.

Research Methodology

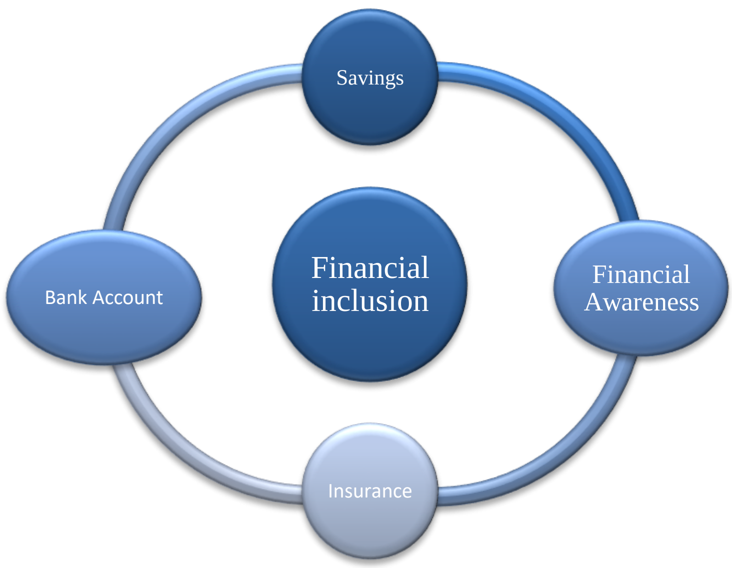
This study is based on secondary data. Secondary data has been taken from various magazines, press releases, newspapers and websites. For this, along with the reports of various organizations issued for microfinance, research papers and articles related to this topic have also been studied. This is a conceptual study based paper. This paper attempts to clarify the concept of financial inclusion by studying various literatures.

The Concept of Financial Inclusion

Financial inclusion means that individuals have easy access to useful and affordable financial products and services. These include services such as savings, loans and insurance. Access to a transaction account in a bank is the first step towards financial inclusion as it enables people to deposit, make and receive money in real time. Having a transaction account serves as a starting point for other financial services and paves the way for financial inclusion. Financial inclusion refers to those policies and efforts through which formal financial access can be ensured to all the weaker and deprived sections of the society. These include banking services, insurance, pension and credit services etc. which are designed in such a way that they are affordable, accessible and according to the needs of the people. Financial inclusion is seen as an essential pillar in the development of the modern economy because it can include the marginalized people in the mainstream of economic development. One such initiative is the Zero Balance Accounts introduced by the Government of India. Financial access also affects people's day-to-day lives. As account holders, people can start a business, invest in education, meet financial contingencies, and improve their quality of life by becoming informed consumers of financial services such as insurance. Inclusive financial systems enable wider access to financial services. This paves the way for faster and more equitable economic growth. It assists poor households in saving and managing money, and helps them become active participants in development. The financially excluded groups largely include landless labourers, unorganised sector workers, marginal farmers, slum dwellers, minorities and the economically and socially backward.

Phases of Financial Inclusion in India

- **Pre – Independence & Early Initiatives:** Banking access was limited, with rural areas relying on informal moneylenders. Cooperative societies were introduced to support agriculture at very ground level.
- **Bank Nationalization (1969 & 1980):** The nationalization of banks expanded financial services to rural and underserved areas. This was aimed at improving financial inclusion for marginalized peoples by providing them easy access to credit.
- **Regional Rural Banks (1975):** RRBs were set up to cater to the credit needs of rural populations, especially small farmers and for other marginalized people in rural areas. These banks aimed to provide affordable loans to boost rural economy.
- **Microfinance & SHG - Bank Linkage (1990s onwards) :** Microfinance institutions and SHG-Bank Linkage programs provided credit to low income groups at very concessional rates and with less paper work. These initiatives empowered rural populations, especially women . These initiatives also provide skill development training to its members.
- **Financial sector Reforms & Priority sector Lending (1990s-2000s):** Financial reforms encouraged private banks and expanded the priority sector lending mandate. This ensured more credit for agriculture, MSMEs, and economically weaker sections.
- **Digital Financial inclusion:** The rise of digital platforms like UPI, mobile wallets and fintech services revolutionized banking access. These innovations enabled fast, affordable financial services, even in remote areas. This initiatives give a speed to financial inclusion by various online banking options.



Initiatives for Financial Inclusion in India

Financial inclusion in India started in the year 1956 with the nationalization of life insurance companies. Later in 1969 and 1980, nationalization of banks was taken as a step in this direction. After this, efforts are being made from time to time for financial inclusion. At present, the status of financial inclusion in India is as follows:

- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**

This scheme has been started in august 2014 , made it to the Guinness Book of World Records with the achievement of opening 1,80,96,130 accounts in the country within a week. The scheme focused on opening an account for every adult from every household as per the report of RBI, 34.01 crore accounts were opened under this initiative in a period of 5 years till 30 January 2019.

- **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**

PMSBY is an accident insurance scheme launched in the year 2015 which provides an insurance cover to the account holder by depositing an annual premium of just Rs. 20. It provides insurance cover up to Rs. 2 lakh for death and disability due to accident. Individuals between the ages of 18 and 70 are eligible for this.

- **Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**

PMJJBY is a life insurance scheme under which life insurance cover is provided to the account holder in case of death due to any reason. This insurance cover can be renewed every year for one year. Persons between 18 years to 50 years are eligible for this. And a cover of up to Rs. 2 lakh can be taken by paying an annual premium of Rs 436.

- **Atal Pension Yojana (APY)**

Keeping in mind the financial needs, an initiative has been started under the Atal Pension Yojana to provide a fixed monthly pension of Rs. 1000 to Rs. 5000 to customers between the ages of 18 to 40 years after attaining the age of 60 years. The amount of which will depend on the contribution made by the customer.

- **Mudra (Micro Units Development & Refinance Agency) Yojana**

Pradhan Mantri Mudra Yojana is a scheme launched in the year 2015. Which is an important step in the direction of financial inclusion. Under this, loans up to 10 lakhs are provided to non-corporate and non-agricultural, small and micro enterprises. This loan is provided in three categories namely Shishu, Kishor and Tarun.

Loans up to Rs. 50,000 / -
Loans from Rs.5,001 to 5 lakhs
Loans from Rs. 5,00,001 to 10 lakhs

- **KCC Yojana**

Kisan Credit Card Yojana is a scheme started in the year 1998 under which short-term loans are provided to farmers to meet their agricultural expenses. Card issuing banks decide the loan amount based on the cost of crops and loans ranging from 10000 to 50000 are provided to marginal farmers. They can repay this loan in convenient installments or after the harvest. The application and approval process has been simplified for quick disbursement of loans.

- **SHG- Bank Linkage Program**

This initiative was started by NABARD in the year 1992 to link the unorganized sector with the formal source of finance i.e. banking sector. Under this, accounts of self-help groups are opened in the bank. And then loans are provided to the members. This program has achieved incomparable success in its goal. At present, this program is making a very commendable effort to help the poor and backward people in the whole country to come out of poverty.

The Concept of Micro Finance

Microfinance involves providing a wide range of financial services such as deposits, loans, money transfers and insurance to poor and low-income households and micro-enterprises. This provides income to financially excluded people and improves their standard of living. Microfinance is considered as a tool for socio-economic upliftment in developing countries and plays a vital role in poverty alleviation and development. The aim of microfinance is to financially empower people, especially those from low-income groups, so that they can start small businesses, manage financial risk and improve their lifestyle. Self-help groups and microfinance institutions are the main pillars of microfinance in India. Microfinance originated in the 1970s when Mohammad Yunus founded the Grameen Bank in Bangladesh with the aim of providing small loans without collateral to the poor. The concept then spread across the world and became a major means of financial inclusion.

Features of Micro finance is as follows :

- It deals in small amount loans.
- It aims to provide financial support to poor families.
- It is an effective poverty alleviation strategy.
- It supports women participation.
- It encourages creation of self-employment opportunities.
- It focuses less on earning profit and more on providing service.
- One of its objectives is to contribute to the economy by financially supporting small entrepreneurs and producers.
- The models adopted in this like SHG, JLG etc. have very low rate of non-payment of loan.

Role of Microfinance in Financial Inclusion

- **Access to Credit**
  - **Small Loans:** Microfinance provides small loans to individuals and micro entrepreneurs who do not have any assets for collateral. They are considered high risk by traditional banks and are not given loans or are given very few loans. This helps these people to start or expand their business and improve their income level and economic status.
  - **Group Loans:** Microfinance provides loans to small groups on the basis of joint loan repayment. This develops a sense of community and mutual support among the borrowers.
- **Investment and Savings Opportunities**
  - **Promoting Savings:** Microfinance encourages individuals to save small amounts of money regularly by promoting savings programs. This provides financial security to individuals to deal with emergencies.
  - **Investing in Human Capital:** By providing loans for education, health and skill development, Microfinance improves the quality of life of these individuals by enabling them to invest in their families, leading to long-term socio-economic benefits.
- **Empowerment of Women**
  - Microfinance services are targeted at women, who are traditionally marginalized in financial systems. By providing them access to credit, microfinance empowers women, thereby improving family welfare and community development.
  - **Promoting entrepreneurship:** Using microfinance, women can use funds to start and grow small businesses, become financially independent and have a stable financial position.
- **Promoting financial literacy**
  - **Education programs:** Microfinance also organizes financial literacy programs that help individuals understand how to manage money, create budgets, and plan finances. This information helps them make the right financial decisions. Financial education teaches individuals to adopt sustainable financial practices that lead to long-term financial stability and independence.
- **Bridging the Financial Gap**

Microfinance serves as a bridge between the formal financial sector and the underprivileged. It brings more people into the financial ecosystem by providing financial services to those excluded from the traditional banking system and providing people with the means to improve their well-being.

- **Facilitating Access to Insurance**

Microfinance also provides tailor-made insurance products to individuals. These products cover risks related to health, life, agriculture and property. This helps in preventing further poverty due to unforeseen events. It plays a vital role in enhancing financial security by providing these insurance facilities at concessional draws.

- **Promoting Inclusive Growth**

By targeting marginalized and low-income people, microfinance promotes inclusive economic growth. It works to reduce inequalities. Inclusive growth is essential for sustainable development as it ensures that all sections of the society have opportunities to contribute to and benefit from economic progress.

- **Building social Capital**

Microfinance builds social connections, trust and cooperation among members through group lending models, savings groups and joint liability schemes. This social capital is valuable because it strengthens community bonds and promotes collective action. This can be leveraged for community development initiatives beyond just financial services.

- **Addressing the Informal Economy**

Developing countries typically have a significant portion of their population operating in the informal economy, which is out of reach of traditional banking services. Microfinance targets the informal sector and provides them with financial products that are tailored to their income patterns and financial needs. Microfinance thus helps integrate the informal financial system.

- **Fostering innovation in financial services**

The microfinance sector has been a hotbed of innovation in financial services. The need to serve low-income and impoverished populations has led to the development of new products and delivery mechanisms such as mobile banking, digital wallets, micro insurance, etc. These innovations have also pushed the broader financial industry to adopt more inclusive practices.

Conclusion

Microfinance has played an important role in financial inclusion not only in India but in all developing countries. It has opened up opportunities in all sectors of the economy. An effort to bring women into the mainstream across India was made through SHG-Bank Linkage Programme and it has also yielded positive results. Various models of microfinance have helped create livelihood opportunities to the marginalized section of society by providing them financial assistance. This has improved their standard of living. They have been able to meet their basic needs. PMJDY has achieved unparalleled success with the objective of every adult having a bank account in every household, but still its spread is not equal in all the states of India. More integrated efforts are needed in this direction. For this, there is a need to increase financial literacy and financial awareness among the weaker and backward sections of the society. To increase financial inclusion, there is a need to improve infrastructure facilities in remote and rural areas to spread microfinance programs to far flung areas. Even after a lot of efforts, we have not been able to achieve perfection in financial inclusion, for this continuous efforts are necessary for the development of the country.

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