

ROLE OF MICRO FINANCE IN FINANCIAL INCLUSION: THE IMPACT OF SHG-BLP AND MICRO FINANCE INSTITUTIONS

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ABSTRACT

Micro finance, which is used as an instrument to eradicate poverty, refers to a system of making financial facilities available to those sections of the society that otherwise do not have the access to formal financial institutions. Micro Finance has become an age old concept. But its importance can be felt in the current economic scenario where the inequalities of income are still existing. This paper first highlights the meaning of micro finance and financial inclusion. It then studies the two important methods through which the micro finance facilities are being provided to those in need. These two measures include Self Help Group Bank Linkage Programme introduced by NABARD and the role of Micro Finance institutions. With the help of data, this paper analysis the amount of loans disbursed to the various beneficiaries under these two alternatives.

KEYWORDS: *Micro Finance, SHG-BLP, Micro Finance institutions (MFIs).*

Introduction

According to the Malegam Committee Report of RBI, Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty. It covers a range of services which include, in addition to the provision of credit, many other services such as savings, insurance, money transfers, counselling, etc. Microfinance refers to a system that aims at providing financial support to the economically weaker section of the society that otherwise does not have the access to the organised banking sector. Thus, the typical micro finance clients are low income persons who do not have access to formal financial institutions (Singh and Dara, 2007). Through providing microfinance, the aim of financial inclusion can be fulfilled. Dr. Harsh Kumar Bhanwala, Chairman, NABARD defines Financial inclusion as a way of empowering people to access social and economic justice. It tries to increase the financial accessibility of the poor and others in need of money. Financial inclusion aims at ensuring access to financial services and timely and adequate credit where needed by weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

Objectives

- To understand the meaning of microfinance
- To understand its role in financial inclusion
- To study the role of Self Help Group Bank Linkage Programme (SHG-BLP) in financial inclusion
- To understand the role of Non Banking Finance Companies - Micro Finance Institutions (NBFC-MFIs) in this regard.

Research Methodology

This is a secondary data-based research. The data has been collected from different sources which include RBI reports and notifications; data form Micro Finance Institutions Network (MFIN), NABARD reports on Status of Micro Finance in India among others. The data collected has been analysed and then presented through tables and graphs. The study is based on the data for five years viz 2014-15 to 2018-19.

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Review of Literature

Mohd, Sharif (2018) - Micro-finance is regarded as a useful tool for socio-economic upliftment in a developing country like India. It is expected to play a significant role in poverty alleviation and development.

Niels Hermes, & Lensink, R. (2007)- Microfinance has received a lot of attention, both from policy-makers as well as in academic circles. Especially during the past 10 years, microfinance programmes have been introduced in many developing economies. In their paper, they have critically evaluated the potential of microfinance in reducing poverty.

Singh and Dara (2007) Micro Finance has come to include a broad range of service-credit, saving and insurance. Micro Finance is provided by NGOs, credit unions, co-operatives, private commercial banks and non-bank financial institutions. NABARD also provides 100% refinance to banks at an interest.

Akanji, O. O. (2006) in their paper have tried establishing the need to empower the poor, which has been estimated to be on the increase through the operation of micro finance as a strategy for poverty reduction.

Study and Analysis

The two popular methods through which the rural poor in India avail microfinance have been studied below:

- **SH-BLP**

This programme was started in 1992, headed by NABARD. The objective of SHG-Bank Linkage, program is to organise the asset less poor into Self Help groups to provide them access to financial services from the formal banking sector. Here, Self Help Groups refer to small groups of people, mostly women, who organise themselves to take upskill-based activities to earn a livelihood. This scheme provides financial facilities to the Self-Help-Groups and promotes financial inclusion. According to the ICICI bank, Self Help Group-Bank Linkage Programme (SBLP) aims to deliver financial products & services to the section of Indian population that lacks access to formal banking.

ROLE of SHG- BLP

Table 1: Number of SHGs with Savings Bank Account and the Amount in them

	Number of Self Help Groups with savings bank account (in lakhs)	All women Self Help Groups (in lakhs)	All women Self Help Groups as a Percentage of Number of Self Help Groups with savings bank account	Amount (in Rs Crore)
2014-15	76.97	66.51	86.41029	11059.84
2015-16	79.03	67.63	85.5751	13691.39
2016-17	85.77	73.22	85.36784	16114.23
2017-18	87.44	73.90	84.5151	17497.86
2018-19	100.14	85.31	85.19073	23324.48

Source: Status of Micro Finance in India report, NABARD

Figure 1: Number of Self Help Groups with Savings Bank Account

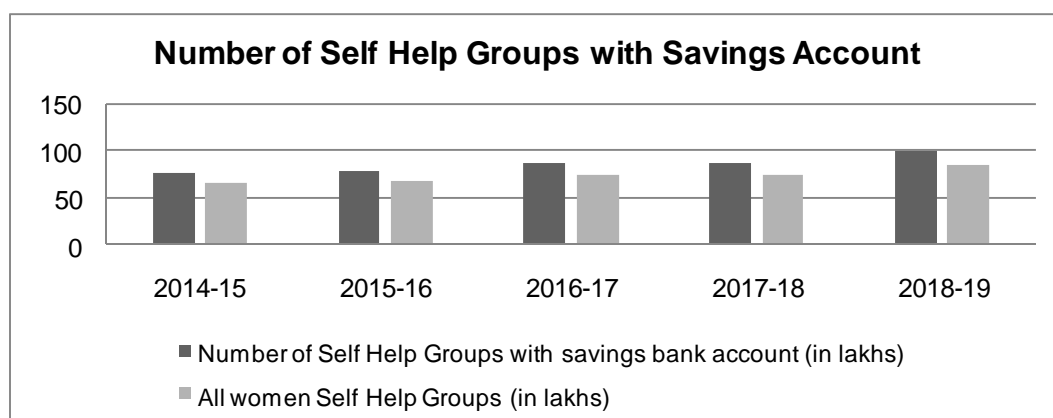
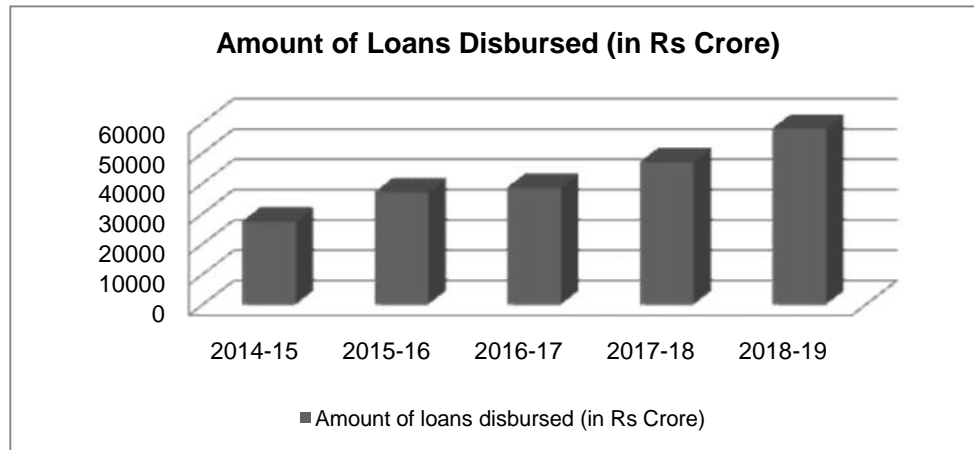


Table 2: Loan Disbursed to Self Help Groups

Loans Disbursed to SHGs			
	Number of SHGs (in lakhs)	Amount (in Rs Crore)	Percentage increase in amount as compared to previous year
2014-15	16.26	27582.31	-
2015-16	18.32	37286.90	26.02681
2016-17	18.98	38781.16	3.853056
2017-18	22.61	47185.88	17.81194
2018-19	26.98	58317.63	19.08814

Source: Status of Micro Finance in India report, NABARD

Figure 2: Loan Disbursed to Self Help Groups under SHG-BLP

Analysis of Results

- The number of women self help groups having a savings account is somewhere between 84%-86%, this shows the awareness among the women regarding the importance of having an account. (Figure 1)
- The amount of money in the SHG savings account has increased year- after – year. (Table 1)
- The number of SHGs availing loans under the SHG- BLP has increased. This shows that the SHGs, instead of borrowing from the unorganised sector, have been showing more trust on the organised sources. (Table 2)
- The amount of loans disbursed to the SHGs has increased over the years, even though at a varying rate (Figure 2).

The Role of NBFC- MFI in Microfinance

Micro finance institution is an organisation that offers financial services to low income population (Mawa, 2008)The Reserve Bank of India defines NBFC-MFI as a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions:

- Minimum Net Owned Funds of Rs.5 crore. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at Rs. 2 crore).
- Not less than 85% of its net assets are in the nature of “qualifying assets.”

(Only the assets originated on or after January 1, 2012 will have to comply with the Qualifying Assets criteria.)

For the purpose of ii above,

“Net assets” are defined as total assets other than cash and bank balances and money market instruments.

“Qualifying asset” shall mean a loan to household based on their income in urban and rural area with tenure of not less than 24 months extended without collateral.

- Further the income an NBFC-MFI derives from the remaining 15 percent of assets shall be in accordance with the regulations specified in that behalf.
- An NBFC which does not qualify as an NBFC-MFI shall not extend loans to micro finance sector, which in aggregate exceed 10% of its total assets.

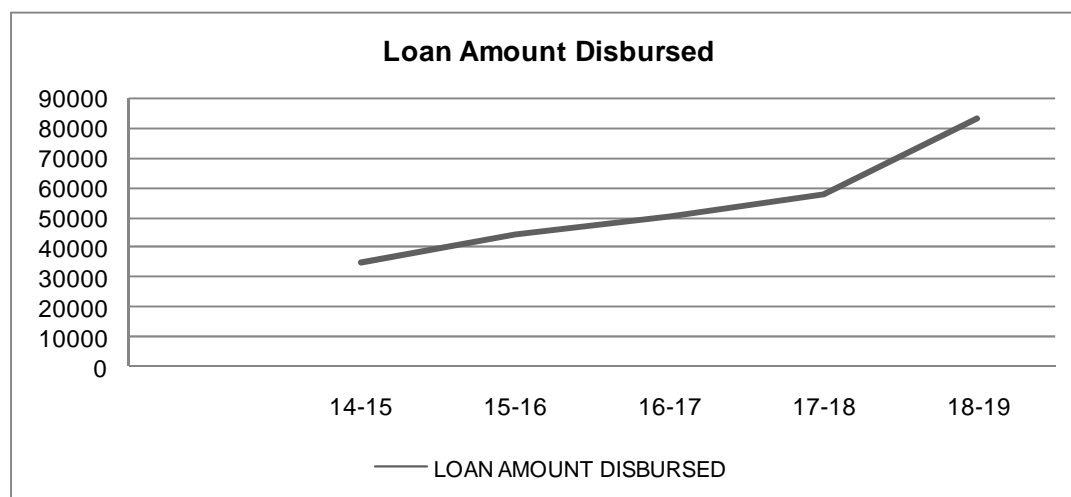
The NBFC-MFIs have also been playing a key role in promoting microfinance in India.

Table 3: Loan Amount Disbursed by NBFC-MFI

Year	Loan Amount Disbursed (in Rs Crore)	Percentage Change in Loan Amount Disbursed
2014-15	35118	-
2015-16	44324	26.21448
2016-17	50266	13.40583
2017-18	57409	14.2104
2018-19	82928	44.45122

Source: Micrometer, Mfin

Figure 2: Loan Amount Disbursed by the NBFC-MFIs



Analysis of Results

Figure and table show that the amount of loans disbursed by the NBFC-MFI has continuously increased over the years.

Conclusions and Suggestions

- The percentage change in the loan amount disbursed is not stable. The percentage increase is more sometimes and less at the other times.
- The study focuses only on the number of SHGs having a savings account. There might be other SHGs in the country which are not a part of the banking system. Such SHGs should be identified and measures should be taken to bring them under the banking system.
- The number of women self help groups is extremely high. Other people like farmers, labourers can also be organised into SHGs for the betterment.
- The loan repayment capacity of the different clients under SHG-BLP and NBFC-MFI should also be considered.

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