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Conceptual issues of Financial Inclusion and Inclusive Economic Development

Dr. Tandraleem Kashyap
Assistant Professor, Department of Commerce
Dakshin Kamrup College, Mirza, Assam
E-mail ID: tandraleemk149@gmail.com

Abstract:

Financial inclusion is delivery of basic banking services at an affordable cost to the vast sections of disadvantaged and low income groups of people. Essence of financial inclusion is making available a variety of financial services to every individual and enables them to understand and access these services. Microfinance institution (MFI), Self Help Group (SHG) and Non Governmental Organization (NGO) are also taking initiative steps for financial inclusion in North East Region. SHG Bank Linkage Programme launched by NABARD in India is doing very well in uplifting the economic growth and economic development in North East Region. Financial inclusion provides an opportunity to the poor to avail of the benefits of advanced economic growth both in terms of financial as well as technological support by satisfying their unique needs, which need timely and easy access to finance to fight poverty. The study is based on secondary data and aims to provide concept about inclusive growth, microfinance and its significance, objectives of micro credit, financial inclusion and economic growth.

Key words: Financial inclusion, microfinance institution (MFI), self help group (SHG), non-governmental organization (NGO)

Introduction:

Financial inclusion is an arrangement for the poor removing the constraints in accessing the financial services and creating a financial system, which enables the poor to avail of the benefits including benefits of technological innovations aiming at inclusive and economic growth in the long run. Financial inclusion will equip the poor with the necessary financial services indispensable for the development and smooth functioning of their microenterprises, as financial inclusion does not aim at providing only credit but also a variety of financial services such as savings, insurance, cash transfer and payment facilities along with financial advisory services for their comprehensive financial inclusion. Contribution of financial services is helpful in speeding up the process of economic development. Financial inclusion in India is characterized primarily as general access to loans or access to savings account and vulnerability reducing products to low income groups. The basic premises of this mechanism are to ensure a consistent risk reducing and livelihood security provision. The Government and its Central Bank have attached great importance for increasing the outreach of banking facilities in the process of financial inclusion since independence. The various institutions engaged in enhancing financial inclusion in India are Reserve Bank of India, NABARD, Micro Finance Institutions (MFIs), Government etc.

Objective of the study:

The primary objective of this paper is to provide concept about inclusive growth, microfinance and its significance, objectives of micro credit, financial inclusion and economic growth.

Research Methodology:

The study is descriptive in nature and purely based on secondary data. The relevant secondary data is collected from various research reports, articles, journals and newspapers.

Analysis:

Inclusive Growth:

Inclusive growth finance plays a leading role in mainstreaming the marginalized section of society especially in developing countries by providing easy and timely access to finance to satisfy their small and frequent needs. Financial inclusion not only augments the economic growth but also facilitates inclusive growth of the country. Economic growth denotes the increase of per capita gross domestic product (GDP) or other measures of aggregate income. According to the statistics by census of India, 2001 around 72% of the India's population resides in rural India comprising of over 600000 traditional villages and do not have easy access to finance and if these disadvantaged section of society is provided with easy and timely access to various financial services and uses the same for various productive activities, they can substantially contribute towards GDP of the country. For economic growth it is essential that savings of the household sector is held in financial assets such as deposits, shares and debentures and in the form of contractual savings like savings under provident fund schemes, pensions and life insurance funds rather than in the form of currency these contractual savings can be employed for long term investments and contribute towards increasing the pace of economic development of the country.

Inclusive growth aims at equitable and even distribution of the benefits of growth ensuring anticipation of all sections and regions of society in the growth process. Inclusive growth full participation in the financial sector is vital. A financial system which serves all the sections of the society on an equitable basis is well reorganized as a mechanism for the empowerment of the poor. Inclusive growth aims to achieve equitable and balanced growth. To achieve the objective of public welfare, Government should frame its socio-economic policies in such a manner which results in inclusive growth. RBI has initiated its financial inclusion drive to bring the poor and

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marginalized sections of society within the formal financial system and raise their standard of living by proving them easy access to finance. Broadening access to finance should be considered as the most important device to achieve growth as easy access to finance facilitates economic empowerment of the poor which may lead to inclusive growth. The banking sector caters mainly to the richest population leaving aside the poorest with fewer options. The needs of the poor are mainly taken care of by the informal financial sector. But microfinance institutions are contributing towards financial inclusion and inclusive growth.

Micro Finance:

Microfinance stands for two words that is- ‘micro’ which means small and ‘finance’ which means money and monetally services. Microfinance is the provision of loans, savings, insurance and other financial products or services to the poor to carry out productive activities, helping them to build assets, stabilize consumption and protect themselves against risk. The main aim of microfinance is to help the poor to get rid of poverty. It is emerged as a means of economic development of the poor. Microfinance can be defined as the provision of financial service to low-income group poor households both in urban and rural areas who are generally not bankable. Microfinance products include micro-saving, micro-credit, micro-insurance remittance and other products like pension, provident fund etc. Microfinance refers to providing a gamut of high quality financial products and services to the poor section of the society.

Theoretically microfinance means all type of financial products and services used and required by poor section of the society who mostly do not have access to informal financial market. Practically microfinance refers to the small-scale financial services offered to poor people by institutions, organizations and enterprises who aim at their sustainability and profitability along with reducing the poverty of their clients.

Microfinance interventions act as a tool for socio-economic development of the poor people as well as a business proposition for microfinance institutions (MFIs). The major microfinance services are- (i) financial intermediation (ii) social intermediation (iii) business development services and (iv) social services.

Financial intermediation refers to the process of facilitation in the provision of microfinance products. The facilitation is done by intermediaries ‘MFI’ who can be in any y legal entity for example, NGO, NBFI and Bank etc.

Social intermediation refers to the process in which the social and human capital is built for successful financial intermediation. Micro Finance Institution intermediaries provide social intermediation.

Business development services refers to the provision of non-financial services which facilitate the business development or enterprise development that includes business training and skill development, forward and backward linkages, technology services and subsector analysis.

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Social services refer to the non-financial services which focus on well being of Micro Finance clients or people as a whole. The social services include health care, education, literacy, women empowerment etc. Microfinance plays a very significant role in poverty alleviation from our society. Microfinance develops local financial institutions. Microfinance is not only development but also an integrated part of financial sector in India.

Micro-credit:

Micro-credit can be referred to as the extension of very small credit or loan referred as micro loan to the unemployed, poor entrepreneurs, people who are living in poverty and those who do not have an access to formal banking. According to RBI, ‘Micro-credit’ is referred or defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi rural and urban areas for enabling them to raise their income levels and improve standard of living. Micro-credit deals with small scale loan products whereas microfinance deals with all possible small-scale financial products. Micro-credit is the provision of thrift, credit and other financial services and products of very small amount to the poor in rural areas for enabling them to raise their income levels and improve their standard of living. Micro Finance mostly refers to micro-loans, micro-savings, insurances, payment transfer services and other small-scale financial products targeted at low-income clients, mostly the clients with no access to formal banking. Micro-credit can be offered, often without collateral, to an individual or through group lending.

Micro-credit refers to extend small-scale loan products to very poor people for self-employment and livelihood promotion which generate income, allowing them, allowing them for the sustainability of themselves and their family. In case of micro-credit the size of loan is very small and the users or clients are self-employed, micro entrepreneurs and low-income households. Micro-credit loan products are provided for income generation, enterprise development and also for community use like health, education etc. for example, SEWA Bank in India provides credit products to women clients for-(i) repayment of old debts (ii) rescue of mortgaged assets (iii) purchasing and repairing of house (iv) working capital for buying trade equipments etc.

The role of NABARD in the development of SHGs:

Micro Finance plays a significant role in our society by engaging the poor people in various economic activities. Microfinance Institution provides rural credit to the needy people of rural and semi-rural areas. Now-a-days Micro Finance is seen as a very important tool for rural area developmental and semi-rural areas. The various financial services that are used in rural areas by people of all income levels are referred to as rural finance. The rural credits are provided for agriculture purpose, micro enterprises and micro business development. Along with this some of the rural financial services are insurance products like agricultural insurance, health insurance, general insurance, life insurance etc., money transfer services for ruralites, pension and provident fund for ruralites and various consumption loans.

Now-a-days NABARD are taking various initiatives to provide rural credit to the needy people of the society. In 1987, NABARD took an initiative to serve the low-income population of the country with financial services in cost effective manner. This led to the development of a relationship between the informal SHG and the formal banking system. The banks provide loan to the groups for various financial activities. Later on NABARD started with the SHG Bank linkage. Programme as a pilot project in 1992 with the support of the RBI, the Central Bank of India. SHGs are a simple but effective method for poor to help each other. There are some voluntary group of rural poor who face similar situations and problems. It encourages small savings (thrift) among members. SHGs groups are seen as instruments for a variety of goals including empowering women, developing leadership abilities among poop people, increasing school enrolments and improving nutrition and the use of birth control. In SHG approach the numbers of the group learns management of their own money before availing loan from banks and it does not involve any subsidy as other programmes. The SHG movement in India enabled the economic and social upliftment of the women population.

The SHG Bank linkage programme launched by NABARD is treated as normal banking activities for banks and lending to SHGs will be their mainstream credit operation. Banks include SHG Bank Linkage Programme and SHG lending as their co operate strategy, training curriculum for the bank officers and staffs, implementation and periodic monitoring and review. The SHG Bank Linkage Programme in India is considered as one of the biggest micro finance programmes in the world and over the years this programme is adopted as part of the rural finance. By 2005, about 1.6 million SHGs were linked with the banking system with the participation of 48 commercial banks, 196 RRBs, 316 co-operative banks and about 3000 NGO intermediaries in India. The SHGLP was designed and launched which was based on the partnership of banks, SHGs and NGOs, whereas NGOs have actual as an intermediary between SHGs and Banks. NGOs have facilitated and organized SHGs and engaged to build the capacity of SHG members. The banks have acted as the wholesaler of credit and resources.

Shortcomings:

The schemes and programmes are good but effective implementation is the major problem. Theses programmes can pay rich dividend, if constitute an integral part of the growth process. Some people have doubt that Micro Finance can reduce poverty. They believe that-

1. Micro Finance does not reach the poorest of the poor. The extreme poor often decide not to participate in Micro Finance programmes, since they lack confidence or they value the loans to be too risky.
2. The core poor are often not accepted in groups lending programmes by other group members because they are seen as a bad credit risk.
3. Staff members of Micro Finance Institutions prefer to exclude the core poor since lending to them is seen as very risky.

4. The high interest rates and forced loan recovery practices of Micro Finance Institutions have been held responsible for suicides of several farmers in various states of our country. The Government cannot escape from the responsibility for this mess. It is the time to re-examine Micro Finance from the perspective of protecting poor rural and urban households.

Suggestions:

Micro Finance is one of the effective tools to help poor people in the self development perspective. Micro Finance can be one component of the strategy of inclusive growth. Inclusive growth requires a major shift in our planning strategy and much higher allocations for development in plans. Some specific suggestions for promoting, developing and strengthening Micro Finance are put forward for immediate attention of the concerned authority-

1. SHG should be established in every block in order to train the members with management, marketing and accounting skills.
2. Recently, the Reserve Bank of India has declared to open 100 branches of nationalized banks for weaker sections of society to avail Micro Finance. There should be links between Nationalized banks, Regional Rural Banks, Co-operative Banks and Private Micro Finance agencies.
3. Some national award should be declared for the best performing SHG in various states in order to motivate the SHGs for successful operations of Micro Finance.
4. Micro Finance is a vital tool which can increase wellbeing of poor people by providing timely and speedily loans.
5. Effective accounting and monitoring tools are important for the success of programmes.
6. Some SHGs are charging higher rates of interest and exploiting the rural poor people therefore Micro Finance should be managed through market rather than legislation because credit is the liability of SHGs or NGOs.
7. A promising solution of poverty alleviation is to provide multipurpose loans for income generation, housing purpose, consumption purpose, marriage purpose.
8. Eventually, it would be ideal to enhance the credit worthiness of the poor and to make them ‘bankable’ to financial institutions and enable them to quality for long term credit from the formal sector. Micro Finance Institutions have a lot to contribute to this by building financial discipline and educating borrowers about repayment requirements.

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