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FINANCIAL INCLUSION IN RURAL INDIA: THE ROLE OF MICROFINANCE

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ABSTRACT

Financial inclusion has been a key priority for India. Since finance serves as a catalyst for economic development, the relevance of financial inclusion stretches beyond the realm of finance to socioeconomic development. This paper main objective is to examine the relationship between financial inclusion and rural development through micro finance in India and to analyze the performance of micro finance- SHGs Bank Linkage Programme. In India, micro-Finance scene is dominated by Self Help Groups (SHGs) - Banks linkage Programme, aimed at providing a cost effective mechanism for providing financial services to the unreached poor. The focus of this sector must be on Digital Microfinance. Keeping in view the need to increase transparency, address customer-centric issues and safeguard the interests of low-income customers, microfinance lenders must put the interests of their clients first and implement the Code for Responsible Lending and the Code of Conduct in both letter and spirit. Redressing consumer complaints quickly and effectively it should be on top of the agenda for MFIs and the Self- Regulatory Organizations (SROs). It is concluded that the Financial Inclusion plays a vital role in providing economic opportunity and improves the living standard for inclusive growth. Micro-Finance is emerging as a powerful instrument for poverty alleviation in the new economy.

Keywords: *Financial Inclusion, Self-Help Groups (SHGs), Bank Linkage Programme and Self-Regulatory Organizations (SROs).*

INTRODUCTION

Financial inclusion has been a key priority for India. Since finance serves as a catalyst for economic development, the relevance of financial inclusion stretches beyond the realm of finance to socioeconomic development. Its benefits, thus, do not remain limited to the beneficiaries alone but are economy wide. Since its inclusion as a policy objective by the Reserve Bank of India (RBI) in 2005, numerous policy initiatives have been taken both by the RBI, and the Central and State

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Governments for financial inclusion. Certain initiatives taken before 2005 have also majorly contributed to financial inclusion.

Microfinance is one such innovative initiative. It originated in Bangladesh following the establishment of the Grameen Bank, and came to India in 1992 as a pilot programme, which was later developed into the large-scale self-help group (SHG)-Bank Linkage Programme (SBLP) by the National Bank for Agriculture and Rural Development (NABARD). In the 2000s, the SBLP was complemented by the microfinance institutions (MFI)-bank linkage model (RBI, 2008). As the programmes/models evolved, so did the policy approach towards microfinance. From being largely self-regulated during the 1990s and 2000s, it became more robust entity-specific regulation based, involving Non-Banking Financial Companies (NBFCs)- MFIs in the 2010s, which finally paved the way to a harmonized approach involving all regulated entities in the microfinance sector in the 2020s. Over these decades, the microfinance sector has shown a rapid growth in terms of (a) its intermediating institutions starting with banks [commercial and cooperative, and regional rural banks (RRBs)], extending later to NBFC-MFIs, and more recently to small finance banks (SFBs), and (b) its clientele.

The financial inclusion policy, as espoused by the RBI and the Government of India as part of the financial inclusion plans (FIPs) and Pradhan Mantri Jan Dhan Yojana (PMJDY) is associated with meeting bank specific targets of (a) opening bank branches/outlets; (b) opening basic savings bank deposit accounts (BSBDAs) for savings, payments and credit (overdraft); and (c) Kisan Credit Cards (KCCs) and General Credit Cards (GCCs).1 Even though the introduction of microfinance in India predates the formal adoption of financial inclusion as a policy objective, it fits into the policy on financial inclusion in many ways. First, financial inclusion is defined as "the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players". Financial inclusion is for the socio-economically vulnerable sections that are prone to be financially excluded. Microfinance too has a distinct focus on women from the economically weaker sections. The group-based lending under microfinance, which relies on social collateral also underscores the focus of microfinance on the asset-poor sections. Second, financial inclusion involves not just credit but also a bouquet of financial services, including deposits and payments. Microfinance under the SBLP involves the

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provision of savings and credit facilities for its beneficiaries; they are saving-linked before getting credit-linked. Third, the policy on financial inclusion, as evident from the definition, relies on regulated entities as intermediaries. The Indian concept of microfinance too relies on regulated entities, including banks, NBFC-MFIs and SFBs. The extensive involvement of regulated entities, in fact, has distinguished the Indian microfinance sector from those in other countries, relying on semi-regulated or self-regulated MFIs.

FEATURES OF INDIA'S MICROFINANCE SECTOR-Institutions Delivering Microfinance

On accounts of SBLP, banks have been the first and foremost intermediary of microfinance lending directly to SHGs. With the growing popularity of MFI-bank linkage model since the 2000s, banks' financing to MFIs has also picked up. While the size and operations of MFIs expanded, concerns emerged about the lending and recovery practices of these institutions. These concerns prompted the RBI to carve out a newer category of NBFC-MFIs in 2011, and institute a tighter regulatory oversight over these entities to be eligible for priority sector credit from bank. The regulatory oversight has facilitated a fairly disciplined growth of NBFC-MFIs, as they have emerged as the second-most important microfinance intermediary in recent years. SFBs were introduced in 2015 as a differentiated banking institution for financial inclusion. They have emerged as the third-most important intermediary in recent years, displacing the smaller players, such as other NBFCs and non-profit MFIs.

MODELS OF MICROFINANCE DELIVERY FOR BANKS

Microfinance is delivered by banks to their ultimate beneficiaries, namely SHGs and Joint Models of Microfinance Delivery for Banks Microfinance is delivered by banks to their ultimate beneficiaries, namely SHGs and Joint Among banks, public sector and cooperative banks have been the key drivers behind SBLP. By contrast, private sector banks have preferred the MFI bank linkage model Microfinance Beneficiaries. The original idea of microfinance related to beneficiaries organized into SHGs under SBLP. JLGs were introduced in 2004-05 by NABARD for the mid segment clients under microfinance. In recent years, JLGs have emerged as a more important grouping of beneficiaries being financed by banks.

OBJECTIVES OF THE PRESENT PAPER

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- To examine the relationship between financial inclusion and rural development through micro finance in India and
- To analyze the performance of micro finance- SHGs Bank Linkage Programme.

RESEARCH METHODOLOGY

This research paper is based on secondary data. The secondary data has been collected from various journals and magazines such as Economic Survey, The Planning Commission Report, RBI Reports, NABARD Reports, Books and websites.

REVIEW OF LITERATURE

Microfinance Institutions (MFIs): MFIs provide financial services to the underserved segments of society. Studies indicate that MFIs play a critical role in filling the gap left by traditional banks, offering flexible financial products tailored to the needs of rural clients (Srinivasan, 2010).

Some studies argue that the benefits of microfinance are overstated and that it is not a panacea for poverty (Duvendack et al., 2011). There are calls for more sustainable and inclusive financial models. Despite its successes, microfinance faces several challenges. High interest rates, over-indebtedness, and lack of financial literacy are significant concerns (Bateman and Chang, 2012).

In India, research by Swain and Varghese (2013) shows that microfinance has led to increased household income, improved health, and better education for children in rural areas.

The Indian government has launched several initiatives to promote financial inclusion, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), which aims to provide universal banking access (Government of India, 2014).

NABARD's SHG-Bank Linkage Program has been a cornerstone of financial inclusion efforts, linking millions of SHGs with formal financial institutions (NABARD, 2018).

The rise of fintech companies offering microloans through digital platforms has further expanded the reach of microfinance in rural India (Ghosh, 2020).

PROGRESS OF SAVINGS LINKAGE OF SHGS WITH BANKS (2019-20 TO 2021-22)

As savings grow, the eligibility of SHGs for accessing loans from banks/FIs also grows and thus their business investment potential increases. In 2021-22, banks reported an addition of 6.7 lakh SHGs savings linked at all-India level, registering a growth of 5.97% compared to 9.57% in 2019- 20. The lower growth is a result of saturation of the programme in many regions. The region-wise comparative analysis reveals that in terms of the number of SHGs savings linked with banks, positive growth was registered across all regions during the 2021-22.

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Table 1: Region-wise progress of Saving Linked SHGs with Banks (2019-2020 to 2021-22) (Rs. Lakh)

Name of the Regions	2019-20		2020-21		2021-22	
	No.of SHGs	Savings Amount	No.of SHGs	Savings Amount	No.of SHGs	Savings Amount
Northern	5,77,122	59,550	6,09,808	1,74,345	6,80,143	1,99,582
North-Eastern	5,56,899	48,141	6,33,714	83,126	6,80,845	1,06,441
Eastern	28,11,130	6,64,333	31,22,424	7,74,912	32,43,980	13,58,595
Central	11,35,083	1,71,217	13,45,575	2,11,870	13,55,564	3,25,696
Western	14,73,853	2,01,880	15,50,176	3,74,023	16,88,451	3,27,691
Southern	36,89,236	14,70,085	39,61,703	21,29,485	42,44,070	24,06,043
Total	**1,02,43,323**	**26,15,206**	**1,12,23,400**	**37,47,761**	**1,18,93,053**	**47,24,048**

Source: NABARD, Micro Credit Innovations Department, Status of Micro Finance in India, 2021-22.

Table 1 shows the increasing trend observed in savings linkage during the year, cumulative savings of SHGs with banks also registered an increase from Rs.261.52 lakh crore in 2019-20 to Rs.472.40 lakh crore in 2021-22. In terms of savings amount, the Southern region had the highest Rs.147.01 lakh crore in 2019-20 to Rs.240.60 lakh crore in 2021-22, followed by the Eastern region, Western, Central, Northern and North-Eastern regions.

CREDIT DISBURSEMENT BY BANKS

Credit amounting to Rs.99729 crore was disbursed by banks to 34 lakh SHGs during 2021-22 as against Rs.58071 crore to 29 lakh SHGs during 2020-21, registering a growth of 72% and 18% in quantum of credit disbursed and number of SHGs credit linked during the year, respectively. The comparative details of bank loans disbursed to SHGs for the last three financial years (2019-20 to 2021-22) are given in Table 2.

Table 2: Region-wise Status of Bank Loan Disbursed to SHGs from 2019-20 to 2021-22 (Rs.lakh)

Name of the Regions	2019-20			2020-21			2021-22		
	No.of SHGs	Total Loan Disbursed	Average Loan Disbursed	No.of SHGs	Total Loan Disbursed	Average Loan Disbursed	No.of SHGs	Total Loan Disbursed	Average Loan Disbursed
Northern	62,905	84,694	1,34,637	67,658	94,045	1,39,001	79,532	1,17,102	1,47,239

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North-Eastern	37,807	57,893	1,53,128	68116	1,03,651	1,52,168	94,871	1,84,636	1,94,618
Eastern	11,23,517	17,85,075	1,58,883	11,24,578	14,87,551	1,32,276	13,01,505	25,68,978	1,97,385
Central	1,11,074	1,04,249	93,856	1,28,617	1,05,428	81,971	1,84,322	2,16,983	1,17,720
Western	1,74,218	2,49,327	1,43,112	1,61,159	2,30,331	1,42,921	2,39,086	3,81,363	1,59,509
Southern	16,36,481	54,84,696	3,35,152	13,37,266	37,86,063	2,83,120	14,98,951	65,03,860	4,33,894
Total	**31,46,002**	**77,65,935**	**2,46,851**	**28,87,394**	**58,07,068**	**2,01,118**	**33,98,267**	**99,72,923**	**2,93,471**

Source: NABARD, Micro Credit Innovations Department, Status of Micro Finance in India, 2021-22.

Table 2 shows the Region-wise Status of Bank Loan Disbursed to SHGs from 2019-20 to 2021-22. Credit disbursement to SHGs in 2021-22 witnessed an increase across all regions over 2020-21 with the highest growth rate being 106% in the Central region. Disbursement was highest in the Southern region with Rs.65039 crore to 15 lakh SHGs and lowest in the Northern region at Rs.1171 crore to 0.8 lakh SHGs. A comparative analysis of region-wise percentage share in credit linkage of SHGs during the last three years (2019-2020 to 2021-22) reveals that NER, Central and Western regions have increased their share, while a decline of nearly 8 percentage points is observed in the share of Southern region from 2019- 2020 to 2021-22. In the case of the Northern & Eastern regions, their respective shares have remained almost constant. During the year, however, the Southern region has the highest percentage of SHGs credit linked at 44.11%, closely followed by the Eastern region at 38.30%. The proportion of credit linked SHGs in the Northern, North Eastern, Central and Western regions remained below 8%.

CREDIT OUTSTANDING

The Region wise SHGs having Loans Outstanding as on 31st March 2022 is presented table 3 hereunder:

Table 3: Region wise SHGs having Loans Outstanding (As on 31st March 2022)

(Rs.lakh)

Name of the Regions	**SHGs Credit Linked (No.)**	**Loans outstanding with SHGs**	
		Total	**Per SHG**
Northern	1,61,848	1,65,378	1.02

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North-Eastern	2,12,009	2,36,245	1.11
Eastern	24,59,218	35,29,425	1.44
Central	4,07,004	3,25,178	0.80
Western	3,91,082	4,49,277	1.15
Southern	31,08,796	1,03,99,627	3.35
Total	**67,39,957**	**1,51,05,130**	**2.24**

Source: NABARD, Micro Credit Innovations Department, Status of Micro Finance in India, 2021-22.

Table 3 depicts the Region wise SHGs having Loans Outstanding (As on 31st March 2022). **A**s on 31 March 2022, a total of 67 lakh SHGs credit linked had loans outstanding of Rs1,51,051.30 crore with loan outstanding per SHG amounting to Rs.2.24 lakh at the all-India level. Region-wise, the Southern region has the highest loan outstanding as on 31 March 2022, both cumulatively and on per SHG position.

AGENCY WISE DISTRIBUTION OF SHG BANK LINKAGE PROGRAMME

Commercial Banks, RRBs and Co-operative Banks play a pivotal role in strengthening the SHG-BLP through provision of savings and credit services. The Agency-wise status of SHG-BLP is given in Table 4. As on 31 March 2022, Commercial Banks through their vast network of banking operations have done exceedingly well, with over 69 lakh SHGs having saving accounts with them.

Table 4: Agency-wise status of SHG-BLP in 2021-22

(Rs.lakh)

Category of Agency	**Total Savings of SHGs with Banks**		**Loans disbursed to SHGs by Banks**		**Total outstanding Bank Loans against SHGs**		**NPAs**	
	No.of SHGs	**Savings Amount**	**No.of SHGs**	**Loans disbursed**	**No.of SHGs**	**Loan Outstanding**	**Amount of Gross NPAs**	**NPA (%)**
Commercial Banks	68,87,508	30,72,648	20,79,254	61,22,577	41,81,656	1,02,65,757	3,31,856	3.23
% Share	57.91	65.04	61.19	61.39	62.04	67.96	57.78	
RRBs	35,83,219	13,79,125	11,05,178	32,59,124	20,29,015	39,48,866	1,24,172	3.14
% Share	30.13	29.19	32.52	32.68	30.10	26.14	21.62	
Co-operative Banks	14,22,326	2,72,275	2,13,835	5,91,221	5,29,286	8,90,507	1,18343	13.29
% Share	11.96	5.76	6.29	5.93	7.85	5.90	20.60	
Total	**1,18,93,053**	**47,24,048**	**33,98,267**	**99,72,923**	**67,39,957**	**1,51,05,130**	**5,74,371**	**3.80**

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Source: NABARD, Micro Credit Innovations Department, Status of Micro Finance in India, 2021-22.

Table 4 shows the Agency-wise status of SHG-BLP in 2021-22. Thus, in terms of number of SHGs saving with banks, Commercial Banks lead with 58% share, followed by RRBs at 30% (35.83 lakh SHGs) and Co-operative Banks at 12% (14.22 lakh SHGs). Commercial Banks also dominate the share in disbursements and loans outstanding in respect of SHGs. The absolute level of NPAs has commercial Banks 57.78 %, followed by RRBs at 21.62% and Co-operative Banks at 20.60% in 2021-22.

CONCLUSION

The Financial Inclusion is play vital role of economic opportunity and improves the living standard for inclusive growth. Microfinance changing the face of poor India Micro-Finance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, micro-Finance scene is dominated by Self Help Groups (SHGs) - Banks linkage Programme, aimed at providing a cost effective mechanism for providing financial services to the unreached poor. The sector is, therefore, expected to widen the horizon beyond micro credit to transform the livelihoods of the borrowers. Being constantly mindful of the technological transformation in the banking and financial services industry, the sector must continue to pursue the adoption of innovative, futuristic and high-impact business models. The focus of the sector must be on Digital Microfinance. Keeping in view the need to increase transparency, address customer-centric issues and safeguard the interests of low-income customers, microfinance lenders must put the interests of their clients first and implement the Code for Responsible Lending and the Code of Conduct in both letter and spirit. Redressing consumer complaints quickly and effectively should be on top of the agenda for MFIs and the Self-Regulatory Organizations (SROs).

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