
Research Paper**'THE IMPORTANT ROLE OF MICRO AND SMALL FINANCE AND SELF HELP GROUPS IN FINANCIAL INCLUSION'****Prof. Ranjana V. Bansude**Assistant Professor, Department of Commerce,
A. R. Burla Mahila Varishtha Mahavidyalya, Solapur.**ABSTRACT:**

The purpose of this paper is to examine the role of micro finance in the empowerment of people and the realization of financial inclusion in India. While there are reservations about the efficacy of MFIs in handling public money, their growth and achievements demand attention and appreciation. Today the MFIs want the government to empower them for mobilizing savings. With increasing demand for rural finance, and the inadequacies of formal sources, the MFIs have immense opportunities in the new avatar of micro credit in India. However, in the light of recent experiences, and the need for qualitative growth, we suggest that MFIs should be managed with better scrutiny in terms of finance and technology as well as social responsibility. This is of utmost importance in order to upgrade MFIs from thrift and credit institutions to capacity building and livelihood- sustaining associations of people. NGOs have played a commendable role in promoting Self Help Groups linking them with banks. There is, therefore, a need to evolve an incentive package which should motivate these NGOs to diversify into other backward areas.

KEYWORDS: Financial Inclusion, Micro finance, NGO, Self-Help Groups(SHG), Mutual Fund Institutions (MFI).

INTRODUCTION:

"Nearly forty years after nationalization of banks, 60% of the country's population do not have bank accounts and nearly 90% do not get loans," India has been currently the second-highest number of financially excluded households in the world. While, 40% of India's population have bank accounts, and about 10% have life insurance cover, a meagre 0.6% has non-life insurance cover. Financial services actively contribute to the humane & economic development of the society. These lead to social safety net & protect the people from economic shocks. Hence, each & every individual should be provided with affordable institutional financial products/services popularly called "Financial Inclusion".

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial products & services are identified as basic banking services like deposits accounts, institutional loans, access to payment, remittance facilities & also life & non-life insurance services.

The following are the denotation & connotation of financial inclusion in India.

1. Affordable credit
2. Savings bank account
3. Payments & Remittance
4. Financial advice
5. Credit/debit cards
6. Insurance facility
7. Empowering SHGs(self-help groups)

The need for Financial Inclusion:

Despite witnessing substantial progress in financial sector reforms in India, it is disheartening to note that nearly half of the rural households even today do not have any access to any source of funds- institutional or otherwise. Hardly one-fourth of the rural households are assisted by banks. Hence the major task before banks is to bring most of those excluded, i.e. 75% of the rural households, under banking fold. But the task is not so easy since they are illiterate, poor and unorganized. They are also spread far and wide. What is needed is to improve their living standards by initiating new/increased economic activities with the help of banks, NGO's and local developmental agencies. To start with, it is necessary to develop a fair understanding of their profile. In addition, their perception about the bank and its services needs to be understood. So there is a need for the formal financial system to look at increasing financial literacy and financial counseling to focus on financial inclusion and distress amongst farmers. Indian banks and financial market players should actively look at promoting such programs as a part of their corporate social responsibility. Banks should conduct full day programs for their clientele including farmers for counseling small borrowers for making aware on the implications of the loan, how interest is calculated, and so on, so that they are totally aware of its features. There is a clearly a lot requires to be done in this area.

Micro finance: Issues of Concern

Microfinance programmes are intended to reach poor segments of society as they lack access to financial services. It, therefore, holds greater promise to further the agenda of financial inclusion as it seeks to reach out to the excluded category of population from the banking system. The predominant micro finance programme namely SHG bank linkage programme has demonstrated across the country its effectiveness in linking banks with excluded category of poor segments of population. In this process, the role of development NGOs is quite pronounced in providing the last mile connectivity as enablers and catalyst between the SHGs / Village level co-operatives and the banks. This is also supplemented by the MFIs delivering credit. Since 1992, another popular movement i.e. Self Help Groups is being implemented. The SHG movement is a popular one thereby financial inclusion is achieved to a considerable extent. The following table will explain the success of the programme. RBI wanted banks to extend credit card facilities to Farmers to carry out their agricultural operations uninterruptedly. For this, during 1998-99 a scheme called,, Kissan Credit Cards" was launched and as on 31st March 2008-76 million cards were issued (Source: CMIE publication 2007-08).

Progress of SHG bank linkage program in India: (Source: NABARD)

Parameter	As on			
	March 1993	March 1996	March 2006	March 2007
SHG Linked	255	4757	2238525	2924973
% of women groups	70	74	90	90
Families assisted (million)	0.005	0.08	32.98	40.95
Banks participating	14	95	501	498
SHG Promoting partners	32	127	4323	4896
Districts covered	26	157	572	587
Cumulative Bank Loan (Rs. In million)	2.58	53.32	113974.01	180407

The success of few Non Governmental Organisations (NGOs) like Mysore Resettlement and Development Agency (MYRADA) in-group lending, made the government in shifting the strategy of women development and empowerment. The linkage between "self help groups" and banks has been highly successful in furthering financial inclusion. The cooperation between the formal banking system and micro-finance organisations has also been encouraging. Micro finance (MF) in the recent past has emerged as a potential instrument for poverty alleviation and women empowerment. MF intervention refers to provision of access to small loans without physical collateral to the poor, especially the women, while encouraging them to save regularly in order to combine thrift and self-help for their own development. MFIs consist of Refinance Institutions, Banks, Non Government Organisations and Self Help Groups dealing with small loans and deposits in rural, semi urban or urban areas enabling people to raise savings, productive investments and thereby their standard of living (Nadarajan and Ponmurugan, 2006). As already told one of the ways in which access to formal banking services has been provided very successfully since the early 90s is through the linkage of Self Help Groups (SHGs) with banks. SHGs are groups of usually women who get together and pool their savings and give loans to members. Usually there is a NGO that promotes and nurture these groups. National Bank for Agriculture and Rural Development has played a very significant role in supporting group formation, linking them with banks as also promoting best practices. The SHG is given loan against guarantee of group members. The recovery experience has been very good. Banks provide credit to such groups at reasonable rates of interest. However the size of loans is quite small and used mostly for consumption smoothening or very small businesses. In some SHGs, credit is provided for agricultural activities and other livelihoods and could be several times the deposits made by the SHG. Microfinance has drawn attention to an entire sector of borrowers who had been previously poorly served by the formal financial sector - and MF has demonstrated how to make lending to this sector a viable proposition. However the rates of interest charged are quite high, typically 12 to 30 per cent, mainly on account of the high transaction cost for the average loan size that can be quite small. Compared to the informal sector, perhaps the rates are lower, but issues are raised whether these rates are affordable in the sense whether they would leave any surplus in the hands of the borrowers and lead to higher levels of living. For commercial banks, the lower cost of funding, advantages of size and scale gives scope for cross subsidization and their interest rates are more competitive compared to the MFIs, but they have not been as successful in dealing with the last mile issue. The partnering with SHGs and MFIs with reasonable cost of funding by the banks has been seen as a more optimal approach till now (Thorat, 2007b). The financial inclusion attained through SHGs is sustainable and scalable on account of its various positive features. One of the distinctive features of the SHGBLP has been the high recovery rate. However the spread of SHGs is very uneven and is more concentrated in southern states. This regional imbalance needs to be corrected and special efforts in this regard may have to be made by NABARD. SHGs also needed to graduate from mere providers of credit for nonproductive purposes to promoting micro enterprises. However, there is no need to provide interest rate subsidy to the SHGs. Banks do provide them credit at reasonable rate of interest (Rangarajan, 2007). The SHG-Bank Linkage Programme launched by NABARD in 1992 continues to be the predominant Micro-Finance (MF) model in the country. It represents the union of the banking system comprising the public and private sector commercial banks, Regional Rural banks (RRB), and Co-operative Banks with several organizations in the formal and semiformal sectors to facilitate the provision of financial services to a large number of poor clients. It is a proven method of financial inclusion, providing un-banked rural clientele with access to formal financial services from the existing banking infrastructure.

Micro finance still plays a modest role in India. At the All India Level less than 5 per cent of poor rural households have access to micro finance (as compared to 65 per cent in Bangladesh) with significant variation exists across the states (Basu and Srivastava, 2005). Financial inclusion is not just credit dispensation, its about connecting the people with the banking system for availing bouquet of financial services including access to payment system. The critical issue, in the first place, is to connect and the SHG bank linkage programme since the 90s ranks, by far, the major programme

initiative without parallel in any parts of the world for the financial inclusion. The uniqueness of the SHG Bank Linkage programme lies in the fact that it is not mere delivery of financial services but has an inherent design for promoting financial literacy. As the financial literacy increases, the financial inclusion gets more sustainability and stability in terms of being inclusive on a long haul. With more than 2.3 million SHGs reaching more than 30 million poor households the first small but significant step has been taken in financial inclusion. The SIDBI engagement with Microfinance institutions has proved to be a significant step forward with MFIs chipping in effective compliment for the banking system as a vehicle for delivery and connectivity. Interestingly, there have been many development interventions on livelihoods, watershed and tribal development in the country with the initiative of development NGOs, which have been furthering the financial inclusion by linking the programme participants with the banking system. SHG and Bank linkage SHG bank linkage by far is an effective instrument for financial inclusion. Considering the importance of linkage the bank accounts of SHGs provide the first link for the members of SHG for graduation to individual family accounts in due course. This process need to be respected and encouraged to facilitate informed inclusion process. That opening of bank accounts (Savings) is the beginning of beginning of the financial inclusion process, that is means to achieve larger end of financial inclusion. That the federation of SHG as an apex body play a an effective complementary role to spread the financial inclusion To achieve faster spread of financial inclusion, it is vital that the stake holders and it particular commercial bank recognize the need to take the banking services with the technological support to the people rather than waiting for the people to reach out to the banks.

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CONCLUSION:

The Micro Finance Institutions are an integral part of financial inclusion and instrumental in providing last mile connectivity". But there need to be a balance. „They should be kept viable but within certain boundaries". At present, these MFI across the country is under stress. The Reserve Bank of India has set up a committee under the chairmanship of Mr. Y. H. Malegam to examine the issues confronting the microfinance industry, including their interest rate structure and suggest recommendation. While working on this direction of bringing awareness among public, the Government should focus on creating an environment by providing public infrastructure that reduces transaction cost in remote areas like connectivity, Unique Identification Code, etc. Encouraging competition among financial providers by giving more bank licences. Policy on new bank licenses will be announced by RBI by January 2011. Focusing on rules based regulation to minimize political risk. Using quality research to assess long term implications of big policy decisions like loan waiver. Wide publicity and strictly implementing the concept of Financial Literacy and Credit Counseling to educate the public in proper utilization of financial services offered by the service providers. Financial inclusion will be real and successful only when the small and marginal farmers and landless labourers have unhindered access to the financial services like Savings, Credit, Micro insurance and remittance facilities.

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