Volume-3, Issue-7, July-2014 • ISSN No 2277 - 8160

Research Paper

Social Science

Financial Inclusion Process in India: An Analysis

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ABSTRACT

Financial inclusion can be defined as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. In the case of credit, the proper definition of the financially excluded would include households who are denied credit in spite of their demand. Rapid progress in SHG formation has now turned into an empowerment movement among women across the country.

KEYWORDS : Financial Inclusion, Microfinance, SHGs, Women Empowerment.

Financial inclusion can be defined as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. In the case of credit, the proper definition of the financially excluded would include households who are denied credit in spite of their demand. Microfinance is the fastest growing sectors of India; microfinance is spearheading intense competition among the largest players. By the end of March 2009, microfinance institutions expanded their outreach to 50 million households and about 38 million borrowers. These institutions are organized under three models: SHG, Grameen model/Joint liability groups and Individual banking groups as in cooperatives. As of March 2009, both SHG bank linkage and MFIs have collectively disbursed US$3.9 billion to the poor. "The remarkable success of the Grameen Bank in Bangladesh is a good example that visionary micro credit movement, led by Muhammad Yunus, has consistently aimed at removing the disadvantage from which women suffer, because of discriminatory treatment in the rural credit market, by making a special effort to provide credit to women borrowers. The result has been a very high proportion of women among the customers of the Grameen Bank. The remarkable record of that bank in having a very high rate of repayment (reported to be close to 98 percent) is not unrelated to the way women have responded to the opportunities offered to them and to the prospects of ensuring the continuation of such arrangements. Also in Bangladesh, similar emphasis has been placed on women's participation by BRAC, led by another visionary leader, Fazle Hasan Abed". (Amarthya Sen, 2006). Conceptually the, microfinance methodologies could be classified into five groups as follows viz; Grameen solidarity model, the group approach , individual Credit, Community Banking, Credit banking and, credit unions and cooperatives.

Hence, this paper is based on secondary data and it focuses on Financial Inclusion process in India: An analysis.

Financial Inclusion in India:

Financial inclusion can be defined as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. In the case of credit, the proper definition of the financially excluded would include households who are denied credit in spite of their demand. Although credit is the most important component, financial inclusion covers various other financial services such as savings, insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded (S. Mahendradev: EPW: 2006). A key barrier for vulnerable groups is financial exclusion. In 2003, nearly 80 per cent of non-farming households had no access to credit from any source and thus could not invest in productivity enhancing assets (NSSO). They also had no affordable access to other financial services such as savings, insurance, and payment and remittance facilities at an affordable cost. Though efforts have been taken to extend financial services to unbanked rural areas, this remains a concern (Economic Survey 2012-13).

The RBI also introduced a General Credit Card scheme in 2006 to provide access to credit to non-agricultural clients in rural and semi-urban areas along the lines of the Kisan Credit Card scheme. In 2008, the Rangarajan Committee stressed that all households must be covered by 2015 and suggested the creation of two funds: the Financial Inclusion Promotion and Development Fund and Financial Inclusion Technology Fund, by the government, the RBI and NABARD.

Table No 1 shows the financial inclusion in India, total number of banking outlets in villages are 54,258 in 2010 but that increased to 1,47,534, branches also increased by 24701 in 2012, and then amount of savings also increased.

Table No 1: Financial Inclusion in India

Particulars	March 2010	March 2011	March 2012
Total number of banking outlets in villages	54,258	1,00,183	1,47,534
Through branches	21,475	22,662	24,701
Through BCs	32,684	77,138	1,20,355
Through other modes	99	383	2478
Number of no-frills accounts (million)	50.3	75.4	105.5
Amount in savings (Rs crore)	4260	5700	9330

Source: RBI

Micro-Finance: Self Help Group-Bank Linkage Programme:

The RBI recognized the problem of financial exclusion in the annual policy statement in 2005 and since then has initiated several policies aimed at promoting financial inclusion of especially pensioners, the self-employed and those employed in the unorganized sector. Some of these include "no frills" banking accounts, a simplified general purpose credit card (GCC), introduction of a pilot project for 100 per cent financial inclusion, etc. NABARD has also taken several initiatives that have significantly contributed to financial inclusion. The self-help group (SHG)-bank linkage programme of NABARD is an innovative programme. It started as a pilot programme in 1992.

In developing countries 'Micro credit' has been coined as banking for poor people. In rural areas revolutionary step taken place by the government through introducing the micro credit facility in two ways those are 'Self Help Groups-bank linkage' and 'Microfinance institutions'. That has proved that a small thing makes a lot of difference. It has become in India too. SHG-Bank Linkage Programme, since its project in 1992, has emerged as the leading micro-finance programme in the country. It is recognized as an effective tool for extending access to formal financial services to the unbanked rural poor. Encouraged by the success, the programme has been adopted by state government as a major poverty alleviation strategy. It has also led to the emergence of Micro Finance Institutions (MFIs) as a bridge between the banking sector and the rural poor (NABARD: 2008-2009).

The SHG – Bank Linkage Programme started as an Action Research Project in 1989. In 1992, the findings led to the setting up of a Pilot Project. The pilot project was designed as a partnership model between three agencies, viz., the SHGs, Banks and Non Governmental Organizations (NGOs).The SHG Bank linkage Programme which started in 1992 has grown exponentially over two decades and around 74.62 lakh SHGs are linked to different Banks up to 2011 . Of these nearly 65 per cent have direct credit link with bank. Out of these 74.62 lakh SHGs 60.98 lakh are women SHGs.

The pattern of funds flow during 2006-10 to self-help groups and microfinance institutions – the two competing institutional arrangements of micro finance delivery in India – reveals that the commercial banking system had steadily shifted its patronage to large MFIs from the mid-2000s. Increased access to equity capital helped these MFIs improve their capital adequacy, which, in turn, helped them leverage the domestic debt market. They also resorted to newer ways of raising capital through product structuring and introduction of innovative debt instruments. MFIs thus played a significant role in linking the processes of neo-liberal restructuring and financialisation with the daily lives of local communities (T.S.Nair, EPW:2012).

Table no 2: Progress of Micro-finance Programme

Year	SHGs Financed by Banks during the year*			Bank Loan Outstanding		
	No. (lakh)	Amount	Growth	No. (lakh)	Amount	Growth
2007-08	12.28	8849.26	-	36.26	16999.90	-
2008-09	16.09	12256.51	38.50	42.24	22679.85	33.41
2009-10	15.87	14453.30	17.90	48.52	28038.28	23.62
2010-11	11.96	14547.73	0.65	47.87	31221.17	11.35
2011-12	11.48	16534.77	13.66	43.54	36340.00	16.40

Source: NABARD. Economic Survey of India, 2012-13, Government of India, New Delhi.
Note: *Includes new as well as repeat loans to SHGs

The above table No. 2 shows the progress of Self-Help Bank Linkage programme in India from 2008 to 2012. The Self-Help Group (SHG)-Bank Linkage Programme has emerged as the major micro-finance programme in the country. It is being implemented by commercial banks, Regional Rural banks (RRBs), and co-operative banks. Under the SHG-Bank Linkage Programme, as on 31 March 2012, 79.60 lakh SHG-held savings bank accounts with total savings of 6,551 crore were in operation. By November 2012 another 2.14 lakh SHGs had come under the ambit of the programme, taking the cumulative number of savings-linked groups to 81.74. As on 31 March 2012, 43.54 lakh SHGs had outstanding bank loans of 36,340 crore (Economic Survey: 2012-13).

CONCLUSION:

In conclusion we can say that financial inclusion process empowered the women both in rural and urban areas. This clearly shows the financial inclusion would be important tool for economic empowerment of women. Microfinance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, Microfinance scene is dominated by Self Help Group (SHGs)-Bank Linkage Programme as a cost effective mechanism for providing financial services to the “Unreached Poor” which has been successful not only in meeting financial needs of the rural poor women but also strengthen collective self help capacities of the poor, leading to their empowerment.

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