RESEARCH PAPER | Management | Volume : 5 | Issue : 11 | November 2015 | ISSN - 2249-555X

Financial Inclusion -- A Key to Micro Finance

KEYWORDS

Nishant Thard	Jagwinder Singh
Research Scholar Centre for Management Studies Dibrugarh University	Research Scholar Department of Commerce Dibrugarh University

ABSTRACT *Microcredit is a recent addition to India's poverty-alleviation strategy. Finance plays a very dominant role in a person's economic work life balance. For this an individual needs to get exposed to the various financial services present at his/her disposal. The paper is an attempt to examine the role of PMJDY in expanding banking services for financial inclusion and to identify the main problems prevailing in microfinance in India. The roadway towards the success of micro finance can be achieved with the help of financial inclusion as it is the basic tool to bridge the gap between the poor population and formal financial institutions. There are various issues which the govt. and financial institution have to face in the proper implementation of the financial inclusion schemes. Without the proper functioning of these schemes, it is quiet implacable to achieve micro finance objectives.*

Introduction

Finance plays a very dominant role in a person's economic work life balance. For this an individual needs to get exposed to the various financial services present at his/her disposal. Access to such financial services plays a critical part in facilitating economic growth and reducing income inequality as well. Inclusive finance allows poor people to smoothen their consumption and insure themselves against the various economic vulnerabilities. Financial inclusion enables poor people to save and also to borrow - allowing them to build their assets, to invest in education and livelihood opportunities, and thus to improve their quality of life. Inclusive finance especially benefits the disadvantaged group of the society such as women, youth and rural communities who are left aside by the financial service providers as they are always in search of business and profits from the big sharks of the society who are economically well developed. For all these reasons financial inclusion has gained prominence in recent years, across the world as a policy objective to improve the lives of the people living below the poverty line. Recognizing the fact that 2.5 billion adults worldwide are 'unbanked' the World Bank has put forward a vision for achieving universal financial access to all those unheralded population by 2020. More than 50 countries, including India, have made ambitious commitments to financial inclusion targets. Thus, financial inclusion implies expanding access to financial services to those currently not accessing them and is becoming the buzz of the hour in many developing countries.

Meaning of financial inclusion

The goal of financial inclusion is to develop financial markets that responsibly serve more people with more products at lower cost. Financially inclusive markets comprise a broad, interconnected ecosystem of market factors and infrastructure delivering financial products safely and efficiently to low-income customers. These market factors may include banks, financial cooperatives, e-money issuers, payment networks, agent networks, insurance providers, microfinance institutions, and more.

Meaning of micro finance

Microfinance is the provision of financial services to low-income people. It refers to a movement that envisages a world where low-income households have permanent access to high-quality and affordable financial services to finance income-producing activities, build assets, stabilize consumption, and protect against risks. Initially the term was closely associated with microcredit—very small loans to unsalaried borrowers with little or no collateral security—but the term has since evolved to include a range of financial products, such as savings, insurance, payments and remittances.

Microfinance institutions and other financial service providers have worked to develop products and delivery methods to meet the diverse financial needs of low-income people. For example, unlike other forms of lending, microcredit loans use methodologies such as group lending and liability, pre-loan savings requirements, and the gradually increase in loan sizes to evaluate clients' credit worthiness. Microfinance providers today continue to improve their understanding of the financial needs of their target clients and tailor their products and methodologies accordingly.

Financial inclusion efforts today build upon the work of microfinance providers over the last several decades. What began as the provision of loans to poor people for the purpose of building microenterprises has evolved into a global effort to provide poor people with access to a range of financial products and services. Financial inclusion efforts seek to make these and other products available to everyone in a safe, cost effective and convenient manner.

Objective of the study

1. To examine the role of PMJDY in expanding banking services for financial inclusion
2. To identify the main problems prevailing in microfinance in India.

Methodology:

The paper is analytical in nature. The data source used for the study is from secondary sources. Data published by various institutions such as Government of India, World Bank, , etc are used for this paper.

Volume : 5 | Issue : 11 | November 2015 | ISSN - 2249-555X

Discussions of the paper:
Last year, the government had launched the high-profile financial inclusion programme, Pradhan Mantri Jan Dhan Yojana, aimed at ensuring that all households should have a bank account. The Yojana had resulted in the opening of 125 million new bank accounts by the end of January 2015. The following are the outcomes of PMJDY:-

Table1 : Pradhan Mantri Jan Dhan Yojana (Accounts Opened upto 09.09.2015)

(All Figures in Crores)

Sl. No.	Banks	No. of accounts			No. of Rupay debit card	Balance in accounts (in Rs. Crores)	% of zero balance accounts
		Rural	Urban	Total			
1	Public Banks	7.82	6.39	14.22	12.88	18626.71	42.90
2	Rural Regional banks	2.78	0.47	3.26	2.40	3956.66	44.17
3	Private banks	0.42	0.28	0.71	0.63	1116.47	42.25
	Total	11.03	7.15	18.18	15.91	23699.84	43.12

Data Source: www. pmjdy.gov.in/account-statistics-country.aspx

(i) Total of the accounts that are opened under the scheme comes to 18crore 18 lacs approx which includes accounts opened in public, private and regional rural banks.
(ii) Out of the total accounts it is evident from the fact that maximum accounts were opened by the public sector banks which is almost 20 times the private sector banks as because the private sector banks are more involved in doing business activities and show very less concern for the financial inclusion of the country, as it is evident from the fact that the accounts do not give any business to the private commercial banks.
(iii) The schemes led wings to the rural people to avail the banking services, and it is also evident from the table that maximum numbers of the accounts are opened in the rural areas as compared to urban areas. As a result, the peripheral services like the ATM's, Debit card, pass book, etc will also be demanded more.
(iv) This scheme has brought a huge influx of money into the economy as a result of which the MFI's or the banks can enlarge their financing activities for the micro credit seekers.
(v) An amount of total ***23699.84 crores*** came to the banking industry which can be further used to enhance the micro finance activities.

India accounted for nearly half of the dormant bank accounts in the world - 195 million out of the total of 460 million. 72 % of the new accounts opened under the PMJDY scheme showed zero balances, maybe because many new account holders may not yet have had an opportunity to use their accounts—especially since the accounts were not set up for an explicit purpose, such as to receive wages or government transfer payments, etc.

Table 2: Table showing figures of bank accounts of India and world

Have an account at bank or financial institution	
India	52.8%
World	60.7%

Data source: *World Bank Financial Inclusion Database*

As compared to the world statistics, 53% approximate Indian population is only exposed to have a bank account, which shows that almost 50% of the population in India is still not a part of the formal banking services as compared to the world. The reasons might be the gap between the banks and the rural population in India which is ignored and niggarded by the formal banking industry. So it is a challenge for the government of India to bridge up this gap so that it can lead to financial inclusion in the form of micro financing.

Table 3: Table showing figures of bank accounts account used to receive wages and to make government transfer of India and world

Account used to receive wages and govt. transfers		
	Wages	Govt. transfer
India	4 %	3.6 %
World	17.7%	8.2 %

Data source: World Bank Financial Inclusion Database

The two most important financial services of government being wages and government transfers which should have been channelized via the banks by the government is in itself accounts to only 4% and 3.6% approx.

Table 4: Table showing figures Borrowing from financial institution, family or friends and informal lender of India and world

Borrowing from financial institution, family or friends and informal lender			
	Financial Institution	Family or Friends	Informal Lenders
India	6.4 %	32.3 %	12.6%
World	10.7%	26.2 %	4.6%

Data source: World Bank Financial Inclusion Database

Table 4 shows the main service of borrowing which is one of the main aim of micro finance and should have been channelized through the commercial banks, but the reality as depicted by the data and shown in the tabular form shows that the lending from the financial institutions is very less as compared to the other informal sources like friends, relatives and the indigenous bankers as well. This is again posing a major threat to the economy as because the banking services are not at reach to all the needy people.

Together with this, the fact of collateral security which is again a major issue in availing any kind of borrowing is also creating a problem, which gives a way to the other individual parties to act as a lender and serve as a bank for the borrowers; which in return is killing the Micro finance Institutions of the economy.

Issues in Microfinance
There are various issues which resists the growth of microfinance are: -

Low Outreach: In India, MFI outreach is very low. Great potential of MFIs in increasing their outreach and scale of

Volume : 5 | Issue : 11 | November 2015 | ISSN - 2249-555X

operations in India but the reach to the real needy people is very low. It has also been observed that MF programmes focus a great deal of attention on women rather than male clients. The reason as it is argued is that women are better clients as they are more inclined to save and repay than men.

High Interest Rate: MFIs are charging very high interest rates, which the poor find difficult to pay. It has been argued that MFIs are private entities and hence need to be financially sustainable. They do not receive any subsidized credit for their lending activities and that is why they need to recover their operational costs from borrowers. In the process, the basic reason for their existence-and their primary objective-is being lost.

Loan Default: Loan default paves a way for the delay and costly process which takes a lot of time and cost before processing any loan. This default is an issue that creates a problem in growth and expansion of the organization.

Low Education Level: The level of education of the microfinance clients is very low. Target population of MFIs is people of rural areas and they have no or less education level. As the percentage of educated people is very less in the rural areas, it becomes very difficult for the MFI's to make the clients understand the policy related documents.

Late Payments: Repayment of loan as well as the EMI's is a big task for the microfinance clients. Thus, they many a times don't repay back the loan. This usually occurs because clients are uneducated and they don't know how to manage their debt. They are unaware of the fact that late payment increases their loan payments.

Loan Collection Method: If the client becomes a defaulter than there is no fixed collection procedure to collect the loans from the clients. This poses a threat to the MFI's to increase their operations of business and to enlarge the micro credits.

Thus, the above are few issues playing a vital role which are not allowing the micro financing activities to function in a smooth and proper way.

Conclusion

The roadway towards the success of micro finance can be achieved with the help of financial inclusion as it is the basic tool to bridge the gap between the poor population and formal financial institutions. The role of Pradhan Mantri Jan Dhan Yojana is a good initiative taken up the central government to enhance the financial inclusion perspectives by linking up all the major weaker section of the society in the banking world so that they can mobilize and channelize their savings. But the outcome of PMJDY is not that satisfactory. There are various issues which the govt. and financial institution have to face in the proper implementation of the financial inclusion schemes. Without the proper functioning of these schemes, it is quiet implacable to achieve micro finance objectives. The linkage between financial inclusion and micro finance together only can pave a way for the proper implementation of the schemes as well to uplift the weaker section of the society. The main theme of the micro finance was to uplift the socio-economic conditions of the people who are discarded from the society in the saving, consumption and borrowing aspects from the financial institutions. Thus, we can conclude that the Social inclusion of all the people in the financial services will pave a way for the effective implementation of microfinance and Micro Financial Institutions.

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