ROLE OF MICROFINANCE AND SELF-HELP GROUPS IN FINANCIAL INCLUSION

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Introduction:

The importance of the rural banking and microfinance in the economic development of a country cannot be overlooked. As Mahatma Gandhi pointed out "Real India Lives in Villages', and village economy is the backbone of Indian economy the existing extensive formal banking structure is still not sufficient to meet the growing demand of rural credit. Financial inclusion is delivery of financial services more especially the banking services at an affordable cost to vast sections of disadvantaged and low-income groups. Financial inclusion aims at drawing the "Unbanked" population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments, and transfers to credit and insurance. Major commercial banks in India have been nationalized with the objective of establishing a strong financial structure and therby paying the path for the economic and social development of the nation. It is now widely acknowldeged that financial exclusion leads to non-accessibility, non-affordability and non-availability of financial products. Limited access to funds in an underdeveloped financial system restricts the availability of their own funds to individuals and also leads to high-cost credit from informal sources such as moneylenders. Due to lack of access to a bank account and remittance facilities, the individual pays higher charges for basic financial transactions. Absence of bank account also leads to security threat and loss of interest by holding cash. All these impose real costs on individuals. Prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in investment and has the potential to fuel social tensions causing social exclusion. Thus, financial inclusion is an explicit strategy for accelerated economic growth and is considered to be critical for achieving inclusive growth in the country.

Micro Finance is a hard term to define precisely. If a Self-Help Group gives money to someone to buy a cycle rickshaw it is considered micro finance, if a commercial bank does the same thing it is not considered micro finance. In India, the term is generally understood to mean small loan given to the poor by NGOs to start small business. The world over, microfinance is synonymous with the Grameen bank in Bangladesh. In Bangladesh, Micro finance arose in direct response to failure of the nationalized commercial banks to cover the needs of the poor and marginalized.

In India, Micro Finance is dominated by Self Help Groups bank linkage programme aimed at providing financial services to the unreached poor. Micro financing has turned out to be an effective strategy for institutional finance agencies. Through group approach, small loans can be made available to the poor creates saving habits and minimize extravaganza and for financial institutions.

Self Help Groups dominate the micro finance scenario and it is focusing more on poor women. Hence micro finance is emerging as a powerful instrument empowerment of poor women both socially and economically. It aims at providing cost effecting mechanism for financial services to the undetected poor women.

Financial Inclusion

The term financial inclusion is perceived in different ways under different context. There is a view that only access to credit is treated as financial inclusion whereas the other view includes all the services extended by the financial institutions. That apart, financial inclusion by banks and other institutions must target, apart from personal or private investment requirement of individuals and groups. The universal public investment requirements necessary for development of infrastructure, social sector service, public utilities and productive forces/capacity building efforts and so on. Thus, financial inclusion may well be all about money and finance, but with the ultimate objective of directly abolishing the state of social exclusion in the economy.

In order to address the issues of financial inclusion, the Government of India constituted a committee on financial inclusion, under the chairmanship of Dr.C. Rangarajan. The committee submitted its final report to union Finance Minister on 4^{th} January 2008. The committee has defined Financial Inclusion 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.

Opening a bank account for large part of the population living on low income was rather difficult. Whether it's the maid servant, the sweeper in apartment building the vegetable vendor of a construction worker a bank account was simply out of reach earlier.

Holding a bank account itself confers a sense of identity, status and empowerment and provides access to national payment system. Therefore, having a bank account becomes very important aspect of financial inclusion. Besides, financial inclusion, apart from opening and providing easy access to a No-Frills account, should also provide access to credit, perhaps in the form of a General Credit Card. It should encompass access to affordable insurance and remittance facilities. It should also include credit counselling and financial education literacy. While financial inclusion in the narrow sense may be achieved to some extent by offering any one of these services, the objective of "Comprehensive financial inclusion would be to provide a holistic set of services encompassing all of the above".

A vast segment of India's population exists on the margins of India's financial systems. Whilst the per capital savings of this class may not be very high their sheer number means that taken together their savings are of considerable amount. If their entry in the formal financial sector is made easier these savings can be canalized for the formal economy. Also savings cum risk products that are their primary need can be structured for them once they are part of the formal banking system can be structured for them once they are part of the formal banking system.

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 anyt 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 counselling 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 counselling 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.

Benefits of Financial Inclusion

- It paves the way for establishment of an account relationship which helps the poor to avail a variety of savings products and loan products for housing, consumption etc.
- An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital.
- This also enables the customer to remit funds at low cost. The government can utilize such bank accounts for social security services like health and calamity insurance under various schemes for disadvantaged. From the banks point of view, having such social security cover makes the financing of such persons less risky. Reduced risk means more flow of funds at better rates.
- Access to appropriate financial services can significantly improve the day-today management of finances. For example, bills for daily utilities (municipality, water, electricity, telephone) can be more easily paid by using cheques or through internet banking, rather than standing in the queue in the offices of the service.

- Transfer of money can be done more safely and easily by using the cheque, demand draft or through internet banking.
- A bank account also provides a passport to a range of other financial products and services such as short-term credit facilities, overdraft facilities and credit card. Further, a number of other financial products, such as insurance and pension products, necessarily require the access to a bank account.
- Lastly, the Employment Guarantee Scheme of the Government which is being rolled out in 200 districts in the country would bring in large number of people through their savings accounts into the banking system.

Conclusion

Inclusive growth is much needed to include common people into the orbit of development. Social and economic justice can be provided only with the inclusion of hitherto excluded deprived section of people. Lot of measures was undertaken by the Government of India and Reserve bank of India together to mitigate the problem of financial exclusion. It leads to particularly, development of all sections of people. To achieve this multi-model approach was adapted. Service Area approach, priority sector lending. Differential rate of interest, Lead Bank Scheme, issue of General credit card and Kisan credit card and so on help to overcome financial hassle to get credit from formal institutions. In this direction emergence of Self Help Groups (SHGs) and then SHG-Bank Linkage Programme help extensively to strengthen the poor specially women folk. SHGs play a vital role to improve the socio-economic condition of women folk by developing thrift habit and providing micro finance in times of need and also encouraging micro entrepreneurs.

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