FINANCIAL INCLUSION- HOW EFFECTIVE IS MICRO FINANCE?

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ABSTRACT
Poverty is the common obstacle in achieving high economic growth and enhancing the standard of living of the people in our country. Government of India has been implementing various schemes to alleviate poverty since independence. One of those schemes is providing micro finance service to the needy people. The study covers the micro financing process in India from 2008-2014, in which there was a huge changes and failure of micro finance because of cumbersome recovery process and increase competition among the ‘for profit’ microfinance institutions (MFIs). For this purpose secondary data is collected. Finding of the study shows that the reason of the failure of the microfinance schemes under poverty alleviation was low recovery process, high rate of interest, multiple loans and corruption in the government sector. Still there is few private micro finance institutions are running based on the same rate of interest and proper recovery strategies.

Keywords: Financial Inclusion; Micro Finance Institution; Economic Growth

INTRODUCTION
According to RBI 2008 (1) report India has a long history of banking development with the major focus of the Government on economic development. The Reserve Bank of India has developed a sound banking system which could support planned economic development through mobilization of resources/deposits and channel them into productive sectors. The Government of India has made the strategies to use the banking system as an important agent of change for the economic development of the country. However, the most policies were formulated after Independence. The Reserve Bank of India recognized the critical role of the availability of credit and financial services to the public at large in the holistic development of the country with the benefits of economic growth being distributed in a democratic manner. Finally RBI with cooperation of government played a critical role to recognize and modify applicable the policy framework from time to time to and ensure that the financial services needs of various segments of the society were met satisfactorily.

Giving support through financial access to the needy and poor strata of the society by linking them with banks has always an important priority of the Indian government. India has the largest microfinance sectors in the world, and particularly in Andhra Pradesh and Gujarat. Both Government of India and Reserve bank of India have traditionally played a large role in establishing bank linkage programs /schemes for the poor in order to have access to quality of financial products. NABARD and SIDBI also supported and aided to accomplish the above task.

Financial inclusion is defined as “the process of ensuring access to appropriate financial products and services needed by vulnerable groups at an affordable cost in a fair and transparent manner by mainstream institutional players”(2)
MFIs could play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele. There are several legal forms of MFIs. However, firm data regarding the number of MFIs operating under different forms is not available.

Definition of Microfinance and MFIs: The proposed Microfinance Services Regulation Bill defines microfinance services as “providing financial assistance to an individual or an eligible client, either directly or through a group mechanism for:

1. An amount, not exceeding rupees fifty thousand in aggregate per individual, for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual) or
2. An amount not exceeding rupees one lakh fifty thousand in aggregate per individual for housing purposes, or

Such other amounts, for any of the purposes mentioned at items (i) and (ii) above or other purposes, as may be prescribed.”

OBJECTIVES OF THE STUDY

1. To study the measures taken by Government of India in promoting financial inclusion
2. To review the present status of financial inclusion through different Microfinance institutions.

METHODOLOGY

The study is based on the secondary data, in which information is gathered about the financial inclusion through the published articles, journals, reports and websites of NABARD, SIDBI, RBI, Microfinance Information Exchange and others financial institutions. Graphs and tables are used for explanation and interpretation.

Interpretation

It is roughly estimated that there are about 1,000 NGO-MFIs and more than 20 Company MFIs. Further, in Andhra Pradesh, nearly 30,000 cooperative organizations are engaged in MF activities. However, the companies MFIs are major players accounting for over 80% of the microfinance loan portfolio. During 2005-10 Indian microfinance sector was one among the largest microfinance sector in the world and Andhra Pradesh was applauded as “the State that would reform India”(6)

![Figure 1. Progress of Micro Finance Program (As on 31st March 2013) (Amount in Rs. Crores)](image-url)
Overall market growth 14% in 2012-13; MFIs reported higher 26% growth to Rs 220 billion. MFIs could grow at an annualized pace of 30-35% over the next three years (assuming a 10-15% decline in portfolio of the Andhra Pradesh based MFIs admitted to Corporate Debt Restructuring (CDR) and 40-50% growth for the other MFIs) on the back of improved credit availability (5) Lenders may incur loss of around Rs. 27 billion on the loans extended to the AP based MFIs, as recovery from the MFIs’ AP borrowers remains insignificant. The credit profile of AP-focused MFIs weakened significantly during 2010-2013 as they were unable to raise collections from borrowers because of severe state government restrictions.

The AP-based MFIs reported cumulative losses of around Rs 58 billion in 2011-12 and 2012-13 on account of high provisions/write-offs made on the delinquent AP-portfolio. Performing non AP loan book (for the AP Based MFIs admitted to CDR) in relation to the outstanding borrowings was only 45% as on March 31, 2013. As collections from AP continue to remain extremely low, the AP based MFIs’ cash inflows may not be sufficient to meet the debt repayments post the moratorium period under the CDR package; thus lenders may have to incur eventual loss of around Rs. 27 billion on AP based MFIs.

As on 31 March 2014, the cumulative sanctions under FIF and FITF were Rs.502.80 crore and Rs.408.45 crore, respectively, against which, disbursements were Rs. 135.35 crore and Rs.221.55 crore, respectively (Figure 3). The Micro Finance Development and Equity Fund (MFDEF) was closed on 31 March 2013 and the activities being financed there under are now being covered under FIF. Further, the commitments made under erstwhile MFDEF as on 31 March 2013 was taken as sanctions under FIF during 2013-14. There is a proposal to merge FIF and FITF into a single Fund. The RBI and NABARD have agreed to the proposal and the issue is under examination by the GOI (5).
The crisis in the microfinance sector has left microfinance companies like SHARE Microfinance, Asmitha Microfin, Spandana Sphoorty Financial, Trident Microfinance APMAS, SKS and Future Financial Services with negative net worth (9). According to norms, banks are not allowed to give fresh loans to companies that have negative net worth. Since Banks stopped lending to MFIs, they have not been able to disburse fresh loan to their clients. Banks were also hit by crisis as 80% of loans MFIs borrowed were from the banks. Of the Rs 21,000 crore that banks have outstanding to MFIs, roughly a third was borrowed from private banks (7) Banks and financial institutions lost their trust on MFIs credibility to repay the loans, that can be visible through the decline in the number of MFI. But still in Andhra Pradesh leading MFI’s are providing money by thorough analysis of the clients, with proper paper work and sureties. Figure 4 shows the disbursed and the outstanding loan for the year 2013-14 by the leading MFI’s of Andhra Pradesh.

![Figure 4. Microfinance Institutions in Andhra Pradesh 31 March 2014 (Amount in Crores)](image)

CONCLUSION

Indian microfinance market is the most evolved and developed market in the world. The current obstacles of microfinance institution are collection method, fraud, and multiple loans by the institution in order to recover the previous loan, increased competition in order to have more clients and corruption by the agents to provide loan to the needy. These obstacles automatically lead to low repayment rates, as a result microfinance institutions suffered significant losses. Banks stopped lending money to microfinance institutions resulting in a liquidity crunch for microfinance institutions, which are largely dependent on bank lending as a funding source. Commercial banks should be encouraged where the banks provide on-lending money and shares the risk of payment while the MFIs provides the intermediation of selecting the client, loan disbursement and collection of the repayments by charging handling fee. They should also have tailor made loan products available to meet each client’s individual requirements and as such applies both the joint group lending and individual lending approach. MFIs should be more efficient only by having a strong internal auditing, internal control and monitoring systems.

REFERENCES


