

SOCIAL RESOLUTION

International Seminar

(WORLDWIDE SOCRES 2011)

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IMPACT OF MICROFINANCE ON FINANCIAL INCLUSION IN INDIA

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Introduction

The poor people are in need of credit to develop their enterprises and to fulfill their livelihood. Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. However, the conventional financial institutions denied access to credit needs of the low income families and women headed households. According to World Bank estimate, (1995), in most developing countries the formal financial system reaches only the top 25% of the economically active population, the bottom 75% have no access to financial services apart from moneylenders. CRISIL (2009), estimated that around 120 million households in India continue to face financial exclusion, this translates into a credit demand of around Rs. 1.2 trillion. The formal financial institutions have not been able to reach the poor households, and particularly women, in the unorganised sector. Structural rigidities and overheads lead to high cost of making small loans. Organisational philosophy has not been oriented towards recognising the

needs term credit for acquiring additional productive assets, such as irrigation pump sets, bore wells and livestock in case of farmers, and equipment (looms, machinery) and work sheds in case of non-farm workers. This market segment also largely comprises the poor but not the poorest. The third market segment is of small and medium farmers who have gone in for commercial crops such as surplus paddy and wheat, cotton, groundnut, and others engaged in dairying, poultry, fishery, etc. Among non-farm activities, this segment includes those in villages and slums, engaged in processing or manufacturing activity, running provision stores, repair workshops, tea shops, and various service enterprises. These persons are not always poor, though they live barely above the poverty line and also suffer from inadequate access to formal credit. One market segment, which is of great importance to micro-credit is women. The 1991 Census figures reveal that out of total 2.81 million marginal workers, 2.54 million were women and their further break-up shows that out of a total of 2.67 million rural marginal workers, 2.44 million were females. Further, many more women were willing to work. This has been corroborated by the results of a survey done by the National Sample Survey Organisation (NSSO), 43rd round, which has revealed that there is a wide variety of work which rural women combine with household work. In the NSSO survey it has also been estimated that a large percentage of rural women in the age group of 15 years and above, who are usually engaged in household work, are willing to accept work at household premises (29.3 percent), in activities such as dairy (9.5 percent), poultry (3 percent), cattle rearing, spinning and weaving (3.4 percent), tailoring (6.1 percent) and manufacturing of wood and cane products etc. Amongst the women surveyed, 27.5 percent rural

women were seeking regular full-time work, and 65.3 percent were seeking part-time work. To start or to carry on such work, 53.6 percent women wanted initial finance on easy terms, and 22.2 percent wanted working capital facilities, as can be seen from the table 1.

2. Trends in Self Help Groups Linked with Banks and Regional Disparities

According to the Planning Commission estimates 1993-1994, 320 million people live below the poverty line. Out of 320 million people, 140 -150 million people are women, only 30 % of the poor women are ready to adopt microfinance.

Table 1 : Demand for Microcredit for Women in India

Assistance Required (by women marginal workers seeking or available for work at their household premises).	Percent of Women Seeking Assistance
No assistance	2.1
Initial finance on easy terms	53.6
Working capital facilities	22.2
Raw materials availability	4.6
Marketing	1.7
Training	10.5
Accommodation	0.4
Other assistance	4.9
Total	100

States with high incidence of poverty have shown poor performance under the programme. NABARD has identified 13 States with large population of the poor, but exhibiting low performance in implementation of the programme. The ongoing efforts of NABARD to upscale the programme in the identified States need to be given a fresh impetus. The Report of the committee on financial inclusion, 2007, had recommended that NABARD may open dedicated project offices in these 13 States for upscaling the SHG - Bank Linkage Programme. The State Govts. and NABARD may set aside specific funds out of the budgetary support and the Micro Finance Development and Equity Fund (MFDEF) respectively for the purpose of promoting SHGs in regions with high levels of exclusion. For the North-Eastern Region, there is a need to evolve SHG models suited to the local context of such areas. NGOs have played a commendable role in promoting SHGs and linking them with banks. NGOs, being local initiators with their low resources, are finding it difficult to expand in other areas and regions. There is, therefore, a need to evolve an incentive package which should motivate these NGOs to diversify into other backward areas. (NABARD, 2009).

Though, the microfinance replaced the money lenders in the financial market, the borrowers are always under the pressure to repay the loan on a weekly basis at a heavy compound interest. The interest rate charged under microfinance was ranged between 20 percent to 40 percent. Though, the microfinance was initiated as one of the solution for the financial inclusion, it isolated the women from the financial market. Because "A women who takes Rs.10,000 loan from a microfinance institution has to pay Rs.220 every week. If she is unable to make this payment

or has another emergency in the house, she will take a loan. The existing lender will not give fresh loan, she will borrow from another microfinance institutions". (Economic Times, 2010).

Various interviews with microfinance stakeholders in Midhya Pradesh revealed that household access to financial services is impeded by geographic isolation in rural areas due to bad or absent roads; low population density; law and justice problems; high poverty levels; livelihoods dependent on agriculture; unwillingness of banks to serve the poor and cooperate with MFIs; financial illiteracy; and gender inequality. Importantly, the demand for financial services is huge, but the supply is inadequate. To meet credit requirements for livelihood activities, marriages and illnesses, the poor turn to local moneylenders, who often charge exorbitant interest rates. Unfortunately, these types of moneylenders are often the only source of credit for the financially excluded rural poor all over the world. Access to credit with much lower interest rates through microfinance is a better alternative. (Tejaswini Pagadala 2009).

3. Impact of Self Help Group on Economic Position of Beneficiaries

National council of Applied economic Research (2008) conducted a study on impact of SHGs on social and economic inclusion of women beneficiaries in India. The major findings of the study were

In India, eighty percent of SHGs had only women members. The SC/ST and OBC members contributed 22.3 percent to the total SHG s. The group with SC/ST members

overheads lead to high cost of making small loans. Organisational philosophy has not been oriented towards recognising the poor as credit worthy. The problem has been compounded by low level of influence of the poor, either about their credit worthiness or their demand for savings services. It shows financial exclusion in the financial market in India. The micro finance institutions had significant impact on financial inclusion particularly to include women in financial assistance.

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