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Role of Financial Institutions for Sustainable Development: A Review Based Approach

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Abstract

For the last two decades, microfinance and financial inclusion have been remained to be very efficient tool for the provision of financial services to the poor. Micro finance can be described as provision of small-scale financial services to clients who are economically active in various urban and rural areas. According to its definition, micro finance is the provision of thrift, credit and other financial services and products of very small amounts mainly to the poor in rural and urban areas for enabling them to raise their income level and improve living standards. Besides, financial inclusion plays a major role in driving away the poverty from the country. It refers to delivery of financial services to masses of disadvantaged people at an affordable terms and conditions. In another word, it is an important step to bring financially excluded people within the fold of the formal financial sectors. This paper aims to study the concept of microfinance and its association with financial inclusion in Indian context. It is based on secondary data collected from different publications such as Reserve Bank of India (RBI), journal articles, websites and various related research works. Moreover, the study tries to discuss that even though microfinance is playing a vital role for development and those profit-oriented microfinance institutions, still it is not up to the expected level. Thus, to fulfill even some of its progressive goals, it must be regulated and subsidized, and other strategies for viable financial inclusion of the poor and of small producers must be more actively pursued.

Key Words: Disadvantaged People, Financial Inclusion, Financial service, Microfinance.

1. Introduction

The concepts of micro-finance and financial inclusion are highly interrelated and plays a major role in the economic development of any country. These concepts were firstly originated to develop as a survival strategy for the poor and vulnerable parts of the society. Microfinance has a significant role in bridging the gap between the formal financial institutions and the rural poor. They accesses financial resources from the Banks and other mainstream financial institutions and provide financial services to the poor. In India microfinance revolution began in the 1980s with the formation of pockets of informal Self Help Groups (SHGs) engaging in micro activities. The first Indian Microfinance Institution Shri Mahila SEWA Sahkari Bank was set up as an urban co-operative bank soon after the group was formed in 1974. Its membership has grown to 7000 members in 1975 to 700,000 over the past few decades. This innovative scheme has attracted a range of non-governmental and state-sponsored institutions (Sakshi and khusboo, 2014).

2. Financial Institutions

Currently, there are various financial institutions in India which provide financial services to the weak section of the society such as National Bank for Agriculture and Rural Development (NABAR D) and the Rashtriya Mahila Kosh (RMK). Moreover, few NGOs like Professional Assistance for De velopment Action (PRADAN), International Centre for Entrepreneurship and Career Development (ICECD),Maysore Ressettlement and Development Action(MYRADA),and Self-employed Women's Associatio (SEWA) have played a significant role in promoting micro credit. With micro credit becoming financially viable, even commercial banks like Industrial Credit and Investment Corporat ion of India (ICICI) Bank, Housing Development Finance Corporation (HDFC) Bank, Unit Trust of India (UTI) Bank and International banks like Citibank have also entered the field. Therefore, micro finance and financial inclusion are integral part for the inclusive growth process and sustainable development of the country. It is a policy of involving a wider section of population to the basic financial institutions services.

3. Objectives of the study

This research paper has the following interrelated objectives;

- To discuss the meaning and concepts of micro finance
- To summarize the approaches and benefits of financial inclusion, and finally
- To study Reserve Bank of India (RBI) initiatives for financial inclusion and literacy.

4. Research Methodology

Since this paper aims on financial institutions of micro finance and financial inclusion, it makes use of secondary data from different sources. The various sources for the secondary data include RBI, journals, articles and other research based websites. Furthermore, attempts have been made to collect latest data available from reports on financial institutions.

5. Review of related literatures

Many researchers have conducted various studies on the fields of microfinance and financial inclusion. Some of the reviewed literatures related to these areas are briefly summarized as follows;

Sangwan (2006) studied the extent financial inclusion crosswise various states. He also tried to examine the role of SHG bank linkage programmed in achieving financial inclusion. The study suggested a significant role of SHG led programmed in achieving financial inclusion. Beside this, it also tried to examine the role of other factors like financial literacy, banking density, and per capita income in achieving financial inclusion.

Anshul (2010) suggested that Government initiatives to support Financial Inclusion needs to be backed by progressive policy. This will be achieved only through Public- Private Partnership Model powered by universally technologies. Government of India constituted a Committee to enhance financial inclusion in India and committee on financial inclusion has initiated a mission called National Rural Financial Inclusion plan. It has set targets to increase financial inclusion in the country across regions and across institutions. It has suggested events to address both, supply and demand constraints in growing financial inclusion.

Lyngdoh and Pati (2010) concluded that microfinance based financial inclusion has ensured that the underprivileged and downtrodden are taken special care of. It has led to their economic empowerment and subsequently in socio-political development outcomes i.e. inclusive growth.

Pokhriyal A.K. et.al (2011) concluded that microfinance has been promoted through the SHG-bank linkage agenda with the objective of bridging the widespread gap in the financial network and spreading banking facilities to the poor in rural and urban areas. SHG-bank linkage has contributed well towards achieving the objective of unbiased financial inclusion.

Sarumathi and Mohan (2011) conducted on self-help microfinance model taking 181 rural women samples and both the qualitative and quantitative data were collected and analyses using percentage, simple correlation coefficient, paired t-test and cross tabulation methods. The result showed microfinance and SHGs are effective in reducing poverty, creating awareness, and ultimately contributes to psychological wellbeing and social empowerment among rural women.

Marr (2012) opined that older MFIs as well as regulated ones tend to perform less socially, as compared to younger and non-regulated MFIs. The study concluded that MFIs with more assets and higher ratios for loans per loan officer have the tendency of performing more socially and MFIs in various regions exhibit similar trends with regards to Social Performance except in the case of Central Asia and Eastern Europe.

Shankar (2013) observed MFIs are playing a major role in eradicating demand side and supply side barriers for financial inclusion. It is also focusing on the excluded population who has been neglected by the banking sector, to get financial facilities, policy and incentives to reach and expansion of those neglected areas of the nation.
Amidzic and Mialou (2014) opined that there is general acknowledgment among policy makers that financial inclusion plays an important role in supporting employment, financial stability and economic growth**.**

6. The Meaning and Concepts of Microfinance

The term microfinance refers to the provision of financial services to low-income clients or cohesion lending groups, including consumers and the self-employed, who are excluded from all sought of financial services. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Microloans are given for a variety of purposes, frequently for microenterprise development. The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty. Because of these varied needs, and because of the industry's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal financial sector.

6.1 Basic features of Microfinance

Microfinance provides different kind of products to the poor and it is a financially viable development tool whose objective is to aid poor to work and poverty. It covers a wide range of services like financial as well as non-financial services.

The various products and services of microfinance are given below;

- Credit
- Savings (Deposit)
- Insurance
- Cash collection (bond selling and so on)
- Cash Payment(Pension Payment)
- Remittance (Local Money Transfer)
- Short and long duration loans
- Loans are offered without collaterals
- Non-financial services like training, counseling etc.
- Loans are of small amount for the poor
- Loans are generally taken for empowerment
- Loans are increase the standard living of for the poor
- Borrowers are from the low income group
- High frequency of repayment

*6.*2 Microfinance Models in India

In India, the institutions which provide microfinance services includes, NABARD, Regional Rural Banks, Commercial Banks, Cooperative Banks and Non-Banking Financial Companies (NBFCs).

In India, the beginning of microfinance movement could be traced to Self Help Groups (SHGs) Bank Linkage Program started as a pilot project in 1992 by NABARD. This programmed proved to be very successful and has also developed as the most popular model of microfinance in India. The service of microfinance in India is provided with the help of the following channels;

6.2.1 Self Help Group (SHG)

The origin of SHGs is from Grameen Bank of Bangladesh, which was founded by Mohammed Yunus. SHGs were on the developing track during 1975.

The Self Help Group (SHG) is an indigenous model formed out of a small group of members who are homogenous in terms of income and 10 to 20 members. The savings are pooled and lending is done for promoting development. SHGs are also financed and supported by NGOs.

6.2.2 SHG - Bank Linkage Programme (SBLP)

A Self Help Group is a small group of persons of rural poor who come together to jointly contribute to common fund and meeting their emergency requirements. SHG - Bank Linkage Programme was introduced by NABARD**.** Under this programme, loans are provided to the SHGs with three different methodologies:

Model I: SHGs Formed and Financed by Banks
Model II: SHGs Formed by Agencies Other than Banks, but Directly Financed by Banks
Model III: SHGs Financed by Banks Using Other Agencies as Financial Intermediaries

6.2.3 Grameen Bank

Grameen Bank model is one of the oldest and most successful models of microfinance. The Grameen model emerged from the poor-focused grassroots institution, Grameen Bank, which was started by Prof. Mohammed Yunus in Bangladesh. The Grameen Bank Model is focused in providing finance to entrepreneurial women who are already into some small jobs. The grouping, which is made up of about five members and financing of this model is a substitute collateral tool taking care of default and also possible risks. The guarantee is on one on another in the group.

6.2.4 MFI Model

The MFI model has also gained momentum in India in the recent past. MFI model is found worldwide whereas the SHG-BLM model is an Indian model. In MFI model MFIs borrow large amount of funds from the apex financial institutions, donors and banks for on-lending to the individuals or groups. These MFIs provide financial services to the individuals or to the groups like SHGs, JLGs and Grameen groups.

6.2.5 Micro Finance Institutions

The microfinance institutions include NGOs, trusts, social and economic entrepreneurs; these lend small, sized loans to individuals or SHGs. They also provide other services like capacity building, training, marketing of products etc.

6.2.6 Co-operative Bank

Cooperatives Bank individual village banks and also credit unions are established. The village banks returns the principal with interest or profits to the implementing agency at the time when individual loans are repaid on weekly basis. Subsequent loans are considered only when repayment is made in full.

7. The concepts of financial inclusions

Financial Inclusion is defined by the RBI (2008), "as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker parts and low income groups at an affordable cost from mainstream financial institutions."

The term financial inclusion refers to delivery of financial services at an affordable cost in a fair and transparent terms and conditions to vast sections of disadvantages, weaker and low income groups including household enterprise, small medium enterprise and traders. It not only enhances overall financial intensity of agriculture but also help in increasing rural nonfarm activities which lead to development of rural economy and improve economic condition of people. Financial inclusion include micro credit, branchless banking, no- frills bank accounts, saving products, pension for old age, microfinance, self-help group, entrepreneurial credit etc. In short, financial inclusion can be given as;

Financial Inclusion = NFA + Banks+ OFIs+ MFIs+ IT

Where, NFA - No frills bank account
OFIs - Other financial Institutions
MFIs - Micro financial Institutions

IT – Information Technology

Thus, financial inclusion needed for equal opportunities to all section of people in country, economic development, social development, inclusive growth and business opportunity**.**

Financial inclusion has been a never ending by itself, but rather a gateway of a process. Financial inclusion provides various facilities to those who are excluded from all the financial service. It provides facilities like savings, loans and insurance services by the formal financial system.

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players (Chakraborty, 2011). It is the delivery of financial services at an affordable cost to vast sections of disadvantaged and low income groups (GOI, 2008). An inclusive financial sector provides effective, ongoing access to all sections of the population and all scales of enterprise.

8. Tools of financial inclusion and the methods to achieve

To address the issue of financial exclusion in a holistic manner, it is essential to ensure that a range of financial services is available to every individual.

These services are;

- no-frills banking account for making and receiving payments,
- savings product suited to the pattern of cash flows of a poor household,
- small loans and overdrafts for productive, personal and other purposes, &
- micro-insurance (life and non-life)

9. RBI strategies and initiatives for financial inclusion and literacy

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups (poor groups). In India, financial inclusions are provided by financial institutions. As a result, financial inclusion and literacy is one of the top most policy priorities of the Government of India. The major strategies and initiatives taken by the Reserve Bank of India (RBI) are the following:

- RBI introduced websites in various languages on all matter concerning financial service. A meaningful dimension of financial education is credit counseling. It has also created a sub-site for the common person to give them the ease of access information for use in dealing with financial services.
- The Community Finance Learning Initiatives (CFLIs) were also introduced with a view to promote basic financial literacy among housing association tenants.
- State bank of India has set up one hundred centers in agricultural-lending branches for agriculture counseling.
- Union bank of India and Indian overseas bank use of handheld and biometric cards in village of various regions in India.
- Union bank of India and Dena bank introduced 198 village knowledge centers for imparting knowledge to farmers. These centers also provide basic infrastructure, internet connection and updated libraries.

- Union bank of India introduced “Union Mitra Scheme” for providing financial education and debt counseling services to rural population free of cost.
- Dena bank introduced “Dena Bhoomiheen Kisan Credit Card” for tenant farmers, share croppers and landless laborers.

The Reserve Bank continued with its efforts to ensure extension of banking facilities to all unbanked villages. For this, about 490,000 unbanked villages with population less than 2,000 were identified and allotted to banks for coverage under the ongoing Phase-II of the roadmap. At end March 2015, as reported by State Level Bankers Committees (SLBCs), 390,387 villages were covered by 14,207 branches, 357,856 business correspondents (BCs) and 18,324 other modes, such as automated teller machines (ATMs) and mobile vans. In view of the ongoing implementation of Pradhan Mantri Jan Dhan Yojana (PMJDY) banks were advised to complete Phase II coverage by August 14, 2015 instead of March 31, 2016 as prescribed earlier (RBI annual report, 2014-15).

The Reserve Bank has been encouraging banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels by preparing board-approved Financial Inclusion Plans (FIPs).

Table 1: Financial Inclusion Plan-Summary Progress of all Banks

Particulars	Year end March 2010	Year end March 2014	Year end March 2015	Progress April 2014- Mar 2015
Banking Outlets in Villages – Branches	33,378	46,126	49,571	3,445
Banking Outlets in Villages Branchless mode	34,316	337,678	504,142	166,464
Banking Outlets in Villages -Total	67,694	383,804	553,713	169,909
Urban Locations covered through BCs	447	60,730	96,847	36,117
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	126.0	210.3	84.3
Basic Savings Bank Deposit A/c through branches (Amt. in ` billion)	44.3	273.3	365.0	91.7
Basic Savings Bank Deposit A/c through BCs (No. in million)	13.3	116.9	187.8	70.9
Basic Savings Bank Deposit A/c through BCs (Amt. in ` billion)	10.7	39.0	74.6	35.6
BSBDAs Total(No. in million)	73.5	243.0	398.1	155.1
BSBDAs Total (Amt. in ` billion)	55	312.3	439.5	127.3

Source: Annual report of RBI (2014-15).

The above table 1 revealed that out of 3,445 rural bank branches opened during 2014-15, 2,230 branches were opened in unbanked rural centers. Around 155 million basic savings bank deposit accounts (BSBDAs) were added taking the total BSBDAs to 398 million. This includes 147 million accounts opened under Pradhan Mantri Jan Dhan Yojana (PMJDY).

10. Conclusions

Financial institutions play vital role in channelizing resource from surplus to shortage for supporting sustainable economic development of a nation. It's also an integral part of micro finance, financial inclusion and instrumental in providing financial services to the poor section of the society. From the above discussion, it was found that, at present times, increasing number of financial institutions is functioning through out of the country.

Moreover, the Reserve Bank of India (RBI) is taking strong strategies and initiatives so as to provide the basic financial services to poor individuals. However, still much more has to be done by the government in order enhance financial institutions through microfinance, financial inclusions and other institutions. Finally, it was suggested that the government should further focus on creation of financial literacy development of infrastructure and encouraging competitions among the financial service providers for better microfinance and financial inclusion in the country.

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