Microfinance:
"The Promise of Financial Inclusion"

Access to finance is important to bring the socio-economically weaker sections into the mainstream economy. Financial inclusion today is high on the agenda of various policy makers and stakeholders. Noteworthy, that in an emerging economy like India, it is a question of both access to financial products and knowledge about their fairness and transparency. In a recent study on financial inclusion, India ranked 50th globally (ICRIER, 2008). Though provision of credit singularly is not the panacea for poverty but access to finance and effectively regulated and supervised financial development have significant linkages with, economic growth, income inequality, alleviation of poverty. The banking sector has taken several steps to achieve the agenda of financial inclusion. However the financial exclusion issue continues to daunt the policy makers.

Extent of Financial Exclusion -India

⇒ Almost half the country is unbanked.

⇒ Only 55% of the population have deposit accounts and 9% have credit accounts with banks

⇒ India has the highest number of households (145 million) excluded from Banking.

⇒ Only one bank branch per 14,000 people.

⇒ 6 lakh villages in India, rural branches of SCBs including RRBs number 33,495.

⇒ Only a little less than 20% of the population has any kind of life insurance and 9.6% of the population has non-life insurance coverage.

⇒ Just 18% debit cards and less than 2% credit cards.

Barriers to financial Inclusion:

Demand side: low literacy, micro-transactions, irregular income, Lack of trust in formal banking institutions

Supply side: low outreach of institutions, high cost business model, traditional products

Thus poor do not have a bank account, not only because of poverty, but also due to costs, travel distance and paper work involved.

"Poverty must be seen as the deprivation of basic capabilities rather than merely the lowness of incomes" (Amartya Sen, 2000)

"Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players." (RBI)

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MFIN and Sa-Dhan believe that the various institutions existing in the financial services sector that target bottom of the pyramid should provide products that address the needs of the people in a clear and responsible manner

The Microfinance Institutions have a vital role to play in achieving the objective of financial inclusion. Together, these institutions cover 30 million clients in the country operating across the length and breadth of the country. Today these institutions are important channel of delivery of credit at the doorstep of the clients and also provide a bouquet of credit plus services that empower the clients. The presence of MFIs has been a great respite to the poor as it provides an affordable and timely access to credit saving them from the exploitation from the usurious local moneylender.

Microfinance Operating Model Strengths

- Self Help Group (SHGs) and Joint Liability Groups (JLG) models
- Low ticket size of loans
- Convenient, economical, doorstep credit delivery to poor
- Repayment options
- Microfinance Plus services: business development, financial literacy, health, water and sanitation

Microfinance Sector is regulated by the RBI & works responsibly

Reserve Bank of India, in 2011, constituted the Malegam committee to study the issues & concerns of the MFI sector and to recommend appropriate regulation. Subsequently, RBI recognized the legitimate role of the Microfinance Institutions under its priority sector guidelines covering all legal forms. Further RBI has also recommended new category (NBFC-MFI) of NBFCs carrying out micro finance. The NBFC- MFI now come under the regulatory purview of RBI.

Commitment of Microfinance Industry to Responsible Finance

- 100% compliance to credit bureau, the problem of multiple borrowing has been overcome largely
- Financial literacy for clients
- Transparent pricing
- Compliance to Code of Conduct
- Institutional policies and systems for client protection

The Microfinance Institutions (Development & Regulation) Bill 2012 is a significant bill in achieving the agenda of financial inclusion as it provides detailed regulatory framework for the microfinance sector. The promulgation of the bill will stremthen the sector and thus streamline its working with the Banking Secotr. This would certainly help banks in overcoming the last mile connectivity. The bill is important and critical for those poor people who are unserved by the formal banking system directly and are availing these services through Micro Finance Institutions.

The two sectoral associations believe that the bill needs to be promulgated early to protect the interests of the vulnerable sections of the society. The microfinance institutions are committed to partner with the national and state governments to achieve the goal of financial inclusion in the country and provide complimentary support to the government initiatives in this regard.

MFIN & Sa-Dhan are the two industry associations representing the microfinance sector.

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The Microfinance Bill & Members of the Parliament

- Support for the bill will result in early promulgation and regulation of the sector
- Issues around regulatory concerns will be resolved
- The bill will provide financial services to the many vulnerable and underprivileged section of people in the country
- The bill will act as a facilitator in empowerment of the poor by giving them access to finance through regulated microfinance entities