

# IMPACT OF MICROFINANCE ON FINANCIAL INCLUSION

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**Abstract:** The Government of India (GOI), the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development have been putting concerted attempt to achieve financial inclusion as one of the essential national objective of the country, in fact many concerted efforts already made for last few decades like, bank nationalization, improving the branch network of all banks, introduction of priority sector lending, launching of Self Help Group Bank Linkage Programme, introducing PMJDY scheme, the main objectives of all these efforts is to bring financial excluded people into the mainstream of the society. In fact our twelfth five year plan approach is “Faster, Sustainable and More Inclusive Growth”,

Self-Help Group Bank Linkage Program (SHG-BLP) seems to have hit a plateau in terms of new group linkage which grew by about 8.5 per cent. The credit growth seems better with an increase of 20 per cent over the previous year. The number of groups linked at the end of March 2010 stood at 4.58 million and the amount of loans outstanding 272.66 billion. As in the case of last year, this data is provisional and likely to undergo revision. The growth rates have abated and credit disbursement is around the levels reached last year. New groups formed have not been linked to banks at the vigorous rates achieved in the last decade. There seems to be credit linkage fatigue setting in among the banks. On the other hand, the MFIs posted higher growth rates than self-help groups (SHGs) but client acquisition rates had declined to 19 per cent compared to a high of 60 per cent last year. This is despite some MFIs having doubled their client numbers. Two hundred and sixty MFIs reported a total clientele of 26.7 million, which is an increase of 4.1 million over the previous. However, Microfinance is a provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards, main objectives of this research is to understand the Socio Economic conditions of SHG-BLP beneficiaries and to know the impact of Microfinance on financial inclusion by after and before joining into SHG-BLP.

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## 1. INTRODUCTION

A major effort to provide banking services to the weaker and unorganized sector was the Bank Self Help Group Linkage Programme that was launched in early 1990s. The programme was started at the initiative of NABARD in 1992 to link the unorganized sector with the formal banking sector.

Under this programme, banks were allowed to open savings accounts for Self-Help Groups (SHGs). SHGs are registered/unregistered entities which usually has a membership of 15 to 20 members from very low income families, usually women. They mobilize savings from members and use the pooled funds to give loans to the needy members. Under this programme, banks provide loans to the SHGs against group guarantee and the quantum of loan could be several times the deposits placed by such SHGs with the banks. Banks should consider entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs like housing, education, marriage, etc. and (c) debt swapping”. Lending to SHGs should be included by the banks as part of their lending to the weaker sections. As per the RBI’s latest (May 2016) Priority Sector Lending norms, bank credit to members of SHGs is eligible for priority sector advance under respective categories viz., Agriculture, Micro, Small and Medium Enterprises, Social Infrastructure and

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Others. The recovery rates of loans are good and banks have found that the transaction cost of reaching the poor through SHGs is considerably lower rather than direct lending by the bank.

According to NABARD as on 31 March 2014, there were around 74.30 lakh savings-linked SHGs, covering over 9.7 crore poor households. The total savings of these SHGs with banks amounted to Rs 9897 crore. The number of credit-linked SHGs under the programme was around 42 lakhs.

The initial phase of SHG movement saw concentration of SHGs in the southern parts of the country, but now the SHGs have spread more to the eastern and north-eastern regions where the extent of financial exclusion is greater. The Government of India has also been using the SHGs for subsidy-linked credit schemes for the poor. NABARD offers grant assistance to NGOs that promote SHGs and link them to banks.

## 2. REVIEW OF LITERATURE

Dr. Jeet Singh and Dr. Preeti Yadav (2012) the microfinance sector has witnessed an unprecedented growth in the last few years, and has firmly established itself as significant potential contributor in the government’s agenda of “Financial Inclusion”. Financial services for the poor have proved to be a powerful instrument for poverty reduction that enables the poor to build assets, increase incomes, and reduce their vulnerability to economic stress. Yadav, J.S. (2012) had described microfinance sector has witnessed an unprecedented growth in the last few years, and has firmly established itself as significant potential contributor in the government’s agenda of “Financial Inclusion”. Financial services for the poor have proved to be a powerful instrument for poverty reduction that enables the poor to build assets, increase incomes, and reduce their vulnerability to economic stress. V.R. (2013) Financial Inclusion has been well recognized as the effective tool for ensuring equitable economic growth especially among the rural poor. Microfinance is the fastest growing non-institutional channel for financial inclusion in developing economies. The objective of maximizing financial inclusion is constrained by number of socio, economic and administrative factors. Jayati Ghosh (2013) this article provides a review of the recent literature on microfinance in developing countries and a critical assessment of its effectiveness. It examines the experience of India, which has one of the largest microfinance sectors in the world, and particularly the unfolding of the microfinance crisis in Andhra Pradesh. It concludes that microfinance cannot be seen as a silver bullet for development and that profit-oriented microfinance institutions are problematic. 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.

## 3. OBJECTIVES

- To examine the progress of microfinance through SHGs Bank Linkage Programme
- To understand the Socio-Economic condition of SHGs-BLP beneficiaries
- To analyze the impact of microfinance through SHGs Bank Linkage Programme in achieving financial inclusion.

## 4. METHODOLOGY

Present research is based on both primary and secondary sources, primary sources are collected by using interview schedule, it is carried out in Hagaribommanahalli Taluk, secondary sources are collected from various reports, Like NABARD,GOI, and many articles, journals and books are used

<b>Sampling frame</b>	
<b>Hagaribommanahalli Taluk</b>	
Name of the Hoblies	Sample size
H B Halli	30
Tambrahalli	30
Kogali (19)	30
Hampasagara	30
<b>Total Sample</b>	<b>120</b>

Hagaribommanahalli consists four Hoblies such as H B Halli,Tambrahalli,Kogali and Hampasagara, from each Hobali, 30 samples are collected totally 120 samples are collected in this research.

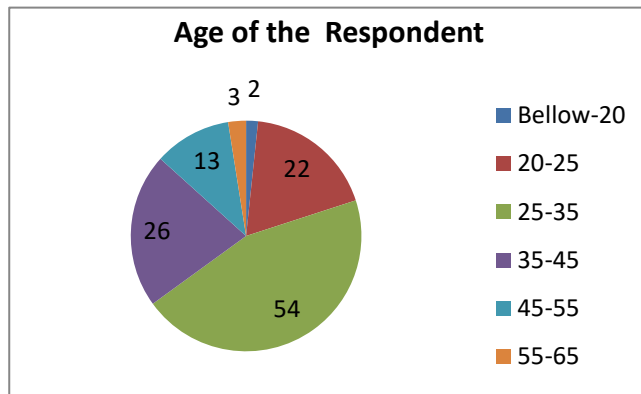
### 5. LIMITATION OF THE RESEARCH

This research is restricted for only Self-Help Group Bank Linkage Program (SHG-BLP) and its beneficiaries in Ballari District of Hagaribommanahalli Taluk, all care is taken to collect accurate and reliable data. However, data collected during survey, could not be fully free of response error as respondents were not cooperative in many cases and also because they had not detailed records. Such limitations and difficulties are to be taken care of

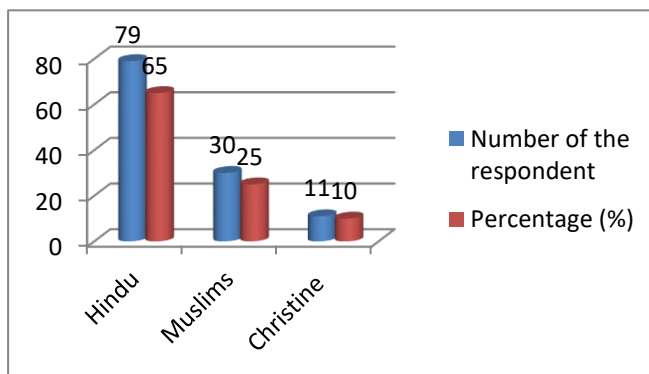
### 6. ANALYSIS AND INTERPRETATION

#### 1. Socio Condition of SHG-BLP Beneficiaries

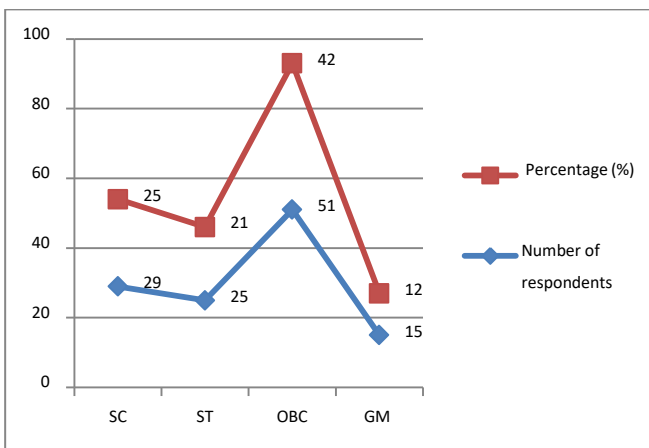
1.1 Age of the respondent			
SL. no	Age of the respondent	Number of the respondent	Percentage (%)
1.	Bellow-20	02	1.
2.	20-25	22	19
3.	25-35	54	45
4.	35-45	26	22
5.	45-55	13	11
6.	55-65	3	02
	<b>Total</b>	<b>120</b>	<b>100</b>



1.2 Religion of the Respondent			
SL NO	Religion	Number of the respondent	Percentage (%)
2	Hindu	79	65
3	Muslims	30	25
3	Christine	11	10
	<b>Total</b>	<b>120</b>	<b>100</b>



1.3 Social Background of Respondents			
SL NO	Social Background	Number of respondents	Percentage (%)
1	SC	29	25
2	ST	25	21
3	OBC	51	42
4	GM	15	12
	<b>Total</b>	<b>120</b>	<b>100</b>



1.4 Education status of respondents			
SL NO	Education	No of respondents	Percentage (%)
1	Illiterate	63	52.5
2	Primary	33	27.
3	S S L C	15	12.5
4	PUC	07	06
5	Degree	02	02
6	Post Graduation	00	00
Total		120	100

1.5 Nature of House			
SL NO	Nature of House	Number of the respondent	Percentage (%)
1	RCC	24	20
2	Tiled	60	50
3	Thatched	36	30
4	Total	120	100

From the above Socio condition of SHG-BLP beneficiaries it is clear that

**1.1 Age of the respondents:** 45% respondents are between the age of 25-35, below the age of 20 and between the age of 55-65 participation in the SHG-BLP is very low

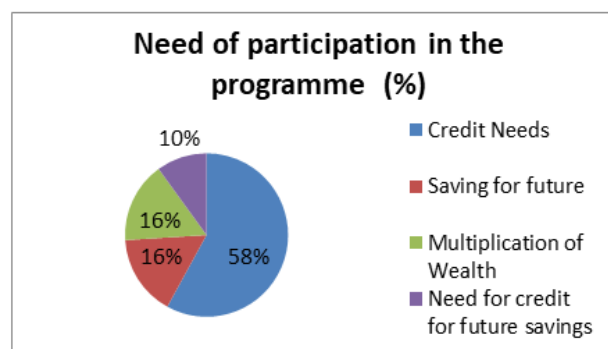
**1.2 Religion of the Respondent:** 65 % respondents are from Hindu religion, 25 % respondents are from Muslim religion and rest of 10 % respondents are from Christine, (10 % respondents, Christine basically they are converted from Hindu religion)

**1.3 Social Background of Respondents:** majority of SHG-BLP beneficiaries are from SC/ST and OBC but there is less participation of GM

**1.4 Education status of respondents:** more than 52 % SHG-BLP beneficiaries are illiterates, hardly 27 % , 12.5%, 06 % and 02% SHG-BLP beneficiaries have Primary, S S L C, PUC and Degree respectively and none of SHG-BLP beneficiaries obtained Post Graduation

## 2. Economic Condition of SHG-BLP beneficiaries

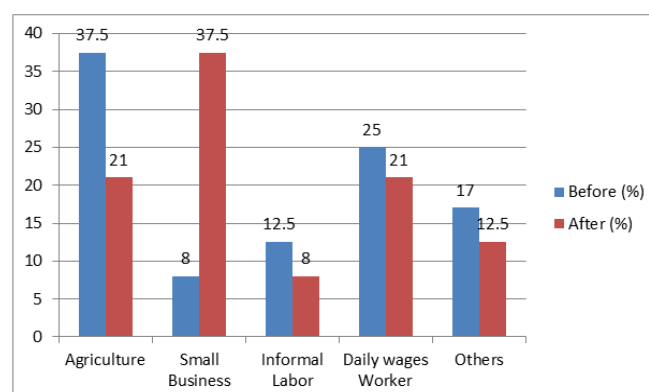
2.1 Need of participation in the programme	
Need	Respondents
Credit Needs	69
Saving for future	20
Multiplication of Wealth	20
Need for credit for future savings	11
<b>Total</b>	<b>120</b>



The above table and Pie Chart show that Need of participation in the programme, 58 % respondents joined the programme for the purpose of getting credit, hardly 16 % respondents joined for savings, 16 % joined for the Multiplication of Wealth their wealth and only 10 respondents joined for credit for future savings, from the above information it is clear that most of the SHG-BLP beneficiaries are joining for credit needs

2.2 Occupational status of the respondents (before and after joining into SHGs-BLP)		
Occupation	Before	After
Agriculture	45	25
Small Business	10	45
Informal Labor	15	10
Daily wages Worker	30	25
Others	20	15
Total	120	120

Sources: Primary sources



Above table and chart depict that Occupational status of the respondents before and after joining into SHG-BLP,

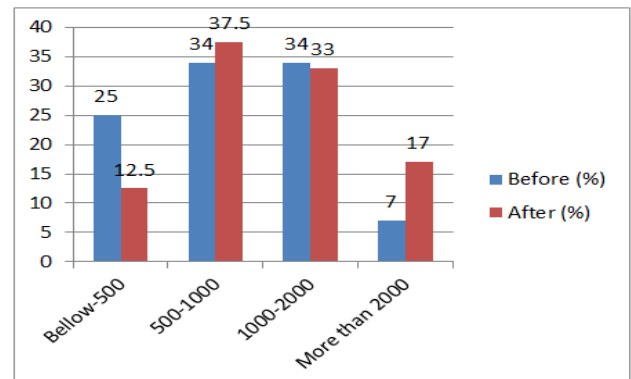
**Before joining:** before joining 45 (37.5%) respondents involved in agriculture work, 30 (25%), respondents worked as Daily wages Worker, 20 (17%) respondents involved in other works, 15 (12.5%) respondents were informal labor and only 10(8%) respondents were doing small business

**After joining:** after joining into programme, the occupational status of the respondents had changed, 45 respondents are involved in small business (before only 10), 25 respondents engaged in agriculture activities (before 45), it indicates that after joining into programme they started to do small business, informal labour also engaged in small business. From the above information we can generalize that respondents started to do small business and participation in agriculture activities are becoming less

**2.3 Monthly income of the respondents (before and after joining into SHGs-BLP)**

Income level	Before (%)	After (%)
Bellow-500	30	15
500-1000	40	45
1000-2000	40	40
More than 2000	10	20
Total	120	120

Sources: Primary sources

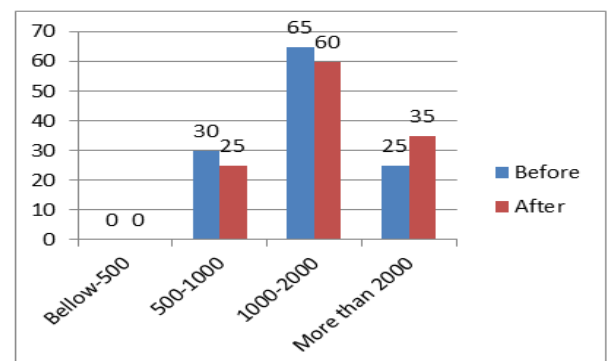


it is clearly observed that from the above table and chart, most of the respondents monthly income increased after joining into the programme, before joining into programme only hardly 10 (7%) respondents income was more than 2000 but after joining into the programme 20 (17%) respondents earning more than 2000 as monthly income

**2.4 Monthly expenditure of the respondents (before and after joining into SHGs-BLP)**

Income level	Before	After
Bellow-500	00	00
500-1000	30	25
1000-2000	65	60
More than 2000	25	35
Total	120	120

Sources: Primary sources

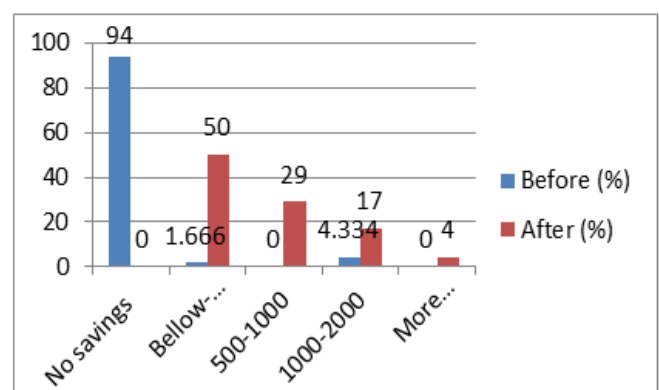


The above table and chart show that Monthly expenditure of the respondents before and after joining into SHGs-BLP, monthly expenditure is also increased as income increased but not as much as income increased (Keynesian Consumption theory applies here), expenditure increased due to increased in income level of the respondents

**2.5 Monthly savings of the respondents (before and after joining into SHGs-BLP)**

Savings level	Before (%)	After (%)
No savings	113	00
Bellow-500	2	60
500-1000	00	35
1000-2000	5	20
More than 2000	00	5
Total	120	120

Sources: Primary sources

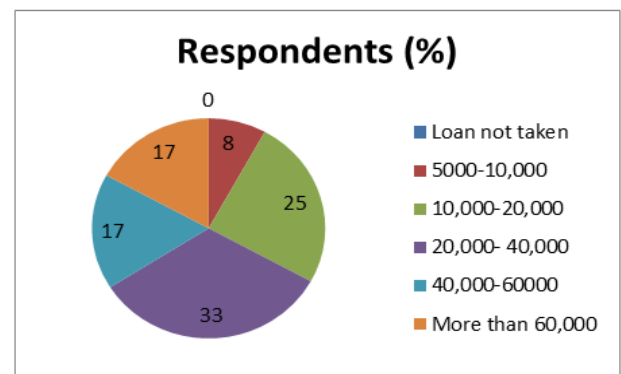


Savings of the respondents are shown in the above table and chart, before joining into the programme only 7 respondents used to save money and rest of 113 respondents had no savings habit but after joining into the programme all respondents started to save money, however 50 % have saving less than 500, it shows that respondents spend more money for their daily needs.

Have you taken loan	Respondents
Yes	120
No	00
<b>Total</b>	<b>120</b>

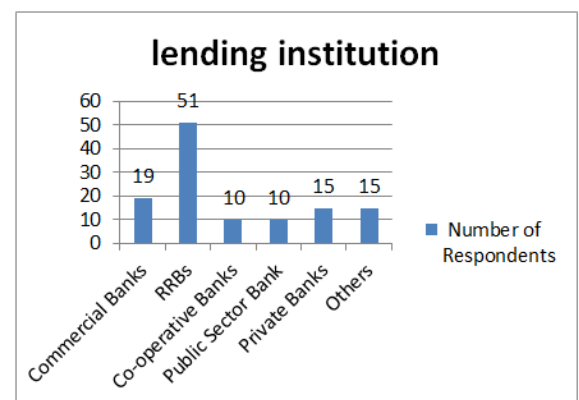
All respondents have taken loan from the programme

If yes, up to how much	Respondents
Loan not taken	00
5000-10,000	10
10,000-20,000	30
20,000- 40,000	40
40,000-60000	20
More than 60,000	20
<b>Total</b>	<b>120</b>



Above information shows that the amount of loan taken by the respondents, 40 respondents taken loan form 20,000-40,000 (30%), 30 respondents taken loan from 10,000-20,000, and 20 respondents borrowed loan more than 60,000, it is clearly indicates that the amount of loan taken by the respondents is being increased

Which is the lending institution for your group	Respondents
Commercial Banks	19
RRBs	51
Co-operative Banks	10
Public Sector Bank	10
Private Banks	15
Others	15
<b>Total</b>	<b>120</b>



The above table and chart show that the lending institution for your group, RRBs have more financial spreading effect with the SHGs-BLP, 51 respondents borrowed loan from RRBs, after RRBs commercial banks have second highest spread effect with the SHGs-BLP, but public sector banks and cooperative society have less connection with the SHGs-BLP,

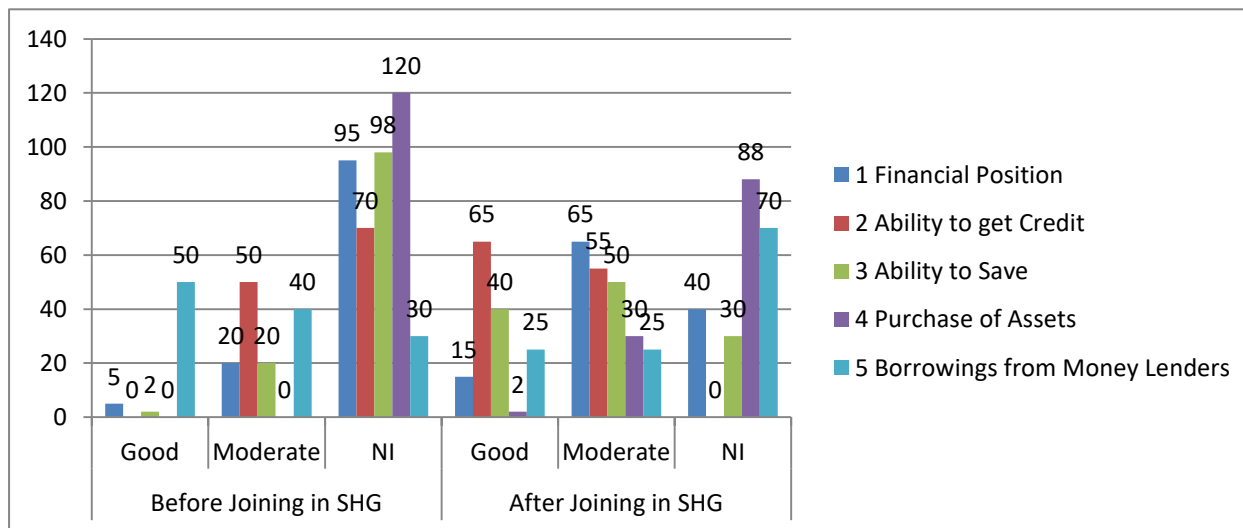
Are you getting loan from Banks in time	Respondents
Yes	65
No	55
Total	120

65 respondents stated that they are getting loan from the banks in time and rest of 55 respondents stated that they are not getting loan from the banks in time

### 3. Financial Inclusion through SHGs-BLP

Financial Inclusion through SHGs-BLP							
SN	Prospects	Before Joining in SHG			After Joining in SHG		
		Good	Moderate	NI	Good	Moderate	NI
1	Financial Position	05	20	95	15	65	40
2	Ability to get Credit	00	50	70	65	55	00
3	Ability to Save	02	20	98	40	50	30
4	Purchase of Assets	00	00	120	02	30	88
5	Borrowings from Money Lenders	50	40	30	25	25	70

Sources: Primary, NI: No improvement



The above table and chart depict that the Financial development of the respondents before and after joining into the SHGs-BLP,

**Before joining:** 95 respondents have no improvement in financial position, 20 respondents financial position was moderate and only 05 respondents financial position was good, ability to get credit of the respondents was very bad, but it was moderate level for 50 respondents and 70 ability to get credit was no improvement, 98 respondents savings is no improvement, rest of 20 and 2 respondents savings is moderate and good respectively, no one had the habit of purchasing assets and 50 respondents loan borrowing was good, 40 and 30 respondents were moderate and no improvement respectively

**After joining:** 15 respondents financial position is good, 65 respondents financial position is moderate and 40 respondents financial position was no improvement, ability to get credit is good for 65 respondents and 55 respondents ability is moderate for getting credit, more improvement is found in getting credit, savings is good, moderate and no improvement, 40,50 and 30 respondents respectively, respondents purchasing of asset is not improved drastically, dependence of money lender is existing even after joining into programme

### 7. FINDINGS OF RESEARCH

- Most of the respondents participate in this programme because of credit need
- There is high participation of SC/ST and OBC in SHGs-BLP
- Between the ages of 25 to 35 participation rate is more into programme
- After joining into the programme the Income level, expenditure level and savings level is increased
- Some of the participants are not satisfied with the given loan under the SHGs-BLP because of this they still borrow from money lenders
- In the study area, RRB is more active in providing loan under the SHGs-BLP
- Some of the respondents Financial Position and ability to get credit is not increased drastic level even after joining into the group

## 8. SUGGESTIONS

- Door to door financial services should be given by the Banks
- Loan amount should be increased
- Participants must be educated about the awareness of savings and should be taught to use given amount for income generation purpose
- Banks must provide timely and adequate amount for the participants
- Specially Cooperative societies should have more links with the SHGs-BLP

## 9. CONCLUSION

Financial Inclusion is one of the main ways to achieve inclusive growth, GoI and other allied institutions have been striving to achieve inclusive growth through financial inclusion by introducing many schemes and programmes. Microfinance plays significant role to achieve financial inclusion, in India, Microfinance has two models one is Micro Finance Institutions (MFI) and second one is SHG-BLP. SHG-BLP is one biggest model, which has more penetration in the linking the informal SHGs into Formal SHGs. Participations financial position and standard of living increased a lot after joining into group .

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