Role of Microfinance Intervention in Financial Inclusion: A Study with Reference to Bengaluru

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ABSTRACT

Financial Inclusion is the most important cornerstone of economic development. It helps to remove the obstacles that exclude people from participating in the financial sector and also supports in improving their lives. Microfinance intervention is one of the important routes to achieve financial inclusion in India. The objective of this paper is to understand the role of microfinance intervention in promoting financial inclusion in Bengaluru. The primary data required for the study were collected through a well-structured questionnaire and were analysed using percentages and Chi-square test. The results of the analysis showed that there is a significant association between the microfinance intervention and the intensity of financial inclusion in the study area.

Keywords : Financial Inclusion, Microfinance Intervention, Financial Sector, Economic Development.

INTRODUCTION

Financial inclusion is the provision of financial services at an affordable cost to various sections of the disadvantaged and lower income groups. The main objective of financial inclusion is to provide equal opportunities to each and every individual to gain the facility of formal financial channels for better living and better income. Inventing and providing various means to include the financial ways of ensuring access to timely adequate credit and financial services. Financial inclusion has been a never ending in itself, but rather a gateway, 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 the full suite of financial services (deposits, lending, payments, insurance, etc.) at an affordable cost, as and when needed by historically excluded groups. These groups can mean small businesses, women, and other low-income groups. This under-served group enjoys only limited access to traditional banking channels due to many reasons. The most important reasons are the lack of collaterals and/or credit history, irregular income patterns, remote locations, lack of financial literacy, and small ticket sizes (typically less than 100 USD). This segment - estimated at 1.7 billion by the World Bank - is forced to borrow from loan sharks at exorbitant interest rates. Quite naturally, such borrowings become a significant hindrance in their journey towards economic upliftment.

Financial inclusion intends to help people secure financial services and products at economical prices such as deposits, fund transfer services, loans, insurance, payment services, etc. It aims to establish proper financial institutions to cater to the needs of the poor people. These institutions should have clear-cut regulations and should maintain high standards that are existent in the financial industry. Financial inclusion intends to improve financial literacy and financial awareness in the nation. There are many governmental agencies and non-governmental organisations that are dedicated to bringing in financial inclusion. These agencies are focused on improving the access to receiving government-approved documents.

Need for Financial Inclusion

Financial inclusion enhances the financial system of the country comprehensively. It strengthens the availability of economic resources. Most importantly, it toughens the concept of savings among poor people living in both urban and rural areas. This way, it contributes towards the progress of the economy in a consistent manner.

Many poor people tend to get cheated and sometimes even exploited by rich landlords as well as unlicensed moneylenders due to the vulnerable condition of the poor people. With the help of financial inclusion, this serious and hazardous situation can be changed.

Financial inclusion engages in including poor people in the formal banking industry with the intention of securing their minimal finances for future purposes. There are many households with people who are farmers or artisans who do not have proper facilities to save the money that they earn after putting in so much effort.

Current status of Financial Inclusion in India

The Indian banking industry is able to penetrate only less than 50% of the population over the last few decades. The reserve bank of India and the government of India have taken many numbers of steps to further accelerate the process of financial inclusion. The modern society financial inclusion plays a major role in rural development of economy. In spite of the aggressive growth in many financial segments ever since 2001 coupled with the successful absorbing the global recession since 2008, under the penetration of banking facility and more financial products and services is spreading both in rural and urban area of India.

Though Indian credit banking has enjoyed a good growth since 2003, credit penetration remains below global benchmarks, which indicates healthy growth potential on one side and on the other side, failed to achieve equitable distribution in society. In India, the household sector generates more saving when compared to the private and corporate sectors. The statistics on financial exclusion, over 600 million rural habitations in the country, only about 30,000 or just 5% have a commercial bank branches. Only 50 percent of the population across the country has bank accounts and this ratio is much lower in north-eastern part of the country, shows a very disconsolate picture. The people having any kind of life insurance cover are low as 10 percent and only 0.6 % having non-life insurance is an awful.

Only 13 percent people having debit cards and 2 percent are having credit cards, from the total number of saving, bank accounts the majority is inactive and the status of active accounts 'no frill accounts' is altogether alarming. Throughout India, less than 10% of the 'no frill accounts' are active. Due to the absence of financial literacy, a few conduct banking transactions and very few receive credit from formal financial literacy, a few conduct banking transactions and very few receive credit from formal channels. Many people across the country have thereby missed the opportunity to increase their earning capacity and to utilize their entrepreneurial talent and continued to struggle with their limited resources.

India has made remarkable progress in financial inclusion metrics, even beating China, a report by the State Bank of India (SBI) has said. It also said that the number of bank branches per 100,000 adults in the country has increased from 13.6 in 2015 to 14.7 in 2021, which is higher than countries like Germany.

India has taken a hike in financial inclusion with the initiation of PMJDY accounts since 2014 which enabled by a robust digital infrastructure and also careful recalibration of bank branches and thereby using the Business Correspondent model judiciously for furthering financial inclusion. Such financial inclusion has also been enabled by use of digital payments as between 2015 and 2020, mobile and internet banking transactions per 1,000 adults have increased to 13,615 in 2019 from 183 in 2015. Further, it was also identified that a perceptible decline in crime has been observed in states that had a higher number of Pradhan Mantri Jan-Dhan Yojana accounts balances. The banking correspondent model in India is enabled to provide a defined range of banking services at low cost and hence is instrumental in promoting financial inclusion (Hindustan Times, 8th Nov, 2021).

The new branch authorisation policy of 2017 – which recognises BCs that provide banking services for a minimum of 4-hours per day and for at least 5-days a week as banking outlets has progressively removed the need to set up brick and mortar branches. For example, the number of 'Banking Outlets in Villages - BCs' has risen from 34,174 in Mar'10 to 12.4 lakh in Dec'20. Such progress shows an impressive outreach of banking services through branchless banking.

On 07 April 2021, the Reserve Bank of India (RBI) announced that it has constructed a composite Financial Inclusion Index (FI-Index) based on multiple parameters to reflect the broadening and deepening of financial inclusion in the country. The FI Index will be published annually in July for the financial year ending previous March. The annual FI-Index for the period ending March 2021 is 53.9 as against 43.4 for the period ending March 2017.

According to the published brief, the FI-Index has been conceptualized as a comprehensive index incorporating details of banking, investments, insurance, postal as well as the pension sector in consultation with the Government and respective sectoral regulators. The index captures information on various aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion.

Financial Inclusion through Microfinance

Microfinance is a very effective way of offering funds to the economically underprivileged sections of the society. Microfinance refers to giving micro loans or micro credit to the less fortunate entrepreneurs and small-scale business enterprises. This mode of financing has helped India extensively in achieving financial inclusion in a cost-effective manner. It has impacted the lives of the poorest people in the nation. It includes the provision of loans, savings instruments, and other financial instruments for the purpose of making more money and saving it proficiently for multiple purposes.

There are several impoverished people in the nation who do not have access to financial sources and who have no idea how to get out of their hopeless financial condition. With basic microfinance, they will be given opportunities to start some form of business or get a better job and improve their lifestyles. They do not have access to traditional banking options and hence, microfinance is a great boon to them as it gives them a chance to borrow money, utilise it for lucrative purposes, and repay it conveniently over a fixed period of time. They will also learn to manage their hard-earned money meticulously.

Review of Literature

V. Ganeshkumar (2013) in his paper, "Overview of Financial Inclusion in India", gives an overall picture of financial inclusion in India. According to him introduction of such measures as relaxation of KYC, issue of GCC cards, BC model, IT connectivity, microinsurance schemes have been good attempts by the govt, but a lot remains to be done. He compares India's position with other countries. He concludes by stating a significant fact which is that without improving investment opportunities in the country financial inclusion becomes an unfinished agenda.

Vighneswra Swami (2013) in his paper, "Financial Inclusion, Gender Dimension, and Economic Impact on poor Households" examines the impact of financial inclusion programs of women's empowerment. He focuses on microfinance programs and does the impact analysis on three broad social categories such as SC, ST, OBC and general category. His study establishes with appropriate impact assessment techniques that FI programs indeed have a positive impact on the economic lives of rural women.

Kolloju (2014) in the paper, 'Business Correspondent Model vis-à-vis Financial Inclusion in India. New Practise of Banking to the poor attempts to introduce the concept of financial Inclusion and its need. It briefly reviews the Indian Banking sector stating the level of financial exclusion in India. It also explains the significance of the business correspondent model. The conclusion drawn is that it is a feasible model but has its operational challenges.

Ratan Barman (2014) in his paper, "Rural Banking for Financial Inclusion: A Study on the Initiatives of Assam Gramin Vikash Bank" studies the initiatives taken by Assam Gramin Vikash Bank for financial Inclusion. This Bank is the only properly functioning Regional Rural Bank in the state. Its efforts at implementing the directives of RBI for achieving financial inclusion have been commendable. The paper gives an idea of its performance in implementing financial inclusion.

Kuldeep Kumar (2014) in his paper, "Financial Inclusion Progress and Strategies Towards Future Growth in India", attempts to evaluate the progress of financial inclusion initiatives undertaken in terms of branch and credit penetration, diffusion of financial services and encouragement to the people to participate in the financial literacy programs to create demand. The paper tries to identify the main initiatives taken by the Govt. of India for financial inclusion. The study concludes by stating that much remains to be done.

Amidzic, Massara and Mialou (2014) in their paper, "Assessing Countries' Financial Inclusion Standing- A New Composite Index" takes up the issue of measuring financial inclusion and states that it is a research in progress regarding the new composite index. The new composite index uses factor analysis to derive a weighted methodology. Countries are then ranked based on the new composite index. Since various initiatives have been undertaken by central banks in both advanced and developing countries therefore the attempt here is to understand the overall financial inclusion scene.

Statement of the Problem

Microfinance and micro credit are becoming popular in India since majority of the poor people are not capable of utilizing services from formal Banking system. Poor people are mainly dependent on informal small lending institutions or lenders to meet their financial emergencies. These informal institutions are not allowing the poor people to enjoy the benefits of formal financial institutions through which they can be a part of the main stream of finance. Microfinance institutions are becoming very effective in this regard through various microfinance products and are promoting the financial inclusion of all sections of the society. Hence, in this paper an attempt is made to understand the role of microfinance intervention in financial inclusion.

Objectives

1. To understand the significance of financial inclusion in India.
2. To analyze the significance of microfinance institutions in the social, political and economic empowerment of the customers in Bengaluru.
3. To evaluate the role on microfinance intervention in promoting financial inclusion at Bengaluru.

Hypothesis

1. There is a significant association between the Financial inclusion and Microfinance Intervention in Bengaluru.
2. There is a significant change in the status of Financial Inclusion with Microfinance Intervention in Bengaluru.

Research Methodology

The study is analytical in nature and is based on both primary and secondary data. Secondary data was collected from various journals, articles, working papers, NGO reports etc. Primary data was collected from a field survey at the study area.

Area of Sampling

The study was conducted at Bengaluru through a field survey to get an insight of the role of Microfinance institutions in financial inclusion.

Sample Size

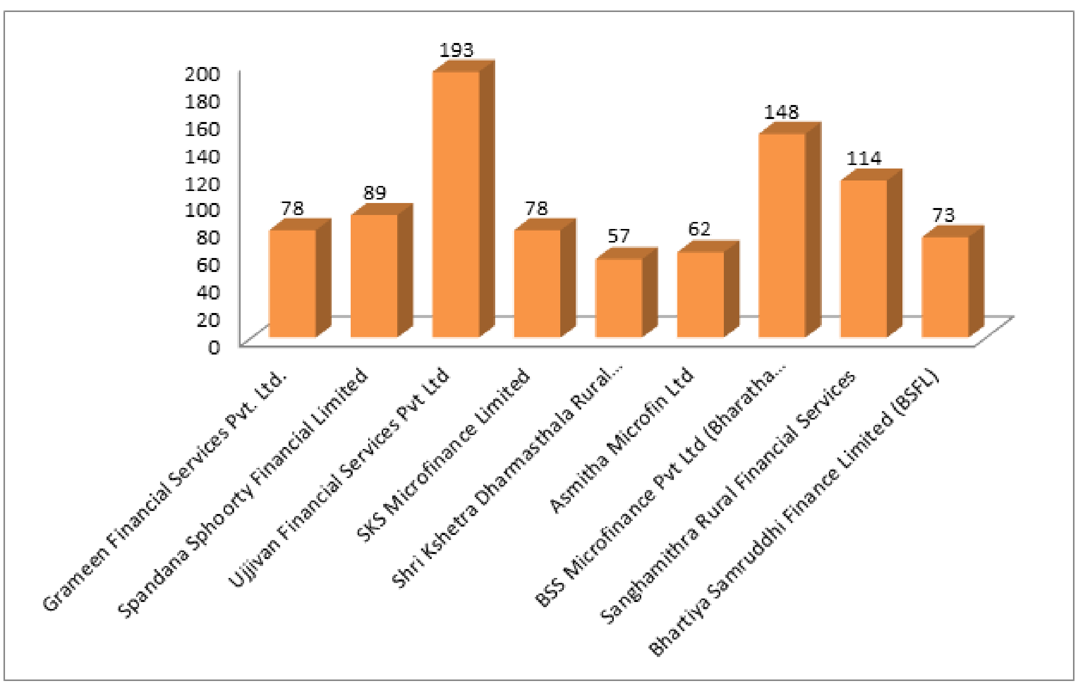
350 samples, who are the beneficiaries of MFIs from the area of study, have been considered to conduct the present study.

Method for data collection

A structured questionnaire was prepared and used for collecting data from the members of MFIs.

Statistical tools:

Graph 1: MFI in which the respondents have their account in Bengaluru



Chi-square test and percentage analysis are used for the analysis of the data.

Data Analysis and Interpretation

The data analysis and interpretation is done for the selected variables to know the role of microfinance institutions in financial inclusion. The analysis includes various aspects like the major MFIs in which the respondents have their accounts, various microfinance products that have benefitted the respondents, opinion of respondents on various microfinance initiatives taken in Bengaluru and the association of microfinance intervention with financial inclusion in Bengaluru.

The above graph provides details regarding the name of the bank in which the respondents have their account. It was found from the study that majority of the respondents (50%) have their account in Ujjivan Financial Services Pvt. Ltd., followed by BSS Microfinance Pvt. Ltd. and others. It was found from the study that respondents have opened their accounts in different MFIs as per their convenience and reference.

Table 1: Microfinance Products

Microfinance Product	Strongly Disagree	Disagree	Neither agree nor Disagree	Agree	Strongly agree	Total
Micro Credit	0	0	43	152	190	385
Percentage	0	0	11	39	49	100
Micro Savings	0	13	48	148	176	385
Percentage	0	3	12	38	46	100
Micro Insurance	0	0	35	118	232	385
Percentage	0	0	9	31	60	100
Micro-Finance Training	26	43	59	134	123	385
Percentage	7	11	15	35	32	100

Table 1 shows the details about the microfinance product that the respondents have been benefitted from. The collected data shows that 49% of the respondents strongly agree that they have been benefitted from the micro credit of MFIs, 46% of the respondents strongly agree that they have been benefitted from the micro savings of MFIs, 60% of the respondents strongly agree that they have been benefitted from the micro insurance of MFIs and 35% of the respondents strongly agree that they have been benefitted from the microfinance training of MFIs. The analysis shows that majority of the respondents have been benefitted from the micro insurance of MFIs as they have learnt about the importance of insurance and have taken insurance policies from the MFIs.

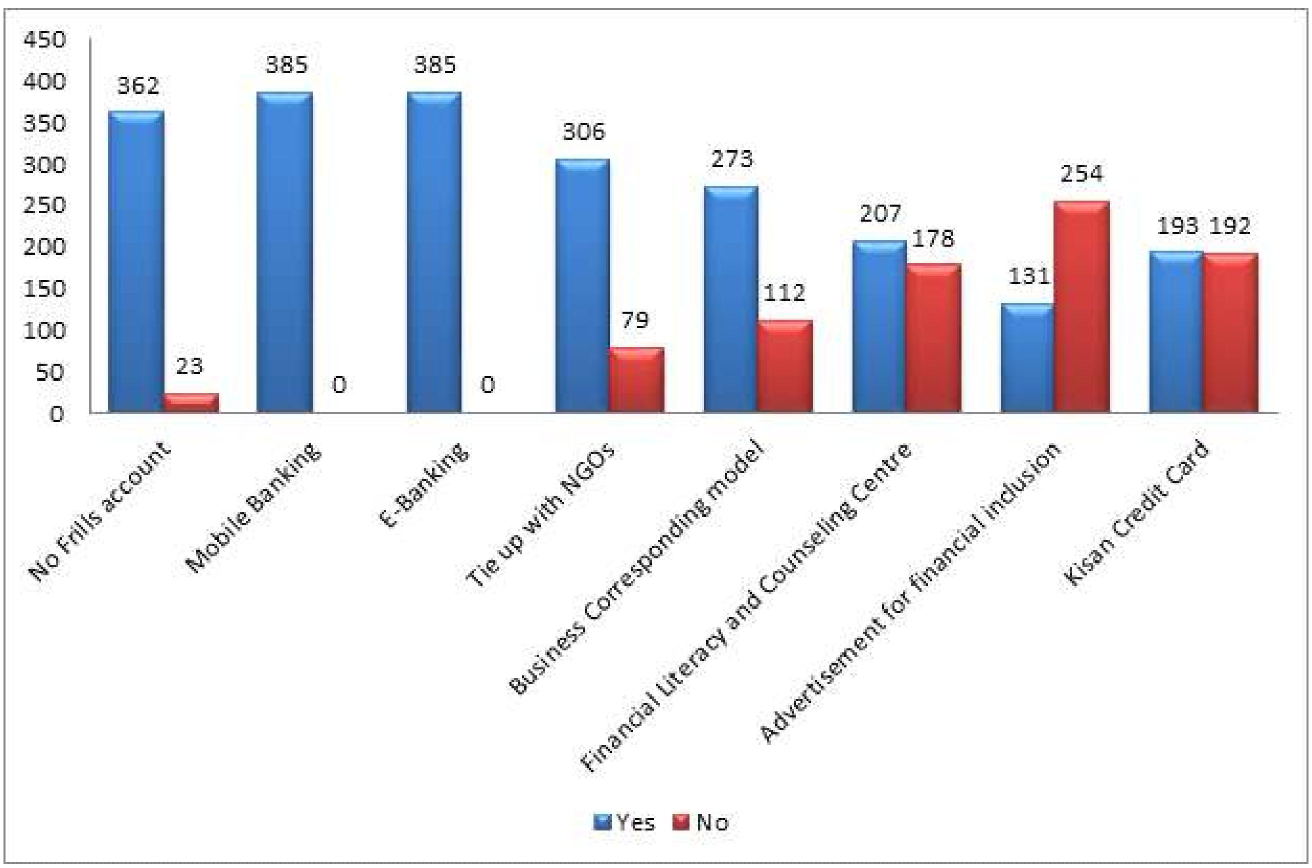
The opinion of respondents on whether the financial inclusion initiatives have been taken on Bengaluru or not are presented in the graph 2. It was found from the study that various initiatives like no frills account, mobile banking, E-banking and tie ups with NGOs etc., has been taken in the study area to promote financial inclusion which is very essential for the growth of the economy.

Hypothesis Testing

1. There is a significant association between the financial inclusion and Microfinance Intervention in Bengaluru.

Microfinance intervention is playing a significant role in promoting financial inclusion. The financial inclusion can be achieved when all the

Graph 2: Opinion of Respondents



people of the country have access to banks and wealth management products of banks. The understand the association between the financial inclusion and Microfinance intervention are studied on various financial inclusion related factors like bank account, frequency of transaction, savings habit, accessibility to loan and insurance with help of the above stated hypothesis. The Chi-Square test is performed to test the stated hypothesis.

square test. Thus it can be said the expanding the Microfinance institutions with innovative and efficient products will definitely support in promoting the financial inclusion in the study area.

1. There is a significant change in the status of Financial Inclusion with Microfinance Intervention in Bengaluru.

Achieving the financial inclusion is an important

Table 2: Chi-square Values

Financial Inclusion related factors	Chi-square values	Degree of Freedom	Significance Value
Bank Account	245.268	2	0.000
Frequency of transaction	155.901	2	0.002
Savings habit	121.141	2	0.005
Loan	294.041	2	0.000
Insurance	54.120	2	0.000

From the above analysis it is proved that the Hypothesis is accepted i.e., there is a significant association between the financial inclusion related factors like bank account, frequency of transaction, savings habit, accessibility to loan and insurance after the intervention of Microfinance institutions based on the Chi-

goal of an economy for which the Microfinance Institutions is one of the routes. Microfinance products are becoming popular in the recent past. The opinion of respondents is collected in this regard to know the intensity of financial inclusion in Bengaluru with the help of above stated hypothesis. The analysis is done with the help of Chi-Square test.

Table 3: Opinion of Respondents

Range of Financial Inclusion Penetration	Before Microfinance Intervention	Percentage of respondents	After Microfinance Intervention	Percentage of respondents
Low Financial Inclusion	258	67	33	9
Medium Financial Inclusion	95	25	170	44
High Financial Inclusion	32	8	182	47

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	300.336(a)	2	.000
Likelihood Ratio	335.248	2	.000
N of Valid Cases	770		

a 0 cells (.0%) have expected count less than 5. The minimum expected count is 107.00.

The opinion of respondents about the financial inclusion penetration range before and after the Microfinance intervention in the study area is presented in table 4. There were 67% of the respondents who said that there was low financial inclusion, 25% of the respondents felt that there was medium financial inclusion and 8% of the respondents felt that there is a high financial inclusion before Microfinance intervention in the study area. But after the Microfinance intervention there was change in the opinion of the respondents where in 9% said that there was low financial inclusion, 44% said that there was medium financial inclusion and 47% said that there was high financial inclusion in the study area. The analysis shows that the Microfinance intervention has led to a positive change in the range of financial inclusion where in the lower strata of the population are included in the main stream of finance.

The analysis shows that at 5% level of significance, Chi-square value is 300.336, which indicates that there is a significant change in the intensity of financial inclusion with Microfinance Intervention. Hence the stated hypothesis is accepted which signifies that the intensity of financial inclusion has increased with the intervention of MFIs in the study area.

Findings of the Study

- The respondents have their account in various MFIs like Ujjivan Financial Services Pvt. Ltd., followed by BSS Microfinance Pvt. Ltd. and many others.
- Majority of the respondents have been benefitted from the micro insurance of MFIs as they have learnt about the importance of

insurance and have taken insurance policies from the MFIs.

- It was found from the study that various initiatives like no frills account, mobile banking, E-banking and ties ups with NGOs etc., has been taken in the study area to promote financial inclusion which is very essential for the growth of the economy.
- There is a significant association between the financial inclusion related factors like bank account, frequency of transaction, savings habit, accessibility to loan and insurance after the intervention of Microfinance institutions based on the Chi-square test.
- The Microfinance intervention has led to a positive change in the range of financial inclusion where in the lower strata of the population is included in the main stream of finance.
- There is a significant change in the intensity of financial inclusion with Microfinance Intervention in the study area which was tested and proved with the help of Chi-square test i.e., at 5% level of significance, Chi-square value is 300.336.

Conclusion

It can be concluded from the above study that microfinance is playing a vital role in the social, cultural, political, family as well as economic empowerment of people in India. Microfinance interventions through various schemes and its utilization have led to the effective implementation of financial inclusion in the study area. The evidences from the study have shown that there is significant change in the level of financial inclusion with the microfinance intervention at Bengaluru district. Microfinance is recognized as a key mantra for attaining and maintaining the sustained and longterm economic growth in all over the world. Reaching poor people on massive scale with popular products on a continuous basis involves rethinking the basic assumptions and making the changes. Today microfinance is striving to match the convenience and flexibility of informal sector while adding flexibility and continuity. Hence it can be said that microfinance is very essential to attain the objectives of financial inclusion and to attain balanced economic growth.

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