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Role of NBFC-MFIs in Financial Inclusion in the Districts of Uttar Pradesh

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Abstract

Financial inclusion is an important phenomenon of economic development. In a populous nation like India where a large section of the society is deprived of institutional financial services, financial inclusion is a major challenge. In the recent few years, vibrant and effective efforts have been made to promote financial inclusion. Keeping in mind the situation of unserved and underprivileged people and according to their needs and circumstances, a microfinance company (NBFC-MFI) has been designed which provides financial services to very poor sections of society. The present research paper examines as well as analyses the role of microfinance companies(NBFC-MFI) in the field of financial inclusion, especially in the districts of Uttar Pradesh. The observation parameters are opening of bank accounts, insurance and digital transfer payment.

Introduction

The concept of financial inclusion in India came after the initiatives taken by the Reserve Bank of India in 2005. Among other policy measures, one of the most focused decisions of the Reserve Bank of India was the implementation of Malegaon Committee recommendations (2011) to form a separate entity of non-Banking financial company that is Non-Banking Financial Company NBFC-MFI, a new form of MFI was created for the poor and deprived section of the society to provides them microfinance services for doing small business and it is directly regulated by Reserve Bank of India. NBFC-MFIs have been selected for the research and NBFC-MFIs performing in different districts of Uttar Pradesh have been divided into low, middle and high zones based on penetration and one district has been selected from each zone.

Financial inclusion is the inclusion of every section of the society in the institutional financial structure of the country. Financial products should be created in such a way that financial services can be made available to the underprivileged section of the society according to their circumstances and they can be saved from getting caught in the clutches of non-institutional sources or unorganized financial sources like Sahukar or moneylenders.

Financial Inclusion is an attempt to provide financial services like payments, savings, loans etc. to the low-income people and the underprivileged section of the society at an affordable cost. The goal of financial inclusion is to take measures to ensure that financial inclusion reaches the last mile of development without any hindrance, without any financial restrictions and discrimination. It is also called inclusive financing.

In the field of financial inclusion, the government and RBI have taken impressive strides in recent years, which have started showing positive results. JAM has been effective by the government, under which Jan Dhan Yojana, Aadhaar and mobile are included. According to World Bank data or global findex report-2017, the percentage of adult accounts in India was 53% in 2014, which has increased to 80% in 2017 after the implementation of the Jan Dhan Yojana. Among other measures, one of the most effective measures was that the Reserve Bank of India started a new entity of NBFCs NBFC-MFI in 2011 in compliance with the recommendation of the Malegaon Committee to ensure access to financial services in remote and rural areas of the country. This financial service has been specially designed for the poor and deprived people of society. In the present research paper, an attempt has been made to find out the impact of NBFC-MFI in the field of financial inclusion in the districts of Uttar Pradesh.

Microfinance companies offer a better solution in this direction. It provides small collateral-free loans to poor people for livelihood. They have two types of products, private loans and joint liability group (JLG) loans. Their JLG products are very valuable. In JLG groups of 5 to 10 people are formed and individual loans are disbursed, the responsibility of repayment of loan instalments of every members lies with the entire group. That is why their groups are called the Joint Liability Groups. The group has given a separate identity that is the group has a particular name, the loan is repaid in small weekly and fortnightly installments. Their regular weekly or fortnightly meetings are held for the payment of the loan instalments and loan approval etc. The field officer of the company holds the meeting. He collects the installments of loans taken by the members and made an entry of it into their passbooks and deposits the collected money in the accounts of the companies. Most of the work is performed by field officers at their homes. So, this is an easy way for them. These companies are registered with the RBI. Anyone can start MFI operations in India with a capital of 5 crores. The company only provides loans to the poor whose annual income does not exceed Rs. 1.25 lakhs for rural areas and 2 lakhs for urban areas. Loans cannot be more than 75000 in the first loan cycle and 1.25 lakh in subsequent cycles. These companies cannot accept deposits from their customers. They can give only loans to their customers so they are non-banking financial companies.

The present research examines three parameters of financial inclusion- bank accounts, micro-insurance and transfer payment. Everyone is aware of bank accounts and digital transfer payments. Any payment is a digital transfer payment that is directly given to the account. It can be explained about micro-insurance that a micro-insurance policy is a general or life insurance policy with a sum assured of Rs 50,000 or less. Micro-insurance business can be done successfully through MFIs. The insurance Regulatory and Development Authority of India (IRDAI) has created a special category of insurance policies called micro-insurance policies to promote insurance coverage among economically vulnerable sections of society.

Literature review

Various research papers and scholarly articles have been reviewed on the topic. Remarkable views are as follows-

Deepak Barman, Himendu P. Mathur and Vinita Kalra (2009) concluded in their paper that MFIs and SHGs have significant potential to meet the financial needs of the poorer segments of the society. However, indebtedness to moneylenders is widespread in the rural areas of the country despite microfinance interventions.

Dr. Christabell. P. J., Vimal Raj. A (2012) illustrated that often the main barrier to financial inclusion in rural areas is the great distances that rural residents must travel to reach a bank branch. Poor infrastructure and telecommunications, and heavy branch regulation, also restrict the geographical expansion of bank branch networks. Non-bank financial institutions like microfinance institutions help to fill this gap.

Shounak Das (2019) A Study on Financial Inclusion in Aspirational Districts of India denotes that financial inclusion is better in states with better economic conditions. It has been observed through the study that places that are more financially excluded are also more financially weak.

K. Hema Divya (2013) concluded that there is a need to educate and create some new instruments for daily wage earners and also make them a part of financial inclusion.

Arif Jamal, Dr Syed Shahid Mazhar (2019) illustrated that MFIs have emerged as a potent tool of promoting financial inclusion in the whole of India. The study also found that around 31 MFIs are active in the central districts of Uttar Pradesh and are playing an important role in promoting financial inclusion. **Rabi N. Mishra, Puneet Verma & Sanket Bose (2015)** explained in their paper that it comes out that more financially included districts are urbanized whereas the lower financially included districts are rural.

Objectives-

The objective of the present research paper is to evaluate the impact of NBFC-MFI in the area of financial inclusion in different districts of Uttar Pradesh. Besides, it is an attempt to give suggestions for increasing the role of NBFC-MFI in the field of financial inclusion in Uttar Pradesh.

Methodology-

This study is based on primary data. For this purpose, a comprehensive questionnaire is used and direct interviews are also conducted. Questionnaires were filled by 300 clients of the MFIs of the Allahabad, Lucknow and Kanpur districts. Districts are selected based on the penetration of MFIs in Uttar Pradesh. Uttar Pradesh has been divided into three zones- low, middle and high as per the penetration of MFIs in the districts of Uttar Pradesh. From each zone, one district was selected. From each district 100 samples were collected, 75 samples from rural areas and 25 samples from the urban areas. This proportion is based on the percentage of the population living in rural and urban areas of Uttar Pradesh. A stratified random sampling technique is used for selecting districts. The MFIs - Margdarshak, Sonata, BMC, Utkarsh, Spandan, Bandhan bank etc which are working in UP were covered in the survey.

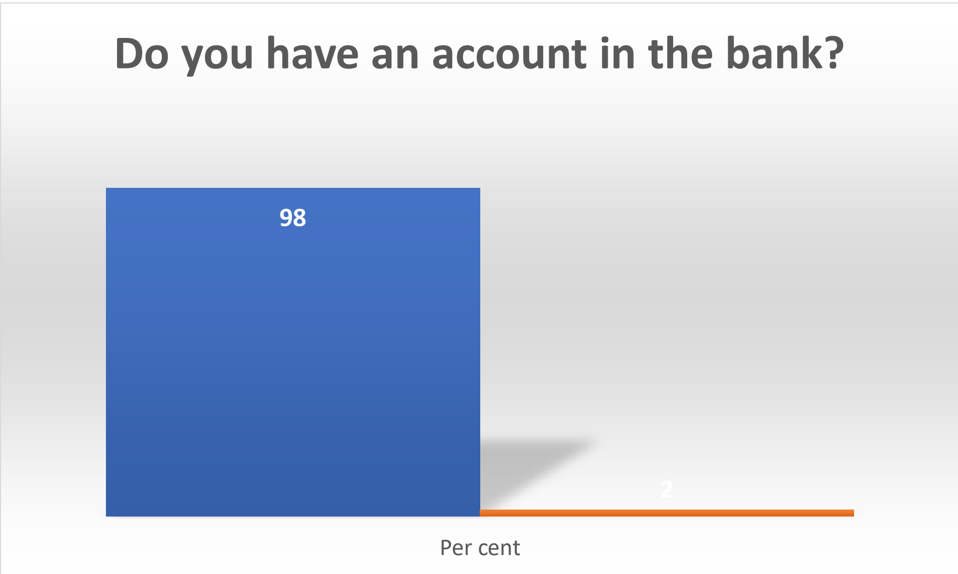
Analysis- The result shows the positive impact of microfinance on account opening of poor people. Most of the companies disburse loans preferably in accounts so if clients do not have an account, then it is mandatory to open an account in the bank before the loan sanction.

Opening of Bank Account is the first step in connecting people to the institutional banking system. This, on the one hand, gives rise to the tendency of poor people to make deposits and on the other hand, people can get institutional credit. In the current research, 294 out of 300 respondents who took loans from microfinance institutions have bank accounts.

Table no.1 Clients have an account in the banks

	MFI	
Do you have an account in the bank?	Frequency	Per cent
Yes	294	98.0
No	6	2.0
Total	300	100.0

Figure.1 Clients have an account in the banks



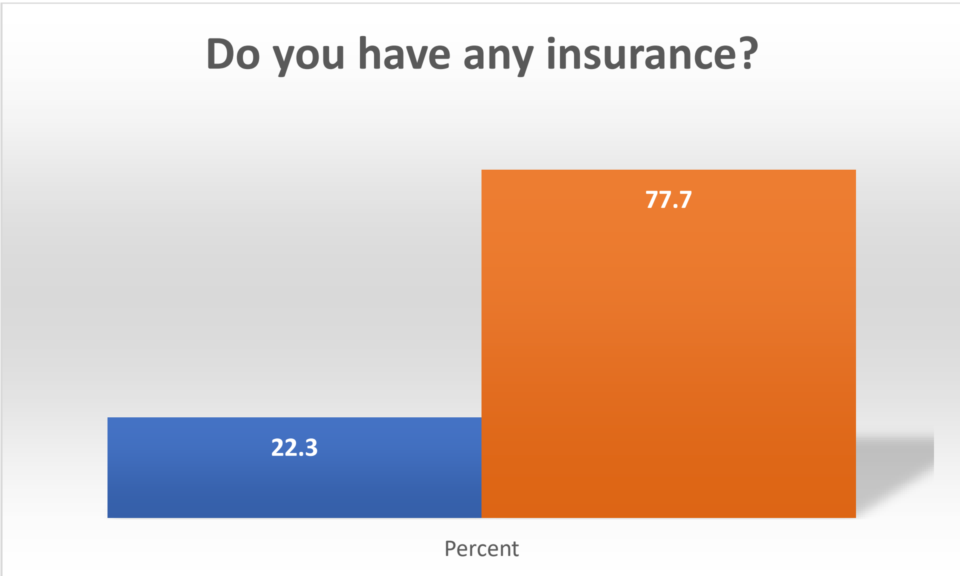
The table/figure no-1 shows the percentage of account holders of MFIs. 98% of MFIs customers have bank accounts and these accounts are active due to productive utilization of received loans. The figure shows the good state of financial inclusion and proves that microfinance institutions have a strong positive impact on financial inclusion.

Microinsurance is a major initiative in the field of providing insurance cover to the poor. This small insurance policy provides them protection against various risks. But now its spread is less as compared to microcredit. Poor people entangled in their livelihood are not able to contribute towards it. Not all of them seem to be even aware of it. In the present survey, only 67 out of 300 people had insurance cover.

Table- 2 Clients have insurance

	MFI	
Do you have any insurance?	Frequency	Per cent
Yes	67	22.3
No	233	77.7
Total	300	100.0

Figure-2 Clients have insurance



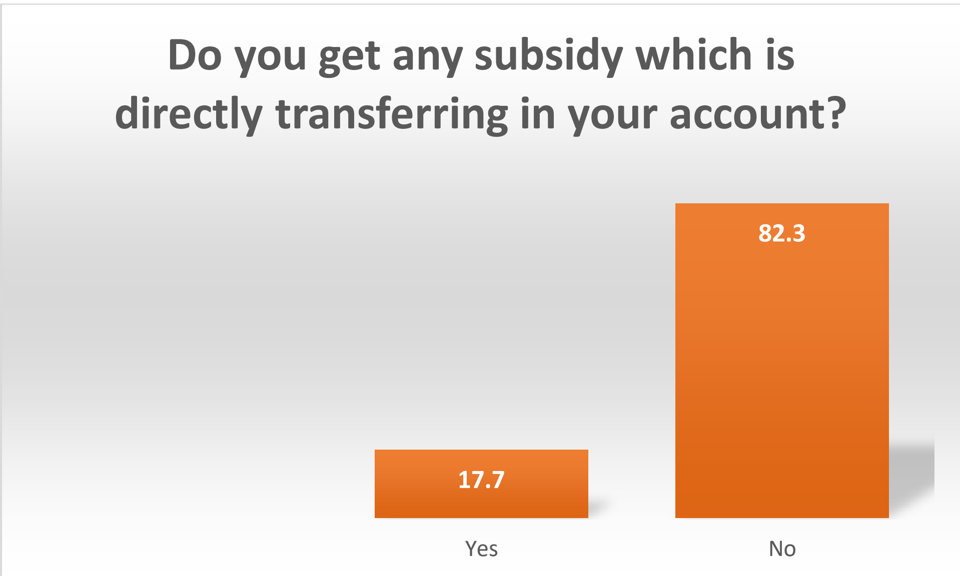
Table/figures no-2 shows that out of 300 MFI customers, only 67(22.3%) have insurance. The performance of MFIs is not very good in terms of insurance services. There is a need to make more efforts in this direction under inclusive finance.

Transfer Payment -One of the goals of financial inclusion is to provide subsidies, remittances etc. directly to the account of the poor. In the present survey, only 53 people out of 300 have received the subsidy directly in the accounts. Satisfactory results have not been seen on the above parameter.

Table no.3 Transfer Payment direct in the account

	MFI	
Do you get any subsidy that is directly transferred to your account?	Frequency	Per cent
Yes	53	17.7
No	247	82.3
Total	300	100.0

Figure no.3 Subsidy Transfer Direct in the Account



It is explained in the table/figure no-3 that the facility of transfer payment is being received by 53 (17.7%) out of 300 MFIs' customers. These are the customers whose subsidy is being received directly in the account while 247 (82.3%) people do not have this ability. It shows that microfinance has no effective and positive impact on transfer payment; comparatively.

Briefly, it can be said that the goal of financial inclusion will not be achieved just by opening the accounts of the deprived sections. Because opening zero balance accounts cannot improve the lives of the deprived sections. Unless they can develop a means of livelihood and ensure regular flow of funds into their accounts, the accounts are not in an active state and those from the deprived sections of the society are not connected to the mainstream of development, the process of inclusion cannot be considered complete By getting regular services from organized institutional sources, the active contribution of the poor in the economy is ensured and they get the benefits of development, only then there will be financial inclusion achieved in the true sense.

Conclusion

It is proved from the current research that there is commendable performance of MFIs in the area of linking poor from registered institutions but there is still a huge gap between demand and supply size in the parameter of micro-insurance and digital transfer payments. There is still much effort to be done in the area of micro-insurance and digital transfer payment. As it is observed that being poor, the vulnerable class cannot buy mobiles. If they buy, they cannot recharge. Illiteracy is also a major challenge which hinders the process of financial inclusion. Staggering facts are revealed in the educational pattern of respondents. Out of 300 respondents of MFIs, 147(49%) were Illiterate.

It can be said that microfinance companies have proved to be a unique instrument in financial inclusion. But in remote areas, poor infrastructure, transport facilities and widespread illiteracy are major obstacles in their path. If we want to bring the concept of financial inclusion into full reality, instead of adopting different approaches at different levels, the government should promote the NBFC-MFI model on a targeted basis, so that it can show its charisma.

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