

Chapter 13

The Quest for Financial Inclusion and Microfinance Institutions in India

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ABSTRACT

Financial inclusion refers to providing unconditional and affordable access to financial services in an effective and efficient manner for all needy people. Microfinance institutions (MFIs) play an important role in financial inclusion and societal development. One important part of the financial inclusion strategy is to provide access to finance to those people belonging to remote and disadvantaged areas. The aim of this chapter is to study the concept of microfinance and microfinance institutions and its impact on financial inclusion in India. This study provides recommendations to grow and sustain microfinance institutions to achieve greater financial inclusion.

INTRODUCTION

Financial Inclusion is delivering banking services at affordable prices to that section of society which has low income and low opportunities of availabilities of different economic and social services. Financial Inclusion lists out various measures and initiatives by the Government of India and the central bank of the country, Reserve Bank of India (RBI) towards socio-economic growth. India has been divided into three categories on a state wise index mainly high, medium, and low-income groups. Sadly, a large section of our society is facing the problem of financial exclusion. It is mainly due to lack of socio-economic financial literacy and infrastructure. At a global level, many countries have adopted the concept of financial inclusion including US, France, UK (Mehta, Jindal & Singh, 2015; Ahmad, 2012).

Meaning of Financial Inclusion

Financial inclusion refers to delivery of financial services at an affordable cost in a fair, transparent terms and conditions to vast sections of disadvantages, weaker, low-income groups' including household enterprise, small medium enterprise, and trade INR (Mehta, Jindal & Singh, 2015).

Financial Inclusion is:

$$\text{NFA} + \text{Banks} + \text{OFIs} + \text{MFI} + \text{IT} = \text{Financial Inclusion.}$$

Where,

- **NFA:** No frills bank account
- **OFIs:** Financial Institutions
- **MFI:** Micro Financial Institutions
- **IT:** Information Technology.

FINANCIAL INCLUSION IN INDIA

In India, the apex bank Reserve Bank of India (RBI) along with some commercial banks has undertaken the initiative to promote financial inclusion. Many projects have been launched like mobile banking; micro financial institutions etc. (Mehta, Jindal & Singh, 2015). During the recent past, banks have played an important role in making people meet their needs. Many studies have been carried out to know about the role of banks in financial inclusion for sustainable development. Many regional rural banks (RRBs) and commercial banks have joined hands for the development of nation. Choubey (1983) has evaluated that commercial banks have failed to fill serious gaps and deficiencies in farm credit which the RRBs can manage to do. He emphasized on the fact that National Bank for Agriculture and Rural Development (NABARD) would be required to pay special attention to depoliticisation of agricultural credit and Government credit agencies. He suggested that NABARD might help in raising agriculture and rural sector productivity at a faster rate. Husain (1987) analyzed the development of commercial banks in India and shed light on reorientation of credit policy and resource mobilization for regional development. Financial inclusion is the key determinant to sustainable and inclusive growth, which will unlock the vast hidden potential of savings, consumption, and investment propensities of the poorer sections of society. It will help to transact the national forum for financial inclusion in which all people have access to appropriate and have defined products and services in order to manage their money effectively. It is achieved by both financial literacy and financial capability on the part of consumer. It also helps in the financial access of product and services (Mehta, Jindal & Singh, 2015).

Sendhilvelan and Karthikeyan (2006) concluded with a view to ensure financial inclusion of everyone by publicizing the facility of “no frills” account in both rural and urban banks and shifting from the concept of ‘anytime, anywhere banking’ to ‘anytime, anywhere and to everyone banking’. Mitra (2007) stressed on the fact that instead of being confined to the four walls, bank policies should touch the doorsteps of the common person having more inclusive capitalist growth strategy bordering the principles of

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