Micro Finance: The Catalytic Agent of financial Inclusion in India

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I. Major chunk of India's population do not have access to financial services provided by the financial institutions. A glaring asymmetry between social and economic conditions of rural and urban people has always been irking the rational thinkers and policy makers. It is one global phenomenon that vulnerable sections of the society need support for access to financial capital on the one hand and capacity enhancement to make the best use of the financial services on the other hand. Thus, recognizing the role of formal financial services in improving the standard of living of the marginalized people, the concept of micro credit emerged in 1960 and gradually developed to cater the needs of savings, credit, insurance and pension of low income people to the level of microfinance in India.

Recently the concept of financial inclusion has been gaining momentum as one device for poverty amelioration. India has formulated one robust measure in terms of financial inclusion mission. Union Budget 2014-15 embarks upon financial inclusion mission to empower the destitute stricken masses. Financial inclusion adheres to the delivery of financial services at affordable cost to the marginalized segments of the society.

Rangrajan Committee has defined financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by the vulnerable groups such as weaker sections and low income groups at an affordable cost.

Financial inclusion in the limited form of micro credit since 1960's and with an extended coverage called microfinance has already been operative in India. The role of RBI, NABARD, RRB_s, PACs, SHGs, and MFIs is significant. Despite concerted efforts made by these banks and institutions, a large chunk of population about 50% do not have Bank Account and a large number of villages do not have Bank branches. Banks have been advised by the RBI to submit their financial inclusion plans for reaching 72825 financially excluded villages. According to nationwide survey conducted by IISS (Indian Incomes and Saving Survey 2007) 97% of all households do not have life insurance and 61% do not have any health insurance and 61% do not have any life insurance. According to NSSO survey almost 25% of households get into chronic indebtness because of health related emergencies.

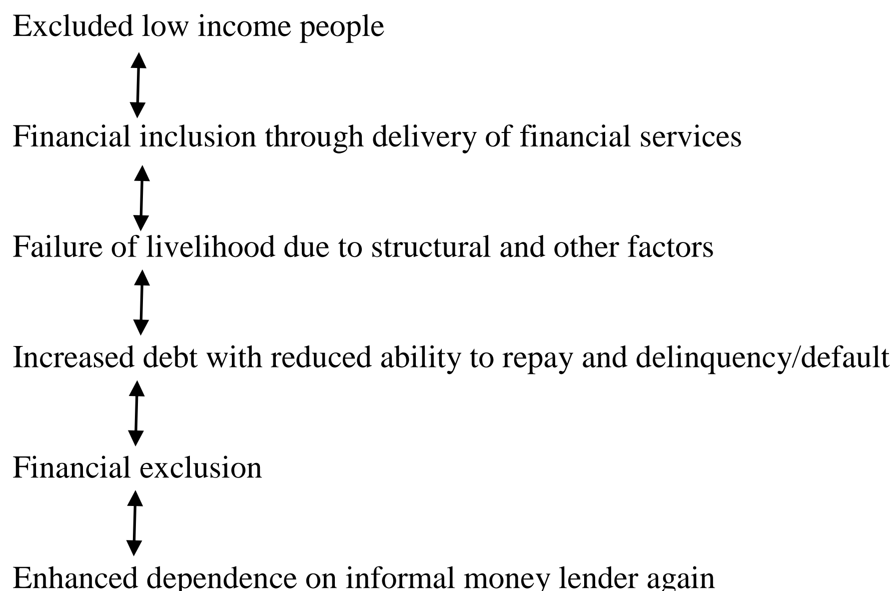
The present paper makes an ingenious endeavour to explore the rationale of financial inclusion as one device for poverty amelioration with the help of growth and performance of existing micro finance system in the country.

II. **Concept of Financial Inclusion:-** It adheres to access to financial services to the hither to unbanked sections of the society. The term financial exclusion was first coined in 1993 by geographers in

Britain who were concerned about bank branch closures and resulting limited physical access to banking services. Aynsley has identified three key aspects of definitions of financial inclusion, Viz. **(i)** access to financial services and products **(ii)** financial capability i.e. managing money effectively and **(iii)** financial literacy. According to RBI Governor Raghuram Rajan, Financial inclusion is about **(a)** broadening of financial services to those people who do not have access to financial services sector , **(b)** the deepening of financial services for the people who have minimal financial services and **(c)** greater financial literacy and consumer protection so that those who are offered the benefits can make appropriate choices. RBI documents has defined it as the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players. Rangrajan Committee states that the essence of financial inclusion is to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services.

Arunachalam has put forth the question whether financial inclusion can help reverse the current paradigm of inequitable development and if so how is to be opretionalised ? He asserts that to include the poor requires consistent and simultaneous mechanisms for the management of risks and vulnarabilities.He has argued that a new paradigm of financial inclusion is required which reduces risk and vulnerability in the livelihood of the poor,Viz. (i) resulting from imperfect markets ,(ii) help to create strong safety nets for the poor,(iii)enable the poor to pursue diversified and migratory livelihoods and create risk management mechanisms and products such as post harvest loans and warehouse receipts for small holders

Cycle of inclusion and exclusion has been depicted below :



Extent of Financial Exclusion in India:-

i. The All India Debt and Investment Survey 2000 estimated that 111.5 million households had no access to formal credit. It revealed that the lower the asset class or income the higher the degree of exclusion

ii. World bank estimated that 59.9% of rural households did not have savings bank accounts and 70% in case of landless/marginal farmer categories

iii. 2011 Census of India indicates that 58.7% of the households in India avail banking services , 54.5% in rural areas and 67.7% in urban areas

iv. Chattopadhay has classified Indian states into three categories i.e. states having high , low and medium extent of financial exclusion using the index of financial inclusion which is based on three basic dimensions Viz. banking penetration, availability of the banking services and usage of banking system. Banking penetration refers to the size of banking population having bank account as a percentage of overall population in a geographical area. Availability of banking services is measured by the number of banks outlets per thousand population. Usage of banking system refers to volume of outstanding deposit and credit as a proportion of Net Domestic District Product as the criteria. Index of financial inclusion has been mentioned in the below table.

Table No -01

Index of Financial Inclusion	
Degree of Financial Inclusion	States
High(0.5≤IFI≤1)	Kerala,Maharastra,Karnataka
Medium(0.3≤IFI≤0.5)	Tamilnadu,Punjab,Andhrapradesh,Sikkim,Himachal Pradesh,Haryana
Low(0≤IFI≤0.3)	WB,UP,Gujurat,Tripura,Bihar,Assam,Nagaland,Manipur,Mizaram, MP,AP,Odisha,Rajasthan

Source: Chattopadhay (2011)

v. The Global Financial Inclusion Index measures how people in 148 countries including the poor , women and rural residents save,borrow,make payment and manage risk.
As per Global Findex in India only 35% of Adults over the age of 15 had an account with a formal institution i.e. 44% males and 26% females and 8% borrowed

vi. The Financial Access Survey (FAS) database of IMF contains annual data for 189 juridictions Covering the period 2004-2012. The latest data for India (2012) suggest that there were on an average 892 deposit accounts with Commercial banks for every adult and 23 households loan accounts for every 1000 adults which is refelected in the below table

Table No-02

Access to and use of Financial Services in India(2012)	
Commercial Bank Branches per 1000 sq KM	33.17
ATM per 1000 sq KM	32.67
Outstanding deposits with Commercial Banks(% of GDP)	68.64
Deposit Accounts with CBs per 1000 adults	1042.48
Household deposit account with Commercial Banks per 1000 adults	892.49
CBs branches per 1 lakh adults	11.38
ATM per 1lakh adults	11.21
Outstanding loans from CBs (% of GDF)	54.24
Loan Accounts with CBs per 1000 adults	151.06
Household loan accounts with CBs per 1000 adults	23.54

Source: IMF 2013(Inclusive Finance India Report 2014)

CRISIL Inclusix:-

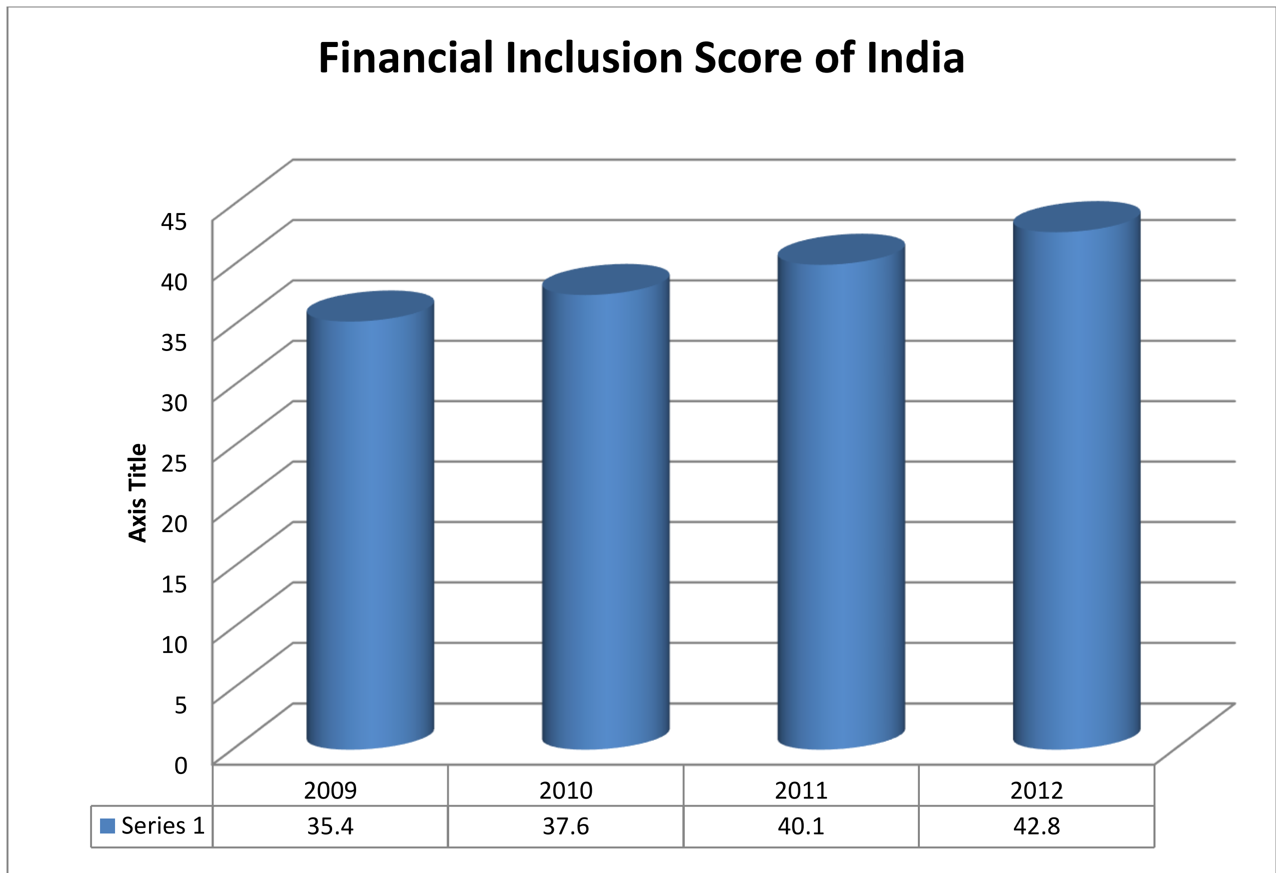
CRISIL launched the inclusix tool developed with support from Ministry of Finance, GOI and RBI in 2013. In Jan 2014 CRISIL released the latest computation of Inclusix based on the data available by RBI till March 2012 covering all 638 districts of the country.

Parameter	Measure	Interpretation
Branch Penetration (BP)	Number of Bank Branches per 1 Lakh of Population	Access to banking services
Credit Penetration (CP)	Number of loan accounts per lakh of population	Access to loan products
	Number of small borrowers loan accounts as defined by RBI per 1lakh population	Access to credit for small borrowers
	Number of agriculture advanced per 1 lakh of population	Access to credit for farmers
Deposit Penetration (DP)	Number of savings deposits accounts per 1 lakh of population	Access to savings products

Source: Inclusive Finance India Report (2014)

CRISIL uses a statistically robust and transparent methodology. It is a relative index on a scale of 0 to 100 and combines three critical parameters of basic banking sercices- branch penetration, deposit penetration and credit penetration into one matrix. Besides measuring inclusion at the district, state and national level, the index can be used to compute progress on financial inclusion by each bank. CRISIL, inclusix also enable inter-temporal comparison for financial inclusion. The latest inclusix assesses trends in financial inclusion in India in fiscal 2012 compared with 2011,2010 and 2009. Based on CRISIL inclusix scores, CRISIL has come up with four categories-low(<25), below average (25 to 40.1), above average(40.1 to 55) and high (>55) level of financial inclusion.

While calculating financial inclusion CRISIL inclusix uses non-monetary aggregates like number of people whose lives have been touched by various financial services rather than the amount deposited or borrowed which negates the disproportionate impact of a few high value figures on the overall picture.



CRISIL Inclusix, CRISIL 2013

The key findings of Inclusix Survey have been epitomised below.

a) The inclusix experienced steady growth rate from 35.4 in 2009 to 42.8 in 2012.
b) The current inclusix score of 42.8 out of 100 indicates under penetration of formal banking in the country.
c) At the regional level all the regions experienced growth in inclusix score with western region scoring 40.9, northern 39.5, north eastern 30.9 and eastern 30.8 during 2012.
d) Southern region with a financial inclusix of 66.1 has experienced the maximum growth rate and remained the leader in all the three dimensions of credit branch and deposit penetration.
e) 58% of the incremental credit accounts were opened in the south.
f) 587 out of 638 districts reported an improvement in terms of financial inclusion in 2012 against 618 out of 632 districts in 2011.
g) The average improvement in the inclusix score of the bottom 50 districts was 1.6 compared with 4.3 for the top 50 districts and on all- india average of 2.7.
h) One out of every two Indians has a saving account and only one in seven has access to bank loan showing low credit penetration.
i) India experienced 11.1% growth in agriculture credit accounts in 2012 over 2011.
j) The top five states in terms of financial inclusix are Puduchery,Chandigarh, Kerela,Delhi and Goa.
k) Wide disparities exist across India and within states in terms of access to financial servicess.
l) India's six largest cities have 10% of the country's bank branches while eight districts in the North East have just two or less than 2 bank branches each.
m) Bottom 50 districts continue to have just 2% of the country's bank branches.

Five PS of Financial Inclusion:-

Financial Inclusion is about getting five things right: Product, Place, Price, Protection and Profit. A basic suite of products is required to address financial needs. These include a safe place to save a reliable way to send and receive money,quick way to borrow in times of need or to escape the clutches of money lenders,easy to understand accident, life and health insurance and an avenue to have savings for old age.

For access place of delivery is also important. It relates to electronic proximity or proximity via correspondents.

The transactions costs of obtaining the product including the price and the intermediary charges should be low. Automation of transctions and use of local employees that are commensurately paid can help to reduce costs.

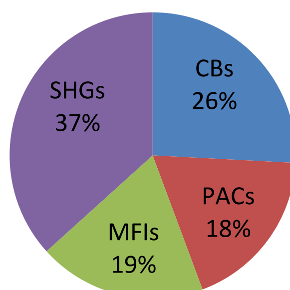
New and inexperienced customers will require protection. The RBI is beefing up the consumer protection code and stregthening the coustmer grievance redressal mechanism and curtailing the activites of fly-by –night operators. Financial inclusion cannot be achived without it being profitable. There should be profit at the bottom of the pyramid. Govt. should pay reasonable commissions punctually for benefits transfers and bankers will charge reasonable and transperent interest rates and fees for offering services to the poor.

Financial Inclusion- An expanded form of micro finance : United Nations describes the main goals of inclusive finance as access to a range of financial services including savings , Credit,Insurance,Remittances and other baking services to all bankable households and enterprises at a reasonable cost. Financial inclusion mission in India aims at providing the financial services and products through formal financial institution at affordable cost to the vulnerable sections in remote areas

Micro Finance refers to small scale financial services in the form of credit and deposits to the poor, illiterate and vulnerable sections of the society and tiny enterprises especially the women to enable them to create self employment and uplift their standard of living. According to NABARD Microfinance refers to extending the whole range of financial services from savings to credit to micro insurance to micro enterprises and a lot more for proper sections of society whose scale of operations are so small and hence generally excluded from the purview of existing services providers. High risks, high transaction cost and absence of collateral securities constitute fundamental reasons which left the vulnerable sections deprived of formal financial services. Thus, micro credit institution have evolved their own design features such as class eligibility for membership in the group from landless to minimum land holdings entrepreneurial experience to no requirement of entrepreneurial experience monthly repayment to weekly repayment ,indivisual lending to group lending and requirment of collataral to non-collataral. With such a simplified procedural design , microloans are becoming easily accesible to the poor. Besides this new innovations have been taking place in this field resulting in microfinance services getting diversified over time into areas such as microsavings, micro credit, microinsurance and several non financial services. Micro finance attempts to cover a combination of savings, loans, investment opportunities, insurance options and other financial services combined with group solidarity.

III. **Present coverage of Inclusive Finance:** Inclusive Finance can be dichotomised into two channels of credit delivery to poor and low income households: Self Help Group Bank Linkage Programme(SBLP) and Micro Finance Institutions(MFIs) lending through groups as well as directly to indivisuals. Both these models evolved and grew gradually during 1990s and registering buoyant growth in outreach and portfolios since then. In India majority of micro activity is under the Banking Model(NABARD'S Bank-SHG Linkage) and 10-15% of the activity is through MFI model.

Estimate of Microfinance Credit clients(Millions)
CBs-43.3
PACs-31.0
MFIs-31.8
SHGs-61.5



Source: Micro finance India ,State of the sector report,2012,SAGE Publications,2013

Performance of MFIs

Table No -03

Portfolio size and structural Composition of MFIs(Upto April 2014)					
Indicators	All MFIs	Category -1 GLP>5bn	Category -2 GLP 1-5bn	Category -3 GLP<1bn	Category -4 banks with JLG Lending
No of loans issued Cumulative(mn.)	127.05	107.77	12.16	6.09	1.04
Amount disbursed cumulative (Rs. bn.)	1508.61	1264.39	163.01	66.09	15.12
% share	100	83.81	10.81	4.38	1.00
Amount outstanding all loans(Rs.bn)	349.69	280.50	47.78	12.37	9.05
% share	100	80.21	13.66	3.54	2.59
No. of consumers Comulative(mn)	68.43	55.38	8.44	3.76	0.86
% share	100	80.99	12.28	5.56	1.17

Source : Inclusive Finance India Report 2014
Oxford

The above table reveals that upto april 2014 all the MFIs reporting to Equifax have comulatively issued 12.7 million loans worth Rs. 1508.61 bn. The outstanding amount of all loans reported to the credit bureau as on April '14 stands at Rs.349.69 billion . Large MFIs with more than Rs. 5 billions portfolio accounted for 80% of this amount . Cumulatively 68.4 million customers have been disbursed micro finance till 2013-14.

Table No-04

Growth of NBFC-MFIs: Major Indicators				Growth rate		
Parameters	2011-12	2012-13	2013-14	2011-12 to 2012-13	2012-13 to 2013-14	2011-12 to 2013-14
Gross loan Portfolio(Rs.bn)	173.83	207.26	279.31	19.23	34.76	60.68
Clients(million)	22.74	23.3	28.04	2.46	20.34	23.31
Loan amount disbursed(Rs.bn)	209.51	236.86	349.68	13.05	47.63	66.9
No of loans disbursed	17.65	18.57	24.38	5.21	31.29	38.13
Branches	9777	9103	9780	-6.89	7.44	0.03
Employees	72985	61746	67838	-15.40	9.87	-7.05
Loan officers	45556	40280	44400	-11.58	10.23	-2.54

Source:MFIN(2014)

From the above table it is evident that data published by MFIN pertaining to 42 of its NBFC members , the amount of loans outstanding for 2013-14 was Rs. 280billion Cr. The growth rate of all parameters have improved quite significantly in 2013-14. Compared to previous year . The Gross loan portfolio registered 35% growth rate while the number of clients increased by 20% during this period. The dis bursual of freash loans incresed by 48% in March 2014 indicating the enhanced ability of MFIs to access funds for onlending during the year.

Table No-05
Regional Distribution of MFIs

Share of Sates in Loans Disbursements and outstanding					
States	No of all loans ever issued	Amount of loans disbursed(Rs. bn.)	Total Amount outstanding(Rs.bn)	Loans Disbursed	Loan Outstanding
Andhra	17.42	194.43	65.14	12.89	18.63
TN	16.16	187.82	44.06	12.45	12.60
WB	15.49	200.45	43.81	13.29	12.53
Karnataka	18.94	184.69	30.64	12.24	8.76
Maharastra	10.57	131.44	29.56	8.71	8.45
UP	8.92	109.32	26.04	7.25	7.45
Bihar	6.45	80.34	18.56	5.33	5.31
MP	6.59	80.88	17.23	5.36	4.93
Odisha	7.88	86.86	12.75	5.76	3.65
Assam	2.70	41.44	12.59	2.75	3.60
Gujurat	3.12	41.57	11.49	2.76	3.29
Kerala	3.20	43.35	9.20	2.87	2.63
Rajastan	2.70	35.65	7.78	2.36	2.22
Chhatisgarh	1.69	21.10	3.59	1.29	1.03

Jharkhand	1.75	19.51	3.59	1.40	1.03
Tripura	0.69	11.35	3.25	0.75	0.93
Uttarakhand	0.71	9.72	2.51	0.64	0.72
Hariyana	0.62	8.46	2.24	0.56	0.64
Delhi	0.60	8.28	1.96	0.55	0.56
Punjab	0.39	5.00	1.94	0.33	0.56
Pundechery	0.19	2.24	0.68	0.15	0.20
Meghalaya	0.08	1.44	0.42	0.10	0.12
Goa	0.06	1.01	0.26	0.07	0.07
Manipur	0.09	1.52	0.22	0.10	0.06
Others	0.05	0.73	0.2	0.05	0.05
Total	127.05	1508.61	349.69	100	100

Source: Inclusive Finance India Report 2014

IV. Inclusive Finance and Poverty Alleviation:

Recently the SHG-Bank Linkage Programme has been accepted as an effective tool for inclusive growth by extending various financial services to the marginalized section of rural households. Overall 53.4% of the total rural households are members of SHG –Bank linkage programme as per NABARD, 2011-12 Report. The below table indicates the frequency distribution of rural households covered under the linkage programme. The rural household coverage is less than 50% in 19 states while the coverage shows more than the number of rural households in seven states (on account of multiple membership within the same households) as per NABARD, 2010-11 Report.

Table No-06

Frequency distribution of Rural Household Coverage under SHG-Bank Linkage Programme

Rural Household Coverage Range (%)	Number of States within the range	States
0-20	09	Bihar, Haryana, Jammu & Kashmir, Jharkhand, Madhya Pradesh, Nagaland, Punjab, Sikkim, Uttar Pradesh
21-50	10	Arunachal Pradesh, Assam, Chhatishgarh, New Delhi, Gujarat, Himachal Pradesh, Manipur, Meghalaya, Rajasthan, Uttaranchal
51-75	05	Lakshadweep, Maharastra, Mizoram, Tripura, West Bengal, Goa
76-100	02	Goa and Odisha
>100	07	Andaman and Nicobar Islands, Andhra Pradesh, Chhatishgarh, Karnataka, Kerala, Puducherry, Tamilnadu

Source : NABARD, Status of Microfinance in India 2010-11

Table No-07

Matrix Mapping of States according to poverty and Households coverage under SHG-Bank Linkage in Rural Areas

Poverty (%)	Rural Poor households Covered (%)		
	< 50%	50-75%	>75%
0-10	Sikkim	Punjab	Andaman and Nicobar, Chandigarh, Goa, Himachal Pradesh, Kerala, Lakshadweep
10-20	Jammu & Kashmir, Nagaland	Haryana, Rajasthan	Andhra Pradesh, Meghalaya, Puducherry, Tamil Nadu, Tripura, Delhi
20-30	-	Gujarat	Karnataka, Maharastra, West Bengal
>30	Bihar, Jharkhand, Madhya Pradesh, Uttar Pradesh	Chhatisgarh, Manipur	Arunachal Pradesh, Assam, Mizoram, Odisha

Source : NABARD, Status of Microfinance in India 2011-12

Microfinance facilities are not equitably benefitting all the regions of India. However a perceptible increase of SHG-Bank Linkage across all the regions has taken place Rural Poverty ratio varies from 1% to 44% in various states of India. In Andhra Pradesh the coverage of Micro Finance Programme is high, rural poverty ratio is only 10% but in states like Bihar, Chhatisgarh, Uttar Pradesh etc. only 27 to 60% rural poor households are covered under SBLP.

Table No-08

Decline in Rural Poverty

2004-05 to 2011-12 (%)	States of India
<10	Assam, Delhi, Jammu & Kashmir, Manipur, Meghalaya
10-20	Andhra Pradesh, Chhattisgarh, Goa, Gujurat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh, West Bengal
>20	Bihar, Maharastra, Odisha, Sikkim, Tamil Nadu, Tripura

Source : GOI, Planning Commission, January, 2011 and July 2013 Poverty Estimates 2011-12 Tendulkar Methodology

The above table reveals that higher incidence of rural poverty in North Eastern States is because of absence of conducive socio-economic and political set up required for healthy outcome of the Programme. Besides absence of local institutions to start, manage and upscale credit programmes and lack of social service providers are some other problems.

V. Regulating microfinance institutions

The Malegam Committee report (Malegam 2011) was initiated by RBI. Being the regulator of both NBFCs and banks, RBI had a twofold interest in this issue since several MFIs with large exposure to the Andhra Pradesh defaults were structured as NBFCs and their collapse would affect bank portfolios since banks were the largest source of funding to NBFCs. The Malegam Committee report has consequently narrowly focused on the question of NBFC-MFI. It starts with a definition of NBFC-MFI and lays down conditions related to net worth and assets that it had to satisfy as a NBFC-MFI. The report requires NBFC-MFI to maintain a capital adequacy ratio and provisions for loan losses. NBFC-MFIs are also required to follow certain corporate governance norms. A key gap in these recommendations is that they apply only to NBFCs which are only 45 % of MFIs by number as stated by Srinibasan in 2010. Another problem is the focus on the prudential aspects of MFIs business. Even if all of these rules were placed before October 2010, they could not have protected the small consumers from the alleged malpractice of MFIs. The approach of the committee as contained in the report towards consumer protection has been to prescribe conditions on who can be the consumers of the MFI and the manner in which MFIs can lend. The report stipulates on

- **a.** The purpose for which MFIs can disburse loans i.e., 75% of the loans can be disbursed only for productive purposes.
- **b.** Pricing of loans and the quantities and the rates that can be charged with a margin of 26% which is the difference between the amounts charged to the borrower and the cost of the funds to the MFI.
- **c.** Location where sanctioning and disbursement of loans can take place &
- **d.** Individuals who can be consumers i.e., (an individual cannot be a member of more than two groups having house hold income of less than Rs. 50, 000/-)

Microfinance institutions Bill -2011

This bill has been drafted with the objective of providing a regulatory structure for the microfinance industry. In a nutshell the bill views MFIs as "extended arms of banks and financial services". It proposes to:

- Create advisory councils to guide the development of the industry,
- Place registration and micro prudential functions on RBI and
- Create a new redressal mechanism for handling consumer grievances.

The bill envisages deposit taking by MFIs. It implies that the same fixed deposits would be lent to micro borrowers who could be depositors themselves. Thus savings of the poor would be lent to risky credit products. The bill envisages the field of microfinance as interacting with an array of Government bodies i.e., Central Government, RBI, NABARD and Microfinance Development Council and State Advisory Councils. The resulting scenario will involve friction between multiple government agencies through overlapping jurisdictions. This will inevitably lead to loss of accountability since nobody is clearly responsible for a well defined outcome.

All financial regulations fall under the three issues of consumer protection, micro prudential regulation and systematic risk. Prudential regulation is relatively minor concern- at worst, if micro prudential regulation fails the sophisticated financial firms that end to MFIs will suffer unexpected losses. Similarly until micro lending exceeds 5 to 10 % of GDP there is little possibility of systematic risk emanating from the field. Hence the main problem in the field of micro finance is that of consumer protection. If the regulation seeks to strengthen the right of MFI consumer then it must take into consideration the effect of group lending while understanding market failures in sales practices. In micro credit the contract that a MFI signs with an individual involves a two-tier obligation: the first one is of MFI with the individual and the second one with the joint liability group without which the individual cannot become an MFI consumer.

Challenges to financial inclusion:

Any discussion of the challenges faced by financial inclusion would be incomplete without a discussion of why banks may be uninterested in this. In the post economic liberisation, the shares of most Indian Banks (Public & Private) were floated in stock exchanges at different percentages. Three reasons can be attributed to this. Firstly, stock markets having a short term focus, the profitability concern of banks may have discouraged business that creates a "viability gap". It implies that the cost of providing these services is larger than the benefits from them; at least in the short run because of initial high fixed cost thus banks may have tend to frown on financial inclusion or at best be grudgingly considered these as "social" or "holding" cost. Secondly the nature of financial inclusion implies that the component of the balance sheet is often minuscule compared to the total portfolio of the banks. In a capital deficient country such as India where banks invariably have an endless list of borrowers, credit to large number of the poor spread over vast areas since less efficient and more costly than providing credit to a few large borrowers in concentrated areas. Thirdly banks find that the recovery of defaulted loans in rural areas is a problem unless institutional structures become more efficient.

Has micro-finance lost its moral compass?

The Expansion of micro-finance industry since 2000 has been heavily dependent on commercial banks and mainstream finance as stated by Roy in 2010. Access to finance is crucial for the microfinance market to develop. For main stream banks a new, relatively untapped market experiencing 15 years of uninterrupted expansion is appealing as stated by Carnani in 2007. Despite the global financial crisis, public expenditure austerity and low economic growth rates in developed countries, private investors remain enthusiastic to support microfinance. A recent consultative group to assist the poor (CGAP) study found that wholesale investors in microfinance funded 25 Billion $ in 2011 and that overall microfinance funding continues to grow in absolute terms despite consecutive crisis and scandals emerging in the industry. The microfinance industry could expand until it reaches an estimated one billion unbank poor households as the biggest potential markets still have relatively low microfinance penetration rates- 13% in Bangladesh, 3% in India and 2% in Brazil and Nigeria.

While some mainstream banks are directly providing microfinance products others have sought to fund MFIs or refinance MFI portfolios. Most mainstream financial contributions fund refinancing of loan portfolios of MFIs i.e., 77% of total funding through debt instruments with 55% of the total commitment. By contrast strengthening MFI capacity or supporting market infrastructure and regulatory environment receive only 15 % and 4% respectively. In order to attract investors and secure mainstream finance, MFIs have concentrated on achieving good ratios in terms of orthodox financial indicators. This lead to the prioritization of financial performance by MFIs and the increasingly neglect of social performance. This is not to suggest that financial performance is not important for MFIs but for organizations claiming reduction of poverty as their main goal, assuming that financial ratios are evidence of goal achievement is clearly inappropriate.

The second factor is the promotion of financial indicators as the only measure relevant to MFI performance. This approach dominated the industry advising CGAP in its early years with its promotion of sustainable banking as the goal for the microfinance based on the assumption that any financial institution making small loans that was financially sustainable was automatically helping the poor people. Not it was reinforced by the introduction of international awards for MFIs in the 2000s. Forbes 2007 led the way with its identification of the world's top 50 micro-finance institutions. It declared microfinance has become a buzzword of the decade raising the provocative notion that even philanthropy aimed at elevating poverty can be profitable.

VI. Conclusion:

Financial inclusion which targets bringing all unbanked poor households under the umbrella of formal financial sector would certainly enhance their social and economic conditions and escape from Vicious circle of poverty. SIDBI Report of 2011 reveals that existing microfinance serve as a better mechanism to reduce poverty, while experts applaud the growth of micro credit, they also warn that micro credit interest rates are exorbitantly high and MFIs consider it as business.

Financial inclusive education is imperative to make vulnerable sections aware of public policies and Financial Inclusion Mission, rules and regulations regarding different microfinance services available for them. Training should be imparted for proper utilization of all financial services. Awareness Camps need to be organized to make poor people aware of banking facilities. Pradhan Mantri Jan Dhan Yojana launched in Aug'14 embarks upon opening of Bank Account for every household including poor people under inclusive finance. Besides other micro financial products and services like insurance and persions should be provided uniformly to all poor households and consequently poverty ratio would slacken and developmental goals would be expedited.

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