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Role Of Microfinance In Inclusive Growth In India

Monika Sagar, Dr.Chinmayee Chaturvedi

Research Scholar, Associate Professor

C.C.S.UNIVERSITY MEERUT

INTRODUCTION

In recent decades, microfinance emerged as a successful sector in many countries providing financial services such as savings, credit remittances and insurance to the poor. Microfinance is playing an important role globally. Due to preponderance of the unorganized sector in India and the hold on the availability of credit by informal rural financial institutions, the credit demand of the majority of the population has been depends on these sectors. There has been a rapid proliferation of non-banking financial institutions providing credit related services in rural areas. Because: there is a clear mismatch between the financial services provided by the formal rural financial sector and the various credit-related needs of the villages such as religious ,social , educational and medical needs. To overcome this imbalance, microfinance institutions have been made a special contribution in the form of a parallel credit system in India. The modern use of the expression microfinance has roots in the 1970s when organizations such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of microfinance.

Despite the multipronged approach in India during 1952 to 1987, formal credit institutions were unable to provide their financial services to a large section of the poor into rural areas (Karmakar K.G). Under the banking sector, various efforts were made from time to time for the availability of credit till the last unit at the village level. In these efforts, the passing of the State Bank of India Act 1955, nationalization of 14 large commercial banks 1969 and 6 in 1980, establishment of 196 regional rural banks in various states since 1975 and establishment of NABARD in 1982, etc; are important financial reforms were done. Despite these financial efforts, it is observed in India that commercial banks are highly focused on profitability in urban areas and RRBs focused on invest in profit. In this situation, there is a need for the requirements of credit in rural areas in India. the Vaidyanathan Committee report published in 2005 emphasized on the implementation of cooperative banks and revival of the credit system, which has been helpful in strengthening the Indian financial system.

INCLUSIVE GROWTH AND MICROFINANCE

Inclusive growth is related to positive per capita income growth rate. Basically inclusive growth means that all people in the economy get equal opportunities. The main objective of inclusive growth is to include those groups who are excluded from the society on the bases of religion, caste, gender, income, and place. With everyone's participation in economic development, socially and economically backward class can be made self-reliant through opportunities. For this microfinance helps these groups to out of poverty and exclusion in the economy. Microfinance helps the people to get them into mainstream in the economy.

Microfinance in fact completes the entire series of these financial services in its various efforts to meet a variety of financial needs. Microfinance, on the one hand is defined as providing savings, loans and other financial services, while on the other hand, it is understood as a system of improving the income levels of the poor through wealth transfer, micro insurance products. Opportunities available in the economy can be accessed through microfinance. Availability of microfinance contributes to achieving objectives like skill development and entrepreneurship development. The thrift theory of microfinance finds that the poor are able to save despite having a low level of income as a source of sporadic income. Achieving self-employment has become easier with the help of microfinance has emerged as a practical means of poverty alleviation.

In India, the concept of microfinance has been in existence since 1904, which includes the Cooperative Societies Act 1904, etc. at the same time, informal financial institutions, including moneylenders and traders, expanded their credit services at higher interest rates and loans for domestic consumption (in rural areas) were made available. In the Integrated Rural Development Program and Swarnajayanti Gram Swarozgar scheme, special emphasis was given on 'investment loan' due to which this type of loan was mostly used by the prosperous section of the rural area. Apex institutes like National Bank for Agriculture and Rural Development established in 1982, Small Industries Development Bank of India (SIDBI) in 1990 have been contributed in the development of microfinance. Within microfinance; the private microfinance industry has also grown rapidly.

To provide various financial services to poor women working in the unorganized sector, a co-operative bank was established in 1976 by Ila Bhatt in Ahmedabad, Gujarat, which was known as self-employed women's association (SEWA). In this sequence, in 1987, MYRADA NGO successfully completed the action research plan with the help of NABARD. Shreyash is active in microfinance in Kerala since 1988 (HDFC, 1997). Self-Help Group Bank Linkage Program was started by NABARD in the year 1992 by linking 255 SHGs with banks, which is currently the largest such program in the world.

REVIEW OF RELATED LITERATURE

(Gupta, S.L; Ansari, Akhtar, Shahid, 2014) this paper emphasizes on status of microfinance and its delivering model prevailing in India. In India there are different models for providing micro-credit to needy people. In these models SHGs Bank-Linkage model and Microfinance Institutions model for delivery of microfinance in India is working on large scale as compared to others models. They conclude that the self-help groups are playing a vital role in delivery of microfinance services. Microfinance services lead to increase the saving habits of the poorest strata of society. Microfinance services also contribute towards the development of poor people in India.

(Kannan, M; Panneerselvam, A, 2013) this paper highlights on microfinance in India. Microfinance plays a crucial role for achieving the goal of financial development in India. Credit is one of the many infrastructural needs of a micro-entrepreneur. This study reveals that microfinance appears to be attractive for investors, but there are several caveats. MFIs are subject to many risks, on most of which there is little research.

(Rajenderan, K, 2012) this study critically reviews the various empirical studies carried out in India and it will help the researchers in the field of SHG and microfinance. This paper focuses on performance of SHG and microfinance. For these total 53 major studies carried out to identify the major trends. This study concluded that microfinance and self-help groups, by and large contributed to development of core poor in terms of economic wellbeing, alleviating poverty, empowerment of women and overall development of rural poor.

(Swamy, Vigneshwara, 2014) in their research they analyse the need, significance and the advantages of institutional finance for inclusive growth in Indian context. One aspect that needs to be provided is the micro-insurance services to the poor in a package approach with micro-credit through microfinance institutions and non-banking financial companies. They concluded that the challenge is how to bootstrap from the past success to escalate to the next level of financial sector development, so that it can continue to support the growth in general and inclusive growth in particular that India faces going forward.

(Alimukhamedova, Nargiza, 2013) this paper focuses on identifying and discussing possible transmission channels for microfinance. For the study Granger-Causality type test has been used to check what microfinance matters for the financial sector development and economic growth. The estimation procedure is to reveal whether microfinance

matters intermediation is immature. in the last, they suggest that microfinance is important has been amplified amidst the global financial crisis when trust into formal banking is shaken.

OBJECTIVES OF THE STUDY

The main objectives of the present study are-

To explain the role of Microfinance in Inclusive Growth in India.

To assess the overall performance of Microfinance in India.

METODOLOGY OF THE STUDY

This study is mainly based on secondary type of data which is collected by various journals, articles, books government websites and newspapers.

To elicit information on the objectives the following data were considered.

The details of self help groups in India have been depicted in table 1

1.No.in Lakh

Table 1.

2.Amount in Crore

Year	No.of SHGs with savings linkages	Amount of savings outstanding	No.of SHGs availed loans during the year	Amount of Loan disbursed during the year	No.of SHGs with loan outstanding	Amount of loan outstanding
2014-15	76.97	11.06	16.32	27.58	44.68	51.55
2015-16	79.03	13.69	18.32	37.29	46.73	57.12
2016-17	85.77	16.11	18.98	38.78	48.48	61.58
2017-18	87.44	19.59	22.61	47.18	50.2	75.60
2018-19	100.14	23.32	26.98	58.32	50.77	87.1
2019-20	102.43	26.15	31.46	77.66	56.77	108.07

Source-Status of Microfinance in India Report

Table 1 shows that the number of SHGs are continuously increasing over the years, for instance it was 76.97 lakh in 2014-15 rose to 102.43 lakh in 2019.20 increased about two time during the period. Whereas, the saving mobilized and advanced were fluctuating over the year.

Details regarding to composition of loan portfolio under delivery model, collection mode and others in the year 2019-20 are shows in this next table

Table 2.

GLP under JLG lending model	GLP under SHG lending model	GLP under Individual model	GLP under Weekly collection	GLP under Fortnightly collection	GLP under Monthly collection	GLP under Co-Organization arrangement	GLP under Third Party Products
74%	19%	7%	26%	25%	49%	0.31%	0.31%

A majority of the microfinance plays in the market disburse. Loans either through the Joint Liability (JLG) or Self-Help Group (SHG) model.

Prevalent Microfinance disbursement models-

Parameters	SHGs	JLGs
Underlying Strategy	Greater focus on savings generation.	Greater focus on credit generation.
Scalability	SHGs are less scalable when compared to JLGs.	JLGs have a faster turnaround and are more scalable.
Average group size	10-20 members per group.	3-10 members per group.
Association non-performing assets (NPAs)	NPAs vary from 7-8 % for SHGs.	NPAs are less than 1% which is quite low compared to SHGs.
Future landscape	Capability building for partner institutions.	NBFC-MFI prefer the JLG model as it is more commercial viable and scalable.

Source-Vision of Microfinance in India November 2019, SIDBI.

Table3. No. of Microfinance Institutions in Indian States/UTs

No. of States/UTs	No. of MFIs
1	90
2 to 5	74
6 to 10	22
11 to 15	4
>15	12
Total	202

Source-Bharat Microfinance Report 2020

MFIs currently operates in 28 states and 5 union territories and 593 districts in India a total of 74 MFIs (37%) are operates in two to five states, while 90 MFIs (45%) have confined their operations to only one state.

Table4. Regional breakup of client outreach

region	Percentage share
North	8%
East	28%
West	9%
South	33%
Northeast	4%
Central	18%
Total	100%

Source-Bharat Microfinance Report 2020

Out of total client South region is leading with 33% followed by Eastern region with 28%, Central region with 18% and Western region with 9%. Whereas, Northern has 8% of total outreach.

Table5. Regional pattern of Loan disbursement in India during the year 2020

Region	Percentage share
North	8%
East	26%
West	10%
South	36%
North East	3%
Central	17%
Total	100%

Source- Bharat Microfinance Report 2020

Among the regions Southern still dominates the overall loan disbursement of MFIs with 36% because southern region is leading region to have MFIs. Eastern with 26% followed by Central region with 17%, and Western have a share of 10% respectively. while Northern and Northeast have least disbursement share of 8% and 3% respectively.

Table6. Source of Funding based on types of Instruments

Type of Instruments	Percentage share
Bank Borrowing	60%
Borrowing from SIDBI	9%
Borrowing from NABARD	5%
Borrowing from MUDRA	2%
Borrowing from Bulk Lenders	6%
Borrowing from Financial Institutions(FIs)	18%

Source-Sa-Dhan Report 2019

Figures indicates that bank borrowing is the maximum source of funding in India which constitute of total finding of Rs.9,102 crore with 60% followed by borrowing from financial institutions at 18%.whereas 9% of total funding is provided by SIDBI followed by borrowing from 6% NABARD.

Table7. Distribution of MFIs across legal form in India during the year 2019.

Legal Form	No. of MFIs
NBFC-MFI	61
NBFC	17
Sec-8Company	14
Society	16
Trust	08
MACS or Cooperative	07
Total	123

Source-Sa-Dhan Report 2019

This table shows that there are 61 NBFC-MFI in 2019 which is leading legal form of MFIs in India followed by NBFC which lead to second position in legal form of MFIs. there are 16 society MFIs and 8 Trust MFIs in India during the same year.

There are many development services provided by the MFIs in India which are shown in the table 8.

Development Activities	No. of MFIs
Capacity Building initiatives	30
Education	32
Financial Literacy	37
Water and Sanitation	32
Livelihood Promotion	41
Preventive Healthcare	40
Training Initiatives and other initiatives	22

Source-The Bharat Microfinance Report 2020

The microfinance sector (MFIs, SHPIs, SHG Federation etc.) along with other stakeholders has been significantly contributing in providing micro-insurance and micro-pension. There are also various other services which are provided by the MFIs and SHPIs such as capacity building, education, financial literacy, health and sanitation, training, livelihood promotions etc.

Conclusion

The overall performance of microfinance in India shows that there is a positive impact of microfinance in inclusive growth, which is most important to provide opportunities to all sectors of the economy through microfinance. SHGs bank linkage programme is playing an important role in women empowerment. It provides microfinance services to all over India to get the women participants in the mainstream of the economy. With the help of different models of microfinance, it is easy to get microcredit, savings and insurance services to help the most of excluded groups of the society. Different development activities are provided by the microfinance institutions like financial literacy, education, capacity building, livelihood promotion, preventive healthcare, etc. but there is some weaker section of microfinance institutions, that is most of the microfinance institutes work in the southern region of India. 90 MFIs (45%) have confined their operation to only one state. There is a need to spread microfinance institutions in all states and union territories of India.

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