



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

“ROLE OF SMALL FINANCE BANKS IN PROMOTING MICROFINANCE”

(SPECIAL REFERENCE TO GODHRA CITY)

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Abstract

This project report delves into the pivotal role of Small Finance Banks (SFBs) in advancing microfinance initiatives, with a focus on the context of Godhra City. Microfinance has emerged as a powerful tool for poverty alleviation and financial inclusion, particularly in regions where traditional banking services are scarce or inaccessible. Through an extensive literature review, this report examines the theoretical underpinnings and practical implications of microfinance interventions facilitated by SFBs. The study employs a mixed-methods approach, combining quantitative analysis of financial data with qualitative insights gathered through interviews and surveys. By scrutinizing the operations, outreach strategies, and impact assessment mechanisms of SFBs operating in Godhra City, the report aims to offer a comprehensive understanding of their contribution to microfinance penetration and socio-economic development.

KEYWORDS Microfinance SFB Financial Development

Introduction

Microfinance has emerged as a significant tool for poverty alleviation and economic empowerment, particularly in rural and underprivileged areas. Small Finance Banks, being specifically designed to cater to the financial needs of unbanked and underserved populations, are seen as a potential catalyst for the growth and development of microfinance in such areas. The review begins by providing an overview of the concept of microfinance and its importance in promoting inclusive finance and sustainable development. It then delves into the unique characteristics and objectives of Small Finance Banks, highlighting their focus on serving the financially excluded populations, including small businesses, low-income households, and self-help groups. Furthermore, the review explores the existing literature on the role of Small Finance Banks in microfinance, focusing on their contribution in terms of expanding access to financial services, facilitating credit availability, promoting financial literacy and entrepreneurship, and driving social development. It also examines the challenges and opportunities faced by SFBs in effectively implementing microfinance programs in the Godhra city. The findings of this literature review underscore the significant positive impact of Small Finance Banks in promoting microfinance in the Godhra city. However, it also highlights the need to address certain challenges such as ensuring sustainability, improving

financial inclusivity, and strengthening regulatory frameworks. The review concludes by advocating for further research and policy initiatives to leverage the full potential of Small Finance Banks in fostering inclusive growth through microfinance in Godhra city and similar regions.

Literature Review

- ❖ **Subrahmanyam N., Umarani D., and Sultana Afreen (2022)** in their research article shed light on the global exclusion of over 2.5 billion people from accessing financial services, with India alone accounting for one-third of this population. Despite the presence of numerous domestic and international banks, only 40% of Indian adults possess formal bank accounts, indicating a significant unmet demand for financial services. Financial inclusion plays a pivotal role in the country's inclusive growth and the expansion of its economy, particularly in the crucial agriculture sector. To address this, the researchers focus on the role of Small Finance Banks and their potential to achieve financial inclusion in India, while acknowledging the various challenges and issues associated with this endeavor. (Subrahmanyam, Umarani, & Sultana, 2022).
- ❖ **K. Samuvel and Muhammed Jasir T C (2022)** investigated a study on the financial performance of SFBs. The preliminary assessment of these banks revealed rapid growth in branches and assets, with a healthy asset quality and high return on assets. SFBs have been successful in reaching underserved sectors. The study examined the annual reports of three SFBs (Au Small Finance Bank, Equitas Small Finance Bank, and Ujjivan Small Finance Bank) from 2017 to 2021. The findings indicate good and efficient financial performance, with suggestions for improvement, such as maintaining a consistent high revenue-to operating ratio, modifying depreciation rates, and enhancing cash management. Overall, the study concludes that these banks perform well financially.
- ❖ **Surabhi, (2021)** attempted to reveal the effect of covid pandemic in our economy and also the effect of this on small finance banking segment. Most of the small finance banks follows weekly repayment schedules for loans. After covid pandemic collection efficiency was very low, and it affected the financial stability of small finance banks. But the paper reported that, almost all small finance banks recaptured their collection efficiency and 94% of repayments are properly made by the clients.
- ❖ **Charmi Patel and Archana Fulwari (2021)** in their study highlight that the Reserve Bank of India has been focused on promoting financial inclusion since 2005-06. In line with various government initiatives, the RBI approved the establishment of Small Finance Banks (SFB) in 2015. These banks are designed to provide basic banking services to the unserved and underserved segments of the population. The research examines the progress of SFBs in India, focusing on the number of branches, regional spread, and business volume. Over the span of five years since their inception, the study finds significant expansion of SFB branches with broader regional coverage and a substantial increase in their business volume. Towards the end of the study period, there was a notable trend of setting up more SFB branches in semi-urban and rural areas. The preliminary findings of the study suggest that SFBs are moving in the right direction, aligning with the objectives set for their establishment. (Patel & Fulwari, 2021).
- ❖ **S. Kangayan and K. Dhevan (2020)** conducted a study to review the sustainability of Small Finance Banks and explained that the country has implemented various initiatives to include marginalized groups in the economy and improve their living standards, resulting in several innovative solutions. However, some shortcomings in these innovations have prevented them from being a complete solution for the excluded segments. To address these issues, the government, through Niti Ayog, formed a committee on Financial Sector Reforms, led by Dr. Raghuram Rajan. The committee recommended the establishment of Small Finance Banks as a means to further financial inclusion. This study examines the sustainability of Small Finance Banks and highlights pragmatic solutions. The research reveals that Small Finance Banks possess

the necessary competence and potential for sustainability. The regulatory compliance measures, which are similar to those of Scheduled Commercial Banks, contribute to the durability and sustainability of Small Finance Banks, enabling them to serve the excluded segments effectively. Overall, these banks play a crucial role in the country's pursuit of financial inclusion and poverty alleviation, acting as resilient delivery units for these initiatives. (Kangayan & Dhevan, 2020)

- ❖ **Srinivas and Shanigarapu (2020)** in their study explored that SFBs, as niche banks, aim to provide basic banking services to underserved segments like small businesses and farmers. The study analyzed the strategies employed by the Indian government for financial inclusion and the challenges faced by SFBs. Despite obstacles such as high costs and competition, SFBs have established extensive branch networks across the country. Ensuring borrower-friendly practices is crucial for their success, as suggested by a former RBI deputy governor. Additionally, issuing licenses to existing microfinance institutions has intensified competition in the sector. (Srinivas & Shanigarapu, 2020).
- ❖ **Das and Nayak (2020)** utilized the CAMEL model to assess the financial performance of public and private banks in Odisha. The study aimed to determine whether there were any notable differences in the performance of these banks between the years 2005 and 2019. Based on their findings, the Bank of Baroda emerged as the top performer among the public sector banks during the entire period from 2005 to 2019. This top position was attributed to the bank's strong financial performance. On the other hand, the Indian Overseas Bank was rated last among the public sector banks due to its relatively weaker operations and financial performance. These findings provide valuable insights into the comparative financial performance of public sector banks in Odisha over the specified period.

Research Gap: -

The literature study on small finance banks (SFBs) in India emphasizes its critical function in resolving the problems associated with financial exclusion. Despite their rapid expansion, there are still gaps in our knowledge regarding the long-term effects, gender-specific inclusion initiatives, comparisons with conventional banks, regulatory implications, and creative problem-solving techniques. Examining these topics will help practitioners and policymakers make better decisions and increase the efficiency of SFBs in achieving financial inclusion in India.

OBJECTIVES OF THE STUDY

1. To ascertain the extent to which Small Finance Banks have increased access to microfinance services in Godhra city, particularly its penetration in rural and remote areas.
2. Measure the degree of financial inclusion that the Small Finance Banks have been able to achieve in the, particularly among the underserved and underprivileged communities.
3. To evaluate the demand for microfinance services in the Godhra city and comprehend the monetary requirements and preferences of the local populace.

RESEARCH METHODOLOGY**Research Plan: -**

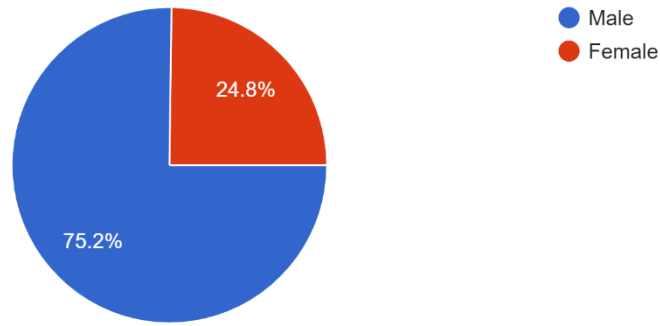
- Data Source Primary Data
- Research Design Descriptive Research
- Research Approach Survey
- Research Instrument Questionnaire
- Method Of Contact Personal
- Sample Size 121
- Sampling Method convenience Sampling method

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Age	121	1	5	1.62	.951	.904
Occupation	121	1	4	1.82	.931	.867
Gender	121	1	2	1.25	.434	.188
Which bank would you prefer for loan purpose?	121	1	3	2.01	.917	.842
Do You know about small finance bank?	121	1	3	1.29	.598	.357
What are sources of information and awareness of such a service?	121	1	3	1.92	.759	.576
Do you think there is need for increased awareness for microfinance services among the residents of Godhra city	121	1	2	1.11	.311	.097
Valid N (listwise)	121					

Gender

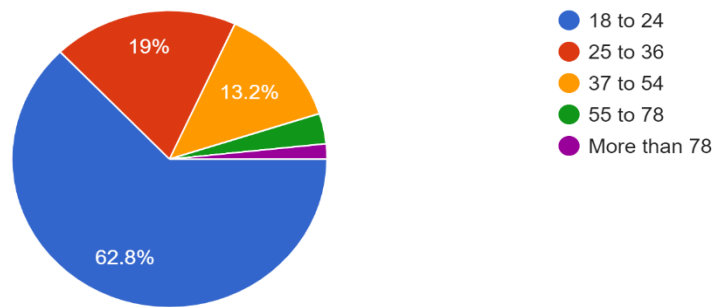
121 responses



This chart represents the data of 121 responses that contains the 91 males and rest are the females.

Age

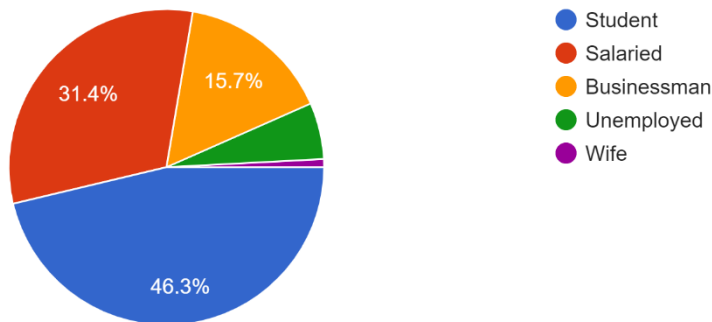
121 responses



The majority of entries fall within the "18 to 24" age range, indicating that this age group respondents are more than any other age group. There are also entries representing older age groups such as "25 to 36," "37 to 54," "55 to 78," and "More than 78," though they appear to be fewer in number compared to the "18 to 24" group.

Occupation

121 responses

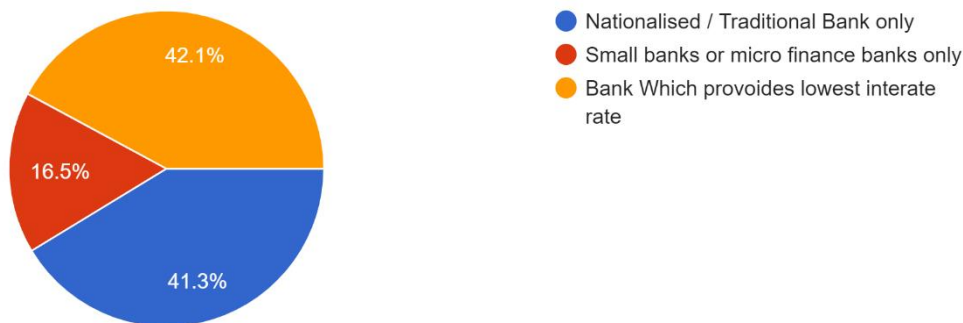


The list comprises various occupations including salaried positions, students, businessmen, and a few instances of unemployment. It seems to reflect a diverse range of individuals engaged in different professions or stages of employment.



Which bank would you prefer for loan purpose ?

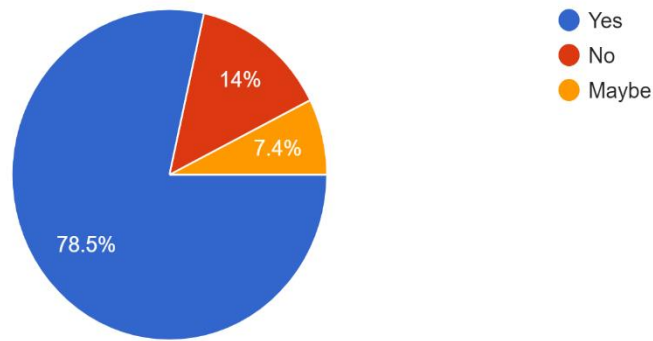
121 responses



The preferences for banks for loan purposes seem to be primarily focused on those offering the lowest interest rates, with a preference for nationalized or traditional banks and small banks or microfinance institutions.

Do you know about small finance bank?

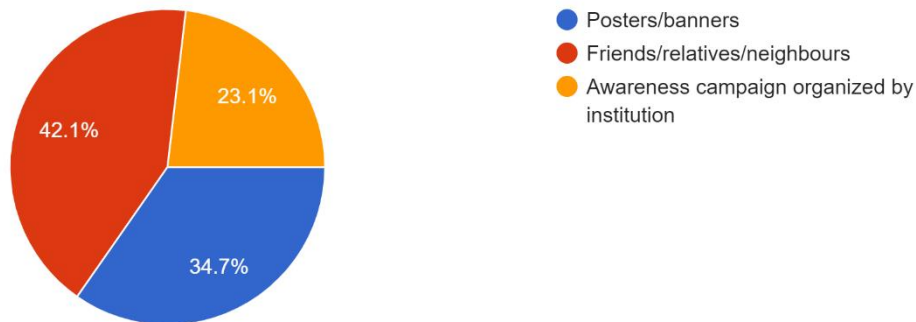
121 responses



It seems like respondents have varying levels of familiarity with small finance banks, with some indicating a clear understanding ("Yes"), some expressing uncertainty ("Maybe"), and a few stating they do not know ("No"). Overall, there's a mix of responses indicating differing levels of awareness or knowledge about small finance banks among the respondents.

What is the source of information and awareness of such services?

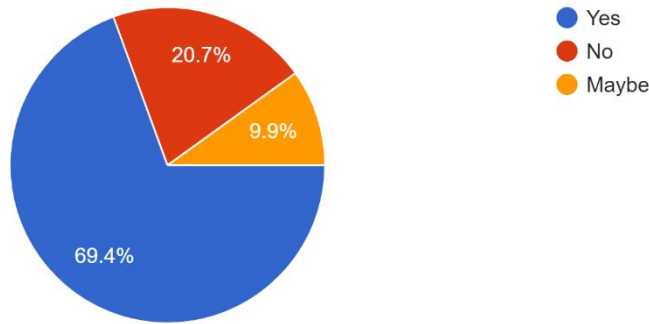
121 responses



The source of information and awareness about the services appears to be a combination of institutional efforts, including awareness campaigns, and informal channels such as discussions with friends, relatives, and neighbors, as well as the presence of posters and banners. Both formal and informal methods contribute to spreading awareness and knowledge about the services.

Are you aware of microfinance services available in Godhra City ?

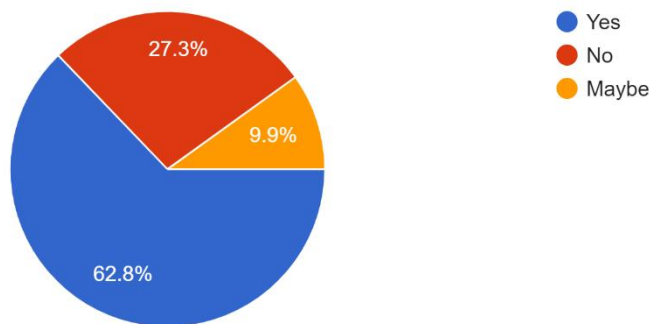
121 responses



The responses indicate varying levels of awareness of microfinance services in Godhra City. While some respondents are aware ("Yes"), others are not ("No"). Additionally, there are some uncertain responses ("Maybe"). Overall, there seems to be a mix of awareness levels among the respondents regarding microfinance services in Godhra City.

Have you ever tried microfinance Services ?

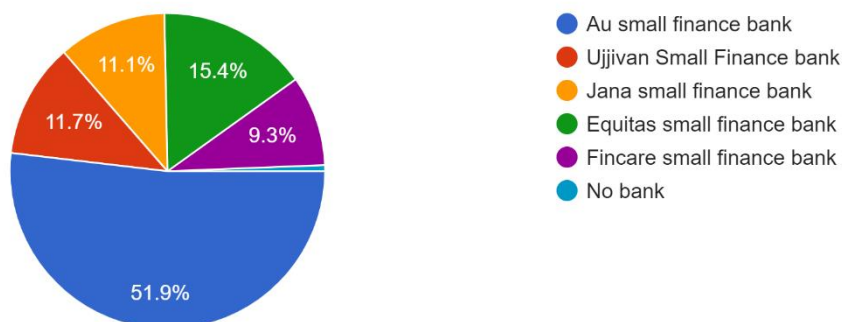
121 responses



The responses indicate that some individuals have tried microfinance services ("Yes"), while others have not ("No"). There are also respondents who are unsure or have not made up their minds ("Maybe"). Overall, there appears to be a mix of experiences among the respondents regarding their use of microfinance services.

In which small finance bank did you avail services from ?

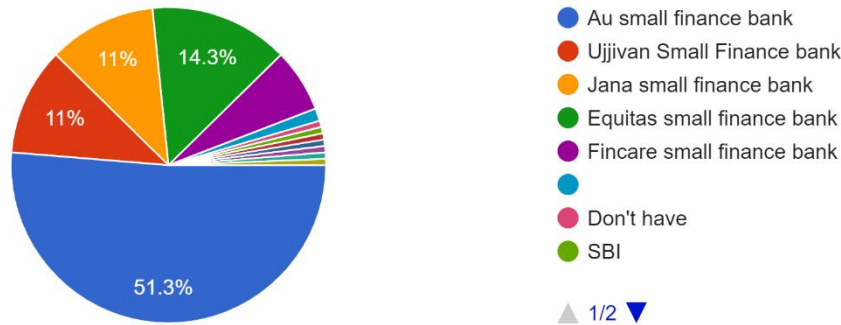
121 responses



The respondents have availed services from various small finance banks, including Au Small Finance Bank, Equitas Small Finance Bank, Fincare Small Finance Bank, Jana Small Finance Bank, and Ujjivan Small Finance Bank. Au Small Finance Bank appears to be the most mentioned institution.

In which small finance bank you have Account ?

121 responses

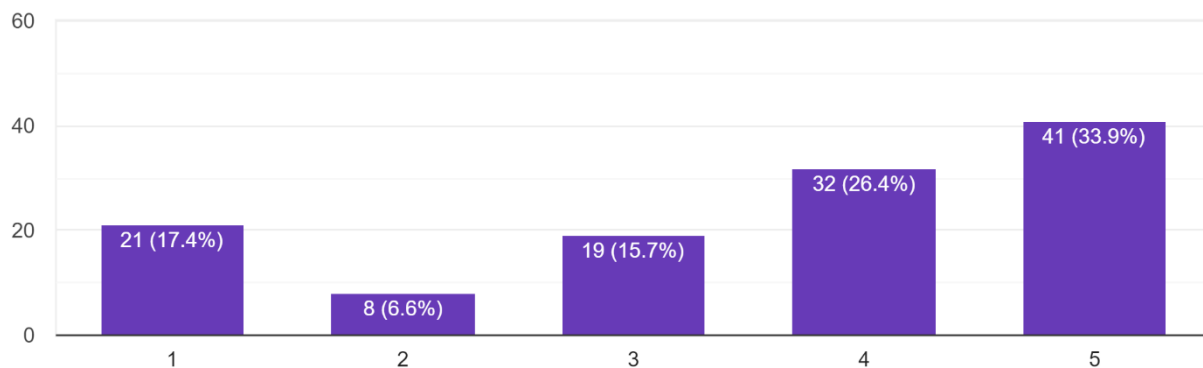


The respondents have accounts in various small finance banks, with Au Small Finance Bank being the most commonly mentioned institution. Other banks mentioned include Equitas Small Finance Bank, Fincare Small Finance Bank, Jana Small Finance Bank, and Ujjivan Small Finance Bank. Some respondents also mentioned mainstream banks like SBI and BOB, while others indicated that they do not have any accounts.



If you have availed the service of the small finance bank then how would you rate your experience?

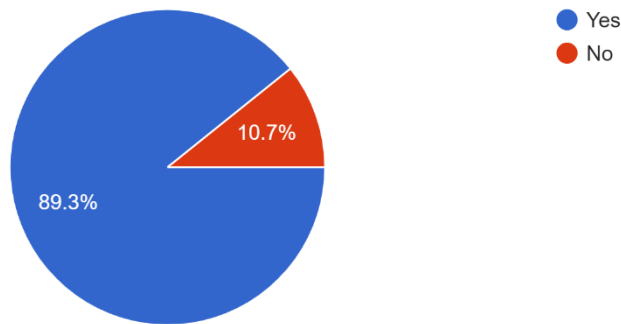
121 responses



The ratings provided by respondents for their experiences with small finance banks vary widely, with some giving high ratings (4 or 5) indicating positive experiences, while others give lower ratings (1 or 2) suggesting negative experiences. There is a mix of responses, indicating differing levels of satisfaction with the services received from small finance banks.

Do think there is a need for increased awareness about microfinance services among the residents of Godhra city?

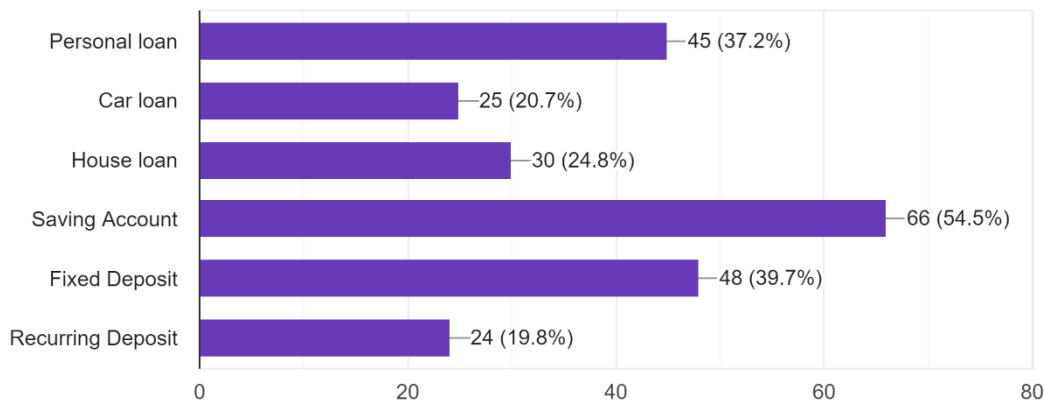
121 responses



The responses indicate a widespread belief that increased awareness about microfinance services is necessary among the residents of Godhra city. The majority of respondents answered affirmatively ("Yes"), suggesting a consensus that there is indeed a need for greater awareness about these services. This suggests that there may be a perceived lack of knowledge or understanding about microfinance options among the residents of Godhra city.

What are the products and services are popular among borrowers ?

121 responses



Saving Account, Fixed Deposit, Recurring Deposit: 21.7% of respondents favoured this combination of financial products. Personal loan, Car loan, House loan, Saving Account, Fixed Deposit, Recurring Deposit: This comprehensive package was preferred by 28.3% of respondents. Fixed Deposit: 10.0% of respondents indicated a preference for Fixed Deposit accounts. Personal loan: 8.3% of respondents expressed interest in availing personal loans. House loan: Similarly, 8.3% of respondents favoured house loans. Car loan: Only 3.3% of respondents opted for car loans.

Findings

The data consists of responses from both genders, primarily within the age range of 18 to 24 and 25 to 36. Most respondents are either students or salaried individuals, with a few businessmen and unemployed individuals also participating.

Respondents show a preference for banks offering low-interest rates for loans, with a significant inclination towards small finance banks.

The most preferred small finance banks include Au Small Finance Bank, Equitas Small Finance Bank, and Ujjivan Small Finance Bank.

Awareness about small finance banks and microfinance services seems to be primarily spread through awareness campaigns organized by institutions and word-of-mouth from friends, relatives, and neighbors.

While some respondents are aware of microfinance services available in Godhra City, others are not.

A considerable number of respondents have availed services from small finance banks, primarily for personal loans, car loans, house loans, and savings accounts.

However, there are instances where respondents have not utilized microfinance services despite being aware of them.

Among those who have utilized services, the majority rate their experience positively, indicating satisfaction with the services provided. Some respondents express a need for increased awareness about microfinance services among the residents of Godhra City, suggesting room for improvement in outreach efforts.

The most popular products and services among borrowers include personal loans, savings accounts, fixed deposits, car loans, and house loans.

These findings suggest a growing awareness and utilization of microfinance services, particularly among the younger demographic, while also highlighting areas for further awareness campaigns and product diversification to cater to varying needs and preferences within the community.

Conclusion

The data highlights a reasonably good level of awareness and utilization of microfinance services in Godhra City, with a notable preference for Au Small Finance Bank among respondents. Satisfaction levels with small finance banks' services are generally positive. However, there is still a need for increased awareness about microfinance services, especially among certain segments of the population. Despite this, the diverse demand for financial products indicates a promising market for small finance banks in the region.

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