

















ORIGINAL

## A study on role effectiveness of micro finance in India: with special reference to poverty eradication

### Un estudio sobre la eficacia del papel de las microfinanzas en la India: con especial referencia a la erradicación de la pobreza

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#### ABSTRACT

**Introduction:** microfinance serves as a means of providing financial assistance to individuals with low incomes, including impoverished rural residents, low-income people, and small company owners with inadequate capital. In this system, microfinance gives those who struggle to get funding the financial support they need to expand their businesses. They offer a range of financial services, including insurance, money transfers, savings accounts, deposits, loans, and more. Microfinance has gained widespread recognition as an effective approach to reduce poverty in developing economies like India.

**Method:** the goal of the study is to critically evaluate the arguments made for and against microfinance as a strategy for reducing poverty on a global scale. In developing nations like India, where the bulk of the population lives in rural regions without access to traditional banking services, microfinance is the most efficient means of empowering the impoverished economically. The current study is to examine how microfinance institutions contribute to client satisfaction by offering high-quality services and raising client awareness. Cross sectional table analysis used in this study. Secondary sources of data has been used to accomplishment of this study.

**Results:** this paper was to examine how beneficial microfinance is in India in relation to the fight against poverty. This paper aims to provide an understanding of the models, main obstacles, and impact of microfinance in India on the reduction of poverty. The purpose of microfinance is to help the underprivileged and those residing in impoverished areas become self-sufficient. It is specifically designed for these individuals.

**Conclusions:** the study came to the conclusion that financial institutions that offer these services can satisfy their customers and raise their awareness levels. The study indicates that in order to maintain the quality of their services and develop their businesses, these institutions must continue to innovate through the use of new programs and policies.

**Keywords:** Micro Finance; Poverty Elimination; Credit; Development; Indian Economy.

## RESUMEN

**Introducción:** las microfinanzas sirven como medio para brindar asistencia financiera a personas con bajos ingresos, incluidos residentes rurales empobrecidos, personas de bajos ingresos y propietarios de pequeñas empresas con capital inadecuado. En este sistema, las microfinanzas brindan a quienes luchan por obtener financiación el apoyo financiero que necesitan para expandir sus negocios. Ofrecen una variedad de servicios financieros, que incluyen seguros, transferencias de dinero, cuentas de ahorro, depósitos, préstamos y más. Las microfinanzas han ganado un reconocimiento generalizado como un enfoque eficaz para reducir la pobreza en economías en desarrollo como la India.

**Método:** el objetivo del estudio es evaluar críticamente los argumentos a favor y en contra de las microfinanzas como estrategia para reducir la pobreza a escala global. En países en desarrollo como India, donde la mayor parte de la población vive en regiones rurales sin acceso a servicios bancarios tradicionales, las microfinanzas son el medio más eficiente para empoderar económicamente a los empobrecidos. El estudio actual tiene como objetivo examinar cómo las instituciones de microfinanzas contribuyen a la satisfacción del cliente al ofrecer servicios de alta calidad y aumentar la concienciación del cliente. Análisis de tabla transversal utilizado en este estudio. Se han utilizado fuentes secundarias de datos para la realización de este estudio.

**Resultados:** este artículo tenía como objetivo examinar cuán beneficiosas son las microfinanzas en la India en relación con la lucha contra la pobreza. Este artículo tiene como objetivo proporcionar una comprensión de los modelos, los principales obstáculos y el impacto de las microfinanzas en la India en la reducción de la pobreza. El objetivo de las microfinanzas es ayudar a los desfavorecidos y a los que residen en zonas empobrecidas a ser autosuficientes. Está diseñado específicamente para estas personas.

**Conclusiones:** el estudio llegó a la conclusión de que las instituciones financieras que ofrecen estos servicios pueden satisfacer a sus clientes y aumentar su nivel de conciencia. El estudio indica que para mantener la calidad de sus servicios y desarrollar sus negocios, estas instituciones deben continuar innovando mediante el uso de nuevos programas y políticas.

**Palabras clave:** Microfinanzas; Eliminación de la Pobreza; Crédito; Desarrollo; Economía India.

## INTRODUCTION

India is a developing nation with over 70 % of its people living in rural areas and only six small towns. Seventy years later, those living in rural areas without regular access to banking facilities have very little access to institutionalised lending facilities from commercial banks because of their poor asset base, inconsistent income sources, lack of training, and lack of expertise. Naturally, for these economically disadvantaged individuals, microfinance is the only source of financial services such as credit or loans, savings or deposits, insurance, payment transfers, etc. T. C., & Chiazor, I. A. (2016).

The main driver of economic growth and a vital component of the development process is finance. Credit that is both immediate and comprehensive is supplied by a developed financial industry. Of all the variables, timely availability of sufficient quantity at a reasonable cost of financing is more crucial for the economy's sustainable growth. Economic development is accelerated by the financial sector's robust and wide network, and microfinance institutions are essential for addressing the needs of the economy. It is the responsibility of the government to provide the conditions for encouragement, financial subsidies to lower the cost of credit financing, and by putting policies for the eradication of poverty into action. This is an attempt to comprehend the function and efficacy of microfinance in India with respect to the goal of eradicating poverty.

### Micro Financial Institutions in India

Microfinance institutions contribute to the reduction of poverty by creating jobs, boosting income, enabling self-employment, and providing the essential financing for businesses and farms to carry out their core operations. Following the nationalisation of large commercial banks in India, there was an expectation that these banks would uphold social justice by offering affordable, sufficient, and prompt loans to the underprivileged or priority sector, based on their individual requirements. Weiss, J., & Montgomery, H. (2005). Although agriculture's share of the economy is decreasing in India, the pressure is still there. Thus, there is a need for microfinance availability to increase and for action to happen more quickly.

By 2030, India will be a part of the world's first and third economies. India is the sixth-largest economy in the world and is a rapidly developing nation with a GDP growth rate of roughly 6-7 percent. The agricultural industry accounts for close to 17 percent of the GDP of the Indian economy. In 2016-17, of the 520,4 million labourers, 47 % worked in the agricultural sector, 22 % in industry, and 31 % in the service sector. "Total Labour Force". World Bank. Donou-Adonsou, F., & Sylwester, K. (2016). India's overall exports during the 2016-17

fiscal year were \$275,8 billion, of which 13,2 % were items from the agricultural sector, 15,7, percent were petroleum and mining products, 68,4 % were manufactured goods, and 2,7 % were other goods. In 2016-17, India's total imports came to \$384,3 billion, of which 7,1 % came from the agricultural sector, 33,1 % from fuels and mining materials, 47,8 % came from manufacturers, and 12 % came from other sources. Bansal, S., & Singh, A. K. (2020). It goes without saying that as societies needs grow, so too must manufacturing and services meet the many financial needs that arise from this need.

### Objectives

1. To ascertain the function and input of micro financial institutions into the process of development.
2. To investigate the reach and efficiency of microfinance within the Indian economy.
3. To assess MFIs' overall effectiveness and influence on the Indian economy.
4. To research the difficulties and shortcomings of microfinance organisations and to recommend solutions.

### METHOD

The research study has a descriptive research design. In order to meet the requirements for this research topic, the researcher has chosen secondary data to examine the issue of microfinance in the context of the Indian economy and its role in eradicating poverty. Secondary data gathered from books, journals, websites, and government-published papers. The researcher adopted qualitative data such as table form for accomplishment of this study. Simple descriptive statistical tools were used for analyzing Qualitative data.

### Micro Finance and Micro Finance Institutions (MFI)

In order to help the very or exceptionally poor create or grow their business, Robinson described microfinance as a development tool that grants or offers financial services and goods such very modest loans, savings accounts, micro leasing, micro insurance, and money transfers. Sharma, A., & Sharma, J. K. (2020). The activities of providing financial support to people who are turned away from the traditional banking system and do not have access to standard banking services are referred to as microfinance. Taylor, M. (2011). The provision of thrift, credit, and other small-scale financial services and products to the impoverished in rural, semi-urban, and urban regions with the aim of helping them to enhance their standard of living has been characterised by the RBI as micro finance ([www.rbi/circulars.com](http://www.rbi/circulars.com)). Microfinance is most commonly associated with loans and savings plans, however several microfinance organisations also offer additional services including pensions, payment services, insurance, etc. Wajdi Dusuki, A. (2008).

Small and medium-sized businesses or the underprivileged in society might benefit from small-scale financial services provided by micro finance institutions (MFIs). The Association for Sarva Seva Farms (ASSEFA), the Mysore Resettlement and Development Agency (MYRADA), the Association of Community Development Finance Institutions (SADHAN), the Streedhan baking programme for rural women, the Working Women's Forum in Madras, India, and the Self-Help Women's Association (SEWA) are a few MFIs. Sutter, C., Bhatt, B., & Qureshi, I. (2023). Within India's formal economy are a number of government-backed financial aid companies, including Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh, and NABARD. Following nationalisation, commercial banks such as State Bank of India, ICICI, HDFC, Andhra Bank, and others boosted their lending to the priority sector. MFIs use the following operational models, such as SHGs, to provide financial services to their clients.-Bank linkage model: SHGs can receive direct financial assistance from commercial banks, which can be either private or public sector entities. Pareek, V., Yadav, M. K., & Singh, N. (2022).

### Background of the Micro Finance

Microfinance has been around for a while. It has been around since around 1700. Thus, in the 1970s, Dr. Mohammad Yunus—who is credited with creating the modern microfinance model—began by lending money out of his own pocket to the underprivileged women of Bangladesh's Jobra village. Later, in 1983, he established the Grameen Bank to provide loans to those from lower socioeconomic classes who did not have access to credit. This approach was widely adopted and demonstrated significant advancements in general. Van Sandt, C. V., & Sud, M. (2012). According to World Bank estimates, microfinance benefits close to 160 million people, primarily in poor nations. In India, microfinance helped impoverished individuals in rural, semi-urban, and metropolitan areas launch their businesses and create revenue and self-employment. Ullah, A. U. S., & Khan, I. (2024). In 2006, Dr. Muhammad Yunus received the Nobel Peace Prize in recognition of his contributions to microfinance that have helped the underprivileged and marginalised segments of society. This practice first became apparent in India in the early 1980s when Self Help Groups (SHGs) were established to provide low-income individuals with services for credit and saving. It advanced greatly during that time. Singh, M. S., Prajapati, M., & Baral, S. K. (2019). Through the establishment of national-level organisations like the National Bank for Agriculture and Rural Development (NABARD) and the Small Industrial Development Bank of India (SIDBI), the government took the initiative to support and refinance microfinance. These organisations fall under the categories of mutual benefit MFIs, for-profit MFIs, not-for-profit MFIs, etc. Elsherif, M. A. (2023).

### Role Effectiveness of Micro Finance

Microloans are referred to as micro financing. Small-scale lenders lend money to investors who lack the means and capacity to handle substantial sums of money. A lot of socioeconomic constraints restrict the sources of finance available for starting a small project, earning money on your own, and improving your standard of living. Maouloud, V. M. (2023). According to Talor (20019), “Micro-finance is the term used to describe small-scale financial services, including deposit and credit, that are offered to people who run small micro-enterprises producing, recycling, trading, or farming; who offer services in exchange for pay or commissions; who make money by renting out small amounts of land, cars, machinery, tools, or draft animals; and to other people and local groups in developing nations, both in rural and urban areas.” Although the situation is quickly improving, more than 25 % of people in India, the second-most populous country, live below the poverty line. Government efforts to end poverty through enhancing rural livelihoods—including infrastructure, jobs, healthcare, and education—have been made on several occasions. Ates, M. (2023). Due to the fact that financial services empower the impoverished to take charge of their lives and start businesses, they are crucial for the generation of assets and income necessary for long-term, sustainable economic growth. Microfinance organisations give modest loans to begin operations in place of poor, inconsistent income and a lack of assets. The main factor contributing to the decline in Indian poverty is MFIs’ distinctiveness. Kumari, M., & Prakash, A. (2023).

The RBI developed the NBFC-MFI model in January 2011 in response to the Malegam Committee’s recommendations. This model is a viable and long-term way of giving low-income households access to finance. It falls under the category of Non-Banking Finance Companies (NBFCs) and is specifically designed for microfinance institutions. The Indian government’s objective of financial inclusion has been greatly advanced by MFIs. The company encourages its clients to be independent and enterprising. By the end of March 2023, NBFC-MFIs had lent over Rs. 74 371 Crore to over 3,22 clients in total. Alam, M. K. (2023).

Sr. No	Indicator	2018-19	2019-20	2020-21	2021-22	2022-23
01.	Branches	9 972	10 013	10 079	13 277	14 275
02.	Employees	89 732	96 429	97 478	1 07 842	1 19 669
03.	Clients (Cr.)	4,27	5,13	6,32	7,51	5,24
04.	Loan accounts (Cr.)	--	4,02	5,83	6,72	5,83
05.	Gross Loans Portfolio (Rs. Cr.)	57 282	58 358	68 034	70 221	74 452
06.	Loans Disbursed (During the year, Cr.)	--	3,43	4,68	5,52	6,54
07.	Loans amount Disbursed (During the year, Cr.)	69 782	72 255	75 668	83 378	85 073

Source: Microfinance Institutions Network (MFIN), Annual Report.

The following table illustrates how Non-Banking Financial Companies (NBFCs)-MFIs performed from 2019-20 to 2022-2023 and shows that throughout that time, there was an increase in branches, staff, and loan accounts. Consequently, other indicators during the same period, such as clients, loans disbursed, and loan amount dispensed, displayed minor changes. Over the period, the gross loan portfolio has increased significantly, which is encouraging for the microfinance service’s development.

Sr. No.	Region	2018-19	2019-20	2020-21	2021-22	2022-23
01.	Central	--	--	13 %	16 %	15 %
02.	West	26 %	27 %	15 %	17 %	17 %
03.	North	26 %	29 %	5 %	15 %	15 %
04.	South	39 %	33 %	22 %	28 %	29 %
05.	East & North East	19 %	21 %	49 %	43 %	36 %

Source: Microfinance Institutions Network (MFIN), Annual Report.

The geographic breakdown of the Gross Loans Portfolio in percentage terms from 2019-20 to 2022-2023 was provided by table 2. Five blocks—the central, west, north, south, east, and north-east—have been created to explore this regional distribution. During the same period, the eastern zone exhibited good development, rising from 21 % to 36 % of the total loan portfolio, whereas the west, south, and north regions showed a falling tendency.

**Table 3. State Wise Distribution of Loan Amount Disbursed.**

Sr. No.	States	2018-19	2019-20	2020-21	2021-22	2022-23
01.	Maharashtra	13 %	15 %	16 %	16 %	16 %
02.	Tamil-Nadu	17 %	14 %	11 %	9 %	13 %
03.	Karnataka	14 %	16 %	17 %	16 %	14 %
04.	Bihar	13 %	9 %	14 %	15 %	16 %
05.	Assam	5 %	6 %	5 %	5 %	6 %
06.	Rajasthan	7 %	5 %	6 %	9 %	7 %
07.	Uttar Pradesh	15 %	13 %	14 %	16 %	18 %
08.	Madhya Pradesh	9 %	11 %	13 %	9 %	12 %
09.	West Bengal	7 %	8 %	11 %	14 %	15 %
10.	Odisha	8 %	9 %	15 %	14 %	12 %

**Source:** Microfinance Institutions Network (MFIN), Annual Report.

The distribution of loan amounts disbursed in percentage by state is displayed in the above table. It is evident that the total amount of support given to each of these states has improved steadily over time. Not all of these states have made the same amount of development; some have received more loans than others. The quantity disbursed might vary depending on a number of factors, including branch expansion, timely and suitable loan amounts, awareness raising, etc. Demands for loans are also crucial for disbursement.

**Table 4. Breakup of Portfolio as per Purpose and Geography**

Sr. No.	Purpose and Geography	2015-16	2016-17	2017-18	2018-19	2019-20
01.	Agriculture & Allied Agri.	67 %	69 %	53 %	58 %	62,4 %
02.	Non- Agriculture	34 %	33 %	48 %	44 %	45,9 %
03.	House-hold Finance	6 %	6 %	45	4 %	4,7 %
04.	Rural	65 %	59 %	67 %	76 %	79 %
05.	Urban	42 %	45 %	39 %	32 %	25,9 %

**Source:** MFIN India- Microfinance Institutions Network (MFIN), Annual Report, various years.

The portfolio breakdown by purpose and area in percentage terms is shown in table 4. According to the aim of the portfolio, household financing fell from 5 % to 2,8 % while the share of non-agriculture climbed from 34 % to 45,9 %. During the 2019-20 to 2022-23, the share of agriculture and allied agriculture reduced from 67 % to 62,4 %. When the portfolio is divided into rural and urban areas based on geography, the share of the former has been trending upward while the share of the latter is declining.

**Table 5. Types of Lenders and Loans Outstanding in Micro Finance Sector**

Types of Lending	2021-22		2022-23		Growth (%)	
	No. of Active Loans	O/S Balances	No. of Active Loans	O/S Balances	No. of Active Loans	O/S Balances
NBFC-MFIs	379	73 101	363	78 785	0,93 %	8,7 %
Banks	353	82 201	423	1 13 132	35,1 %	37,0 %
SFB	173	39 768	185	35 874	-4,0 %	-4,2 %
NBFC	84	19 425	89	19 645	-7,7 %	4,8 %
Non-Profit MFIs	11	1 324	14	2 546	45,2 %	27,7 %
Total	1000	2 15 819	1 074	2 49 982	67,23	81,30 %

**Source:** Gol, NABARD, Status of Micro Finance in India.

The types of lenders and loans that are now outstanding in the microfinance industry are explained in table 5. With two-year references to 2019-20 and 2022-2023—five different types of institutions have studied. In comparison to SFB, NBFC, and non-profit MFIs, banks and NBFC-MFI have the most active loan portfolios. Due to the large number of current loans, outstanding sums are considerable.

The most recent data regarding lender types and loans outstanding in the microfinance sector for the years 2022-2023 was displayed in table 6. In all activities, the banking industry is the leader, followed by NBFC-MFIs. Thus, the function these institutions play in microfinance is confirmed to be very significant. To improve the record, standardised procedures and best practices are required. Beneficiaries and clients of microfinance should be kept apart, but they also need to be included in regular economic operations.

**Table 6.** Types of Lenders & Loans Outstanding in Micro Finance Sector

Particulars	No. of Active Loans		Portfolio Outstanding		No. of Loans Disbursed		Disbursement		Average Loan Size
	Numbers	% share	Numbers	% share	Numbers	% share	Numbers	% share	Amount (Rs)
Industry									
NBFC-MFI	258	36 %	79,116	33 %	176	33 %	59,765	30 %	35,458
Banks	415	40 %	1,30,123	44 %	324	52 %	1,13,679	54 %	44,428
SFB	165	17 %	36,944	16 %	72	15 %	27,857	14 %	37,889
NBFC	79	9 %	19,728	9 %	26	5 %	8,999	6 %	42,254
Non-Profit MFI	13	3 %	2,452	2 %	9	2 %	2,021	2 %	33,574
Total	930	--	2,68,363	--	607	--	2,12,321	--	193,593

Source: Gol, NABARD, Status of Micro Finance in India.

### Major Findings and Suggestions

Microfinance is a potent instrument that helps lower-class people meet their financial requirements and improves their ability to provide financial services. It is increasingly evident that MFIs are essential to the fight against poverty. Numerous beneficial legal measures were put into place by the government, including a unified Micro Finance Act. The government offers refinancing facilities to maintain stability and to counteract the weakness of insufficient or scarce resources. The growth of MFIs is likewise uneven due to regional differences, with the south of the nation being more progressive than the north.

The methods that MFIs follow and the services they offer to clients determine their future viability and success; similarly, the customer's attitude and sincerity play a part. The most frequent reason for irregular loan payments is not having sufficient funding sources, but rather being unable to return the debts on time. Therefore, a key component of success is having experience in the banking industry and related services, technological proficiency, appropriate money management, qualified officials, appropriate client screening criteria, etc. Microfinance institutions are recognised as a credit-based tool for eradicating poverty. To put it briefly, microfinance institutions are a tool for developing strategies aimed at eradicating poverty in an economy.

### CONCLUSIONS

The success of India's economy is greatly influenced by microfinance. It serves as a buffer against poverty for those who reside in rural areas. Its goal is to help impoverished communities achieve higher levels of wealth accumulation and stable income for both individual households and entire communities. Providing small business owners in India with capital access is the main goal of microfinance. As was previously indicated, loans, insurance, and savings accounts are offered by microfinance company India.

Microfinance offers a unique feature that helps the underprivileged with modest amounts of money. With this microfinance, poverty may be eradicated and the needs of the poor can be met. The government acknowledged the potential of microfinance and, via NABARD and SIDBI, offered administrative support, financial support, technical guidance, and refinancing. MFIs are equipped to play a leading role in the country's sustainable development. Through training, skill development programmes, technical help, professional aid, and poverty elimination, MFIs have made significant contributions to the elevation of the impoverished and downtrodden households. As a result, it is noted that microfinance has a great deal of room to grow as a truly accessible and inexpensive sustainable development tool for low-income individuals and households. Microfinance institutions guarantee low-income poor for financing, but they also enable financial services that traditional banks refuse.

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#### **CONFLICT OF INTERESTS**

The authors declare that there is no conflict of interest.

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