• ISSN: 2617-3018

Arabian Journal of Business and Management Review (Kuwait Chapter)

Research Article Homepage: www.arabianjbmr.com AGJ

AN ANALYSIS OF ROLE OF MICROFINANCE INSTITUTIONS IN INCLUSIVE GROWTH

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ABSTRACT

The significant outcome of micro finance institutions is an affordable and accessible financial credit services to the rural parts of India. Poor sections of our population need assistance rather than subsidies and now there is paradigm shift from subsidies to access of credit. Micro finance can also play a vital role in women developments who are now leading the economy through micro finance credit with the help of good decision making. But there is still a big challenge since independence that in most of the rural parts of India credit is providing by moneylenders at very high interest rates, but this is a work of financial institution. There is a big gap between haves and haves not people due to unequal income distributions of the people and they are financially excluded. So, micro finance institutions bridge the gap between two gaps. The paper discusses the role of micro finance in inclusive growth, through various financial programmes of state and challenges faced by micro finance in providing access of credit.

ARTICLE INFO

Keywords:
Micro-Finance, Inclusive growth, financial inclusion, India.

JEL Classification
G21, G23, G28, G53

Article History:
Received: 21 Jul 2021
Revised: 15 Aug 2021
Accepted: 11 Sep 2021
Available Online: 05 Dec 2021

1. INTRODUCTION

India is mainly agriculture dominated country and most of the areas are rural or semi-urban and there are no, or less banking and financial services present in the remote areas of India. So, Microfinance can play a vital role in achieving financial inclusion. Microfinance institutions provide small loans and other financial services to the lower income groups. Credit is one of the major sources of economic development in the developing country like India. Credit is also playing a psychological peace for low income groups to increase productivity in their work. Right amount of credit at an affordable cost will support lower income groups to contribute to country's economic development. Microcredit prevails since centuries in India through moneylender and landlord, but the new concept of microcredit is in the form of Micro finance Institutions (M. Wakilur Rahman 2015). All the credit goes to Mohammad Yunus for the idea of Grameen bank started in the early 80s. The idea to link Grameen (Rural) people in formal financial services because they're oppressed by moneylenders. The new concept of microfinance includes both financial and non-financial services to the unbanked and undeserved areas. Microfinance institutions of a country play a role towards inclusive growth that benefits growth of all sections and regions of the society especially poor people. By means growth of any country would be considered an inclusive growth when GDP (Gross Domestic Product) of a country increases with HDI (Human Development Index). In India, inclusive growth is sometimes accompanied by social-political process and disintegrates social-economical process and discriminates on the basis of caste, religion, gender and ethnicity. Over the year microfinance institutions has evolved as one of the fastest growing industries in providing finance. Although microfinance is not magic wand that can remove poverty in one go but it provides small loans to the poor borrowers who can start business and not depends on moneylenders on high rate of interest.

1.1 Microfinance institutions

According to the Reserve Bank of India, defines Microfinance institutions as a NBFC (Non- Banking Financial Company) with minimum net owned funds of Rs 5 crore and for Northeastern region 2 crores and not less than 85% of net assets are in nature of qualifying nature (Reserve Bank of india 2015). The ultimate goal of microfinance institutions is to make lower income group as self- reliant and self- dependent (Aatma Nirbhar) as our Hon'ble PM also told to make people and country a self-dependent. Microfinance is an integrated concept of financial and non-financial services whereas financial services include saving, insurance, credit etc and non-financial services includes financial awareness, literacy and overall value addition to the customer end.

1.2 Inclusive growth

According to the definition of 'World Bank' inclusive growth means the direct link between micro and macro determinants of the growth. The approach of inclusive growth focus on productive employment rather than direct income redistribution. Policies for inclusive growth are one of the major concerns for every government for the path of sustainable growth. According to 'UNDP' inclusive growth means the process and outcomes where people of all groups have participated in growth and have benefitted equally. UNDP supports government efforts in reducing poverty and achieving the dream of sustainable development through which no one can be left behind.

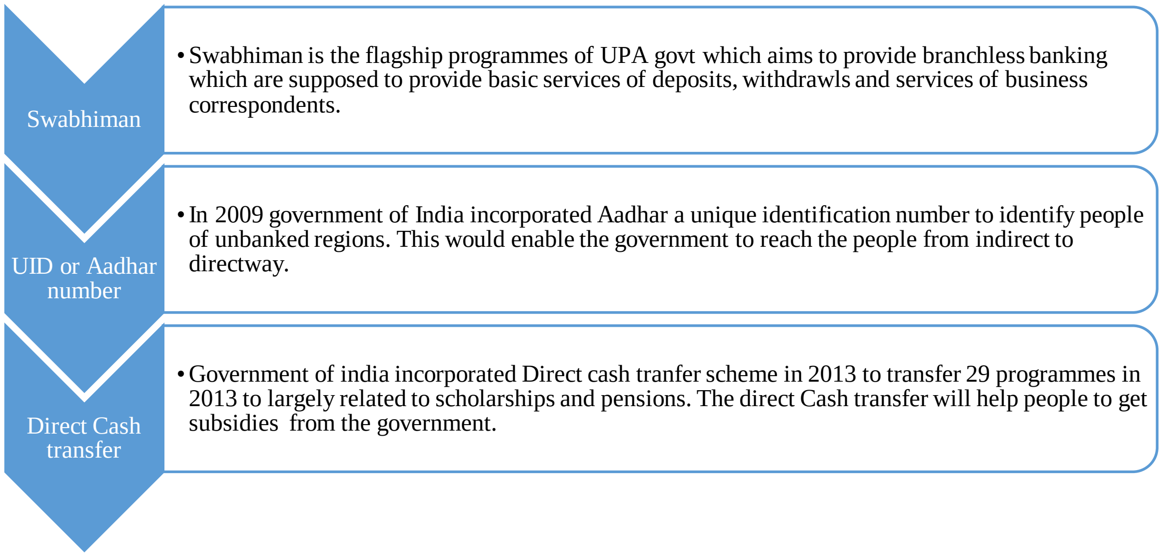

Figure 1. Roadmap for achieving inclusive growth through financial inclusion in unserved regions

2. LITERATURE REVIEW

Shankar, 2013 says saving is the one of the main factor of financial inclusion as rural households are mainly dependent on informal sectors and small finance bank put them on formal sectors and once they came into formal sectors saving and interest rate occurs and Habit of saving leads to less depend on external sources, where the external sources are charging as high interest rates. Former RBI Governor of India states in seminar of "The Changing Paradigm for Financial Inclusion" that Financial inclusion not only means to ensure the banking and financial services to the remotest sections but also means about financial literacy and consumer protections and acronym as IIT (I:- Information, I:-Incentives and T:- Transaction costs). Agarwal 2014, proposes that we need to empower MSMEs for achieving target of financial inclusion plans. MSMEs target micro and small enterprise which provides local level demand and consumption in timely and adequate manner and MSMEs are much more responsible for inclusive growth. Efforts are made by government, financial institutions and others for achieving financial inclusion but the kind of results are not expected. MSMEs are also one of the channels for providing product of financial services and could resolve the people concern. Chung 1996, Says that before some years Banks and financial institutions treat poor people as beneficiaries of subsidies of various government programmes and in present scenario financial institution treat people as their customers. So there is a shift of paradigm because there are many financial services are now available in institutions like Gold loan, Home loan, Education loan rather than only saving and credit and demand of credit in rural areas is also shift from farm activities to nonfarm activities. Karmakar 2009, Due to rise of microfinance institutions in India, dropout rates of students have reduced in schools because of various financial literacy programmes organised by Institutions. Now parent's see education as an important tool for poverty reduction. Due to this capacity building, up gradation of skills and Technical skills has also increase among the rural people. So, arrangement of programmes on regular basis by financial institutions may also increase financial literacy among the people. It has also promoted good child mortality and improved nutritional benefit mainly on children and women through Self-help groups.

Sibanjan Mishra 2013, explain that to eradicate poverty, Lenders need to distribute large number of small loans to the needy people but they have do just opposite from that i.e distribute small number of large loans because of minimize physical and administration cost. Due to this discrepancy micro finance institutions witnessing tremendous growth in India. There is a need of strong policy recommendation on providing more and more small loans to the needy people. So, therefore there is positive relationship between more small loans and rapid growth in MSME and it will also boost the MSME sectors of India. Corrado, G., & Corrado, L. (2017) The different programmes of Credit extension can improve the conditions of borrowers. Credit should be distributed to the borrowers for not only low rate of interest but also for the productive purposes. The purpose of credit is to provide equal opportunities to every individual to improve standard of living including those who are marginalized. Roy, A. (2011) discusses that there has been unprecedented growth throughout the world due to globalization but the fruit of such growth has not improved the lives of poor. Governments all around the world are targeting inclusive growth through microfinance institutions has become a mantra in these days. Microfinance institutions in India. Vanroose, A. (2015) Author analyses that microfinance institution reaches more clients in the countries that receive higher number of international aid. Developing countries are more dependent on international aid and the author highlights that densely populated countries like India have bigger microfinance markets. The author says in their findings that MFIs is more difficult in providing profitable manner in the region of low population density. However, the goal of MFIs is to reach more and more client in every nook and corner of population and build them with financial stability.

Ul Hameed, W., Ali Nisar, Q., Abbas, A., Waqas, A., & Meo, M. (2019) Microfinance institutions are playing vital role in women empowerment through micro-credit, micro-insurance and micro-saving. For availing a wide range of financial services it is necessary to enhance women education. Women education plays a crucial role in promoting income generating activities. Thus this study provides in identifying carrer development among women. The ultimate objective of microfinance institutions should be empowers women uplift them and provides career development. Joshi, D. (2019) Microfinance institutions have done well in channeling capital. The study reveals that microfinance, if properly implemented it can bring a massive change in rural India through channeling capital. The study also suggests that financial education enhanced the ability to take benefits from microfinance and has helped rural poor in economic empowerment and encouraged them towards inclusive growth of country. Thus, over the period microfinance has emerged as an effective tool for poverty reduction and overall development to the rural individuals. Khawari, A. (2004) The author says that the concept of microfinance institutions has inspired new banking concepts that have given hope to the poor people all around the world. MFI throughout the world has immensely changed the financial landscape of the people. The author found that MFIs like Bank Rakyat Indonesia (BRIs) unit poor are interested in savings when given the right amount of savings. The study also reveals that higher income borrowers from microfinance institutions are more willing to take the risk and invest in technology and advancement in their activities. The small loan borrowers on the other hand take small and protective loan and spend less in technology. Thus this study says that very poor borrowers always invest in low risk capital investment and escape from risk taking strategies. Moro Visconti, R. (2012) A survey has been done in developing countries shows that application of microfinance works in one developing country may not always successful in other countries. So microfinance institutions must be flexible and adaptable according to the local need and habits. With the success of microfinance all around the world, there are still enormous problems on the ground like outreach of microfinance to the poorest sections of the society with no any obstacles.

3. NEED OF THE STUDY

There is a diversity of people in India and one scheme and programmes may not suit for all population. However, government is regularly launching various schemes and programmes for unbanked population. But due to some obstacles, many programs and schemes do not work successfully on the grassroots. So commercial banks are failed to reach the un-served population and therefore government push micro finance institutions to taking a charge for providing assistance to un-served people and helping them to realize in their plans. The study will focus to find out how effectively the micro finance institutions are providing funds to lower income groups to achieving financial inclusion. So, therefore this study is good potentials to converting the objectives of rural people

4. RESEARCH METHODOLOGY

The research paper has been done on secondary data sources. The data for the present study was collected from different sources like RBI, Government publications, NABARD report, The Bharat Microfinance report and other websites.

5. OBJECTIVES OF THE STUDY

- To examine the role of the microfinance institutions in extending financial services for inclusive growth.
- To examine the status of microfinance institutions in India from the year 2017-20.
- To examine the concept and importance of micro finance institutions in India.

6. DATA ANALYSIS AND DISCUSSION

Table 1. Progress under MFI/ MFO-Bank Linkage Programme

Particulars	2017-18		2018-19		2019-20	
	Number of accounts	Amount(in crores)	Number of accounts	Amount(in crores)	Number of accounts	Amount(in crores)
Loan Disbursed by Banks/FI to MFIs	1922 (-17%)	25515.23	1933 (0.57%)	14625.95	4762 (146%)	20225.99
Loan O/S against MFIs on 31st March	5073 (-5.3%)	32305.92	5488 (8.18%)	17760.68	15197 (176%)	29288.62

Source: NABARD, Status of Microfinance in India Report, 2017 to 2020.

Table 1 describes the progress of MFIs during the given year. The number of MFIs availing loans from banks during the year 2017-18 decreased by -17% over the respective previous year whereas number of MFIs availing loans from the banks during the year 2019-20 increased by 146 per cent over the year 2018-19. However total loan disbursement by Banks/FI to MFIs increased in the year 2017-18 over the previous year but the loan disbursement has been decreasing in the year 2018-

19, 2019-20 over the previous year. The loan outstanding against MFIs increased all of the subsequent year over the previous year. The loan outstanding in the year 2019-20 increased by 176% over the previous year.

Table 2. Outreach (in lakh) of MFIs across States/UTs – 2020 & 2019 (decreasing order)

States/UTs	2020	2019	Growth (%)
Karnataka	62.49	74.12	-16%
Tamil Nadu	58.45	45.03	30%
Bihar	45.34	45.24	0.2%
Uttar Pradesh	36.32	39.28	-8%
Odisha	32.14	37.21	-14%
West Bengal	30.55	35.68	-14%
Maharashtra	29.53	28.61	3%
Madhya Pradesh	28.60	25.99	10%
Rajasthan	16.27	16.96	-4%
Asam	13.27	15.11	-12%
Kerala	12.83	11.64	10%
Jharkhand	10.59	10.98	-4%
Gujarat	10.38	8.43	23%
Chhattisgarh	10.08	9.34	8%
Punjab	9.35	8.40	11%
Haryana	6.09	6.89	-12%
Tripura	2.83	2.29	23%
Andhra Pradesh	2.57	1.33	94%
Uttrakhand	1.90	2.09	-9%
Puducherry	1.44	2.11	-32%
Manipur	0.51	0.43	18%
Goa	0.26	0.29	-10%
Meghalaya	0.19	0.17	13%
Himachal Pradesh	0.18	0.16	15%
Telangana	0.17	0.08	107%
Delhi	0.15	0.95	-84%
Mizoram	0.12	0.20	-42%
Sikkim	0.08	0.05	53%
Jammu& Kashmir	0.06	0.05	27%
Chandigarh	0.02	0.02	21%
Nagaland	0.02	0.02	12%
Andaman & Nicobar Islands	0.02	0.06	-72%
Arunachal Pradesh	0.01	0.01	50%
Dadra & Nagar Haveli and Daman & Diu	0.00	0.00	0%
Ladakh	0.00	0.00	0%
Lakshadweep	0.00	0.00	0%
Total	423	429	-1%

Source: The Bharat Microfinance Report 2020

In Table 2 client outreach of all Indian states is presented. Out of total client based of 423 lakh in 2020, Karnataka has contributed highest number of client base (14.77%), followed by Tamil Nadu (13.81%) and Bihar (10.71%). All state except Assam and Mizoram has seen growth in client outreach. The top five states account for total 56% of client outreach whereas rest holds 44% of client outreach.

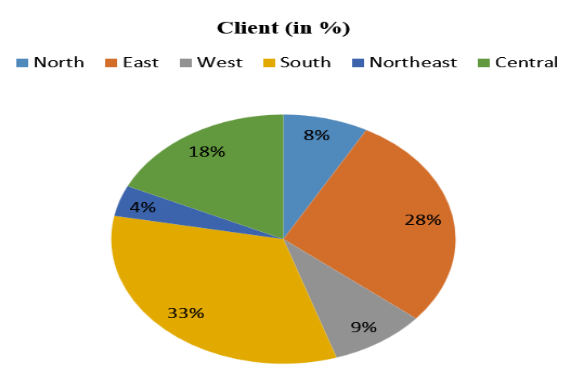

Figure 2. Region wise outreach of MFIs
Source: The Bharat Microfinance Report, 2020

In figure 2, among all the regions south India contributes with 33% with total client base of 423 lakhs, followed by eastern region by 28%. Northern India and Northeast region have lowest client base of 8% and 4%.

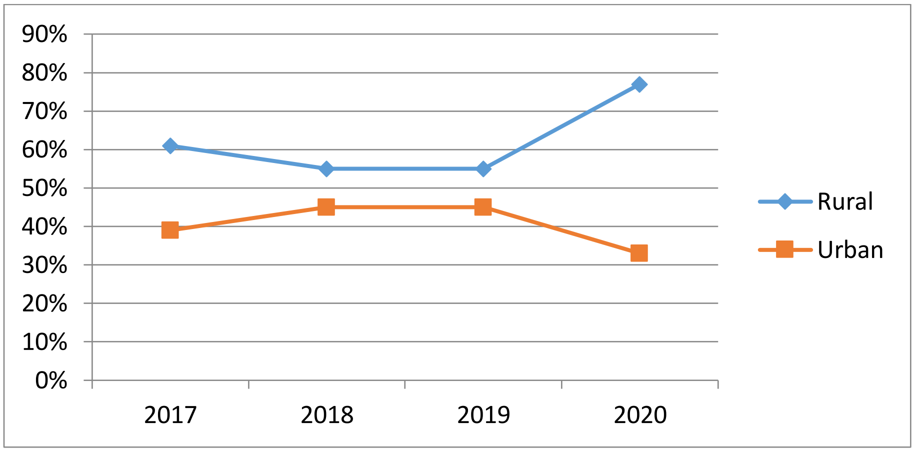

Figure 3. Trends in Rural - Urban Share of MFI Borrowers
Source:- The Bharat Microfinance Report 2020

In figure 3 Rural-Urban shares of MFI borrower are shown. Microfinance in India is basically based on rural model; as rural India is disintegrate with maximum number of benefits. The share of rural client in 2017 is 61% and it decreased to 55% in the year 2018 and 2019. But during the year 2020, rural client slightly increased to 77% in 2020. However, the trend in urban India is continuously decreased over the year.

Table 3. Loan amount disbursed during the year 2020 and 2019 (in ` crores)

Loan disbursement	Loan disbursed in 2020	Loan disbursed in 2019	Amount of disbursement increased/decreased in 2020 over 2019	Growth (%)
Rural	81,875	56,000	25,875	46%
Urban	24,528	53,804	29,276	-54%
Total	1,06,404	1,09,804		

Source:- The Bharat Microfinance report, 2020

In Table 3, loan disbursement amount is shown, the total loan in rural India is continuously increasing over the year but the loan disbursement in urban India is slightly decreased in the year 2020 from previous year 2019.

7. FINDINGS

- Microfinance institutions availing loans from the banks during the year 2019-20 increased by 146 per cent over the year 2018-19. However, there is decrease in the number of MFIs availing loans from the banks during the year 2018-19 over the previous year 2017-18.
- The overall client's base of different states/UTs are 423 lakh in 2020, Karnataka has contributed highest number of client base (14.77%), followed by Tamil Nadu (13.81%) and Bihar (10.71%). The top five states contributed 56% of client base whereas 44% of client base are from rest of India.
- Among the total client base of 423 lakh, South India contributes 33% of client base followed by Eastern region (28%).
- During the year 2019-20 rural client base is increased to 77% whereas urban client base of microfinance institutions is continuously decreasing. One of the findings of MFIs is 'It is rural centric'.
- There is substantial increased in amount of loan disbursement in rural India by 46% in 2020 whereas loan disbursement in urban India is slightly decreased over the year.

8. CONCLUSION

Microfinance institution can play a vital role in socio-economic development in any developing countries like India. Since, independence, poverty in India is one of the major concerns for government. Since, then microfinance has caught attention as the effective tool for poverty reduction and poor upliftment. Mohammad Yunus of Bangladesh introduced the concept of microfinance in 1970s in the form of 'Grameen Bank'. The road for microfinance in developing country like India needs time because still a large section of our society depends on informal credit sources. But despite its growth microfinance needs a long way to go for becoming fully sustainable institutions. The economic development of any country is directly or indirectly influenced by availability of financial services. So, Microfinance offers a wide range of financial services like saving, deposits, loans, payment services, micro-credit, insurance etc. Therefore range of financial services in rural and urban India promotes financial inclusion and ensures the path for inclusive growth. The government, RBI and other financial institutions should take necessary measurement to the growth of microfinance institutions in India. Hence, government should take further actions to create awareness among the people and strengthen standard of living and boost economic status especially for poor people.

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