

# The Contribution of Microfinance to Inclusive Growth

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**Abstract-** In today's time microfinance has emerged as a significant factor for promoting financial inclusion and promoting inclusive growth across developing and under developed economies. By providing small loans, savings, insurance, and other financial services to low-income and marginal households, microfinance bridges the gap between the formal financial system and marginalized communities. This paper explores the contribution of microfinance to inclusive growth and analyzing its role in poverty alleviation, women empowerment, rural development, and entrepreneurship promotion.

**Keywords:** Microfinance, Inclusive Growth, Financial Inclusion, Poverty Alleviation, Women Empowerment, India.

## INTRODUCTION

Economic growth alone does not guarantee equitable development in any country. In many developing economies, high growth rates coexist with poverty, unemployment, and social exclusion. This has led policymakers and researchers to focus on inclusive growth, which ensures that the benefits of economic progress reach all sections of society. Microfinance has evolved into a multi-dimensional approach that includes providing credit without collateral, savings, insurance etc. The core principle and motto is to provide access to financial services to those excluded from traditional banking system, thereby empowering them to financial activities. India has been witnessing the rapid expansion of microfinance institutions (MFIs). The Self-Help Groups (SHGs) promoted by NABARD and NGOs, have played an important role in linking rural women with banks. Despite various criticism and challenges, microfinance has shown substantial potential in reducing poverty, empowering women and creating sustainable livelihoods.

## REVIEW OF LITERATURE

The theoretical base of microfinance lies in the idea that access to financial services can help the poor invest in small entrepreneurship, enhance productivity, and household consumption. Nobel

Laureate Muhammad Yunus and the Grameen Bank model in popularized microfinance in the 1970s. Several studies underline the positive impact of microfinance:

- Morduch (1999) argues that microfinance helps households reduce vulnerability by offering them credit and savings services.
- Khandker (2005), using longitudinal data in Bangladesh, found that microfinance contributed significantly to poverty reduction and women's empowerment.
- NABARD (2015 Report) in India highlights that the SHG-Bank Linkage Programme (SBLP) has not only improved credit access but also enhanced social capital among rural women.

The literature suggests that microfinance becomes an effective driver of inclusive growth by overcoming various challenges.

## OBJECTIVES OF THE STUDY

1. To examine the role of microfinance in promoting financial inclusion of different marginal groups.
2. To analyze the contribution of microfinance in alleviating poverty and empowering women.
3. To evaluate the impact of microfinance on rural development.
4. To suggest measures for strengthening the microfinance sector for sustainable development.

## RESEARCH METHODOLOGY

The study is descriptive and analytical in nature, based on secondary data sources. Government reports, NABARD publications, World Bank reports, RBI guidelines, research papers, and academic journals have been read and analysed to collect the data. Case studies and real-world examples from India are also included in this study.

## Microfinance and Inclusive Growth

### 1. Microfinance as a Tool for Financial Inclusion

Financial inclusion aims to provide individuals and businesses, affordable financial products such as credit, savings, insurance, etc. Microfinance plays a vital role by:

- Providing loans without collateral.
- Offering doorstep banking services.
- Encouraging savings habits among daily wagers and low income groups.
- Facilitating government schemes through Self help groups and Micro Finance Institutions.

In India, the Pradhan Mantri Jan Dhan Yojana (PMJDY) has complemented microfinance by opening bank accounts at zero balance. However, Micro Finance Institutions remain crucial for reaching rural women and landless labourers who are still excluded from mainstream banking channel.

### 2. Poverty Alleviation in Rural Areas

Poverty reduction is the most important target of microfinance. By offering credit for small businesses, agriculture, and self-employment, microfinance gives opportunities to generate income to lower income groups. It reduces dependence on moneylenders who charge exorbitant interest rates.

### 3. Women Empowerment

Women form the backbone of microfinance programs and also the Indian economy. By providing loans to women's SHGs, microfinance enhances their decision-making power making them self-reliant, boosting their confidence, and improving their social status. Evidence shows that women borrowers use credit more productively, leading to improved household welfare.

### 4. Rural Development

Microfinance stimulates rural development by financing agriculture, dairy farming, handicrafts, and other small businesses. It helps to generate employment, prevents migration to urban areas, and strengthens rural economy. By linking SHGs with banks, rural communities gain access to formal financial networks and main banking stream.

### 5. Promotes Entrepreneurship

Microfinance nurtures entrepreneurship by funding small-scale enterprises. Many rural households start micro-businesses such as tailoring, small shops, or food processing units with microloans. This not only

boosts family income but also contributes to local economic activity and creates multiple job opportunities for the local residents.

## Case Studies: Indian Context

1. Self-Help Group-Bank Linkage Programme (SBLP): NABARD initiated it in 1992, this program has become the world's largest microfinance program, linking over 12 million SHGs to banks. It has helped in transforming rural women into entrepreneurs and enhance household incomes.
2. SKS Microfinance (now Bharat Financial Inclusion Ltd.): A leading Micro Finance Institution that pioneered large-scale micro-lending in India. Despite facing various crises in 2010 due to over-indebtedness, SKS highlighted both the opportunities and challenges of commercial microfinance.
3. Bandhan Bank: Emerging out of a microfinance NGO, Bandhan became a full-fledged bank in 2015, showcasing how microfinance can evolve into mainstream banking.

## Challenges of Microfinance in Achieving Inclusive Growth

Despite growth, microfinance in India faces several challenges:

1. Over-Indebtedness: Multiple small loans often trap borrowers in debt cycles.
2. High Interest Rates: Though lower than those informal moneylenders, MFI interest rates are still high compared to formal banks in India.
3. Lack of Financial Literacy: Many borrowers misuse loan amount for consumption rather than investing into small businesses.
4. Sustainability Issues: Some MFIs struggle with repayment defaults, affecting financial sustainability.
5. Regulatory Concerns: The Andhra Pradesh microfinance crisis (2010) highlighted the risks of unregulated practices which could not be detected earlier.
6. Regional Disparities: Microfinance outreach is mainly concentrated in southern states, with weaker penetration in central and northern India, that leads to regional disparities.
7. Limited Impact on Poverty: Some studies argue that microfinance improves short-term income but may not always help to eradicate poverty.

#### FINDINGS AND DISCUSSION

- Microfinance contributes significantly to financial inclusion, particularly for rural development.
- It has positive impacts on, small entrepreneurs poverty reduction, though its effect varies by region.
- Women empowerment through SHGs is one of the most remarkable outcomes, enhancing both economic and social status of women.
- Microfinance needs to be integrated with skill development, capacity building, and access to various markets.
- Over-dependence on credit without financial literacy and proper financial planning can lead to indebtedness.

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#### CONCLUSION

Microfinance has proven to be a successful tool in promoting inclusive growth, especially in developing countries like India where large sections of society remain excluded from formal financial systems. It has empowered women, promoted rural development, and supported rural entrepreneurship. However, its contribution is not same every time and depends on the way programs are designed and implemented.

Microfinance must go beyond providing credit to truly drive inclusive growth. It should integrate formal financial literacy, providing vocational training, market linkages, and social security. The focus should be on providing sustainable livelihoods rather than mere loan disbursement among individuals.

Thus, microfinance, when combined with supportive plans and policies, has immense power and potential to build an inclusive economy where growth benefits are equitably shared across all sections of society and in all the diverse regions of the country.

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