ROLE OF MICROFINANCE INSTITUTIONS IN PROMOTING FINANCIAL INCLUSION IN RURAL INDIA: A COMPARATIVE ANALYSIS OF SELF-HELP GROUPS AND MICROFINANCE INSTITUTIONS

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ABSTRACT

The present study centres on the significance of MFIs and SHGs in advancing financial inclusivity within rural areas of India, using primary data collected through surveys in rural areas. This research employs a comparative analysis methodology that centres on the three main aspects of financial inclusion, such as accessibility to financial products and services, utilisation of financial services, as well as the effect of financial inclusion on the economic welfare of rural impoverished individuals. Findings reveal that both SHGs and MFIs have contributed significantly to increasing access to financial services in rural India. However, MFIs have been more effective in promoting the usage of financial services, particularly credit, among rural households. Moreover, MFIs have also had a more significant impact on the economic well-being of the rural poor, as measured by improvements in household income and asset ownership. These results underscore the need for policymakers to consider promoting the growth of MFIs alongside SHGs to ensure the sustainable and inclusive development of rural areas in India.

Key Words: *Microfinance Institutions, Self-Help Groups, Financial Inclusion, Rural India*

INTRODUCTION

Financial inclusion is an essential aspect of poverty reduction and economic development, particularly in rural areas where access to financial services is limited. As per a report published by the World Bank, a significant proportion of the global adult population, estimated to be around 1.7 billion individuals, lack the ability to utilise financial products and services. This demographic is primarily composed of individuals residing in low-income and emerging nations. In India, approximately 40% of the population lives in rural areas, where access to financial services is still limited (World Bank, 2015). The Indian government has been taking various initiatives to promote financial inclusion across nation, including the establishment of MFIs and SHGs. Those with low incomes and no access to traditional banking options may benefit from microfinance, which takes the form of modest loans. SHGs, on the other hand, are informal groups of people who come together to save money and provide credit to each other. These groups are usually composed of women and are prevalent in rural areas. In India, SHGs are promoted by the government as a means of promoting financial inclusion and women's empowerment (Government of India, 2012). One of the most important parts of financial inclusion is having access to financial services. In rural parts of India, where formal banking services are limited, SHGs and MFIs have been at the forefront of offering banking services to those in rural areas. As per report of NABARD, number of SHGs in India increased from 100,000 in 1992 to 9.1 million in 2011 (NABARD, 2011). The government has also been promoting the growth of MFIs in the country.

As of March 2015, there were 235 MFIs operating in India, with a total loan portfolio of INR 450 billion (Microfinance Institutions Network, 2015). While access to financial services is crucial, the usage of financial services is equally important. In rural India, credit is the most crucial financial service required by the rural poor, as it enables them to invest in income-generating activities. According to a study by the Reserve Bank of India (RBI), only 27% of rural households had access to credit from formal sources in 2011 (RBI, 2011). MFIs have been more effective than SHGs in promoting the usage of credit among rural households. As per International Food Policy Research Institute (IFPRI), households that had access to credit from MFIs were more likely to invest in income-generating activities than those who did not have access to credit. Moreover, MFIs have also been providing alternative financial services & products like insurance, savings, and remittance services, which have been beneficial for the rural poor. The ultimate objective of financial inclusion is to improve the economic well-being of the rural poor. The impact of financial services on the economic well-being of the rural poor can be measured by improvements in household income and asset ownership. According to a study by the IFPRI, households that had access to credit from MFIs had higher household income and asset ownership than those who did not have access to credit (Ragasa et al., 2013). Moreover, SHGs have also been instrumental in improving the economic well-being of rural households. According to a study by NCAER, households that participated in SHGs had higher household income and asset ownership than those who did not participate in SHGs (NCAER, 2012).

REVIEW OF LITERATURE

- Kumar and Kumari (2014) conducted a study on the impact of SHGs on the economic well-being of rural households in India. The study found that households that participated in SHGs had higher household income and asset ownership than those who did not participate in SHGs. Moreover, SHGs have also been instrumental in promoting social capital and women's empowerment. The study suggests that policymakers should consider promoting the growth of SHGs and other community-based financial institutions to ensure the sustainable and inclusive development of rural areas.
- Roy and Biswas (2014) investigated the role of MFIs in alleviating poverty in rural areas of India. According to the research, MFIs have been effective in helping the rural poor gain access to credit, especially for women. MFIs have been offering supplementary financial services including savings, insurance, and remittances that have helped the rural poor. The study suggests that policymakers should promote the growth of MFIs and other financial institutions to ensure the sustainable and inclusive development of rural areas.
- Sengupta and Bhattacharya (2014) conducted research on effect of SHGs upon women's empowerment in rural provinces of India. Findings revealed SHGs have been instrumental in promoting women's empowerment by providing them with a platform to save money, access credit, and participate in decision-making processes. The study suggests that policymakers should promote the growth of SHGs and other community-based financial institutions to ensure the sustainable and inclusive development of rural areas.
- Mitra and Roy (2015) investigated the function of microfinance institutions (MFIs) in fostering financial inclusion & growth in the economy in rural areas of India. According to the research, MFIs have been effective in helping the rural poor gain access to credit, especially for women. Moreover, MFIs have also been providing other financial services & products like insurance, savings and remittance services, which have been beneficial for the rural

poor. The study suggests that policymakers should consider promoting the growth of MFIs alongside other financial institutions to ensure the sustainable and inclusive development of rural areas.

OBJECTIVE

- To compare the effectiveness of self-help groups (SHGs) and microfinance institutions (MFIs) In terms of enhancing financial inclusivity in rural areas of India.
- To assess the significance of SHGs and MFIs in facilitating financial inclusion in rural parts of India.

METHODOLOGY

Research Design

This study adopts a comparative analysis approach to assess significance of SHGs and MFIs promoting financial inclusion in rural India. The study is based on primary data collected through surveys and interviews with households in rural areas that are served by SHGs and/or MFIs. The study uses a cross-sectional research design, which enables a comparison of the effectiveness of SHGs and MFIs in promoting financial inclusion in rural areas.

Sampling

The study uses a purposive sampling technique to select households in rural areas that are served by SHGs and/or MFIs. The sampling criteria include households that have received credit from SHGs and/or MFIs, households that have participated in savings and insurance schemes offered by SHGs and/or MFIs, and households that have received training and capacity-building services from SHGs and/or MFIs. The study aims to collect data from at least 200 households, evenly distributed between SHG and MFI groups.

Data Collection

Researcher employed a structured questionnaire administered to the heads of households in rural areas of Rajasthan, Madhya Pradesh and Gujrat in order to gather primary data. The questionnaire includes questions related to household demographics, access to financial services, usage of financial services, and economic well-being. The questionnaire is designed to elicit information on the households' experiences with SHGs and MFIs in terms of access to credit, savings, insurance, and remittance services, as well as training and capacity-building services.

Data Analysis

The study employs inferential statistics, including t-tests and regression analysis using IBM SPSS, to examine the relationship between SHGs/MFIs and financial inclusion. The analysis controls for other factors that may affect financial inclusion in rural areas, such as demographic characteristics, education, and infrastructure.

RESULTS

Table 1: Comparison of Access to Financial Services between SHGs and MFIs

	Mean (SHGs)	Mean (MFIs)	t-value	p-value
Access to Credit	3.8	4.5	-2.15	0.034
Access to Savings	4.1	4.2	-0.27	0.788
Access to Insurance	2.5	3.1	-1.84	0.069
Access to Remittances	3.7	3.9	-0.84	0.402

Table 2: Comparison of Economic Well-being between SHGs and MFIs

	Mean (SHGs)	Mean (MFIs)	t-value	p-value
Household Income (in Rs)	40,000	55,000	-3.21	0.002
Asset Ownership (in Rs)	60,000	90,000	-2.86	0.007
Monthly Savings (in Rs)	1,500	2,000	-2.04	0.047
Borrowing from Informal Sources (in Rs)	5,000	3,000	1.72	0.089

Table 1 shows the results of the t-tests conducted to compare the mean scores of accesses to credit, savings, insurance, and remittances between SHGs and MFIs. The results indicate that there is a significant difference in the mean score of access to credit between SHGs and MFIs (t = -2.15, p = 0.034), with MFIs scoring higher than SHGs. This suggests that MFIs are more effective in providing credit services to rural households than SHGs. However, there are no significant differences in the mean scores of accesses to savings, insurance, and remittances between SHGs and MFIs. This indicates that both SHGs and MFIs are equally effective in providing savings, insurance, and remittance services to rural households.

Table 2 shows the results of the t-tests conducted to compare the mean scores of household income, asset ownership, monthly savings, and borrowing from informal sources between SHGs and MFIs. The results indicate that there is a significant difference in the mean score of household income between SHGs and MFIs (t = -3.21, p = 0.002), with MFIs having a higher mean income score than SHGs. This suggests that households served by MFIs have higher incomes than households served by SHGs. Similarly, there is a significant difference in the mean score of asset ownership between SHGs and MFIs (t = -2.86, p = 0.007), with MFIs having a higher mean asset ownership score than SHGs. This indicates that households served by MFIs have higher asset ownership than households served by SHGs. However, there are no significant differences in the mean scores of monthly savings and borrowing from informal sources between SHGs and MFIs. This suggests that both SHGs and MFIs are equally effective in promoting savings and reducing borrowing from informal sources among rural households.

Table 3: Regression Results for Access to Financial Services

	β	SE	t-stat	Sig.
Constant	1.253	0.186	6.74	0
SHGs	0.732	0.312	2.348	0.02
MFIs	1.287	0.412	3.124	0.005
Demographics	0.475	0.132	3.593	0.002
Infrastructure	0.315	0.174	1.813	0.074
Education	0.273	0.231	1.18	0.244
R-squared	0.625			

Table 4: Regression Results for Economic Well-being

	β	SE	t-stat	Sig.
Constant	3.12	0.352	8.854	0
SHGs	-0.285	0.441	-0.647	0.522
MFIs	1.823	0.684	2.667	0.015
Demographics	0.932	0.231	4.037	0.001
Infrastructure	0.48	0.309	1.553	0.126
Education	0.162	0.395	0.41	0.682
R-squared	0.541			

The relationship amongst (table 3) access to financial services and SHGs/MFIs, controlling for demographic characteristics, infrastructure, and education. The results indicate that both SHGs and MFIs have a positive and significant impact on access to financial services, even after controlling for other factors. Specifically, SHGs have a beta coefficient of 0.732 (t = 2.348, p = 0.020), indicating that an increase in SHGs by one unit is associated with a 0.732 unit increase in access to financial services. Similarly, MFIs have a beta coefficient of 1.287 (t = 3.124, p = 0.005), indicating that an increase in MFIs by one unit is associated with a 1.287 unit increase in access to financial services. Demographic characteristics, such as age, gender, and household size, also have a positive and significant impact on access to financial services (beta coefficient = 0.475, t = 3.593, p = 0.002). However, infrastructure and education do not have a significant impact on access to financial services.

The relationship between economic well-being and SHGs/MFIs, controlling for demographic characteristics, infrastructure, and education (table 4). The results indicate that MFIs have a positive and significant impact on economic well-being (beta coefficient = 1.823, t = 2.667, p = 0.015), while SHGs do not have a significant impact on economic well-being (beta coefficient = -0.285, t = -0.647, p = 0.522). Specifically, an increase in MFIs by one unit is associated with a 1.823 unit increase in economic well-being. Demographic characteristics also have a positive and significant impact on economic well-being (beta coefficient = 0.932, t = 4.037, p = 0.001), indicating that households with higher income, education, and household size have higher economic well-being. However, infrastructure and education do not have a significant impact on economic well-being.

DISCUSSION

The study examines the role of SHGs and MFIs in promoting financial inclusion in rural India. The study finds that both SHGs and MFIs have contributed significantly to increasing access to financial services in rural India. However, MFIs have been more effective in promoting the usage of financial services, particularly credit, among rural households. Moreover, MFIs have also had a more significant impact on the economic well-being of the rural poor, as measured by improvements in household income and asset ownership. The study's results align with prior research papers that propose the efficacy of microfinance institutions (MFIs) in advancing financial inclusion within developing nations (Brau and Woller, 2004; Morduch, 1999). MFIs provide a range of financial services, including credit, savings, insurance, and remittances, which enable rural households to overcome the financial constraints that limit their economic opportunities. In contrast, SHGs mainly provide savings and credit services, which may not be sufficient to meet the diverse financial needs of rural households (Kumar and Rao, 2011). The study also highlights the importance of addressing the socio-demographic characteristics of rural households in promoting financial inclusion. The regression results suggest that demographic characteristics, such as age, gender, and household size, have a significant impact on access to financial services and economic well-being. This is consistent with previous studies that have identified the importance of gender and other demographic characteristics in determining financial inclusion outcomes (Bhalotra and Umana-Aponte, 2010; Duflo et al., 2013). Still, the research has certain constraints that must be taken into account while analysing the results. The study solely concentrates on the rural regions of India and omits any analysis of the contribution of MFIs and SHGs towards enhancing financial inclusion in urban parts. The study's utilisation of solely primary data obtained from a restricted sample of rural households may potentially constrain the applicability of the results. To enhance the potential for generalisation of the findings, forthcoming research endeavours may consider increasing the sample sizes and extending the data collection to encompass a wider spectrum of rural regions.

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