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Micro Finance: An Overview of Micro Finance in India

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Abstract

In India where 70 percent of its population lives in rural area and 60 percent depend on agriculture (according to the World Bank reports). From the time of independence unemployment and poverty has been two major characteristics and challenges of India. The major cause for the above two has been the unavailability of sufficient credit facilities for the poor and unemployed. These two factors have become the most challenging roadblock in the path of sustainable development of the country. Micro-finance can play a vital role in providing financial services to the poor and low income individuals. Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to the poor and low income individuals. The importance of micro-finance in the developing economies like India cannot be undermined, where a large size of population is living under poverty and large number of people does not have an access to formal banking facilities. Micro-finance is regarded as a useful tool for socio-economic up-liftmen in a developing country like India. It is expected to play a significant role in poverty alleviation and development. There are two broad approaches that characterize the microfinance sector in India is Self Help Groups (SHGs) -Bank linkage programme and Microfinance Institution (MFIs). In India microfinance is dominated by Self Help Groups (SHGs)-Bank linkage programme aimed at providing a cost effective mechanism for providing financial services to the unreached poor. Microfinance allows the poor to get the loan that leads to financial independence and growth. The poor use these loans in a productive manner to create their businesses, assets of their own and get rid of poverty once and for all. Microfinance is becoming a significant buzzword in India. Remarkable progress has been made during the last two decades in innovating techniques to deliver financial services to the poor on a sustainable basis. These loans are aimed at empowering the impoverished people to start their own businesses and to grow their money so that they can achieve long-term financial independence and develop sustainably. So, Economic growth, sustainable development and poverty alleviation can be achieved effectively with the help of an instrument like Micro finance in India. In today's date, there are a total of 82 major microfinance companies in India. The present paper attempts to analyze the role of microfinance in the development of India and also highlights the importance, phases, delivery models, challenges in micro finance, suggestive measures for the growth of micro finance and identifying the current status in India.

Keywords: Micro Finance, Poverty, Financial Services, Sustainable, Linkage, Challenges, Development, Mechanism, Progress.

Introduction

"Microfinance recognizes that poor people are remarkable reservoirs of energy and knowledge and while the lack of financial services is not just a sign of poverty. Today it is looked as an untapped opportunity to create markets, bring people in from the margins and give them the tools to help themselves."

Kofi Annan (Sec. General of UN)

"Microfinance is an idea whose time has come."

Kofi Annan-Former United Nations Secretary-General

The concept of microfinance was created by Professor Muhammad Yunus founder of Grameen bank in Bangladesh and noble price winner in 2006. Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low income households and their micro-enterprises. Before the microfinance industry, people around the world have been borrowing and saving using various sources outside of the formal financial sector. Informal financial services ranging from loan sharks, community members and saving groups were once the only source for low income individuals who were unbanked or under banked. Such sources are still commonly used in both rural and urban areas, but now microfinance is a new source for loans, savings and insurance for the estimated of Indians who do not have access to any type of financial services and the Indians who might be unhappy with the informal financial services they use. The World Bank has estimated that upwards of 100 million individuals have taken advantage of microfinance. Micro finance is a programme to support the poor rural people to pay its debt and maintain social and economic status in the villages. Micro-finance is an important tool for improving the standard of living of poor. The potential for growing micro finance institutions in India is very high. Microfinance organizations have spread all over the developing world. The concept has also expanded to include a variety of small-sized but high-impact financial services beyond traditional credit. These products have been customized to the diverse interests, demands, and capabilities of the global poor, also referred to as the "bottom of the pyramid." Microfinance market in India is expected to grow rapidly, supported by government of India's initiatives to achieve greater financial inclusion, and growth in the country's unorganized but priority sector. The organizations that provide these services, known as microfinance institutions (MFIs) may operate as formal micro banks, non-bank financial institutions, non-governmental organizations, or community-based financial institutions. These providers offer a range of financial services from small business loans to savings accounts, money transfers, insurance, and consumer loans. Growth of the microfinance industry, however, the microfinance is important as a minimum condition for achieving these social missions. Major Cross-section can have benefit if this sector will grow in its fastest pace.

The taskforce on Supportive Policy and Regulatory Framework for Microfinance constituted by NABARD defined microfinance as ***" the provision of thrift, saving, credit and financial services and products of very small amount to the poor's in rural, semi urban and urban areas for enabling them to raise their income level and improve their standard of living."*** Microfinance has evolved rapidly into a global movement dedicated to providing access to a range of financial services to poor and near-poor households. In India more than 70% of the population lives in villages and most of these villages are underdeveloped. Research and development sector in our country brings number strategies in favor of these people every year. Implementation of these technologies in the rural sector can alleviate poverty, create employment opportunities and generate good growth. Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities enable the poor to smoothen their consumption, manage their risks better, build their assets gradually and develop their micro enterprises. Government, NGOs and other financial institutions have introduced various welfare schemes and activities to reduce poverty. Microfinance, by providing small loans and savings facilities to those who are excluded from commercial financial services has been developed as a key strategy for reducing poverty throughout the world. However, for implementing these technologies micro financing through public and private sector agencies is the need of the hour. In India, a substantial microfinance system based on self help groups (SHGs) was developed. Economic growth, sustainable development and poverty alleviation can be achieved effectively with the help of an instrument like Microfinance.

Objective of the Study

1. To understand the concept of micro finance and delivery models of microfinance in India.
2. To analyze the role and importance of microfinance in India.
3. To analyze the challenges and issues of microfinance in India.
4. To View suggestive measures to tackle those challenges for the growth of micro finance for in India.
5. To status of MFIs and growth of microfinance in India.

Research Methodology

The present study is a descriptive study. This study is mainly based on secondary data only. Secondary data is collected from various sources like books, journals, magazines and reports and publications of recent research papers available in different websites, Research Articles, Research Journals, E-Journals, RBI Report, Bharat Microfinance Report and Report of NABARD etc. So trueness of the data depends on the trueness of the source.

Features of Micro Finance

1. It is an essential part of rural finance.
2. It deals in small loans.
3. It basically caters to the poor households.
4. It is one of the most effective and warranted Poverty Alleviation Strategies.

5. It supports women participation in electronic activity.
6. It provides an incentive to grab the self employment opportunities.
7. It is more service-oriented and less profit oriented.
8. It is meant to assist small entrepreneur and producers.
9. Poor borrowers are rarely defaulters in repayment of loans as they are simple and God-fearing.

Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients. Micro credit and micro-finance both are different. Micro credit is a small amount of money, given as a loan by a bank or any legally registered institution, whereas, Micro-finance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans, etc. for poor people.

Evolution of Microfinance in India

The evolution of Indian Microfinance sector can be broadly divided into four distinct phases:

Phase 1: The Cooperative Movement (1900-1960): During this phase, credit cooperatives were vehicles to extend subsidized credit to villages under government sponsorship.

Phase 2: Subsidized Social Banking (1960s-1990):With failure of cooperatives, the government focused on measures such as nationalization of Banks, expansion of rural branch networks, establishment of Regional Rural Banks (RRBs) and the setting up of apex institutions such as the National Bank for Agriculture and Rural Development (NABARD) and the Small Scale Industries Development Bank of India (SIDBI), including initiation of a government sponsored Integrated Rural Development Programme (IRDP). While these steps led to reaching a large population, the period was characterized by large-scale misuse of credit, creating a negative perception about the credibility of micro borrowers among bankers, thus further hindering access to banking services for the low-income people

Phase 3: SHG-Bank Linkage Program and Growth of NGO-MFIs (1990 - 2000): The failure of subsidized social banking triggered a paradigm shift in delivery of rural credit with NABARD initiating the Self Help Group (SHG) Bank Linkage Programme (SBLP), aiming to link informal women's groups to formal banks. The program helped increase banking system outreach to otherwise unreached people and initiate a change in the bank's outlook towards low-income families from 'beneficiaries' to 'customers'. This period was thus marked by the extension of credit at market rates. The model generated a lot of interest among newly emerging Microfinance Institutions (MFIs), largely of non-profit origin, to collaborate with NABARD under this program. The macroeconomic crisis in the early 1990s that led to introduction of the Economic Reforms of 1991 resulted in greater autonomy to the financial sector. This also led to emergence of new generation private sector banks that would become important players in the microfinance sector a decade later.

Phase 4: Commercialization of Microfinance: The First Decade of the New Millennium: Post reforms, rural markets emerged as the new growth drivers for MFIs and banks, the latter taking interest in the sector not only as part of their corporate social responsibility but also as a new business line. On the demand side, NGO-MFIs increasingly began transforming themselves into more regulated

Models of Micro Finance in India

In response to this requirement, the Micro finance movement started in India with the introduction of SHG bank linkage programme (SBLP) in the early 1990s. At present, there are mainly two models for delivery of Microfinance in India:

1. **SHG – Bank Linkage Programme (SBLP)**
2. **Micro Finance Institutions (MFIs).**

The above models explained below:-

SHG- Bank Linkage Programme (SBLP): A SHG is a small group of about 10-20 persons from a homogeneous class of rural and urban poor which promoted savings among members and used these resources for meeting their credit needs The group is democratically formed and elects its own leaders. The vital features of SHGs are it consists of members belonging to the same community or society and having common economic goal. In this model, the informal SHGs are credit linked with the formal financial institutions. The SHG-Bank Linkage Model has emerged as a dominant model in terms of number of borrowers and loans outstanding. This model is flexible, independence creating, and imparts freedom of saving and borrowing according to the requirements of group members. Due to widespread rural bank branch network, the SHG-BLM is very suitable to the Indian context. Microfinance movement started in India with the introduction of SHG-Bank Linkage Programme (SHG BLP). The programme uses SHGs as an intermediation between the banks and the rural poor to help in reducing transaction costs for both the banks and the rural clients. Banks provide the resources and bank officials/NGOs/ government agencies organise the poor in the form of SHGs. Under this programme, loans are provided to the SHGs with three different methodologies:

Model I: SHGs Formed and Financed by Banks: In this model, banks themselves take up the work of forming and nurturing the groups, opening their savings accounts and providing them bank loans.

Model II: SHGs Formed by Agencies Other than Banks, but Directly Financed by Banks: In this model, NGOs and other formal agencies in the field of microfinance facilitate organising, forming and nurturing of SHGs and train them in thrift and credit management. The banks directly give loans to these SHGs.

Model III: SHGs Financed by Banks Using Other Agencies as Financial Intermediaries: This is the model where the NGOs take on the additional role of financial intermediation along with the formation of group. In areas where the formal banking system faces constraints, the NGOs are encouraged to form groups and to approach a suitable bank for bulk loan assistance. This method is generally used by most of the NGOs having small financial base.

Micro Finance Institutions (MFIs): The MFI model has also gained momentum in India in the recent past. MFI model is found worldwide whereas the SHG-BLM model is an Indian model. In

MFI model MFIs borrow large amount of funds from the apex financial institutions, donors and banks for on-lending to the individuals or groups. These MFIs provide financial services to the individuals or to the groups like SHGs. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. MFIs in India exist in a variety of forms like trusts registered under the Indian Trust Act, 1882/Public Trust Act, 1920; societies registered under the Societies Registration Act, 1860; Co-operatives registered under the Mutually Aided Cooperative Societies Acts of the States; and non-banking financial companies (NBFC)-MFIs, which are registered under Section 25 of the Companies Act, 1956 or NBFCs registered with the Reserve Bank. These MFIs are scattered across the country and due to the multiplicity of registering authorities.

Role and Importance of Microfinance

According to the research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion. In the past few decades it has helped out remarkably in eradicating poverty. Reports show that people who have taken microfinance have been able to increase their income and hence the standard of living.

Thus Microfinance plays a major role in upliftment of Indian economy in following ways:-

1. **Credit to Rural Poor:** Usually rural sector depends on non-institutional agencies for their financial requirements. Micro financing has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound.
2. **Poverty Alleviation:** Due to micro finance poor people get employment. It also helps them to improve their entrepreneurial skills and encourage them to exploit business opportunities. Employment increases income level which in turn reduces poverty.
3. **Women Empowerment:** Normally more than 50% of SHGs are formed by women. Now they have greater access to financial and economical resources. It is a step towards greater security for women. Thus microfinance empowers poor women economically and socially.
4. **Economic Growth:** Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.
5. **Mobilization of Savings:** Microfinance develops saving habits among people. Now poor people with meager income can also save and are bankable. The financial resources generated through savings and micro credit obtained from banks are utilised to provide loans and advances to its members.
6. **Development of Skills:** Micro financing has been a boon to potential rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually. They receive training from supporting institutions and learn leadership qualities. Thus micro finance is indirectly responsible for development of skills.

7. **Mutual Help and Co-operation:** Microfinance promotes mutual help and co-operation among members. The collective effort of group promotes economic interest and helps in achieving socio-economic transition.
8. **Social Welfare:** With employment generation the level of income of people increases. They may go for better education, health, family welfare etc. Thus micro finance leads to social welfare or betterment of society.

Top 10 Microfinance Companies in India 2021

Microfinance in India is very common. People in rural and semi-urban areas often require financial *help* for starting their business. They take help from microfinance companies because they offer financial services on a small-scale. Anyonya Cooperative Bank Ltd. at Vadodara was the *first* microfinance company in India. It is not functional at the present moment. The bank used to offer small loans to farmers. In today's date, there are a total of 82 major microfinance companies in India. **Now, let's take a detailed look at the *top microfinance companies in India* 2021:**

1. State Bank Of India
2. Equitas Small Finance Banak Ltd
3. Mahindra & Mahindra Small Financial Services
4. Ujjivan Financial Services
5. Bharat Financial Inclusion Ltd
6. Spandhana Spoorthy Financial Ltd
7. Bandhan Financial Services
8. Share Microfin Ltd
9. Shri Kshethra Dharmasthala Rural Development Project
10. Ashmitha Microfin Ltd

The list of microfinance institutions in India does not end here. **There are emerging old and new MFIs in India such as:**

- Adhikar Microfinance Pvt. Ltd.
- Future Financial Services Ltd.
- ESAF Small Finance Bank
- Fusion Microfinance Pvt Ltd
- Annapurna Finance Pvt. Ltd
- Arohan Financial Services Pvt. Ltd
- BSS Microfinance Limited
- Asirvad Microfinance Limited
- Cashpor Micro Credit
- Indian Cooperative Network for Women, etc.
- Belstar Microfinance Private Limited
- CreditAccess Grameen Limited
- Bharat Financial Inclusion Limited
- Bhartiya Samruddhi Finance Ltd

Present Scenario of Micro Finance in India

Indian microfinance sector has witnessed phenomenal growth over past two decades in terms of increase in both-the number of institutions providing micro finance as also the quantum of credit made available to the micro finance customers. Presently, micro credit is delivered through a variety of institutional channels viz., scheduled commercial banks (SCBs), regional rural banks (RRBs), cooperative banks, non-banking financial companies (NBFCs), Section 8 companies and microfinance institutions (MFIs) registered as NBFCs as well as in other forms.

The small finance banks (SFBs) are the latest game in the town. The institutional landscape of the microfinance sector has also changed significantly after licensing of Small Finance Banks. One out of two entities which was granted approval for starting a universal bank in 2014 was an NBFC-MFI, while eight out of ten entities granted approval for starting Small Finance Banks in 2016 were NBFC-MFIs. This, apart from further consolidation in the sector, has led to significant changes in the market dynamics with the share of specialized MFIs standing at a little over 30 per cent as on June 30, 2021 in the overall gross loan portfolio of around ₹2.14 lakh crore in the sector. Thus, micro finance, as a financial activity can no longer said to be a bastion of specialized MFIs.

Mostly, there have been three distinct sets of criticisms against micro finance lenders –

(i) that they lead their borrowers into debt-trap like situations;
(ii) They charge usurious rates of interest often disproportionate to their funding and operational costs; and
(iii) they deploy harsh recovery methods leading to distress amongst borrowers. These are issues which need to be critically introspected and addressed by the lenders to prevent recurrence of the crisis episodes.

The emerging dynamics in the microfinance sector as well as the concerns around customer protection therefore call for a review of the regulations so that all the regulated entities engaged in micro finance pursue the goal of customer protection within a well-calibrated and harmonized set-up. As you all may be aware; the Reserve Bank has recently come out with the Consultative Document (CD) on 'Regulation of Microfinance' seeking feedback from all the stakeholders. I wish to highlight some of the major aspects we are trying to address through this proposed framework.

Over-Indebtedness and Multiple Lending

- The protection of small borrowers has been enshrined in the NBFC-MFI regulations which do not permit more than two NBFC-MFIs to lend to the same borrower. Besides, there is a regulatory ceiling on the maximum amount that can be lent by an NBFC-MFI to a microfinance borrower. But it is observed that small borrowers are increasingly able to get multiple loans from several lenders well beyond their repayment capacity, contributing to over-indebtedness. The borrowers then end up defaulting on their repayment obligations. Then there are reports of coercive recovery practices by the entities looking to recover their dues. In this entire process what we see is a compromise with the basic tenet of responsible lending with the small and marginal borrowers ending up becoming victims of over-indebtedness.

- In the proposed framework, it has therefore been suggested that the regulations should focus on repayment capacity of the borrowers rather than considering only indebtedness or indebtedness from only NBFC-MFIs in isolation. It has been proposed to address the issue of over-indebtedness by prescribing a common definition of microfinance loans which will be uniformly applicable to all lenders and linking loan amount to household income. The proposal is that the payment of interest and repayment of principal for all outstanding loans of the household at any point of time should not be more than 50 per cent of the household income.

Customer Protection Measures

- Other critical aspect of customer protection that the Reserve Bank is looking to strengthen through the proposed changes. The inability/ difficulty of a borrower to repay his loan may be caused by several reasons such as unforeseen/ unavoidable adverse circumstances, natural calamities, over-indebtedness, etc. A cap on the loan repayment obligation of a household as a percentage of the household income is expected to address the inability of the microfinance borrowers to repay the loan.
- Further, in this case borrowers often lack the type of collateral preferred by the lenders and whatever little collateral they have for pledging may be of little value for the lenders even while it might be highly valued by the borrower. Even if lenders take such collateral, it is more for inducing repayments rather than to recover losses. Therefore, it has been proposed to extend the collateral free nature of microfinance loans, as applicable to NBFC-MFIs, to all lenders in the micro finance space.

Way Forward

- I am sure everyone present here shares my concerns outlined above and appreciates the fact that negative consequences of over-indebtedness, harsh recovery practices and adverse outcomes arising from harassment of customers will adversely impact the MFI eco system. From society's perspective, there are economic and social implications. While chasing higher asset growth and returns, lenders should not throw caution to the winds.
- The roots and origin of micro finance should not be forgotten and sacrificed at the altar of bottom-line growth. There is no denying the fact that self-sufficiency and financial sustainability are the objectives that the lenders need to pursue. However, prioritization of profitability at the expense of social and welfare goals of the micro finance may not be an optimal outcome. Lenders need to remain cognizant of the fact that the balance sheet growth should not be built by compromising on the prudent conduct.
- Micro finance in my view, at its core, should focus on understanding the needs of the customer first and offer them adequate levels of support through appropriate financial products. The customers of micro finance institutions often have lower level of financial awareness and literacy and are often too desperate to turn away any source of credit. Therefore, they need to be treated with care and empathy and should not be considered as a mere data points for investor presentations. The lenders in the micro finance space should not

try to mimic the strategies of mainstream finance as those serving the micro borrowers have a greater need to balance the social objectives with their lending operations. Strong corporate governance could play a critical role in balancing seemingly exclusive but potentially complementary objectives of growth and social welfare from a long-term perspective.

Challenges of Microfinance & MFIs in India

Following are some issues in MFIs in providing microfinance which become a challenge for them and ultimately pausing sustainable development:

Low Outreach: In India, MFI outreach is very low. It is only 8% as compared to 65% in Bangladesh.

High Interest Rate: MFIs are charging very high interest which the poor find difficult to pay.

Negligence of Urban Poor: It has been noted that MFIs pay more attention to rural areas and largely neglect the urban poor. Out of more than 800 MFIs across India, only six are currently focusing their attention on the urban poor.

Client Retention: Client retention is an issue that creates a problem in growing the MFIs. There is about 28% client retention in the MFIs.

Loan Default: Loan default is an issue that creates a problem in growth and expansion of the organization because around 73% loan default is identified in MFIs.

Low Education Level: The level of education of the clients is low. So it creates a problem in the growth and expansion of the organization because its percentage is around 70% in MFIs.

Language Barrier: Language barrier makes communication with the clients (verbal and written) is an issue that creates a problem in growth and expansion of the organization because around 54% language barrier has been identified in MFIs.

Late Payments: Late payments are an issue that creates a problem in growth and expansion of the organization because late payments are around 70% in MFIs.

Geographic Factors: The Geographic factors make it difficult to communicate with clients of far-flung areas which create a problem in growth and expansion of the organization. MFIs are basically aimed to facilitate the BPL population of the country but due to lack of infrastructure in those areas it becomes difficult to reach them.

Debt Management: Clients are uneducated about debt management. 70% of the clients in MFIs are unaware of the fact that how to manage their debt.

Other Factors include: Factors Contributing To Slow Growth of Microfinance; **Internal Factors External Factors:** High Transaction Cost, Lack of access to Funding, Loan Collection Method, Fraud, Uneven Population Density, Regional Disparity, Deserving Poor are Still not Reached, Low Depth of Outreach, Unregulated Microfinance Institutions, Lack of Insurance Services.

Measures to Overcome Challenges

1. **Proper Regulation:** When the microfinance was in its nascent stage and individual institutions were free to bring in innovative operational models, the need for a regulatory environment was not a big concern. However, as the sector completes almost two decades of age with a high growth trajectory, an enabling regulatory environment is needed that protects interest of stakeholders as well as promotes growth.
2. **Field Supervision:** In addition to proper regulation of the microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action if needed. This will keep an eye on the of ground staff of various MFIs and their recovery practices. This will also encourage MFIs to abide by proper code of conduct and work more efficiently. However, the problem of feasibility and cost involved in physical monitoring of this vast sector remains an issue in this regard.
3. **Encourage Rural Penetration:** It has been seen that instead of reducing the initial cost, MFIs are opening their branches in places which already have a few MFIs operating. Encouraging MFIs for opening new branches in areas of low microfinance penetration by providing financial assistance will increase the outreach of the microfinance in the state and check multiple lending.
4. **Complete Range of Products:** MFIs should provide complete range of products including credit, savings, remittance, financial advice and also non-financial services like training and support. As MFIs are acting as a substitute to banks in areas where people don't have access to banks, providing a complete range of products will enable the poor to avail all services.
5. **Transparency of Interest Rates:** As it has been observed that, MFIs are employing different patterns of charging interest rates and a few are also charging additional charges and interest free deposits (a part of the loan amount is kept as deposit on which no interest is paid). All this make the pricing very confusing and hence the borrower feels incompetent in terms of bargaining power. So a common practice for charging interest should be followed by all MFIs so that it makes the sector more competitive and the beneficiary gets the freedom to compare different financial products before buying.
6. **Technology to Reduce Operating Cost:** MFIs should use new technologies and IT tools & applications to reduce their operating costs. Microfinance institutions should be encouraged to adopt cost-cutting measures to reduce their operating costs. Also initiatives like development of common MIS and other software for all MFIs can be taken to make the operation more transparent and efficient.
7. **Alternative sources of Fund:** In absence of adequate funds the growth and the reach of MFIs become restricted and to overcome this problem MFIs should look for other sources for funding their loan portfolio. Various alternative sources of fund for the MFIs may be by getting converted to for-profit company i.e. NBFC, Portfolio Buyout, and Securitization of Loans etc.

Conclusion

Indian Microfinance today is a dynamic space with multitude of players offering various products and services to low income clients with different approaches. The economic development of any country is severely influenced by the availability of financial services. Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to the poor and low income individuals. A well developed financial system promotes investment opportunities in an economy. Therefore it is necessary that govt. of India have to focus on extending financial services to both rural and urban to ensure sustainable and inclusive growth. The importance of microfinance in the developing countries like India cannot be undermined it play a vital role for socio-economic upliftment of poor and low income peoples. Since 1990s, poverty reduction has taken priority at both national and international development levels. Within this framework, various initiatives have been taken by government. Microfinance has caught the attention as an effective tool for poverty reduction and socio- economic development. Hence Microfinance can play a vital role for improving the standard of living of poor. From the above study it can be viewed that SHG’s and MFI’s are playing a vital role in delivery of microfinance services which leads development of poor and low income people in India. To obtain sustainable development there must be continued growth and diversification of the rural economy, all segments of the population including farmers, rural micro-entrepreneurs and the poor should have easy access to sustainable financial services such as savings, credit and insurance provided by self-reliant, sustainable financial institutions in a conductive macroeconomic policy environment and development of MFIs. With the help and support from international organizations, local businessmen and the government, the microfinance sector in India has evolved into a highly profitable and commercialized industry.

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