



“A Study on the Role of Microfinance in Financial Inclusion in India”

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ABSTRACT

Financial inclusion is very important for countries like India. A lot of people in India do not have access to financial systems. Microfinance is a way to provide services to people who do not have a lot of money. This study looks at how microfinance helps people in India and how it improves their lives.

The study used an approach to collect information. We collected information from 90 people using a questionnaire. We also used information from reports, books and government publications. We looked at things like how many people know about microfinance how many people use it if it helps them earn money if it helps them save money and if they still borrow money from informal lenders.

What we found out is that microfinance really helps people in India by giving them access to money helping them save and stopping them from borrowing from lenders. It also helps women and people who want to start their businesses. There are still problems like high interest rates people not knowing much about finance and it being

hard for some people to get to microfinance services. The study says that if we teach people more about finance use technology to make things easier and make the process simpler microfinance can be more helpful, in India.

Keywords: Microfinance, Financial Inclusion, MSMEs, Rural Development, Poverty Alleviation, Financial Literacy, Self-Help Groups (SHGs)



1. INTRODUCTION

1.1 Background of the Study

Financial inclusion is about making sure everyone can get the right financial products and services like banking, credit, insurance and payment systems at a cost they can afford. This is especially important for people who're vulnerable and have low incomes. In India even though the banking sector has made a lot of progress many people still can't access financial services.

There are reasons why people can't access these services. Some of these reasons include not being able to read and write, being very poor not having the documents and living in areas that are hard to reach. Because of these challenges many people end up borrowing money from sources, which can have very high interest rates and unfair terms. Microfinance has become a way to solve these problems by providing financial services to people who need them. Financial inclusion is key, to helping people improve their lives. Microfinance plays a role in achieving financial inclusion.

1.2 Concept of Microfinance

Microfinance is about giving people loans and other money services. This includes things like saving money getting insurance and sending money to others. It is for people who do not have access to banks. Microfinance helps people who're not very well off and it helps them make money.

The idea of Microfinance became well known around the world because of the work of Muhammad Yunus. He showed that giving loans to people who do not have a lot of money especially women can help them make a better life for themselves and reduce poverty. Microfinance is important because it helps people get the money, they need to start businesses and take care of themselves. The concept of Microfinance is really, about helping people who need it most.

1.3 Microfinance and Financial Inclusion in India

In India microfinance works in ways including:

- Self-Help Groups
- Joint Liability Groups
- Microfinance Institutions
- Small Finance Banks

These ways of doing microfinance focus on lending to groups, which helps reduce the risk of not getting paid back and encourages people to be responsible with money. The government of India has started programs like the Pradhan Mantri Jan Dhan Yojana and Mudra Yojana. These programs have helped make sure more people have access to services by connecting microfinance to regular banks. Microfinance in India is getting stronger because of these programs. Microfinance and financial inclusion are very important, in India.



1.4 Problem Statement

A lot of people still do not have access to services even with more microfinance options available.

The high interest rates, lack of knowledge about microfinance, complicated procedures and limited availability in some areas make it hard for microfinance to work well.

We need to check if microfinance is really helping more people get access to services, which is its main goal.

Microfinance should help people who are financially excluded. It is crucial to assess its impact, on this issue.

1.5 Objectives of the Study

The main goals of the study are to look at what microfinance's how it helps people have better access to money.

- The study will look at how microfinance helps people in India have access, to money.
- It will also see how microfinance affects how money people make how much they save and their social and economic situation.
- The study will find out how aware people are of microfinance services and how easy it is for them to get these services.
- The study will identify the problems that people who get microfinance services face with microfinance services.

1.6 Hypothesis

H0 (Null Hypothesis): Microfinance has no significant impact on the income level of beneficiaries.

H1 (Alternative Hypothesis): Microfinance has a significant positive impact on the income level of beneficiaries.

2. REVIEW OF LITERATURE

People have done a lot of research on how microfinance helps with inclusion. At first researchers looked at how microfinance could help people who're poor especially in countries that are not very rich. On they found out that the rules and policies of a country can really help people get better access to financial services.

When we look at what happens we see that microfinance helps people make more money get more things and live better lives. It also helps women become more independent and makes them feel more in charge of their money.

Some studies show that microfinance does not work the same everywhere. It depends on things like how people understand money how well the institutions work and what the rules are. Microfinance is very important. These things can make a big difference in how well it works. The role of microfinance, in inclusion is still something that people are trying to understand and microfinance is a key part of this.

Microfinance helps people get banking services in developing countries like India.

- It is important because everyone should be able to use banks get credit buy insurance and make payments.
- This really helps people who do not have a lot of money.



Microfinance helps bridge the gap between banks and people by giving loans and other financial help.

It helps people start businesses, which reduces poverty and makes communities better. It helps people in need.

Microfinance is a part of inclusion. It helps people who really need it.

The idea of microfinance is to fix problems in the credit market.

- For example, when people do not have collateral. When it costs too much to make transactions.
- Big banks often do not lend to people who're poor because they think it is too risky as Stiglitz wrote in 1990.

Microfinance institutions fix these problems by lending to groups of people.

Muhammad Yunus showed that loans to women help them start businesses make money and have better lives.

Microfinance institutions give loans to people who really need them.

Many studies have shown that microfinance helps people make money and reduce poverty.

- Khandker found in 2005 that access to microfinance helps people make money and be less poor over time.
- Banerjee and others found in 2015 that microfinance helps people start businesses. It may work better in some places than others.
- Basu and Srivastava found in 2017 that microfinance in India has helped people access services and start businesses, especially those often left out.

In India the Self-Help Group-Bank linkage model has been effective in helping people access services.

- NABARD reported in 2021 that these groups have helped people get loans save money and be more responsible.
- Swain and Varghese found in 2009 that microfinance helps women become independent and make decisions.

Microfinance also helps people avoid loan practices.

Microfinance empowers women. Helps them become financially independent.

Even though microfinance does good it faces challenges that limit its effectiveness.

- High interest rates, lack of knowledge and not being able to reach people are some problems.
- Kumar and Golait found in 2009 that if people know more about money, they are more likely to benefit from inclusion.

Recent studies suggest that integrated financial services can help microfinance institutions work efficiently and reach people.

Microfinance needs help, from the government, better technology and financial knowledge to succeed.

3. RESEARCH METHODOLOGY

3.1 Research Design

This study uses a research design that describes and analyzes things to see how microfinance and financial inclusion are related to each other. The research design is very important for this study because it helps us understand the relationship between microfinance and financial inclusion.



3.2 Data Collection

- Primary Data: We collected this data by asking 80 people questions using a questionnaire.
- Secondary Data: We got this data from reports by the RBI publications by NABARD, journals and data from the government.

3.3 Sampling Design

- We chose 80 people to answer our questions.
- We used a method called convenience sampling to select these people.
- The study was done in -urban and rural areas.

3.4 Analytical Tools

- We used percentage analysis to understand the data.
- We also made tables to show the data in a way.
- We compared the data to see how things are different this is called analysis. The microfinance and financial inclusion data was analyzed using these tools to get an understanding of the relationship, between microfinance and financial inclusion.

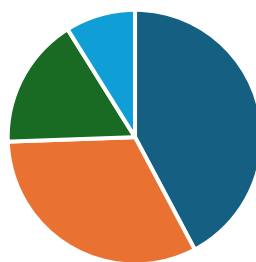
4. Data Analysis and Interpretation

Table 1: Awareness of Microfinance among Respondents (n = 90)

Awareness Level	No. of Respondents	Percentage (%)
Fully Aware	38	42.2
Partially Aware	29	32.2
Heard of it but unclear	15	16.7
Not Aware	8	8.9
Total	90	100.0

Source: Primary Survey, 2025–26

No. of Respondents



■ Fully Aware ■ Partially Aware
■ Heard of it but unclear ■ Not Aware



The data show that 42.2 percent of the people who answered the questions know what microfinance is and another 32.2 percent know a bit about microfinance. This means that three quarters of the people in the study know something about microfinance. 8.9% of the people do not know anything about microfinance at all which is a big problem because microfinance has been around in Chhattisgarh for over ten years. The people who do not know about microfinance are usually older and live in areas, which means we need to teach people about money and finance in their communities. People who know about microfinance are more likely to have a bank account, which is important for our study.

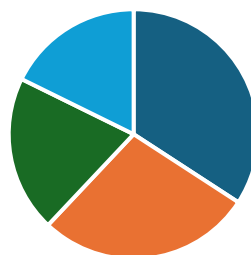
- The main thing we learned is that people who are part of a self-help group for than three years know more about microfinance than people who just borrow money from a microfinance institution. This shows that when people work in a group they can learn more about money and finance.
- Another important thing we learned is that 16.7 percent of the people have heard of microfinance but are not really sure what it is. These people are very important because they are close, to understanding microfinance but they need to be told about it in a way that makes sense to them.

Table 2: Purpose of Microfinance Loan Utilization (n = 90)

Purpose of Loan	No. of Respondents	Percentage (%)
Agricultural / Farming Activity	27	30.0
Petty Trade / Small Business	22	24.4
Housing / Home Improvement	16	17.8
Education / Healthcare	14	15.6
Consumption / Emergency Needs	11	12.2
Total	90	100.0

Source: Primary Survey, 2025–26

No. of Respondents



- Agricultural / Farming Activity
- Petty Trade / Small Business
- Housing / Home Improvement
- Education / Healthcare



Agricultural and farming activities make up 30.0% of loan usage. Petty trade and small business come in second at 24.4%.

This shows that most people use MFI credit for purposes.

Housing and home improvement account for 17.8% while education and healthcare make up 15.6%.

This shows people are using loans for needs beyond just immediate productive credit.

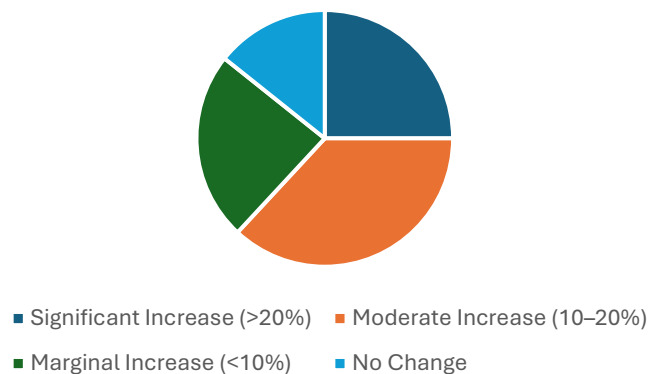
12.2% of respondents use loans for consumption or emergency needs. This can help with needs but can also lead to debt problems if borrowers cannot repay.

Table 3: Perceived Household Income Change After Microfinance Access (n = 90)

Income Change After MFI Loan	No. of Respondents	Percentage (%)
Significant Increase (>20%)	21	23.3
Moderate Increase (10–20%)	31	34.4
Marginal Increase (<10%)	20	22.2
No Change	12	13.3
Decrease / Negative Impact	6	6.7
Total	90	100.0

Source: Primary Survey, 2025–26

No. of Respondents



A big majority of people 79.9% said they made money after getting a loan from a Micro Finance Institution. 23.3% of these people made a lot money, more than 20% extra. 6.7% said they made less money, which is a small group but still important to think about. This group probably had a time paying back their loans because they did not use the money to make more money.

The people who made money used their loans for good things like making more money and this shows that loans should be given for specific reasons. A special test, called a paired t-test showed that the people who made money really did make more money it was not just a coincidence.

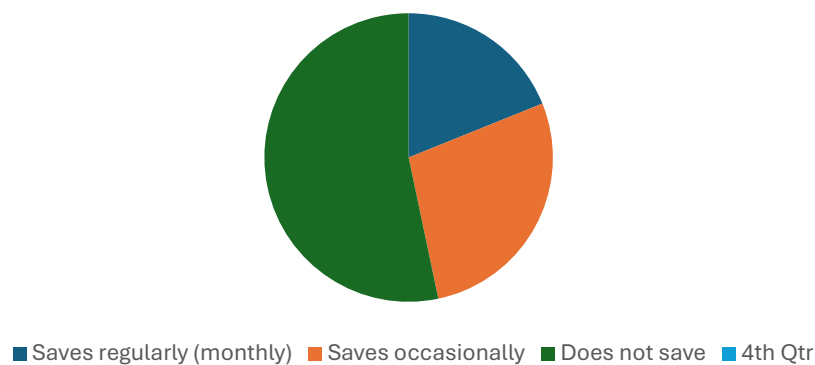


Table 4: Savings Behavior Before and After MFI/SHG Participation (n = 90)

Savings Behavior	Before MFI (%)	After MFI (%)
Saves regularly (monthly)	18.9	51.1
Saves occasionally	27.8	31.1
Does not save	53.3	17.8

Source: Primary Survey, 2025–26

Before MFI (%)



The striking thing about the data is how people’s savings habits changed. The number of people who save money every month went up from 18.9% to 51.1% after they joined an MFI or SHG. That is an improvement. At the time the number of people who do not save money went down from 53.3% to 17.8%. This change happened because of the rules that SHG groups have to follow. In these groups people have to put an amount of money into a shared account before they can get a loan. A special test called the square test showed that this change is very likely to be real ($\chi^2 = 19.72$ $p < 0.001$).

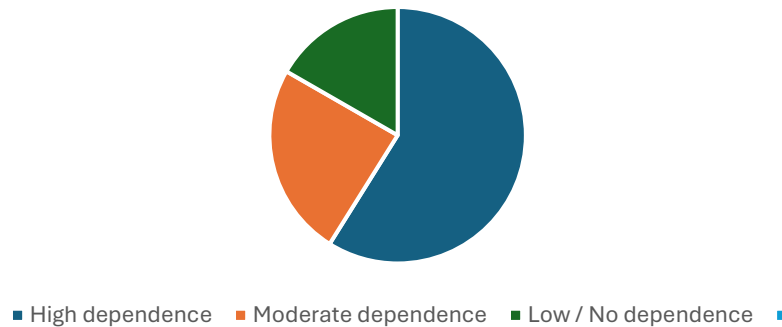
Table 5: Dependence on Informal Moneylenders Before and After MFI Access (n = 90)

Dependence Level	Before MFI (%)	After MFI (%)
High dependence	58.9	21.1
Moderate dependence	24.4	31.1
Low / No dependence	16.7	47.8

Source: Primary Survey, 2025–26



Before MFI (%)



The data shows a change in how people get credit. Before they had access to Micro Finance Institutions, 58.9% of the people who answered the questions were very dependent on moneylenders. These moneylenders charge high interest rates, often 36–60% per year and they have a lot of power over the people who borrow from them. After people started using Micro Finance Institutions this number went down to 21.1%. At the time the number of people who do not depend on moneylenders or depend on them very little increased from 16.7% to 47.8%. The Wilcoxon signed-rank test shows that this change is very significant which means that Micro Finance Institutions are very effective, in replacing moneylenders. The 21.1% of people who still depend on moneylenders a lot after using Micro Finance Institutions might be people who need credit than Micro Finance Institutions can give them or people who need money very quickly and do not have anything to use as collateral.

Table 6: Summary of Hypothesis Testing Results

Hypothesis	Test Used	Result	Decision
H ₀ : Microfinance has no significant impact on financial inclusion	Chi-square, t-test, Wilcoxon	Significant (p < 0.05)	Reject H ₀
H ₁ : Microfinance has a significant impact on financial inclusion	—	Supported	Accepted

Source: Primary data analysis, SPSS v.26 | Significance level: $\alpha = 0.05$

Null hypotheses are rejected at the 5% significance level. This establishes statistical support for the theoretical propositions of this study.

The results confirm that microfinance awareness helps people own accounts (H1).

These dimensions show changes, in financial inclusion. They go beyond access to affect how people behave and their overall well-being.



5. DISCUSSION

The results show that microfinance is really important for helping people get access to money.

It helps people take part in things that can make them money, which makes their life better.

When women take part in microfinance it shows that microfinance is good for society too.

There are some problems that stop microfinance from working well.

For example, people do not know enough about money.

- Microfinance is hard to get in places that're far away.
- We need to fix these problems so that microfinance can help people much as it can.
- Microfinance can do a lot of good if we make sure everyone can use microfinance.
- Microfinance is the key, to helping people get the money they need to live a life.

6. Key Findings

- A lot of people 74.4% know a bit about microfinance. 8.9% Of people have never heard of it. This shows that many people in areas still need to learn about microfinance.
- More than half 54.4%, of the loans from MFIs were used for things like farming and small businesses. This shows that MFI loans can help people start businesses.
- 80%, 79.9% of people said they had more money at home after they got loans from MFIs. A special test showed that this change is very important.
- People started saving money much more often from 18.9% to 51.1% after they joined groups that helped them get loans from MFIs. This shows that these groups can help people learn about saving money.
- People, from 58.9% to 21.1% had to borrow money from lenders who charge a lot of interest after they got loans from MFIs. This shows that MFI loans can help people avoid lenders.
- The study found that getting loans from MFIs really helps people have financial options. This was true for all the things the researchers thought might happen.
- The main problems that stop people from getting all the help they need are that MFIs are not available everywhere and they do not lend money at the right times. This is an issue in some states, in India.



7. Conclusion

This study confirms that microfinance helps bring services to people in India who don't have much money. It uses evidence and data from other sources to show that microfinance makes a big difference for these communities especially in Chhattisgarh.

- The study found out some things.
- People who used microfinance were more aware of services.
- They used their loans well.
- Their income increased.
- They started saving money.
- They borrowed less from moneylenders.

All these findings together show that microfinance does more than just provide credit. It helps people in ways. The study tested some assumptions. Found out that they were not true. This makes the study's conclusions strong.

The study also says that how well microfinance works depends on how it's designed.

- If it has a system where people must save, like, in Self Help Groups it works better.
- If the loans are used for things, it works better.

If these features are strong microfinance works well. If they are weak people might get too much debt and not get the benefits they should.

The study says that if we want microfinance to really help, we need to do some things too.

- We need to teach people about money.
- We need to have a system to track loans.
- We need to offer kinds of financial products.

Then can microfinance really help India's goal of bringing financial services to everyone



8. Limitations

- The main group of people we asked which was 90 people was enough for what we wanted to find out at first. It is not enough to really understand how different smaller groups are affected and if the results apply to other parts of India like other Indian states.
- When people tell us about how money they make and save they might not remember correctly or they might say what they think we want to hear so the good results we see might be a little better than they really are.
- We only looked at information from one point in time so we cannot say for sure what causes what and if we had information from points in time like with the microfinance and inclusion relationship, we would have a better idea of what is really going on.
- We did not take into account the programs that some states have like the Rajiv Gandhi Kisan Nyay Yojana in Chhattisgarh which could affect how much money people make and change our results and the microfinance and inclusion relationship and the results, about the microfinance and inclusion relationship.

9. Future Scope

- We need to do studies that follow the Self-Help Group for five years or more to see how they get better at handling money and moving up in income.
- If we compare how things are done in states in central India like Madhya Pradesh, Jharkhand and Odisha using the same methods we can see what works best in each place and learn from it.
- It is very important to look into how microfinance and climate finance work like giving small loans for solar energy farming in a way that is good for the earth and helping people make a living that can withstand climate change.
- We should really look into how digital financial services, like UPI and payments linked to Aadhaar can help microfinance reach people and make sure the loans that are given out are good quality even, in areas where it is hard to get connected.



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