

A Study of the Impact on the Banking Sector on Microfinance in Amravati City

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Abstract

Microfinance has emerged as one of the most effective tools for achieving financial inclusion and promoting socio-economic development among low-income and marginalized populations. It provides access to essential financial services such as small loans, savings, insurance, and remittance facilities to individuals who are traditionally excluded from the formal banking system. In developing countries like India, microfinance plays a crucial role in poverty alleviation, employment generation, and women empowerment. Over the years, the microfinance sector has evolved from informal lending mechanisms to more structured institutional frameworks involving Self-Help Groups (SHGs), Microfinance Institutions (MFIs), Non-Governmental Organizations (NGOs), and formal banking institutions.

In recent years, the banking sector has increasingly entered the microfinance domain due to regulatory support, government initiatives, and priority sector lending requirements. This has significantly transformed the microfinance landscape by improving credit availability, affordability, and institutional sustainability. The present study examines the impact of the banking sector on microfinance in Amravati City, Maharashtra. Amravati is a semi-urban city with a large informal workforce, making it a suitable area for analyzing the interaction between banks and microfinance institutions.

The study uses both primary and secondary data to assess accessibility, borrower satisfaction, repayment behaviour, and operational challenges. The findings reveal that banking sector participation has positively influenced the growth and outreach of microfinance in Amravati City. However, procedural complexity, documentation requirements, and limited financial literacy remain major challenges. The study concludes that a collaborative approach between banks and microfinance institutions, supported by financial education and simplified procedures, is essential for strengthening inclusive finance.

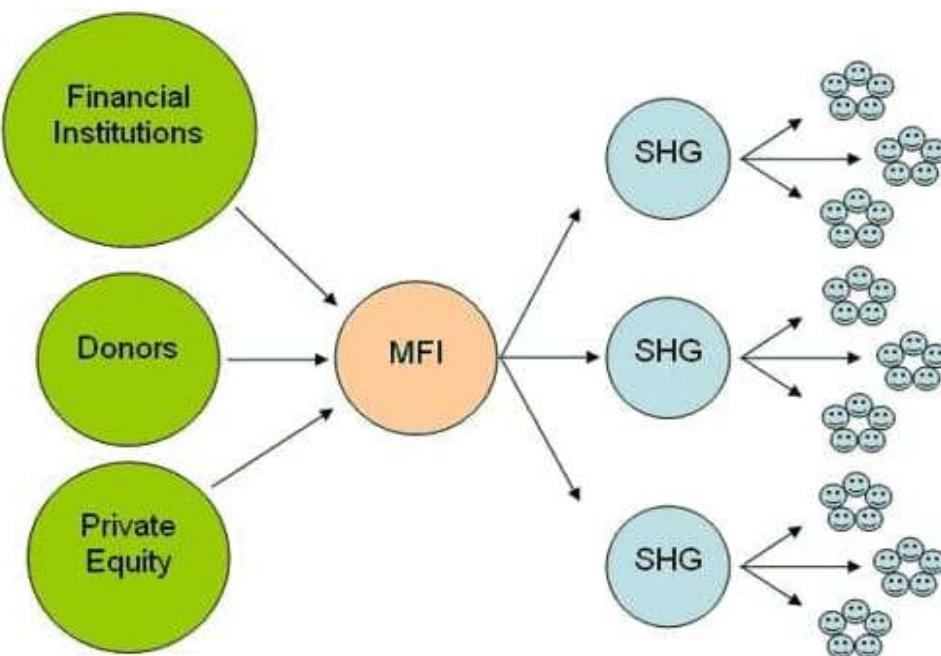
Keywords: Microfinance, Banking Sector, Financial Inclusion, SHGs, MFIs, Amravati City.

1. Introduction

Microfinance has gained global recognition as a powerful instrument for reducing poverty and promoting inclusive economic development. It refers to the provision of financial services to low-income individuals who lack access to traditional banking facilities. These services typically include micro credit, savings, insurance, and payment services. The fundamental principle of microfinance is based on the belief that poor individuals are capable of repaying loans when provided with appropriate financial products and supportive institutional arrangements.

In developing economies, a large segment of the population works in the informal sector and does not possess stable income, collateral, or credit history. As a result, traditional banks often hesitate to extend credit to these groups. Consequently, such individuals depend on informal moneylenders who charge excessively high interest rates, leading to debt traps and economic vulnerability. Microfinance emerged as a solution to this problem by offering collateral-free loans based on trust, group responsibility, and social capital.

The modern microfinance movement began in the 1970s with the pioneering work of Professor Muhammad Yunus in Bangladesh. The success of the Grameen Bank demonstrated that micro credit could be both financially sustainable and socially impactful. Inspired by this model, several countries, including India, adopted microfinance as a development strategy.



Structures of MFIs in India

In India, microfinance expanded rapidly during the 1990s with the launch of the Self Help Group Bank Linkage Programme (SBLP) by NABARD. This programme enabled banks to lend to SHGs without traditional collateral, relying instead on group accountability. Over time, the microfinance ecosystem diversified to include MFIs, cooperative banks, and non banking financial companies (NBFC-MFIs).

The involvement of the banking sector has significantly influenced the growth and structure of microfinance. Commercial banks, regional rural banks, and cooperative banks now actively participate in microfinance through direct lending, refinancing MFIs, and supporting SHG based credit programs. Government initiatives such as Pradhan Mantri Jan Dhan Yojana, Mudra Yojana, and financial inclusion policies have further encouraged bank participation.

Amravati City, located in the Vidarbha region of Maharashtra, is characterized by a mixed economy with agriculture-linked activities, small businesses, informal employment, and a growing urban population. Microfinance plays an important role in supporting livelihoods, particularly for women, daily wage earners, and small entrepreneurs. The increasing involvement of banks in microfinance in Amravati necessitates a detailed study of its impact on borrowers and institutions.

2. Definition of Key Concepts

Microfinance :

Definition

Microfinance refers to the provision of a range of financial services, including small loans, savings facilities, insurance, and payment services, to low-income individuals or groups who lack access to traditional banking systems, with the objective of promoting financial inclusion, self-employment, and sustainable economic development.

MICROFINANCE

Benefits of Microfinance



Microfinance plays a very important role in developing countries like India. It helps people who do not have access to formal banking systems. Through microfinance, they can:

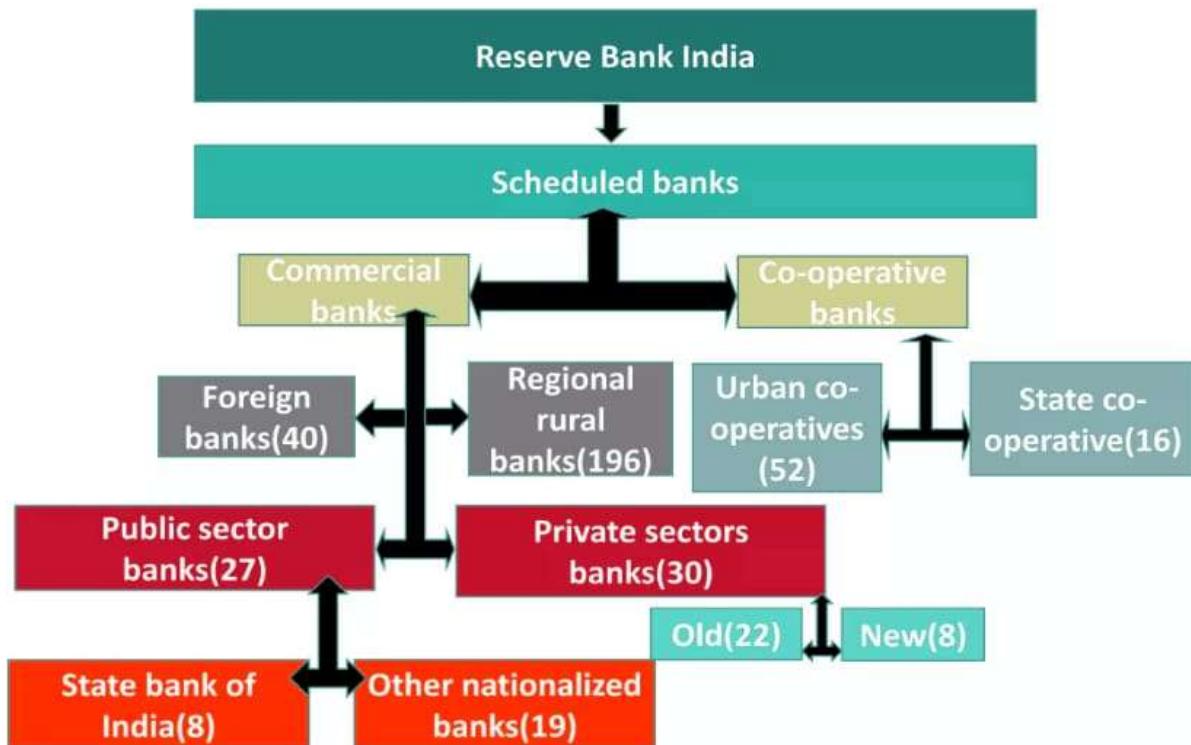
Start small businesses such as tailoring, handicrafts, food stalls, or farming activities. Improve their homes or pay for children's education. Build savings habits and become more financially aware. It is not just about loans microfinance also teaches people to manage money better. Many programs include financial literacy training where people learn about budgeting, saving, and responsible borrowing. This helps them make better financial decisions and avoid falling into debt traps. Another major contribution of microfinance is women empowerment. In most cases, women are the main participants in Self-Help Groups (SHGs). When women handle money, save collectively, and manage group activities, they gain confidence and respect in their families and communities. Many women who were once dependent on others now earn their own income and contribute to their households. This social change is one of the greatest achievements of microfinance.

Banking Sector :

Definition

The banking sector refers to a network of regulated financial institutions that, in addition to providing conventional banking services, actively supports microfinance initiatives by extending credit, financial infrastructure, and policy support to microfinance institutions and underserved populations, thereby enhancing financial inclusion and promoting inclusive economic development.

Banking Sector In India



Banks have a very important role in the microfinance ecosystem. Initially, banks were not directly involved because they focused mainly on large loans, corporate clients, and urban areas. But now, due to the financial inclusion agenda of the Indian government and the Reserve Bank of India (RBI), banks are encouraged to reach out to the unbanked population.

Banks participate in microfinance in two major ways:

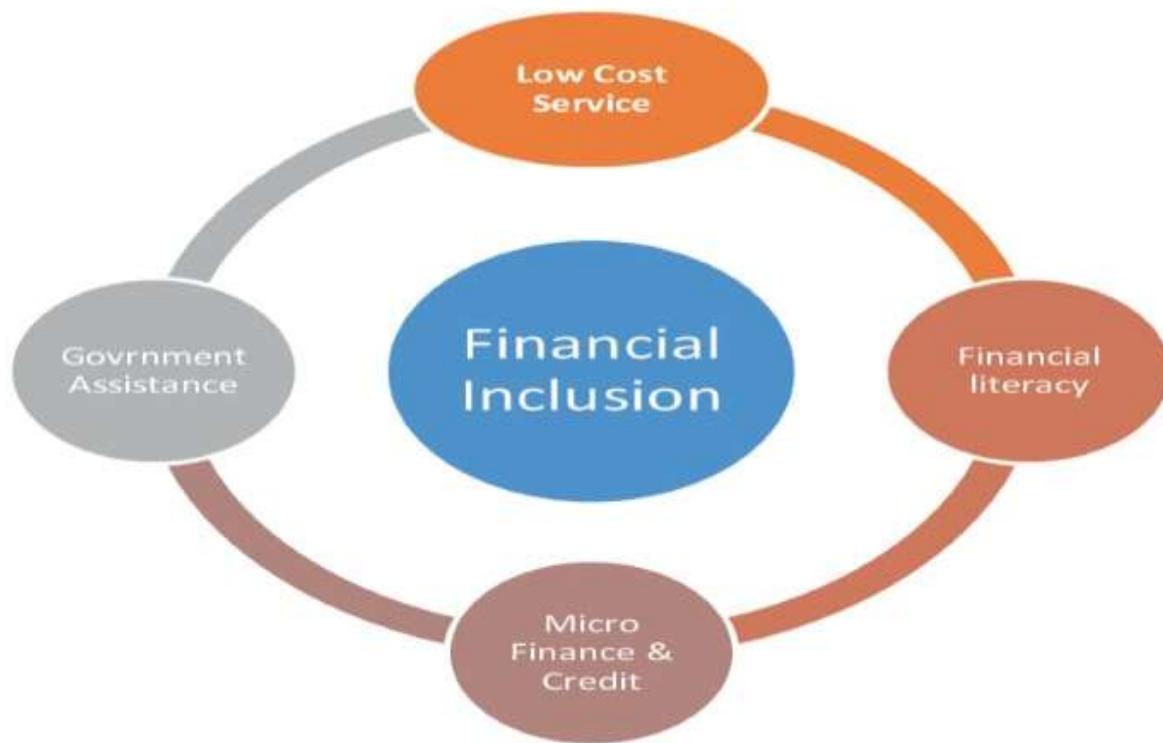
1. Direct lending – Banks provide small loans to individuals or groups under special schemes.
2. Indirect lending – Banks support or partner with MFIs and SHGs by providing them bulk loans, which they further lend to individuals.

The entry of banks has several benefits. They have a strong financial base, better infrastructure, and can offer lower interest rates compared to some MFIs. They also follow regulated procedures, which ensures safety and transparency. At the same time, there are challenges. Many poor people find banks less approachable because of formalities, documentation, and long procedures. MFIs, on the other hand, are often more flexible and accessible. Therefore, while banks have the potential to expand microfinance, they need to adapt their systems to meet the needs of low-income borrowers.

Financial Inclusion :

Definition

Financial inclusion refers to the process of expanding access to affordable and appropriate financial services through the combined efforts of the banking sector and microfinance institutions, enabling low-income and underserved populations to obtain credit, savings, insurance, and payment facilities, thereby fostering inclusive growth, poverty reduction.



Financial inclusion means ensuring that everyone, especially poor and low-income people, has access to useful and affordable financial products and services such as savings, credit, insurance, and remittances. Microfinance plays a direct role in promoting this inclusion. In Amravati, the increasing involvement of banks in microfinance has led to significant progress in this direction. Many people who never had a bank account before now have access to one. They are learning to use ATMs, mobile apps, and UPI systems. This has increased transparency and safety in financial transactions. However, some challenges remain. Many poor families still depend on cash-based systems and informal borrowing. Therefore, continuous awareness programs, training, and simplified procedures are needed to bring more people into the formal system. If banks continue to work closely with MFIs and SHGs, financial inclusion can become a reality for every household in Amravati.

3. Scope of the Study

The scope of the present study is limited to Amravati City. The study focuses on analyzing the impact of the banking sector on microfinance operations, borrower accessibility, affordability of credit, repayment behaviour, and institutional sustainability.

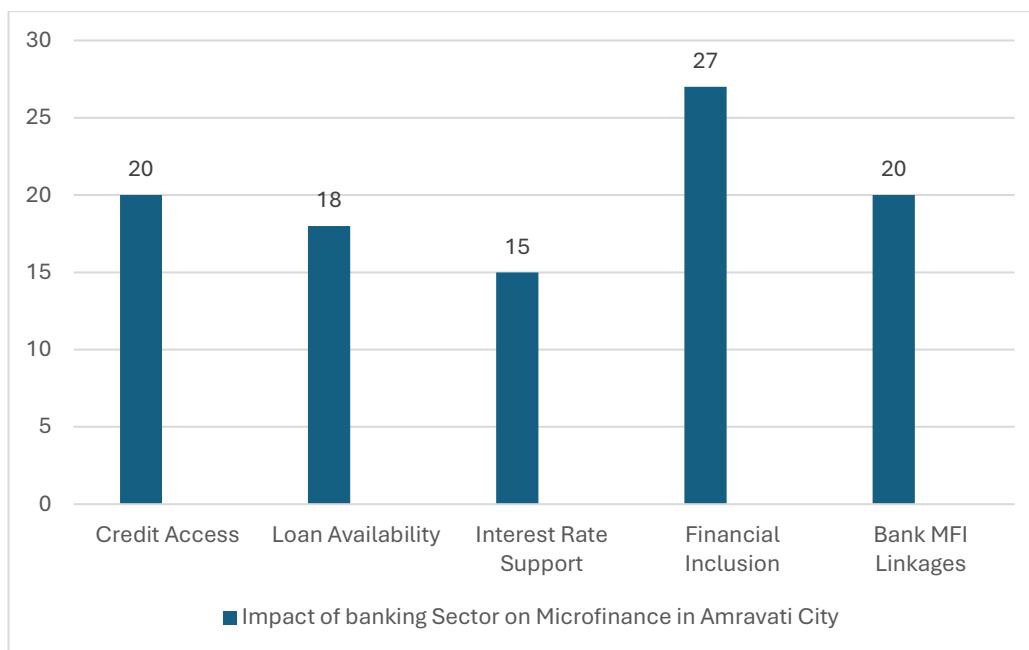
Included in the Study

- A detailed analysis of the role of banks and MFIs in delivering microfinance services within Amravati City.
- Comparative evaluation of loan products, interest rates, repayment terms, and borrower experiences.
- An assessment of how the entry of banks has influenced repayment behaviour, borrower satisfaction, and access to financial services.
- Recommendations for improving coordination and cooperation between banks and MFIs.

Excluded from the Study

- Large scale loans and industrial finance are outside the purview of this research.
- The study will be geographically confined to Amravati City and will not cover rural areas outside the municipal boundaries.

- While the broader aspects of financial inclusion such as insurance, pensions, and digital payments are important, this study will primarily focus on credit delivery through banks and MFIs.



4. Objectives of the Study

Primary Objective

- To examine the impact of the banking sector on the growth, accessibility, and sustainability of microfinance in Amravati City.

Secondary Objectives

- To analyse the role of commercial, co-operative, and regional rural banks in supporting microfinance institutions in Amravati.
- To evaluate how banking policies (interest rates, refinancing schemes, digital banking initiatives) influence microfinance operations.
- To explore how government policies and RBI guidelines influence the relationship between banks and microfinance institutions
- To identify challenges faced by microfinance institutions and borrowers in obtaining support from banks.
- To suggest measures and policy recommendations for strengthening the linkage between the banking sector and microfinance in Amravati city.

5. Review of Literature

RBI (2019):

The Reserve Bank of India (RBI), in its report on “Trends and Progress of Banking in India,” emphasized the growing role of commercial banks in strengthening the microfinance ecosystem. The RBI observed that banks have been the primary source of funds for MFIs and SHGs, providing refinance and on-lending support through various schemes. The central bank also acknowledged the positive impact of digital initiatives, such as Direct Benefit Transfer (DBT) and Jan

Dhan Aadhaar Mobile (JAM) integration, which have improved financial inclusion. However, the report highlighted ongoing issues such as credit concentration, lack of credit awareness, and delays in loan recovery in semi urban and rural areas. The RBI recommended further collaboration between banks and microfinance networks to promote digital literacy, financial inclusion, and risk management practices. The report's insights underline that the banking sector's strategic interventions are essential for the long-term sustainability of microfinance in India.

NABARD (2015):

The National Bank for Agriculture and Rural Development (NABARD), through its annual report and various research publications, has documented the outstanding success of the Self-Help Group Bank Linkage Programme (SBLP), which has been one of the largest microfinance initiatives in the world. NABARD's study found that this program transformed the rural credit structure of India by linking more than 8 million SHGs with formal banking institutions.

The study revealed that the SBLP has contributed significantly to women's empowerment, social capital formation, and income diversification. It enabled women to take active roles in decision-making, entrepreneurship, and financial management at the household level. NABARD highlighted that commercial and regional rural banks played a pivotal role in providing bulk financing, training support, and refinancing to these SHGs. The program also reduced dependence on moneylenders and informal credit sources. However, the report noted challenges such as uneven regional outreach, limited financial literacy, and delayed loan disbursement in some areas, indicating the need for further strengthening of the bank microfinance partnership.

Khandker (2005):

In his study on the impact of microfinance on rural poverty in India, Shahidur Khandker found that access to microcredit substantially increased household income and self-employment among rural borrowers. Using household-level data, he demonstrated that microfinance programs especially those supported by formal banking networks helped reduce poverty by improving agricultural productivity, small business creation, and women's participation in income-generating activities.

Khandker's analysis further revealed that the spillover effects of microfinance extended beyond direct borrowers, as local economic activities and consumption levels also rose. He argued that the success of microfinance depends on sustainable linkages with commercial banks, which ensure adequate refinancing and institutional support. His findings reinforced the importance of integrating microfinance with formal financial systems to achieve broad-based economic growth.

Sharma & Dubey (2021):

In their study on "Microfinance and Banking Sector in Maharashtra," Sharma and Dubey analysed how banks contribute to the growth and efficiency of microfinance programs. They found that the involvement of commercial and cooperative banks significantly strengthens outreach and ensures better credit delivery to self-help groups. Their findings showed that loan availability, borrower satisfaction, and repayment performance were higher in regions with active banking partnerships. However, the study also identified persistent challenges such as inefficient monitoring systems, low borrower awareness, and delayed loan recovery. They emphasized that capacity building programs and regular training for SHG members could improve the effectiveness of bank-linked microfinance initiatives. The authors concluded that in Maharashtra, the banking sector plays a dual role as a financial provider and as a facilitator of socio economic development through microfinance.

6. Research Methodology

Research Design

The present study adopts a mixed research design, combining both descriptive and exploratory approaches.

Descriptive Research:

This design helps describe the characteristics and functioning of microfinance borrowers, Self Help Groups (SHGs), and banking institutions in Amravati city. It focuses on understanding patterns of borrowing, repayment, accessibility, and awareness levels among microfinance participants.

Exploratory Research:

As microfinance in Amravati city has not been widely studied, the exploratory approach helps identify key challenges, issues, and opportunities within the microfinance ecosystem. This provides insights that can guide policy improvement and practical recommendations.

Sources of Data

- **Primary Data:**

- 1) Surveys: Structured questionnaires will be distributed to microfinance borrowers, SHG members, and bank officials.
- 2) Interviews: Semi structured interviews will be conducted with bank managers, microfinance institution staff, and selected borrowers.
- 3) Observations: Field visits will be carried out to observe SHG meetings, loan repayment practices, and banking interactions.
- 4) Experiments (if feasible): Small pilot testing of digital banking usage among microfinance clients may be considered.

- **Secondary Data:**

1. Published Data:

Books, academic journals, government publications, NABARD and RBI reports, newspapers, and previous research studies.

2. Unpublished Data:

Bank internal records, microfinance institution reports, dissertations, and training manuals.

3. Online Databases:

Reputed websites, digital libraries, government portals, and market analysis report.

Sampling Method

1. Simple Random Sampling:

Used to select borrowers randomly, ensuring every participant has an equal chance of being included.

2. Stratified Sampling:

Borrowers will be grouped into strata based on gender, income level, and type of bank linkage to improve representativeness and reduce bias.

Sample Size

The present study is based on a limited sample size of 15 respondents due to time and accessibility constraints, hence the findings are indicative in nature.

Respondents		Total
Male	Female	
6	9	
		15

Tools of Data Collection

1. Questionnaire

Structured questionnaires are used to collect quantitative data from microfinance borrowers and SHG members. Information related to income level, loan amount, purpose of loan, repayment pattern, interest rate, and satisfaction with banking services is collected through this tool.

2. Interview Method

Semi structured interviews are conducted with bank managers, MFI officials, and SHG leaders. This tool helps in understanding the role of banks in microfinance, operational challenges, and coordination between banks and MFIs.

3. Observation Method

Field visits are carried out to observe SHG meetings, loan repayment practices, and borrower participation. An observation checklist is used to systematically record borrower behaviour and SHG functioning.

4. Secondary Data Sources

Secondary data is collected from books, academic journals, RBI and NABARD reports, government publications, bank records, and previous research studies.

5. Electronic Tools

Smartphones and tablets are used for recording responses and data entry to ensure accuracy and efficiency.

7. Role of Banking Sector in Microfinance

The banking sector plays a crucial role in the development of microfinance by providing financial resources, regulatory support, and institutional credibility. Banks support microfinance through direct lending to SHGs, refinancing MFIs, and participating in government sponsored schemes.

In Amravati City, banks have expanded microfinance outreach through SHG-Bank Linkage Programs and Mudra loans. These initiatives have improved access to affordable credit and reduced dependence on informal lenders. Banks also contribute to financial inclusion by promoting savings accounts and digital payment systems.

However, banks face challenges such as higher transaction costs, credit risk, and administrative complexity. As a result, collaboration with MFIs becomes essential for effective service delivery.

8. Impact of Banking Sector on Microfinance in Amravati City

The involvement of banks has positively influenced microfinance in Amravati City by increasing credit availability and reducing interest rates. Borrowers benefit from greater security and transparency compared to informal lending sources. Bank participation has also improved repayment discipline and institutional sustainability.

Nevertheless, some borrowers prefer MFIs due to flexible repayment schedules and personalized services. Documentation requirements and limited financial literacy remain major barriers for bank-led microfinance.

9. Challenges Faced by Microfinance Borrowers

Despite progress, microfinance borrowers face several challenges, including lack of awareness, complex procedures, digital illiteracy, and income instability. Women borrowers often face social and cultural constraints that limit their financial decision-making capacity.

10. Conclusion

The present study concludes that the banking sector plays a vital role in the development and strengthening of microfinance in Amravati City. Increased participation of commercial and cooperative banks has improved access to affordable credit for low income groups, women entrepreneurs, and informal sector workers. Bank linked microfinance programs such as the SHG–Bank Linkage Programme and Mudra loans have reduced dependence on informal moneylenders and supported income-generating activities. The study also finds that the integration of microfinance with the formal banking system has enhanced transparency, repayment discipline, and financial inclusion. However, procedural complexities, documentation requirements, and limited financial literacy continue to restrict the full potential of bank-led microfinance. Some borrowers still prefer microfinance institutions due to their flexible and personalized approach.

11. Journals & Articles

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12. Reports

1. Microfinance Institutions Network (MFN, 2023):

The MFN annual report highlights steady growth in India's microfinance sector, driven largely by bank-linked lending models. It emphasizes the role of commercial banks in providing refinancing, liquidity support, and regulatory compliance, which strengthen the sustainability of MFIs. The report also identifies challenges such as repayment stress and borrower over-indebtedness, particularly in semi-urban areas.

2. Sa-Dhan (2020):

The Bharat Microfinance Report documents the expansion of microfinance services among low-income households and women through SHGs. It highlights that strong bank–MFI partnerships are essential for maintaining credit flow, especially during economic disruptions. The report notes issues such as limited financial literacy and irregular repayments in regions like Maharashtra.

3. Asian Development Bank (ADB, 2021):

ADB's report confirms that microfinance significantly contributes to financial inclusion, poverty reduction, and women's entrepreneurship in Asia. It emphasizes that bank-supported microfinance models are more sustainable due to capital support, risk sharing, and technological infrastructure provided by banks.

4. UN Women (2019):

The UN Women report concludes that microfinance enhances women's income, decision making power, and entrepreneurial participation. It highlights that SHG Bank linkage programs and banking support in digital finance and financial literacy play a key role in achieving sustainable women empowerment outcomes.