

## The Role of Microfinance in Promoting Financial Inclusion in Udupi District

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### Abstract:

*The paper deals with the importance of microfinance institutions (MFIs) and Self-Help Groups (SHGs) in increasing the financial inclusion in the rural parts of Udupi District, Karnataka. The Assessment of Microfinance for the Poor examines the impact of microfinance programs offering vital financial services to women, low-income households and other groups often denied access to such services. According to the paper, Udupi is a relatively progressive district with a literacy of 86.24% that has a large part to play with financial inclusion, and microfinance has contributed a lot in poverty alleviation and thus in helping marginalized people to build their own economic identity. Microfinance mechanisms like SHGs can create saving, credit and insurance services that were not available to rural areas and hence the study catches that. These microfinance campaigns empower women financially and socially, and foster larger shifts across society by focusing specifically on women. This study highlights how microfinance is not only about small loans for income-generating activities, but also about access to financial products, including insurance which has had considerable benefits for household economic well-being. It also highlights the issues confronting these rural financial systems such as access to capital with differing success rates of a range of micro finance models throughout the region.*

**Keywords:** *Microfinance, Financial Inclusion, Self-Help Groups (SHGs), Poverty Alleviation, Rural Development, Women Empowerment.*

### Introduction

Microfinance as a significant instrument of financial inclusion is increasingly recognized as an effective and sustainable approach to providing a

broad range of financial services to poor populations excluded from the formal banking system. With the rural population of the country accounting for about 65%

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of total Indian population and having limited access to banking facilities, MFIs and SHGs have a key role in improving the maintenance of financial inclusion of the disadvantaged section of the community. Financial inclusion is the delivery of financial services at an affordable cost to the disadvantaged and low-income groups (Thorat, 2007), which includes the elements of access to and use of financial services by all sections of the society including the poor and the low-income group. Microfinancing efforts that promote financial inclusion, particularly among households in the hinterland that had till now lost access to even basic banking products, have flourished in Udupi District, a coastal area in the southern state of Karnataka. Microfinance has emerged as a powerful means to bridge this gap, with around 39% of rural populace excluding themselves still from the formal banking sector (NABARD, 2022) Giving financial services in a way that suits the people becomes all the more important in agriculture centered areas like Udupi where they are in need of financial services for enhancing their livelihood through income and managing risks in agriculture. This research paper is intended to analyze the role of microfinance in enhancing equity through financial inclusion in Udupi District with an analysis of the socio-economic impact of SHGs & MFIs on rural households. Hope that the paper will provide new connotation in the broader discussion of financial inclusion and microfinance

globally based on empirical data in the region.

### **Statement of the Research Problem**

The research problem faced in this study is one of the crucial problems of financial exclusion of low-income population, especially in rural sector and how microfinance acts as a multiplier for financial inclusion. In India, for instance, While the extent of financial inclusion has improved over the years, many rural households in Udupi district go without formal institutions for credit, savings and insurance. Issues around financial inclusion in these locations are wide-reaching because of everything from financial illiteracy, insufficient banking infrastructure, and socio-economic barriers to a lack of affordable and accessible formal banking services, among other things. Therefore, needs to seek for alternative financial services to fill in the gaps — and so far, microfinance is the best way to go. Microfinance is increasingly used as an alternative to banking and feature prominently in the Udupi District, the setting of this study. These findings will provide useful insight into microfinance and rural development and enrich policy recommendations to all microfinance outlets in terms of how microfinance initiatives can be better catered to rural programs in Udupi and other comparable districts across India.

### **Significance of the Research Study**

The study the role of microfinance in Udupi District in promoting financial

inclusion is important as microfinance provides an opportunity for upliftment of the disadvantaged sections, thereby contributing to the overall promoting financial inclusion. Microfinance is a major avenue of financial inclusion—including through its many models such as SHGs and micro-lending programs, providing access to important financial services like savings, credit, and insurance to people without adequate access to these essential services. With much of rural India remaining outside the reach of traditional banking services, these microfinance institutions (MFIs) fill an important gap, providing access to credit that can bring about better living conditions, entrepreneurship opportunities and greater economic development at the grassroots level.

### **Review of the Relevant Literature**

Microfinance has emerged as a widely recognized approach to enhance access to financial services for underserved populations by offering tools such as microloans, deposit options, and insurance services, particularly in areas with limited access to traditional banking institutions. The implementation of microfinance programs in India, as well as in the rural Udupi District, has made it a great facilitator of economic and social stability. Financial inclusion has seen a massive gain as the Financial Inclusion Index has risen from 53.9 during FY21 to 56.4 during FY22 (Reserve Bank of India, 2023) and there is an increasing penetration of microfinance in rural and

semi urban societies. This advance is made possible with the critical role MFIs play in narrowing the financing gap by making rural population's access to previously unreachable formal financial service, more available, and, consequently, bringing more economic activeness and s Shocked (Mishra, 2024) Microfinance programs in Udupi and other rural areas have focused on women, helping them to overcome traditional barriers to capital and, thus, empowering the gender (Mishra & Rathore, 2024). Despite challenges, the Indian microfinance sector grew by 21% to a total portfolio of INR 351,521 crore in FY23 (IJCRT, 2023) with the leading contribution driven by non-banking financial companies (NBFCs) and microfinance institutions (MFIs). In addition, the dramatic growth of access has not been matched by an adequate supply of financial literacy programs which help ensure that borrowers can manage their loans and investments wisely. Through this microfinance can be presented as an important instrument for contributing to economic resilience and inclusive growth across rural India and even the Udupi District.

### **Research Gap Related to the Study**

Framing the microfinance for financial inclusion in the Udupi District Steady rise in emerging issues of accessibility to the financial services amongst the rural and economically marginalized population which has always been neglected by the normal banking sectors make

microfinance as a topical consideration. Launched in 2011, FINO is India's largest provider of business correspondent (BC) services, offering entrepreneurs to help the rural population to access credit, savings, and insurance to address this currently narrow scope of financial inclusion amidst its rapid economic growth. Microfinance mechanisms (SHG, MFI) that pander to the clunky socio-economic vagaries of human nature are instrumental in breaking these constraints and assumptions enabled by ubiquitous structural constraints and class divide performances in Udupi District, much like any other rural settings. Thus, this study is significant as it may help in devising better policy, microfinance interventions based on local needs, and thus contribute to the overall objective of poverty alleviation, empowerment and sustainable development through the rural economy of India.

#### **Methodology Adopted for the Study**

The methodology for the study on "The Role of Microfinance in Promoting Financial Inclusion in Udupi District" adopts a conceptual and secondary data-driven approach. It utilizes qualitative analysis of government reports, microfinance data, and relevant academic literature to explore microfinance's role in financial inclusion. The study draws on data from financial inclusion indices, reports by financial institutions like NABARD, and case studies of microfinance operations, particularly in rural Karnataka. Statistical tools,

including descriptive analysis and case comparisons, are applied to understand the impact and challenges of microfinance in this context.

#### **Major Objectives of the Research Study**

1. To assess the effectiveness of microfinance institutions (MFIs) and Self-Help Groups (SHGs) in enhancing financial inclusion in Udupi District, with a focus on how these financial services have improved access to credit, savings, and insurance for low-income and marginalized populations.
2. To examine the socio-economic impact of microfinance on the livelihoods of rural households in Udupi District, particularly on women's empowerment, income generation, and poverty reduction, by providing microloans and other financial products tailored to their needs.
3. To explore the barriers and challenges faced by microfinance institutions and beneficiaries in ensuring sustained financial inclusion in Udupi District.
4. To evaluate the role of microfinance in promoting entrepreneurship and rural economic development in Udupi District.

**Effectiveness of microfinance institutions (MFIs) and Self-Help Groups (SHGs) in enhancing financial inclusion in Udupi District, with a focus on how these financial services have**

### **improved access to credit, savings, and insurance for low-income and marginalized populations**

Over the years, there has been an increasing interest in the role that Microfinance Institutions (MFIs) and Self-Help Groups (SHGs) can play in aiding financial inclusion (the ability of marginalized populations to effectively access fundamental financial services such as credit, savings and insurance) in the Udupi District. Such financial services have been instrumental in enhancing economic participation of rural economy and low-income segments of the population, who previously were unable to access formal financial services due to, among other reasons, low income, lack of collateral, or absence of formal banking infrastructure. Evidence indicates that SHG members see increased savings, less need for costly informal loans, and greater access to low-cost insurance, reducing vulnerability to massive shocks.

### **Socio-economic impact of microfinance on the livelihoods of rural households in Udupi District, particularly on women's empowerment, income generation, and poverty reduction, by providing microloans and other financial products tailored to their needs**

We find that MFIs and SHGs in Udupi District have played an important role in the socio-economic upliftment of rural households with special emphasis on women empowerment, income generation

and poverty alleviation. Through microloans made available from these financial institutions, traditionally marginalized communities have been able to free themselves from sole reliance on the traditional economic structures many times women are the first to take the plunge into productive activity. Financial Inclusion has enabled women to open a small business, develop existing businesses or invest in agriculture; which has resulted in an increase in household income and economic security directly.

### **Barriers and challenges faced by microfinance institutions and beneficiaries in ensuring sustained financial inclusion in Udupi District, including issues related to financial literacy, repayment capacity, and the sustainability of microfinance programs**

The study further explored some of the barriers and challenges faced by MFIs and SHGs in Udupi District while ensuring sustained financial inclusion, among which financial literacy, repayment capacity and long-term sustainability of micro-finance have emerged as the key factors limiting the effectiveness of micro-finance programs. The first and foremost challenge is the lack of financial literacy among beneficiaries, especially in rural and marginalized communities.

### **Role of microfinance in promoting entrepreneurship and rural economic development in Udupi District, by analyzing its contribution to job creation, local economic resilience, and**

### **the growth of small businesses and agricultural ventures in the region**

Microfinance for the Advancement of Entrepreneurship and Rural Economic Development in Udupi District plays a significant role in strengthening the economic capacity of disadvantaged communities by providing technical assistance for job creation, local economy and growths of small enterprises primarily of agricultural and allied sectors. MFIs and SHGs in Udupi offer affordable financial services like micro loans, savings, and insurance and have played a vital role particularly in assisting entrepreneurial initiatives by women and low-income families. Microcredit to women has greatly increased household income, which allows women to spend more on their children, education, healthcare and welfare related to the family. This empowerment is revolutionary, as it increases the participation of women as economic players and agents of change in rural households and ultimately leads to social equity (Harper, 2021). It is this direction in which microfinance will need to grow in order to provide a continuous service to rural entrepreneurs and to ensure that financial inclusion translates into productive inclusion for all.

#### **Managerial Implications of the Study**

This study is of immense importance to the management linking microfinance with sustainable in economic development with wider outreach and performance in

the marginalized section of the society. The findings indicate that MFIs and SHGs still seem to remain at the core of catching hold of the hard-to-reach rural population of Udupi, and act as potential force in terms of driving entrepreneurship, women empowerment and household income levels up. In order for microfinance to make a significant impact on the long-term perspective of financial inclusion among other things MFIs and SHGs suggested that the product and services approach shall be localized, meaning that MFIs and SHGs shall cater to diversified needs of women, farmers, small scale entrepreneurs and so on and must specifically be dealing with microloans, savings plans, as well as insurance policies should be tailored well for use of low-income households (Khawari, 2004). They also face challenges of repayment capacity; given that a lot of the rural poor do not have much formal education, they have neither knowledge nor insane awareness about financial services. Moreover, knowledge of socio-economic effect of microfinance is essential in order to control the aspirations of clients and in the process maintain the sustainability of these institutions (Rangarajan, 2008). Consequently, MFIs must have strong management systems to be able to run sustainably, which means a firm grip on the risk management process, low levels of defaults, and the use of technology for effective service provision (Pahuja, 2007). Now this needs a managerial foresight of cost management however still the focus



should be on the poorest and the most vulnerable segment which would require dedication of both financial products but also theoretically (Sharma, 2009) in terms of financial literacy education. Additionally, this research highlights the success of the similar strategy of better outreach by microfinance providers, towards rural, Entrepreneurship and Job creation, ultimately lowering poverty status of specific regions and indirectly contributing towards a bigger economy. We argue that ultimately it is the local context and inclusive financial practices that translate into good managerial tools in the microfinance institutions (Firpo, 2005), which will ensure that the two-tier system of sustained financial inclusion can work on both top-down and bottom-up directions on an individual as well a community paradigm of financial growth.

### **Conclusion**

In conclusion, microfinance has been shown to play a critical role in facilitating financial inclusion in Udupi District, representing a significant driver of socio-economic progress, particularly for disadvantaged and low-income groups, with striking advances in gender empowerment, entrepreneurship, and resilience in rural economic livelihoods; access to financial services such as microloans, savings programs, and microinsurance through MFIs and SHGs have generated tremendous benefits for previously underserved communities in the district, engendering greater capacity to respond to economic shocks and

ultimately, boosting financial independence and stability; the scheme has enabled the establishment and expansion of micro and small enterprises, alongside sustainable agriculture, supporting better income and living standards for rural families; moreover, the study also identifies barriers to long-term sustainability and impact inherent in microfinance programs implemented in Udupi District.

### **Scope for Further Research and Limitations of the Study**

There is significant scope for further research into the role of Microfinance in promoting financial inclusion in Udupi District, which is an area that has been explored but remains rich with potential areas of expansion, including; the financial and social sustainability of MFIs and SHGs within Udupi District; studies could evaluate the social economic sustainability of MFIs and SHG as they adjust to changing economic conditions, and their ability to provide for diverse groups within the rural population which may include smallholder farmers, women entrepreneurs and youth, how Microfinance impacts other factors of socio-economic development apart from financial inclusion, such as health and education, in order to determine if Microfinance offers a broader life improving impact, contrast the barriers for access and usage of Microfinance to understand why some communities remain underserved despite the growth of MFIs and SHGs in the region, and

whether technological innovations can help fill the gap. As these areas remain severely researched at depth and would shed light on the sustainability of MFIs themselves, all while limiting the overall generalizability of the limits of the research.

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