

A Research Study to Find Out to What Extent Does Microfinance Benefit Rural Development in India

First Author - Arnav Shah

Guide – Prof. C.A (C.S) Shital Sanghavi

Cathedral and John Connon School

arnavshah3232@gmail.com

ABSTRACT

Microfinance, also called microcredit, is a type of banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. The goal of microfinance is to ultimately give impoverished people an opportunity to become self-sufficient.

KEY WORDS USED

Financial performance, Micro finance, JLG, NGO, SHG, Grameen Model bank, rural cooperatives.

Objectives of microfinance

1. To promote social and economic development among weaker sections of the economy
2. Strengthen self-help groups and use them as a tool towards economic development
3. To promote women empowerment, financial liberation of women, and support women entrepreneurs.

Different types of loans given through microfinance

1. Women to increase their incoming generation
2. Loans for grown entrepreneurs
3. Emergency medical loans
4. Home improvement loans
5. Home extension/business improvement loans

INTRODUCTION

Almost half of the population in India does not have access to a basic savings or bank account. This segment of people, however, still require financial assistance so that their aspirations and goals can be fulfilled. In India, all loans that are below Rs 1 lakh are considered as microloans.

The key features of microfinance in India are:

1. Borrowers are generally from low income backgrounds
2. The duration of the loan is relatively short
3. Loans are usually of a small amount
4. These loans do not require any collateral
5. These loans are usually repaid at higher frequencies
6. The purpose of microfinance is to generate income for lower socio-economic backgrounds

India's microfinance sector is fragmented with more than 3000 microfinance companies (MGIs), Non-government organizations (NGOs), NGO-MFIs, credit unions, and commercial banks. The top 10 microfinance companies in India are estimated to account for almost 74 per cent of the total loans outstanding.

SCOPE

Microfinance is primarily provided to only 3 segments of the lower socio-economic society. They are as follows :

1. At the lowest level in terms of fixed assets and income, are those who are landless and engage in agricultural work on a seasonal basis. This segment also comprises labourers who are engaged in mining, forestry, construction, and transport.
2. The next segment consists small farmers, rural artisans, and weavers. This segment particularly only requires credit for their working capital.
3. The third segment comprises small and medium farmers who indulge in commercial crops such as wheat, corn, and cotton.

Primary data was also collected to conduct the following research. The primary data pertaining to the opinions, views and perceptions of the public were collected through a questionnaire during June 2021 from the study area. Mumbai City of the Maharashtra State is a cosmopolitan city and was purposely selected for the study as the researcher is from the same City. The survey was distributed to friends and family within the city.

OBJECTIVES

The three main objectives of this research paper are :

1. To identify the spread of microfinance in India
2. To examine its significance in rural parts of the country
3. To analyse the role of microfinance in overall social and economic development in India

SIGNIFICANCE OF THE STUDY

Microfinance will spur the economic growth in India with its increased availability to different sections of society through various groups. There are several types of groups organised by microfinance institutions for offering credit, insurance, and financial training to the rural population in India:

1. Joint Liability Group (JLG)

This is usually an informal group that consists of 4-10 individuals who seek loans against mutual guarantee. The loans are usually taken for agricultural purposes or associated activities. Each individual in a JLG is equally responsible for the loan repayment in a timely manner.

2. Self Help Group (SHG)

A Self Help Group is a group of individuals with similar socio-economic backgrounds. These small entrepreneurs come together for a short duration and create a common fund for their business needs. These groups are classified as non-profit organisations. The group takes care of the debt recovery.

The Nabard SHG linkage programme is noteworthy in this regard, as several Self Help Groups are able to borrow money from banks if they are able to present a track record of diligent repayments.

3. Grameen Model Bank

The Grameen Model has inspired the creation of Regional Rural Banks (RRBs) in India. The primary motive of this system is the end-to-end development of the rural economy. However, in India, SHGs have been more successful as MFIs when compared to Grameen Banks.

4. Rural Cooperatives

Rural Cooperatives were established in India at the time of Indian independence. The resources of poor people were pooled in and financial services were provided from this fund. However, this system had complex monitoring structures and were beneficial only to the creditworthy borrowers in rural India. Hence, this system did not find the success that it sought initially.

REVIEW OF LITERATURE

In a research paper written by Prof. Rupa on A study on Financial Performance of MFIs in India, published in ISSN (2321—8916), she concluded that Microfinance has been an important tool in poverty alleviation, empowerment of women and in bringing about financial inclusion. India has the highest number of households, about 145 million, which are excluded from banking system. Also, out of 6 lakh villages in India, only approximately 50000 have access to finance as on January 2011. Hence there exists a great opportunity for the microfinance sector to provide credit to the low income population, thereby, reducing poverty and thus in the development of country as a whole. Technological innovations, product requirements, and ongoing efforts to strengthen the capacity of Indian MFIs are needed to reduce costs, increase outreach and boost overall profitability. Thus, continuous efforts are required to diversify the sources of funding available for the MFIs in order to attract foreign Investment for well-established MFIs in order to serve the rural low income population, alleviate poverty and also, make them profitable.

RESEARCH METHODOLOGY

HYPOTHESIS

For the present study, the researcher has formulated two hypotheses i.e., Null Hypothesis and Alternative Hypothesis. Both hypotheses are tested with the help of statistical tools. The statements of Hypotheses are as under:

H₀ – Provision of microfinance has benefitted rural development in India.

H₁ – Provision of microfinance has not benefitted rural development in India.

The above-mentioned hypothesis has been tested with the help of primary data acquired by the way of a survey of the questionnaire. The survey explicitly analyses and expresses whether providing microfinance has helped rural parts of India.

Primary and secondary data

Primary data is information collected through original or first-hand research. For example, surveys and focus group discussions. On the other hand, secondary data is information which has been collected in the past by someone else. For example, researching the internet, newspaper articles and company reports.

TECHNIQUES AND TOOLS USED

1. Statistical tools adopted:

The data was interpreted and analysed with the help of tables, percentages, graphs and chart presentation.

2. Sampling technique:

The technique used for this Project is based on a questionnaire which consists of about 11 general questions. This questionnaire aims to provide the data which is most important in nature to enable a comprehensive analysis of microfinance and its effects in rural parts of India.

LIMITATIONS OF THE STUDY

1. The study is limited only to Mumbai City (mainly South Mumbai) of Maharashtra State. Due to the lack of time and financial constraints the study is restricted to the sample size up to 50 respondents of different age groups. However, it is reasonably sufficient number to generalize the information collected.
2. The analysis is based upon primary data.
3. A possibility of unauthorized data cannot be avoided.
3. Reluctance of the people to provide complete information about them can affect the validity of the responses.
4. The lack of knowledge of respondents about microfinance in India can be a major limitation.
5. The subject relating to microfinance covers various aspects which have a very wide scope. The focus of the study is, therefore, mainly on the extent to which microfinance benefits rural development in India.
6. The study revolves around the general idea of microfinance in India and not a specific microfinance institute in India

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

Primary data for the Project

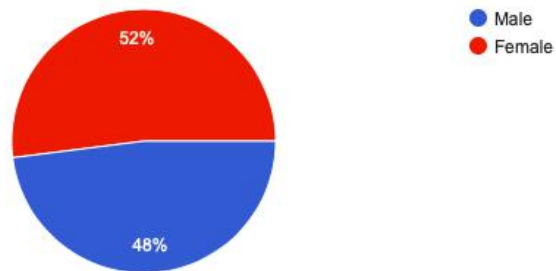
Methodology : Primary data collection involved a structured questionnaire with limited and focused questions covering questions regarding the micro finance. The topic of microfinance in India is generally known by all masses, but due to time constraints, the study is bounded throughout the city of Mumbai. The reason for selecting this city is because there are a large number of people residing & who are familiar with how microfinance helps small businesses grow. The questionnaire addressed areas such as the extent of the spread of micro finance in India, whether it can help in alleviating poverty or not. Convenient random sampling technique is chosen for sample selection. A sample size of 50 respondents is selected for the study to make the study meaningful and relevant.

Data Analysis of questionnaire

WE TOOK THE SURVEY: QUESTIONNAIRE METHOD AND RESULTS WERE AS FOLLOWS: WE GOT 50 RESPONSES TO THE COMPUSORY QUESTIONS ASKED BELOW:

What is your gender

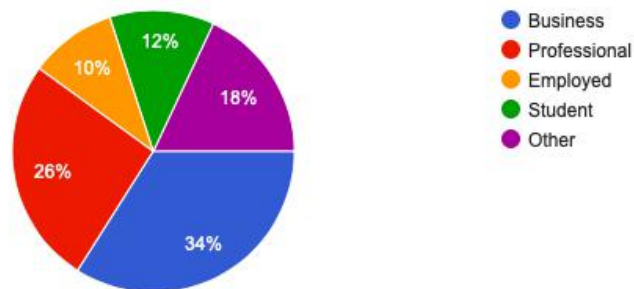
50 responses



- From this we can conclude that the male and female respondents were almost similar in number, eliminating gender biases

What is your profession

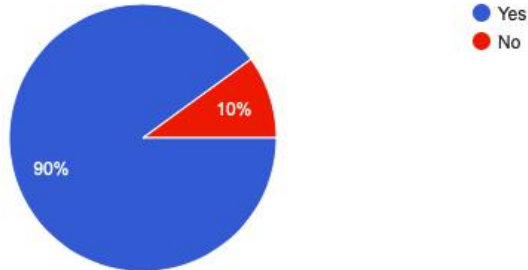
50 responses



- From this we know that the respondents were all from different backgrounds

Do you know what micro-finance is?

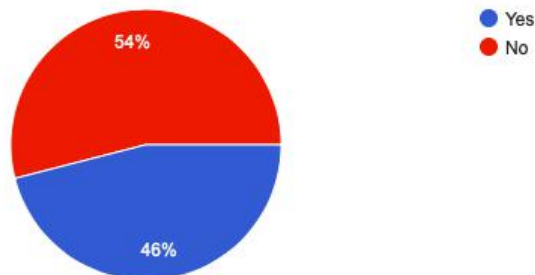
50 responses



- From this we come to know that 45 out of the 50 respondents were aware of what microfinance is

Is Microfinance available in all parts of India?

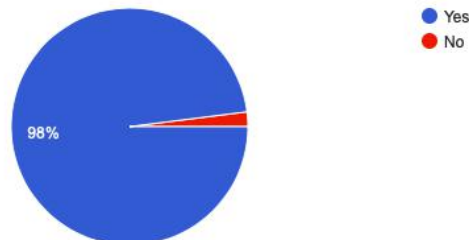
50 responses



- This figure tells us that while 54% of the respondents thought that Microfinance is not available in all parts of India, 46% of them thought it was.

Do you think providing micro finance will lead to the growth of business and profession?

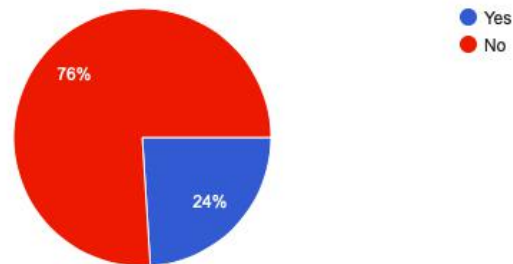
50 responses



- From this we conclude that the large majority of the sample believes that providing microfinance will lead to growth of business and profession.

Do you know anyone who has availed Microfinance?

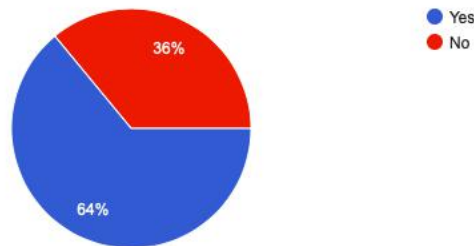
50 responses



- This tells us that a little more than 3/4th of the sample does not know anyone who has availed microfinance.

According to you, has everyone having a bank account through a movement initiated by the government helped in availing Microfinance?

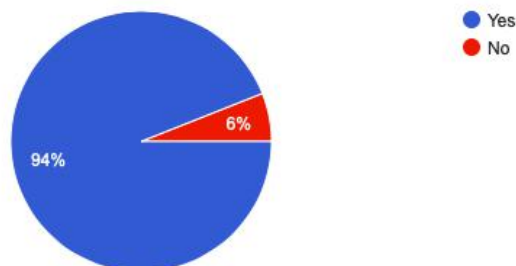
50 responses



- This figure informs us about how having a bank account has helped in availing microfinance

Do you think the procedure to avail Microfinance can be smoothed?

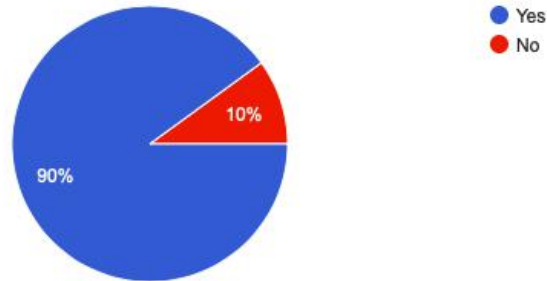
50 responses



- 94% of the respondents believe the process can availing microfinance can still be smoothed, enabling microfinance institutions to distribute funds to rural parts of India.

Do you think Microfinance provides a better standard of living for individuals?

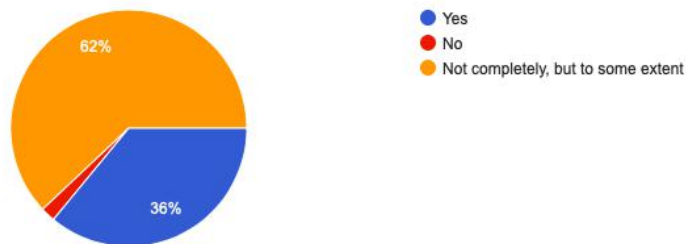
50 responses



- From this we can conclude that majority believe that microfinance provides a better standard of living

Do you feel Microfinance can help in poverty eradication?

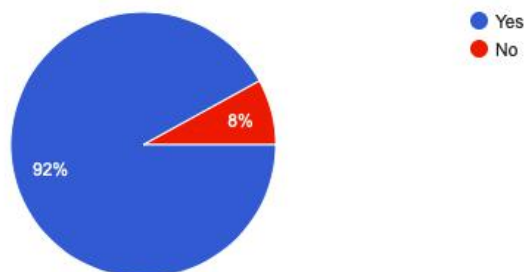
50 responses



- This figure informs us that most of the sample space believes that microfinance won't eradicate poverty, but will definitely help in reducing it to some extent.

Do you think micro-finance is helping rural development in India?

50 responses



- This graph helps us achieve our main objective that informs us that microfinance does help rural development in India.

CONCLUSIONS

From the primary data collected through the questionnaire, it can be concluded that microfinance is yet to reach all parts of India. With a bank account and smooth procedures, its reach can be increased to improve the standard of living. Although the microfinance sector has reported an impressive growth, sufficient regulatory and governance would help achieve the goal of poverty alleviation and financial inclusion and this could be achieved with combined cooperation of banks, donors' government, NGO and other players in the country. It thus can be used as an effective tool for rural development in India, which in turn will eradicate poverty also.

Benefits of Microfinance in rural parts of India

1. Microfinance helps those in poverty to become financially independent, whereas banks do not typically lend such small amounts and to this particular segment.
2. The effective use of microfinance can help create new job opportunities, with beneficial effects on society as a whole
3. Successful applicants who receive microfinance are less likely to take their children out of school. It also allows recipients better access to health-care services for their families.

Problems regarding Microfinance in rural parts of India

1. Critics claim that microfinance is an unethical operation of lenders as the providers are for-profit organisations, so profit from the poor and the unemployed.
2. Microfinance schemes only offer small amounts of money to borrowers given the high risk of default (failure to pay the loan)
3. Limited eligibility – not all poor individuals qualify for microfinance. As a for-profit organisation, microfinance providers have to minimise their own risks by ensuring borrowers have the ability to repay their loans.

BIBLIOGRAPHY

1. Bage, L. (n.d.). *Microfinance: A lifeline for poor rural people*. Latest. Retrieved June 27, 2021, from <https://www.ifad.org/en/web/latest/-/speech/microfinance-a-lifeline-for-poor-rural-people>
2. Bank Bazaar. (n.d.). *Microfinance*. Compare and Apply for Loans, Credit Cards, Insurance in India. Retrieved June 27, 2021, from <https://www.bankbazaar.com/personal-loan/microfinance.html>
3. Kumar, N. (2020, December 14). *Lending process by Microfinance company*. Enterslice. Retrieved June 27, 2021, from <https://enterslice.com/learning/lending-process-microfinance-company/>

4. Rao, D. (2020, November 8). *(PDF) Role of microfinance institutions in rural development*. ResearchGate. Retrieved June 27, 2021, from https://www.researchgate.net/publication/345501467_ROLE_OF_MICROFINANCE_INSTITUTIONS_IN_RURAL_DEVELOPMENT
5. Kagan, J. (n.d.). *Microfinance definition*. Investopedia. Retrieved July 3, 2021, from <https://www.investopedia.com/terms/m/microfinance.asp>

Appendix

Questionnaire :

1. What is your gender?

- Male
- Female

2. What is your profession?

- Business
- Professional
- Student
- Employed
- Other

3. Do you know what micro-finance is?

- Yes
- No

4. Is Microfinance available in all parts of India?

- Yes
- No

5. Do you think providing micro finance will lead to the growth of business and profession?

- Yes
- No

6. Do you know anyone who has availed Microfinance?

- Yes
- No

7. According to you, has everyone having a bank account through a movement initiated by the government helped in availing Microfinance?

- Yes
- No

8. Do you think the procedure to avail Microfinance can be smoothened?

- Yes
- No

9. Do you think Microfinance provides a better standard of living for individuals?

- Yes
- No

10. Do you feel Microfinance can help in poverty eradication?

- Yes
- No
- Not completely, but to some extent

11. Do you think micro-finance is helping rural development in India?

- Yes
- No

*i*Journals