IMPACT OF MICRO FINANCE ON SOCIO-ECONOMIC DEVELOPMENT OF RURAL SECTOR IN INDIA

SYNOPSIS

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THEME AND THE STATEMENT OF THE PROBLEM

Rural finance is a matter of great concern in an agrarian economy like India where 70 percent of the population depends upon agriculture for their livelihood. Moreover, 40 percent of our GDP is contributed by rural sector. Economic development of our country can be achieved only with the upliftment of the village folk consisting of poor households, artisans, agricultural labour, farmers etc. Finance being the life line of every commercial venture, availability of adequate funds at reasonable terms is a must to ensure speedy economic development in the rural areas. The Commercial banks, Cooperative Banks and Regional Rural Banks play a significant role in financing different segments of rural sector. But these rural credit institutions find themselves in a moribund state today. This is largely attributed to financial sector reforms introduced in 1990's as a part of liberalization and globalization of Indian economy.

In recent past, the concept of micro finance is understood as providing poor families with very small loans to help them engage in productive activities or grow their tiny business. (Source - F.A.J. Bouman's book - Small, short and unsecured - 1990. Now microfinance has come to include a broader range of services such as microcredit, savings and micro-insurance etc. The focus of microfinance has not been only on providing small credit, but to integrate it with other developmental activities. Today, microfinance is very much in the agenda of public policy and it has been increasingly used as a vehicle for reaching the otherwise unreachable poor in the country.
Microfinance is not just a tool for poverty eradication but also for individual development, growth in entrepreneurial activities in the economically backward areas. Over the last few years the microfinance services have been changing people's lives and revitalizing communities. The microfinance is a vehicle to reach SC/ST/OBC. The horizon is seen and can be touched upon to bring the neglected and oppressed poor rural people into the lit zones.

The micro finance service in India is amongst the largest in the world with 75 million poor households potentially requiring financial services. Estimate of household credit demand varies from a minimum of Rs. 2000 to Rs. 6000 in rural areas and Rs. 9000 in urban settings, given that 80 percent of poor household are located in rural areas. Total credit demand ranges between Rs. 225 billion and Rs. 500 billion. Supply of microfinance services however fall significantly short of demand.

NEED OF STUDY

In India access to credit remains a significant challenge for poor / low income household who live in remote regions and have hardly any asset and are viewed by formal institutions as being "unprofitable". This has a potential for microfinance institutions to explore. Thus; microfinance institutions have made the informal sector more advantageous and welcoming for the poor and low income people.

In spite of their fact that India today has an extensive banking infrastructure, the importance of micro finance lies in the fact that the formal / institutional banking sector has not lived up to its social responsibility of meeting the financial needs of the poor due to various reasons such as:
a) Lack of adequate branch network in the rural areas.
b) The inability of the poor to offer satisfactory collaterals for the loan.
c) Lack of education and awareness among the poor.
d) Reluctance of banks to foray into microfinance is primarily reflective of their:
   (i) High risk perception of the rural sector.
   (ii) High transaction cost of small loans
   (iii) Non-stipulation of any specific target for the poor sector.

The credit requirement of the poor in India has been estimated to the around Rs. 50,000 crore per annum. Against this requirement the credit outstanding of the poor with the formal banking sector is stated to be Rs. 5000 crore or ten percent of total demand. According to the sample survey conducted by the World Bank and NCAER in 2003 in Uttar Pradesh and Andhra Pradesh around 87 percent marginal farmers/landless laborers / poor do not access credit from the formal banking sector. Most of the benefits have gone to relatively better off people. It is therefore; as the banking sector is not able to meet the entire credit needs of the poor, it is necessary to encourage the growth of microfinance institutions for substantial scaling up of the microfinance to prevent exploitation of the poor from dominating money lenders in the rural credit sector and to magnifying the scope of employment opportunities and poverty eradication through micro finance creation.

To meet out this lacuna, the microfinance institutions have merged as key providers of financial services for the poor. The microfinance which includes the small credit, micro saving and micro-insurance is gradually emerging as one of the most effective strategies to alleviate poverty. It effectively generates employment and
sustains the income of the rural households by giving them often opportunity of work. More efforts are needed to promote and strengthen microfinance to optimize them way against poverty because there is a crying need for timely and adequate availability of funds for rural finance for improving the income of the poor.

The microfinance institutions in the rural credit sector have made the access to rural credit convenient through a particular subset of financial services which provide small loans to very poor families, most often without any collateral. The loan can be for consumption, production activities or for small business. This enables the rural people to raise their income level and living standards.

Microfinance helps the rural people to avail and create economic growth opportunities. It is changing the level of rural people, re-energizing the poor community, particularly the most oppressed, suppressed and neglected community of the rural society mainly comprising of SC/ST. The access to credit as well as extending other financial products and services to these people of low income group below poverty line includes women, small and marginal families, artisans, agricultural laborers and share croppers. It also gives them access to micro-insurance through which sudden expenses relating to serious illness or loss of asset can be recovered. The facts reveal that interest rates charged by informal money lenders are hidden than those charged by microfinance institutions, hence, there is an overwhelming demand from all corners to protect the rural people from these extorters and play a vital role by MFIs as vehicle to reach poor.

Realising the importance of microcredit in the development process, the government and RBI have taken various steps in this regard and have encouraged
financial institutions to make timely and adequate finance available to poor. to access to institutional credit to poor sections of society, microfinance is one of the most sustainable and effective tool.

Thus the impressive growth of microfinance institutions and microfinance services has attracted the attention of Indian researchers, individuals and financial institutions during the last few years. Hence it is appropriate relevant and topical to focus the attention as to how the microfinance has made an upsurge in credit off-take for the upliftment of rural life. With this objective the present study "Impact of Microfinance on Socio-Economic Development of Rural people of India" is selected. The study would also help the existing and prospective financial and micro-financial institutions (MFIs), researchers, beneficiaries and policy makers to get an idea of the native and impact of micro-financial services, practices and performance of micro-financial institutions in India's rural development which will have broader implications for:

1) Developing appropriate strategies.
2) Becoming more rural people development oriented.
3) Developing appropriate policies conducive to healthy socio-economic development of rural people of India.

OBJECTIVES OF THE STUDY

Microfinance is a provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban areas, for enabling them to raise their income levels and improve living standards. Banks, NGOs and SHGs and some government agencies are the one who are in the forefront for
providing microfinance to the poor.

The study intends to examine that despite the introduction of microfinance, has there been any major upsurge in credit off-take, promoted the search for new strategies of credit dispensation which is an urgent need for the upliftment of rural life.

The scholar realizes that without economic improvement of the poor villagers it would not be possible to sustain the development activities. The microfinance activities coupled with socio-economic development initiatives may bring cascading effect on the life of these rural people.

Keeping in view the above ideas, the research will concentrate upon the following objectives. The main objectives of the proposed study are:

1) To highlight the meaning and concept of micro finance.
2) To study the development of microfinance services in India and selected regions.
3) To have clear idea of Regulatory Frame-work initiated for microfinance in India.
4) To study microfinance and credit lending models for effective development of micro finance.
5) To study and examine the role of microfinance implementing organizations in rural sector development of selected region.
6) To examine and analyse the impact of microfinance on the socio-economic development of rural people of India.
7) To investigate the factors responsible for abysmal position of microfinance and
The socio-economic development of rural people of India.

8) To examine and analyse various issues and challenges related to microfinance in rural areas of selected regions of India.

9) To detect out the problems in the way of promoting micro financing in India.

10) To give some concrete suggestions, this may help microfinance institutions to make an overall improvement in microfinance services in the rural areas of Indian economy to accelerate the socio-economic upliftment of rural people.

HYPOTHESIS

The following hypothesis has been formulated and to be tested in the light of microfinance made to the rural people and its impact on their socio-economic development. The main hypothesis is to be examined in the present study is that microfinance has its stimulating impact on the socio-economic development of the rural people. The hypothesis testing with the help of mathematical and statistical methods will determine the validity of the assumptions made under the proposed study. The following hypothesis is adapted to carrying out the work.

1) There is scope for substantially improving the quality and efficiency of service delivery by the organizations providing micro finance services.

2) It is assumed that increasing urbanization poses new challenges and opportunities.

3) It is assumed that there is dis-appropriate reliance on group lending and microfinance institutions offer individual-based lending options.

4) It is assumed that the commercial principle cannot be applied in lending to poor.
5) It is assumed that poor are bankable and they are ready to pay higher than market rate of interest.

6) It is assumed that the micro-credit has not been an area of significant importance so far as to commercial banks.

7) Administrative cost is a major stumbling block for banks in providing small loans to the poor.

8) It is assumed that the government performs as a facilitator rather than of a regulator.

9) It is assumed that the poor people are more honest and sincere in repayment of microcredit in comparison of other urban / metro and large borrowers.

10) It is assumed that the socio-economic conditions of region / area affect the borrower's ability to secure adequate credit and repaying capacity.

11) The level of significant relationship between microfinance and socio-economic development affecting factors is to be verified and tested in the proposed study.

RESEARCH METHODOLOGY

To carry out the study the following methodology will be adopted.

I) DATA COLLECTION

The study will be based mostly on the secondary data and where available the data will be collected from the primary sources through administering a structured questionnaire and by making personal contacts with the respective authorities. Their views will be incorporated where ever required to make the study more informative, effective and meaningful.
The secondary data will be collected from various issues of RBI publications, annual reports of the banks and microfinance institutions, related books, journals and magazines and from the office records of regional and district offices. The other data/information published by the government bodies will also be collected for the use of study.

II) SELECTION OF THE SAMPLE

In order to save time and money, the study intends to draw inferences based on samples. Convenient sampling method will be adopted in the research methodology because data related to microfinance to rural people in all MFIs include same type of operational activities in diversified area in universe of micro financing. All this will be done with the assumption that sample will enable to estimate the same parameter. The sample will include those poor/ extremely poor families which are without any asset. Sample so selected will be truly the representative of characteristics of the items of the universe of MFIs and it will result valid and reliable conclusions.

III) TOOLS AND TECHNIQUES

The data so collected will be analyzed and interpreted by applying various statistical and mathematical tools and techniques such as averages, percentage analysis, trend analysis, correlation and ratio analysis etc. Besides these tools the use of index table, charts, graphs and diagrams etc. will also be made wherever it will be needed and necessary for clarity of thoughts, easy understanding and to make the presentation of research work more simulative. Since the study is based on secondary data, it will involve maximum desk work to consolidate the available data/information.
LIMITATIONS OF THE STUDY

1. Since microfinance services covers predominantly in the form of overs predominant in the form of credit and not address much more the poor's need for saving and insurance services, hence the proposed study is confined to a detailed study of micro credits. The later services are not covered under the parameters of the study.

2. Since micro-credit has not been an area of significant importance so far to the commercial banks, hence the study concentrates only on the role of main micro-financial institutions other than the commercial banks. The private sector banks and foreign banks do not fall within its preview.

3. Since during the limited period of time and financial resources with the scholar, it is not feasible to have a detailed study of entire regions of Indian economy. Hence the study will examine and analysis in detail the micro financial services and their impact in major areas of India which are mainly concerned with the poor people.

RELEVANCE OF THE STUDY

The study is of utmost importance with the constitutional point of view, as 40 percent of the credit as per Indian constitution (Article-39-directive principle) be diversified to neglected / rural sector. A sudden spurt in the rural and priority sector credits was experienced after nationalization of banks in 1969 for which banks had a little experience. It is revealed that the performance of the financial institutions / banks which are involved in extending rural credit has deteriorated; consequently the development of rural areas has stagnated significantly.
During the last few years, the microfinance movement has challenged conventional financial sector and government thinking in the process of fundamentally altering the financial landscape. Today micro finance provides most of the access to financial services available to low income people in India, but it is still a separate part of the financial system with direct service provision to the poor by mainstream commercial institutions.

It is earnestly hoped by the researcher that the proposed study will be proved as a useful tool to the rural people to access micro finance service as well as to the MFI s in providing a structured vision plan to reach specific level of comfort in micro finance lending and will give a new strategy to reach new expansion in lending portfolio. The study will also be beneficial to unemployed youths in the poor / low income householder and also the people who wish to stand on their own feet to earn their livelihood in the rural areas not only of southern region but also of the other regions of Indian economy and wish to uplift their socio economic status on the society.

ORGANISATION OF THE STUDY

The scholar has divided the entire study in the eight chapters. The organization of the chapters is done as follows:

IMPACT OF MICRO-FINANCE ON SOCIO-ECONOMIC DEVELOPMENT OF RURAL SECTOR OF INDIA

CHAPTER-1 INTRODUCTION

- Meaning and concept of Microfinance
- A brief history of development of microfinance concept
• Importance of microfinance in rural development

• Guiding principles of microfinance

• Microfinance in Indian perspective

• Microfinance institutions - An introduction

CHAPTER-2 REVIEW OF LITERATURE AND RESEARCH

METHODOLOGY

➢ Review of relevant studies, articles and reports of committees related with the subject of the study.

➢ Research Methodology involves

  • Purpose of the study

  • Need of the study

  • Objective of the study

  • Research design embodying the universe of the study, data collection, selection of the sample, tools and techniques, limitations of the study and relevance of the study.

CHAPTER -3 : REGULATORY FRAMEWORK FOR MICROFINANCE IN INDIA

• Policy guidelines issued by Government

• RBI's directive & support for effective regulation of microfinance programmes in India.

• Microfinance Bill
• NABARD as regulator of microfinance services
• Recommendation of various committees and work groups
• Initiatives taken

CHAPTER-4 MICRO FINANCE AND CREDIT LENDING MODELS
• Association or Group Model
• Community Banking Model
• Cooperative Model
• Grameen Model
• Intermediary Model
• Individual Banking Model

CHAPTER-5 MICRO FINANCE IMPLEMENTING ORGANISATIONS AND THEIR ROLE IN RURAL SECTOR FINANCE

➢ Microfinance Implementing Organization
  • Traditional, formal and informal
  • Microfinance Institutions (MFIs)
  • Non-Governmental Organizations (NGO)

➢ Role and Initiatives of Banks and Govt. Agencies
  NABARD, SIDBI etc. for delivering microfinance services

➢ Channels of Microfinance

➢ Attitudes of Micro Finance Institutions Towards Micro Finance to Poor

➢ Disbursement of micro credits.
CHAPTER-6 AN APPRAISAL OF IMPACT OF MICRO FINANCE ON SOCIO-ECONOMIC DEVELOPMENT OF RURAL PEOPLE OF INDIA

- Impact of micro finance on income, employment and living status
- Impact on family decision making
- Impact on social decision-making of beneficiaries
- Impact of MFIs on development and growth of rural people
- Analysis of the problems identified after getting MFI assistance
- Impact of MFIs on voicing concern
- Impact of MFIs on social mobility, freedom, development of network
- Impact of MFI’s assistance and political empowerment
- People’s perception towards women respondents working in MFIs
- Behavior/Attitude related problems of rural people
- Psychological constraints faced by MFI’s beneficiaries
- Analysis of family problems after joining MFIs
- Effect of training aspects on knowledge
- MFI’s effect on orientation and exposure on awareness and knowledge of rural poor
• MFI’s effect on orientation and exposure and empowerment of rural poor

FACTORS AFFECTING THE MICRO-FINANCE SERVICE

• Social factors
• Economic factors
• Institutional factors
• Operational factors
• Risk factors

CHAPTER-7 VARIOUS ISSUES AND CHALLENGES

• Regulatory issues pertaining to MFIs, NGOs, SHGs and Micro-credit institutions.
• Issues related to structure and sustainability
• Issues related to funding
• Multiplicity issues
• Issues related to Taxation
• Major challenges

CHAPTER-8 MAIN FINDINGS, PROBLEMS AND SUGGESTIONS

BIBLIOGRAPHY

APPENDIX
SELECTED BIBLIOGRAPHY

Bibliography embodies the study of various books, journals, magazines, annual reports and newspapers etc. A brief list of the items used in the preparation of the synopsis for Ph.D. degree is as follows:

Books

JOURNALS & MAGAZINES

1. The Indian Banker : I.B.A. Publication
2. Bank Quest : The Journal of Indian Institute of Banking and Finance
3. RBI Bulletin : RBI Publication
4. Kurukshetra : A Journal on Rural Development - Govt. of India Publication
5. Yojna

ANNUAL REPORTS

1. Annual Report of various Banks
2. RBI Report on Currency and Finance
4. Annual Report of NABARD

NEWS PAPERS

1. Economic Times
2. Business Times
3. Times of India
4. Financial Express

WEB SITES

1. www.nabard.org
2. www.iba.org.in
3. www.publicationdivision.nic.in
4. www.iibf.org.in