CHAPTER -2

REVIEW OF LITERATURE AND RESEARCH METHODOLOGY

For every research study, irrespective of its nature and scope, the first step is to formulate a research problem and defining the primary and secondary objectives. The task of statement problem requires a thorough review of previous studies, articles and committee reports, of any or the other concerned subject. In fact, the research could establish the specific objectives and appropriate methodology to conduct the study precisely and rightly only when the scholar has adequate background and understanding of the subject. This is why the literature has been reviewed in this chapter.

REVIEW OF RELEVANT STUDIES, ARTICLES AND REPORTS OF COMMITTEEES RELATED WITH THE SUBJECT OF THE STUDY

Though in recent times, a considerable amount of literature relating Micro-Finance and its impact on the economic development in India deficiently available, still there is a paucity of information about micro-finance in many parts of the country in present scenario. Actually, only a few empirical studies relating to the field of finance lending operations, policies and practices of micro-finance in economic development in general and rural sector in particular across the border line have been made. For this purpose, the relevant literature concerning the studies related to microfinance in India has been reviewed. For studies conducted in the concerned field, the scholar has gone through many books, journals and magazines containing
various articles, researches and studies related to concerning topic. This part of the chapter deals with the review of empirical studies dealing with the micro-finance attributing to socio economic development of rural sector of Indian economy. Some of the relevant expert’s thoughts and comments are given below.

**Schenk and Sandbergen (1991)** in their paper “Empowerment of Women in a Development Project” published in ‘Economic and Political Weekly’ observed that, the concept of women’s interests assumes compatibility of interest based on biological similarities. In fact that position of women in society depends on a variety of different criteria, such as class and ethnicity as well gender, and consequently the interest they may have in common may be determined as much by their class position or their ethnic identity as by their biological similarity as women.

**Hamsa (1992)** in his article entitled “Women in Economic Development Process” published in ‘Southern Economist’ observed that the concern for women in economic and social development arises from the relative exclusion of women from the development process in different countries across the world. This calls for special provisions for women in self-employment and for education and training policies to that effect together improvements in wages and working conditions. One of the approaches for the integration of women in economic and social development, therefore, is to identify opportunities that would provide women with more avenues for self-employment and a conscious effort towards the development of entrepreneurship among women.

**Puhazheni (1995)** conducted study of 10 SHGs and 5 bank branches in Karnataka and Tamil Nadu and concluded in her paper “Transaction Cost of lending to the Rural Poor in India” that the intermediation of SHGs reduced the time spent by bank personnel in identification of borrowers, documentation, follow up and recoveries
effecting 40 per cent reduction in the transaction cost of the bank, as compared to direct lending to individual borrowers. Transaction cost of borrowers was reduced by 85 per cent.

**Indian Bank (1995)** had conducted a similar study in Tamil Nadu, covering 45 branches of their bank and 101 SHGs. The study examined only the transaction costs of the branches under different models for credit delivered for medium term loans up to Rs. 25,000. It concluded in her paper “Performance of Indian Bank Branches in SHG lending” published in ‘Rural Bankers’ that lending to SHGs, which lend to borrowers with NGO acting as non financial intermediary, resulted in saving of transaction costs to the extent of 45 per cent as compared to lending under government sponsored programmes and other direct lending projects.

**BIRD (1996)** the Bank performance improvement study under the Maharashtra Rural Credit Project (MRCP) concluded that with SHG intermediation, the transaction and risk costs of the advances of the rural branches could be brought down that could help turn around many loss making rural branches.

**Sinha (1997)** says that, our social organizations involved in the task of women’s emancipation and, uplift should lay great stress on creating consciousness among the people to treat women at par in all walks of life. The Government should be a helping hand to their efforts, particularly in field of constant monitoring and evaluation of progress in the direction of raising the social status of women. Cruelties against them, including dowry deaths, should become things of the past in the new milieu of our social life.

**Agarwal (1998)** said in his article “A field of one’s own” that in the present context, ‘Empowerment’ could be defined as ‘a process that enhances ability of disadvantaged
(powerless individuals) groups to challenges and change existing power relationships that placed them in subordinate economic, social and political position’. Empowerment can manifest itself in act of individual resistance as well as in group mobilization. Entitling women with land on the one hand, empower them economically on the other hand. Strengthen their ability to challenge social and political gender inequalities i.e., land rights would enhance women’s “freedom to achieve” or “capability to function” in non-economic spheres as well.

Prasad (1998) of the ‘National Institute of Rural Development, Hyderabad’ carried out two case studies, one in Salem district of Tamil Nadu and another in the Tribal Development Project areas of Andhra Pradesh to understand the process of economic empowerment of women. In Salem district 11 blocks were covered under International Fund for Agricultural Development Programme (IFAD). This project broadly envisaged empowering rural women by expanding their resources, improving access to credit, raising the level of awareness, better access to health and establishment of a viable model for women’s development.

Srivasan and Satish (1999) in their study on impact of SHG lending on the profitability of branches studied eight branches where the SHG lending constituted more than five per cent of the loan portfolio. They concluded that lending to SHGs and NGOs carried the least cost when compared with other models of lending. Lending through SHGs reduced the costs by 85 per cent and through a federation, reduced the costs by 95 per cent as compared to direct lending. The default risk was negligible in the case of lending to SHG and NGO/federation.

Singh (1999) mentioned in his article entitled “Rural Development-Principles, Policies and Management” in the context of micro-finance, SHGs are formed around the theme of savings and credit. Under the SHG-Bank Linkage Programme, three
linkage models have broadly emerged. Under the first model, banks are directly linked to SHGs without the intervention of the NGOs. In the second model, banks are providing credit to SHGs and NGOs act as Self-Help Promoting Institutions (SHPls). Under the third model, NGOs are acting both as Self-Help promoting Institutions and financial intermediaries for channelizing credit from banks to SGHs. As on 31st March, 1997, the SHGs linked to banks under the three models numbered, 1,105, 3,889 and 3,604 respectively, and the bank loans advanced to them were worth Rs. 11.84 crore.

Selvaraj and Vasanthi (1999) observed in his article, “Role of Self Help Groups in Entrepreneurship Development” published in the ‘Tamilnadu Journal of Cooperation’ that these SHGs, because of their manageable size, close knit identity and operational flexibility are fast emerging as promising instruments of job creation and income generation among rural youth. The basic needs of rural youth for starting self-employment ventures are finance and organizational help. Financial requirements of the SHG’s members are very small. Poverty alleviation would be the immediate objective of promotion of self-employment in rural areas the long term objective should be entrepreneurial development of rural youth. Through the SHG’s lot of new micro-enterprises can be developed in rural areas. Development of micro-enterprises leads to poverty reduction.

The National Bank for Agriculture and Rural Development (2000) conducted a study on the “Impact of Micro-Finance (MF) on the living Standards of SHG Members”. The study concluded that the involvement in the group significantly contributed to improving the self-confidence of the members. The feelings of self-worth and communication with others improved after association with the SHGs and
the members were relatively more assertive in confronting social evils and problem situations. As a result, there was a fall in the incidence of family violence.

Sen (2000) has attempted a study to find out the development of SHGs promoted by Sreemamahiala Samity and its impact on socio-economic development on women members. The findings of the study revealed that the individual loans were mostly used for productive purposes, the rate of recovery was very high compared to the rate of recovery of the formal institutional system and group dynamics was an instrument for change in the quality of life of the poor people. The study also revealed that other than economic activities, the groups worked towards primary education, basic health care of family, safe drinking water and environment protection. The study concluded that group cohesion, group action, need-based credit, timely repayment is essential elements for sustainability of the groups.

Satish (2001) in the study entitled “Some Issues in the Formation of Self Help Groups” published in ‘Indian Journal of Agricultural economics’ revealed that several SHGs included very poor members and the process of SHG formation had to be systematic whether it was formed by a bank or an NGO. It also observed that most of the SHGs had faced initial resistance in their efforts. The study concluded that the NGOs were more suited for forming and nurturing the SHGs.

The National Institute of Bank Management (NIRM, 2001) has studied SHGs in four districts of Maharashtra promoted under Maharashtra Rural Credit Project (MRCP). The average savings of the SHGs in MRCP was Rs. 24 per month per member. This rate was more for new groups than for the old groups. The study also found that the average amount of savings mobilized amounted to Rs. 10658 per group that the SHGs in MRCP had started lending their own thrift from the eighth month of their formation.
Mane and Asthana (2004) concluded in their paper entitled “Indian Experience in Micro-Finance - An overview” that there is a need to nurture and build micro-finance institutions, which would provide timely access to micro-finance services at reasonable cost and on a permanent basis. There is a definite requirement to invest time, effort and funds for capacity building of NGOs and emerging MFIs in an attempt to expand the outreach and impact of micro-finance institutions.

Tankha (2002) observed in his paper, “Self-Help Groups as Financial Intermediaries in India: Cost of Promotion, Sustainability and Impact”, A Study by Sa-Dhan, New Delhi, pp. 70-71, that standard of living index of members of SHGs comprising of socio-economic parameters rose, social impact was found to be stronger in the case of groups promoted by NGOs than in groups promoted by banks. But standards for SHG development should be developed properly. The wider replication of the successful models of SHG promotion needs to be undertaken urgently. This requires action research and advocacy for bringing about desired changes in relevant legislation.

Erhard and Suran (2002) have pound in their paper “Linking Banks and Financial Self Help Groups in India - An Assessment” that the density of the formal banking network for SHG-Banking in India is ideal. Bank Staff could promote nurture, stabilize and link SHGs in addition to their normal work, with marginal operational costs. SHG system should and cannot be utilized as instruments of govt. agencies to implement development schemes of the Govt., but the dimension and new flexibility in SHG-Banking as practiced now in India is unmatched in the world’s Banking system.

Puhanzhendi and Badatya (2002) in his article “SHG Bank Linkage Programme for Rural Poor – An Impact Assessment” found that availing loans from money lenders and other informal sources with higher interest rates were significantly
reduced due to SHG intervention. It was also observed that consumption oriented loans were replaced by production oriented loans during Post-SHG situation.

Christan and Resenberg (2003) in their paper stressed that more directly, The Usurious Loan Act, 1918 (ULA) has provisions related to interest rates charged by MFI, given that it is widely acknowledged that the cost of providing micro finance services tend to be far higher than in the formal financial sector. Also forcing interest rate down wards can have negative impact on the business and drive MFIs out of the lending market.

Harper and Nath (2004) observed in their paper “Inequity in the Self Help Group movement – A view from India’s Centre” that inequality persists, within the nation, the states, the districts, the villages and even within the few SHGs which are in each village. This is not because of any evil genius of the Indian people, nor of the population of Madhya Pradesh or Jabalpur, but is the result of the tendency Marx observed, the rich get richer and the poor get poorer. We must search for the constraints to equity at every level, and try in every way possible to reverse the trend.

Thorat (2006) found in his paper entitled, “Microfinance in India: Sectoral Issues and Challenges towards a Sustainable Microfinance Outreach in India - Experiences and Perspectives”. Microcredit Innovations Department, NABARD (pp.27), that SHG-Bank linkage Programme has done well, has made a tremendous contribution to ‘scale’ and is on a high growth path. However, the programme is confronted with many challenges and these need to be addressed through appropriately structure challenged to make an increasing contribution to ‘scale’ consistent with cost, sustainability and efficiency of operations.
Rao and Chimanchodkar (2006) in their article named “Micro Finance Institutions Delivery Models” published in ‘Professional Banker’ found that although there are a variety of models that are evolving for the institutions to enter the microfinance market, none will be successful without the vision and commitment of the management and board without this vision and commitment, it is unlikely that an institution will apply the resources human and financial-necessary to make microfinance a profitable part of the business. Entering this market is long-term business proposition. No institution should expect to make a ‘quick back’ from microfinance experience of some of the MFI’s who are bent on making a quick buck in the recent past (especially in A.P.) is to be kept in mind while charting out any program of micro financing.

Gautam and Sharma (2007) have conducted research study “Micro Finance in North East India: An assessment of SHG-Bank Linkage Programme”. The study observed that the primary handicaps to rural finance usually come from high cost, high risk and the region specific political interference. Because of all these, many of the financial institutions shy away from financing rural moves. SBL (SHG-Bank Linkage) approach while attempting to reduce poverty and increase the income generation ability of rural people provides an access to a very convenient mode of financial accommodation in order to manage their financial affairs in cost effective manner. Despite of the cost effective transaction model and more than 95% recovery rate, as claimed by NABARD, bankers in NE are yet to take the whole SBL business very seriously. Absence of strong SHG federations and promoting agencies, low penetration of bank branches, lack of awareness among masses, burdened with existing high NPAs and having a very low credit-deposit ratio, banks are not enthusiastic about the economic advantage of SHG financing unless banks fit this
SBL into their normal business model and count on its viability. The success of the SBL initiative will remain doubtful and take a long way to reach the rural masses of NE who are in the dire need of hassle free finance at a reasonable rate of interest.

Ghosal (2007) remarks in his paper “Business Model for Banks to lend to Poor” published in ‘Professional Banker’ that as financial inclusion is a strategy for poverty alleviation. Banks play a vital role in this effort, through strategic partnership model which involves equity participation with the MFIs, loan funding, securitization and agency appointment for delivery of products and services. This model of partnership of the banks, MFIs and farmers and artisans will create viable and sustainable organizations to not only fund the poor but also to make the unorganized sector as organized. In order to make it a reality, a lot of home work and dedication of selfless NGOs will be required. Nothing is impossible if people see the benefit and comprehend the same and are also assured of adequate support of dependable institutions like the banks.

Ramamurti (2007) observed in his paper “Business model for Banks to lend to Poor” published in ‘Professional Banker’ that the banks will be more successful in the provision of the micro finance activity through SHG-bank linkage program. Both the support and guidance of the government and the apex banks, all measures taken in this direction will prove to be beneficial to the providers and the receivers. There would be an extension of diversified activities covering large sections of the rural community. This in turn could lead to the “socio economic empowerment” of the less advantaged sections. The continued support of the branch banks along with the cooperative banks in the provision of credit and credit related services including MF acting with the renewed vigor and innovation in the rural areas appears to be the imperative need for the present day Indian economy.
Sharma (2007) has found in his paper “Micro Finance through Self Help Groups” published in ‘Professional Banker’ that the results of micro financing through SHGs are so impressive that it is attracting the attention of many. There is a real danger that it may be hijacked by the unwanted or by influential agencies, including the government program. In addition, a lot should be done for sustaining and up scaling the SHG movement. Change agents will have to struggle and find solutions for making SHGs suitable vehicles for sustainable microfinance services and eventually for sustainable rural development.

Subramanian (2007) has observed in his Paper “Microfinance – A Promoting Instrument for SHGs” that NGOs are playing a major role in promoting both microfinance and SHGs. But NABARD has to promote independent agencies which will act as a facilitating mode and act like a bridge between the banks and the SHGs to ensure a healthy relationship for the growth of the economy. Government has to gear up and allocate huge funds for setting up modal research centers in every state capital and thereby it has to train individuals in various aspects of project functioning, project appraisal, agriculture production, marketing of services and other similar activities which the SHG is capable of carrying through. Banks have to employ external agencies to monitor the procedural aspects of forming SHGs and act as a facilitator in backing up the various forthcoming activities of SHGs.

Venkatesha and Rao (2007) have observed in their Paper “Micro-Finance Institutions and Credit Accessibility to the Poor in Karnataka” published in ‘Professional Banker’ that Micro finance is emerging in a big way. Both not for-profit and profit organizations have found that model as effective and viable. This model is in embryonic stage in India. The banking sector has neglected this segment as non-viable. The organizations like BSS (Bharathe Swamibthi Samsthhe), Sangamithra,
Grammena Koota, SKDRDP (Shri Kshethra Dharmashala Rural Development Project, and Janodaya, foundation have proved beyond doubt that micro finance not only helps the poor to increase their income level but also proves to be a viable business model. The recovery rate of these financial institutions is remarkably high when compared to the whooping non-performing assets of banks in the traditional sector. Micro finance has proved that the rural poor are bankable. The collateral system, which hindered the credit availability to the poor, has become a thing of the past with micro finance institutions. Micro finance which has made inroads some parts of the country has great potential to grow.

Shaik and Nubala (2008) have observed in their paper entitled “Microfinance – The Road Ahead” published in ‘Kurukshetra’ that micro finance is intended to deliver credit to the target communities, especially in the rural areas, through MFI’s. In the recent past, MFI’s are becoming more popular and promoting additional capable ways to use inadequate development funds to complete the objectives of poverty alleviation. Both NABARD and SIDBI exemplify that state-run financial institutions are making meaningful intervention. In the present globalization era, micro finance, microcredit, micro insurance etc. are enriching the living standards of the poor. In spite of many problems MFI’s are playing a vital role in the development of rural economy and helping to improve the economic stability and financial inclusion of the country.

Lokhande (2009) has observed in his study “Microfinance Initiatives in India” that micro-finance programme has a significant role to play in Indian economy for boosting micro entrepreneurial activities for creating productive assets coupled with employment generation. So in order to cover all the poor households, particularly BPL households, there is a need for providing full support by the government,
financial institutions and NGOs and SHGs programme. So far the SHGs-bank linkage programme has been much successful in achieving quantitative targets women self help groups have to face problems such as, indifferent attitude of bank officers, exploitation by promoting NGOs, lack of marketing facilities for product / services, these bottlenecks should be rooted out on priority basis. Women groups should be given responsibility of running Anganwadi, fair price shops so that they become permanent entities. The banks and the respective NGOs should nourish and develop the SHGs by providing financial assistance, organizing skill based training programmes in rural as well as in semi urban areas.

**Das (2009)** in his paper “Micro finance in India-Prospectus and Challenges” published in ‘Professional Banker’ emphasized that Microfinance calls for active, participating clients, as well as a skilled and efficient work force. Its main challenges remain recovering timely repayments, considering the unstable nature of the client’s cash flows, making efficient risk management critical to the success of an MFI. There is also a need for constructive collaboration between the formal sector financial institutions and MFIs, in which the former provides funds and the latter extends savings and loan facilities to the urban poor. On the demand side, focus must be to organize and make clients more participative. They must be made accountable for the use of the credit provided. Savings habit must be encouraged. On the supply side, the concentration must be to transfer MFIs into professionally managed, externally regulated entities. There must be uninterrupted supply of services to clients. The profitability and viability of the service must be given importance. All MFI credit models lack an appropriate legal and financial structure and so there must be a more formal environment to regulate and coordinate the activities of MFIs.
**Shrivastava (2009)** while dealing the topic he has mentioned the role of micro financing in promoting renewable energy technologies in rural areas for sustainable development and Poverty Alleviation has been worked out in detail. He also mentioned that the success of micro financing in rural development and promotion of renewable energy technologies is dependent on several factors which includes infrastructure, availability of information, education of rural population and availability of maintenance services and creation of opportunities for income generating activities.

**Dewan (2010)** in her Paper “Global Economic Crisis-Impact on Micro finance” published in 'Professional Banker’ found that the recession and the associated credit crunch are impacting MFIs in many ways. The micro finance sector is being hit by rising unemployment, worsening bad debts, falling remittances, lower growth, declining investor and depositor confidence, reduced new lending, shift in their loan portfolios in favour of wealthier client as the economic crisis could tilt the balance towards commercial survival, to name a few. This may subsequently increase the non-performing loan portfolios of institutions of all sizes. Further, the financial crisis could bring about a long term change in the industry by favouring larger commercial institutions and driving smaller MFIs out of business, particularly as the commercial banks adopt more cautious strategies and funding becomes more difficult for MFIs. It is felt that the crisis would encourage consolidation in the industry, leading to fewer, but larger players.

**Kumar and Paul (2010)** in their study “Impact of SHG- Bank Linkage Program on Savings of Rural Poor” observed that it is evident that SBLP has been instrument in the economic empowerment of the rural poor in Kerala. Member’s association with the program has enriched their savings capacity, which is obvious from the significant
incremental savings between ‘pre and post’ SHG situations. The spread of thirst among members resulted in the improvement of self-reliance and self financing SBLP has proved to be a vital tool for poverty alleviation and emancipation of the rural poor. Greater accessibility to formal credit due to their association with the SBLP has resulted in ‘credit deepening’ and ‘credit widening’, which ultimately led to increased income, savings, employment generation, asset acquisition, entrepreneurship development, capacity building and empowerment by the rural poor.

Gupta (2011) found in her article “Micro Finance - A social Innovator” published in ‘Indian Journal of Finance’ that Poorest can benefit from micro finance from both an economic and social well being point of view and that this can be done without jeopardizing the financial sustainability of the MFI. While there are many biases against extending microfinance to be used, specific targeting of the poorest will be necessary. Without this, MFI's are unlikely to create programs suitable for and focused to that group.

Prahalad (2011) analyzed in his much acclaimed book “The Fortune at the Bottom of the Pyramid” that MFI remain virtually important as a financial gateway to the poor. In 1997, the micro-credit summit was formed to exchange ideas and start a global campaign dedicated to reach out to 100 million of world’s poorest families by 2005. In 1997, fewer than 8 million of the world’s poorest people received micro credit. According to the Summit 2011, more than 128 million of the world’s poorest received a micro loan in 2009 an all time high. The Micro-credit Summit Campaign aims to reach 175 million of world’s poorest family by 2015 and ensure that 100 million of these families more above the World Bank’s $ 1.25 a day poverty threshold. The success story shows that poor people can be valuable clients.
Malegam Committee (2011) recommended that Constraints in micro finance sector like high transaction costs, no understanding of banking, need for lenders to handhold the borrowers for generating income, savings and repayments etc. should be removed. Right balance between the pursuit of social objective and interest of shareholder should be maintained through responsible financing. MFI cater to the vulnerable section of the society and are pivotal for achieving financial inclusion.

Awangabadbar (2011) in her article “Role of Microfinance in Promoting Integrated Rural Development and Poverty Alleviation” published in ‘The Indian Banker’, that Integrated rural development and technology based programmes leading to income generating opportunities for rural population can easily be put on fast track by the use of micro financing. NGOs and Banks should advent and build up professional system into social banking system for poor. While giving micro finance to the villagers the microfinance institutions should also arrange the experts who are aware of how, when, where and which technology is being used and how best they are useful for villages so that it will build and sustain the rural development. In these efforts, the Govt. of India and the State Govt. should also provide the support for capacity building initiative and ensure transparency and enhance credibility through disclosure.

Devaparakash (2011) in his Paper “Reengineering Microfinance Business model” published in ‘The Indian Banker’ suggested that The formal sector is looking proactively as to how the MFIs could take the new business model so as to make them more resilient to the undesirable practices and thus make them compliant to the prescriptions of Malegam and at the same time be responsible to the clients by demonstrating governance, management and operational practices inclined towards well-being of clients. A client centered business model is the need of the hour lest micro finance faces the danger of heading for its death knell.
Chakraborty (Governor RBI) (2012), said at India news Network in his speech entitled “Micro Finance Crucial to Financial Inclusion” that Micro finance is a cost effective and sustainable way of taking the banking system to the rural poor. Microfinance services, both by SHG model as well as retail lending model, have been contributing to financial inclusion. Micro finance has been found to facilitate development outcomes including enabling poor households to access services at the times of need and improving economic welfare of households. Also by supporting women’s economic participation, it helps to improve livelihood, empower women and promote gender equality.

Brij (2012) in his article, “Revisiting SHG-Bank Linkage Programme” published in ‘The Indian Banker’ recommended that the task now ahead is to consolidate and broad-base the SHG movement. All stakeholders need to re-commit to SHG banking notwithstanding the recent setbacks. This way the SHG movement can be again brought back on the growth track and closer to the original mission of SHGs being community-based organizations and change agents in rural India.

**RESEARCH METHODOLOGY INVOLVES**

Research methodology covers all the following elements to carry out the research.

**PURPOSE OF THE STUDY**

Rural finance is a matter of great concern in an agrarian economy like India where 70% of the population depends upon agriculture for their livelihood. 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. Co-operative Banks, Commercial Banks and Regional Rural Banks play a significant role in financing different segments of rural sector. But due to 1990’s LPG policy, these
Institutions find themselves in a difficult situation to provide adequate credit for rural sector.

In recent past, microfinance is emerging in a big way. Concept of microfinance is understood as providing poor families with very small loans to help them engage in productive activities or grow their tiny business. It is said that microfinance is seen as provision of financial service to mostly low-income people, especially the poor and very poor who are without tangible arrests. Purpose of this study is to appreciate the role played by microfinance institution (MFIs) in collaboration with the Government, NGOs, social organizations, RBI etc. in poverty alleviation, employment generation, improvement in living standards and behaviour of beneficiaries etc.

In the developing paradigm, microfinance has created a need based policy and program to deliver credit to target communities, especially in the rural areas through MFIs. In the recent past, MFIs are becoming more popular and promoting additional capable ways to use inadequate development funds to complete the objectives of socio-economic development of rural sector.

The development of microfinance is committed to enabling and alleviating a bright economy in the rural area in India. In the present globalization era, microfinance, microcredit, microinsurance, etc. are enriching the living standards of the poor. Microfinance has also proved that the rural poor are bankable.

Purpose of the study is to throw some light on the role played by microfinance in the development of rural economy which helped to improve the economic stability and financial inclusion of the country. Microfinance, which has made inroads into some parts of the country, has great potential to grow.
NEED OF THE STUDY

A major constraint to the participation of poor in economic growth is access to financial credit. It has been estimated that more than 500 million people worldwide need access to financial services. However, formal financial intermediaries such as commercial banks often do not serve poor households for reasons that include the lack of traditional collateral, High costs of small transactions, inferiority complex among poor, illiteracy, ignorant to banking and geographic isolation. Thus microfinance institutions have made the informal sector more advantageous and welcoming for the poor and low income people.

In spite of the fact that India today has an extensive banking infrastructure, the importance of micro finance lies in the fact the formal/institutional banking sector has not lived up to its social responsibility of meeting the financial needs of the 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 loan

(c) Lack of education and awareness among the poor.

(d) Reluctance of bank 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 in India has been estimated to be 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 simple survey conducted by the World Bank NCAER in 2003 in Uttar Pradesh and Andhra Pradesh, around 87 percent marginal farmers / landless labourers / poor do not access credit from the formal banking sector. Most of the benefits have gone to relatively better off people. 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 economic exploitation of poor from dominating money lenders, landlords, traders and middle man in the rural credit sector and magnifying the scope of employment opportunities and poverty eradication through microfinance creation.

To meet out this lacuna, the microfinance institutions have emerged 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 open opportunity of work. More efforts are needed to promote and strengthen microfinance to optimize the 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 and credit extended are typically small ‘micro’. They are provided in varying contexts, either to individuals or groups, ranging from personal micro credit to small enterprise support and rural finance like agriculture, artisan, vocation etc.

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 labourers 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 moneylenders are hidden than those charged by microfinance institutions, hence, there is an overwhelming demand from all corners to protect the rural people from these extortioners and play a vital role by MFIs as vehicle to reach poor.

Realizing the importance of microcredit in the development process, the government and RBI have taken various regulatory and supportive initiatives which have encouraged financial institutions to make timely and adequate finance available to poor. To access the institutional credit to poor sections of society, microfinance is one of the most sustainable and effective tools.

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 with 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 Framework initiated for microfinance in India.

4. To study microfinance and credit lending models for effective development of microfinance.

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 factor responsible for abysmal bottomless position of microfinance and 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 microfinance 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.

**RESEARCH DESIGN**

To carry out the study the following methodology is adopted:

**(I) UNIVERSE OF THE STUDY**

As the study is at the all India level, hence India is divided into three regions for the convenience of the researcher. India is divided in North-East Region, South Region and West Region. From each region, one state is purposively selected. The selected states include Punjab from North-East Region, Kerala from South Region.
and Gujarat from West Region. This selected region covers important area of total Micro-Finance activities.

(II) DATA COLLECTION

The study involves the collection of data from both the primary and secondary sources. The primary data regarding their socio-economic conditions before and after MFIs assistance were collected on a specially structured questionnaire. In Punjab, data is collected through personally filled Questionnaire and from Kerala and Gujarat, it is collected through postal Questionnaire. Data is also collected by making personal contacts with the respective authorities. Their views will have been incorporated where ever required to make the study more informative, effective and meaningful.

The secondary data is collected from various issues of RBI publications, annual reports of the banks and microfinance institutions, related books, journals, magazines and from the office records of regional and district offices. The other data / information published by the government bodies is also collected for the use of study.

(III) SELECTION OF THE SAMPLE

In order to save time and money, the study intends to draw inferences based on samples. The Sample of the study was based on multistage convenience sampling technique, 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. Then 100 rural poor people were selected from each selected state keeping in view their availability. All this will is done with the assumption that sample will enable to estimate the same parameter. The sample included those poor / extremely poor families which are without any asset. Sample so selected is truly the representative characteristics of the universe of MFIs and it will result valid and reliable conclusions.
(IV) TOOLS AND TECHNIQUES

The analysis of the data was done by applying various statistical and mathematical tools and techniques like frequencies, percentages, averages, etc. as well as advance statistical techniques like Z-test, Analysis of Variance (ANOVA) and regression analysis.

Before going for ANOVA, the variables were quantified by assigning the weights to the attributes in the following order:

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Always</td>
<td>2</td>
</tr>
<tr>
<td>Sometimes</td>
<td>1</td>
</tr>
<tr>
<td>Never</td>
<td>0</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>5</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>3</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
</tr>
</tbody>
</table>

Z-test: In order to compare two proportions of respondents, Z-test i.e test of proportions was applied as under:

\[
Z = \frac{P_1 - P_2}{\text{SE of } (P_1 - P_2)}
\]

\[
\text{S.E of } (P_1-P_2) = pq \sqrt{\frac{1}{N_1} + \frac{1}{N_2}}
\]
\[
P = \frac{P_1N_1 - P_2N_2}{n_1 + n_2}
\]

\[q = 1 - p\]

Where,

\[P_1\] = 1st proportion of respondents

\[P_2\] = 2nd proportion of respondents

\[n_1\] = Total number of respondents

\[n_2\] = Total number of respondents

**Regression Analysis:** In order to see the combined effect of different aspects of training and orientation & Exposure on knowledge level of respondents, multiple step regression analysis was done.

Algebraic form is as under:

\[Y = a + b_1x_1 + \ldots + b_nx_n + \mu\]

Where

\[Y = \text{Knowledge Level}\]

\[x_1, \ldots, x_n = \text{Independent Variables}\]

\[b_1, \ldots, b_n = \text{Regression coefficients of Independent Variables}\]

**Analysis of Variance**

To compare more than two means at a time, analysis of variance (ANOVA) was carried out. This was done to compare a parameter between three regions. The process of the analysis is given hereunder:
### Source of variation

<table>
<thead>
<tr>
<th>Source of variation</th>
<th>d.f.</th>
<th>T.S.S.</th>
<th>M.S.S.</th>
<th>F-ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regions</td>
<td>n-1=a</td>
<td>S₁</td>
<td>S₁/a=x</td>
<td>x/y</td>
</tr>
<tr>
<td>Error</td>
<td>b-a=c</td>
<td>S₂</td>
<td>S₂/b=y</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>N-1=b</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Where,

- n = No. of regions to be compared i.e. 3
- N = Total number of respondents
- T.S.S. = Total Sum of Squares
- M.S.S. = Mean Sum of Squares (TSS/d.f.)
- d.f. = Degree of Freedom.

Besides these tools, the use of charts and diagrams etc. are also be made wherever it is needed and necessary for clarity of thoughts, easy understanding and to make the presentation of research work more stimulative. Since the study is based on secondary data, it involved maximum desk work to consolidate the available data / information.

**LIMITATIONS OF THE STUDY**

1) Since microfinance services covers predominantly 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 has examined and analyzed 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 credit programmes offer a combination of services and resources to their clients in addition to credit for self employment. These often include savings, training networking and peer support, 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 MFIs 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 households in the rural areas of all the regions of India and also to the people who wish to stand on their own feet to earn their livelihood and wish to uplift their socio economic status in the society.