Chapter-7
SUMMARY, FINDINGS AND CONCLUSIONS

This chapter summarizes the main findings of the study entitled “Rural Microfinancing in Punjab- Banking Sector Interventions and Customers’ Perceptions”. A snapshot is given in summarized form to the purpose of the study, literature reviewed, research methodology and findings of each chapter. Further it is followed by some suitable recommendations to the bankers and the customers on the basis of the findings of the study. The chapter also gives some reflections about the scope for further research.

7.1 Introduction

Provision of financial services to the poor and underprivileged sections of the society has always been a focus of various programs initiated by government since Independence in India. As a part of that focus, several subsidy linked credit programs have been initiated (Satish 2005). Micro financing is one such intervention aimed at poverty reduction. Apart from government and non-government organizations, banking sector has been emerging as a major player in the microfinance industry in India. The intent of this thesis is to provide empirical evidences on different aspects of the microfinance movement in rural Punjab such as nature and extent of microfinance services provided by banks, bankers’ perception of microfinance services, awareness level of the beneficiaries of microfinance, their preferences for the formal and informal sources of finance and their perception with regards to the impact of microfinance services on their livelihood.

In the introductory chapter, the concept of microfinance services has been defined along with rationale behind such concept. The conceptual difference between the traditional banking and micro financing has been highlighted. The origin and history of microfinance has been reviewed briefly along with some international and national experiences of microfinance. The progress of microfinance in India in general, and in Punjab in specific, has been outlined with the help of figures. The intervention of banking sector in the microfinance business has also been explained along with the types of microfinance products and the models of delivery of microfinance
products. Some recent initiatives in the field of microfinance taken by banks and the government agencies have also been touched upon.

The present study is a modest attempt to find out as to how far the efforts made by the banks in providing micro financing services to meet the financial needs of the rural poor have been successful in Punjab. The specific objectives of the study are-

1. To analyze the nature and extent of micro finance services provided by banks in rural Punjab.
2. To gauge the level of awareness and expectations of the respondents with regards to micro finance services offered by banks.
3. To delve into the respondents’ preferences for various sources of finance, the formal and informal.
4. To assess the impact of micro finance facilities on the ultimate borrowers.
5. To make suitable recommendations to the bankers and the beneficiaries.

7.2 Review of Relevant Literature

A number of empirical and theoretical studies related to the concept of microfinance in India and abroad were reviewed to have a general overview of the studies which highlighted the following issues-

- Formal v/s Informal sources of finance
- Financial awareness and customers’ perception
- Impact assessment of the microfinance intervention
- Effect of gender in microfinance programs

Various contemporary studies (Rutherford, 2003; Singh, 2004; Sinha, 2005; Sriram and Parhi, 2006; Ageba and Amha, 2006; Alcala and Koshy, 2007; Gedenne and Vasudevan, 2007) have analyzed the preference of the poor people for the formal and informal sources of finance. Rutherford argued that the poor, no doubt, have limited financial resources but they have been found to be the active managers of their resources. The majority of the resources used by them are informal in nature like interest free loans taken from friends/relatives though people were using MF services, too, but the share of MFIs in total money management transactions was less than 15 per cent. This indicates their attempt to smoothen the interest cost by resorting to such
informal zero cost financing for some events like marriages and for some health related expenses. Sometimes income, savings and assets profile of people shows a comfortable position but the illiquid nature of their assets forces them to access the costly finance. The major source of finance was found to be the moneylenders i.e. approximately 80 per cent of the total amount borrowed (Sriram, Parhi 2006). Alcala, Koshy (2007) studied the various formal and informal saving products used by the people in the state of Tamilnadu. The most common informal saving products found were gold, loose cash at home in hidden form, unregulated chit funds, saving with money lenders, jewelers’ shops, small saving schemes in schools and lending others to save. The use of formal saving products was very uncommon, less than half of the clients were having almost inactive bank accounts. The reasons disclosed were the distant location of the banks and excessive minimum balance requirement. In spite of the wide outreach of the post office branches in rural areas, less than ¼ of the clients were having post office deposit. However, people value the functioning of micro financing through self help groups but still they prefer informal ways of savings that reveals inefficiency of SHGs in inducing members to spend their loans on productive activities (Gedenne, Vasudeven 2007). Thus, in spite of the development of formal financial sector, people still prefer informal sources of finance, which is easily available. The factors that are creating hindrances in the use of formal finance like high cost, collaterals requirements etc. need to be looked into. Outreach and performance of microfinance programs have been studied by various authors (Rajasekhar, D. and Vyasulu, 1990; Chua and Lnato, 1996; Painter and MKnelly, 1999; Simanowitz, 2001; McCarty, 2001; Chavan and Rajkumar, 2002; Jones, et. al., 2004; Basu and Srivasatva, 2005; Magicks et. al., 2005; Thompson, 2006; Hartungi, 2007; Dhindsa and Bhatia, 2008; Pati, 2008; Goyal, 2008; Vanroos, 2009 and Sharma, 2009). Though microfinance is not a new concept, still it has not been able to achieve the desired level in terms of its widespread outreach and performance.

Various studies undertaken by the previous researchers (Gomez, Santor 2001; Heino and Pagan, 2001; Chowdhury et al 2005; Verman, 2005; Kuzilwa, 2005; Agriculture Finance Corporation Limited, 2008 and Lokhande, 2008) indicated the positive impacts of microfinance services on the lives of the beneficiaries of such services. Verman (2005) opined that the micro finance programs have led to the positive change in the peoples’ perception about the functioning of SHGs. The members of SHGs have developed the banking habits. In a study conducted by Kuzilwa (2005), the role of credit for small business success observed a significant increase in

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the output and employment generation of such small entrepreneurs following their access to credit.

Agricultural Finance Corporation Limited (2008) conducted a study to measure the impact of microfinance services and the study revealed that the use of such service has led to increase in the income, assets and children’s enrollment to schools and reduced the dependence upon moneylenders, friends and relatives for financial assistance.

The issues related to the financial awareness and customers’ perception of microfinance services have been studied under many previous researches (Women’s World Banking, 2003; Pandey, 2008; Owusu- Frimpong (2008; Tiwari et al, 2008; Sattanathan, 2009) examined the awareness level of micro finance services and found it to be very low. The majority of clients were having knowledge of their loan amounts, loan duration and the weekly instalment of repayment. But they had a very little knowledge of the rate/amount of interest on loans. Albino, Subramanian (2008) analyzed the implementation of financial inclusion drive in the state of Jharkhand and found that there had been a significant progress in terms of more number of ‘no frill accounts’, more bank branches, post office and NGOs’ branches, but banks focused only on opening more & more account without paying attention towards the awareness among the account holders regarding use of such accounts. Ramji (2009) also studied the implementation of financial inclusion drive and utilization of banking services in Karnataka. The awareness level was found to be very low amongst the respondents. As far satisfaction level is concerned almost 60 per cent respondents were satisfied with the behavior of bank officials.

Various studies have evidenced a good repayment rate of the loan given to the poor (Bedoya, 2006; Shankar, 2006; Field and Pande, 2007; Papias, M. and Ganesan, 2009 and Oke et al, 2010). The good repayment and lower transaction cost are the two important issues that can motivate the financial institutions to provide finance to the poor.

A number of studies (Fernando, 1997; Khan, 1999; Leach and Sitaram, 2002; Puhazhendhi and Satyasai 2002; Rao, 2002; Galab and Rao, 2003; Agha, Balal, Ogojo-okello, 2004; Ramesh, 2004; Basu, 2006; BL Centre for Development, Research and Action, 2005; Kamble and Sonar, 2006; Johal and Mathur, 2006; Omorodion, 2007; Jerinabi and Kanniammal, 2009 and Rao,
analyzed the contribution of microfinance in the empowerment of women. BL Centre for Development, Research and Action (2005) conducted a study to assess the impact of microfinance programs on the empowerment of scheduled caste women. The study found that there had been a tremendous increase in the literacy rate among the SC women over a period. The respondents reported positive change in their mentality, confidence level and decision making power, improvement in social awareness, recognition in the family and society.

Omorodion (2007) argued that though, the micro finance schemes had been very effective in empowering women economic and social levels, the women reported the problems involved in their financial participation like it creates tension and raises their blood pressure when they find themselves unable to repay the loan amount, distant locations of the lender create problems in making the loan available on demand of the lender. Gender issue has also been very critical in Indian society whether it is in context of any social issues or economic issues. Various studies (Pitt, Khandker, 1998; Anthony and Horne, 2003; Stavaeren, 2001; Schechter, 2007) have shown that women are the better microfinance clients as compared to men. Pitt, Khandker (1998) estimated the impact of gender participation in the Grameen Bank and two other group based micro credit programs in Bangladesh. The Grameen Bank credit to female members observed significant increase in girls’ schooling. Increase in credit to mother led to increased enrollment of girl child to schools. However, other credit programs experienced the substitution of girls’ schooling time with the time at household chores, if the mothers are drawn into self-employment activities. The study also observed the effect of program credit on household assets and expenditure on goods is higher for women than for men because men indulged in increased consumption of leisure with borrowings. Anthony, Horne (2003) concluded that it is the group gender composition, which affects the loan repayment behavior in a micro credit group rather than the individual gender of each member. The study found that the chances of default are likely to be less in a group having more females because females are considered more cooperative than males.
7.3 Need of the study

The purpose of this thesis is to provide a deep insight into the concept of microfinance and its intervention in the rural Punjab. In the recent past the formal financial institutions, particularly the banking sector has been emerging in a big way to participate in the micro finance movement, specifically in the rural areas. The banks have learnt from the experiences of other countries like Bangladesh that financing to poor could be a profitable venture. But a lot of efforts are still required to pave the way for this movement among the formal financial sector. Moreover, it has been observed through the existing literature that most of the studies have focused on the micro finance intervention in South India. Research on microfinance intervention in Northern India especially in rural Punjab is almost non-existent. To fill the gap in the existing literature, the present study is carried out. It is a modest attempt to find out as to how far banks in Punjab have been successful in providing micro financing services to meet the financial needs of the rural poor. The study would also highlight the nature and extent of the micro financing services provided by banks and the impact of such services on the ultimate borrowers. For this purpose, only public sector banks have been covered under this study while private sector banks, regional rural banks (RRBs) and the co-operative banks have been kept out of the scope of the study because of lesser availability of private sector banks in rural Punjab and lesser involvement of RRBs and co-operative banks in rural microfinance.

7.4 Research Methodology

The following methodology has been used to achieve the objectives of the study-

Sample Description
The study has used two groups of samples. To study the nature and extent of microfinance services provided by banks, a sample of 100 commercial bank branches was selected from the rural areas of the districts of Amritsar, Jalandhar and Ludhiana. The sample was selected block wise (total blocks being 30) in each district and included only public sector banks due to lesser availability of private sector banks in the rural areas. The total number of commercial bank branches in all the blocks (total blocks being 30) of the three districts is approximately 200. In order to have a representative sample, the size of the sample was decided equal to 50% of the
total number of bank branches i.e. 100. In all 15 banks were visited, with varying number of respective branches, based upon their availability in the respective blocks.

To analyze the level of awareness, expectations and satisfaction of the beneficiaries with regard to micro financing services provided by banks and to delve into their preferences for the formal and informal sources of finance, a sample of 300 respondents each was selected from the rural areas of Amritsar, Jalandhar and Ludhiana districts. 10 respondents from each block were selected, total blocks being 30.

Data Base
The study is based on the primary data derived from a set of two, pretested structured questionnaires for the bankers and the beneficiaries.

For the purpose of collecting primary data from the bankers, convenience sampling technique has been applied. The information has been collected through the structured questionnaires which were got filled up from the bank officials of manager’s and assistant manager’s rank by personally visiting them at the bank premises. The questionnaire was framed with the help of existing relevant literature. The beneficiaries were selected using judgment and convenient sampling to take into account those people who belonged to the poor and low income groups from the respective blocks and the nearby villages in each district. Further snowball sampling was also used where referrals were taken from the active opinion leaders and village panchayats. The questionnaire was designed on the basis of previous studies. The questionnaire was administered to a total 300 respondents out of which 43 percent of the respondents completed the questionnaire themselves with little bit help from the researcher for some technical points while the rest could complete the questionnaire after the researcher had explained it in native or regional language i.e. in Hindi or Punjabi.

7.5 Statistical Techniques
The techniques used for the purpose of studying the underlying objectives of the study are- Descriptive statistics (to measure the nature and extent of the microfinance services provided by banks and the level of awareness of the respondents with regards to these services), Factor
Analysis (Used to measure the bankers’ and customers’ perception of microfinance services), Cluster analysis, ANOVA and Tukey’s post hoc test (used to segment the customers on the basis of their perception of microfinance), Multiple regression analysis (used to analyze the impact of microfinance services on the socio-economic status of the beneficiaries of such services), Chi-square (used to find the perceptual differences among the banks borrowers and the borrowers of informal finance), Weighted average scores (Used to analyze the respondents’ preferences for the formal and informal sources of finance and to rank the factors extracted using factor analysis).

7.6 Structure of the study
The first chapter is introductory in nature. The concept of microfinance, its origin and progress has been discussed in detail.

The second chapter details out review of literature related to the study. The literature is grouped into four categories according to the issues they touched upon.

The research methodology applied for studying the set objectives is discussed in the third chapter.

In chapter four, first objective of the study is analyzed that is to study the banking sector intervention in the microfinance world in terms of the nature and extent of microfinance services provided by the banks. The chapter also highlighted the bankers’ perception of microfinance concept.

The level of awareness and expectations of the respondents has been analyzed in chapter five along with an insight into respondents’ preference for the sources of finance.

Chapter six focuses on the impact of microfinance services on the livelihoods of the respondents.

Major findings, summary and suggestions to the bankers and beneficiaries are given in chapter seven with scope for further research.
7.7 Findings of the study

Banking sector intervention in the rural microfinance

The banking sector involvement in microfinance has been studied in two parts. In the first part, nature and extent of the microfinance services has been studied and the second part deals with the analysis of the bankers’ perception towards microfinance. Following are the major findings of this chapter-

1. All the public sector banks are involved in microfinance business. They are offering wide range of services to the rural poor ranging from micro savings to micro credit and micro insurance. However, most of the microfinance services are of the nature of micro credit. Micro insurance services are still below the desired level.

2. Banks are less actively engaged in providing non-financial assistance to the rural poor. Only 50% banks reported providing advisory services to the petty entrepreneurs and 48% banks are organizing training campaigns for the rural youth to develop entrepreneurial skills among them.

3. Two models of microfinance are basically used by the bankers in Punjab- Individual banking model and SHGs-bank linkage model. Most of the banks are providing micro credit directly to the beneficiaries (91%) or through self help group linkage model (89%) or both. However the use of NGOs and MFIs for the intermediaries services have been found to be almost negligible (9% and 3% respectively) due to non- existent MFIs and inactive NGOs in microfinance sector in northern region of the country.

4. NGOs are very inactively operating in the regions. They are not even participating in group formations as most of the SHGs are formed by the govt. agencies like District Rural Development Agencies (DRDAs) and Child Development Project Officers (CDPOs).

5. Bankers preferred individuals lending over financing through SHGs. The reason being lack of mutual trust among the group members.
6. Bankers are allocating a little percentage of total funds towards microfinance services. 54% of the bankers have been following the practice of allocating less than 5% of the total credit to the microfinance clients.

7. Banks reported a little customer base for microfinancing as 21% bankers have less than 1% in the total of microfinance customers in the total customer base of the bank while 14% bankers reported having between 1%-2% marginal customers of the total customer base.

8. Microfinance sector targets only the poorer portion of the aspirers segments and the mid to rich portion of the deprived segment as only 23 bankers are catering to the financial needs of the vulnerable group of society living on a small monthly income up to ₹4,000 while majority bankers (43) reported that their customers belong to the income group of ₹4,001-₹8,000 per month.

9. Seventy five percent of the bankers use existing customers as a medium to advertise their services while 65% of the bankers organize awareness campaigns at village levels while 54% of the bankers used to send their representatives to the villages to demonstrate microfinance facilities the banks are providing. The use of intermediary agencies for making people aware and connected to the banking network has been found to be comparatively very less (26%).

10. Seventy one percent of the bankers stated that most of the loans are availed for purpose of carrying agricultural activities or to take up small ventures.

11. The majority banks (45 in case of loan size and 55 in case of loan duration) are providing micro credit in the range of ₹30,000-50,000 with an average duration of 3-5 years. However a significant number of banks (31) are providing better amount of microcredit as compared to the other banks i.e. more than ₹50,000.
12. Rate of interest on micro finance schemes varies between 4%-14% whereas rate of interest on savings is fixed i.e. 3.5% (now 4%).

13. Forty percent bankers stated offering micro credit without any security while 46% take securities and 68% demand guarantees too.

14. Sixty two percent bankers have experienced above 90% recovery rate till date while the rest are between 60-90% recovery rates.

In the second part of the chapter, bankers’ perception towards microfinance services has been analyzed with the help of the technique of factor analysis. The following eight factors could be extracted-

- **Welfare Factor**
  Welfare motive has been perceived by bankers as the most important factor that motivates them to delve into microfinance business and includes V 01 “Micro finance is an effective tool of poverty alleviation”, “V 02 It contributes to the economic and social welfare of the Society”, V 21 “Micro finance encourages entrepreneurship among rural poor” and V 22 “It enhances confidence and self respect among the poor”.

- **Outreach Factor**
  The outreach factor has been given second rank and it includes four variables namely V 14 “Increases bank’s outreach” V 15 “Improves bank’s image in the society” V 16 “Provides easy availability of credit” V 19 “It provides cheaper finance at affordable terms”.

- **Effective Utilization Factor**
  Effective utilization factor has been ranked third important factor. It includes the variables- V 17 “Loans are utilized for the purpose they are availed”, V 18 “It reduces the use of informal sources of finance” and V 20 “Microfinance is better than priority sector lending”.

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• **Profit Factor**
  The profit motive factor has been perceived as the fourth important factor. Profit motive factor involves two variables- V 05 “It’s not much profitable for the bank” and V 13 “Repayment rate is quite high”.

• **Women Empowerment Factor**
  Women Empowerment factor has been placed at fifth rank including variables- V 24 “It leads to better women empowerment”, V 12 “Ensures higher revenues for the bank” and V 23 “Most of the Micro finance clients are women”.

• **Risk Factor**
  Risk involved factor is the sixth important factor related to the bankers’ perception of microfinance services. It is comprised of six variables namely V 03 “The benefit does not reach the people to whom it is supposed to reach”, V 04 “It’s a new concept so involves high risk”, V 06 “Customers base is very little”, V 07 “Involves High cost of transaction”, V 08 “Default risk is very high” and V 10 “It requires availability of trained bank staff”.

• **Delivery Factor**
  The delivery factor has been given seventh rank and it includes two variables- V 09 “increased work load” and V 25 “It’s better to finance through some intermediaries like NGOs/SHGs /MFIs instead of direct financing”.

• **Competition Factor**
  Competition factor has been considered least important factor by the bankers as it has been given eighth rank. It includes one variable V 11 “Bank has to face competition from the unorganized sector”.

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Level of awareness and customers’ perceptions

Fifth chapter is aimed to examine the level of awareness and customers’ perception towards microfinance services. The chapter also highlighted the saving behaviour and credit utilization of the respondents and also focused upon the respondents’ preferences for the formal and informal sources of finance. The major findings of this chapter are:

1. In all 223 respondents out of the total 300 (74.3%) were aware that banks are offering microfinance services. However the level of awareness with regards to the particular type of the services was different.

2. Only 39.3% respondents were aware of the SHG- bank linkage model of microfinance.

3. Major sources of awareness regarding such services were found to be the existing customers of the banks (89.3%) followed by the bank representatives (66.8%) and the members of village panchayats (23.9%).

4. 32.7% of them saved irregularly due to irregular income as in case of labor where inflows are irregular depending upon the availability of work.

5. Facing the uncertainties relating to health and employment is the top most motive behind savings followed by children’s education, marriages and age old security.

6. The majority of the respondents (85.7%) were using saving bank accounts to park their hard earned money. Savings with post offices and SHGs were found to be negligible.

7. Insufficiency of income (81.4%) was reported as the major reason for not holding any bank account followed by distant location of bank branches (9.3%) and lack of awareness regarding the opening and use of such accounts (4.6%).

8. Only 33.2% of the bank account holders were able to tell exactly, the rate of interest credited by the banks on their savings while 15.4% stated wrong rate of interest and the remaining 51.4% could not even make a guess for the same.
9. Out of these 300 respondents, 91 respondents were not utilizing any source of finance. Out of the remaining, 107 reported having availed micro credit through banks. Out of these 59% of the respondents borrowed directly from the banks while the remaining 41% had availed loan through the self help groups of which they were the members.

10. 76 respondents were using informal sources of finance. Friends and relatives (23.44%) were major sources of finance in category of the informal source of finance.

11. People preferred informal sources of finance due to its easy availability, lesser formalities, and availability of money in no time, free from collaterals and loan utilization checks and distant location of bank branches despite being dissatisfied with the interest charged on such loans, behaviour of the provider and the consequences of the non repayment.

12. Finance for agriculture followed by finance to buy tools/equipments/machineries are the most utilized purposes for approaching the formal financial institutions and for consumption and emergencies, majority people prefer the informal lenders due to some favorable features of loan like they get higher amount of loan in lesser time for a longer duration.

13. The borrowers of formal sources of finance have borrowed in the range of ₹10000-30000 for the duration in the range of 1-3 years with a rate of interest ranging 8-13% and for the informal sources the average amount, duration and ROI are up to ₹ 50,000, up to 2 years and 15-24% respectively.

14. Only 52.86% of the respondents who were the borrowers of formal financial sources could state the rate of interest on their borrowings and just, 43.6% of the same were aware of the consequences of non-repayment of the loan.
The later part of the chapter deals with understanding customers’ perceptions towards the determinants of satisfaction with regards to the microfinance services provided by banks with the help of factor and cluster analysis. Six factors could be extracted through factor analysis as follows-

- **Access Factor**
  Access has been perceived by the customers as the most important factor that satisfied them with the microfinance services provided by the banks as it is at the first rank. It includes V08 “Banking hours”, “V 14 “Transportation cost to visit bank branch” and V 20 “Enough information is provided by the bankers”.

- **Follow up Factor**
  Customers ranked ‘follow up’ at the second place with an average score of 3.61. It includes two variables namely V 13 “Loan utilization check” and V 16 “Recognition and respect provided by the bankers”.

- **Staff Factor**
  The customers are satisfied with the co-operative behavior of the bank officials as they ranked the factor ‘staff’ as the third important factor. The variables in this factor are V 06 “Behavior of bank staff” V 17“Product customization”, V 21 “Grievance handling mechanism” and V 22“Affordability of microfinance”.

- **Credit Factor**
  The factor wise average scores reveal that customers are not much satisfied with the financial features of the loans such as Loan amount (V 01), Loan duration (V 02), Rate of interest on loans (V 03) and Rate of interest on savings (V 12) as the factor ‘Features of loan’ stands fourth.

- **Procedural Factor**
  Procedure of the banks in connection with the sanctioning of loan has been found to be the most discouraging factor as it ranks fifth. This factor is constituted by four variables-
V 04 “Repayment policy”, V 05 “Terms and conditions”, V 18 “Consequences of non repayment” and V 07 “File charges”.

- **Security Factor**
  ‘Security’ is the least ranked factor in the list of six factors. It includes three major variables V 09 “Demand for collaterals”, V 10 “Demand for guarantees” and V 11 “Compulsory saving requirement”.

Further cluster analysis was used to segment the customers on the basis of their perception towards the determinant of satisfaction with the microfinance services provided by banks. Three clusters were formed as follows-

1. **The Rational**- The rational cluster constitutes around 17% of the total banks’ customers availing credit from the banks. They are called rational because they are much satisfied with some of the factors like the procedural and follow up by the banks while dissatisfied with others like they are highly dissatisfied with the access and slightly dissatisfied with the security requirements.

2. **The Critical**- This group comprises of the majority (53.27%) of the banks borrowers of microcredit. This is the most critical group or the cluster because these customers are either dissatisfied or least satisfied with all the factors except the access.

3. **The Easy Going**- The easy going customers are 30% of the banks micro borrowers. They are much comfortable with the concept of microfinance showing high cluster mean values in all the variables i.e. access, security, credit, follow up and the staff except slight dissatisfaction with the ‘procedural’ adopted by the banks.

Then ANOVA and Tukey’s post hoc test was also applied on the cluster means to find out whether the means are significantly different and which means are significantly different. So, all the three clusters were significantly different on all factors except procedural factor. Clusters were profiled using demographic variables.
**Impact of the Microfinance services**

Chapter six deals with a very comprehensive question in terms of analysis of the perception of the respondents towards the impact of the microfinance services on their livelihoods. The chapter also highlighted the perceptual differences among the borrowers of banks and informal sources of finance with regards to the impact of microfinance services. Factor analysis was applied to determine the significance of the perception of the beneficiaries of microfinance towards the impact of such services on their status. Five factors were extracted as follows-

- Entrepreneurship development
- Economic empowerment
- Personality development
- Unnecessary rise in consumption
- Banking habits

These factors were used for further analysis i.e. multiple regression analysis.

**Multivariate regression analysis**

Further the association between the overall improvement in the socio-economic status of the beneficiaries of microfinance and the factors influencing socio-economic status has been examined with the help of multivariate regression analysis.

The estimated regression equation is as follows-

\[ Y_1 = 3.673 + .667X_1 + .164X_2 + .131X_3 + (-.412)X_4 + .079X_5 \]

All factors together explain 72.4 % variation in the overall socio-economic status of the respondents. Among these factors entrepreneurship development has been found to be the most important factor determining the overall socio-economic status.

Unnecessary rise in consumption contributed substantial adverse effect (44.4%) on the socio-economic status of the poor beneficiaries.
Chi-Square test

Chi-square test was applied in order to determine whether there is a significant difference between the perception of the respondents availing micro credit from the banks and the informal sources of finance with regards to the impact of microfinance services on their livelihood status. Out of 20 statements, for three statements the difference has been found insignificant i.e. increase in children enrollment to schools, increase child participation in the family business and rise in unnecessary expenditure on consumption. To sum up, the respondents who utilized finance from the banking network, perceive microfinance services more positively and believe that such services are helpful not only in meeting their small and basic financial needs but also to develop their business skills and personality traits in order to take them out of the poverty. On the other hand, the users of informal sources of finance perceived the microfinancing efforts by the banks in a negative way.

7.8 Recommendations

Finally, some recommendations are made both to the bankers and the customers to make the microfinance more effective and efficient tool of poverty alleviation-

Suggestions for bankers

Here are a few suggestions based on the study that may prove helpful to the bankers to contribute more effectively to the financial inclusion drive:-

- The foremost need of the hour is to spread financial literacy among the rural poor because mere availability of the services cannot serve the purpose if the target group is unaware of it. The banks should establish direct communication with the rural people by organizing awareness campaigns in the villages, by sending bank representatives to the villages to let the people know and understand the benefits of the services available to them.

- Though the SHG-Bank linkage model has been successfully implemented in the southern part of the country, it is yet to attain momentum in Punjab. No doubt, banks are providing finance through this model (89.2%) but the number of SHGs financed is less as reported by the bankers. The reasons are that the banks prefer to finance an individual client rather
than a group in order to fix the repayment responsibilities. Some of the banks reported their SHGs finance under litigation because of the lack of cooperation and mutual trust among the group members. But the bankers should try to resolve their conflicts and promote the environment of trust and confidence. They may engage NGOs for this purpose which would reduce the risk and burden of the bankers.

- The time has come that the bankers should change their attitude towards the rural poor. The study revealed that the majority of the bankers perceive the microfinance as highly risky venture but they should look upon the positive side of the picture as more than 60% bankers reported above 90% repayment rate which is even better than that of the well off clients.

- A very important area which has not been much taken care of so far is the arrangement of non-financial services to the poor. The poor have got talent. But they need to garnish their entrepreneurial skills besides fund requirements. The bankers can play a wonderful role in developing their business skills. They can provide for the advisory services to the small entrepreneurs in selecting the viable business opportunities open to them. They can also arrange for the training camps for the rural youth to inculcate entrepreneurial skills among them and to train them to carry out their own ventures.

- Bankers can also promote women empowerment by promoting business culture among them. Though the banks are providing some special schemes to the women, but the number of women clients has been reported to be very little as compared to men. The bankers should also motivate them to avail these services too. Women can be motivated to form SHGs to avail these services.

- Most of times the poor hesitates to approach the banks for his financial needs due to the cumbersome procedural formalities of availing credit from the banks. They prefer to get finance through the informal routes that are though costlier but easy. Moreover, the banks ask for collaterals which a poor is unable to offer. So the banks should ease their procedures to avail loans and also dare to offer collateral free loans to them. The studies
have shown that poor are bankable, they have the ability and willingness to repay (Kavitha and Ramachandran, 2007; Bedoya, 2006; Gupta 2008).

- There are many villages where there is not a single bank branch available. Now with the introduction of information technology, bankers can easily mark their presence in the unbanked areas. Mobile banking and Business Correspondents and Business Facilitators models are a few of the IT enabled mechanisms to reach the unreached. However, the IT enabled models have already been successfully implemented in three banks namely PNB, OBC and SBOP in the district of Fatehgarh Sahib on pilot basis.

- Though, the government of India is providing many facilities to encourage the bankers to promote financial inclusion to its full extent in the form of Debt waiver schemes, Financial Inclusion Fund (FIF), Financial Inclusion Technology Fund (FITF) etc., the banks should keep on developing more and more schemes under the microfinance net as per the needs of the rural poor and should increase the fund allocation towards the same.

- The results of the clusters analysis depicted that there are three types of the potential microfinance customers on the basis of their perceptual differences for the microfinance services. The first (the rational) and the third clusters (the easy going) do not require many efforts on the part of bankers but the second cluster (the critical) requires special efforts. The banks should come up with more affordable schemes for them at reasonable terms. As the cluster profile stated that the critical group is comprised of the young, educated and the self employed rural poor, the efforts should be made to provide for some non-financial assistance. Due to lack of market knowledge, the young small entrepreneurs find it difficult to make best use of finance and they get themselves caught in the debt trap. So the bankers, with the help of some intermediaries like NGOs, should arrange for imparting training to the rural youth to develop their entrepreneurial skills and enhancing their market knowledge.
Suggestions to the beneficiaries

The successful implementation is not the responsibility of banks and the government alone. It also requires willing co-operation and participation of the beneficiaries of such services. Here are a few of the suggestions for the beneficiaries based on the findings of the study-

- The target beneficiaries should organize themselves into groups because group linkage model can be very effective if they can also create the environment of mutual trust among the group members. It would be beneficial to the customers belonging to the areas where there is no bank branch located and they find it difficult to get the loan directly from the distantly located bank branches. The group will provide them a medium to save out of their small earnings and get the loan out of the pool of savings when needed. Once the group gets linked to the bank, it would enable them to get cheaper finance from the bank through the group.

- The beneficiaries should make only productive use of the micro credit instead of indulging in unnecessary expenditures which bear adverse effect on their socio-economic status.

- It has been found in the study that lower level of education also creates hindrances in the use of such financial services as the illiterate and the less educated rural poor find it difficult to fulfill the bank formalities. So the poor should give priority to giving good education to their children. Right to education is a universally recognized human right. Thanks to the government initiatives of passing the Right of Children to Free and Compulsory Education (RTE) Act 2009 which made it the right for the children in the age group of 6-14 years to get free and compulsory education (http://www.educationforallinindia.com/). In Punjab, various projects have been initiated to uplift the level of education in the rural areas. Like the one very important “Parho Punjab” project which provides an opportunity for improving human capabilities of all children, through provision of community-owned quality education (http://www.ssapunjab.org/sub%20pages/PP.htm). So the people should also come forward to make such efforts successful by sending their children to schools.
• The beneficiaries should develop good banking habits. The bank account should not be a mere decorative piece. They should actively operate their accounts. They should try to save regularly as much as they can.

• Women should come forward to take up small economic activities to be economically independent and contribute to the family income. There are several schemes available for them with the number of banks. But the perquisite is to move out of their domestic boundaries and think independently to manage the financial resources. They should learn to balance their work and family.

• The study revealed that bankers do organize awareness campaign at village level but people hardly bother about these campaigns. The beneficiaries should actively participate in such programs to enhance their knowledge regarding the availability and use on microfinance services.

7.9 Conclusion

Microfinance as an instrument of poverty reduction has been making commendable efforts and giving a hope to the poor who have the ability as well as willingness to save but are deprived of the adequate finance at reasonable terms. All the public sector banks are offering a wide range of micro financial services, though the level of distribution of these services is found to be low in terms of funds allocation and customer base. The good thing about bankers’ involvement in microfinance business is that they perceive it in a positive way while earlier they believed financing to poor to be risky venture. The study also found good saving habits among the rural poor. Maximum of them save regularly and that too in formal financial avenues. Similar is the case of credit utilization, many of the beneficiaries (107 out of total 300 beneficiaries) were using bank micro credit that breaks the old myth about rural people to approach their personal contacts for credit. This may be because of widespread bank branches in rural areas which was not the scene of the past. Interestingly, people having taken micro credit from the formal sources are found to be much satisfied with the services than the one availing credit from the informal
sources. It shows that the formal sources have been successful to some extent in improving the attitude of the rural people towards the organized financial sources, thereby reducing much of their dependence on the costlier and exploitative means of finance such as moneylenders. However, significant proportion of the respondents reported either not using micro credit services or using informal sources for availing micro credit. This attitude reflects the conventional belief of not using loan as it is considered to be a sin or manage it amongst relatives or friends instead of going outside for the loan. Majority of the people from rural areas (54.5%) are unaware of the micro financing services provided by the banks such as ‘zero minimum balance’ bank account. As far as their financial awareness is concerned they are quite aware of their loan statistics. People do value microfinance services and recognize their positive impacts on their lives.

Thus, it has been observed that no doubt, the formal sector of finance, specifically the banking sector has made a significant progress in achieving the financial inclusion target. But still a lot of efforts are required to pave the way for the micro financing movement among the banking sector. The need of the hour is to change the attitude of the people towards use of formal sources of finance by spreading more awareness of micro financing services available with the banks and the use of such services so that they feel motivated to access these sources. Moreover, the banks should take care of service activities causing dissatisfaction among the customers.

For microfinance, to be a very powerful instrument of poverty eradication, efforts should be made in right direction with right spirit.

7.10 Contribution of the study

1. The present study has highlighted various factors which the banks should consider to make the microfinance reach the most deserving section of the society. An analysis of awareness, expectations and level of satisfaction of the customers has revealed the current state of affairs as far as microfinance by banks is concerned. The bankers are advised to consider the recommendations made under the present study in order to make microfinance business more viable in the long run.
2. An analysis of the nature and extent of the microfinance services provided by the banks would make both present and potential customers aware of the various schemes that are meant for them.

3. Since very little work has been done in the context of microfinance intervention in rural Punjab, the present study highlighting the bankers’ intervention in microfinance and customers’ perceptions, thereof is a significant contribution to the existing literature.

7.11 Scope for further research

The present research, being an exploratory in nature, is directed to give an insight into the different aspects of banking sector involvement in rural microfinancing in Punjab and customers’ perceptions towards microfinancing efforts by the banks. The results of the study provide substantial avenues for further research on the subject.

One relevant area for further research could be to compare microfinancing efforts across states in India and a country wide comparison could also be done. As this study is focused upon microfinancing initiatives in Punjab only, the depth study of the experience of the southern states can be of much help to make the microfinance more effective in this state.

Another interesting area that could be studied is the detailed analysis of different models of microfinance delivery adopted by banks and their comparison in terms of the pros and cons of the respective model. This could also shed light upon the appropriateness of the models in the particular geographical circumstances.

The comparison among the various categories of microfinance services such as banks, cooperatives, government schemes, moneylenders could also make an interesting study.

The detailed analysis of the formation and functioning of the self help groups (SHGs) could also be done to find out the problems behind their inactive operations in rural Punjab.