



MICROFINANCE BENEFITING THE INDIAN ECONOMY - A CASE STUDY WITH SPECIAL REFERENCE TO SATNA DISTRICT OF VINDHYA REGION

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ABSTRACT

India is a developing country. India's performance in booming sectors is mediocre, even after six decades of independence. Undoubtedly, almost twenty-five percent of its population lives in poverty and there is also the problem of unemployment. Weight loss is not only critical but also a permanent affliction in India. At the same time, there are untapped natural resources. Major problems are unemployment and poverty especially in rural areas due to unorganized sources of credit and fewer facilities provided to poor people. Finance plays a paramount role in unlike the economic activities run by the rural masses, due to the attribute that most of the rural people are very poor. The study was conducted to find out the factors that pave the way for microfinance for poor people in Vindhya Region. 300 respondents were interviewed informally through a structured questionnaire. The study revealed that most of the SHG members performed well and found participation in the SHG program beneficial. The performance of SHGs can be improved through training and awareness programs organized by NGOs and the government at the country level. Furthermore, in this paper, an effort is devoted to study the relationship between performance and personal and socioeconomic characteristics.

Keywords: *Microfinance, Poverty, Unemployment, Financial Inclusion.*

INTRODUCTION

Self-Help Groups (SHGs) are micro-credit institutions that have emerged at the village level on the basis of self-help, collective perception, decision-making and implementation of joint programmes. SHGs now occupy a predominant position in the rural credit system. SHGs play a vital role in achieving the objectives of economic planning i.e. economic and social development of women and thereby bring about empowerment of women. A self-help group consists of 12 to 20 women from a homogeneous class who come together to solve common

problems. Groups are encouraged to inculcate the habit of thrift and thrift. Members' regular savings are pooled and the expanded fund available to them is rotated among members at an agreed interest rate. Banks are interestingly involved in providing credit to SHGs in certain multiples of the savings collected by the group. Linking bank credit to SHGs is an innovative program to promote banking habits among the non-bankers. The concept of self-help groups was started in 1976 by the initiation of prof. Mohammed Yunus of Bangladesh, a noble laureate of the Peace Prize. Microfinance has achieved a revolutionary victory in Bangladesh, helping the rural population out of poverty. This concept dilutes the issue of securing collateral and helps people get easy access to financial credit

Finance is a powerful tool for alleviating poverty and enhancing the economic development of society as a whole. Access to finance, especially for the poor, is empowering as financial illiteracy typically leads to wider financial and social exclusion. However, formal finance does not capture all segments of our society, even if we try to. Gaps in access to formal finance have led to the advancement of microfinance in India. In India, microfinance works through the SHG-Bank Linkage Program and Microfinance Institutions (MFIs). Microfinance institutions in India have emerged as a major enabler for the country's poor, filling the gap in the availability of banking services for the underserved rural population. In the persistent plight of poverty, disadvantaged rural villagers are unable to pursue capital formation as the income from their operations is not even sufficient to meet their living needs. Then the poor villagers need finance to carry out income generating economic activities.

The Indian economy is hampered by the existence of low per capita income. The individual income of an Indian in 2009 was \$1180. Microfinance has become very successful in reducing poverty and increasing employment in developing countries. Microfinance was first started in Bangladesh in 1976 with the promise of providing unsecured credit to the poor and alleviating poverty and unleashing the human creativity and efforts of poor people.

Social sector and therefore turned to the legal form of trusts or companies. However, these institutions were operating without profit and this became a limitation for their sustainability. However, due to the specific characteristics of their business work, these institutions were then registered as NBFC-MFIs created by the RBI on the recommendation of the Malegam Committee. In recent years, MFIs have gradually developed into a dynamic segment of the financial sector with different business models. However, since 2012, the sector has recovered its momentum and has shown consistent growth. Many policies have been reformulated for MFIs to strengthen the MF sector, including the RBI guidelines on NBFC-MFIs under the priority sector, and have worked wonders.

As a result, MFI lending has shown strong growth with a 50% jump in loans disbursed over the last three successive years from 23682 crores during 2013-14 to 37599 crores and further to 61860 crores during 2015-16 (as per MFIN data). The success and scope of MFIs, especially the large ones, in both credit and financial penetration, has enabled them to gain permission to operate as mainstream banks/small finance banks, facilitating the reduction of cost of funds as well as passing on benefits to their clients. Further progress in this process is being made by the Reserve Bank through the establishment of payment banks and small finance banks. The Jana Dhana Yojana policy announced by the government marks a landmark in the quest for universal financial access. Many cash benefits are provided by the government directly into these accounts. This will ensure that a large number of accounts are opened under various schemes and those dormant accounts are revived at the earliest.

A Self Help Group (SHG) is defined as “a voluntary group of persons who come together to help each other in solving their financial problems. These groups help the rural population in general and support them in their

economic development. The number of members in an SHG normally ranges from 10-20. The group ensures that there is a democratic culture in which all members must actively participate in discussions and the decision-making process. Group cohesion increases when there is homogeneity of members in the group in terms of education, income distribution, work, but in the long run the stability and survival of SHGs depends on their members' loyalty, hard work and consistency with group activities.

Models of Microfinance Services

India is home to the largest microfinance system in the world. There are several models of providing microfinance services. Some of the important and largely practiced delivery models are

- The Association model
- The Community banking model
- The Cooperative model
- The credit union model
- Individual banking model
- The SHG model
- The KCC Model

Literature Review

Priya (2020): In India, the study reveals that most of the literature on microfinance revolves around the four southern states where governments and NGOs take the lead in spreading microfinance. Studies conducted in India, as evident from the above literature review, have shown that microfinance and self-help groups have largely contributed to the development of the poor population. It is an integrated effort to lift the poor out of poverty and make them financially strong and economically stronger.

Nasir S (2018): The author seeks to outline the current state of microfinance in India and aims to provide a cost-effective and financially feasible mechanism for providing financial services to the poor. The research identifies gaps in the functioning of MFIs such as gaps in credit delivery, lack of product diversification, inconsistent policies to meet customer needs and practical suggestions to overcome challenges and issues associated with microfinance in India.

Barinaga E (2016): The author describes the first year of efforts to introduce microfinance as a tool for work with vulnerable groups in Sweden and discusses whether microfinance can be considered a tool for analysis. The author describes the first year of efforts to introduce microfinance as a tool for work with vulnerable groups in Sweden and discusses, whether microfinance can be considered a tool to analyze social change in advanced welfare states such as Sweden. The analysis shows the mobilization and generation of social capital and the process of alignment of frameworks set in motion by microfinance.

Moses E. (2014): The findings show that microfinance is perceived as one of the most effective tools for improving the economic conditions of the poor without assets through a group approach that ensures active participation and involvement of beneficiaries in effective program implementation.

A.S. Shiralahetti (2012): The author focuses on empowering women through self-help groups. The author highlighted the reasons for joining SHGs. Purpose and repayment of loan, monthly income, expenditure and savings scheme before and after joining SHGs. He also emphasized the opinion of the members of SHGs on increasing the power of family decision-making. He concluded that there has been tremendous progress in the social and cultural environment in India. Women are now involved in all productive activities and are at par with men, SHG movement in India is working in the right direction but it is necessary for the empowerment of

more and more women, which are social, cultural, economic, political and legal matters. The interest of the family in particular and the nation in general.

Research Objectives

- 1) The impact of microfinance on people's living standards.
- 2) The Impact of Microfinance on Poverty Alleviation.

RESEARCH METHODOLOGY

Data Collection: Survey method along with personal interview technique was adopted for primary data collection. Two well-structured and pre-tested interview schedules were assigned to collect information from respondents. Secondary data will be collected from various sources at international and national level. Internationally, data is obtained from websites and institutions such as the World Bank, DFID and the ILO. At the national level, relevant data have been obtained from organizations such as RBI, NABARD, reports of various committees, National Sample Survey Organization (NSSO), National Accounts Statistics Central Statistical Organization (CSO) and other apex level organizations. The required analysis was done using easy to understand tables and graphs to point out the facts of the analysis.

Sample Size: 300 Responded

Location: Satna district is one of the representative districts of Vindhya region of Madhya Pradesh. It is named after the capital Satna. The city derives its name from the Satna River, which flows through the area and flows into the Ton River. The district is culturally and agriculturally rich. Satna district is famous for pilgrimage stations namely Sharda Temple (at Maihar), Chitrakoot and Ramvan. Agriculture is the main source of income in the district. The district is also of industrial and mining importance. There are three main cement plants located at Satna, Mankahri (in Rampur-baghelan block) and SarlaNagar (near Maihar town). The district is also a large producer of limestone.

Satna district is located in the northern part of Madhya Pradesh and has a geographical area of 7,424 km². It is bounded by Chitrakoot district (U.P.) on the north, Katni and Umariya districts on the south and Panna and Rewa districts form the western and eastern boundaries of Satna district. The district lies between 23°05' and 25°12' north latitudes and 80°21' and 81°23' east longitudes. Belongs to Survey of India Topsheets Nos. 63 C/ 12, &16, 63 D/ 5,6,7,8,9,10,11,12, 13 and 63D/14, &15 (complete), 16 (part) and also in sections 63H/1,2,3,7 & 8. It extends for a length of about 132 km from north to south and 102 km from east to west. The district is well connected by road with the state capital Bhopal and the adjoining district headquarters. Kanyakumari-Varanasi National Highway No. 7 passes through the southern part of the district. The West-Central Katni-Allahabad broad gauge line passes through the central part of the district.

Satna District is a part of Rewa Commissionerate. The district was divided into 10 tehsils and 8 blocks. There are 1816 villages and 11 towns in the district. The total population of the district is 365,000. The selected blocks are shown in the table 01.

S. No.	Block	Population			
		Population	Male	Female	Households
1	Majhgawan	150,362	79,158	71,204	31,879
2	Birsinghpur	132,460	69,058	63,402	27,972
3	Unchahara	190,961	98,748	92,213	39,817
4	Rampur Baghelan	168,127	87,038	81,089	36,564
5	Raghurajnagar	504,183	264,916	239,267	103,343

Table No. 01

Age Group of People Surveyed - Above 20 Years

Tool for Analysis

Various statistical tools were used to analyze the obtained data. Percentage and chi-square test were used to draw meaningful conclusions from the study and frequency distribution is used to analyze the data.

Data Analysis and Interpretation

Age of Respondent

Sl. No.	Age Group of Respondent	No. of Respondents	Percentage
1	20-30	83	27.67
2	31-40	139	46.33
3	41-50	51	17
4	Above 50	27	9
Total		300	100

Table No. 02

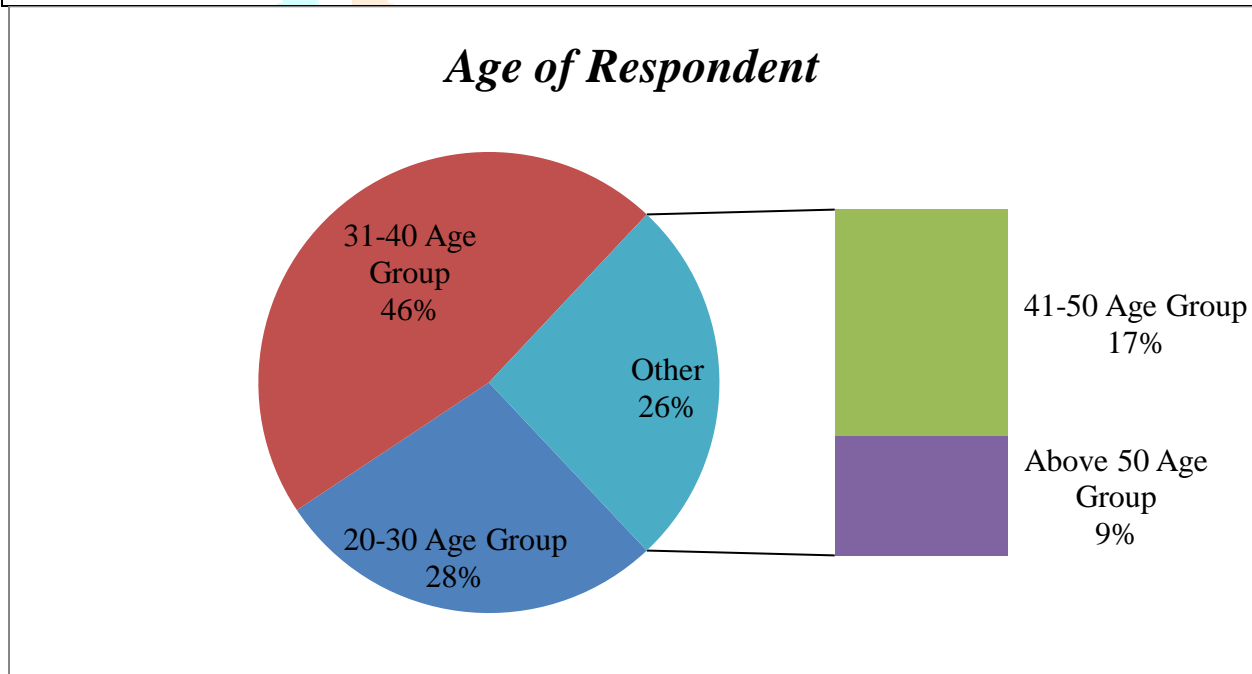


Fig No.: 01 Age of Respondent

Table 2 shows that the majority of respondents are in their 30s-40s. Their percentage is a maximum of 46%. This shows that most of the SHG respondents use the microfinance tool and engage as SHG members to improve their living conditions. There were 28.00% of respondents in the age group of 20-30 years, 17.00% in the age group of 40-50 years, and 09.00% of respondents in the age group of over 50 years.

Have a bank account and frequency of bank transactions

In this section, we describe the respondents who have bank accounts and the frequency of transactions. In the case study, we asked respondents if they had a bank account. They had to answer Yes or No. Then we asked about the frequency of the transaction. They answered the transaction as weekly, monthly, quarterly, half yearly and yearly. In the study, we found that banks play a very effective role in the development of microfinance and related activities, because by opening a bank account they can increase their savings. After they had some savings, they could get a loan plus grants and start a business. Thanks to their savings, they were able to borrow

on very favorable terms and meet their basic financial needs. Banks thus play a very important role in saving, collecting, and providing loans and grants, supporting self-employment and microcredit facilities for poor people.

Sl. No.	Respondents having Bank Account	No. of Respondents	Percentage
1	Yes	288	96.00
2	No	12	4.00
	Total	300	100

Table No. 03

Sl. No.	Respondents Frequency of Bank Transactions	No. of Respondents	Percentage
1	Weekly	23	7.67
2	Monthly	196	65.33
3	Quarterly	61	20.33
4	Half yearly	20	6.67
	Total	300	100

Table 4

Table 4 shows the growth of financial inclusion in India as more and more people interact with banks and financial institutions. So we can say that in Meerut district rural areas have maximum microfinance beneficiaries who have bank account and do bank transactions on monthly basis.

Amount Borrowed as Loan

Sl. No.	Amount Borrowed	Frequency	Percentage	Cumulative Frequency
1	Less than Rs. 5,000	43	14.33	14.33
2	Rs. 5,001- 10000	101	33.67	48.00
3	More than Rs. 10,000	156	52.00	100.00
	Total	300	100	

Table 5

Table 5 shows that 33.67 percent of the respondents took a loan of Rs. 5,001-10,000 and only 14.33 percent of the respondents took a loan of less than Rs. 5000. So the maximum 52.00 borrowers borrowed more than Rs. 10,000 through Direct Microfinance. Using this amount, they started self-employment and their profession.

Monthly Saving

Sl. No.	Amount Borrowed	Frequency	Percentage	Cumulative Frequency
1	Up to 50	84	28.00	28.00
2	51-100	111	37.00	65.00
3	More than 100	105	35.00	100.00
	Total	300	100	

Table 6

Table 6 shows that 27.33 percent of the respondents have monthly savings of less than Rs.50. 28.00 percent of respondents have monthly savings between Rs. 51-100 and 35.00 percent of respondents have monthly savings of more than Rs. 100. This shows that 37.00 most people save between Rs. 51-100 and they inculcate the habit of saving and are more inclined to save more money and repay the loan from the savings as soon as possible.

Association between Amount of Loan and Savings

Factor	Calculated Chi Square value	Degree of Freedom	p value	Remarks
Amount of loan	11.92	4	00.05	Highly significant

Table 7

It can be seen from the above table that the p-value is less than 0.05, therefore the null hypothesis is rejected and there is a very significant relationship between loan amount and savings. The analysis shows that there is a very significant relationship between the amount of credit extended to members from their savings at the meeting and the interval time for the credit availed by the members.

Experience with the Group

Sl. No.	Experience with the Group	No. of Respondents	Percentage
1	Up to 1 year	144	48.00
2	1 -2 years	107	35.67
3	2-3 years	49	16.33
	Total	300	100

Table 8

The level of perceived satisfaction of the respondents on a scale of 1-5, where 1 is the lowest and 5 is the highest

Sl. No.	Activities	1	2	3	4	5
1	Standard of living	10	80	61	49	100
2	Employment Creation	6	77	52	61	104
3	Poverty Alleviation	8	67	63	53	109
4	Empowerment of women	-	-	62	111	127
5	Training program	26	41	73	79	81
6	Confidence level	83	73	65	43	36

Association between Poverty Alleviation and Standard of Living

Factor	Calculated Chi Square value	Degree of Freedom	p value	Remarks
Poverty alleviation	32.31	16	00.05	Highly significant

It can be seen from the above table that the p-value is less than 0.05, therefore the null hypothesis is rejected and there is a highly significant relationship between poverty alleviation and living standards of self-help group members. These statistics show that after joining SHGs, poverty is alleviated and people's living standards are raised.

Conclusion

This paper has attempted to understand the role of microfinance in socio-economic empowerment of poor people in Meerut district. It is quite evident that microfinance effectively contributes to poverty alleviation and significantly affects the development of their families in terms of obtaining credit for housing repairs, education and marriage of their children as well as for consumption purposes. The study found a good saving habit among women as the maximum number respondents had savings accounts. The study also shows that after joining the group, the standard of living of the members has increased and they are getting out of their destitute conditions. Some attitudinal changes are required on the part of finance providers also to break the old stigma of gender discrimination. Women should be encouraged to do business by providing them with proper guidance and developing their business skills. Poverty alleviation largely depends on economic empowerment and microfinance can prove to be a very powerful tool in the future.

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