Assessment of Microfinance as an Effective Tool for Socio Economic Development.

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Abstract: This paper reports on the findings of an exploratory research whose main purpose is to investigate the access micro finance as an effective tool for socio economic development of respondents of Udaipur district. The study sought to establish whether micro finance empowers the poor and reduces poverty. The study was conducted through the use of questionnaires randomly distributed to clients of various micro finance institutions in Udaipur district. Chi -Square test is used as an analytical tool.

The study revealed that there is a positive relationship between microfinance and the socio economic lives of people. It was found out that the activities of microfinance institutions resulted in increased social interaction and socio economic sustainability.

Key Words: Empowerment, micro finance, socio economic, sustainable development.

1. Introduction:

Indian Microfinance today is a dynamic space with multitude of players offering various products and services to low income clients with different approaches. Banking system along with other legal forms such as NBFCs Section 25 companies cooperatives and NGO-MFIs all are approaching rural markets. Many new forms of relationships are emerging among these entities to leverage on each other’s strength. However despite such new developments the penetration of microfinance remains low and spread highly skewed in Southern India. "Indeed there are ample gaps to be filled and this would lead to further changes in Microfinance space" (Jawaharlal Nehru). Dr. C. Rangarajan (2006) in his topic 'Microfinance and its future directions' outline the evolution of SHG through microfinance evolve through in three stages. First to meet survival requirement need in the second stage is to meet the subsistence level through investing in tradition activities and in the final stage by setting up of enterprises for sustainable income generation. Robert Peck Christen (2006) in his paper "Microfinance and Sustainable International Experience and lesson for India” he articulates the changing general perception of bankers that SHGs are profitable clients or bank.

2. Socio-economic development

This term has been synonymously used with the words social and economic development. Burkey (1993) rural development workers define socio economic development as a process by which people through their own individual or joint efforts boost production for direct consumption and have a surplus to sell for cash. The social development as a process of gradual change in which people increase their awareness of their own capabilities and common interests and use this knowledge to analyze their needs decide on solutions organize themselves for cooperative efforts and mobilize their own human financial and natural resources to improve establish and maintain their own social services and institutions within the context of their own culture and their own political system.

3. Features of Micro Finance

Some important features of micro finance are as follows:

a) Micro finance is a tool for empowerment of the underdeveloped masses.

b) Micro finance is essential for promoting self-employment the opportunity of wage employment is limited in developing countries - not increases the productivity of employment in the informal sector of the economy.
4. Literature Reviews

Alok Misra (2006) IFAD along with Food and Agriculture Organization (FAO) and the World Food Programme (WFP) declared that it will be possible to achieve the eight MDGs by the established deadline of 2015 "if the developing and industrialized countries take action immediately" by implementing plans and projects in which micro credit could play a major role.

Verma (2007) confirms that microfinance has played a major role in developing and underdeveloped countries as an instrument of improving the economic condition of the poor and reducing their vulnerability through delivery of collateral free small amount loans for creating micro-enterprises, acquiring productive asset etc.

Rena (2008), Microfinance is more than just credit and can play an important role beyond enterprise development in supporting the livelihood of the poor by considering a mixture of resources, activities and capabilities that enable individuals and households to pursue their economic goals.

Kalpesh Desai (2010), Microfinance has impacted not only the rural and urban poor, but also a number business that serve this target segment. The rural and urban poor who were hitherto ignored by banks, financial institutions and insurance companies, have now become an attractive alternative opportunity for lenders purely because of high returns on investment and the low risk of recovery. This has also helped the rural and urban poor, as it has given them access to funds that cost lower than the local money.

Ranga Rajan (2010) the government borrowing will put pressure on interest rates. However, a low appetite for credit from the private sector would facilitate the public borrowing.

Ajaya Mohapatra (2011) in order to address the issues of unemployment and jobless growth in India, there is a need to promote micro entrepreneurship especially amongst youth. It is pertinent to note that running a small business or setting up of a micro enterprise requires multi-skills rather just acquiring a particular occupational technical skill. Therefore, an integrated multi-skilled course can be designed in order to promote micro-entrepreneurships to facilitate self-entrepreneurs in creating wealth as well as employment opportunities.

Manisha Sharma and Vishal Sarin (2011) in their study which is based upon the role of microfinance organizations in poverty alleviation, focuses on the identification of critical factors responsible for poverty and extent to which microfinance organizations have helped in poverty alleviation.

Poverty is caused due to lack of finance and increased in credit can help people to provide other basic facilities. Microfinance organization facilitates access to credit which enables the poor to earn their livelihood. The factors include financial upliftment, women empowerment, social upliftment, health, education and housing. So the efforts of microfinance should be focused on these identified factors.

5. Research Objectives

To access microfinance as an effective tool for socio economic development, the objectives of this research were as follows:-

1. To study the awareness among people about microfinance services provided by Microfinance Institutions.
2. To find the impact of microfinance activities on their overall socio economic development.
3. To know the view of respondents about performance and role of microfinance agencies.
4. To know the opinion of the respondents about helping attitude of bank officials.
5. To determine the impact of microfinance in improving living standard of respondents.

6. Research Methodology:

For the research study, non-probability convenience sampling technique is used to get sample from Rajasthan and Udaipur district is chosen as per convenience. Total 80 respondents were chosen from universe. Primary data was collected from the existing and prospect beneficiaries as respondents of Banks and M.F.Is. through: Questioners, discussion, observation and interview and secondary data from Journals, Reports, Periodicals, Planning, commission reports. RBI reports etc.

Research study required a non-parametric test for data analysis so researcher used chi square test as non-parametric test for data analysis.

7. Limitations of Study

While assessing microfinance as tool for socio economic development the limitations were as follows:-

1. Some people might not express their feelings freely because they might think this may have effect on their impression.
2. It is assumed that samples selected will truly represent the population.
8. Data Analysis

Table 1. Awareness about different benefits of microfinance.

<table>
<thead>
<tr>
<th>Category</th>
<th>Views about performance and role of MFI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Satisfactory</td>
<td>Not Satisfactory</td>
</tr>
<tr>
<td>Bank</td>
<td>(77.08)</td>
<td>(71.88)</td>
</tr>
<tr>
<td></td>
<td>37</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>(61.67)</td>
<td>(38.33)</td>
</tr>
<tr>
<td>M.F.I.</td>
<td>(22.91)</td>
<td>(28.12)</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>(55)</td>
<td>(45)</td>
</tr>
<tr>
<td>Total</td>
<td>(100)</td>
<td>(100)</td>
</tr>
<tr>
<td></td>
<td>48</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>(60)</td>
<td>(40)</td>
</tr>
</tbody>
</table>

Graph 1

Awareness about different benefits of microfinance.

The table 1. Portrays the respondents on the basis of awareness. In all 73.75% respondents were aware about microfinance at great extant, 26.25% respondents were aware about the benefits of microfinance at some extant and 11.25% respondents of microfinance were aware about the benefits of microfinance at little extant.

Chi2 test was applied to test the independence among category and awareness about microfinance of respondents. The calculated value of chi2 was found 0.84694 which in less than the table value 5.991 at 5 percent level of significance. Hence, the hypothesis is rejected. There is no dependence between category and knowledge respondents about awareness about different benefits of microfinance.

Table 2. View of respondents about performance and role of Microfinance Agencies.

<table>
<thead>
<tr>
<th>Category</th>
<th>Awareness about microfinance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aware at high extant</td>
<td>Aware at some extant</td>
</tr>
<tr>
<td>Bank</td>
<td>(77.97)</td>
<td>(66.67)</td>
</tr>
<tr>
<td></td>
<td>46</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>(76.66)</td>
<td>(13.33)</td>
</tr>
<tr>
<td>M.F.I.</td>
<td>(22.03)</td>
<td>(33.33)</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>(65)</td>
<td>(20)</td>
</tr>
<tr>
<td>Total</td>
<td>(100)</td>
<td>(100)</td>
</tr>
<tr>
<td></td>
<td>59</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>(73.75)</td>
<td>(15)</td>
</tr>
</tbody>
</table>

Graph 2

View of respondents about performance and role of micro finance agencies.

The table no.2 reveals that respondents who were satisfied with performance of banks 77.08 percent belongs to banks category 22.91 percent respondents belongs to M.F.I whereas 71.88 percent respondents of banks 28.12 percent respondents of M.F.I. said that the performance of microfinance agencies were not satisfactory. In all 60 percent respondents were satisfied and 40 percent respondents were not satisfied with performance of banks and M.F.I.

Chi2 test was applied to these the independence between category and performance of MFI the calculated value of chi2 was found 0.27775 which is less than the table value 3.84146 at 5% level of significance. The hypothesis is rejected. Hence,
there is no dependence between category and view about performance of MFI and their role in overall socio economic development.

Table 3.

View of respondents about impact of microfinance activities on their overall socio economic development

<table>
<thead>
<tr>
<th>Category</th>
<th>View about impact of microfinance activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Have high impact</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Have low impact</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>(80.43)</td>
<td>(75)</td>
</tr>
<tr>
<td></td>
<td>(61.67)</td>
<td>(60)</td>
</tr>
<tr>
<td>M.F.I.</td>
<td>(19.57)</td>
<td>(25)</td>
</tr>
<tr>
<td></td>
<td>(45)</td>
<td>(20)</td>
</tr>
<tr>
<td>Total</td>
<td>(100)</td>
<td>(100)</td>
</tr>
<tr>
<td></td>
<td>(57.5)</td>
<td>(34)</td>
</tr>
</tbody>
</table>

Chi2 test was applied test the independence among category and income group of respondents. The calculate value of chi$^2$ was 1.705029 which is less than the table value 3.84146 at 5% level of significance. Hence, the hypothesis is rejected. There is no dependence between category and impact of microfinance agencies in socio economic development of the respondents.

Table 4.

Opinion of the respondents about helping attitude of Bank and M.F.Is officials

<table>
<thead>
<tr>
<th>Category</th>
<th>Opinion about Bank and M.F.Is officials</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Helpful</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Not helpful</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>(74)</td>
<td>(75)</td>
</tr>
<tr>
<td></td>
<td>(61.67)</td>
<td>(60)</td>
</tr>
<tr>
<td>M.F.I.</td>
<td>(26)</td>
<td>(25)</td>
</tr>
<tr>
<td></td>
<td>(65)</td>
<td>(20)</td>
</tr>
<tr>
<td>Total</td>
<td>(100)</td>
<td>(100)</td>
</tr>
<tr>
<td></td>
<td>(62.5)</td>
<td>(80)</td>
</tr>
</tbody>
</table>

The table 3. displays that 80.43 percent respondents of banks and 19.57 percent respondents of MFI were of the opinion that microfinance activities have high impact and in all 57.5 percent respondents said that there is high impact of microfinance activities on their overall socio economic development. In all 42.5 percent respondents have opinion that there is low impact microfinance activities on their socio economic development.
The table 4. Exhibits, in all 62.5 percent respondents were of the opinion that government officials were helpful whereas 37.5 percent were not of this opinion.

Chi² test was applied to test the independence among category and opinion of respondents about attitude of M.F.Is officials. The calculated value of chi² was found 0.071107 which in less than the table value 3.84146 at 5 percent level of significance. Hence, the hypothesis is rejected. There is no dependence between category and opinion of respondents about attitude of M.F.Is officials.

Table 5.
Break up of respondents on the basis of role of microfinance in improving their living standard.

Findings on the basis of information collected

1. 59 out of 80 respondents were aware about different benefits of microfinance, 15 percent of total respondents replied that they were aware at some extant. While 9 percent of respondents answered that they were not aware about benefits of microfinance.

2. Fact derived were that the majority of respondents formed that the performance of microfinance agencies and their role in overall socio economic development is satisfactory while 40 percent of respondents don't found it satisfactory.

3. On the analysis we found that most of the respondents felt that the impact of microfinance's activities on their overall socio economic development in high while 42.5 percent respondents have opinion that at high extant 30 percent says at some extant and 5 percent says that their living standard improved at low extant.

Chi² test was applied to test the independence among category and role of microfinance in improving living standard of respondents. The calculated value of chi² was found 1.63836 which in less than the table value 5.99147 at 5 percent level of significance. Hence, the hypothesis is rejected. There is no dependence between category and role of microfinance in improving living standard of respondents.
microfinance activities have low impact on their overall socio economic development.

4. Opinion of the respondents’ about attitude of bank officials. The respondents found the Bank and MFIs officials are helpful as they help the respondents in fulfilling the formalities in application, suggest the right product give customer friendly response.

5. Most of the respondents accepted that the attitude of bank officials was helpful, while 37.5 percent respondents found them not helpful.

6. Facts derived that living standard of majority of respondents increase as they got loan to other micro enterprise other production and consumption purpose at very low interest rates. Even there is no need of collateral security is required for the loans so they can easily get loans for agricultural, social, health, purchasing consumer goods etc.

8. Suggestions:

On the basis of this research study a need for the following was observed to further strengthen the functioning of bank and M.F.Is

1. Awareness camps should be organized by banks and MFIs and NGOs so that the unattended mass, should aware about the benefits of microfinance.

2. To make microfinance activities more effective at should made according to the need of the customers.

3. The bank and MFIs official should create healthy and user-friendly environment for the customers so that they encourage to get benefit of microfinance services.

4. Financial assistance should be sufficient to fulfill the need of respondents.

5. Awareness about Microfinance, micro insurance, training programs should be created and properly communicated to the people, so that they take interest in their implementation.

6. Proper feedback should seek from the beneficiaries so that if there is any deficiency exists in functioning of funding agencies can be easily identified.

7. Tailor made financial services should create to fulfill the need of the customers.

8. Microfinance should operate at new areas like loan for disaster, consumption, housing, education, pension plans etc.

9. Conclusion

The microfinance plays a significant role in socio-economic development of the untouched masses. The respondents were satisfied with microfinance services at some extant. Microfinance services improve their living standard and as microfinance is bundle of services it help them to fulfill their different financial needs.

It is observed that microfinance can be an effective tool to eradicate poverty if it is implemented properly. Benefits of microfinance should reach to the poorest of the poor for this purpose SHGs, Bank, Financial Institutions, NGO’s should coordinate in efficient manner. Uniform development is a key for the welfare of the society and microfinance is an important means for uniform over all development as it constructed to serve the needs of unattended marginalized masses.

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