



# Micro Finance as a Tool for Financial Inclusion & Reduction of Poverty

Prof. Nilesh Patel  
Research Scholar, Phd  
Ganpat University,  
Gujarat (India)

Dr Akash Patel  
Assistant Professor  
School of petroleum Managemet  
Gujarat, (India)

**Abstract:** *Micro Finance is an innovative concept which makes alternative techniques to promote the banking habits of the rural people because, India is considered as largest rural people consist in the world. Micro finance Services aims at Improving Financial and Social Condition enhancing the Standard of living improving Consumption Level and Achieving a level of Prosperity by which they can able to fulfil their needs Satisfactorily. Several countries like Bangladesh, Indonesia, Philippines, Kenya and Bolivia have implemented microfinance programmes with encouraging results. It can be said as India is one of the largest and fastest growing economies of the world, but what has been the most disturbing fact about its growth has not only been uneven but also discrete. However; there are still large sections of the world population that are excluded from financial services market. Micro Finance is aimed at providing banking and financial services to all people in a fair, transparent and equitable manner at affordable cost. Households with low income often lack access to bank account and have to spend time and money for multiple visits to avail the banking services, be it opening a savings bank account or availing a loan, these families find it more difficult to save and to plan financially for the future. This paper is an attempt to discuss the overview of micro finance as a tool financial inclusion in India. In this study both secondary and primary data via self-administered questionnaires and interviews were used. The paper highlights the effectiveness of micro finance facilities in reducing poverty and also analyzes the impact of Micro finance facilities on economic and social level. The study mainly focuses on the impact of micro finance in providing access to various facilities to poor, pre and post periods of availing micro finance facilities.*

**Keywords:** *Micro Finance, Financial Inclusion, Poverty etc.*

## I. INTRODUCTION TO MICRO FINANCE

### 1.1 Meaning

Micro finance is a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of gaining financial services. Ultimately, its goal is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance. Micro financing is not a new concept. Small microcredit operations have existed since the mid 1700s. Although most modern microfinance institutions operate in developing countries, the rate of payment default for loans is surprisingly low - more than 90% of loans are repaid.

### 1.2 Nature and Scope of Microfinance

Microfinance is coined as the financial service rendered to the deprived group of the people and small entrepreneurs to help them in developing self-employment opportunities and various income generating activities. The small size of the loan, regular savings, small scale entrepreneurs, diversified utilization and simple and flexible terms and conditions are the determining features of its definition.

### 1.3 Role of Microfinance in Poverty Reduction

Microfinance is about providing financial services to the poor who are not served by the conventional formal financial institutions - it is about extending the frontiers of financial service provision. The provision of such financial services requires innovative delivery channels and methodologies. The needs for financial services that allow people to both take advantage of opportunities and better management of their resources.

Microfinance can be one effective tool amongst many for poverty alleviation. However, it should be used with caution -despite recent claims, the equation between microfinance and poverty alleviation is not straight-forward, because poverty is a complex phenomenon and many constraints that the poor in general have to cope with. We need to understand when and in what form microfinance is appropriate for the poorest; the delivery channel, methodology and products offered are all inter-linked and in turn affect the prospect and promise of poverty alleviation. Access to formal banking services is difficult for the poor.



#### 1.4 Micro finance as a tool for financial inclusion of rural India

- There are five factors which reflect the need of financial inclusion in rural India. These are:
- Inability to access financial services;
- Lack of access to safe and formal saving avenues like banks;
- Lack of credit products in which investment can be made;
- Lack of remittance products which makes money transfers a cumbersome affair;
- Lack of insurance products which makes risk management a distant dream for poor.

## II. REVIEW OF LITERATURE

Microcredit is a recent addition to India's poverty-Reduce strategy. However, it has been taken a paradigm shift from credit (only) services to microfinance (credit plus services) services. This study examined the promise of microfinance (institutions) programme in the (financial) inclusion of marginalized and vulnerable poor, who have been excluded from the formal credit markets for a long period of time. In the paper we also looked at the welfare impact of "credit plus services" on the poor. This paper uses primary data on household participants of microfinance programme in the state of Karnataka. We find that majority of the sample households were not accessed the credit and non-credit services in the pre-microfinance programme. While, in the post- microfinance large numbers of the households are not only accessing the credit services, but also they are competent enough to access the savings, micro-insurance and other non-financial services.

The access to "credit plus services" of microfinance programme has improved the income, employment, assets, household expenditure, housing condition and empowerment of the poor. Policy recommendation includes the delivering of credit plus services to the marginalized and vulnerable poor at a minimum cost will have wider impact on the socio- economic welfare of the poor. Naveen K. Shetty (Research Scholar) Centre for Economic Studies and Policy

The research literature of the income effect from participating in an micro-credit program, such as the Grameen Bank. Two recent systematic reviews of microfinance have failed to find positive impacts from micro-lending (Duvendack et al., 2011; Stewart et al., 2012). Brandt, Epifanova, and Klepikova claim that documentation of loans being made out to the poor have been cited in Europe since the 18th century (Brandt et al., 2012). They highlight several examples. For one, Jonathan Swift created a fund to provide "poor industrious tradesmen" money "in small sums of five, and ten pounds, to be repaid weekly, at two or four shillings, without interest" (Brandt et al., 2012, p. 1). Another was the Irish Reproductive Loan Fund Institution that began in 1822 to assist the poor by providing them with small loans under 10 Euros in modern terms. In addition, 19th century German credit cooperatives highlight. (Duvendack et al., 2011; Stewart et al., 2012).

In 2008 it was estimated that there were 2,420 microfinance institutions (MFIs), representing 99 million borrowers in 117 countries (Gonzalez, 2008). Many of these programs did not require collateral, reported loan repayment rates above 95 percent, and reached poor individuals who had formerly been difficult to reach. As Velasco and Marconi (2004) describe: Microfinance performs a conjuring-trick: it achieves higher rates of loan repayment than conventional banking, without having access to the collateral which conventional banks employ to protect their loan portfolio. It performs this trick through constructing social relationships, which substitute for collateral by putting pressure on the borrower to repay loans. These relationships may be either group-based (in which case pressure within the group peer is an important element in pressure to repay) or individual-based, in which case the pressure comes from loan officers and in some cases mentors and others within the client's community (pp. 521).

Maruthi Ram Prasad, Sunitha and Laxmi Sunitha (2011) conducted a study on Emergency and Impact of Micro-Finance on Indian Scenario. After the pioneering efforts by Government, Banks, NGOs, etc the microfinance scene in India has reached in take off stage. An attempt could be initiated to promote a cadre of new generation micro-credit leaders in order to strengthen the emergence of Micro-Finance Institution (MFIs), so as to optimize their contribution towards the growth of the sector and poverty alleviation. Each Indian state could consider forming multi-party working group to meet with microfinance leaders and have a dialogue with them about how the policy environment could be made more supportive and to clear up misperceptions. With one state leading the way, we need to build on a successful model. By unleashing the entrepreneurial talent of the poor, we will slowly but surely transform India in ways we can only begin.

## III. RESEARCH METHODOLOGY

In this study both secondary and primary data via self-administered questionnaires and interviews were used. There were 21 statements in the structure questionnaire. All of these statements were scored on five point Likert-type scales ranging from strongly agree (5) to strongly disagree (1). The questionnaire also contained questions to solicit demographic information of the respondents such as education, household income, Caste, Number of earning members, Occupation and Family Members. The target population for this study was people across Ahmedabad city areas who have actually use the facilities offered under Micro finance schemes. Interviewers gave instructions for completing the questionnaire and waited while respondent independently filled out questionnaire.

### 3.1 Data Analysis



A total of 100 respondents (i.e., Aailed Micro finance schemes) participated in the survey. Around 35 percentage women were in the bracket of backward cast, followed by scheduled cast around 23 percentages. Around 48 percentage women in the sample have labour work at different places. Around 50 percentage respondents reported that their monthly family income is 5000 to 10000 Rs and 53 respondents have two earning member in the family.

Micro finance as a tool for financial inclusion & reduction of poverty were capture using exploratory factor analysis and descriptive analysis using SPSS software version 20. Factor analysis was run using the Principal Component Approach with a varimax rotation. Initially, measures of sampling adequacy (MSA) of all the 21 items were checked. Total five items got deleted because of their low value of MSA. In this study, the result of Bartlett’s test of sphericity (0.00) and KMO (0.887) indicates that the data are appropriate for factor analysis.

In this study, factor analysis was carried out in two stages. In stage one, known as the factor extraction process, objective was to identify how many factors to be extracted from the data. Using principal component analysis, sixteen items were extracted by three factors. Only the factors having latent roots or eigenvalue greater than one were considered significant; all factors having eigenvalue less than one were considered insignificant and were discarded. All the nine factors together accounted for 63.349 percent of the total variance. In the second stage, all the factors were interpreted and labelled. Items having factor loading more than 0.5 were included in the interpretation. Table 1 summarizes all the three factors of micro finance for reduction of poverty.

**Table 1: Results of Factor Analysis**

Factors of micro finance for reduction of poverty	Factor Loading	Communalities	Cron bach's Alpha
<b>Economic and Social Factor</b>			0.778
Better living	.634	0.606	
Good Education	.728	0.670	
Health Benefits	.800	0.721	
Improvement in Financial and social condition	.614	0.504	
Shift in Std. of living from lower to middle	.627	0.546	
Increase in decision making power	.765	0.650	
Meeting expectations of your family members	.571	0.558	
Improvement in education	.802	0.676	
Improvement in consumption	.654	0.573	
Improvement in social status	.705	0.633	
<b>Service Quality Factor</b>			0.787
Services not as per needs	.878	0.783	
Strain on income	.733	0.565	
<b>Financial Factor</b>			0.801
Services Offered	.539	0.615	
Grace periods	.791	0.687	
Interest Rate	.677	0.716	

The objective of study was micro finance as a tool for financial inclusion & reduction of poverty. So for that total three factors were identified in this study. These factors were economic and social, service quality and financial factors. Now here we were consider only the ten statements for our study which is related to economic and social and we applied descriptive analysis to check poverty reduction.

**Table 2: Results of Descriptive Analysis**

Descriptive Statistics									
	N Statistic	Minimum Statistic	Maximum Statistic	Mean Statistic	Std. Deviation Statistic	Skewness Statistic	Kurtosis Std. Error	Statistic	Std Error
Better living	100	1	5	2.21	1.066	1.098	.241	.712	.478
Good Education	100	1	5	2.61	1.348	.443	.241	-.982	.478
Improvement in Financial and social condition	100	1	5	2.37	1.060	.816	.241	-.037	.478
Shift in Std. of living from lower to middle	100	1	5	2.63	1.178	.685	.241	-.388	.478
Increase in decision making power	100	1	5	2.72	1.256	.392	.241	-.840	.478
Meeting expectations of your family members	100	1	5	2.11	1.024	1.101	.241	.764	.478
Improvement in education	100	1	5	2.77	1.294	.498	.241	-.985	.478
Improvement in consumption	100	1	5	2.52	1.227	.623	.241	-.500	.478
Valid N (listwise)	100								

From the three factors i.e., Economic and social, Service quality factor and financial factors, Economic and social factors are being considered and being analysed in depth. Here the ‘n’ statistic shows the number of sample being selected that is 100. The minimum statistic is 1 which shows highly dissatisfied from micro finance whereas maximum statistic is 5 which shows highly satisfied with micro finance.

The overall average can be studied by the Mean statistic of minimum and maximum statistic. From our study it can be seen people are neutral about it which shows they are neither highly satisfied nor they are completely dissatisfied. Banking facilities can still improve more for increasing the satisfaction level of rural people.

It can be noted that good education, standard of living, decision making power and consumptions are the factors where micro finance has done actually well and people were seen being more towards satisfied side rather than neutral or dissatisfied. Whereas on the other side improvement in financial condition and meeting expectations are the factors were still the scope of improvement is needed as people are neutral about it.

#### IV. CONCLUSIONS

Microfinance has received extensive recognition as a strategy for poverty reduction and for economic empowerment. Microfinance is a way for fighting poverty, particularly in rural areas, where most of the world’s poorest people live. Accessing small amounts of credit at reasonable interest rate give poor people and opportunity to set up their own small business. Poor households use microfinance to move from everyday survival to planning for the future: they invest in better nutrition, housing, health, and education. But in our research we seen that the poorest are the least likely to benefit from microfinance and incomes are not increased though the provision of microfinance. Poor people are neglected by all the formal sector institutions in their cash



requirements so; they tend to be dependent upon micro finance institutions besides the fact that they are charging higher interest rates which would be very costly for them.

There are several limitations that warrant future research. The study has been conducted in Ahmedabad city of Gujarat, India. The results of the same, if conducted in other part of the county may vary. The sample consisted of 100 women's Availed Micro finance schemes. The small sample size is also error-prone. Result may be varying if other people include form different area of Gujarat as a sample.

#### REFERENCES

1. Awadhesh, K. V., Singh and Shukla, O. P. (2005). "Micro Finance and Urban Poverty Alleviation in India: Emerging Issues and Challenges". 'Sustainable Development Opportunities and Challenges', 'Serials Publications', New Delhi, pp. 282-295.
2. Cirappa and Nirmala, M. (2005). "Micro Finance Institutions and Credit Accessibility to the Poor in Karnataka", 'Destination India 2020 – Moving Towards Global Equalisation', pp. 12-16.
3. Das, S. K. and Nanda, B. P. (2008). "Micro Finance and Sustainable Rural Development", 'Micro Finance and Rural Development in India'. New Century Publications, New Delhi, pp. 1-7.
4. Gautam Patikar and Komal Singha (2012). "Scenario of Micro Finance in India: An verview", 'Southern Economist', Vol. 48, No. 17, pp. 5-8.
5. Geeta Manmohan, Monika Tushir and Sumita Chadha (2005). "Rural Banking and Micro Finance", 'Southern Economists', Vol. 47, No. 2, pp. 9-12.
6. Mohanan, N. (2013). "Rural Credit and Self Help Groups", 'Fifty Years of Rural Development in India', Retrospect and Prospect, Vol. 1, R. C. Choudary and Rajakutty, S., pp. 137-150.
7. Patro, B. K., Patnaik and Priyasi Nayak (2004). "MFIs and Reforms in India", 'Second Generation Economic Reforms in India', Deep and Deep Publication Pvt. Ltd., New Delhi, 277-296.
8. Rajendran, P. and Karthikeyan, K. (2011). "Impact of NPAs on Micro Banking Variables", 'Southern Economists', Vol. 47, No. 2, pp. 5-12.
9. Saraswathy, A., Porkodi and Bhuvaneshwari, M. (2009). "Micro Finance in Krishnagiri District: A Tool for Poverty Alleviation", 'Indian Journal of Marketing', pp. 47-57.
10. Srinivas Rao K. (2008). "Micro Finance to the Poor: A Tool for Poverty Alleviation and Women Empowerment", 'The Management Accountant', Vol. 43, No. 2, pp. 86-87.
11. Vasantha, Hansa and Lysander Manohar (2008). "Challenges Opportunities of Micro Finance for Poor Women's Empowerment". 'IJAS', pp. 296-310.