

# Microfinance Revisited : A Study With Reference To A Few Villages Of Gorakhpur District, Uttar Pradesh

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## ABSTRACT

Microfinance is an initiative to provide credit to weaker sections of the society at an affordable cost. This paper emphasizes the areas which need special attention of the financial services providers. This paper analyzes the report of the Rangarajan Committee and explores the efficacy of the financial inclusion campaign. The paper also focuses on the challenges faced by bankers regarding microfinance. There are thousands of rural people who don't even understand the meaning of financial products and services, let alone decide which are the best products/services suited to their needs as awareness regarding financial services/products/microfinance is abysmal among the rural poor. The present study makes an attempt to look into the different facets of microfinance, and the paper also tries to analyze and interpret the problems faced by bankers when they open a branch in the rural areas and also sheds light on the problems faced by the rural customers in getting credit from the banks.

**Keywords :** Microfinance, Rural Banking, Financial Exclusion, Gorakhpur

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## INTRODUCTION

Financial services are meant for everyone. In spite of this, only a few people are getting these financial services easily, and the remaining lot ( the economically weaker section) are unable to avail the financial services at an affordable cost. It is not easy from the point of view of the bankers, as the cost involved in including this segment into the realm of financial services is very high, and the bankers would be facing credit risk if they provide financial services to this segment because this stratum cannot provide anything as collateral to the banks. In other words, we can say that the requirements of this group differs from the features of the existing products being offered by financial services providers. The term "Microfinance" gained importance since the early 2000s, as these issues were discussed in detail.

If we divide the complete society into different strata, then it can be seen that the society can be included in three strata :

- ❖ Super Included
- ❖ Included
- ❖ Excluded

The people in the Super Included strata carry out frequent deposits and withdrawals at the financial institutions. Included people are those who have similar characteristics equivalent to that of the Super Included people, but the frequency of the deposits and withdrawals is less in this strata. The third strata is of the Excluded people, who don't have proper access to banking and financial services. Providing credit to the class of Excluded people is known as microcredit, and it is also termed as financial inclusion, which is a stage of Microfinance. Many steps are being taken regarding financial inclusion in our country, but the achievements regarding the same are abysmal. In fact, it was an endeavor of the Govt. to include more number of people into the realm of banking services and microfinance, but the achievements in this regard have been negligible so far. Before understanding the concept of financial inclusion, which is a stage of Microfinance, we need to understand the concept of financial exclusion.

## LITERATURE REVIEW

If we talk about Microfinance in India, it is necessary to peep into the Government's measures on this issue. The major recommendations of the Rangarajan Committee's Report (2008) are as follows :

- ❖ Till 2012, near about 50% of the financially excluded people will be included into the paraphernalia of financial services (Rangarajan Committee's Report).

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<b>Table 1 : Financial Exclusion At A Glance</b>	
<b>Social Groups</b>	<b>Exclusion (in percent)</b>
Scheduled caste	49.77
Scheduled Tribes	63.68
OBC	48.58
Others	50.58
Total	51.36
Large Farmers	33.00
Medium Farmers	34.90
Small Farmers	41.80
Percentages shown above are percentages of the concerned population. Source : Rangarajan Committee's Report ,2008	

❖ Two funds will be maintained with NABARD :

(1) Financial Inclusion Promotion fund, and

(2) Financial Inclusion technology fund. For both the funds, the initial corpus of ₹ 500 crore was decided.

❖ 51.4% of the farmer households are financially excluded from both formal/informal sources of credit (Table 1).

❖ Of the total farmers, 27% of the farmers accessed formal sources of credit, and the rest of them relied on informal sources of credit.

❖ Exclusion is most acute in the eastern and north eastern region of India.

A survey done by Singla (2011) on financial inclusion in Mohali, Panchakula & Chandigarh tricity indicated that rural people are not aware about the financial services which are being offered to them by financial service providers. A study done by Singh and Kaur (2011) on the topic of customer awareness regarding Banking services concluded that significant association exists in the awareness level of rural and urban bank customers regarding the services banks offer. It gives us a reason to think that the strategies which should be adopted in rural markets regarding financial inclusion should be at par with the strategies adopted in urban areas.

According to a research done by Singh (2008), the urban poor needs saving products which should allow frequent small deposits with unlimited frequent withdrawals. The credit provided by different financial institutions should be short term for livelihood and skill development, and long term for housing and other productive investments.

For effective microfinance, priority sector lending was started. A study done by Selvakumar and Kathiravan (2009) indicated that priority sector lending has just become socialization of bank credit. In fact, priority sectors were decided on the basis of reach of bank credit to the specified areas, and then in those selected/specified areas, a higher proportion of loan was disbursed by the Govt. In their research paper, Selvakumar and Kathiravan showed how the proportion of priority sector lending increased. Priority sector lending is also a useful tool in Microfinance.

A case study discussed at Harvard Business School is an apt example of how bankers are tapping the rural market. It suggested some strategies that bankers should adopt towards financial inclusion. There are some excerpts from the case study which are quoted here : A deal executed by YES bank is an apt example of the procedure of tapping the untapped. A deal involving Kashmir Apiaries Exports (KAE), one of India's largest honey exporters is an example of this suggested model to penetrate the rural area. Since most honey bee farmers were nomadic and poor, they had no association with banks and relied on informal sources of credit. The bank started by securing a purchase commitment from KAE to pay a predetermined price for honey, given certain quantity and quality specifications. The social banking team then offered the nomadic bee farmers credit against honey delivered to selected warehouses, which now represented collateral with a firm value. These type of steps should be taken by every bank, which would work as a revolution in the area of microfinance.

## OBJECTIVES OF THE STUDY

- ❖ To explore the efficacy of the financial inclusion campaign.
- ❖ To assess the awareness level of rural households towards awareness campaigns launched by financial services providers.
- ❖ To know the bottlenecks in the distribution channel of this microfinance initiative from the view point of both - the consumers and the bankers.
- ❖ To assess the efficacy of the banking correspondent model.

## RESEARCH METHODOLOGY AND SAMPLE SIZE

A questionnaire was devised and was used to collect the data. The questionnaire dealt with the problems which were being faced by the respondents regarding banking and financial services in rural areas. Exploratory research was used for conducting this research. This study was conducted from January - April 2011. Survey method was used to collect the data from the respondents.

A sample of 1000 rural respondents was taken from the villages of Gorakhpur district, Uttar Pradesh and some bankers were interviewed to get information about the problems faced by them towards this initiative. As far as hurdles regarding implementation of financial inclusion campaign were concerned, 30 bankers were interviewed. All of them were at the level of DGM, AGM or Chief Managers at different banks.

## SOCIO - ECONOMIC PROFILE OF THE SAMPLE

Four villages - Maniram, Lakhimpur, Maharajganj and Deoria were surveyed for the study, and the total population of these four villages was approximately 9000 people. In some families, one member of the family worked in a different city to earn a livelihood for his/her family. Most of the villagers had opted for a loan at the time of the survey and nearly 60% of them had resorted to borrowing money from the local moneylenders only. Proper findings have been presented in the data analysis section of the paper. The researcher found that most of the respondents relied on informal sources of credit, because if they needed a loan of say ₹ 280 or ₹ 620, then these local moneylenders were the better option for them. If a rural poor farmer needs credit at 11 pm immediately, then he/she can go to a moneylender only. The researcher also observed that the awareness level of the rural poor regarding credit and financial services offered by the banks was abysmal (Table 2 and Figure 1).

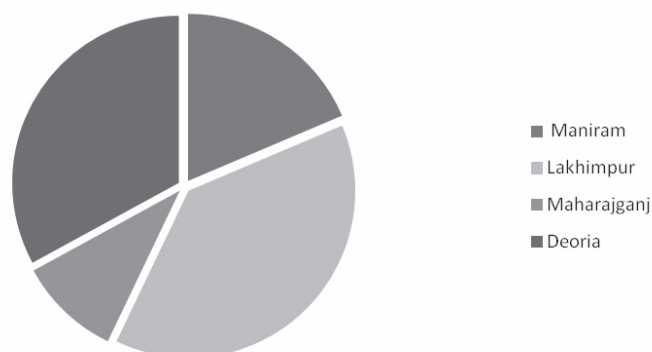
In Lakhimpur, the amount of loan disbursed was very high because of the loan disbursement in :

- ❖ Power tillers;
- ❖ Tractors;
- ❖ For purchase of land;
- ❖ Renovation of home etc.

In other areas, with the exception of one or two cases, no loan was disbursed.

Table 2 : Socio - Economic Profile Of The Sample				
	Maniram	Lakhimpur	Maharajganj	Deoria
Surveyed sample size	280	239	184	297
Surveyed males	117	146	59	135
Surveyed females	163	93	125	162
Surveyed males (literate)	70	92	32	78
Surveyed females (literate)	64	35	37	73
Surveyed males (Illiterate)	47	59	29	66
Surveyed females (Illiterate)	99	58	88	89
Disbursed loan amount (INR)	1603560	3313735	856520	2834568
Per head loan disbursed amount(INR)	5727	13865	4655	9544
Source: Primary Data				

**Figure 1 : Figure Explaining The Disbursed Loan Amount**  
**Disbursed loan amount (In lakhs)**



Source: Primary data

❖ **Illustration** : Few women in the surveyed areas had formed an association with an aim of self-help and the association was named as 'Mahila Kalyan Samiti'. Later on, some other members joined the group to make a 30-member group. All the members of the Mahila Kalyan Samiti were married, and five of them were literate. Initially, all members of the Mahila Kalyan Samiti decided to save ₹ 10 every month as members' savings and in case of default, ₹ 1 was charged. The interest on loan was fixed at 4%. This self- help group opened an account in the Lakhimpur Gramin Bank. There was a good amount of transaction between the Mahila Kalyan Samiti and the Lakhimpur Gramin Bank. The group deposited their savings in the bank every month and withdrew whenever required. The bank was very

**Table 3 : A Review On The Available Microfinance Products Against The Respondents' Needs**

S.No.	Types Of Needs Of The Poor People	Available Microfinance Products
1.	<ul style="list-style-type: none"> <li>• Purchase of Agricultural inputs like seeds, fertilizers, insecticides and pesticides, small agricultural implements etc.</li> <li>• Working capital for micro enterprises like pottery, blacksmithy, carpentry, ration stores and shops selling vegetables, processing of non - timber forest products , motor mechanic kiosks etc.</li> <li>• Purchase of livestock, maintenance of livestock enterprises etc.</li> <li>• Working capital for trading business.</li> <li>• Educational expenses for children's education.</li> <li>• Meeting financial needs during festivals, celebrations, ceremonies etc.</li> <li>• Health treatment, purchase of medicines etc.</li> <li>• Emergency needs.</li> </ul>	Short term loans
2.	<ul style="list-style-type: none"> <li>• Development of irrigation systems like construction of canals, sprinkler irrigation etc., renovation of agricultural land, purchase of agricultural implements like power tiller, harvester etc.</li> <li>• Renovation of home, purchase of land for home, construction of home.</li> <li>• Development of micro enterprises like livestock enterprises, goatery, piggery, pisciculture and apiculture.</li> <li>• Development of micro enterprises like pottery, blacksmithy, carpentry, ration stores, vegetable shops, processing of non - timber forest products, motor mechanic kiosks, trading and processing businesses etc.</li> <li>• Educational expenses for children's education.</li> </ul>	Medium term loans
3.	<ul style="list-style-type: none"> <li>• Purchase of land, heavy farm equipments like tractors, construction of farm house, well digging etc.</li> <li>• Construction of home, purchase of home etc.</li> </ul>	Long term credit
4.	<ul style="list-style-type: none"> <li>• Cost of burials, health treatments, cost of replacement after a natural disaster (self, business, resources) etc.</li> </ul>	Insurance plans

Source: <http://www.nabard.org/> accessed On February 10, 2012

happy with the transactions of that group and sanctioned them a loan of ₹ 15,000 for setting up a business and the group repaid the amount within 13 months. Because of their good track record, an additional loan of ₹ 25,000 was sanctioned to them.

## FINDINGS AND DATA ANALYSIS

The Tables 5 and 6 clearly depict that low income earners (i.e. respondents earning up to < ₹ 50,000 per annum) resorted to borrowing from moneylenders heavily because they were not capable of meeting the collateral requirements of the banks. RBI's vision is to establish one banking presence per 2,000 people, but the stark reality of 16,000 people per branch (as discussed by Shyamala Gopinath, who is the Deputy Governor of RBI presently) forces us to think that something additional is required in this area. Banks must view this campaign of microfinance as an opportunity, and not as an obligation. The Tables 5 and 6 suggest that easy credit is not available to those people whose annual income is less than ₹ 50,000 per annum, but according to the current microfinance regulations, microfinance institutions will lend cautiously to those people who are having an annual income of less than ₹ 50,000 per annum. The Union Budget 2011-12 proposed that microfinance institutions should be governed by the Centre, and the interest rates charged by various microfinance institutions had been capped at 26%, so it was estimated that the profitability of microfinance institution will go down further. Hence, in these circumstances, a valid question that was raised was - How is the easy credit facility for the rural people going to be managed? At this juncture, it will be good to analyze the 'Demand Side Response' and the 'Supply Side Response'.

## DEMAND SIDE RESPONSE

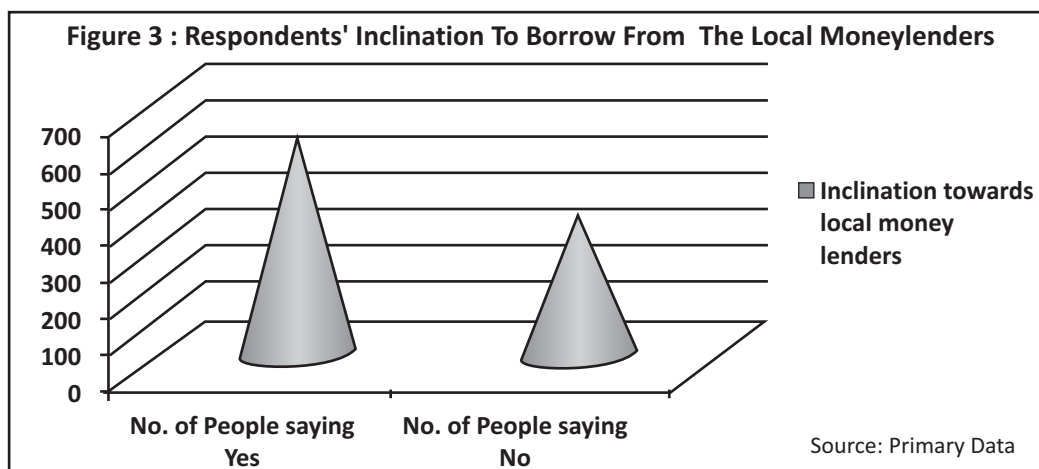
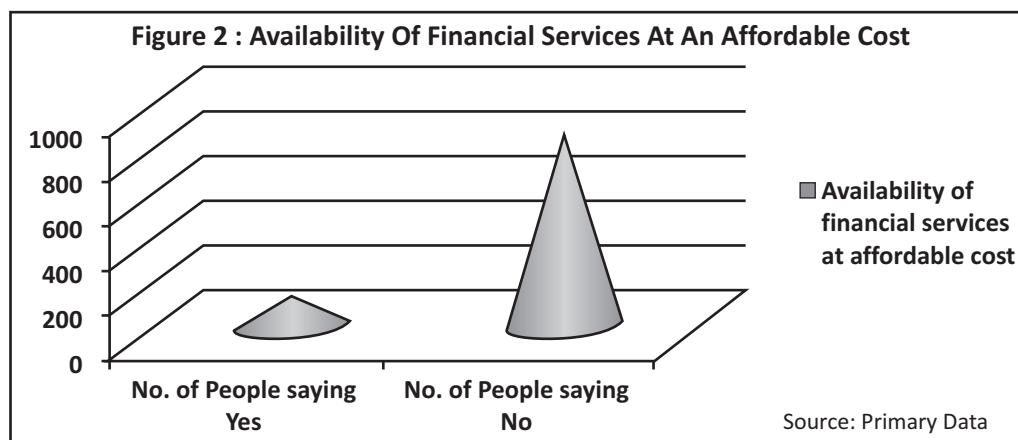
A survey was conducted in the nearby rural areas of Gorakhpur, Uttar Pradesh and the findings are depicted with the help of the Table 3 and Tables 4-7. Figures 2 - 7 also illustrate the views of the respondents ( Demand Side Response).

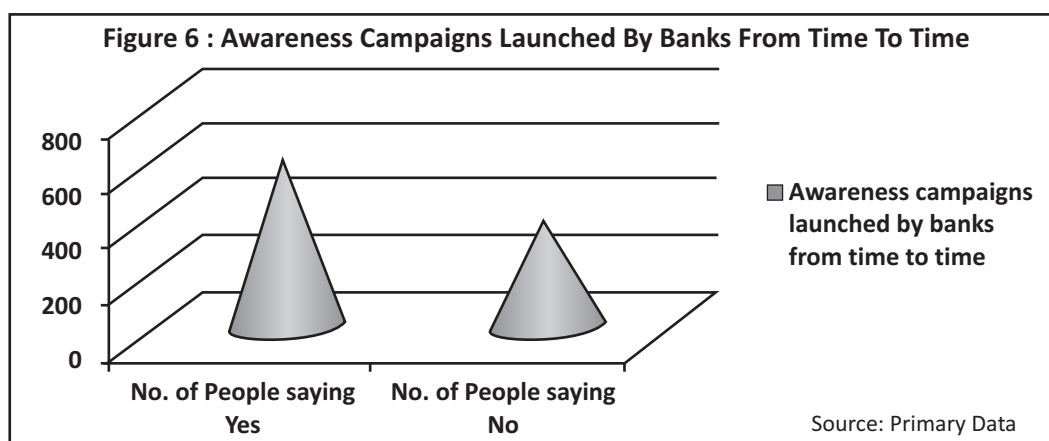
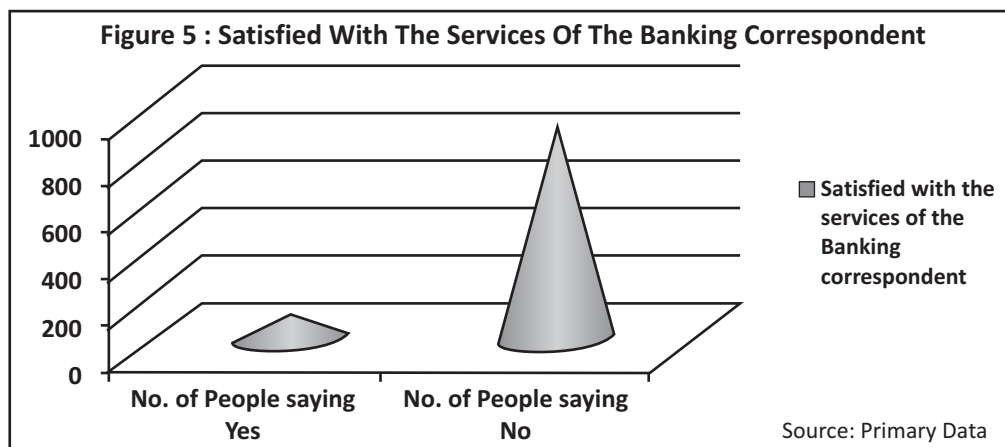
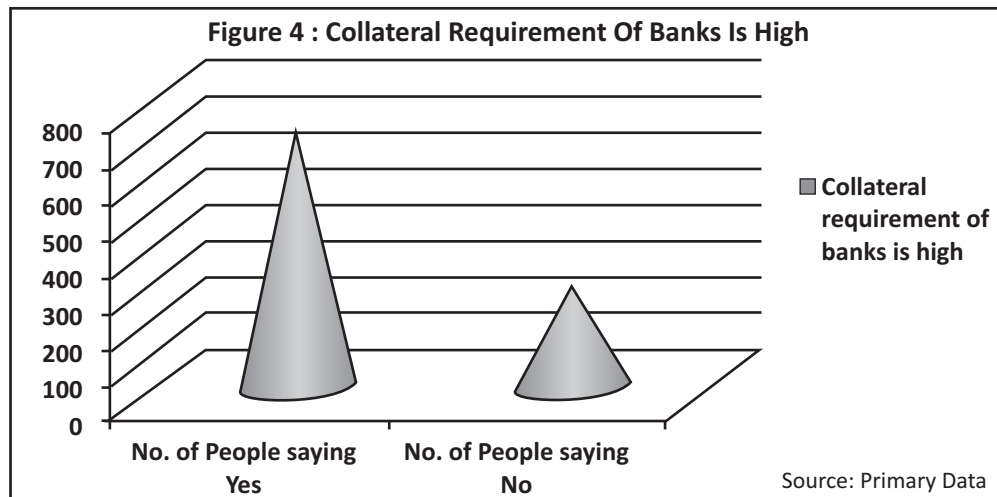
Table 4 : Percentage of Population Availing The Available Financial Services	
Population having	
• Bank Account (Savings)	57%
• Life Insurance	10%
• Non Life Insurance	0.6%
• Debit cards	13%
• Credit cards	2%
Source: Invest India Market Solutions (IIMS), 2007	

Table 5 : Incomes And Bank Accounts		
	(% of Total Earners)	
Annual Income (₹)	Urban	Rural
< 50,000	34.1	26.8
50,000-1,00,000	75.5	71.2
1,00,000-2,00,000	91.8	87.4
2,00,000-4,00,000	95.5	93.6
> 4,00,000	98.0	96.3
All	61.7	38.0
Source: Invest India Market Solutions (IIMS), 2007		

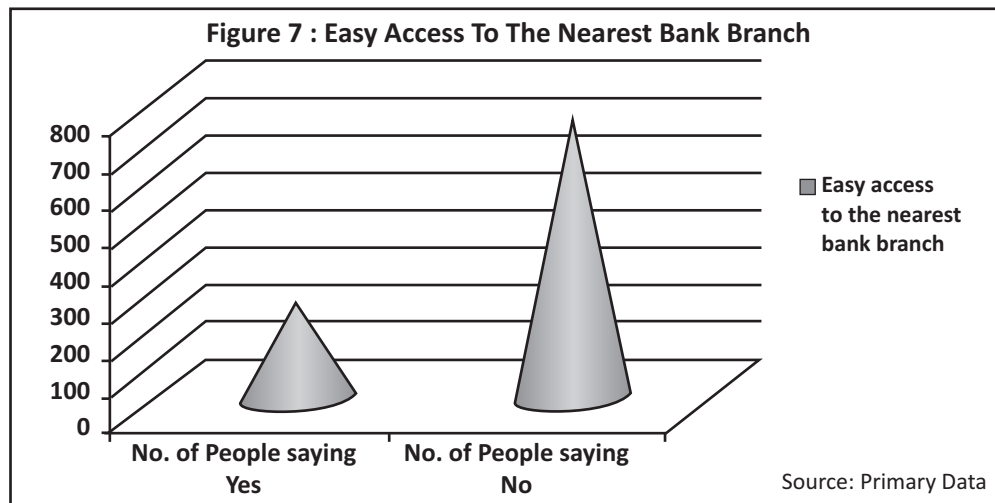
Table 6 : Incomes and Access To Loans				
	(% of indebted earners)			
Annual Income (₹)	Banks	Money Lenders	Other sources	Total
< 50,000	13.0	34.9	52.1	100
50,000-1,00,000	34.5	19.6	45.9	100
1,00,000-2,00,000	49.3	12.0	38.7	100
2,00,000-4,00,000	51.6	11.8	36.6	100
> 4,00,000	62.8	5.5	31.7	100
Source: Invest India Market Solutions (IIMS), 2007				

Table 7 : Demand Side Response		
No. of people surveyed = 1000		
Query	No. of People saying Yes	No. of People saying No
Availability of financial services at affordable cost.	131	869
Inclination towards local moneylenders.	610	390
What about collateral requirement of banks.	710 (high)	290 (reasonable)
Satisfied with the services of the Banking correspondent.	106	894
Awareness campaigns launched by banks time to time.	603	397
Easy access to the nearest bank branch.	253	747
Source: Primary Data		









## SUPPLY SIDE RESPONSE

To judge the supply side response, 50 bank officials were chosen and their responses are summed up here :

- ❖ Banks are putting in a lot of efforts for the rural poor . However, the bank officials told the researcher that the mindset of the rural people was that resorting to local moneylenders is easy.
- ❖ Against the survey response of the demand side regarding high collateral requirements of the banks, the officials informed the researcher that they were even providing some loans in rural areas without any security (collateral).
- ❖ As opined in the demand side responses that banking correspondents should be salary based banking employees only , the bank officials responded that such a step would increase their operating cost tremendously.
- ❖ The bank officials also informed the researcher that there was an acute shortage of staff at the banks and bank employees were not willing to get posted in rural areas.

## CONCLUSION

By going through the data, it is very much clear that people in the rural areas were not satisfied with the banking correspondent model. The researcher tried to explore this problem and the villagers responded that were not satisfied with this model. The reason behind it might be that since the banking correspondents are recruited from the concerned villages itself, if a particular villager has good contacts with a banking correspondent or the Gram Pradhan, then it is fine, otherwise, it is very difficult for a villager to get a loan. Furthermore, the villagers did not have easy access to the nearest bank branch because the bank branches were facing a severe shortage of staff. Also, the collateral requirements of the banks were high, as opined by 81.7% of the surveyed sample.

23.7% of the respondents opined that banking and financial services were available to them at an affordable cost and the others disagreed with this statement. We can correlate this finding with the high collateral requirement of banks and other financial service providers.

62.1% of the surveyed respondents opined that they resorted to borrowing from local moneylenders. This data supports the high collateral requirement of the banks.

Only 15% respondents said that they are had an easy access to the nearest branch .The remaining 85 % of the respondents opined that due to the shortage of staff, they faced severe difficulty in locating the concerned person who could respond to their queries. Some bankers who were interviewed responded that were taking every step regarding providing financial services to the rural poor, but a huge problem facing them was of awareness. Rural people are not that much aware about banking products and because of this mindset, they resort to borrowing money from the local moneylenders.



## RECOMMENDATIONS

- (1) The model of the banking correspondent is not that much reliable because the banking correspondents are purely commission based. Banks should give some targets to these banking correspondents and they should be paid fixed wages. Their performance should be reviewed annually on the basis of feedback obtained from the rural people of the concerned area.
- (2) There was an acute staff shortage in banks in rural areas. This situation should be looked into by all the banks. There should be proper physical evidence of the service marketers, or else, the entire effort will go in vain (This point came out of the interaction with senior officials at different banks).
- (3) Banks should provide more customized products to rural households. Only then the reliance on informal sources of credit can be minimized. One to one counseling of rural households should be done regarding available financial products so as to make them aware about the available financial products.
- (4) Banks should go in for recruiting more employees and a rural assignment should be made mandatory for all employees.

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