

PROBLEMS AND PROSPECTS IN FINANCIAL INCLUSION THROUGH MICRO FINANCE

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Abstract

Financial inclusion is ensuring the access of financial services and adequate credit when it is needed for the financially deprived people. As an economically developing country, India has a considerable proportion of financially vulnerable population. Khan Commission in the year 2004 has suggested financial inclusion through micro financing as a solution to empower them and it is going on its own way until today. Everything under the sky has some good as well as bad face for themselves. In that way, this paper examines the prospects and as well the problems in the Program of financial inclusion through micro finance. For the study, the researcher has collected 110 samples from the members of SHGs. The researcher has used structured questionnaire which has been distributed to respondents selected through systematic random sampling tools are used. Statistical analysis of collected data revealed that except family type remaining socio-economic factors are significantly associated with problems and benefits of micro financing. Availability of financial support at affordable interest rate with subsidies were considered as the prime benefits of micro financing. Similarly, the problems pointed out by the respondent were also related to SHG's and not with micro financing institutions.

Keywords: Micro finance, financial inclusion, SHG's, Benefits, Problems

1. Introduction

In last decades, with the collaboration of Reserve Bank of India, Central Government has started taking steps to remove the bottlenecks for reaching the financially unreachable. In this regarding Reserve Bank has requested the support of non-Government organisations for the financial inclusion of financially backward. Financial inclusion includes accessibility to banking service, provision on insurance, foreign exchange services and supporting to investment. Khan Commission (2004) has reported and insisted that the achievement of financial inclusion will support the country in the way of economic development. Therefore, Self Help Groups (SHG's) came into picture. There are the associations where the limited number of members pool a small amount of fund weekly or monthly and circulate among themselves. Along with their savings they were supported by nationalised banks through micro financing, and they were empowered to cater their own financial needs. This gradually eradicate their dependency to informal money lenders and enhanced their level of savings also (Rajasekhar, Manjula & Suchitra, 2017). Government has selected SHG's as the best medium for financial inclusion. Hence it stated providing loans with subsidy, considerable percentage interest for savings and even good training for starting small business (Milana & Ashta, 2012). The success rate was tremendous, government has really achieved its purpose of financial inclusion through SHG's.

2. Review of Literature

Asfaw (2015) has made a study on financial inclusion through mobile banking. The researcher has explained how Ethiopian Government has made initiatives of financial inclusion and its benefits and challenges. The researcher has also highlighted the available prospects of mobile banking in Ethiopia. Based on the research result, it was found that, the micro financing institutions providing M-Birr as mobile banking service for sending and receiving money, pay bills, receiving salary and even for repaying loans. But the proportion of usage of application is very low only a small proportion of the population is aware of this application. The notable challenge mentioned by the responded is poor network, which is the main constraint for using mobile banking. The next issue identified by the

researcher is lack of latest banking technologies in Ethiopian banks. Finally, high rate of illiteracy and financial illiteracy were the other challenges for achieving financial inclusion through mobile banking.

Utasav Anand (2016) has conducted a secondary data-based study on overview of financial inclusion in India. In his study he examined the relationship between financial inclusion and rural development along with performance of SHG’s bank linkage programme. From the study of extensive reviews, the researcher has concluded that, micro financial institutions in collaboration with self-help groups has reached the socially weaker section to a great extent. Further he mentioned that micro financing has changed the face of India and self-help groups (financial inclusion) as powerful instruments for poverty alleviation.

Girish and Veerabhadrapa (2020) have analysed about the problems and prospects of microfinance . Micro finance is a tool which is developed to support the low-income segment of women. Hence this study is focused on the challenges and prospects in implementing the micro financing. Intensive study of secondary data revealed certain notable impacts such as fastening the rate of digitalisation, penetration of internet facility even in rural areas, enhancement of living standards of women.

2.1.Objectives

This research has been conducted to analyse the association of socio-economic factors with perception on problems and benefits of micro financing. Along with that the priority of problems faced by the SHG members while getting micro finance support and the benefits they enjoy through micro financing were also discussed.

3. Research Methodology

This qualitative research, questionnaire are used to collection of primary data from the members of SHG. For collecting the data, the researcher has used structured questionnaire. The questionnaire has divided in to two parts, from that the first part is related to socio economic factors and the second part is related to question related to problems and benefits of micro financing. Totally 150 questionnaires were distributed, and 125 questionnaires were collected back out of that, 15 were incomplete and 110 responses were found qualified for further analysis.

4. Analysis

4.1 Association of Socio-Economic variable with Problems and Benefits of Micro Financing

Socio Economic variable	Problems in Micro financing		Benefits if Micro financing	
	Chi-Square value	P value	Chi-Square value	P value
Age	234.418	0.032	315.316	0.01
Educational Qualification	351.774	0.001	411.562	0.001
Family type	78.212	1.202	192.221	0.022
Family Size	381.245	0.001	378.145	0.001
Monthly Income	421.123	0.001	391.221	0.001

Table 4.1 indicates the association of socio-economic variables with problems and prospects of micro financing. Hence the p. Value of age is less than 0.05 the null hypothesis assuming no relationship between age and problems is rejected at 5 per cent level of significance and significant association was found between age and problems. On the other hand, the p value of prospects is less than 0.01 and the null hypothesis stating no association between the age and benefits is rejected at 1 per cent level of significance. Therefore, strong relationship was found between age and benefits.

In case of educational qualification, both problems and benefits have p value less < 0.01 and there is no significant relationship between educational qualification with problems and benefits holds no goods at significance level 1 per cent. Hence there is a significant relationship between education and economic problem, benefits.

The p value indicating the association of family type with problems and benefits have p value more than 0.01. Therefore, the H0 stating no relationship between family type and problems, benefits are accepted at 1 per cent level of significance. Hence there is no relationship was found between the family type with problems, benefits.

The chi-square value indicating the relationship of family size with problems is 381.245 and benefits is 378.145, both have p value < 0.01. Thus, the null hypothesis assuming relationship of family size with problems and benefits is rejected at 1 per cent significance level. A positive and significant between the size of the family, perception on problems and benefits of micro financing.

Similarly, the significant value of monthly income with problems and benefits is less than 0.01, hence the H0 stating no relationship between monthly income and problems, benefits hold no good and rejected at 1 per cent level. Though, there is solid positive relationship of monthly income with problems, benefits of micro financing.

4.2 Rank of Benefits in Micro Financing through SHG's

Reasons	Rank-I	Rank-II	Rank-III	Rank-IV	Rank-V	Rank-VI
Easy availability of loan	29	49	20	17	15	16
Promotion of savings habit	12	11	15	36	15	13
Less interest rate	36	27	17	17	19	10
Opportunities for starting own business.	8	7	10	15	28	17
Self-reliance	5	6	11	14	16	29
Subsidies	20	19	39	19	17	25
Total	110	110	110	110	110	110

Table 4.2 rank of reasons for using micro financing through SHG's. The topmost reason mentioned by the respondents is availability of loan at least interest rate, followed by easy availability of loan and subsidies. The remaining reasons were promotion of savings habit, possibilities to start own business and self-reliance.

4.3 Rank of problems in micro financing faced by the members of SHG

Reasons	No of responses	Percentage of response	Rank
No cooperation among the SHG members	97	21.6	I
No proper guidance by Miro financing institutions	43	9.5	V
Fraudulent behaviour of SHG head	87	19.4	II
Corruption practice of micro finance representatives	69	15.4	IV
Not clearly aware of the benefits of Micro financing	41	9.2	VI
The process of loan is lengthy.	32	7.2	VII
Non-cooperation among the SHG members	79	17.6	III
Total	448	100	

Table 4.3 explains the Multiple responses were received from the users of micro finance regarding the problems they are facing. 21.6 percentage of the respondents have mentioned that "there is no cooperation among SHG members" and the next majorly pointed out issue is "Fraudulent behaviour of SHG head" and the next prominent problem faced is "Non-cooperation among the SHG members". On the other hand, only lest has reported issues on "no proper guidance of microfinancing

institution” and “Not clearly aware of the benefits of Micro financing” and “The process of loan is lengthy”.

Hence it can be concluded that, the notable issues are from the side of SHG’s, and the micro financing institutions does not have many issues.

5. Findings

- Age of the respondent is associated with the problems of micro financing, and it is strongly associated with the benefits also.
- Educational qualification of the respondent is prominently associated with the problems and benefits of micro financing.
- Family type of the respondent has no significant association with the problems and as well as the benefits of micro financing.
- Family size and monthly income are significantly related with problems and benefits of micro financing.
- When ranking the benefits of micro financing, easy availability of loan, less interest rate and availability of subsidies were given the top priority.
- When ranking the problems in micro financing, ‘No cooperation among the SHG members’, ‘Fraudulent behaviour of SHG head’ and ‘Non-cooperation among the SHG members’ were given the top priority. And no issues from the side of micro financing institutions were specifically spelled out.

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6. Conclusion

For a developing county like India, Financial Inclusion is necessary for it economic and wholesome development (Duvendack & Mader, 2019). Even though some other means such as mobile banking and PMJDY is also followed, through SHG’s is the effective and easy way of financial inclusion. Even there are some problems, the proportion of benefits overcomes the problems range. The researcher suggested that the government must take some regulatory measures to monitor the SHG’s as more issues were mentioned from their side. And those regulations will support to ensure and enhance the financial inclusion of in a better way.

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