

## A Study on Reasons to use Microfinance Products in Rural District of Bengaluru

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### Abstract

Savings are a key resource for Microfinance Institutions (MFIs). They need to save enough savings to meet their obligations and become self-sufficient from grant suppliers. As a result, they need to persuade customers—in this example, the general public and micro- and small-sized businesses—to put their savings in their hands. This calls for understanding the characteristics, needs, and goals of these clients. What factors affect consumers' decisions to use and save money using an MFI's microfinance products? this raises the question of research.

The purpose of this study is to determine the rural people in Bengaluru district's reasons for using microfinance products, such as farming, land purchase, medical bills, unexpected expenses, social security, and education for children.

**Key words:** Microfinance products, Reasons, Rural District, Clients, Social Security.

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### Introduction

Microfinance is credited to Bangladeshi economist Shri. Muhammad Yunus. ING claims that Yunus has acquired the title of "the banker of the poor." In 1976, Yunus established the Grameen Bank in Bangladesh. This business provided "microcredit," which is just the disbursement of loans to borrowers in need of money. Prior to that, banks had a propensity to restrict their lending activities to middle- and upper-income clients—as well as the very affluent, of course. Yunis' idea of microcredit quickly became well-liked. Due to its tremendous

success, similar microfinance groups started to pop up all over the world, eventually resulting in the modern definition of microfinance.

Microfinance Institutions (MFIs) lending in India began in earnest in the middle of the 1990s with a suitable adaption of the Grameen model, where the al of the impoverished, Core was able to continue to prosper off of their reliance on their creditworthiness. Customer centricity has always been important to the success of the model, industry, or institution.

Microfinance institutions supplement the services provided by banks. Financial services like remittance, savings, and insurance are also provided in addition to microcredit. Additionally, non-financial services like training, counselling, and guidance for borrowers are offered in the most beneficial way possible. The borrower can use the aforementioned services as described below at their convenience. MFI interest rates are typically higher than those of conventional banks. Interest rates change depending on the purpose of the loan and the borrower's credit history. The repayment plan can be chosen by the borrower as well.

### **Research methodology**

The present study is both description & analytical study. This study is mainly based on Primary and secondary data. Primary data is collected through questionnaire.

Secondary data is collected from various sources like journals, magazines and reports.

### **Objectives of the research**

The following were the study's general and specific objectives:

1. To list the numerous justifications for utilising MFI products.
2. To research the reasons people use MFI microfinance products for improvement.
3. To research how each factor affects the beneficiaries' well-being.

### **Literature Review**

With the use of Google Scholar, we looked for old empirical investigations. The initial search produced 50 articles, including overlaps across two databases. Based on the study's title and objectives, we evaluated each research paper, taking into account the following:

Qualitative and quantitative analysis

Data analysis from underdeveloped nations is step two.

Step three is an analysis of the clientele's motivations for using microfinance programmes.

According to an investigation by Ali and Mughal from 2019, financial help provided by microfinance institutions can only produce positive outcomes when it is combined with business management expertise. This study has highlighted the significance of giving small-scale entrepreneurs managerial and non-managerial skills training in order to prepare them for fully utilising the growth opportunities provided by the financial advantages of a microbanking system.

Sussan and Obamuyi (2018) have highlighted the role that microfinance institutions play in enabling aspiring business owners to the point where they can ensure the expansion and development of their enterprises. The outcome has also acknowledged the significance of non-financial services provided by MFIs for exerting a significant influence.

Hussain et al., (2017) highlighted the significance of microfinance segment by analysing its impact on the economy. Research has particularly evaluated the influence of microfinance sector on the poverty-stricken segment of the society. The study has revealed that microfinance industry has specifically offered its contribution in the income segment, housing infrastructure, education, agriculture, health safety and food security in order to minimize the level of poverty and raises the living standard of the people.

Taiwo et al., (2016) research has examined the significance of contribution of microfinance banks or institutions on the SME sector. It has discussed about the level of support and assistance received by the small scale businesses from microfinance sector. The study has actually discussed about the kind of influence it carries on the growth of business enterprises by providing them sufficient amount of financial as well as non-financial support in every possible manner.

Ferdousi, (2015) evaluated the importance of microfinance institutions in facilitating the growth of micro-entrepreneurs by assisting them with the necessary support and sufficient guidance regarding innovative methods, market trends and latest technologies that needs to be implemented in the business. It has recommended that microfinance segments need to

support the small level entrepreneurs by educating them with some effective business knowledge to upgrade their skills along with the financial support in order to develop a sustainable business setup for them. This analysis has firmly augmented the role of client oriented services in enhancing the potential of entrepreneurs to a greater scale.

Ali et al., (2015) studied contribution of various factors such as level of education, increment in income and improvement in the business process in making an influence on the standard of living of the people. It has revealed that the financial or non-financial services availed through microfinance organisations plays a crucial role in the overall growth and development of the society.

Fwamba et al., (2015) have observed that microfinance industry expanded its service dimensions to the segments like advisory and savings rather than limiting itself to the traditional approach of offering monetary services only. It has proven to be a great help for female entrepreneurs. They are now getting themselves highly engaged in the process of decision making. This has encouraged them to a great extent since it provides an approach to satisfy their needs and empowers them by increasing their capabilities that subsequently motivates them to perform and handle all sorts of activities in the business

Modi et al., (2014) given an insight about the various dimensions of microfinance segments which are responsible for uplifting the situation of unprivileged rural women. It has also identified the contribution of some specific factors such as status of socio economic up-gradation, position of woman in society/family, autonomy for life choices and positive approach towards child development in creating an influential impact on the living standard of the society. The outcome of the research simply focuses on the role of government and microfinance institutions to setup the measures that are needed to drastically enhance the social and economic conditions of the poor rural women entrepreneurs.

Al-Shami et al., (2014) disclosed about the approaches followed by microfinance institutions to empower the clients and improve their wellbeing. It has analysed the role of microfinance institutions in the reduction of poverty and increasing the sustainability of the small level entrepreneurs. The study has subsequently discussed about the positive influences of those services which are delivered by microfinance units in the form of

monetary support, efficient training, proper guidance and social empowerment. These benefits are majorly responsible for the overall functioning and growth of the small scale business segments.

Girabi and Mwakaje, (2013) have identified the role of microfinance segments in up-scaling the standard of the small-scale farmers by enhancing their level of productivity. It has been concluded through the research that the assistance offered by the microfinance institutions contributes to a great extent in providing a better access to agricultural markets, farming products, efficient labour and suitable transportation facilities which eventually generates the chances to increase the profitability of the small farm holders. This study has also suggested some supportive measures that are needed to be taken for controlling the factors responsible for creating any hindrance in availing the micro-banking services by the poor farmers.

Awojobi, (2013) came up with the fact that an active participation of government in controlling the issues faced by microfinance banks is highly required in order to ensure an easy accessibility of the financial services provided by them. It has actually acknowledged the role of government to ensure the fund requirements of microfinance institutions so that they can perform their credit operations effectively. This study has also helped in evaluating the impact of positive influence created by microfinance in empowering women entrepreneurs by enhancing their income generating sources.

Adhikari and Shrestha, (2013) presented an image of microfinance segment as a change-maker in the society. It has revealed about the role played by the micro-banking industry in bringing a socio-economic stability in the society. This stability occurs especially due to the fund mobilisation exercises performed efficiently by micro-banking units which subsequently empower the women entrepreneurs to a great extent that helps them to raise their standard in the society.

Nwankwo et al., (2013) reflected that induction of microfinance industry in the economy became a necessity due to the result of inefficient banking mechanism to address and resolve the financial requirements of the underprivileged sections of the society. This concept of micro-banking open new avenues for the people to fulfil their economic needs and enhances their potential to achieve a sustainable growth in the business. The study

has also suggested certain measures for curbing the problems which are imposing a challenge against the efficient performance of micro-banking.

Imai et al, (2012) have analysed the overall impact of microfinance in building up the level of sustainability in an economy. It has been revealed that the active involvement of microfinance industry in the economy of a country minimises its poverty level to a large extent. In fact the study has shown a negative relationship of microfinance loan portfolio with the state of poverty in the society. Reduction in loan portfolio along with the GDP brings unemployment which eventually exemplifies the level of poverty. So, the role of micro-banking industry is considered to be huge in improving the financial performance of the country.

Yahaya and Osemene, (2011) have come up with the concept of promoting micro-banking system in the society as it helps in developing a mechanism to access and support the small level entrepreneurs. It has also highlighted the importance of governing bodies in setting up a system for offering guidance to the micro level businessmen to grow their business. It is clearly evident from the research that the microfinance industry is majorly responsible for improving the conditions of poverty-stricken community of the society through affordable financing, fund mobilisation and opportunities of employment generation.

Okpara (2010) has recognised the influence of certain factors in causing poverty and also acknowledged the role of micro-financial support in controlling these factors. It has measured the impact of microcredit facilities in two stages. Initially it observes a marginal increment in the poverty level with a reducing rate but later on it has shown a steep decline due to constant growth in credit services offered by microfinance segment. This impact clearly signifies the need to establish a system for enhancing the expansion of microfinance industry in the economy.

Anono (2009) have appreciated the role of microfinance industry in actively engaging itself with the underprivileged sections of the society. Research has greatly emphasized its contribution in poverty alleviation. This study has not only highlighted the financial contribution of micro-banking to the entrepreneurs but also focussed on the concept of offering non-financial support and guidance to them in order to enhance their growth opportunities.

**Sample Unit**

Bengaluru Rural District

**Sample size**

300 respondents/beneficiaries of Micro Finance Institutions.

**DATA ANALYSIS AND INDTERPRETATIONS****Table showing the Reasons behind the use of micro finance products**

	Reasons	SDA	DA	N	A	SA	Total
1	Agriculture	38	66	29	38	127	300
		13%	22%	10%	13%	42%	100
2	Animal Husbandry	37	64	28	37	121	300
		12%	21%	9%	12%	40%	100
3	Income generating activities	38	67	29	38	127	300
		13%	22%	10%	13%	42%	100
4	Asset Building	37	65	28	37	122	300
		12%	22%	9%	12%	41%	100
5	Starting own business and its development	38	64	28	48	122	300
		13%	21%	9%	16%	41%	100
6	Consumption or Household expenditure	37	65	28	37	123	300
		12%	22%	9%	12%	41%	100
7	Education to children	138	0	65	33	45	300
		46%	0	22%	11%	15%	100

	Reasons	SDA	DA	N	A	SA	Total
8	Wealth creation	133	0	65	33	45	300
	purpose	44%	0	22%	11%	15%	100
9	To acquire land or	138	0	66	45	33	300
	assets	46%	0	22%	15%	11%	100
10	Medical expenses	131	0	64	45	33	300
		44%	0	21%	15%	11%	100
11	Emergencies	136	0	66	33	46	300
		45%	0	22%	11%	15%	100
12	Social Security	131	0	63	44	33	300
		44%	0	21%	15%	11%	100
13	Farm Mechanization	137	0	67	46	34	300
		46%	0	22%	15%	11%	100

**\*SDA-Strongly Disagree**

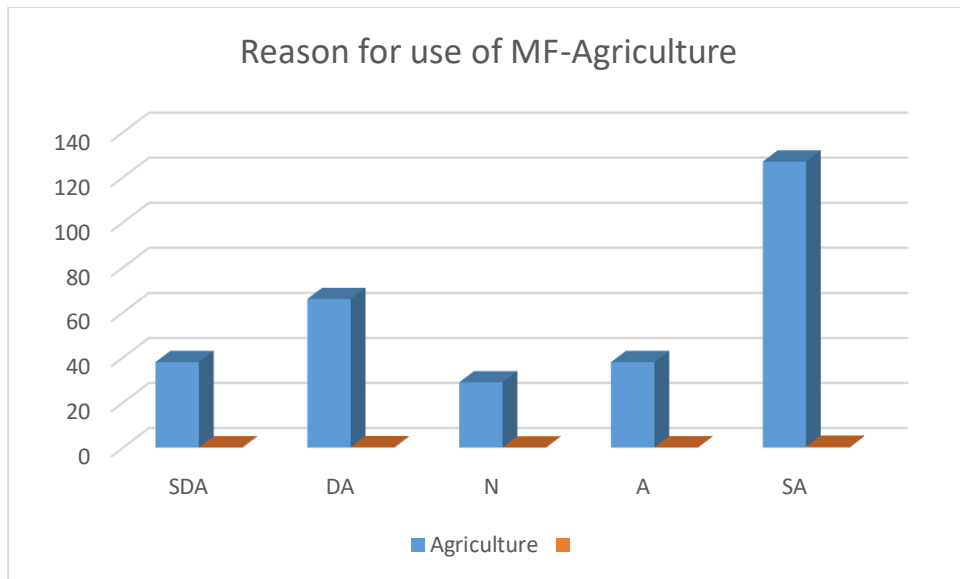
**\*DA-Disagree**

**\*Neutral**

**\*A-Agree**

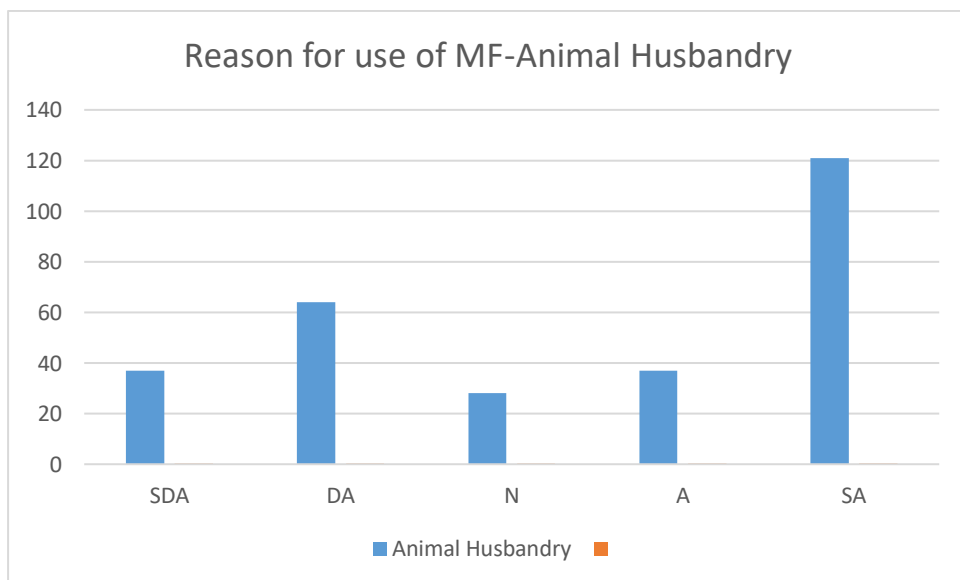
**\*SA-Strongly Agree**





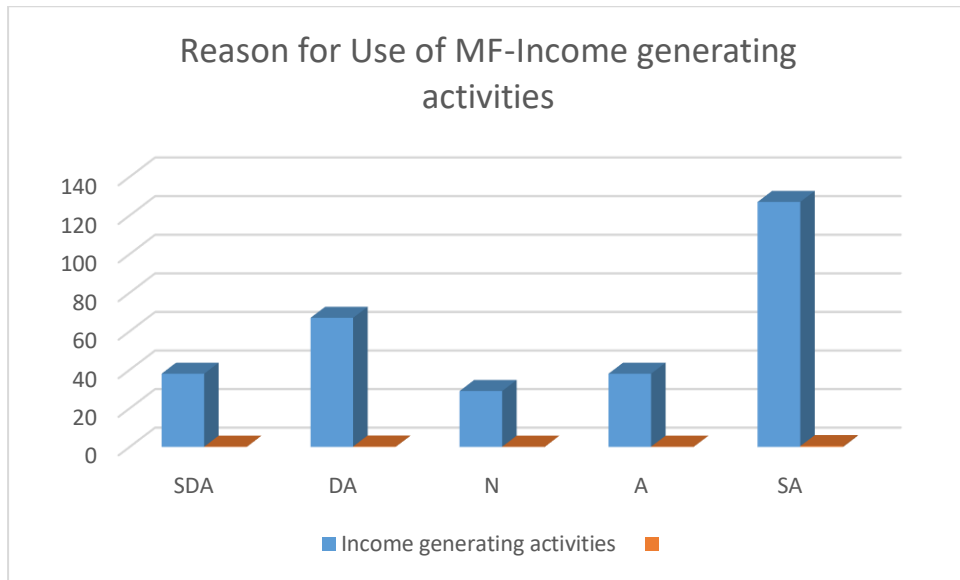
**Interpretation:**

According to above graph of 300 respondents, the reasons for use of microfinance products for Agriculture purpose is -127(44%).



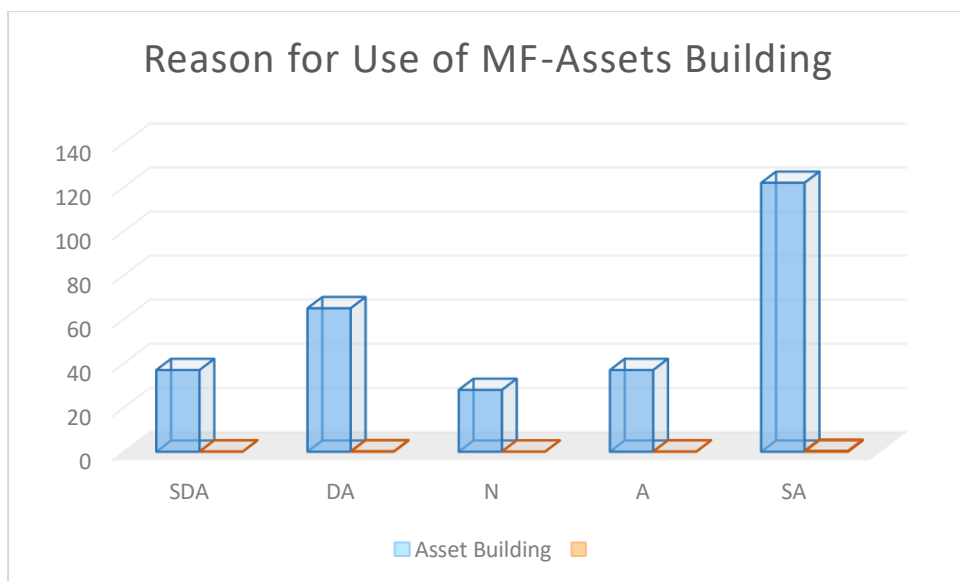
**Interpretation:**

According to above graph of 300 respondents, the reasons for use of microfinance products for Animal Husbandry purpose is -121(40%).

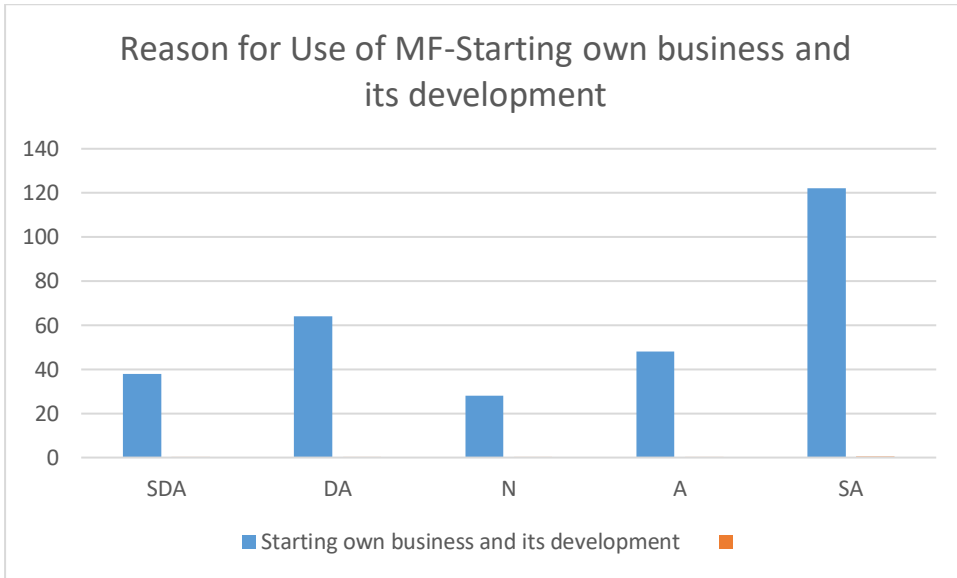


**Interpretation:**

According to above graph of 300 respondents, the reasons for use of microfinance products for Income Generating Activities purpose is -127(42%).

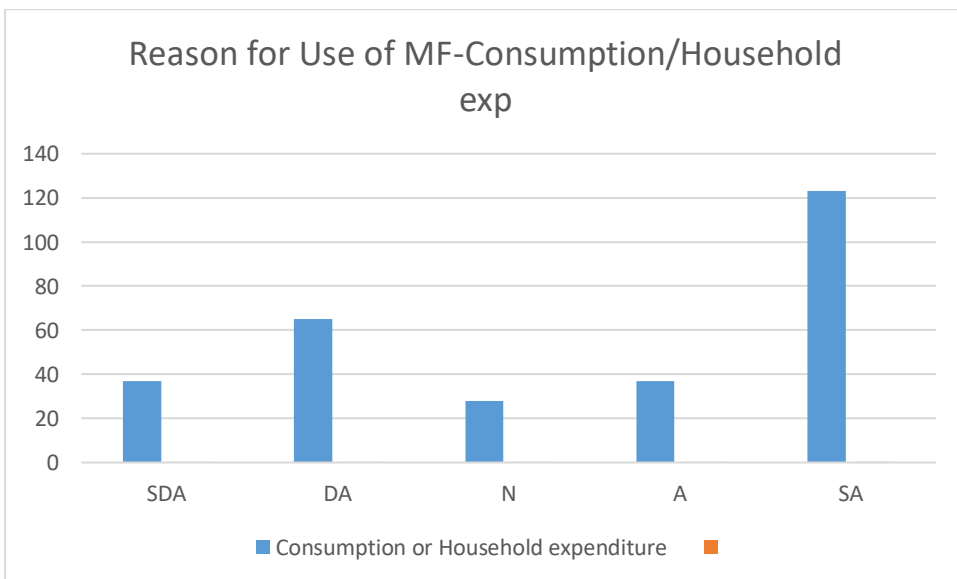


**Interpretation:** According to above graph of 300 respondents, the reasons for use of microfinance products for Asset Building purpose is -122(41%).



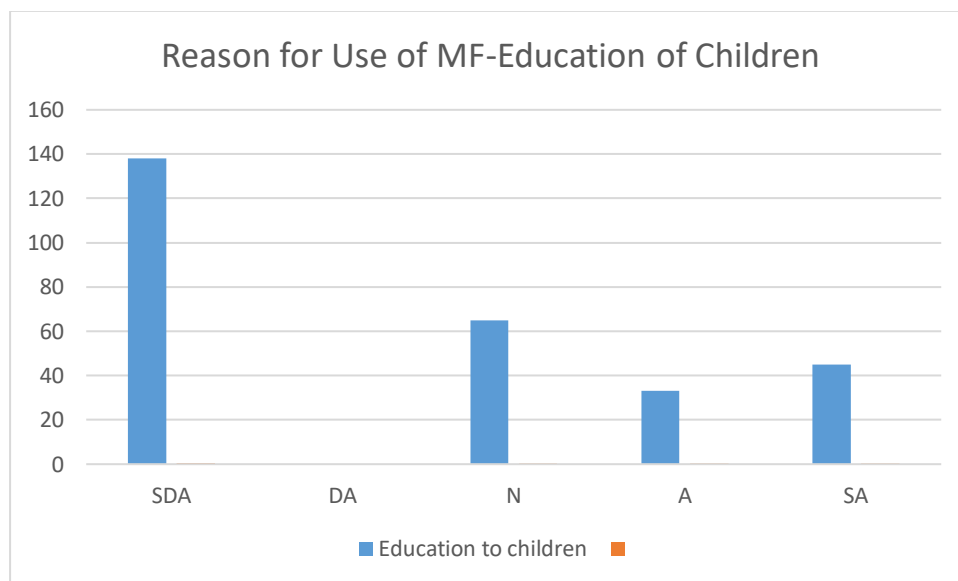
**Interpretation:**

According to above graph of 300 respondents, the reasons for use of microfinance products for starting own business and its development purpose is -122(41%).



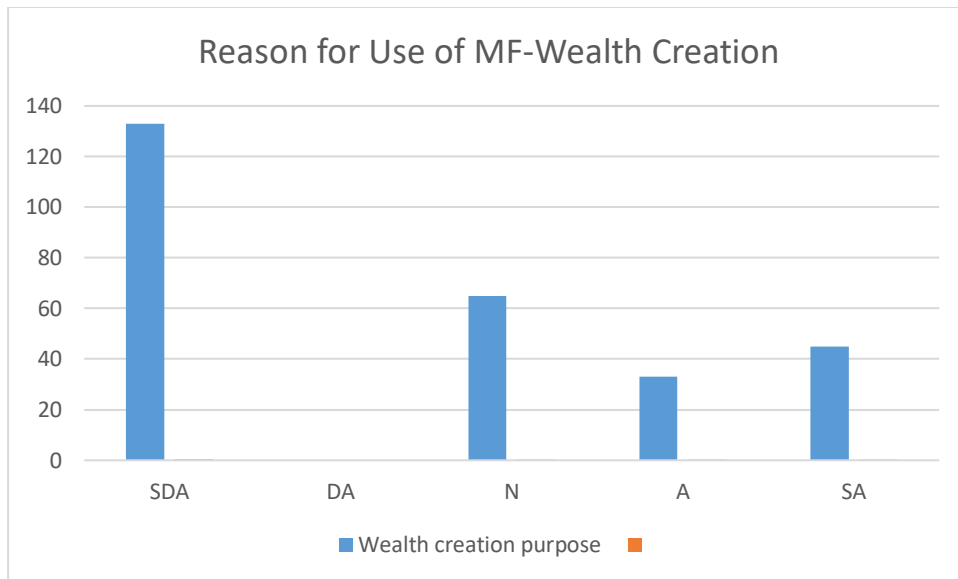
Interpretation:

According to above graph of 300 respondents, the reasons for use of microfinance products for Consumption/House hold expenditure purpose is -123(41%).



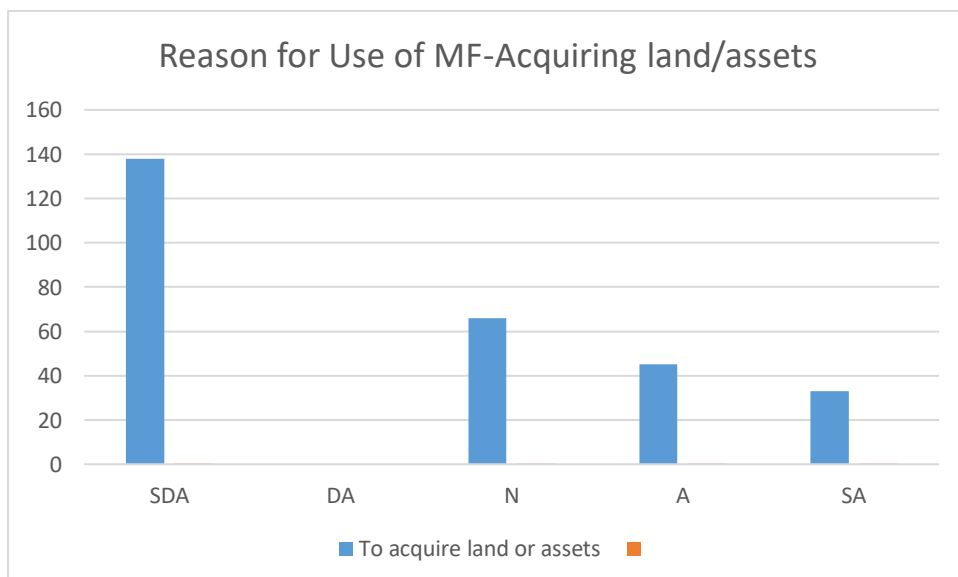
Interpretation:

According to above graph of 300 respondents, the reasons for use of microfinance products for Education of Children purpose is 15% .



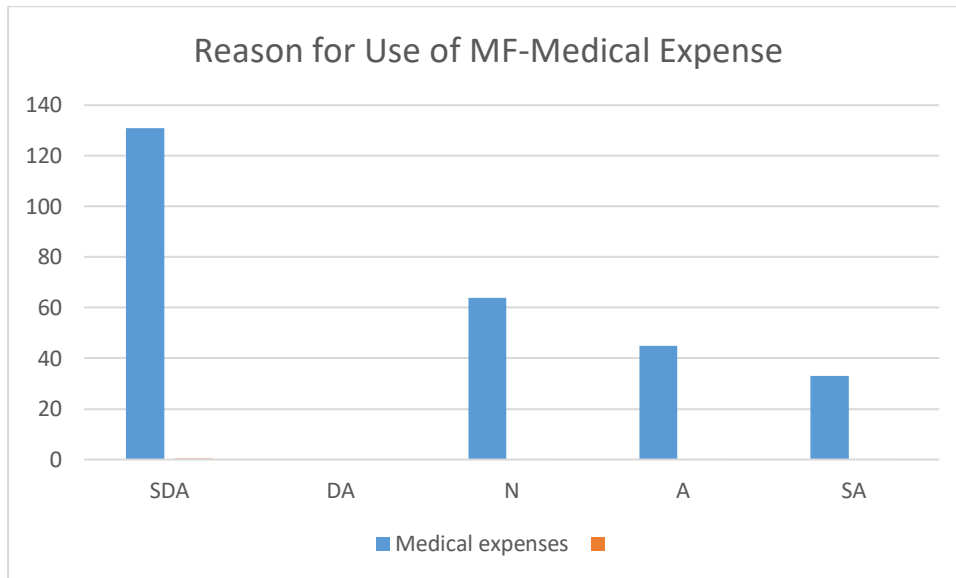
Interpretation:

According to above graph of 300 respondents, the reasons for use of microfinance products not for Wealth Creation Purpose is 133(44%).



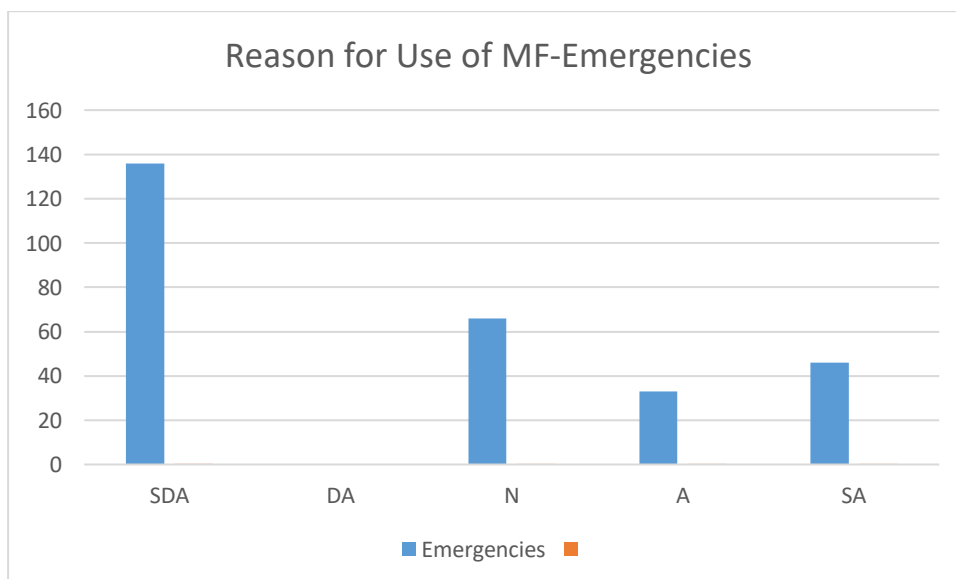
Interpretation:

According to above graph of 300 respondents, the reasons for use of microfinance products not for Acquiring land or assets Purpose is 138(46%).



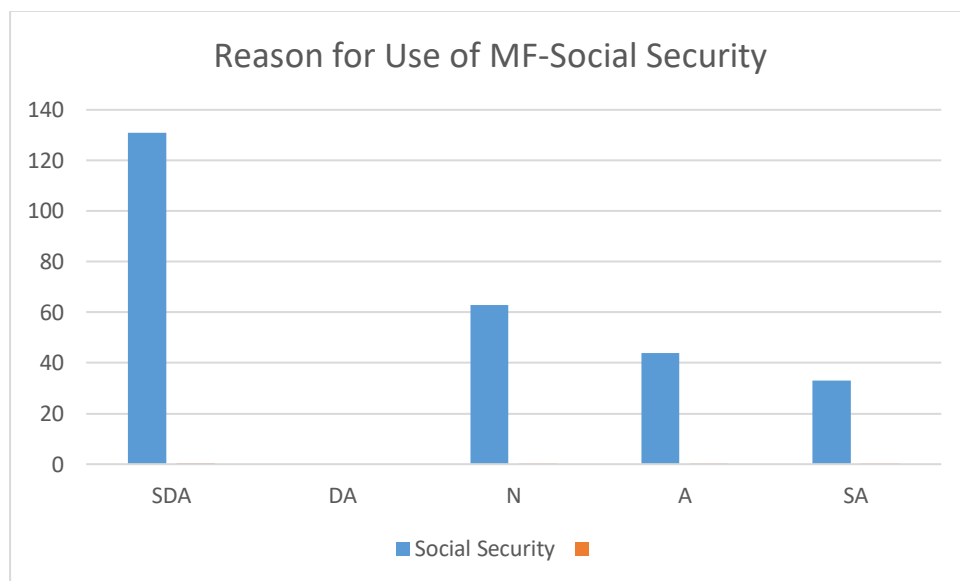
Interpretation:

According to above graph of 300 respondents, the reasons for use of microfinance products not for Medical expenses Purpose is 131(44%).



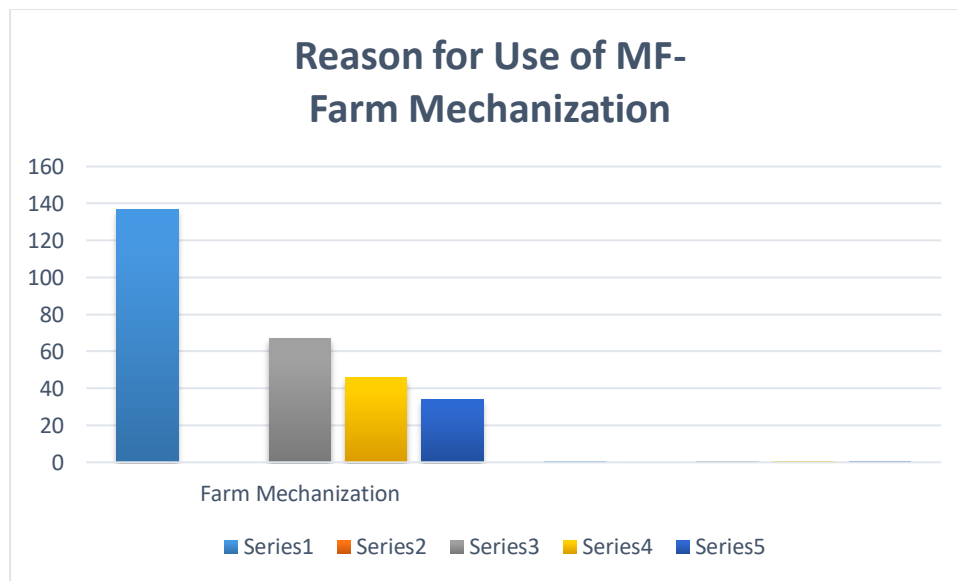
Interpretation:

According to above graph of 300 respondents, the reasons for use of microfinance products for Emergencies Purpose is 46(15%).



Interpretation:

According to above graph of 300 respondents, the reasons for use of microfinance products for Social Security Purpose is 33(11%).



#### Interpretation:

According to above graph of 300 respondents, the reasons for use of microfinance products not for the Farm Mechanization Purpose is 137(46%).

#### Findings/Observations

- 137 respondents, or 46%, support the use of farm mechanisation.
- 33 (11%) of the respondents attest to the Social Security purpose.
- 46 (15% of the responders) attest to the emergency purpose.
- 131 respondents (44%) testify for medical bills as their reason for responding.
- 138 respondents, or 46%, support buying property or other assets for personal gain.
- 133 respondents, or 44%, support the goal of wealth creation.
- 15% of respondents support the goal of educating children.
- The number of respondents who attest to spending for consumption or housing is 123 (41%).



- The number of respondents who attest to the use of income-generating activities is 127 (42%).
- 121 (40%) of the responders said they are doing it for animal husbandry purposes.
- The number of respondents who attest to the use of agriculture is 127 (44%).
- There are -123 (41%) respondents who attest to spending for consumption or housing.
- 127 respondents (42%) attest to the respondents' use of income-generating activities.
- 121 respondents, or 40%, are willing to attest to the use of animals in animal husbandry.
- 127 (44%) of the respondents attest to the use of agriculture.

## Conclusion

The primary conclusion of this study is that respondents have expressed the least interest in Social Security, crises, and children's education. The challenge is to find a degree of flexibility in the credit instrument that would allow it to serve the diverse credit needs of low-income borrowers without creating an unreasonable load on the lenders to supervise its end-use.

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