

An Emperical Study of Microfinance with Special Reference to Latur and Nanded Districts in the State of Maharashtra

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INTRODUCTION:

Micro finance means funds which are provided to the micro and small medium enterprises (SMEs) and also to the farmers and cottage industries etc. Micro finance are provided in the form of small size of loans, cash subsidies, cash credits, bank overdrafts, bank guarantee, And Letter of Credit etc.

Besides various financial services like Kisan credit card, Debit cards, Money Transfer Facilities, Micro Insurance are provided to the farmers and micro and small industries. In India most Microfinance loans are in the range of 5000 to 20000 but the development and regulation bill 2007 defines microfinance loans as loans with amount not exceeding Rs. 50000 in aggregate per individual or small enterprise.

In India rural finance remains very challenging and in developing countries like us it is generally weak, even though there are notable efforts taken by government, private investors and donors in this field to improve it. However important lessons can be drawn out of these experiences which will in turn help us to expand and make more effective rural financial services. Some of the challenges which the rural finance facing are: 1) Dispersed Demand, 2) Weak Institutional Capacity, 3) High Information and Transaction Cost. 4) Seasonality, 5) Farming Risk and 6) Lack of Collateral. Over the years Microfinance institutions has evolved themselves as one of major players to support rural financing. Microfinance helps rural people by providing necessary capital so that they can get out of the viscous cycle of Poverty.

Over the years microfinance has attracted significant worldwide attention for becoming a successful tool to eradicate poverty and social upliftment of rural households. This research paper is designed to test empirically the impact of joint liability lending of microfinance on the socio economic attributes like income, employment, education of the rural households of the Latur and Nanded districts in the state of Maharashtra. For this research primary data is collected through a structured questionnaire and direct interview of the Joint Liability Lending groups borrowers. As the microfinance borrowers are widely situated in the said region the cluster sampling technique is used to select the sample for the study. The Researcher used Cronbach's alpha test in order to test the reliability of the collected data. Using Statistical software SPSS the various tests are conducted like Principal Component Analysis Rotation Method Varimax with Kaiser Normalization, Multiple regression analysis. Based on the analysis the researcher has arrived at the major findings and suggestions.

OBJECTIVES OF THE STUDY:

- 1) To Study the relationship among the Factors that enhances the Joint Liability Lending Groups through microfinance.
- 2) To Study the impact of microfinance on household income.

STUDY HYPOTHESIS:

H11 There is a relationship between the factors which enhances the Joint Liability Lending group through microfinance.

H21 There is a relationship between microfinance availability and household income.

REVIEW OF LITERATURE

Taking the note of Andhra Pradesh Crisis, Author Ramesh S Arunachalam (2011) emphasized in its book Journey of Indian Microfinance : Lessons for future, emphasized on the need of regulatory framework for microfinance industries in India So that a large number of people, who are financially excluded and re included on regular basis. The author is largely concerned about absence of regulatory framework for microfinance institutions in India. As the microfinance sector is expanding exponentially in India there is need to learn from the previous crisis and design the microfinance framework in such a way that large number of people who are excluded from access to financial services can be a part of inclusive growth story.

Dadhich (2001) stated that effective implementation of micro-finance can be a means not only to alleviate

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poverty and empower woman but also be a viable economic and financial Proportion. Raghavendra (2003) reported that the average participation level of JLLG members has been quite good. Satya Sundaram (2005) stated that micro-finance in India is making steady and satisfactory progress. NABARD has set a goal of covering 10 million poor, i.e. one third of the country's poor population through one million. Thorat (2005) stated that micro-financial services provided to the poor in sustainable manner is consistent with high repayment rates. Which meant that if the services to the poor were provided in a sustainable manner than the beneficiaries would go in for repayments that are quite high in consideration to a staggered manner of provision of services. Asokan (2005) reported that National Institute of rural development (NIRD) conducted a study on micro enterprises, which are developed by SHGs in Kerala. The characteristics of micro entrepreneurs under SHGs revealed that a high proportion (90%) of them were unemployed prior to joining SHG and tailoring was found to be the most preferred activity (47%). The study also found that the average monthly turnover of micro project taken by members of SHGs members was around Rs. 1917 and net profit worked out to be Rs. 700 per month. This indicates a high level of profit i.e. 60 per cent of individual units have investments less than Rs. 5,000. A study conducted in Tiruchirapalli rural area found that before starting micro- enterprises their annual income was increased to the tune of Rs. 50,879. Subbiah and Navaneetha (2006) reported that there are three models under the SHG's-bank linkage programme. About 72% of the SHGs are formed by NGOs/ government agencies and the like financed by banks. They stated the programme has been advantageous not only to members of SHG's but also to the banks.

DATA RELIABILITY:

Primary data for the present study is collected by using a structured questionnaire and direct interview of microfinance borrowers. A cluster sampling technique is used and the data is collected from 150 participants of microfinance for this study. To Test the reliability of data Cronbach's Alpha Test is conducted and the value is 0.699 which shows that the data has satisfactory reliability and validity.

Table 1 Data Reliability Test

Cronbach's Alpha	N of Items
0.699	5

(Source: SPSS Data Analysis output)

The Cronbach's Alpha value is calculated to assess the internal consistency of the questionnaire. And the data reliability refers to the confidence which a researcher can place on measuring instrument to give us the same numeric value when measuring instrument is used on the same object. For the current study it the cronbach's alpha is 0.688 which represent adequate reliability.

HYPOTHESIS TESTING:

FACTOR ANALYSIS:

Hypothesis 1 There is a relationship between the factors which enhances the Joint Liability Lending group through microfinance.

Table 2 - KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.574
Approx. Chi-Square	26.812
Bartlett's Test of Sphericity	
df	21
Sig.	.177

(Source: SPSS data Analysis Output)

Kaiser – Meyer – Olkin measure of sampling adequacy index is 0.574, which indicates that factor analysis is appropriate for given data values. KMO measure of sampling adequacy is an index to examine the appropriateness of factor analysis. High Values between 0.5 and 1.0 indicate factor analysis is appropriate.

Whereas the values below 0.5 imply that factor analysis may not be appropriate. Bartlett's Test of Sphericity is used to examine the hypothesis that the variables are uncorrelated. It is based on Chi – Square transformation of the determinant of correlation matrix. A large value of statistics will favour the rejection of the null hypothesis. In turn this would indicate that factor analysis is appropriate. Hence it is concluded that in KMO, factor analysis is appropriate for the given data set.

Table 3 - Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.718	38.826	38.826	2.718	38.826	38.826	2.350	33.568	33.568
2	1.799	25.694	64.520	1.799	25.694	64.520	2.167	30.951	64.520
3	.911	13.016	77.536						
4	.741	10.584	88.120						
5	.454	6.479	94.599						
6	.249	3.559	98.159						
7	.129	1.841	100.000						

Extraction Method: Principal Component Analysis. (Source: SPSS Data Analysis output)

The Eigen Value represents the total variance explained by each factor. Percentage of total variance attribute to each factor. One of the popular methods used in Exploratory Factor Analysis, Where the total variance in the data is considered to determine the minimum number of factors that will account for maximum variance of data.

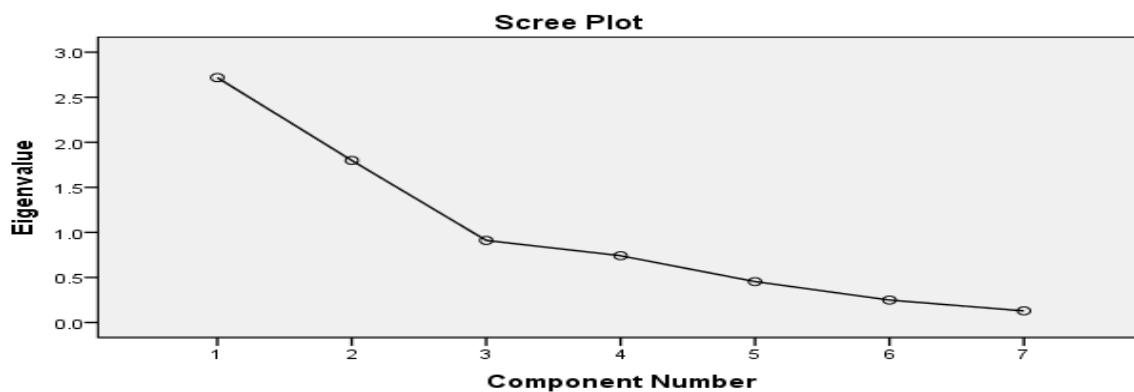


Table 4 - Rotated Component Matrix^a

	Component	
	1	2
Processing and sanctioning of loan	.668	-.591
Instalment factor	-.103	.868
Hospitality and services	.110	.926
MF's help in eradication of poverty	.874	.132
Low interest rate	.604	.217
Loan Availability	.505	-.291
Involvement of children in decision making	-.705	.238

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 24 iterations. (Source: SPSS data analysis output)

INTERPRETATION OF ROTATED COMPONENT MATRIX: (ROTATION METHOD VARIMAX WITH KAISER NORMALIZATION)

Interpretation of above matrix on various factors is facilitated by identifying the statements that have large loading in the same factor. The factor can be interpreted in terms of the statement that loads high on it. The factor can be interpreted in terms of the statement that loads high on it. The factors of a study on Joint Liability Lending Groups of 7 individual statements. Out of 7 factors, 5 factors contribute more towards enhancing the JLLG through microfinance. These 5 factors are-

- 1) Processing and sanctioning of loan
- 2) Instalment Factor
- 3) Hospitality and services
- 4) Low interest rate
- 5) MF's help in eradication of poverty.

Hypothesis 2 There is a relationship between microfinance availability and household income.

Simple correlation test is applied to check whether there is an impact of microfinance availability with the level of income of the microfinance borrowers.

Table 5 Correlations

		Microfinance	Income
Microfinance	Pearson Correlation	1	.996**
	Sig. (2-tailed)		.000
	N	9	9
Income	Pearson Correlation	.996**	1
	Sig. (2-tailed)	.000	
	N	9	9

**. Correlation is significant at the 0.01 level (2-tailed). (Source: SPSS data analysis output)

From the above table it is clear that microfinance plays a great role in creation of asset and in turn increasing the income of Joint Liability Lending group borrowers. Above table shows the correlation Pearson coefficient between the two variable is 0.996 with a level of significance 0.01 it is concluded that there exist a relationship between income of borrowers and microfinance funding.

MAJOR FINDINGS OF THE STUDY:

- 1) There are seven factors which can contribute to enhancing the Joint Liability Lending group finance.
- 2) Even though there is a relation between these 7 factors factor analysis shows that only five factors have significant relationship that enhances the Joint Liability Lending Group Finance.
- 3) Five Factors that enhances the microfinance are
 - a) Processing and sanctioning of loan
 - b) Instalment Factor
 - c) Hospitality and services
 - d) Low interest rate
 - e) MF's help in eradication of poverty

4) There is a positive relationship between availability of microfinance and income of the borrower. Increase in microfinance availability greatly increases the income generating capacity of borrower.

CONCLUSION:

Developing countries have used microfinance services to reduce poverty. The studies have, in general, shown that microfinance services have also had a positive impact on specific socioeconomic variables such as children's schooling, household nutrition status, and women's empowerment. In India, Micro finance is well recognized as an effective tool for poverty eradication and enhances the growth of microfinance. Nowadays Micro finance institution plays a vital role in providing financial services to the JLLG. The study found that microfinance institutions must focus on the five factors to enhance overall satisfaction of microfinance borrowers towards microfinance institutions. And last the government and banking authorities should focus more on easing rules and regulation of microfinance sector in order to grow this sector since it is observed that there is a significant relationship between microfinance availability and economic condition of rural poor.

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