

Customer's perception regarding Micro finance

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1. INTRODUCTION

Micro financing is an effective tool of poverty alleviation which provides basic financial assistance to the underserved section of the society at affordable price. In India, majority of the population resides in rural areas; rural development becomes vital for the economic development of the nation.

Since independence, the Government of India has been taken many initiatives to make the financial services accessible to the neglected section of the society. Various priority sector schemes have been launched by the policy makers. In this framework, micro finance has been also launched and has caught the attention as a powerful tool of poverty alleviation and uplifting the standard of living of people.

Micro finance in India has been started in 1974 by Shri Mahila Sewa a self financed women's association which has been registered as an urban cooperative bank. The focus of the institution was to provide banking services to the poor women employed in the unorganized sector.

In 1980s informal Self-Help Groups (SHGs) has been started with the objectives of providing financial services to the neglected poor people. The micro credit programs has been started growing after linking of Self Help Groups (SHGs) to the banking system in April,1999 after that the formation of SHGs and micro finance became the mode of poverty alleviation (Sarkar, 2008).

India has been experiencing uneven growth of microfinance movement as most of the MFIs are established in southern part of the country. Only 5-6 per cent of the total SHGs linked to banks belongs to the northern region. In Punjab, Jalandhar district is having the maximum number of SHGs linked to banks. Commercial banks are participating more as compared to the regional rural and co-operative banks. The commercial banks are having maximum share of SHGs linkage (50.45 per cent) and finance (50.49 percent) followed by co-operative banks (37.27 percent, 35.44 per cent) and RRBs (12.28 percent, 14.07 percent) respectively.

Broadly, In India, micro finance providers are classified into three categories as follows:

- **Formal Sector-** It covers the entire banking industry including all public, private, regional rural banks, NABARD and RBI.
- **Semi-formal sector-** It covers all exclusive Micro financing institutions, NGOs and various Self Help Groups (SHGs).
- **Informal sector-** It covers family, friends, relatives, moneylenders, pawnbrokers, traders and landlords etc.

2. LITERATURE REVIEW

It has been seen that even after more than five decades of independence, the formal financial institutions have not been able to ensure better and even distribution of rural credit (Vatta, 2003). The majority of poor people, therefore, depend for their credit needs on the informal sources of financing for meeting their livelihood and consumption needs (Singh, 2004). Though, the time has been changing for the better, it is only savings and credit aspect of micro finance that has been addressed so far in India. Micro insurance is still in experimental stage (Gupta, 2005) Developing microfinance markets involves removing imperfections that have wrongly been assumed to be policy-induced, hence the ineffectiveness of the present frame of financial market liberalization paradigm. It is to be realized that these imperfections actually arise from structural and institutional rigidities of microfinance markets. The new institutional economics offers us some insights for removing these imperfections. In the next step of reforms it is imperative that measures are initiated to address these concerns by properly internalizing the nature and content of microfinance and focusing on policy stance, restructuring, design features and governance in the light of perspectives from institutional economics. (Kaladhar,1997). Micro finance programs had a positive change in the women's mentality, confidence level and decision making power BL Centre for Development, Research and Action (2005). Customer values the functioning of micro financing through Self Help groups but still they prefer informal ways of savings because of the lack of awareness with regards to the formal micro financing services customers are hesitated to preferred formal sector. (Gedeme&Vasudeven, 2007)

3. OBJECTIVES OF THE STUDY

The study aims at

1. To study the concept of micro finance.
2. To measure the level of satisfaction with regards to formal and informal sources of microfinance available in rural areas of Bathinda.

3. HYPOTHESIS

The ultimate purpose of this study is to investigate customer's perceptions regarding various alternatives available in micro finance. In the light of aforesaid objectives, following hypotheses have been formulated.

1. **H₀**: There is no significant difference between customer's perception among formal and informal sources of micro credit.
2. **H₀**: There is no significant difference between the satisfaction level of formal and informal sources of micro credit.

4. COLLECTION OF DATA

The present study deals with some of the important aspects like micro finance interventions through formal and informal sources among the rural people of Punjab. It is a micro level study relating to Bathinda district of Punjab. It covered the rural people of Bathinda.

The present study examines the microfinance interventions in the rural area people of Bathinda. Most of the people belong to these areas are related to agriculture activities. To satisfy the objectives, the primary data has been collected. 120 respondents have been selected randomly, from the different villages of Bathinda district to collect the primary data.

METHODOLOGY

Data has been obtained through a structured questionnaire. Multistage random sampling has been used for collection of primary data. Likert scale has been used to measure the satisfaction level of the respondents about the formal and informal sources of micro finance. Percentages mean score and t-test has been used to draw the meaningful inferences from the study.

T-test has been applied to see if there is any difference in the sample means of respondents opting for formal and informal sources of micro finance. The t-test has been applied on the mean scores of two different scales- one for assessing the level of satisfaction of the respondents regarding micro financing and other for measuring perceived level of impact regarding micro financing.

DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Table –1
Demographic Profile of the respondents

Sex	Frequency	Percentage
Male	104	86.66
Female	16	13.33
Total	120	100
Age	Frequency	Percentage
<20	0	0
20-30	38	31.66
30-40	50	41.66
40<	32	26.66
Total	120	100
Marital Status	Frequency	Percentage
Single	10	8.33
Married	101	84.16
Widow	9	7.50
Divorce	0	0
Total	120	100
Type of Family	Frequency	Percentage
Joint	4	3.33
Nuclear	69	57.50
Extended	47	39.16
Total	120	100
Education	Frequency	Percentage

Illiterate	17	14.16
Matric	49	40.83
Higher Education	39	32.50
Graduation	15	12.50
Post-graduation	0	0
Vocational	0	0
Other	0	0
Total	120	100
Occupation	Frequency	Percentage
Employed	5	4.16
Self-employed	89	74.16
Labour	12	10
Housewife	0	0
Unemployed	0	0
Professional	0	0
Family owned Business	14	11.66
Retired	0	0
Total	120	100

ANALYSIS AND INTERPRETATION PERCEIVED LEVEL OF IMPACT

This section of the study deals with the examination of perceived level of impact which the respondents observed after taking micro credit. All 120 respondents availing micro credit has been asked to rate the activities showing impact on their lives of micro credit. Activities provided for rating involved recognition in family, increase in decision making power, improvement in consumption level, confidence building, poverty reduction, improvement in social status, improvement in income level, awareness of social issues, activities of slight impact and

increased exposure to the outside world. The impact level has been analyzed by calculating the mean score for each activity. The activities have been categorized as activities of high impact, moderate impact and slight impact as explained below:

A. FORMAL SOURCES OF MICRO CREDIT

Table- 5
Perceived level of impact of the respondents availing micro credit from the formal sources

Activities	Mean Score
Activities of high impact	
1. Recognition in family	4.45
2. Increase in decision making power	4.43
3. Improvement in consumption level	4.23
4. Confidence building	4.19
Activities of moderate impact	
5. Poverty reduction	4.19
6. Improvement in social status	
7. Improvement in income level	3.88
8. Awareness of social issues	3.88
Activities of slight impact	
9. Increased exposure to the outside world	3.74
	3.26
	2.93

INTERPRETATION:- perceived level of impact formal sources of micro credit

Table 4.5 shows the impact level of the respondents availing micro credit from formal sources. It is important to note that only one activity (increased exposure to the outside world) has been ranked in the category of slight impact. Four activities have been ranked as showing high impact level (recognition in family, increase in decision making power, improvement in consumption level, and confidence building) and the rest four activities of moderate impact (poverty reduction, improvement in social status, improvement in income level, and awareness of social issues). ‘Recognition in the family’ is having maximum mean score of 4.45 and is followed by ‘increase in decision making power’ having mean score of 4.43 respectively. ‘Increased exposure to the outside world’ is having slight impact with minimum mean score of 2.93.

B. INFORMAL SOURCES OF MICRO CREDIT:

Table- 6

Perceived level of impact of the respondents availing micro credit from the informal sources

Activities	Mean Score
Activities of high impact	
1. Increase in decision making power	4.90
2. Recognition in family	4.24
3. Improvement in consumption level	4.22
4. Poverty reduction	4.14
Activities of moderate impact	
5. Improvement in income level	3.88
6. Improvement in social status	3.82
7. Confidence building	3.76
8. Awareness of social issues	3.53
Activities of slight impact	
9. Increased exposure to the outside world	2.33

INTERPRETATION: - perceived level of impact informal sources of micro credit

Table 4.6 shows the impact level of the respondents having taken micro credit from the informal sources. It shows that as far as informal sources of micro credit are concerned, the respondents ranked four activities (increase in decision making power, recognition in family, improvement in consumption level, and poverty reduction) in the category of high impact and next four activities (improvement in income level, improvement in social status, confidence building and awareness of social issues) in moderate impact category. Only one activity (Increased exposure to the outside world) has been ranked as of slight impact. Thus ironically, it reveals that though people availing microfinance through formal financial channels satisfied with the services and they also realize a high level impact of these services on their livelihoods. More interestingly, people availing micro credit through informal channels also reported high level impact but it is less than those availing finance through the formal organisations. This indicates that the unorganized sector still rules the mind at the 'bottom of the pyramid'. However now it starts declining.

Table-7

Computed t-test values for perceived level of impact

Source	N	Mean	Significance level at 5%
Formal	9	3.8878	0.949
Informal	9	3.8689	0.949

Results of T-test

In order to determine whether there is a significant difference between the impact level perceived of those availing micro credit from the formal and the informal sources of micro finance. The following is the set of hypothesis:

H₀: there is no significant difference between the perceived level of impact from formal and informal sources of micro credit.

The above hypothesis has been analysed at 5% level of significance. The calculated t-test values have been presented in table-4.7. It has been concluded that the significance level is 0.949 which is more than 0.05, thus null hypothesis is accepted.

OVERALL CUSTOMER'S PERCEPTION BETWEEN FORMAL AND INFORMAL SOURCES OF MICROFINANCE

Table-8

Computed overall customer's perceptions t-test value

Source	N	Mean	Significance level at 5%
Formal	29	3.6879	0.794
Informal	29	3.6352	0.794

Results of T-test

In order to determine whether there is a significant difference between the customer's perception for formal and informal micro credit sources. The following is the set of hypothesis:

H₀: there is no significant difference between customer's perception for formal and informal sources of micro credit.

The above hypothesis has been analysed at 5% level of significance. The calculated t-test values have been presented in table-4.8. It has been concluded that the significance level is 0.794 which is more than 0.05, thus null hypothesis is accepted.

A. FORMAL SOURCE OF FINANCE

Table- 4.2

Perceived satisfaction of the respondents availing micro credit from formal sources

Activities	Mean score
Variables of high satisfaction	4.80
1. Demand for collaterals	4.55
2. Recognition & respect from provider	4.48
3. Behaviour of bank staff	4.46
4. Complaints/ problems are well entertained	4.45
5. Transportation cost to visit a bank branch	4.04
6. Convenient procedure	4.01
7. Repayment policy	4.01
Variables of moderate satisfaction	3.99
8. Terms and conditions	3.99
9. Enough information is provided by the credit provider	3.87
10. Time taken to get the loan sanctioned	3.87
11. Requirement of guarantee	3.74
12. Timing to access credit	3.74
13. File charges	3.70
14. Suitable products are available as per needs	3.70
15. Loan Amount	3.59
16. Rate of interest	3.59
Variables of slight satisfaction	3.57
17. Loan utilisation check	3.30
18. Loan duration	3.30
Variables of low satisfaction	3.23
19. Consequences of non-repayments	3.03
20. Compulsory saving requirements	2.91
	2.87
	1.99
	1.38

INTERPRETATION: - perceived satisfaction formal source of finance

Table 4.2 shows the satisfaction level of the respondents availing micro credit from the formal sources of finance with regards to various variables.

It is observed that out of twenty variables respondents ranked 2 variables in low satisfaction (consequences of non-repayments and compulsory saving requirements). Another two variables are ranked in slight satisfaction (Loan utilisation check and loan duration). 9 variables are ranked in moderate satisfaction by the respondents. These variables of moderate satisfaction includes terms and conditions, enough information is provided by the credit provider, time taken to get the loan sanctioned, requirement of guarantee, timing to access credit, file charges, suitable products are available as per needs, loan amount, and rate of interest. Remaining 7 variables are ranked in highest satisfaction by the respondents. These variables with highest satisfaction includes demand for collaterals, recognition & respect from provider, behaviour of bank staff, complaints/problems are well entertained, transportation cost to visit a bank branch, convenient procedure, and repayment policy. A majority of respondents gives highest ranking to 'demand for collaterals' with the mean score of 4.80 and 'compulsory saving requirements' has been ranked lowest among the lowest satisfying variables having mean score of 1.38. Another interesting finding of the study is that the respondents are highly satisfied with the bank official's behaviour and banks' formalities. They found the procedure of getting loan sanctioned much convenient (mean score being 4.04). They are also highly satisfied with repayment policy of the banks (mean score being 4.01). It shows that once people start using banking services they get familiar with all the procedural formalities and find themselves comfortable in accessing these services.

B. INFORMAL SOURCES OF FINANCE:

Table-4.3

Perceived satisfaction of the respondents availing micro credit from informal sources

Activities	Mean Scores
Variables of high satisfaction	4.65
1. Behaviour of staff	4.61
2. File charges	4.45
3. Enough information is provided by the credit provider	4.33
4. Recognition & respect from provider	4.08
5. Requirement of guarantee	4.00
6. Transportation cost to visit a bank branch	4.00
7. Complaints/ problems are well entertained	4.00
Variables of moderate satisfaction	4.00
8. Compulsory saving requirements	3.98
9. Convenient procedure	
10. Demand for collaterals	

11. Consequences of non-repayments	3.80
12. Time taken to get the loan sanctioned	3.55
13. Timing to access credit	3.51
14. Terms and conditions	3.51
15. Loan duration	3.47
Variables of slight satisfaction	3.43
16. Repayment policy	3.08
17. Loan Amount	3.00
18. Suitable products are available as per needs	2.98
19. Loan utilisation check	2.75
Variables of low satisfaction	2.69
20. Rate of interest	2.49
	1.75

INTERPRETATION:-perceived satisfaction of informal source of finance

Table 4.3 shows the perceived satisfaction level of the respondents having taken micro loans from the informal services.

The table shows that as far as informal sources are concerned respondents ranked only one variable (Rate of interest with mean score of 1.75) in the category of lowest satisfaction, whereas 4 variables (repayment policy, loan amount, suitable products are available as per needs, and loan utilisation check) are of slight satisfaction, another 8 variables (compulsory saving requirements, convenient procedure, demand for collaterals, consequences of non-repayments, time taken to get the loan sanctioned, timing to access credit, terms and conditions, and loan duration) are in the category of moderate satisfaction. Remaining 7 variables (behaviour of bank staff, file charges, enough information is provided by the credit provider, recognition & respect from provider, requirement of guarantee, transportation cost to visit a bank branch, and complaints/ problems are well entertained) are ranked in highest satisfaction level by the respondents. Respondents ranked 'behaviour of the staff' as the variable of highest satisfaction having mean score 4.65. Like the formal sources of micro finance respondents using the informal sources of micro finance are also satisfied with the behavior of the staff members. The 'rate of interest' is yielded only lowest satisfaction with minimum mean score of 1.75.

Table-4.4
Computed t-test values for perceived satisfaction level

Source	N	Mean	Significance level at 5%
Formal	20	3.5980	0.795
Informal	20	3.5300	0.795

RESULTS OF T-TEST

In order to determine whether there is a significant difference between the satisfaction level of those availing micro credit from the formal and the informal sources of micro finance. The following is the scheme of null hypothesis:

H₀: there is no significant difference between the satisfaction level of formal and informal sources of micro credit.

The above hypothesis has been analysed at 5% level of significance. The calculated t-test values have been presented in table- 4.4. It has been concluded that the significance level is 0.795 which is more than 0.05, thus null hypothesis is accepted.

CONCLUSION

It has been observed that no doubt, the formal sector of finance, specifically the banking sector has marked a significant progress in achieving the financial inclusion target. But still a lot of efforts are required to pave the way for micro financing movement among the banking sector. The need of the hour is to change the attitude of the people towards use of formal sources of finance by spreading more awareness of the micro financing services available with the banks the use of such services so that they feel motivated to access these sources. Moreover, the banks should take care of the service activities causing dissatisfaction among the customers. The procedure, terms and conditions should be easy to understand and fulfilled by the rural poor who are generally financially illiterates. The banks should also more lucrative services under the microfinance umbrella as per the requirements of the rural poor. Last but not the least bankers should pay specific attention to provide for some advisory and training to the young rural talent to garnish their entrepreneurial skills.

For microfinance, to be a very powerful instrument of poverty eradication, efforts should be made in right direction with right spirit.

The wide spread of micro financing services would surely lead to achieve the motive of poverty reduction. However, Government efforts alone cannot solve the problem of financial inclusion without the cooperation of the banking sector particularly, in the developing nations like India, where most of poor people do not have access to any kind of banking services.

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