

# Regional Status of Micro-Finance Movement in India: A Comparative Study of Southern and Northern States

**ABSTRACT**

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## ABSTRACT

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### 1.Introduction

Globally, across 107 developing countries, 1.3 billion (22%) people live in multidimensional poverty and about 84.3 percent of poor people live in Sub-Saharan Africa (558 million) and South Asia (530 million) (UNDP report, 2020). Moreover, In Indian context two-third of the people in India living on less than 2 dollar a day. Over 30 percent even have less than 1.25 dollar per day available. Pandemic and global recession may cause over 1.4 % and 88 million to 115 million people into extreme poverty and with the total rising to as many as 150 million by 2021, (World Bank report-2020). Further, Structural impediments in developing countries often constrain inclusive growth. Moreover, economic theory suggested that financial exclusion can lead to persistent inequality. In presence of credit market imperfection, individuals' initial wealth determines their ability to invest in human and physical capital, which prevents social mobility of the poor and perpetuated inequality by suggesting that financial inclusion can reduce the income inequality by increasing opportunity for education and entrepreneurship among the poor (Banerjee & Newman 1993; Galor & Moan 2004). Another side, lot of efforts have been made to fight the poverty and uneven income distribution. Over the last two decades, Inclusive finance and sustainable economic have been of concern to policy makers, scholars and other stakeholders of the economy. World Bank Group's Universal Financial Access 2020 Initiatives that being able to have access to a transaction account is a first step toward broader financial inclusion since a transaction account allows people to store money, and send and receive payments. A transaction account serve as a gateway to other financial services, which is why ensuring that people worldwide can have access to a transaction account.

Theoretically, financial development promotes growth through capital accumulation and technological progress by increasing the saving rate, mobilizing and polling saving, producing information about investment, facilitating and encouraging the inflow of foreign capital, as well as optimizing the allocation of capital. Additionally, it reduces poverty and inequality by broadening access to finance to the poor and vulnerable groups, facilitating risk management by reducing their vulnerability to shock, and increasing investment and productivity that result in higher income

generation, (World Bank 2019-20). Moreover, well-developed financial system removes financing constraints for firm, reduce poverty and provide new opportunity, (Jalilan and Kirkpatrick 2005; Levine 1997). Less development financial system, on the contrary, lead to entrenching of inequality, loss of opportunity to the poor, less investment in enterprise growth and human capital development (Arora 2012; Claessens and Perotti 2007).

Although, Microfinance is a mechanism to reach to the goal of financial inclusion and it intended to meet the financial needs of poor borrower (Ali & Alemu 2019, Kumari et al, 2019). MF can handle this critical situation and protect their livelihoods of poor, (Johnson & Rogaly 1997). Also, Microfinance, financial institutes ought to contribute to sustainable economic and financial system development by offering access to credit for client who are usually excluded from the formal banking system.

Microfinance provides small scale financial services, small saving, micro-loan, insurance etc to support entrepreneurial initiatives of the underprivileged that are left aside by the traditional and mainstream financial institutions (Amin, Qin, Rauf, & Ahmad 2017, Jha 2017, Lopatta Tchikov & Lodhia 2017). In fact, Microfinance are playing an important role in transforming a sustainable development society by alleviating poverty and that is the ultimate goal of it (Morduch, 1991)

Microfinance was first trumpeted as a way to un-leashed the productive capacity of poor people dependent upon self employed (e.g. Hulme and Mosley 1996). Initially idea of microfinance was straightforward that it would change customer's business by providing capital that would increase borrowers' earnings and reduces the poverty, (Yunus, 2016). Microfinance has been honor for initiate innovation in credit channel, particularly group lending and installment lending (Ghatak and Guinnane 1991).

Microfinance has accomplished global recognition as an important instrument for poor or vulnerable group. The typically microfinance client are low-income people, self-employed, often household based entrepreneur, poor and vulnerable non-poor who have a relatively stable source of income. In rural areas, they are usually small farmers and others who engaged in small income generating activities such as food processing and petty trade. However, Microfinance focuses on alleviating poverty by providing financial stability, reduces the vulnerability and life shocks, stabilize consumption, built assets, small business provider among the poor. The aim of

financial inclusion and microfinance is same in world and India has full fill by Microfinance movement because it provides equal opportunity to avail the financial services to low income people who traditionally lack of access to banking or formal financial services. Its major concern is that microfinance availed the services without any collateral or documentation process.

Microfinance services are playing crucial role in providing financial services and achieving the goal of financial inclusion in India. However, several reports and empirical studies such as formal banking sector report by RBI and many empirical studies have attract our attention to their regional inequalities in availing financial services in formal banking sector. Even regional inequalities have been appeared in the Microfinance sector. After these reviews we found that both Microfinance and Formal banking services are still very much exclusive in process of financial inclusion.

Microfinance services are made for providing financial services to the excluded population of the society or inclusive finance to all then why Microfinance services performing differently in India with respect to different regions of India. Major microfinance services are concentrated in southern region and remaining regions are getting low microfinance services, then again question arises that why only southern region is accessing high level of financial services and why other regions is not accessing at same level. Third question arises with respect to microfinance delivery model whether SBLPs, MFIs and PMJDY performing differently in different regions of India.

The following Study will focus on demand side need of the financial services of the excluded section of the society. This study will try to analysis the factors behind the low level of financial services outreach in northern region and better level of the financial services outreach in the south region. This study will try to explore the reasons behind the regional inequalities of Microfinance services with the help of two main delivery model of the Microfinance that is SBLP, MFI and one new government initiative program PMJDY and PMJDY program have chosen to explore the efforts made by government to include poorer section of the population in the financial inclusion Program.

## **2. Objective of the study**

1. To study the Regional Status of Financial Inclusion and Microfinance services in India.
2. To analyze the reasons of regional inequality of Micro-finance movement with comparative study of southern and Northern states.
3. To explore the Policy measures for removing the regional inequality of Micro-Finance movement.

## **3. Hypotheses of the study**

1. Micro-Finance and financial inclusion performs differently in different regions and both are still very much exclusive in process of financial inclusion.
2. Southern states are performing better than the northern states, mainly because of prevailing credit culture in society and specific Models used for delivering Micro-Finance services.
3. Shift from supply Oriented Policy measures to demand oriented policy measures may help in bridging the regional goals.

## **4. Methodology**

The main objective of the thesis is to analyses Status of inequality in Microfinance services among the regions of India. Further, examined the reasons of access of inequality in financial services at regional level and what extent they have changed over the time period and it also explored the outreach of financial services in India.

This study has been carried at Lucknow (Uttar Pradesh State) and Hyderabad (Telangana State) in May to September 2019. Both quality and quantity data has been collected with the help of a well designed research schedule. Sampling technique, stratified simple random sampling has been used in case of SBLP, MFIs and PMJDY in both Districts. Hindi and English languages have been used to collected data. The sample size of the study is 240 samples from both regions. This study is mainly focuses on two type of working models of Microfinance movement as mentioned earlier i.e. Self Help Group Bank Linkage Programs and Microfinance Institution. As

we know, Microfinance models working on group based, and SBLP is a Government initiatives and MFI is a private sector initiative, so we have selected those groups which are taking services under National Rural or Urban Livelihood Mission (NRLM) Program and other side, we have selected Spandana Microfinance institutions group members as MFI groups. Furthermore, 5-5 groups are selected within SBLP and MFI in North as well as South region within group, and 9 group members selected from each group whether it is SBLP or MFI. Moreover, 30-30 samples are selected from PMJDY who were opened account from PMJDY Program. From North region Uttar Pradesh States have been selected.

We have collected secondary source data from Microfinance Report, Sa-Dhan Report by Nabard, Status of Microfinance in India, Microfinance sector reports by Ford Foundation, ACCESS Publication, RBI (Commercial Banks), EPW research Foundation, Census reports, Financial Inclusion report by Nabard and the time period of data is 2006 to 2019 for all variables.

The statistically tools and software such as STATA, SPSS, and EXCEL have been used for the analysis. The knowledge obtained is analysis with the help of different methods and techniques. These include Histogram, Pie chart, and Descriptive statistics. Lorenz curve and Gini coefficient value have been used to analyses the differences of economic variables in both the regions. To analyses and explore the financial inclusion status in south and north region, various Indexes have been developed i.e., Financial Inclusion Index (FII), Social-Economic Index (SEI), Financial Access Index (FAI), Financial Literacy Index (FLI), Financial Behavior Index (FBI). The model of regression, Dummy regression model, and model of binary logistic regression have been used to draw the statistical inferences. ANOVA model has been used to analyses the impact of socio-economic and financial behavior on financial access of southern and northern regions households. Moreover, details of the all Methods, tools and techniques of different chapters have been explained in the concerned chapters separately.

## **5. Research Gap**

Extensive research have been done in the field of microfinance sector related microfinance different models, but none of the study have been focused on regional aspects of Microfinance in India, where huge inter-regional differences is prevailing.

Moreover, there is also gaps exist in two main models of microfinance that is SHGs and JLGs, which is provided by the SBLP and MFIs. SBLP is initiated by the government side and MFIs initiated by the Private as well as partially government side. Our study is based on two main model microfinance which is main stream model working in India. The status of microfinance models at regional level are still is unexplored. Moreover, several studies have been done in south region's state, while very less number of studies done in northern and centre regions state in the field of microfinance. Due to being ignored by researchers northern and centre regions states mainly Uttar Pradesh states are in the back spaced. This issues have been considered in present study.

## **6. Significance of the study**

Present study is basically based on microfinance services in India. Microfinance services and Formal Banking services served their services differently in all regions of Indian. So based on these problems our study's findings would be of great help to those who are lagging behind financial services in formal banking system by greater demand of equal distribution of formal and microfinance financial services. Further, finding of this study will encourage better, more robust distribution that serve to equal financial services in all regions of India that will redound to the benefit of society. Thus, every poor people can apply and benefited better financial services at their own levels. Regional inequality in the microfinance services mostly affecting to the poorer regions, while this study's finding could help to weak regions by providing need based financial services. This study highlighted the role of supply side aspects related to microfinance services such as SHGs and MFI role is very important in the developed region like southern regions. Moreover our study found that better socio-economic variables performing better in south region and affecting to the financial access. Thus, with this finding we can inject better financial services in other regions also and we can achieve higher level of financial inclusion.

## **7. Limitations of the Study**

1. Due to lack of time and resources we have taken one district from the north and one district from the south and the result of the study will not be

applicable for whole northern region and whole southern region. It may be not be generalise the result.

2. The mathematical method and model which are using in this study are not very much justified due to non mathematical background.
3. Some information are not being captured as desire due to Language barrier during field survey for data collection in south region
4. Sample size is too small to generalise the results of the study.

### **8. Scope of the study**

SHGs and JLGs are quickly progress as efficient tools for socio-economic empowerment of the both rural and urban regions. Microfinance models are the unique method to financial intermediation in India. SHG members get access to low-cost financial services while also participating in a self-management and development process. SHGs and JLGs are thought to provide numerous economic and social benefits. It allows people to increase their savings and obtain credit from banks that are increasingly prepared to lend. SHGs and JLG can also serve as communal platforms for excluded section of the society to become involved in financial affairs, run for local office, or take action on social or community issues. The goal of this research is to see how the regional inequality effective to the people of India negatively. Microfinance services performance varies region to region. But some of the regions are better in condition where some of them are backward is condition so with the help of better region we can learn, how they are benefitted with same microfinance services while microfinance services accessing all over India.

Several studies indicate that self help group and Joint liability group based programmes often in the form of credit or micro credit schemes and savings have succeeded in changing the lives of poor by making way for enhanced income and increased self esteem. This is a testable proposition for the state of Telangana and Uttar Pradesh in India since it has been witnessing a massive growth in SHGS and JLGs in last few years. This study is undertaken to analyse the regional inequality with two main stream model of microfinance and new government initiative program PMJDY which contributes in the enhancing the status of financial inclusion India. This study highlights the performance of Microfinance services and impact on

financial access in north and south regions. This study examines the reasons behind the regional inequality in microfinance movement in India. Survey of the households was limited to specific area of Lucknow (Uttar Pradesh) and Hyderabad (Telangana). However, the problem of inequality and lack of resources is wide spread. Therefore, a wider field survey can be conducted in the field of Microfinance.

## **9. Chapter Plan**

Chapter 1.	Introduction
Chapter 2.	Conceptual and Theoretical Review
Chapter 3.	Regional Status of Microfinance and Financial Inclusion in India
Chapter 4.	Demography, Financial Profile and Socio-economic Status of Study Area
Chapter 5	Regional Inequality in Microfinance Movement: Comparative Study of Southern and Northern States
Chapter 6	Reasons of Regional Inequality of Microfinance Movement in India with Comparative Study of Southern and Northern States
Chapter 7.	Conclusion, Finding and Policy Prescriptions

## **10. Preface of Chapters**

This study has been completed in seven chapters. In First chapter, Introduction of the whole study has been presented, Conceptual and Theoretical framework of the study presented in chapter two. In chapter third, first objective of the study that is based secondary data sources has been analyses. Moreover, in chapter fourth, demographic profile has been presented where present study's field survey has been done. Chapter fifth analyses the third objective of the study and it is based on primary data. Chapter sixth also based on third objective and analyzed reasons behind the regional inequality among regions which is also main concern of the study. Last chapter is conclusion part where we elaborated the gist of the whole study in form of summary.

**Chapter 1 Introduction**” highlights the role of microfinance in the economy and whom it is going to benefit, how to benefit, with the help of theoretical and empirical research and reports. Further, present study tried to set up linkage between the Microfinance and Economic development. After reviewing the research study and

reports we found our research gap then we set up our objective on basis of gap that is regional imbalance exist in microfinance movement in India. Moreover, first chapter, overviews major finding of the study and it has been made in term of conceptual and theoretical understanding of subjects and variable which is being analysed in this and study. Further, in term of review literature which explore the present scenario of concepts and finally, result of the study that explore the relationship among the variable in the model and study.

**Chapter 2 Conceptual and Theoretical Review**” highlights the conceptual and theoretical background of the study. Details of Concept of the study has been describes in first section of the study. Second section highlights the theoretical aspects of the study. chapter explored the theoretical and empirical linkages between the financial development and economic growth for better theoretical understanding of relationship between the financial factors and economic development.

**Chapter 3 Regional status of Microfinance and Financial Inclusion in India** highlights the analysis of first objective of the study i.e. to analysing the regional status of financial inclusion and Microfinance services which is based on secondary source of data. This chapter tried to highlight the regional inequality based on secondary source of data. There is fact that regional inequality of microfinance services, banking services and PMJDY delivery services have been prevailing and there are huge differences in all financial services. On the basis of secondary source study revealed that southern region performing better than northern region an all financial services.

**Chapter 4 Demography, Financial Profile and socio-economic status of Study area**, highlights the demographic, geographical, financial profile and socio-economic status of the study area. Financial profile highlights the state wise financial services availability of formal banks.

**Chapter 5 Regional Inequality in Microfinance Movement: Comparative Study of Southern and Northern States** highlights the regional inequality based on primary sources and explained the different financial factors access and usage dimension in both the region. This chapter is based on the comparative analysis which explore the differences in the financial and socio-economic factors at regional level.

**Chapter 6 Reasons of Regional inequality of Microfinance movement in India with comparative study of Southern and Northern States”** highlight the analysis of second objective that is the main research question of the study that reasons behind the regional inequality microfinance movement in southern and northern states and we constructed the index from the field survey data. Chapter highlight the access of the financial services is affected by the social, economic, financial behavior and financial literacy factors. For this purpose, we applied the regression model between the different indexes to explore the reasons for regional inequality. Result of regression analysis present that Financial Access affected by the Socio-economic variables, Financial Behavior variables, and Microfinance Models i.e. SBLP and MFI.

## **11. Findings**

1. Analysis of study shows that there is a huge regional difference in term of access of Microfinance services and status of financial inclusion. Southern region is performing much better than the northern region.
2. It has been found that socio-economic factors, financial behaviour of households and specific model used for delivering microfinance services are the major reasons of regional inequality of microfinance movement in India
3. Financial Institutions and policy makers should consider socio-economic and financial behaviour of households in designing the financial products and delivery model of microfinance services for removing regional inequality of microfinance movement in India.

## **12. Policy Prescription**

On the basis of analysis and findings of our study following policy measures are suggested for reducing regional inequality in microfinance movement and promoting process of financial inclusion.

- The government should need to create the demand for financial services by providing easy access of saving, loan, insurance, pension and investment at ground level.

- There is need of Microfinance services in northern region like SHG group formation at huge and ground level in north region. This will increase the uses of financial services those who are neglected from microfinance services.
- The state and Nabard need to monitor the SBLP and MFIs working pattern deeply because north region is excluded from these services.
- Northern region's MFIs and SBLP need to understand the present situation easy and comfortable Loan repayments system.
- Microfinance service provider need to capture the after effect of loan and other financial support.
- The state of north region need to focus the increase number of MF client by campaigning.
- States need to provide financial assistance to the Microfinance clients and need to support in their income generation activities by providing technical and technological support because lack of continuous financial and physical support client or small business has stopped.
- States needs to promote financial literacy program in rural as well as urban area of Uttar Pradesh and Telangana. Because financial literacy is the only solution for the accessing the financial services.
- The RBI or authority body needs to firstly monitor the formal financial sectors in depth for commercial banks because there are vast differences in the availability in formal financial system. On basis of financial report almost all northern region included north-eastern, eastern, central region are lagging behind.
- NABARD needs to focus the equal distribution of Microfinance services because large data or reports show regional disparities prevails in microfinance sector.
- States need to control commercialization of MFIs because it put pressure on the MFIs to make profit rather than social benefit.

- Poverty, Illiteracy, less awareness is the major issues to avail and access the financial services in north region.
- Government should consider the financial inclusion as one more step toward access and usage part.
- The policies at the deep level need to taken up in the north region and great need to promote financial inclusion and microfinance services in the small settlements in the middle of the cities.