

# **A Study on the Importance of Microfinance Banks in the Economic Development of Idukki District**

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## **ABSTRACT**

Microfinance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient. The improvement of rural livelihoods is the aspect of poverty reduction that Microfinance Institutions concentrate on. Micro financial schemes play vital role in increasing women's participation in economic activities and decision making. With increasing demand for rural finance, and the shortages of formal sources, the MFIs have tremendous challenges and opportunities in the economic development of India. Lack of security and high operating costs are some of the major limitations faced by the banks while providing loans to poor people. This study aims to study the financial assistance provided by microfinance bank and the benefits enjoyed by customers in Idukki district and to understand the problems faced by microfinance banks while providing financial assistance to clients in various sectors of the society along with the role of microfinance banks in the welfare of Self-Help Groups (SHGs) and the development of economy with a random sample of 50 microfinance bank customers. The data were analyzed and interpreted using various descriptive and inferential statistical tools like percentages, graphs, tables, Independent sample T – test, and ANOVA. It is found that majority of respondents were able to repay half the credit amount and it is more convenient to get credit from microfinance banks, while most of the respondents agreed that loans are provided at high interest rates and the respondents got an improved performance of their SHG as a result of financial assistance from microfinance banks along with their decision-making power and overall socio-economic status. Above all, this study found that microfinance institutions significantly expand access to financial services for low-income individuals, households, and small businesses that are typically excluded from conventional banking systems due to lack of collateral, low income, or limited credit history and thus played a vital role in the economic development of Idukki district.

**Keywords:** Micro finance banks, Problems of micro finance banks, Economic development

## **1.1 INTRODUCTION**

Microfinance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient. It is a category of financial services targeting individuals and small businesses who lack access to conventional banking and related services and includes microcredit, the provision of small loans to poor clients, savings and checking accounts, microinsurance, and payment systems among other services.

The history of microfinancing can be traced back as far as the middle of the 1800s, when the theorist Lysander Spooner was writing about the benefits of small credits to entrepreneurs and farmers as a way of getting the people out of poverty. Independently of Spooner, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany. The modern use of the expression "microfinancing" has roots in the 1970s when Grameen Bank of Bangladesh, founded by microfinance pioneer Muhammad Yunus, was starting and shaping the modern industry of microfinancing. The approach of microfinance was institutionalized by Yunus in 1976, with the foundation of Grameen Bank in Bangladesh. SEWA Cooperative Bank was initiated in 1974 in Ahmedabad, Gujarat, by Ela Bhatt which is now one of the first modern-day microfinance institutions of the country. The National Bank for Agriculture and Rural Development (NABARD) offered financial services to the unbanked people, especially women and later decided to experiment with a very different model, which is now popularly known as Self-help Groups (SHGs).

Lack of security and high operating costs are some of the major limitations faced by the banks while providing loans to poor people. These limitations led to the development of microfinance in India as an alternative to provide loans to the poor with an aim to create financial inclusion and equality. The improvement of rural livelihoods is the aspect of poverty reduction that Microfinance Institutions concentrate on. Over the last ten years, successful experiences in providing finance to small entrepreneur and producers demonstrate that poor people, when given access to responsive and timely financial services at market rates, pay back their loans and use the profits to increase their income and assets. Micro financial schemes play vital role in increasing women's participation in economic activities and decision making. There has been huge growth of organizations, known as Microfinance Institutions (MFIs) in this field to deal with the micro financial activities. With increasing demand for rural finance, and the shortages of formal sources, the MFIs have tremendous challenges and opportunities in the economic development of India.

## **1.2 IMPORTANCE OF THE STUDY**

This study helps to understand the role played by microfinance banks in the development of the economy. It also helps to shed light on the benefits enjoyed by customers in rural areas. It provides an idea on how microfinance banks play a vital role in women empowerment and in the development of various organisations such as Self Help Groups (SHGs) and overall to the economic development in Idukki district. Furthermore, this study also brings into light the various highlights and challenges both to the customers and microfinance banks while engaging in financial dealings.

## **1.3 STATEMENT OF THE PROBLEM**

This study focuses on the functions and characteristics of microfinance banks, the benefits to customers, problems faced by micro finance banks and the contribution made by microfinance banks towards women empowerment and to various organisations such as SHGs which collectively contributes to economic development with special reference to Idukki district.

## **1.4 SCOPE OF THE STUDY**

This study's geographical scope is limited to various microfinance banking institutions in Idukki district. The data is collected from the customers of such banking institutions such as ESAF Bank, KLM Nidhi Ltd. etc.

### 1.5 OBJECTIVES OF THE STUDY

1. To study the financial assistance provided by microfinance bank and the benefits enjoyed by customers in Idukki district.
2. To understand the problems faced by microfinance banks while providing financial assistance to clients in various sectors of the society.
3. To study the role of microfinance banks in the welfare of Self-Help Groups (SHGs) and the development of economy .

### 1.6 HYPOTHESES OF THE STUDY

- 1  $H_0$ : There is no significant relationship between gender of the respondents and level of satisfaction towards microfinance bank
- 2  $H_0$ : There is no significant relationship between the age of respondents and convenience in getting credit
- 3  $H_0$ : There is no significant relationship between the education of respondents and easier access to funds for common people

### 1.7 RESEARCH METHODOLOGY

#### 1.7.1 Source of data

**Primary data:** Primary data is collected through questionnaire from the selected respondents in Idukki district.

**Secondary Data:** The secondary data have been collected from the internet, books, journal, external books, and magazines.

#### 1.7.2 Population of the study

The proposed study's population consists of all the micro finance banks customers in Idukki district.

#### 1.7.3 Sample Size:

The sample size selected for the study is fifty respondents.

#### 1.7.4 Sampling method

Simple random sampling is the technique used for the selection of the required sample.

#### 1.7.5 Sampling Design

The study is descriptive and analytical in nature.

#### 1.7.6 Tools used for analysis:

Both descriptive and Inferential statistical tools were used for the study. The descriptive statistical tools include **Percentage analysis and presentation tools of Table, Graph and diagram.**

The collected data have been analysed using inferential statistical tool like **ANOVA and independent sample t test.** It has been analysed with the help of SPSS (Statistical Package for Social Science ).

### 1.8 LIMITATIONS OF THE STUDY

- The study is confined to Idukki district among selected people, so the result may vary and cannot be generalised.
- The sample size is confined to 50 only and expected to be a representation of the views of the customers.
- The chance of sample errors cannot be ignored.

## 1.9 CHAPTERSISATION

The presentation of the report is divided into three chapters which includes introduction, data analysis and interpretation and findings, suggestions and conclusion.

### 1.9.1 Chapter 1: Introduction

This chapter deals with Introduction, importance of the study, the statement of the problem, scope of the study, objectives of the study, hypotheses of the study, research methodology, limitations of the study, chaptersisation and reserch gap from literature review.

### 1.9.2 Chapter 2: Data analysis and interpretation

This chapter consists of tables, diagrams and interpretations based on the analysis of the data collected through questionnaire along with the hypotheses testing.

### 1.9.3 Chapter 3: Findings, suggestions, and conclusion

This chapter consists of findings, suggestions and conclusion obtained through the analysis and interpretation of the collated data.

## 1.10 RESEARCH GAP FROM LITERATURE REVIEW

While microfinance has been widely studied as a tool for financial inclusion and poverty alleviation, there is a noticeable gap in literature concerning its localized and sustainable economic impact of challenging and socioeconomically diverse regions like the Idukki district of Kerala. Existing research largely generalizes findings at the state or national level, failing to capture the nuanced outcomes, gendered impacts, and institutional effectiveness of microfinance banks in such contexts. This study aims to bridge this gap by conducting a focused, district-level analysis of how microfinance banks contribute to economic development in Idukki.

## 2. DATA ANALYSIS AND INTERPRETATION

Data analysis and interpretation is the process of assigning meaning to the collected Information and determining the conclusions, significance, and implications of the findings.

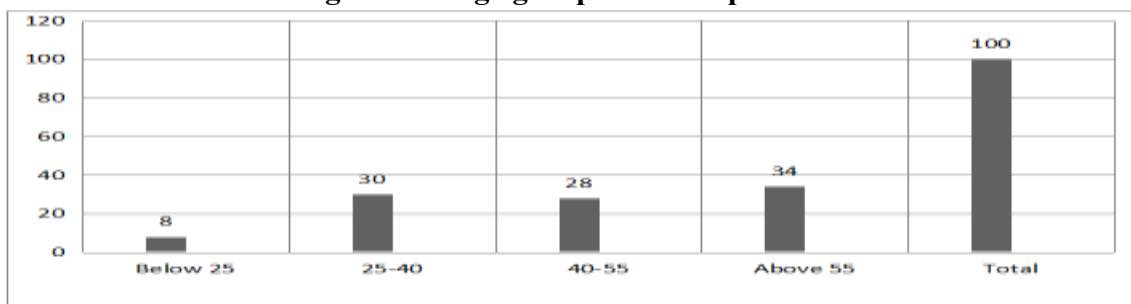
**Table 2.1 Gender of the respondents**

Gender	No. of respondents	Percentage
Male	22	44
Female	28	56
Transgenders	0	0
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: Primary Data**

The gender wise distribution of the respondents indicated that 56 percent of the total are female, while 44 percent are male. There was no transgender respondents recorded in the survey, resulting in 0% representation for this group.

**Figure 2.1 Age group of the respondents**



**Source: Primary Data**

Figure 2.1 depicts the age group distribution of the respondents and showed that the majority are from the older age groups. Specifically, 34 percent are above 55 years old, making it the largest group, followed by 30 percent in the 25–40 age range and 28 percent in the 40–55 category. Only 8 percent of respondents are below 25.

**Table 2.2 Highest Educational qualification of the respondents**

Highest Education	No. of respondents	Percentage
Illiterate	4	8.0
Up to SSLC	15	30.0
Plus-Two	14	28.0
Degree and above	17	34.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

**Source: Primary Data**

Table 2.2 Describes the educational qualification of the respondents and expressed that the majority of respondents (34%) have attained a degree or higher, followed by 30 percent who studied up to SSLC and 28 percent who completed Plus Two. Only 8 percent of the respondents are illiterate. This indicates that most participants have at least a basic level of education, with a significant portion holding higher educational qualifications.

**Table 2.3 Are you a Customer**

Response	No. of respondents	Percentage
Yes	31	62
No	19	38
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: Primary Data**

Table 2.3 describes the customer status and showed that majority of respondents, 62 percent are existing customers, while 38 percent are not. This indicated that most participants have prior experience with the product or service, which can provide more informed feedback. The presence of non-customers also offers valuable insights into potential barriers to engagement or reasons for non-usage.

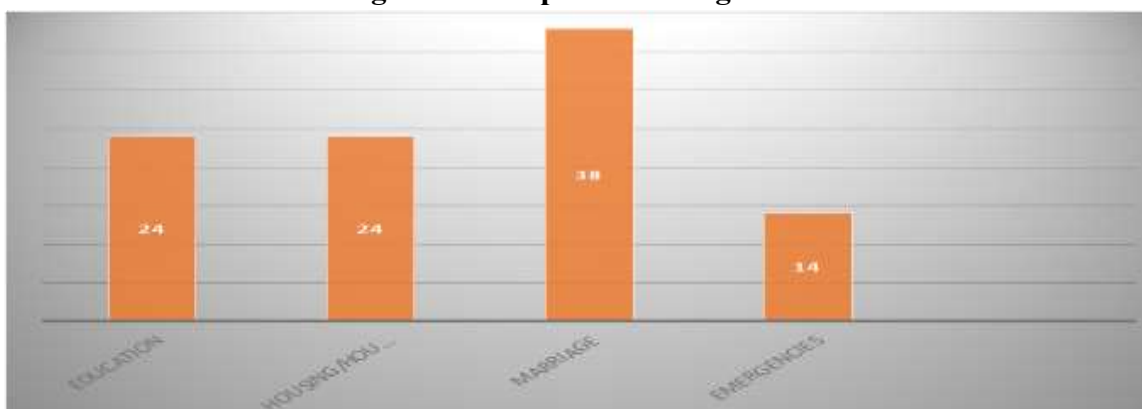
**Table 2.4 Credit limit**

Credit limit	No. of respondents	Percentage
Less than 25000	14	28.0
25000 to 50000	16	32.0
50000 to 100000	14	28.0
Above 100000	6	12.0
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: Primary Data**

The credit limit of the respondents in Table 2.4 revealed that the majority (32%) have credit ranging from ₹25,000 to ₹50,000, followed by 28 percent respondents each have credit less than ₹25,000 and between ₹50,000 to ₹1,00,000. Only 12 percent have credit above ₹1,00,000. This suggests that most respondents fall within the low to mid credit range, with relatively few having high levels of credit.

**Figure 2.2 Purpose of taking credit**



**Source: Primary Data**

Figure 2.2 depicts the purpose of taking credit and disclosed that the primary purpose for taking credit among respondents is marriage, accounting for 38 percent, Education and housing/housing repairs are equally significant at 24 percent each, while emergencies represent the least common reason at 14 percent. This suggests that most credit is taken for planned life events rather than unexpected needs.

**Table 2.5 Credit repayment**

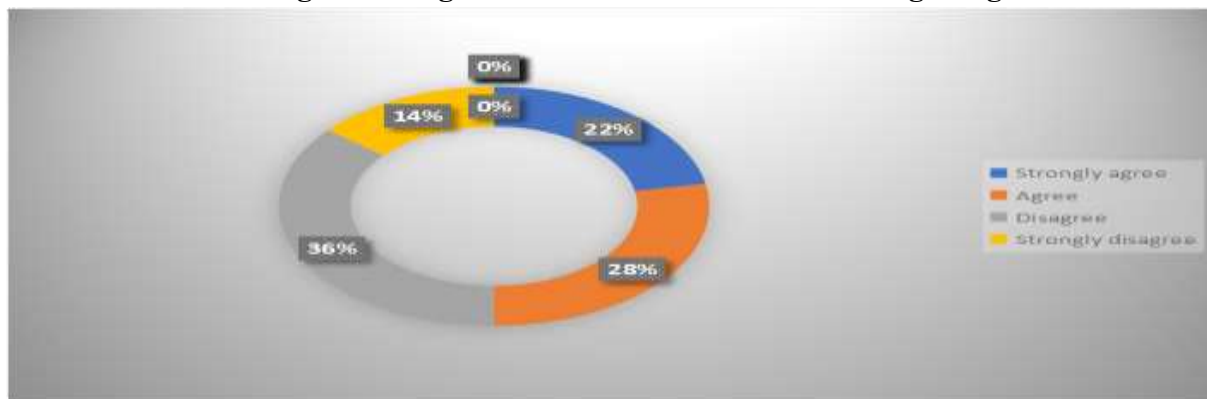
Response	No. of respondents	Percentage
Fully paid	2	4
Half paid	23	46
Less than half paid	18	36
Unpaid	7	14
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: Primary Data**

The credit repayment data in Table 3.5 showed that only 4 percent of the respondents have fully repaid their credit, while the majority (46%) have repaid only half. Additionally, 36 percent have repaid less than half, and 14 percent have not made any repayment. This indicates that a significant portion of

respondents are struggling with full credit repayment.

**Figure 2.3 Agreement Level to Convenience in getting credit**



**Source: Primary Data**

Figure 2.3 showed the convenience in getting credit and indicated mixed views that 50 percent of the respondents are either strongly agree or agree that credit is convenient to obtain, a notable 50 percent of the respondents also disagree or strongly disagree. This equal split suggests that access to credit may be inconsistent, possibly depending on individual circumstances or institutional factors.

**Table 2.6 Whether Burdened by Interest rate**

Response	No. of respondents	Percentage
Yes	23	46.0
No	27	54.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

**Source: Primary Data**

The data on interest rates burden showed that 46 percent of respondents reported paying interest on their credit is a burden, while a slightly higher percentage (54%) did not. This indicates that more than half of the respondents are not burdened by interest payments, suggesting either access to interest-free credit sources or informal lending arrangements.

**Table 2.7 Whether need collateral for taking loan**

Response	No. of respondents	Percentage
Yes	23	52.0
No	27	48.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

**Source: Primary Data**

The data shows that 52 percent of respondents were required to provide collateral when taking credit, while 48 percent were not. This near-equal distribution suggests that collateral requirements vary among lenders or loan types, potentially affecting accessibility for those without assets to pledge.

**Table 2.8 Self-help groups (SHGs) participation**

Response	No. of respondents	Percentage
Yes	22	44.0
No	28	56.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

**Source: Primary Data**

The data on Self Help Group (SHG) participation showed that 44 percent of respondents are members of SHGs, while 56 percent are not. This indicates that although a significant portion of the population benefits from SHG involvement, the majority still remain outside these groups, suggesting potential for greater outreach and inclusion in SHG programs.

**Table 2.9 Access to funds**

Response	No. of respondents	Percentage
Strongly agree	10	20
Agree	15	30
Neutral	0	0
Disagree	13	26
Strongly disagree	12	24
<b>Total</b>	<b>50</b>	<b>100</b>

**Source: Primary Data**

Table 2.9 showed that 50 percent of respondents (20% strongly agree and 30% agree) feel they have access to funds, while the remaining 50 percent (26% disagree and 24% strongly disagree) do not. This even split indicated a significant disparity in financial accessibility, highlighting potential challenges in the credit or funding system for a substantial portion of the population.

**Table 3.9 Measures to tackle default in repayment**

Response	No. of respondents	Percentage
Send letter of demand	10	20.0
Debt settlement agreement	17	34.0
File lawsuit for recovery of debt	15	30.0
Any other measures	8	16.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

**Source: Primary Data**

The data on measures to tackle default in repayment showed that 34 percent of respondents prefer a debt settlement agreement, making it the most favored approach. This is followed by 30 percent who support filing a lawsuit for debt recovery, and 20 percent who suggest sending a letter of demand. Only 16 percent opt for other measures. This indicates a preference for negotiation and legal action as primary strategies to handle loan defaults.

**Table 2.10 Agreement level to Credit schemes offered to women entrepreneurs**

Response	No. of respondents	Percentage
Strongly agree	7	14.0
Agree	14	28.0
Neutral	0	0.00
Disagree	21	42.0
Strongly disagree	8	16.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

**Source: Primary Data**

The data on credit schemes offered to women entrepreneurs showed that only 42 percent of respondents agree or strongly agree that such schemes are available, while a majority of 58 percent either disagree (42%) or strongly disagree (16%). This indicates a general dissatisfaction or lack of awareness regarding credit support for women entrepreneurs, suggesting the need for better promotion, accessibility, or expansion of such schemes.

**Table 2.11 Role of Microfinance Banks in the economic development**

Response	No. of respondents	Percentage
Yes	31	62.0
No	19	38.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

**Source: Primary Data**

Table 2.11 presents the responses of participants regarding whether they believe microfinance banks play a crucial role in economic development. Out of a total, 62 percent, responded "Yes," indicating their belief that microfinance banks contribute positively to the economic development. On the other hand, 38 percent, answered "No," suggesting they do not perceive microfinance banks has played a significant role in this area. This indicates that the majority of the respondents recognize the importance of microfinance banks in promoting economic activities, particularly by supporting small businesses, increasing financial inclusion, and fostering local economic growth through women empowerment.

## 2.12 TESTING OF HYPOTHESES

### HYPOTHESIS 1

H<sub>0</sub>: There is no significant relationship between gender of the respondents and level of satisfaction towards microfinance bank .

H<sub>1</sub>: There is significant relationship between gender of the respondents and level of satisfaction towards microfinance bank .

**Table 2.12.1 Gender of the respondents and level of satisfaction towards microfinance bank**  
**Independent sample T – test**

	N	Mean	Std. Deviation	Sig.
Equal variances assumed	22	2.05	.722	0.384
Equal variances not assumed	28	2.00	.816	

The independent sample t-test was conducted to examine whether there is a significant difference in the

level of satisfaction towards microfinance banks based on the gender of the respondents. The result showed that the significance value (Sig.) is 0.384, which is greater than the conventional alpha level of 0.05. This indicates that the difference in satisfaction levels between male and female respondents is not statistically significant.

Therefore, we fail to reject the null hypothesis ( $H_0$ ) and conclude that there is no significant relationship between gender and the level of satisfaction towards microfinance banks. In other words, both male and female respondents reported similar satisfaction levels with microfinance services.

## HYPOTHESIS 2

$H_0$ : There is no significant relationship between the age of respondents and convenience in getting credit.

$H_1$ : There is significant relationship between the age of respondents and convenience in getting credit.

**Table 2.12.2 Age of respondents and convenience in getting credit.**

### Independent sample T – test

	N	Mean	Std. Deviation	Sig.
Equal variances assumed	15	2.27	1.163	.290
Equal variances not assumed	20	2.50	.946	

An independent sample t-test was conducted to determine whether there is a significant relationship between the age of respondents and their convenience in getting credit. The test result indicates a significance value (Sig.) of 0.290, which is greater than the standard alpha level of 0.05. This suggests that the observed difference in the mean convenience scores between the age groups is not statistically significant.

As a result, we fail to reject the null hypothesis ( $H_0$ ) and conclude that there is no significant relationship between the age of the respondents and their convenience in accessing credit. This implies that respondents from different age groups experience a similar level of convenience when trying to obtain credit.

## HYPOTHESIS 3

$H_0$ : There is no significant relationship between the education of respondents and access to funds for common people.

$H_1$ : There is no significant relationship between the education of respondents and access to funds for common people.

**Table 2.12.3 Education of respondents and easier access to funds for common people.**

### Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.229	3	1.076	.931	.434
Within Groups	53.191	46	1.156		
<b>Total</b>	<b>56.420</b>	<b>49</b>			

The analysis of variance (ANOVA) was conducted to examine the relationship between the education level of respondents and their perception of easier access to funds. The results from Table 2.11.3 indicate that the F-value is 0.931 with a corresponding p-value (Sig.) of 0.434. Since the p-value is greater than the conventional significance level of 0.05, we fail to reject the null hypothesis ( $H_0$ ). This implies that there is no statistically significant relationship between the education level of the respondents and their views on easier access to funds for common people. In other words, differences in educational background do not significantly influence perceptions regarding fund accessibility.

### 3.1 FINDINGS

The data were analyzed and interpreted using various descriptive and inferential statistical tools like percentages, graphs, tables, Independent sample T – test, and ANOVA. The findings based on the analysis and interpretation of data are given below;

- Majority of respondents were able to repay half the credit amount. Just 4 percentage were able to repay the whole amount in time and on the basis of this understanding, it is not a surprise that almost all the credit amount is left unpaid.
- Majority of the respondents agreed that it is more convenient to get credit from microfinance banks as compared to other banks and none of the respondents strongly disagrees to the statement.
- Most of the respondents agreed that loans are provided at high interest rates from microfinance banks compared to other banks, but collateral are not mandatory for getting credit from microfinance banks.
- Most of the respondents got an improved performance of their SHG as a result of financial assistance from microfinance banks which paved way for easier access to funds for common people.
- Most of the respondents supported that the credit schemes offered by microfinance banks for supporting women entrepreneurs positively influence their decision-making power and overall socio-economic status.
- More than two third of the respondents are satisfied with their dealings with microfinance banks in terms of performance and services provided.
- Above all, this study found that microfinance institutions significantly expand access to financial services for low-income individuals, households, and small businesses that are typically excluded from conventional banking systems due to lack of collateral, low income, or limited credit history and thus played a vital role in the economic development of Idukki district.

### 3.2 SUGGESTIONS

- Efforts should be made to lower the interest rates, which are too high according to the customers, so that everyone can meet their credit requirements without the fear of having to pay huge interest amount.
- In the absence of the legit working protocol and compliances, microfinance companies could adopt a harsh repayment approach. This has to be avoided so that the customers need not have to live in a constant fear about the consequences of non-repayment.
- Since microfinance banks does not require any collateral against the credit, the disbursement of large loan amounts is not practically possible. These banks should take constant efforts to provide the customers with large credit requirements.
- More attention should be paid towards the urban poor as it is noted that microfinance banks focus more on rural areas and largely neglect the urban poor.

- Awareness about credit schemes and its details should be spread among the public so that they are conscious about the interest rates, repayment method and most importantly, the consequences of non-repayment.
- Inappropriate targeting of poor households by microfinance banks is a problem that should be avoided because it causes these banks to be in a position to not understand the various needs of individuals and entrepreneurs.
- Middle-aged and older individuals were more engaged or accessible for micro finance banks. The relatively low participation from the younger age group may reflect lesser involvement, interest, or accessibility among that demographic necessitating the need to focus on youngsters.

### 3.3 CONCLUSION

The study entitled as “A STUDY ON THE IMPORTANCE OF MICROFINANCE BANKS IN DEVELOPMENT OF THE ECONOMY WITH SPECIAL REFFERENCE TO IDUKKI DISTRICT” found that the major advantage of microfinance banking that the microfinance banks require no collateral for providing financial credit. The minimum paperwork and hassle-free processing make them a suitable option for quick fund raising. Microfinance banks can provide necessary funds to individuals for setting up a healthy business that seeks minimum investment and offers sustainable profits in the long run. Thus, these banks ensure entrepreneurship and self-sufficiency among the lower income group. It is one of the major downfalls of the microfinance banks that it adopts harsh repayment criteria. Easy debt never comes with relaxed conditions, and that is something true with microfinance banks as well. Since these banks work under strict compliances, they could manipulate their customers for repayment unethically. It is also to be noted that these banks offer only small loan amounts. The interest charged is so high that many people give up the idea of borrowing from microfinance banks in the fear of having to pay huge interest amount. Complete co-operation and creative suggestions from various respondents scattered throughout Idukki district made this study more meaningful. Microfinance banks have a lot to contribute to this by building financial discipline and educating borrowers about repayment requirements. A well-regulated microfinancing sector which moves with time by offering people with adequate and essential fund requirements can, therefore, lead to progress in economic development and a self-sufficient future.

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