

# Customers' Perception about Micro Finance in India: A Brief Survey on Bandhan Micro Finance

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## Abstract

Microfinance is generally considered as a major development instrument to uphold financial inclusion and alleviate poverty in India. The objective of the present survey based study is to analyse the customers' perception about micro finance in India with respect to Bandhan Micro Finance. The survey was conducted near Kulgachia-Bagnan area of Howrah district, West Bengal, India where Bandhan micro finance first set up its operation taking a sample of 48 persons who are benefited from this micro finance institution. The result provides evidence that Micro-Finance is helpful for low income group people, unprivileged people and unsalaried borrowers and they can take loan without performing so many banking formalities which is beneficial to the illiterate people. Since borrowers do not require collateral securities, borrowers can work freely with their business and result also suggests that credit and education services, when provided together to groups of women, can increase income and savings, improve health/nutrition knowledge and practice, and empower women.

**Keywords:** Bandhan, microfinance, poverty, credit.

## 1. Introduction

Microfinance is generally considered as a major development instrument to uphold financial inclusion and alleviate poverty in India. Conventionally, banks and lending institutions do not lend money to low income individual. The reasons being lack of information about individuals, collateral, high transaction cost of processing. As per International Labor Organization (ILO), micro finance is an economic development approach which provides financial services through institutions to low income clients. In other word, microfinance is defined as any activity which consists of the provision of financial services such as credit, savings, and insurance to persons who fall just above the poverty line and poor individuals who fall below that poverty line, with the goal of creating social value. The microfinance is banking the unbankables, bringing credit, savings and other essential financial services within the reach of millions of people having no sufficient collateral who are too poor to be served by regular banks. It is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two key mechanisms for the delivery of financial services to such clients are: (i) relationship-based banking for individual entrepreneurs and small businesses; and (ii) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. It means providing very poor families with very small loans (micro credit) to help them engage in productive activities /small businesses. The basic criteria of micro finance are small loans to poor households in rural and urban areas for income generation through self-employment. It may also provide facilities for savings and other financial services. It can contribute to the financial inclusion of the poor without which it will be difficult for them to come out of the vicious cycle of poverty. It is required to strengthen all the available channels of providing credit to the poor such as SHG- Bank linkage programmes, micro finance institutions, cooperative banks, state financial corporations, regional rural banks and primary agricultural credit societies. The goals are to eradicate extreme poverty and hunger, to achieve universal education, to promote gender equality and women's empowerment, to reduce child mortality, to combat diseases and developing entrepreneurial spirit. The strength of the micro finance industry lies in its informality and flexibility which should be protected and encouraged. There is noteworthy contribution of micro financing institutions to gender equality and women's empowerment as well as pro poor development and civil society strengthening. With contribution to women's ability to earn an income led to their economic empowerment, increased wellbeing of women and their families and wider social and political empowerment. It helps the poor people as borrowers can take loan without performing so many banking formalities which is beneficial to the illiterate people.

### 1.1. Brief overview about Bandhan Micro Finance:

The micro finance institution under our survey is Bandhan which was set up to address the dual objective of poverty alleviation and women empowerment. The meaning of bandhan is togetherness and its mission and vision reflects its name. The main thrust of Bandhan is to work with women who are socially disadvantaged and economically exploited. Bandhan works for their social upliftment and economic emancipation. Bandhan is engaged in the delivery of microfinance services to the disadvantaged women over the last 15 years. The micro finance activities are carried on by Bandhan Financial Services Pvt Ltd (BFSPL) incorporated under the

Companies Act, 1956 and also registered as a Non Banking Financial Company (NBFC) with the Reserve Bank of India (RBI). Founded in 2001, under the visionary leadership of Mr. Chandra Shekhar Ghosh, a senior Ashoka Fellow, BFSL is involved in giving loans to small borrowers who have no access to formal banking services. In past 15 years, BFSL has earned credibility and many accolades for financing small entrepreneurs and around 6.7 million women borrowers. The organization had a network of 2,022 branches spread across 22 Indian states and Union territories, serviced by over 15,000 employees. As on 31 March 2015, BFSL had a loan book of around Rs.9,524 crore and an impressive repayment rate of over 99%. Bandhan is among the first generation MFIs and follows the *Grameen* model of banking. Under this model, credit decisions are taken at the branch level, which facilitates quick disbursement of loan in about a day's time. Bandhan work with women who are socially disadvantaged and economically exploited, for their social upliftment and economic emancipation. Bandhan follows a group formation, individual lending approach. Bandhan opened its first micro finance branch at Bagnan in Howrah district of West Bengal, India in July, 2002. Bandhan follows a group formation, individual lending approach. A group of 10-25 members are formed. The clients have to attend the group meetings for 2 successive weeks. After 2 weeks, they are entitled to receive loans. The loans are disbursed individually and directly to the members.

In view of the above, the objective of the study is to analyse the customers' perception about micro finance in India with respect to Bandhan Micro Finance. The survey was conducted near Kulgachia-Bagnan area of Howrah district, West Bengal, India where Bandhan micro finance first set up its operation taking a sample of 48 persons who are benefited from this micro finance institution.

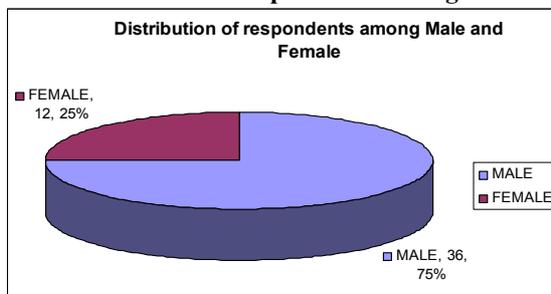
**2. Methodology and database:-**

The entire study is survey based where primary data are presented through diagram. A sample questionnaire consisting of 8 questions were distributed among 48 people who are associated with or benefited from Bandhan micro finance near Kulgachia-Bagnan area from where Bandhan microfinance started its journey. The responses from the respondents are the primary source of data. The secondary data is based on (a) Website, (b) Reference Books and research journals.

**3. Presentation of data and analysis of result:**

A survey was conducted on Micro-Finance growth and development of Kulgachia-Bagnan area of Howrah district of West Bengal, India considering primary data from field survey of sample 48 people. The result of the analysis of this survey is as follows:-

**Figure: 1: Distribution of respondents among male & female**

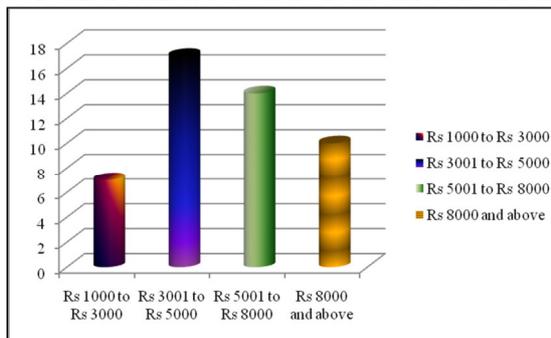


Source: Survey report

The survey result shows that most of the respondents (75%) benefited from Bandhan micro-finance are male members and 25% respondents are female members.

Q-1. What are the income levels of micro finance users?

**Figure: 2: Micro finance loan users in different income level**



Source: Survey report

Distribution of micro finance loan users out of 48 respondents under different income levels: Rs 1000 to Rs 3000 – 7; Rs 3001 to Rs 5000 – 17; Rs 5001 to Rs 8000 – 14; Rs 8000 and above -10.

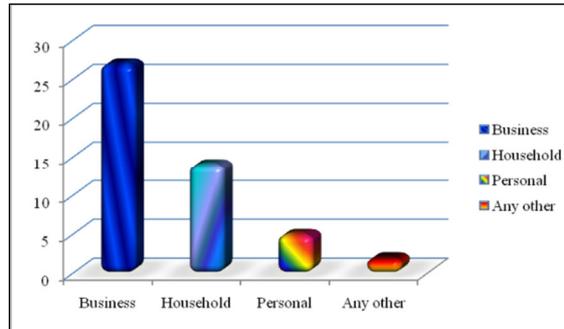
The primary survey as shown in figure-2 shows that respondents having income ranging from Rs 1000 to Rs 8000 and above are, more or less, the users of microfinance loan . But, especially respondents having income level between Rs 3000 to Rs 5000 are the major users of micro finance loan.

Q-2. In what purpose borrowers use the loan?

Distribution of micro finance loan users on the basis of purpose of loan taken :

Small Business – 27; Household – 14; Personal – 5; Any other – 2.

**Figure: 3: Distribution of micro finance loan users on the basis of purpose of loan**

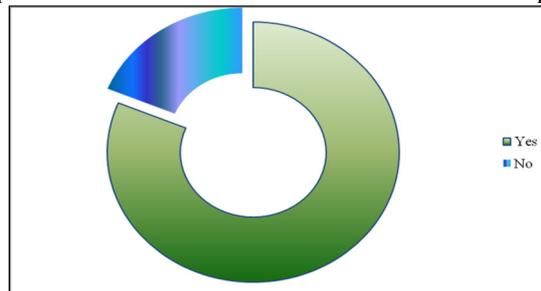


Source: Survey report

It is evident from the survey that micro-finance institutions offer loans actually for small business which reveals that higher income households borrowed for input purchase and business investments. Interestingly, poorer households borrowed mostly for their household purpose like food purchase and health emergencies etc, some respondent use this loan for personal purpose or any other purpose. This recent survey suggests that a large section of the population relies on informal lenders to meet its cash flow needs.

Q-3. Do borrowers get effective benefits from Micro-Finance loan?

**Figure: 4: Perception of borrowers of micro finance loan about prospective benefit**



Source: Survey report

Perception of borrowers of micro finance loan about prospective benefit:

Yes – 39; No – 9.

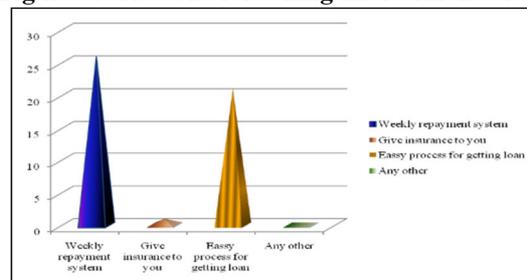
Majority of the people thinks that they get benefit from this type of loan, but not all.

Q-4. **Why do the people opt for Micro finance loan instead of bank or any other form of loan?**

Reasons for taking micro finance loan rather than bank loan:

Weekly repayment system – 26; Give insurance to you – 1; Easy process for getting loan – 21; Any other – 0.

**Figure: 4: Reasons for taking micro finance loan**



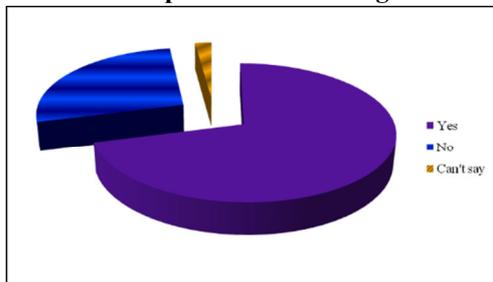
Source: Survey report

Generally, people get loan from Micro-Finance Institutions instead of Bank or any other institutions in easy condition or without collateral. Almost half of the respondents believe or have reasons to believe that it is an easy process for getting loan through weekly payment system. This system pulls them for taking loan from

MFIs.

Q-5. Do borrowers can fulfill their requirement with the loan amount?

**Figure 5: Distribution of respondents according to their satisfaction level**



Source: Survey report

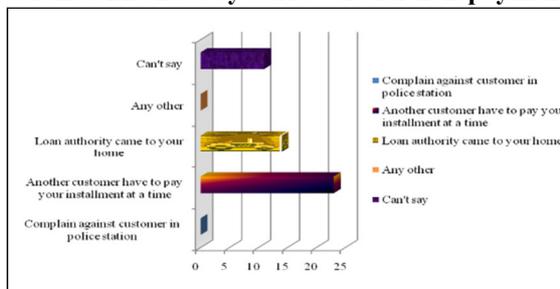
Distribution of respondents according to their satisfaction level:

Yes – 34; No – 13; can't say – 1.

The survey shows that almost majority of the people fulfill their requirement with the loan amount taken but 27% of the people fail to fulfill their requirement with the micro finance loan in our study area.

Q-6. If the borrowers don't pay their installment, what type of problem borrowers face by loan authority?

**Figure 6: Problem confronted by borrowers for non-payment of loan**



Source: Survey report

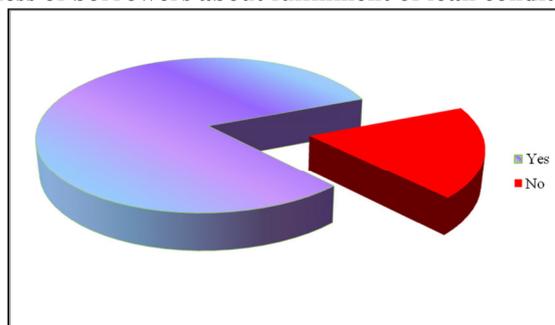
Problem confronted by borrowers for non-payment of loan:

Complain against customer in police station – 0; Any other customer have to pay your installment at a time – 23; Loan authority comes to your home – 14; Any other – 0; Can't say – 11.

The study shows that owing to failure on the part of the borrowers to repay their installment, loan authority may come to their home and in consequence of that failure, other borrowers have to pay absent borrowers' installment in majority of cases. But here some borrowers are very much conservative in disclosing their opinion regarding repayment of loan.

Q-7. Do the borrowers fulfill all the conditions before entering into agreement?

**Figure 7: Awareness of borrowers about fulfillment of loan conditions**



Source: Survey report

Poll out of 48: Yes – 39; No – 9;

This figure indicates that the majority of the people know well in advance the entire conditions before the agreement for getting loan from micro finance institution. It's a good sign for the micro-finance borrowers.

Q-8. Are borrowers satisfied with micro finance activities?

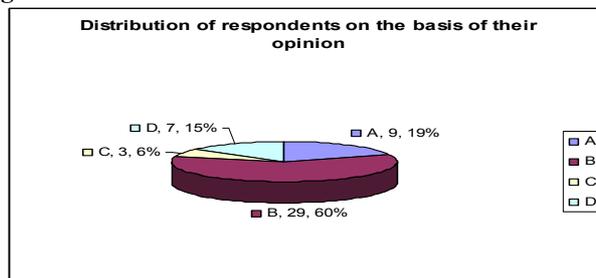
A. Increase in income of women borrower, health/nutrition knowledge and practice, marked improvement in children's nutritional status and women empowered in the family.

B. no shortage of rice, food item in the family.

C. diversification of productive activities made possible.

D. availability of credit prevented some borrowers from having to sell their produce at below market rates to landowners and merchants.

**Figure: 8: Satisfaction level of micro finance borrowers**



Source: Survey report

Participants, especially women borrowers, consistently report increased incomes. Participants state that they are now short of rice for less than one month per year compared to three previously; participants have also diversified their productive activities and have acquired more assets than non-borrowers. Availability of credit prevented some borrowers from having to sell their produce at below market rates to landowners and merchants to obtain an advance in the lean season, thus increasing their incomes. The survey in our study area provides evidence that credit and education services, when provided together to groups of women, can increase income and savings, improve health/nutrition knowledge and practice, and empower women.

#### 4. Conclusion

After carefully analyzing the entire study on Micro-Finance with respect to both the primary and the secondary data, the following conclusions can be put forth:-

- Micro-Finance is helpful for low income group people, unprivileged people and unsalaried borrowers.
- Borrowers can take loan without performing so many banking formalities which is beneficial to the illiterate people.
- Since borrowers do not require collateral securities, borrowers can work freely with their business.
- In group based model, since groups act as the social collateral securities, person within the group can work freely as a group member.
- The survey in our study area provides evidence that credit and education services, when provided together to groups of women, can increase income and savings, improve health/nutrition knowledge and practice, and empower women.
- Self Help Groups (SHG's) are performing their functions very effectively and efficiently and it can be said that, in future, they will play more important role for development of rural poor Indians.

In conclusion, it can be said that the basic scheme of micro financing is very straightforward that if poor people got the financial services which includes credit, there is opportunity that they may very well expand a micro opportunity to approach enterprise that will allow them to break out of poverty. In a nut shell, the major focal point is on removal of poverty from grass root level, women empowerment by creating small and medium enterprises and thus takes care of development of any economy from within.

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The views, findings, interpretations, and conclusions in this paper are those of the author and should not be attributed to the academic institution where the author serves. The author entirely depended on data collected by one of his beloved students, **Sk Babu**. The author is solely grateful to **Sk Babu** for getting earnest cooperation from him in collecting primary data from field survey.