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## An Empirical Study of the Current Microfinance Landscape in Rural Financial Systems

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### Abstract

*The rural sector is quite important in the Indian economy, and it has either directly or indirectly affected all economic activity of the country. Despite the crucial role of rural sectors, it faces many challenges such as poverty, illiteracy, and poor health, which are all more prevalent in rural areas. Thus, the present research paper emphasizes on the current microfinance landscape in rural financial systems and approach of beneficiaries towards the access of microfinance. Present research work primarily covered rural areas across Western Maharashtra i.e. Kolhapur, Sangli, Satara, Solapur and Pune. Overall, the survey covered 1020 households (HH) across 102 villages spread over 17 tehsils from 5 districts. Out of 1020 households, 237 households have received loan from microfinance institutions. Study finds that, loans received from microfinance institutions stands fifth position among the different sources of rural finance. Females are ahead towards taking loan from microfinance, educational background of beneficiaries is less than 10th standard, majorly housewife's and agriculturists and low annual income respondents are taking loans, and other than general category respondents are the key beneficiaries of microfinance. Less documents required, early availability and immediate disbursement, no need of mortgage and easily available of loan are the key attracting reasons while approaching towards the microfinance.*

### Keywords

Rural, Finance, Microfinance, Purpose and Problems.

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## **An Empirical Study of the Current Microfinance Landscape in Rural Financial Systems**

### **1. Introduction**

The rural sector is quite important in the Indian economy, and it has either directly or indirectly affected all economic activity of the country. Despite the crucial role of rural sectors, it faces many challenges such as poverty, illiteracy, and poor health, which are all more prevalent in rural areas. The rural population comprises agricultural producers, landless labourers, tenant cultivators, village artisans, and small business people. Moreover, most rural people's livelihood depends on the agriculture sector, and the rest will depend on wage earnings. Low productivity of agriculture and heavy dependency on monsoon will not give the farmers definite income. The volatility of agricultural production affected not only the farmers but also wage earners also too. As a result, they must rely on various financial institutions to obtain credit when their income falls short. Finance is an essential requirement for almost every activity, and the rural sector is not an exception. Credit requirements among rural people are very pressing. The government of India has initiated many steps and set up institutional agencies such as commercial banks, co-operative banks, land development banks, regional rural banks etc. Thus, the present research paper emphasizes on present state of microfinance in rural finance and approach of beneficiaries towards the access of microfinance. With this backdrop, the underlying objectives of the study are twofold: *firstly*, to study the socio-economic characteristics of microfinance beneficiaries, and *secondly*, to elaborate the present status of microfinance towards its availability, accessibility and beneficiaries approach towards it.

### **2. Methodology**

The present research work is based on primary data. Present research work primarily covered rural areas across Western Maharashtra. Western Maharashtra consists of five districts Kolhapur, Sangli, Satara, Solapur and Pune. For the selection of the

respondent's multi-stage stratified random sampling design has been used. The total number of tehsils in Western Maharashtra is 58, out of which 30 per cent, i.e., 17 tehsils' has been selected. Tehsils within each district were stratified on bank branch density. Statistics about bank branches have been taken from the annual credit plans of each district. For the Pune district branch, banking statistics and priority sector lending were considered to select tehsils. Selection of the villages was stratified based on the size of the population, villages having bank branches and villages not having bank branches within their boundaries. The study has selected ten households from each village from five parts of the village, i.e., centre, eastern, western, southern and northern. Overall, the survey covered 1020 households (HH) across 102 villages spread over 17 tehsils from 5 districts. Out of 1020 households, 237 households have received loan from microfinance institutions.

### 3. Data Presentation and Analysis

Data presentation and analysis has discussed the demographic profile of the microfinance beneficiaries, share of microfinance in rural finance of western Maharashtra, present status of microfinance with key indicators, purpose of getting microfinance and mortgage required for it, key reasons for approaching microfinance and problems to access microfinance.

Figure-1: Ranking of Distribution of Loans according to Source of Credit

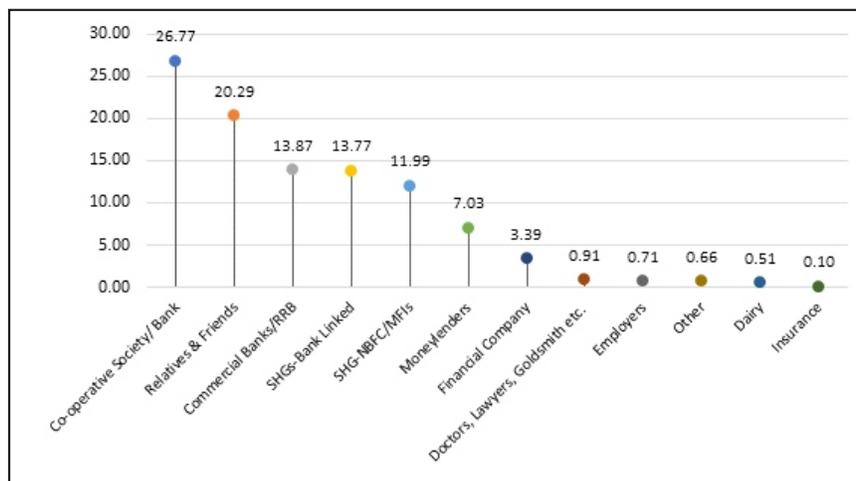


Figure-1 depicts that, loans received from microfinance institutions stands fifth position among the different sources of rural finance. Loans from co-operative societies are much popular among

rural area due to easy access and community trust and followed by relatives and friends, commercial banks etc. The share of formal finance increases but informal finance shares also remain significant in this region. People prefers sources that are easy to approach and require less paperwork.

**Table-1: Demographic Profile of Microfinance Beneficiaries**

Particulars	Sub-particulars	Percentage
1. Gender	Male	27.43
	Female	72.57
2. Age	18-30	14.77
	30-40	30.80
	40-50	27.43
	50-60	14.35
	Above 60	12.66
3. Education	Uneducated	25.32
	Up to 10 <sup>th</sup>	59.07
	Up to 12 <sup>th</sup>	10.55
	Graduate	4.22
	PG & Above	0.84
4. Occupation	Agriculture	23.21
	Workers	17.72
	Business	12.66
	Salaried	9.70
	Other	9.30
	Housewife	27.43
5. Social category	General	28.27
	OBC	20.68
	NT/VJ	24.47
	SC/ST	26.58
6. Type of Ration Card	White	—
	Orange	53.16
	Yellow	44.73
	No Card	2.11

7. Annual Income	Up to 50000	13.92
	50000 to 150000	55.70
	150000 to 250000	16.46
	250000 to 350000	5.49
	Above 350000	8.44

The above table depicts the demographic profile of the microfinance beneficiaries. Gender wise classification shows the females are ahead towards taking loan from microfinance. Educational background of beneficiaries is less than 10th standard. Majorly housewife's, agriculturists and low annual income respondents are taking loans from Microfinance Institutions (MFIs). Other than general category respondents are the key beneficiaries of microfinance. Those who are having orange and Yellow ration card are the major borrowers of the microfinance as well as around seventy percent of the microfinance beneficiary's annual income is up to one lakh fifty thousand only. The demographic profile indicates that microfinance primarily supports economically weaker, less-educated, non-general category women engaged in household or agricultural work.

**Table-2: Present Status of Microfinance**

Particulars	Sub-particulars	Percentage
1. Duration for Loan Taken (In Years)	Up to 1	2.53
	1 to 3	94.94
	3 to 5	1.69
	Above 5	0.84
2. Distribution of Loans by Nature of Interest Rate	Interest free	–
	Simple	–
	Compound	100
	Concessional	–
3. Classification of Interest Rate (r/i)	Up to 10	1.27
	10 - 20	41.77
	20 - 30	38.82
	30 - 40	13.50
	Above 40	4.64

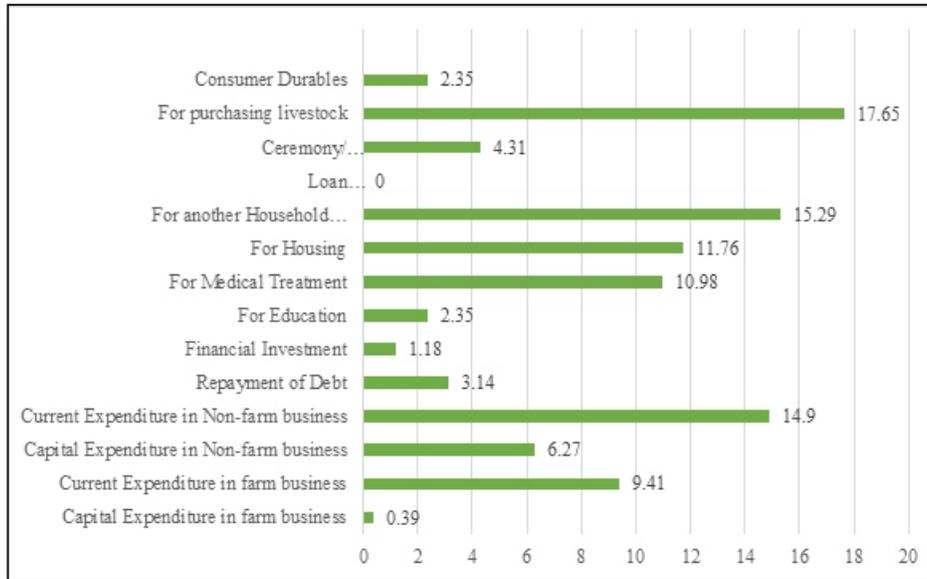
4. Processing Fee for Sanctioning Loan	Up to 5000	43.88
	5000-15000	2.95
	15000-25000	0.42
	Above 25000	–
	None	52.74
5. Time Taken for Granting Loans	Up to 7 days	40.08
	7-15	51.05
	15-30	7.17
	30-45	1.69
6. Number of Times Visited for Sanctioning Loan	Up to 2	96.20
	3-5	3.38
	More than 5	0.42

The above table presents the status of microfinance in terms of availability, accessibility and feasibility. Most of the beneficiaries has taken loan for the period of 1 to 3 years period short term borrowing to meet the immediate needs. Microfinance institution loans incur compound interest, with interest rates often ranging from 10 to 30 percent. The interest rates on microfinance loans are relatively high, and borrowers experience a repayment burden over time. Fifty percent respondents responded that there are no processing charges while granting loan it shows the loans are mostly low-cost in processing. Number of visits for sanctioning loan are also less due to microfinance institutions provide a door step loan facility. Time taken for granting loans is also short i.e. 91 percent borrowers get loans within 15 days due to quick loan processing system. Overall, microfinance will be based on the principle of quick availability, easy accessibility, easy finance despite relatively high interest rates and a rigorous repayment responsibility.

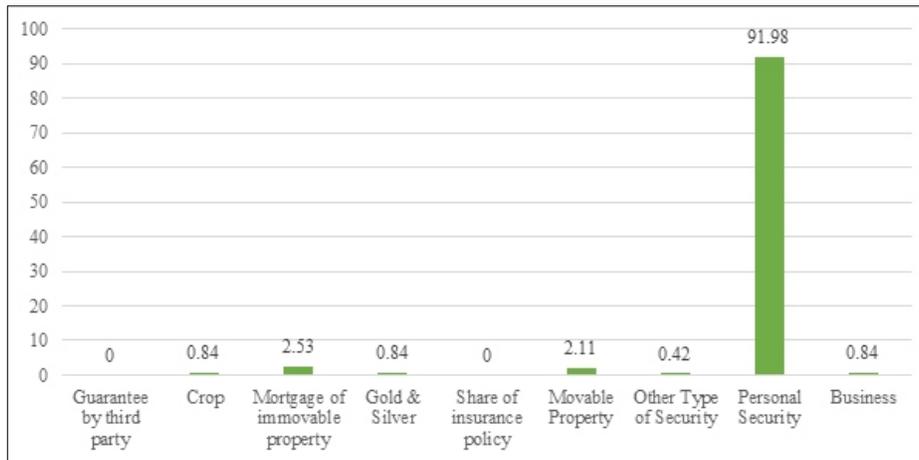
Figure-2 on next page illustrates the purpose of microfinance, highlighting the priorities and financial behaviour of rural people. The most significant portion of the funds has been used for the purchase of livestock, i.e., 17.65%, followed by borrowing a loan to support other household members, and meeting current expenditure in non-farm businesses. The borrowing pattern indicates that the majority of funds are being used for livelihood support and meeting family-related responsibilities. This trend indicates that people are

prioritising their immediate and essential needs over long-term investments in sustainable livelihoods or family growth.

**Figure-2: Distribution of Loans by Purpose**



**Figure-3: Distribution of Loans by Type of Mortgage**



The above Figure-3 shows the status of the mortgage of microfinance. Mainly, loan was received based on a personal security basis; therefore, it's popular among the beneficiaries. It indicates that most borrowers do not provide any physical collateral. Other securities, such as guarantees by third parties, crops, mortgages of immovable and movable property, gold and silver, and other types of security, are not often required to receive a loan from MFIs. Therefore, rural people are attracted to take loans from MFIs.



**Table-3: Problem faced by Respondents to Access Microfinance**

Problem Faced	Microfinance	
	Yes	No
1. Lack of Awareness	11.02	88.98
2. Complex Formalities & Documentation	1.69	98.31
3. Non-Co-Operative Behaviour of Bank Staff	2.12	97.88
4. Insufficient Security	2.12	97.88
5. Delay in Disbursing Credit	0.85	99.15
6. Unsuitable Margin Money Requirement	5.08	94.92
7. High Rate of Interest	73.73	26.27
8. High Processing Charges	33.47	66.53
9. Inadequate Amount of Credit	2.12	97.88
10. Restricted Utilization Norms	1.69	98.31
11. Insufficient Period of Credit	2.12	97.88
12. Inconvenient Repayment Terms	7.63	92.37
13. Rigid Recovery Norms	8.90	91.10
14. Distant Location of Bank from Home	5.08	94.92
15. Other	—	100

The above table describes the perception or opinion of the respondents towards the access of microfinance. Moreover, microfinance borrowers reported high interest rates, high processing charges, inconvenient repayment terms and rigid recovery norms are the key detrimental factors while accessing the loan from MFIs. These are the key challenges that hinder the effectiveness and affordability of microfinance loans for many borrowers. It indicates that the only cost and inflexibility is associated with microfinance.

#### **4. Conclusion**

Overall, it can be concluded that, loans from MFIs is quite popular among rural people. Less documentation, easy disbursement method and no need of mortgage are the prominent factors behind it. Moreover, majority of MFI loans were disbursed to female, less educated, reserved category and low annual income people from the rural area. Most of the beneficiaries has taken loan for the period of 1 to 3 years' period, MFIs loans are charged as the

compound interest rate and the rate of interest of most loans are 10 to 30 percent. Microfinance borrowers are facing problems towards high interest rates, high processing charges, inconvenient repayment terms and rigid recovery norms.

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