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A STUDY ON MICRO FINANCE INTERVENTION IN THE RURAL AREAS OF COIMBATORE

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Abstract

Microfinance emerged as a noble substitute for informal credit and an effective and powerful instrument for poverty reduction among people, who are economically active, but financially constrained and vulnerable in various countries. Microfinance covers a broad range of financial services including loans, deposits and payment services and insurance to the poor and low-income households and their micro enterprises. Microfinance institutions have shown a significant contribution towards the poor in rural, semi urban or urban areas for enabling them to raise their income level and living standards in various countries. In developing countries like India the structure of economy is dualistic. The rich get richer and the poor get poorer. This worsens the access of poor to economic opportunities and reaches for formal financial services. Small enterprises in India suffer from a great deal of indebtedness and are subject to exploitation in the credit market through high interest rates and lack of convenient access to credit. They need credit to fund their working capital needs on a day-to-day basis as well as long term needs like emergencies or other income related activities. So the need for financial assistance and business development services for the micro and small enterprises is essential to alleviate poverty for consistent economic growth. The focus of the study is to Chart out whether these micro and small enterprises in and around Coimbatore city of Tamil Nadu were able to access Micro Finance Institutions (MFIs) for capital loans and services and utilize it for their growth and development

Keywords:Microfinance;Self-help groups;Rural credit;Banking;

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1. Introduction

In the developing country like India, where majority of the population resides in rural areas, rural development becomes imperative for the economic development of that nation and for the rural development, poverty reduction needs to be the focus of all development programs. Though, the Government of India has been initiating various poverty alleviation programs since Independence but not much progress has been marked. The root cause of the problem of poverty has been the found to be the economic dependence and lack of access to the credit. Poor have been considered to be non-bankable. They are deprived of the basic financial services in the lack of saving and collaterals to be offered to the finance provider, specifically the banking sector. Consequently, the poor have to depend upon the informal channels of finance like private moneylenders who generally, exploit them in the name of financial help and often, lead to lifetime indebtedness among the borrowers. Micro financing is one such intervention that aims at poverty reduction by providing basic financial services to the underserved section of the society at affordable terms.

Simply stated, *Microfinance is the supply of loans, savings, andother basic financial services to the poor* (www.cgap.org). The Task force on Supportive Policy and Regulatory Framework for Micro finance has defined Micro finance as the 'Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards'. (Reserve Bank of India 2005)

Over the past centuries, practical visionaries, from the Franciscan monks who founded the community-oriented pawnshops of the 15th century to the founders of the European credit union movement in the 19th century (such as Friedrich Wilhelm Raiffeisen) and the founders of the microcredit movement in the 1970s (such as Muhammad Yunus and Al Whittaker), have tested practices and built institutions designed to bring the kinds of opportunities and risk-management tools that financial services can provide to the doorsteps of poor people. While the success of the Grameen Bank (which now serves over 7 million poor Bangladeshi women) has inspired the world,[citation needed] it has proved difficult to replicate this success. In nations with lower population densities, meeting the operating costs of a retail branch by serving nearby customers has proven considerably more challenging. Hans Dieter Seibel, board member of the European Microfinance Platform, is in favour of the group model. This particular model (used by many Microfinance institutions) makes financial sense, he says, because it reduces transaction costs. Microfinance programmes also need to be based on local funds.

The history of micro financing 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 "micro financing" has roots dated back to 1976 when Mohammed Yunus set up the Grameen Bank experiment at the outskirt of Chittagong University, Bangladesh (Mahajan 2005). During the early 1980s, a novel approach of linking formal and informal financial institutions emerged where self help groups were to act as intermediaries between micro entrepreneurs and the banks.

2. Review of Literature

2.1. Mahesh Kumar (2010)[*]in his case study *"**Crisis at the Bottom of the Pyramid: A Case Study of Micro-Finance in India"***has stated that, the importance of microfinance sector cannot be undermined as it serves as an important conduit between financial inclusion and economic development of a country. This sector extends credit and allied financial services in rural and informal urban areas which are indeed a daunting challenges considering the grass root realities.

2.2. Wendy.K.Oslen (2008)[†]in his research work ***"Aspiration Paradox in Indian Micro-Finance: A Difficulty and an Opportunity for Debate"*** examines the paradox that a borrower's status aspirations may contribute to a situation in which their borrowings exceed their capacity to repay. This paradox was first described by Thorstein Veblen, and has been fleshed out by Pierre

[*]Kumar, Mahesh, "*Crisis at the Bottom of the Pyramid: A Case Study of Micro-Finance in India*" (November 17, 2012). Available at SSRN: http://ssrn.com/abstract=2177290 or http://dx.doi.org/10.2139/ssrn.2177290

[†]Olsen, Wendy K., Aspiration Paradox in Indian Micro-Finance: A Difficulty and an Opportunity for Debate (June 2008). Brooks World Poverty Institute Working Paper No. 42. Available at SSRN: http://ssrn.com/abstract=1265628 or http://dx.doi.org/10.2139/ssrn.1265628

Bourdieu. Thus in the theory of consumer culture there are strands which may be of use in planning and managing micro-finance and rural banking.

2.3. Mohammad Shamsuddoha (2004)[‡]in his research work ***"Assessing Impact of Micro Finance on Poverty Alleviation-Bangladesh Perspective"*** has pointed out that Micro finance" or its major part "micro credit", both used interchangeably, is an important institutional device for alleviating poverty of the poor people. The present study focuses on the impact assessment of micro finance activities on some variables of poverty alleviation, the extent to which these programs helped loanees to become micro finance graduates and the relevant suggestions as to the success of the micro finance activities.

2.4. Dr.Amlan Ghosh (2007)[§]in his research work **"*Financial Inclusion Through Micro Finance in India and Emerging Role of POSB: An Analysis"*** has stated that, since the opening up of the economy and reforms in the banking sector in India, rural finance is in back foot. To keep the momentum of the growth at present level India needs to serve the financial need of the excluded masses to bring them into the main stream of developmental process.

2.5. Ravi Kumar, T.V.S. and N.A., Venkata and Panikkal, Sandeep (2010)[**]in their research paper ***"Risks and Challenges in Individual Lending for Indian Micro-Finance Institutions"*** has stated that many Indian microfinance institutions (MFIs) introduced the individual lending (IL) methodology as a natural progression from the group lending methodology. The lure of "big ticket" loans and higher profitability is attracting growth oriented MFIs to aggressively push for IL without considering the inherent risks.

[‡]Shamsuddoha, Mohammad and Azad, A. S. M. S., Assessing Impact of Micro Finance on Poverty Alleviation-Bangladesh Perspective (January 29, 2004). Enhancing Performance: Agenda for Growth organized by Prestige Institute of Management and Research (PIMR), Indore, India, January 29-30, 2004. Available at SSRN: http://ssrn.com/abstract=1302291 or http://dx.doi.org/10.2139/ssrn.1302291

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[**]Ravi Kumar, T.V.S. and N.A., Venkata and Panikkal, Sandeep, Risks and Challenges in Individual Lending for Indian Micro-Finance Institutions (February 2010). MicroSave India Focus Note 34. Available at SSRN: http://ssrn.com/abstract=1562606 or http://dx.doi.org/10.2139/ssrn.1562606

2.6. Maruthi Ram Prasad, Dr. G. Sunitha and K. LaxmiSunitha (2011)[††]conducted a study on ***"Emergency and Impact of Micro-Finance on Indian Scenario".*** After the pioneering efforts by Government, Banks, NGOs, etc the microfinance scene in India has reached in take off stage. An attempt could be initiated to promote a cadre of new generation micro-credit leaders in order to strengthen the emergence of Micro-Finance Institution (MFIs), so as to optimize their contribution towards the growth of the sector and poverty alleviation. Each Indian state could consider forming multi-party working group to meet with microfinance leaders and have a dialogue with them about how the policy environment could be made more supportive and to clear up misperceptions. With one state leading the way, we need to build on a successful model. By unleashing the entrepreneurial talent of the poor, we will slowly but surely transform India in ways we can only begin.

2.7. Idowu Friday Christopher (2010)[‡‡]conducted a study to Chart the ***"Impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria"*** and it was pointed out that significant number of the SMEs benefitted from the MFIs loans even though only few of them were capable enough to secure the required amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, product innovation achieving market excellence and the overall economic company competitive advantage.

3.Objectives of the study

- To ascertain the depth of financial awareness and customer's perception.
- To analyse how far it has been successful to meet financial needs of rural poor in terms of their preference for formal and informal sources of finance
- To ascertain the level of satisfaction with regard to micro financing services
- To determine the challenges of rural finance

[††]Maruthi Ram Prasad, Dr. G. Sunitha and K. LaxmiSunitha (2011), Emergency and Impact of Micro-Finance on Indian Scenario. KKIMRC IJRFA (1)

[‡‡]Idowu Friday Christopher (2010), Impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria. International conference on Innovation and management

4. Methodology of the study

This study is based on primary data obtained through interviews with respondents residing in rural areas. A qualitative evaluation was utilized for this research project leveraging subjective methods such as interviews and observations to collect substantive and relevant data. For this purpose the questionnaires were distributed among the respondents wherein the questions were framed in such a manner so as to suit the relevant objectives of the study. The interview was conducted in some of the rural areas of Coimbatore and Tirpur. The sample comprised of 100 rural individuals belonging to low income and self-help groups.

5. Limitation of the Study

- The questionnaire was prepared in English, but Tamil being the local language of Tamil Nadu, it was difficult to comprehend the same. This was a constraint in this study as the study required local people to figure out the discussions fully.
- The study would have been more accurate if the unit of sampling was a household and not the village. Also the use of questionnaire over a sizeable sample size would have given more accurate results. Given the time and resource constraint it was not possible for us to do the same.
- Majority of the population are still not aware of the availability of micro finance facility. This made it difficult to communicate the exact aim of the project across, to the respondents.

6. Analysis and discussions

6.1 CHI-SQUARE TEST

The chi-square test is a non-parametric test in statistical work. The quantity x^2 describes the magnitude of discrepancy between theory and observation, *i.e.*, with the help of x^2 test we can know whether a given discrepancy between theory and observation can be attributed to chance or whether it results from the inadequacy of the theory to fit the observed facts.

The formula for computing chi-square is:

$$\chi_c^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

RELATIONSHIP BETWEEN THE AGE OF THE RESPONDENTS AND THE LOAN AMOUNT SANCTIONED TO THEM

Table 1: Comparative table between age of the respondents and the loan sanctioned to them

AGE/ LOAN AMOUNT	Very satisfied	Satisfied	Neutral	Dissatisfied	Very dissatisfied	Total
30 years & below	4	3	2	1	1	11
31 years- 40 years	7	10	5	4	0	26
41 years- 50 years	3	17	9	3	1	33
51 years- 60 years	4	5	7	1	1	18
61 years & above	0	2	6	4	0	12
Total	18	37	29	13	3	100

Source: Primary data

Null hypothesis (H_0)

There is no significant difference between the age of the respondents and the loan amount sanctioned.

Alternative Hypothesis (H_1)

There is significant difference between the age of the respondents and the loan amount sanctioned.

Level of significance

Level is at 5%

Calculated Value	**Table Value**	***Degree of Freedom***	**Significant/ Not significant**	**Accepted/ Rejected**
22.80667376	26.3	16	Significant	Accepted

Source: Primary data

Interpretation

The calculated value is less than table value at 5% level of significance. It is thus inferred that, there is no significant difference between relationship between age of the respondent and loan amount sanctioned *i.e.,* the respondents coming under the age group of 41-50 years are very satisfied with the loan amount sanctioned to them.Therefore, null hypothesis is accepted.

6.2. WEIGHTED AVERAGE

Mean in which each item being averaged is multiplied by a number (weight) based on the item's relative importance. The result is summed and the total is divided by the sum of the weights. Weighted averages are used extensively in descriptive statistical analysis such as index numbers. It is also called weighted mean.

The formula for computing weighted average is:

$$\overline{x}_w = \frac{\sum_{i=1}^{n}(w_i x_i)}{\sum_{i=1}^{n}(w_i)}$$

where as

$\overline{x}_w$ is the weighted mean variable

w_i is the allocated weighted value

x_i is the observed values.

Table 2: Table showing weighted average and Rank

PARTICULARS	**WEIGHTED AVERAGE**	**RANK**
Loan amount	3.81	2
Suitable products are	3.74	3

available as per needs		
Information provided by the credit provider	3.52	11
Terms & Conditions	3.20	16
Convenient procedure	3.53	10
Repayment policy	3.22	15
Time taken to get loan sanctioned	3.66	8
Behaviour of staff	3.67	6
Time to access credit	3.39	12
Compulsory savings requirement	3.62	9
Loan utilisation check	3.67	6
Complaints & Problems well entertained	3.68	5
File charges	3.29	14
Rate of interest	3.33	13
Demand of collateral	3.70	4
Requirement of guarantee	4.08	1

Source: Primary data

Interpretation

The above table shows the weighted average of various features of the financial institutions that assist people with loan and their ranks. Requirement of guarantee ranks 1st in the weighted average, the 2nd rank goes to the loan amount that is sanctioned to the respondents and the 3rd rank for the suitable products that are available as per needs of the customers. The behaviour of staff towards its customers and the loan utilisation check holds the same position as per the weights. The terms and conditions regarding availing of the loan ranks last as per this method.

6.3. COEFFICIENT OF CORRELATION

The coefficient of correlation summarizes in one figure the direction and degree of correlation. Correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables.

The formula used for measuring correlation is:

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}}$$

Where, n= 100 respondents

x= Annual Income of the respondents

y= Improvement in their consumption level after availing micro finance

RELATIONSHIP BETWEEN ANNUAL INCOME OF THE RESPONDENTS AND IMPROVEMENT IN THEIR CONSUMPTION LEVEL AFTER AVAILING MICRO FINANCE

Table 3: Comparative table showing the annual income of the respondents and the improvement in their consumption level

Improvement in consumption level	No. of respondents ($\sum x$)	Annual Income of the respondents	No. of respondents ($\sum y$)
Strongly agree	26	**100000 & below**	33
Agree	30	**100001-200000**	30
Neutral	15	**200001-**	22

		300000	
Disagree	22	**300001-400000**	15
Strongly disagree	8	**400001 & above**	0
	100		**100**

Source: Primary data

Interpretation

The Pearsonian coefficient of correlation between the annual income of the respondents and their consumption level equals +0.857268. This implies that there is a high degree of positive correlation between the two variables *i.e.*, as the annual income of the respondents goes up so does their consumption level.

6.4. Likert Scale

A Likert scale is a psychometric scale commonly involved in research that employs questionnaires. It is the most widely used approach to scaling responses in survey research, such that the term is often used interchangeably with rating scale, or more accurately the Likert-type scale, even though the two are not synonymous.

Table 4: Table showing Average and Rank

PARTICULARS	AVERAGE	RANK
Impact of availing micro credit from formal sources	2.48	7
Improvement in consumption level	2.56	6
Increased exposure to the outside world	2.77	5
Poverty reduction	3.25	1
Improvement in income	2.99	4

level		
Recognition in family	3.24	2
Improvement in social status	2.37	9
Recognition in family	2.39	8
Confidence building	2.37	9
Increase in decision making power	3	3

Source: Primary data

Interpretation

The above table shows the likert scale scores for various benefits availed by the respondents after taking loan their ranks. Poverty reduction scores 1st as per likert scaling, the 2nd score goes to recognition in the family and the 3rd score for increased decision making power**.** Improvement in social status and confidence building has equal scores as per this analysis.

7. Findings & Suggestions

7.1. Findings

Following are the findings as obtained from the study:

Chi-square Test

- As per the chi-square test, it is inferred that the respondents coming under the age group of 41-50 years are very satisfied with the loan amount sanctioned to them.

Weighted average

- The weighted average analysis shows that the requirement of guarantee, loan amount that is sanctioned to the respondents, availability of suitable products ranks 1st, 2nd and 3rd respectively. The terms and conditions with regards to availing loan ranks last.

Coefficient Correlation

- The Personian coefficient of correlation implies that there is a high degree of positive correlation between the annual income of the respondents and their consumption level *i.e.*, as the former goes up so does the latter.

Likert Scale

- The Likert scale rating shows that poverty reduction scores 1^{st} as per likert scaling, the 2^{nd} score goes to recognition in the family and the 3^{rd} score for increased decision making power. Improvement in social status and confidence building has equal scores as per this analysis.

7.2. Suggestions

The major challenge faced by the rural people is the lack of awareness about the microfinance facility provided by the banks and other financial institutions. Recently, the RBI instructed the banks and institutions to provide the microfinance at minimum of interest of 26 per cent. Even today the rural poor and the low income groups are not aware of this provision and they still rely upon informal sources of finances that charge exorbitant rates of interest and force them into bonded labour agreements.

6. Conclusion

The traditional strategy in India of improving financial inclusion by emphasizing government intervention in banking has not delivered results despite 50 years of sustained efforts. In contrast, in a short span of time, the microfinance industry has delivered remarkable results. The complaints against MFIs in India revolve around issues of predatory lending and unfair debt collection practices. Any policy action, such as regulation should therefore concentrate first on the protection of the borrower from the distribution practices of MFIs rather focus on prudential regulation, which has been the focus of most of the discussion in India. There should be a shift in focus from mere financial access to poverty eradication and people's empowerment, separating the 'performance' of Microfinance Institutions (MFIs) from their 'popularity'. The typical microfinance clients are low-income persons who do not have access to formal financial institutions. Therefore, there is a tendency among development thinkers and practitioners to gauge the impact of MFIs purely in monetary terms, i.e. eradication of income poverty.

The impact of microfinance on poverty alleviation is a keenly debated issue as we have seen and it is generally accepted that it is not a silver bullet, it has not lived up in general to its expectation. However, when implemented and managed carefully, and when services are designed to meet the needs of clients, microfinance has had positive impacts, not just on clients, but on their families and on the wider community. There is however a need for greater assessment of these wider impacts if the true value of microfinance to development is to be understood. One such tool for measuring wider impact is a livelihood security analysis based on a livelihoods framework which analyses how a project impacts on the livelihoods of beneficiaries.

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