

MICRO-FINANCE INTERVENTION AND ITS LINKAGE TO INCOME GENERATION AND SAVINGS

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ABSTRACT

The intervention of microfinance services among the rural poor for the last few decades made them access various economic and income generating activities. It enabled the rural as well as the urban poor to minimize their dependency on money lenders and various credit donors. The presence of microfinance in the economic and social development of a country like India cannot be unattended and ignored since the majority of the Indian population is below the poverty line. This paper explores the impact of microfinance intervention in Bangalore rural. The study reveals that because of microfinance intervention, there happen positive changes in the income level of microfinance beneficiaries and the benefits vary in different occupations.

Keywords: Microfinance, income generation, savings, JEL Classification: G21, L31 and O16

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Introduction:

We are living in a world where millions of people are living in abject poverty and misery. It is a fact that majority of them are women. Governments and help desks all over the world launched and executed a large number of programmes to eradicate this social evil. But, still it remains like a never solving problem. India, the second largest populated county in the world is also under the clutches of poverty, from time immemorial. The government of India executed many poverty eradication policies and programmes to eliminate this social threat. It is in this context the relevance and importance of microfinance comes into existence. The advent of microfinance as the angel of alleviating and removing poverty gives hope and strength to poor people who are neglected by the formal financial institutions and financial institutions. The various microfinance services are targeted for the poor people who are marginalized and non bankable.

The availability of microfinance services gives hope and confidence to the poor people to fight against poverty by themselves by developing their talents of creating and maximizing wealth through various economic activities. With the help of microcredit the beneficiaries of microfinance achieved remarkable results to make their life happy and content. In 1997 at Microcredit Summit in Washington DC Hilary Clinton remarked that microcredit is a macro idea with lot of potential. It is an invaluable tool in alleviating poverty. The various microfinance projects remove poor people out of poverty, helps poor women to have work, create new job opportunities, promote business entrepreneurs and form capital in all depressed and backward areas. Microcredit has tremendous influence and results on the economic activities of the society. It will fertilize the soil of poor people and will give hope to the unrealized dreams of poor men and women. She reminds us that human destiny is strongly linked to the destiny of the poorest on this planet Clinton, (2010). In this backdrop the present study, micro-finance intervention and its linkage to income generation and savings address the impacts of microfinance in Bangalore-Rural, a part of the IT capital of India.

2. Review of Literature

The following are the review of related literature on the impact of microfinance among rural poor in the various part of the world and particularly in India shows the trends and positive impact of various microfinance interventions.

Afrane, (1998) studied the impact of microfinance in Ghana and South Africa, reveals that microfinance has tremendous impact on the economic and social welfare of the African people. This study unravels the importance of emerging trends in microfinance. Vonderlack & Schreiner, (2002) explored practical ways to achieve well being of poor women in developing countries. She proposes two savings services designed to address the development issues that confront women. Borrowing is riskier than savings. All people are not credit worthy so also deposit worthy. She finds that sometimes microenterprise loans are used for consumption and are repaid out of existing income sources. The existence of these informal mechanisms shows that poor women want to save and work very hard to do so. Compared with informal savings mechanisms, formal savings offer greater safety, higher rate of return, quicker access to funds and greater anonymity. To maintain savings, poor women resist demands from children who need clothes, husbands who want to drink or gamble, and relatives and neighbors who want loans or gifts. Vatta, (2003) finds the pivotal role of microfinance in the rural development and poverty alleviation of India. After independence the formal financial institutions failed to reach out the rural people to meet their financial needs and alleviating poverty. It is in this context NGOs and MFIs reached this neglected poor by providing microcredit and empowered them economically, socially and technically. In the group lending schemes homogeneity of group members was strictly followed. Thus the microfinance could save many rural and semi urban poor from the clutches of money lenders. Another importance of microfinance is that it empowered women socially and economically to meet the challenges of opportunities and development and they could gather more respect and got role in decision making process in their families. SHGs are very strong in southern states of India while it is poor in north eastern, central and northern states. Sriram & Upadhyayula, (2004) explained the growth and transformation of microfinance sector in India. It also shed light into the growth and transformation of microcredit revolution of NGOs. Datta, (2004) found that microcredit fails to reach effectively if it does not address, supply, demand, social issues and NGDOS norms (Non Governmental Developmental Organisations), dropouts and sustainable financial services. Carpio, (2004) analyzed the different strategies and criteria of microcredit institutions in Philippines for providing micro credit to poor people. Most of the commercial banks think that micro credit is not a viable programme and they are lacking the skill in micro credit. But situation is changed with the encouragement and support

of Government and donors. India is one of the most promising and un-tapped market for microfinance in the world. Microfinance in India arose in the early 1980s with the formation of informal Self Help Group (SHG) for providing access to financial services to the needy people who are deprived of credit facilities. The Indian microfinance industry has a three tier operational structure, namely formal financial institutions, semi formal financial institutions and Informal financial institutions. The formal financial institutions comprise of formal banks, co-operative societies and Non Banking Finance Companies. The semiformal financial institutions are mainly MFIs. The informal financial institutions are run by trusts, societies, money lenders etc. The Indian microfinance market is dominated by SHG bank linkage funded by NABARD and MFI model. The pivot of microfinance industry in India is SHG- Bank linkage programme, flagship of NABARD. The SHG –Bank linkage programme envelopes 58% of the Indian microfinance industry. Non Banking Financial Companies serves 34% of the microfinance requirements and informal financial institutions cater 8%. The peculiarity of Indian microfinance market is that more than 79% of the SHGs linked to banks are women groups. The different delivery models of microfinance are SHG model, Grameen Bank model, Joint liability Group model, Credit union etc. NABARD is also relooking SHG- Bank linkage programme since it was not flourished in central and north eastern states of India compared to southern states of India.

Microfinance in India is doing a wonderful job as it is the ladder for prosperity for poor people who were neglected by formal financial institutions and ill treated by coercive practices of money lenders. Microfinance Institutions are providing a number of services to its beneficiaries. It provides both financial help and valuable training to the needy people. Besides this MFIs provide many value added services to the low income people especially to the women. The tremendous change and self reliance of rural women in India is due to the presence of various microfinance schemes. Thus we can say that microfinance plays a vital role in the economic and social development of the low income people of India. In this backdrop, this paper addresses the impacts of microfinance in Bangalore-Rural, a part of the IT capital of India.

The present study is conducted out in nine villages in Bangalore-Rural; Thagachaguppe, Seeganahalli, Parasinapalya, Kylancha, Ganakkal, Gonakanahalli, Tharabahalli, Appasandra, and yalchamanahalli. The study is mainly based on primary data collected through structured

questionnaire. The respondents are the beneficiaries of microfinance tagged with formal and informal micro financing institutions, Grameen banks and MFIs.

3. Objectives of the Study

- To study the difference in savings of beneficiaries, before and after the micro-finance intervention
- To study the difference among various occupations in their monthly income as a result of microfinance intervention

4. Hypothesis

- There is no significant difference between savings before and savings after the microfinance intervention
- There is no difference between different occupations as a result of microfinance and monthly income

5. Empirical Design

5.1 Population and Sample

Population: Beneficiaries of micro financing schemes of KaveryGrameen Bank Thagachagupe, Seeganhalli, Parasinapalya, Kylancha, State Bank of Mysore GanakalMagadi, Centre for Social Action (CSA) Gonakanahally, Tharabahalli, Appasandra, and Yalchamanahalli.

Sample size: Data was collected from 372 respondents through non probability sampling technique of purposive sampling.

5.2 Data Collection

Primary data are collected through structured questionnaire and secondary data are gathered from books, journals, periodicals and websites.

5.3 Statistical Analysis and Variables of the study

- Savings before microfinance and savings after microfinance
- Monthly income
- Purpose of savings

The statistical techniques of Paired t-test and ANOVA were used in the study.

6 Empirical Analysis:

However valid, reliable and adequate the data may be it does not serve any useful purpose unless it is carefully processed, systematically classified and tabulated, scientifically analysed and intelligently interpreted and rationally concluded. The data collected have been analysed using paired‘t’ test and ANOVA using SPSS 11.0 statistical software and the results obtained thereby have been interpreted.

The following table represents the gender of respondents.

TABLE 1: GENDER

GENDER	FREQUENCY	PERCENTAGE
Male	52	13.9
Female	323	86.1
Total	375	100.0

CHART NO: 1

GENDER

14%

Male Female

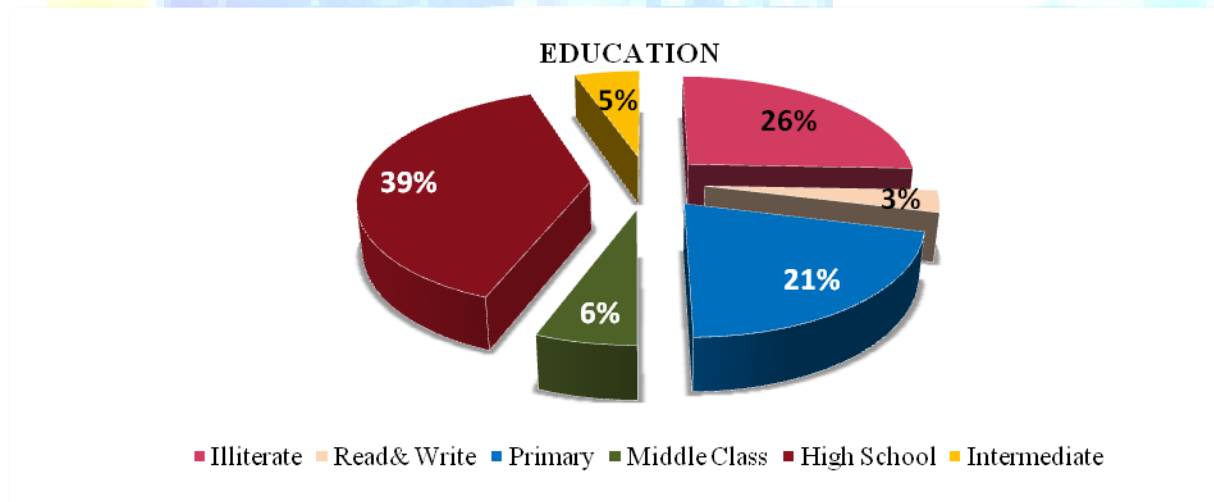
The procured data sample is tabulated in the frequency table no: 1, supporting with the pie-chart above, with the total no of respondents being 375, among which the maximum respondents were Female with a count of 323 constituting to 86% followed by the Male with a count of 52 constituting to 14%, which directly implies that the majority of respondents were Female.

The following table represents the educational qualifications of the respondents.

TABLE 2: EDUCATION

EDUCATION		PERCENTAGE
Illiterate	95	25.5
Read & Write	12	3.2
Primary	78	21.0
Middle Class	22	5.9
High School	144	38.7
Intermediate	20	5.4
Others	1	0.3
Total	372	100.0

CHART NO 2: EDUCATION



The above frequency table 2 and the Pie-chart, clearly shows that the majority of the respondents are educated to High school level with a count of 144 constituting to 39%, followed by the respondents who are Illiterate with a count of 95 constituting to 26% and 21% being the respondents educated to Primary school with the count of 78, Middle class with count of 22 constituting to 6%, Intermediate with count of 20 constituting to 5% least being others with 1

constituting to 0.3% followed by Read & Write with count of 12 constituting to 3% out of total sample count of 372 respondents

Testing of Null Hypothesis

H1: There is no significant difference between savings before and savings after microfinance intervention

TABLE 3 - Paired Samples t Test Statistics

		Mean	N	Std. Deviation	Std. Error Mean	t	df	Sig. (2-tailed)
Pair 1	Savings-After MF	302.04	241	553.701	35.667	8.405	240	0.000**
	Savings-Before MF	265.47	241	560.825	36.126			

* Sig at 1% level, * Sig at 5% level

The above table 3 shows the result of Paired t test. The average savings before MF intervention is ₹265 and the average of Savings after MF intervention is ₹302. Since sig. Value is <.00 there is significant difference in savings before and after the intervention of microfinance and it is statistically significant at 1% level. Hence we reject Null hypothesis and accept alternate hypothesis i.e. There is significant difference between savings before and after the microfinance intervention.

H2: There is no difference between different occupations as a result of microfinance and monthly income.

TABLE 4 Descriptive statistics and ANOVA

Monthly Income					
Level of Occupation	N	Mean	Std. Deviation	F	Sig. value
Agriculture	171.00	3,338.25	1,007.93	15.95	0.00**
Animal Husbandry	41.00	4,146.34	1,499.97		
Petty Business	21.00	4,690.48	1,435.93		
House wife	18.00	2,277.78	669.11		

Any other	20.00	3,205.00	1,070.40		
Total	271.00	3,485.02	1,237.16		

** sig at 1% level, * Sig at 5% level

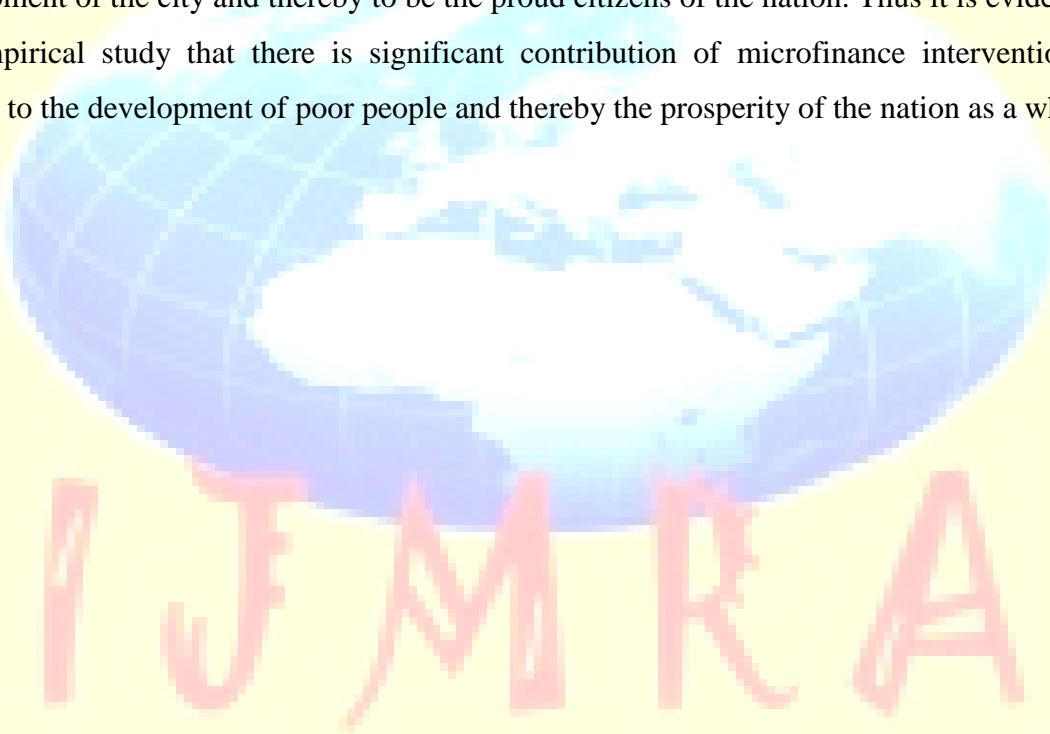
The above table 4 shows the result of one way ANOVA test. This test is conducted to prove the above said hypotheses. The maximum significant difference in monthly income as a result of microfinance intervention has happened in petty business i.e., ₹4690 followed by animal husbandry ₹4146 and agriculture ₹3338. Since sig. Value is <.00 there is significant difference on Monthly Income derived from MF on various Main Occupation and it is statistically significant at 1% level. Hence, the Null hypothesis is rejected and alternate hypothesis is accepted i.e. There is difference among different occupations in their monthly income as a result of microfinance intervention.

Implications

- The study shows that there is significant increase in the income levels and the savings levels of the people in the agglomarian areas of the city due to the microfinance intervention.
- The study reveals that the savings after microfinance is sound and it attracts poor people to go for micro trade activities to be done in the city places as hawkers and peddlers. Normally the micro finance operations are confined to the rural areas.
- As a result of this study it has become evident that even the urban poor can change their occupation, income levels and savings habits due to the micro finance intervention. So the concerned authorities and the micro finance institutions should not ignore the urban poor from the micro finance activities
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7. Conclusion

In Bangalore, one of the fastest growing cities in India, the role of microfinance is significant since the Bangalore rural is becoming financially sound with the help of various microfinancing activities. The study reveals that the savings after microfinance is sound and it attracts poor people to go for micro trade activities to be done in the city places as hawkers and peddlers. Because of the geographical advantage of Bangalore as a growing city many poor people are trying in small scale trade as hawkers and peddlers. They develop their entrepreneurial ability with the help of microfinance. The availability of microfinance without any collateral and coercive practices helped the poor people to contribute their part little by little to the development of the city and thereby to be the proud citizens of the nation. Thus it is evident from this empirical study that there is significant contribution of microfinance intervention as a catalyst to the development of poor people and thereby the prosperity of the nation as a whole.



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