A STUDY ON CONTRIBUTION OF MFIS ON POVERTY ALLEVIATION IN VELLORE DISTRICT

Dr. J. RAMOLAPREMALATHA
Associate Professor
Department of Commerce
VIT University, Vellore

Mr. RANJITH R
Department of Commerce
VIT University
Vellore

Abstract

Microfinance is called as providing small finance to low income population, including people and self-employed who could not access banking services. Poverty is one of the major problems in a developing country like India. Its main objective is to enable the poor to have a permanent access to banking services, not just borrowing but also savings, insurance etc. Microfinance is generated with the belief that access to financial services will help to come out of poverty. The growth of microfinance is pushed by government and non-governmental organisations and it is expected to play a significant role in poverty alleviation and rural development. Hence, Government of India has taken very many steps to alleviate poverty and bridge the gap between rich and poor so that the poverty is eradicated and the standard of living of the poor will improve. In this paper, it argues that the contribution of Microfinance institutions in poverty alleviation strategy in Vellore district. It shows that both access to finance and provision of microcredit will enable the poor in the district to satisfy their basic consumption needs, manage their risks in a better way, can build their assets gradually and steadily, develop their small enterprises, develop their income earning capacity and improve their standard of living. Microfinance also can contribute to allocation of resources in an efficient manner, promote markets, and to adopt technology. Thus microfinance helps to improve the standard of living, quality of life and thereby promote economic development. Hence, this paper tries to assess the functioning of microfinance intuitions and the impact on the poor in terms of socio-economic development.

Keywords: Investment, Housewives, Decision, Purpose, Influence.

I. INTRODUCTION

Microfinance has become revenue for reducing poverty by improving both the standard of living and economic self-sufficiency of the poor, as well as offering a way to education, providing health care and equity between both men and women. From the start, the revolution of microfinance has permitted the poor in the country who are usually omitted from the conventional banking system to acquire credit to develop microenterprises and build savings. Microfinance has proved to be a very effective, important and powerful tool for poverty reduction among the poor. Like many other developmental tools initiated in the country, MFI have insufficiently entered into the poorer sections of society. The poorest form the vast majority in the country but they are not able to access to primary health care and basic education which will naturally improve their standard of living. Similarly, they are the majority without any access to finance especially small finance to meet their needs. When the question arises by which source the poor can be benefitted to satisfy their basic needs, then the micro finance is the appropriate instrument by which the poor can be reached. Microfinance is existing in the country for a
very long time i.e., over the past ten years and many studies has been done on the contribution of MFIs in eliminating the poverty from the country. MFIs provide facilities like micro insurance, microcredit and micro saving to their clients or beneficiaries. Micro finance is considered as an effective tool for a long time for socio-economic development and there is a difference between micro finance and charity. Very poor families, who are able to repay any small loan, can receive charity and others can be covered under micro finance institutions. MFIs are those organizations which provide small amount of money as loans to poor people and collect it in small instalments within short period of time. Microfinance as a developmental tool to poverty alleviation in Asian, African and South American countries produces quick and tangible results to the objective, especially among women.

Microcredit to the poor helps them to avail the finance to come out of the malicious circle of poverty. Tiwari and Thakkur (2007) found out that, microfinance has become an important instrument for the development of the country. These MFIs provide very small funds from Rs.1,000 to 20,000 mainly to the poor to start a business aiming the poverty alleviation by developing micro-entrepreneurship. This development of micro-entrepreneurship can help reduce the problem of unemployment and serve social problems in the society. Also these microfinance institutions provide small amounts as loans to poor people of the society.

Reasons for set up of micro finance

In spite of extensive banking facilities functioning in the country, micro finance had to come into existence because of the reason that banking could not reach the poor due to the following reasons:

a) Inadequate branch network in the rural areas
b) Lack of awareness among rural population
c) Lack of education among the rural population
d) Inability to offer collateral security to get loans
e) Banks are reluctant to offer micro finance to the rural population due to high risk, due to high transaction costs for small loans

Principles of Micro finance

Micro finance is considered to be an effective tool in poverty alleviation by financing small activities in the rural areas because of the following reasons:

a) By providing credit to investment by poor people
b) By empowering to build their confidence
c) By developing opportunities for self-employment

goal

Objectives of Microfinance institutions

A microfinance institution is an organization that offers financial services to low income populations in the society and they provide loans to poor who are not able to reach the regular banks. Almost all give loans to their members, and many offer insurance, deposit and other services. They offer credits and other financial services to the representatives of poor strata of population except extremely poor strata. Hence this can serve as one tool for poverty alleviation. This should be used with a caution as poverty seems to be complex in nature and there are many constraints that the poor face. The main problem the poor face in getting loans is the collateral security. Apart from that the procedures are too long and complicated which lead to additional transactional cost to the poor. Also formal financial institutions are not very particular about lending money to the rural poor as they show preference to urban poor. Hence, the Government of India introduced many schemes for the up-liftment of poor in the country. One of them is the starting up of Micro finance institutions and their objectives are mentioned below:
• To access the required capital without fear of loan sharks.
• To implementation of entrepreneurial ideas of underprivileged people and self-sufficiency.
• To improve standards of living and financial stability.
• To empower women with economic advancement.
• To improve the overall well-being of community

Non -Banking Finance Companies (NBFC)

Non-banking finance companies is a company registered under the companies act 1956 engaged in granting loans and advances, acquisition of shares and debentures etc. NBFC stands for non-banking financial company that performs functions similar to banks in the absence of banks in rural areas. They provide all types of services that bank does but they cannot issue demand drafts (DD) or cheques to their clients / customers. They are not a part of any payment and settlement system and deposit of insurance facility is not available to them.

Difference between NBFC and MFI

Micro Finance Institutions (MFIs) are providing similar services same as NBFC to the disadvantaged and underprivileged sections of the society who do not have easy access to banking facilities. NBFC performs banking functions at a small scale than that of banks whereas MFI exists at a level smaller than that of NBFC in the country. Microfinance institutions are those bodies which provide meagre amount as loans to public and collect it in small amounts of instalments. This institutions target people in rural areas because banks and NBFCs are not willing to offer loans to this people. But MFI provide very small loans to the underprivileged sections of the society.

Banks

There are two types of banks nationalized banks and private banks, these banks get money from public and utilize this collected money to lend as loans to those who are in need of money. Deposits from public are repayable on demand to those who deposited money in the bank. Loans must be repayable with the interest amount within the due course of time.

Fig.1 Different levels of lending organizations

From the Fig.1, it is shown that there are three different levels of lending by through which they provide their services to public.

Difference between banks and NBFCs

NBFCs are established for the purpose of granting credit to the poor section of the society, whereas banks are commissioned by the government to accept deposits and lend credit to the public. The licensing guidelines of a bank are tougher than that of an NBFC. Moreover, a bank cannot operate on any business other than the banking business, but an NBFC can operate such other businesses also.

Problems faced by MFIs

Although the MFIs where seen as the helping hand of the poor, they can’t be a solution to the large scale poverty that prevails in our rural areas many researches had pointed out the following problems faced by MFIs.

• Though they were formed to enable the poor to work on businesses they fail to cope up with this objective and behave similar to the local money lenders
• Corruption is found in the MFIs
• Poor record keeping and lack of managerial capacity
- Lack of proper legislation to distinguish between NGOs and MFIs
- Lack of vision
- Lack of training
- Lack of proper commercial orientation

All these factors prohibit the growth of MFIs and delimit their impact.

**Research Gap**

The literature shows that the studies done on the effect of MFIs are inconclusive. But conducting such a survey in Vellore district is justifiable as the district has a lot of scope for industries. This situation can re-evaluate the plans and policies followed by the MFIs and Government on poverty alleviation. Hence it is the need of the hour to conduct a survey on the contribution of MFIs in alleviating poverty from Vellore district.

**Statement of the Problem**

In India, there is a variety of approaches to microfinance, like through banks, government agencies, NGOs etc. The study is on the dedicated MFIs who provide such micro financial services to the rural population. Poverty is widespread in Vellore district as the district is considered as the industrial sector and less employment opportunities are found for poor people. For this reason, MFIs came into existence in reducing poverty by bringing economic development. Since it is an industrial sector, there is a lot of scope for starting industries in the district. Therefore, it is from this background that the study can be done to examine the effects of MFIs on poverty alleviation.

**Objectives of the Study**

The objective of the present study is to assess the contribution of MFIs in poverty alleviation from the rural poor in Vellore district.

The other objectives are:

1. To find out whether the rural people are aware of MFIs and its aim in poverty alleviation in their areas.
2. To find out the reasons to approach MFIs than the formal financial system.
3. To examine the contribution of MFIs in improving the living standard of poor in Vellore district.
4. To find out the satisfaction level of beneficiaries in Vellore District.

**Significance of the Study**

The study will be beneficial to institutions engaging in microfinance services to side-line their accomplishments to suit the requirements of the beneficiaries. Also it will help the MFIs to strengthen the use of credit thus increasing credit facilities. To policy makers, the research was vital by considering Government’s anti-poverty drives. It presented the role of the MFIs in poverty alleviation in both urban and rural areas and will act as a basis for development.

**Review of Related Literature**

MFIs were formed to meet many objectives: the important one is to eradicate poverty and improve the standard of living of the rural population, offer finance to the rural community, empowering women, and developing the industrial sector. The previous studies showed both positive and negative impact made by the MFIs.

- Rogaly (1996) argued that MFIs encouraged only a single-sector by the allocation of resources to fight poverty, microcredit is irrelevant to the poorest people.
- Otero (1999) stated that microfinance creates access to productive capital for the poor.
- Morduch and Haley (2002) said that there is evidence saying that micro finance institutions can serve the poor to achieve better financial sustainability in the future.
UNCDF (2004) stated that microfinance helps very poor households to meet only their basic needs.

Swain (2004) said microfinance institutions serve better along with other poverty alleviation policies than alone.

Aigbokhan and Asemota (2011) found that the variables like loan taken with microfinance institutions and education can help to eliminate poverty level.

Manandhar and Pradhan (2005) analysed that MFIs are the effective tool in poverty alleviation by increasing their standard of living through self-employment.

Sane.R and Thomas.S (2013) analysed the riddles of financial regulation of MFIs and argued that the conventional mechanisms of consumer protection and micro-prudential parameter needs to be modified. Their research findings provide some suggestions that the regulatory strategies should be adopted in order to reach the poor.

Nasir.S (2013) outlined the existing condition of the microfinance in India to the glow of its appearance as of now and its aim is to offer a cost effective method for providing financial services to the poor and gave practicable suggestions to surmount the issues and challenges connected with microfinance in India.

Kamath.R, Dattasharma.A and Ramanathan.S (2013) analysed that MFIs not providing loans for poor households and finding also told that the microfinance movement in India still has to go in a long way of being really “bottom-up”.

Ranjani.K.S (2012) said that MFIs benefit the customer and the industry at a greater level when they focus themselves to both self and statutory regulations.

Tiwari.A (2012) conducted a comparative study between India and Bangladesh MFIs by measuring the terms of loan lending activities by MFIs to the customers, clients, financial sustainability of MFIs in order to recognize how MFIs in India are performing as compared to those MFIs in Bangladesh as it is the inventor of microfinance. The findings discovered that the Indian MFIs are more beneficial position and functioning more powerfully than those of Bangladesh MFIs.

Moses.E (2011) focuses his study on the origin, concept, features and role of microfinance in India and said that microfinance is viewed as one of the most dominant kits for enriching the economic conditions of the asset-less poor through approaching the groups and contributes in efficient operation of the program.


In India less research is found to discuss the contribution of MFIs on poverty alleviation which will be focussed in this study.

Significance of the Study

The study is important from the point of view of constitution as 40 percent of the credit is diversified to rural population to improve their standard of living. After nationalisation a sudden spurt was experienced in which little contribution was made by the banks? It revealed that banks could concentrate very little on rural areas which brought stagnation in the development of rural areas. During the recent
past, microfinance had challenged the banks and extended the credit to those unbanked and underprivileged sector.

The study will be beneficial to institutions engaging in microfinance services to side-line their accomplishments to suit the requirements of the rural population. Also it will help the MFIs to strengthen the use of credit thus increasing credit facilities. To policy makers, the research was vital by considering Government’s anti-poverty drives. It presented the role of the MFIs in poverty alleviation in both urban and rural areas and will act as a basis for development.

Methodology of the Study
Selection of the district
There are 30 revenue districts in Tamil Nadu as on 31.3.2017 and Vellore district is one of them. This district is known for agriculture, Industry but it is a backward district like some districts in Tamil Nadu. Almost no research is made in the district on the contribution of MFIs in poverty alleviation. Because of this reason the district is selected for the study.

Sampling design for the study
The study will be a descriptive survey. This study aims to examine the beneficiaries of the MFIs in the study area. The study can employ stratified random sampling techniques to select the beneficiaries as it will help to get the desired sample from the various sub-groups in the population. Four taluks in Vellore district i.e. Katpadi, Vellore, Vaniyambadi, Walajah are selected for collecting the data from rural poor and urban poor.

Sample Size
The sample size of the study is 50 beneficiaries in Vellore district.

Limitation of the Present Study
1. The study is a micro level, therefore, findings may not possible for applied in the macro level and all possible efforts have been taken to ensure the correctness of the data used in the present research work.

2. Since the microfinance could not address insurance and savings of the poor, hence the present study is confined to study the impact made by MFIs on lending of credit only.

3. Since micro-credit has not been considered as much importance to the commercial banks, this study is concentrated on the MFIs and not on commercial banks. This paper does not concentrate the role of private sector banks and foreign banks for the analysis.

4. During limited time constraints and limited financial resources, this study is done only in Vellore district.

Data Collection
This study is based on primary and secondary data. An interview schedule is administered to collect the data from beneficiaries who are the respondents and secondary data is gathered from leading journals, newspapers, related government office documents, standard books, published articles and various websites. The research instrument had both qualitative and quantitative information. The questionnaire was translated into the regional language Tamil and has both open ended and closed ended questions and 5 point Likert scale was used to find out the satisfaction level as most of them are illiterates.

Data Analysis and Interpretation
The main objective of the study is to find out whether the MFIs contribute to the improvement of standard of living of the rural people in Vellore district as they were formed with the expectation to do so. Hence 50 people were interviewed to satisfy the objective of the study.

First the question was asked to the respondents that whether they are aware of the MFIs functioning in their local areas and their aim is alleviating
poverty. The responses are given below by way of pie chart.

**Fig.2 Poverty alleviation and MFIs**

From Fig.2 it is understood that 50% of the respondents are not aware of the objective of MFIs i.e. poverty alleviation and only 14% agree that the MFIs are functioning to eliminate the poverty from the rural areas. It is evident from the figure that 36% did not express their opinion on the objective of MFIs.

**Fig.3 Purpose of lending loans from MFIs**

**Emergencies**

It is decided to find out for what reasons the beneficiaries approach the MFIs functioning in their local areas. Around 54% of them agreed that they approach these MFIs to meet their emergency needs only. The same is explained in the above pie chart (Fig.3).

The next objective is to find out whether MFIs contribute to the improvement of standard of living of the beneficiaries living in the rural areas. The data was analysed and interpreted in the following chart (Fig.4).

**Fig.4 Living standard of marginalized groups**

**MFIs doesn’t Improve the Standard of living**

Fig.4 shows that 44% of the respondents agree that MFIs do not contribute to the improvement of the standard of living of the beneficiaries in Vellore district. This is clear from the point that as the beneficiaries approaches the MFIs only for emergencies, which lend money for higher interest but not bothered about the development of the beneficiaries.

The objective is to find out whether MFIs contribute to the improvement of standard of living of the respondents who are living in the rural areas. The data was analyzed and interpreted in the following chart.

**Fig.5 Does MFIs improve living standards of poor**

From the Fig.5, it is observed that 70% of respondents say that MFIs do not improve the standard of living of the poor, 20% of respondents are neutral to this point and 10% of respondents say that MFIs help to improve living standards of poor people.
The questionnaire had questions to find out whether the MFIs help in increase the savings, increase in income, poverty reduction, social status, rate of interest is high or not, educate their children, participate in the social activities, improvement in the basic amenities, etc. The overall satisfaction of the beneficiaries has been studied and the responses are collected through 5 point Likert scale and analysed and given below in way of chart (Fig.6).

**Fig.6 Overall Satisfaction**

The chart shows that 46% respondents strongly disagreed with the poverty reduction objective of MFIs and 45% respondents strongly disagreed that the standard of living was improved by borrowing from the MFIs. So they are not satisfied with the overall performance of MFIs as the rate of interest charged by them is high which is mentioned by 36%.

**Findings and Suggestions**

This study sought to find out the contribution of MFIs in the poverty alleviation in Vellore district. The outcome of the study reveals that MFIs do not concentrate on improving the standard of living of the poor in the study area. Also majority of the beneficiaries do not know that the objective of MFIs is to improve the living standard. Most of the beneficiaries are not satisfied with the functioning of the MFIs in their local areas as they charge high rate of interest. This study reveals that the availability of micro-credit though proper banking channels to the poor will help rural people to take up larger productive activities and decrease the dependence on money lenders and MFI’s who charge high amount of interest. The findings will be helpful to MFIs to strengthen and expand their function in poverty alleviation. Governments, NGOs and others may formulate its policy to alleviate poverty.

The following suggestions are made: Based on the study it is suggested that MFIs should try to extend credit to the rural population since the study showed that the borrowing from MFIs does not improve the standard of living.

MFIs should conduct periodic meetings with the beneficiaries to make them to be aware of the use of loan in a proper way. Hence it is suggested from the study that either MFIs can join hands with the NBFCs so that banking services will be more accessible and affordable by the poor, which will aid in improving in standard of living of poor. It is to be noted that a number of microfinance institutions are looking for non-banking finance company (NBFC) status from RBI to get widespread access to financial services including bank finance. Once they are given such recognition, then the standard of living of rural population will improve.

**II. CONCLUSION**

The potential for increasing MFIs in India is very high. The major cross-section is the rural sector will be benefitted if this sector will grow in its fastest pace. They have received lot of recognition as a strategy in poverty alleviation. Microfinance is a way for fighting poverty from the rural areas, where most of the people in Vellore district live. Accessing small loans will help them not only to meet their emergency needs but also to improve their standard of living by establishing their own small businesses.

It is surprising to find that poor people are trustworthy as they are more prompt in repayment of loan than other borrowers. This will help them to earn more, build their own assets and improve their standard of living. Rural population use micro finance
to run day to day life. Apart from giving loans to the poor people, MFIs can also lend loans to new entrepreneurs and existing entrepreneurs, so that more employment opportunities will be created, which in turn improves the per capita income of the people and also contributes economic development. Hence, tools for poverty alleviation like small credit, employment and training opportunities, infrastructure facilities should be encouraged.

III. REFERENCE


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