

Impact Of Microfinance On Rural Poor In Virudhunagar District

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Abstract

Credit plays a significant role in economic development. It is an important input for productive activity. It meets the capital requirements for new startups or expansion of existing production lines. It also meets the requirement on going production activity. This paper attempts to explore the impact of microfinance on income and employment in general and in particular for socially disadvantage groups, name Schedule Tribe and Schedule Caste. For this study, total of 240 household covered, out of which 150 are participants and 90 are non-participants, regression analysis and chi-square test is conducted for the analysis of data in this study. The study found that there is significantly greater preponderance of SCs/STs among the non-participants compared to participants. SC/ST population participation in the programme is limited and those have joined the programme also received little benefits from the programme. The programme has leave behind the poorest section of the society, those who need at most attention. Monitoring of the group activities and providing suitable training facility is critical to materialize the benefits of Micro Finance.

Introduction

Credit plays a significant role in economic development. It is an important input for productive activity. It meets the capital requirements for new startups or expansion of existing production lines. It also meets the requirement on going production activity. Besides its role in meeting capital requirements in the productive sectors, credit also plays an important role in day to day life as it helps in consumption smoothening, ie., bridging the gap between present consumption and present income, especially in rural areas. There has been a longstanding interest among development economists and practitioners in the contribution that finance makes to development. The issues of causality between financial development and economic growth have been at the centre of this debate. Almost a century, ago, Schumpeter (1911) argued that financial intermediation through the banking system plays a pivotal role in economic development by affecting the allocation of savings, thereby improving productivity, technical change and the rate of economic growth.

In India the adaptation of microfinance approach has assumed the form of Self-help Groups Bank linkage programme. Encouraged by the results of the studies on SHGs, NABARD began exploring the possibilities of establishing linkage between such groups and banks. As a result SHG- Bank linkage programme is operating in India as a major microfinance Programme since 1992-93.

Microfinance programmes are generally seen as small loans to poor people for self-employment project that generate income allowing them to care for themselves. Micro credit has been defined by the micro credit summit held in 1997 as “Programmes that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons”

Microfinance services include savings, consumption loans and insurance in particular other than micro credit for micro enterprises. In other words, microfinance includes a range of financial

services that seek to meet the needs of poor people. It protects them from fluctuation in income and other shocks, and helps to promote their income and livelihoods, whereas, micro credit precisely caters to the credit requirement of the poor for the production purpose. While most micro-credit provides emphasize investment of working or fixed capital in micro enterprises, the reality is that many clients use the credit for consumption purpose. Such consumption smoothing can allow household to cope more effectively, but also it runs the risk of pushing them further into debt if they can't repay the loan out of enhanced income streams. The avoidance of such circumstances, financial products such as savings, insurance and consumption loans etc, are the promises of the microfinance.

Micro finance allows poor people to protect, diversify, and increase their source of income which is essential path out of poverty and hunger. The ability to borrow a small amount of money to take advantage of business opportunity, to pay for school fee, or to bridge a cash flow gap, can be a first step in breaking the cycle of poverty. Similarly poor households will use a safe, convenient savings account to accumulate enough cash to buy assets such as inventory for small business enterprise, to fix a leaky roof, to pay for health care, or to send more children to schools.

This paper attempts to explore the impact of microfinance on income and employment in general and in particular for socially disadvantaged groups, namely Schedule Tribe and Schedule Caste. Rest of the paper is arranged in the following order. The coming Section, presents the data source and methodology applied in the study. Section -3 reported the socio profile of the sample households. Section-4 presents the comparison of participants and non-participants in some key socio-economic indicators. This is followed by the impact assessment of microfinance through regression technique final section presents the conclusion.

Data and Methodology

The Present study based on primary data. Two blocks are chosen randomly, namely, Srivilliputhur and Virudhunagar District. The idea of selecting two blocks is to compare the regional variation of impact of microfinance programme on rural poverty. From each block, purposively, villages are selected; keeping in mind the programme should have intervened at least four years prior to the survey. For better understanding of microfinance impact on the members both participants and non-participants in the study, because in one hand, it acts as the control group, and in the other hand, their input on, 'why they did not participate in the programme. For this study, total of 240 households covered, out of which 150 are participants and 90 are non-participants, regression analysis and chi-square test is conducted for the analysis of data in this study.

Socio-Economic Profile of Sample Household

Data about the socio-economic background and economic activity related aspects of participants and non-participants was also collected. Some of the socio-economic indicators are presented below.

Distribution of Individuals in sample household by Education

Table – 1 Education

Education Level	Participants	Non-participants
No Education	81(16.9)	45(22.6)
Below Primary	159(33.2)	58(29.14)
Primary	90(18.8)	35(17.56)
Middle	91(19.0)	23(11.65)
High School	12(2.5)	14(7)
Intermediate	11(2.3)	0(0)
Graduate	2(0.4)	1(0.5)
Not applicable	33(6.9)	23(11.6)
Total	479(100)	199(100)
$\chi^2 = 21.74472$		d.f. = 7

Source: Field survey

Table 1 shows the level of education of individual members of the sample households. Of the total 479 persons from the participant households, about one sixth have no education and only about 25 percent of them have received education belong primary level. However, some of the members of the participant household have received education intermediate and above. From the non-participant household 22.6 percent have no education either from formal schooling or from non-formal sources? Only one person has received education beyond high school.

Caste composition of Participant and Non-participant Household

Table 2 Caste

Caste	No of Participants	No of Non-Participants
General	60(40)	14(15.55)
S.C	40(26.67)	42(46.67)
S.T	22(14.67)	15(16.67)
O.B.C.	28(18.67)	19(21.11)
Total	150(100)	90(100)
X² = 18.70		d.f. = 3

Source: Field Survey

It is observed from table -2 it is evident that a major proportion of the participant 40 percent belong to general caste and smaller percentage 14.67 percent are scheduled tribes. In case of non-participants in microfinance 15.55 percent are in general castes, 46.67 percent are S.Cs, 16.67 percent S.Ts and 21.11 percent are in O.B.C. Category. Thus, there are a much greater proportion of Scs and STs among those poor who, as yet are not availing of the facility of microfinance services or do not have access to it.

Major Occupation of Sample Household

The data about the major occupation of the household shows that many of them have more than on major occupation for livelihood, however, only the first major occupation of household is reported in table -3

**Table – 3
Occupation**

Occupation	Participant	Non-participants
Wages labour	52(34.67)	79(87.78)
Cultivation	72(48.00)	9(10.00)
Government Services	10(6.67)	1(1.11)
Trading	16(10.67)	1(1.11)
Total	150(100)	90(100.00)
X² = 61.17,		d.f. = 3,

Source: Field Survey.

In a rural set up wage labour and cultivation dominate as the major occupation, and the present sample is not an exception. It is significant that although only 34.67 percent of participant households depend on wage labour, as many as 87.78 percent, of the non-participants have to fall back on wage labour. Only about 10 percent of the participants are doing business as their major occupation in the form of shop keeper, rice business etc. Whereas about 7 percent of households earn their livelihood as government employees.

Dwelling structure of the participants and Non-Participants

Table – 4

Dwelling Structure

Dwelling Structure	Participant	Non-participants
Katcha / Thatch	120(80)	72(80)
Semi – Pucca	9(5.99)	0(0)
Pucca (Weaker Section Housing Scheme)	20(13.33)	18(20.00)
Pucha	1(0.006)	0(0)
Total	150(100)	90(100.00)
$X^2 = 43.97$, d.f. = 4,		

Source: Field Survey.

While visiting the study villages, most of the houses were found to be constructed with katcha/thatch. Table -4 reported the dwelling structure of both the participants and the non-participants. 80 percent of the participants have house with is constructed of katcha / thatch, 5.99 percent houses are semi pucca and 13.33 percent are pucca but they are constructed through weaker sector housing schemes. 80 percent of the non-participants have katcha / thatch house and other 20 percent have pucca house but it is constructed through weaker sector housing schemes.

Drinking Water Source of Sample Household

Table -5

Drinking Water Source

Source	Participant	Non-participants
Individual Tap / Well	19(12.67)	4(4.44)
Community Well / Tap	93(62.00)	36(40.00)
River	38(25.53)	50(55.55)
Total	150(100)	90(100.00)
$X^2 = 23.04$, d.f. = 2,		

Source: Field survey

The sample households depend on river and ground water for drinking purpose. It is seen from Table -5 12.67 percent of the participant households have personal well / tap and 62 percent acquire drinking water from common hand pump/ well; and 25.53 percent drink river water. In case of non-participants a handful has personal drinking water, and 55.55percent non participants drink the river water.

Impact on Household Income and Employment .

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 D_1 + \beta_6 D_2 + \beta_6 D_3 + \beta_6 D_4 + \beta_6 D_5 + \mu$$

Where y is log of average per-capita income per month of household. X1 is cultivable land owned by the household (Land), X2 is value of livestock owned by the household, X3 is highest education level in the household (education) measures in terms of years of schooling, and X 4 is dependency ratio in the household (DR) D1 D2 D3 and D4 are dummy variable as explained earlier D5 is the dummy variable for participation which takes the value of 1 for participation and zero for non-participation. The regression result is presented in the table U is the classical regression error term and assumed to follows a normal distribution with mean zero and variance one.

Regression Result of Equation

Variable	Co efficients	S.E
Constant	355.44*	70.018
Land	61.642*	7.905
Livestock	12.599**	5.053
Education	7.590***	4.718
DR	-43.105*	12.351
Wage	-5.227	31.281
Cultivation	0.071	33.152
Gen	32.448	36.787
ST / SC	-1.111	32.261
Participation	21.289*	5.456
F- Value	8.85*	
R ²	0.274	
Adj R ²	0.243	
D – W Stat	2.1	
No of Observation	240	
S.E. Stand Error; *, and ** 1 percent and 5 percent level of significance		

The OLS regression result exhibits statistically significant F-value, close to two D-W statistics, and reasonable high R-square value (Considering the number of qualitative data), it can be said that the model is good fit. It is observed that, cultivatable land, value of livestock education and participation in the programme has positive bearing on per-capita household income, as these variables coefficients are statistically significant and positive. The coefficient of participation needs careful investigation. The robust statistically significant positive coefficient on the face can be reported as participation has increased the per – capita household income. However, as it is explained earlier, participants have better access to amenities like water, housing , light, education, and they have higher land holding and better equipped with durable assets, and most of the participants have cultivation as main source of income it is natural that the participants will have higher income. Therefore, the participation dummy has entered positively. Now, it will pertinent to examine the factors explaining increase in income and employment of the participants.

In the rural setting employment has very decisive function for the over all development of the household. Employment through out the year will assure continuous (and rescannable flow of income and this is important for sustainable development. It is due to the fact that continuous flow of income will ensure good quality of food and the household is less vulnerable to extraneous contingencies. Even continuous flow of income will ensure good quality of food and the household is less vulnerable to extraneous contingencies. Even continuous flow of income will ensure elucidation to the children. Thus development can be sustainable. Thus it is important to look into microfinance potential of increasing employment of the participants. For this purpose regression analysis is applied and the estimable regression equation is given as $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 D_1 + \beta_6 D_2 + \beta_6 D_3 + \beta_6 D_4 + \beta_6 D_5 + \beta_6 D_6 + \mu$ Where, Y is the increase in income or employment. X1 is cultivatable land owned by the household (land), X2 is education level of the participants (Education) measured in terms of years of schooling, and X3 is the amount borrowed individually (amount borrowed). D1 D2 D3 D4 and D5 are dummy variable as explained in equation 1 D6 is the dummy variable which takes the value 1 if the household borrowed individually otherwise zero the OLS regression result is reported in table.

For both the dependent variable F- values is statistically significant at 1 percent level of significant D-W statistics is close to two and the R square value is reasonable high suggesting the model is good fit. It is evident from statistically significant and positive Coefficients of amount borrowed and borrowed individually that, when the household borrowed it individually impact on income and employment is high. This is because household to use the fund according to their productive needs. Increase in employment is high. This is because, household to use the fund according to their productive needs. Increase in employment is due to the fact that, individually taken loans are invested in petty business, which has high potential of employment generation in the rural areas. Household having main occupation wage earning has performed better in case of employment generation this is due to the fact that they invest the borrowed money to small enterprises where as household having main occupation as cultivation invest the borrowed amount primarily for purchase of agricultural inputs it is clear that ST / SC participants income and employment does not increase. This is primary because, most of the ST / SC participants who are taken loan from the group did not invest in the productive purpose because social rigidities operate as a hindrance to start up new business.

Table
Regression result of Equation

Variable	Dependent Variable Increase in Income		Dependent Variable Increase in employment	
	Coefficients	S.E	Coefficients	S.E
Constant	2109.482**	598.410	160.968	26.619
Land	-102.086	81.542	-13.712*	4.036
Education	66.952	66.211	3.277	3.277
Wage	186.052	443.591	3.705*	1.956
Cultivation	295.685	389.807	-0.785	19.294
Gen	1188.617**	459.312	-20.703	22.734
ST/SC	-1242.459	418.948	-31.133**	18.736
Amount Borrow	2.441*	0.494	0.187*	.024
Borrowed Individually	1228.870*	631.688	106.538	31.266
Dist	-1039.469	477.073	-103.194	23.613
F-Value	9.466*		18.968*	
R ²	0.340		0.551	
Adj. R ²	0.32		0.522	
D-W Stat	1.891		1.87	
No of Observation	150		150	

The coefficient of district dummy enters negatively both the explained variables, however only incase of increase in income it is statistically significant. This indicates that, in virudhunagar block participants income has not gone up.

Conclusion

The study found that there is significantly greater preponderance of SCs/STs among the non-participants compared to participants. SC/ST population participation in the programme is limited and those have joined the programme also received little benefits from the programme. The programme has leave behind the poorest section of the society, those who need at most attention. Monitoring of the group activities and providing suitable training facility is critical to materialize the benefits of Micro Finance.

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