

Differential Impact Of Microfinance On The Standard Of Living Of The People In Chennai And Kanchipuram Districts Of Tamil Nādu, India : A Comparative Investigation Of Empirical Nature

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ABSTRACT

This paper is a comparative study that analyses the impact of microfinance on the standard of living and socio-economic development of the clients of microfinance living in the urban district of Chennai and the rural district of Kanchipuram. It takes into consideration the effect of microfinance on the income, savings, entrepreneurial activity and the rates of interest charged by the moneylenders in these two districts and analyses in detail the differential impact of microfinance in these two districts which are of very non-identical nature. The statistical device of Chi-square test has been used in order to determine whether the impact of microfinance on the recipients of microfinance is significant or not.

INTRODUCTION

Microfinance is a form of financial development that is primarily focused on poverty alleviation through providing financial services to the poor. Most people think that microfinance is limited to microcredit, which is the lending of small amounts of money to the poor people. Microfinance is that, but it is also broader, including insurance, transactional services, pensions, micro housing, green microfinance, remittances, micro investment, micro enterprises development, micro leasing, micro franchise, micro savings etc. In the past decades, micro finance has received a lot of attention both from policy makers as well as in academic circles as it has been considered as an important and effective tool to combat the widely rampant poverty in the world. According to the United Nations, in 2002, almost one fifth of the world population (that is 1.3 billion people) was living in extreme poverty.

To support the view that micro finance can be an important tool to combat poverty, the United Nations declared 2005 to be the “International Year of Micro Credit”. The attention for micro finance and its rate in reducing poverty was further increased when Mohammad Yunus, a Bangladesh banker and economist, received the Nobel Prize. He introduced the Grameen bank system of group

lending which has become highly popular due to the relative absence of interest and subsidies in micro credit/finance program, the high repayment performance deriving from the adoption of appropriate lending technologies and peer monitoring mechanism, as well as the reduced transmission costs to lenders have earned micro finance accolades globally as a market-based, finance led solution to the problem of poverty and development.

In this paper, an effort has been made to analyze the impact of microfinance on the standard of living of the clients of microfinance by studying the situation before and after the onslaught of microfinance. For this purpose, various parameters like the interest rates charged by moneylenders, entrepreneurial activity of the clients of microfinance, savings level, the purpose for which the loan amounts is being utilized for, the increase in the income levels of the microfinance clients etc., has been taken into consideration.

STUDY FRAMEWORK AND METHODS

This study has been carried out on the clients of microfinance belonging to various institutions dealing in microfinance. For this purpose, two districts in the south Indian state of Tamil Nādu - an urban district (Chennai) and a rural district

(Kanchipuram) have been selected for the study. The period of the study spanned from June 8th, 2019 to 4th February, 2020 for a total period of 57 days. Questionnaires were filled in by the researcher through interviewing 1231 respondents-out of which 631 respondents are from the urban district of Chennai belonging to 3 MFIs. The details regarding the number of persons interviewed from each MFI are given in the following table:

ORIGIN	NUMBER OF CLIENTS	PERCENTAGE
URBAN		
<u>Equitas</u>	212	17%
<u>DPG</u>	205	17%
<u>Asirvad</u>	214	18%
RURAL		
BWDA	300	24%
RIDE	300	24%

Source: compiled from the primary survey data, 2020.

The methodology chosen by the researcher was systematic random sampling. A questionnaire was designed and administered to capture data and responses on various parameters in accordance with the objectives stated. The study is mainly focused on micro finance and its impact on the clients of microfinance. For this, basically a descriptive cross sectional analysis research was adopted.

The researcher used random sampling (lottery method) to select the names of the institutions dealing in microfinance for the urban district of Chennai. The researcher wrote the names of these institutions on small slips of paper and selected 3 institutions by lottery method. The same was repeated for the rural district of Kanchipuram.

However, once the names of the institutions had been selected for both urban as well as the rural district, the areas within each district in which the researcher is going to conduct the study has been based on the spread of the areas within the district. Areas which are widespread has been generally chosen. After an area has been covered by the researcher while collecting data from clients belonging to one MFI, that particular area has been avoided when collecting data from the clients belonging to another MFI as in some areas, more than one MFI tends to function and a single respondent maybe the member of more than one group. The respondents also have been chosen by

the method of systematic random sampling as the researcher had access to the registers maintained by the institutions which are dealing in micro finance. The field survey undertaken was designed for collecting the data related to the clients of microfinance. In the process of the study, observation and field visits were done on the women who were clients of microfinance in both the rural district of Kanchipuram as well as on the urban district of Chennai which are located in the southern state of Tamil Nādu.

To test the statistical significance regarding changes accrued in the income level, working pattern of the clients and savings of microfinance, the statistical tool of chi square test had been used and accordingly null hypotheses that were developed were either accepted or rejected.

EFFECT OF MICROFINANCE ON THE INCOME LEVEL

URBAN DISTRICT- INCOME BEFORE MICROFINANCE

This table gives us the income level of the people in the urban district of Chennai before microfinance.

NAME/INCOME	None	1000-5000	5000-10000	10000 & above
<u>Equitas</u>	146	42	20	0
<u>DPG</u>	102	74	29	0
<u>Asirvad</u>	130	61	23	0
TOTAL	378	171	72	0

Source: compiled from the primary survey data, 2020.

URBAN DISTRICT- INCOME AFTER MICROFINANCE

This table gives us the income level of the people in Chennai after microfinance.

NAME /INCOME	None	1000-5000	5000-10000	10000 & above
<u>Equitas</u>	30	94	78	10
<u>DPG</u>	65	117	22	1
<u>Asirvad</u>	31	115	64	4
TOTAL	126	326	154	15

Source: compiled from the primary survey data, 2020.

By observing the above two tables, we can see that there is a shift in the number of people belonging to the low-income category to a high-income level category. There is also a dramatic reduction in the number of unemployed persons as many of them have entered into self-employment schemes.

RESULT OF CHI SQUARE TEST

The change in the income level of the urban district is confirmed by the statistical test. The calculated

chi-square value before and after the program for the income level of the urban district is 35.72, which is higher than the table value (7.815). It means that the null hypothesis is rejected and alternative hypothesis is accepted. It shows that there is a significant change in the income level of the people in the urban district after availing micro finance facilities.

RURAL DISTRICT – INCOME BEFORE MICROFINANCE

This table gives us the income level of the people in the rural district of Kanchipuram before microfinance.

NAME /INCOME	None	1000-5000	5000-10000	10000 & above
BWDA	225	57	18	0
RIDE	256	32	12	0
TOTAL	481	89	30	0

Source: compiled from the primary survey data, 2020.

RURAL DISTRICT – INCOME AFTER MICROFINANCE

This table gives us the income level of the people in Kanchipuram after microfinance.

NAME /INCOME	None	1000-5000	5000-10000	10000 & above
BWDA	136	101	64	0
RIDE	144	125	30	0
TOTAL	280	226	94	0

Source: compiled from the primary survey data, 2020.

By observing the above two tables, it can be noticed that there is a shift of people belonging to the low income category to a high income level category. There is also a dramatic reduction in the number of unemployed persons as many of them have entered into self employment schemes.

RESULT OF CHI SQUARE TEST

The change in the income levels of the rural people is confirmed by the statistical test. The calculated chi-square value before and after the program for the level of income in the rural district is 24.3, which is higher than the table value (5.991) meaning that the null hypothesis is rejected and alternative hypothesis is accepted. It also shows that there is a significant change in the income level of the rural of Kanchipuram after availing micro finance facilities.

INCOME BEFORE & AFTER MICROFINANCE IN URBAN & RURAL DISTRICT – A COMPARISON

INCOME	Before		After	
	Urban	Rural	Urban	Rural
None	61	80	20	46
1000-5000	27	15	52	38
5000-10000	12	5	26	16
Above 10000	0	0	2	0
TOTAL	100	100	100	100

Source: compiled from the primary survey data, 2020.

By comparing the number of persons who are earning income before and after microfinance as well as the number of persons unemployed before and after micro finance in both the urban as well as the rural district, it is clear that before micro finance, there were a number of women who were not earning any income in both the rural as well as the urban district. However, it can be noted that the number of persons who were not earning any income is higher in the rural area than that of the urban area and also that the number of persons who were earning income before micro finance is higher in the urban area than in the rural area.

EXPENDITURE PATTERN OF MICROFINANCE CLIENTS

EXPENDITURE PATTERN OF MICROFINANCE CLIENTS – URBAN DISTRICT

Name/ Expenditure	Education	Medical	Rent	Marriages & Family Function	Household expenditure
Equitas	63	27	89	23	11
DPG	90	33	57	16	19
Asirvad	128	33	84	80	16
Total	281	93	230	119	46

Source: compiled from the primary survey data, 2020.

EXPENDITURE PATTERN OF MICROFINANCE CLIENTS – RURAL DISTRICT

Name/ Expenditure	Education	Medical	Rent	Marriages & Family Function	Household expenditure
BWDA	132	18	37	28	196
RIDE	86	15	26	16	153
Total	218	33	63	44	349

Source: compiled from the primary survey data, 2020.

From the above two tables, it can be derived that there are certain similarities in the expenditure pattern in the urban as well as in the rural district in the area of education. However, in the urban area, education is given more priority in comparison to that of the rural area as more number of

respondents has awareness about the importance and benefits of education and hence, the expenditure on education is more in urban area than in rural area. The percentage of expenditure on education is less than 50% in both the areas. This is because around 30% of the members belong to the age category of 40-59 years. Hence, these people do not have any necessity to spend on education. The medical expenditure is less in both the areas. This is because the unavailability of proper medical facilities in the rural areas and the lack of health awareness on the urban as well as the rural areas. In the urban areas, a higher number of clients live in rented houses. Hence, rent happens to be an integral part of their expenditure pattern.

EXPENDITURE PATTERN OF MICROFINANCE CLIENTS – URBAN & RURAL COMPARISON

Name/ Expenditure	Education	Medical	Rent	Marriages & Family Function	Household expenditure
Urban	281	93	230	119	46
Rural	218	33	63	44	349

Source: compiled from the primary survey data, 2020.

The above table shows us that in the urban district education for their children form the first and foremost expenditure whereas spending on household expenditure forms the first and foremost expenditure in the rural district. In the urban district, as many of the respondents do not have their own houses and hence have to live in rented houses, the second highest number of respondents from the urban district spends their income to pay their monthly rent whereas the same for their rural counterparts is education. It is interesting to note that the respondents living in the urban areas spend a lot on marriages and other family functions from their respective income whereas the number of respondents who spend for the same purpose is less in the rural areas. It can be noted that the number of respondents who spend their income for health care is a lot higher in the urban district than in the rural district as people are more health conscious in the urban area than in the rural area. This can also be attributed to the fact that there is a better access to medical facilities in the urban district than in the rural district.

USAGE PATTERN OF LOAN

In this area, the researcher wants to find out to what purpose has been the loan amount taken from providers of microfinance has been used for.

USAGE OF LOAN – URBAN DISTRICT

Name/Use	Repayment	Education	Business	Business improvement	Medical	House hold expenditure	Marriage& Family function
Equitas	38	49	138	58	8	28	26
DPG	48	83	40	11	23	50	27
Asirvad	14	18	140	75	5	8	4
Total	100	150	308	144	36	86	57

Source: compiled from the primary survey data, 2020.

The above table shows us that the majority of the respondents in the urban areas have put the loan to good use by investing the loan amount in entrepreneurial ventures. The second highest number of clients used the loan amount for the education expenses of their children by paying for uniforms, books, school fees etc. The third highest number of respondents used the loan amount to improve their existing businesses by investing in capital goods for better productivity.

In one of the earlier tables dealing with the income expenditure of the clients of urban micro finance, we have noticed that a very high number of respondents spend their income on marriages and functions. However it is interesting to note that the loan amount has been put to good use by the clients of urban micro finance as the majority of them have invested the loan amount received by them to either start new business ventures or to improve the existing ones.

Repayment of existing loans taken from exploitative money lenders is another good purpose for which the loan has been used for. This frees these people from the evil clutches of money lenders and hence, they are free from the previous debts taken by them at exorbitant rates of interest. Household expenditure and medical expenditure are some of the other purposes for which the loan amount has been used for by the urban clients.

USAGE OF LOAN – RURAL DISTRICT

Name/Use	Repayment	Education	Business	Business improvement	Medical	House hold expenditure	Marriage& Family function
BWDA	87	96	67	22	13	74	96
RIDE	75	68	55	13	21	42	132
Total	162	164	122	35	34	116	228

Source: compiled from the primary survey data, 2020.

The above table shows us that the majority of the respondents in the rural district have used the loan amount for marriages and household functions. The second highest number of the rural respondents has spent the loan amount for the educational expenses of their children by paying for uniforms, books, school fees etc. The third highest number of clients used the loan amount for the repayment of their earlier loans and thus be debt free whereas the fourth highest number of respondents put the loan amount to good use by investing in entrepreneurial ventures. The remaining respondents used the loan amount for the improvement of their existing businesses and for medical expenses although this number is pretty low.

In one of the earlier tables dealing with the income expenditure of the clients of rural micro finance, we have noticed that a very less amount of clients of rural micro finance actually spend their loan amount for the purpose of marriages and functions from their incomes. However it is really interesting to note that the majority of the rural clients have ended up using their amount on marriages and functions.

USAGE OF LOAN – URBAN & RURAL DISTRICT – A COMPARISON

The following table shows us a clear comparison of how the loan has been utilized in the urban and the rural district.

Name/Use	Repayment	Education	Business	Business improvement	Medical	House hold expenditure	Marriage & Family function
Urban	100	150	308	144	36	86	57
Rural	162	164	122	35	34	116	228

Source: compiled from the primary survey data, 2020.

From the above table, we can observe that in urban area, the number of people who have spent their loan amount for business purposes is very much higher when compared to that of the rural area. This is because in the urban area, there are many aspects which are very conducive for business. There is a higher demand for the product and better transport facilities as well as good opportunities for proper

marketing thus leading to the existence of a market for the product whereas in the rural area, these factors do not exist. On the other hand, in rural areas, unproductive expenditure like household expenditure and the expenditure incurred on marriages and various family functions is really high and the majority of the rural clients have actually ended up spending their loan amount for marriages and functions.

The number of respondents spending their loan amount for medical expenses is almost the same in both the urban as well as the rural areas and the number of respondents who have spent their loan amount for the purpose of expenses towards their children's education is almost the same in both the urban as well as the rural district with the number of respondents in the urban district being of a slightly higher number in comparison to that of the rural district. The number of people who have used their loan amount for the repayment of their earlier debts is higher in the rural areas than in the urban areas.

SOURCE OF FINANCE BEFORE MICROFINANCE

This section determines the major sources of finance for the clients in the urban and rural districts before they became the clients of micro finance.

SOURCE OF FINANCE – URBAN DISTRICT

Name/Source	Money Lender	Marwari	None	Advance
Equitas	58	144	26	38
DPG	139	69	25	11
Asirvad	122	88	44	31
Total	319	301	95	80

Source: compiled from the primary survey data, 2020.

From the above table, we can see infer that the money lenders had been the major source of finance for the respondents of the urban district before they became the clients of micro finance loans. They used to borrow money from money lenders at exorbitant rates of interest thus resulting in the money lenders exploiting the urban poor.

The second highest number of respondents from the urban district used to go to Marwari in order to pledge their belongings and thus take money. Some of the respondents expressed that they ended up

losing their belongings as they were unable to repay back the money which was borrowed by keeping their belongings as security.

The third highest number of clients responded that they do not borrow money from any one irrespective of whatever difficulty they were and are facing as they are skeptical about borrowing money at exorbitant rates of interest and which would be difficult or even impossible to repay and thus they have a firm belief that borrowed money is bad for them as it will result in trapping them in a debt cycle from which it would be difficult to break. They would rather starve than borrowing money from others.

The fourth category which constitutes the least number of respondents is basically people who work as house maids in various houses in the urban district. They said that if they needed money, then they would persuade their employers to give them money before hand and ask them to adjust that amount in their monthly salary which has to be given to them by their employers at the beginning of each month. These people are of the opinion that this is the best source of money as there are no interest rates involved in this process. Some respondents take money from various sources simultaneously.

SOURCE OF FINANCE – RURAL DISTRICT

Name/Source	Money Lender	Marwari	None	Advance
BWDA	236	116	0	0
RIDE	202	132	0	0
Total	438	248	0	0

Source: compiled from the primary survey data, 2020.

From the above table, it is clear that money lenders are the major source of finance in the rural areas even though they charge very high rates of interest and Marwari comprise the second source of finance for the rural clients.

SOURCE OF FINANCE – URBAN & RURAL COMPARISON

Name/Source	Money Lender	Marwari	None	Advance
Urban	319	301	95	80
Rural	438	248	0	0

Source: compiled from the primary survey data, 2020.

By observing the above table, we can know that the urban clients have multiple sources of finance

whereas the options the rural clients have are limited to that of money lenders and Marwari. The number of respondents who borrow from money lenders is very much higher in the rural areas than in the urban areas and in the urban areas there is a category of people who chose not to take any form of loans from any source and thus remain free of debts and high interest rates but such a category of respondents simply do not exist in the rural district.

WORKING PATTERN OF THE CLIENTS

WORKING PATTERN OF THE CLIENTS – URBAN DISTRICT

Name/Status of employment	BEFORE MICROFINANCE				AFTER MICROFINANCE	
	Not Working	Working	Business	Not working	Working	Business
Equitas	146	26	40	30	16	166
DPG	102	91	12	65	88	52
Asirvad	130	13	71	31	12	171
Total	378	130	123	126	116	389

Source: compiled from the primary survey data, 2020.

From the above table, we can see that in the urban district, before micro finance, the number of people who were not working was very high and that after micro finance, this number has reduced by more than 50%. It is interesting to observe that the number of people who were not working has reduced drastically as more number of people has started working and that the number of entrepreneurs has increased dramatically from just 123 members before micro finance to 389 members after micro finance.

RESULT OF CHI SQUARE TEST

The change was also confirmed by the statistical test. The calculated chi-square value before and after the program in working pattern of urban district was 42.84, which is higher than the table value (5.991). It means that the null hypothesis is rejected and alternative hypothesis is accepted. It shows that there is a significant change in working pattern of urban district after availing micro finance facilities.

WORKING PATTERN OF THE CLIENTS – RURAL DISTRICT

Name/status of employment	BEFORE MICROFINANCE				AFTER MICROFINANCE	
	Not working	Working	Business	Not Working	Working	Business
BWDA	225	53	22	136	75	89
RIDE	256	31	13	144	88	68
Total	481	84	35	280	163	157

Source: compiled from the primary survey data, 2020.

From the above table, we can see that in the rural district, before micro finance, the number of people who were not working was very high and that after micro finance, this number has reduced by almost 50%. It is interesting to observe that the number of people who were not working has reduced dramatically as more number of people have started working and that the number of entrepreneurs has increased dramatically from just 35 members before micro finance to 157 after micro finance which is more than 4 times of the number of respondents in the rural district before micro finance.

RESULT OF CHI SQUARE TEST

The change was also confirmed by the statistical test. The calculated chi-square value before and after the program in working pattern of rural district was 25.19, which is higher than the table value (5.991). It means that the null hypothesis is rejected and alternative hypothesis is accepted. It also shows that there is a significant change in the working pattern of the women who availed microfinance facilities in the rural district of Kanchipuram.

WORKING PATTERN OF THE CLIENTS – RURAL & URBAN COMPARISON

INCOME	Before Microfinance		After Microfinance	
	Urban	Rural	Urban	Rural
Not working	60 %	80 %	20 %	47 %
Working	21 %	14 %	18 %	27 %
Entrepreneur	19 %	6 %	62 %	26 %
TOTAL	100 %	100 %	100 %	100 %

Source: compiled from the primary survey data, 2020.

By making a comparison of the working pattern of the clients in both the districts, we come to know that before micro finance, the number of people who were not working is high both in the urban as well as in the rural area with the percentage of people in this category being 20% more than that of the people in the urban district. We can also notice that before microfinance, the number of respondents who were involved in entrepreneurial activities is very low in both the districts with the percentage being 13% more than that of the rural district. Also, the percentage of people working in both the areas is very low in both the districts

before microfinance with the percentage in the urban district dominating the rural district by 7%.

We can observe that after becoming a client of microfinance, there is a very high degree of shift from the percentage of people who were in the category of people who were not working and also from the category of the people who were working, to the category of people involved in entrepreneurial activities. This percentage of people is very high in the urban district as there is a 42% increase in entrepreneurial activity in the urban district after microfinance and 20% increase in the entrepreneurial activity in the rural district after microfinance.

There is a 33% reduction in the percentage of clients who were not working in the rural district and 40% reduction in the percentage of clients who were not working in the urban district and there is a 13% increase in the percentage of people who have started working and earning income in rural areas after they became clients of microfinance. However, it is to be noted that still 47% of the clients who are members of micro finance are still unemployed but it is of a voluntary nature as they chose to be unemployed and continue remaining as just housewives.

SAVINGS PATTERN

SAVINGS OF MICROFINANCE CLIENTS - URBAN DISTRICT

SAVINGS	Before Microfinance		After Microfinance	
	Not saving	Saving	Not saving	Saving
Equitas	192	20	0	212
DPG	197	8	0	205
Asirvad	202	12	138	76
TOTAL	591	40	138	493

Source: compiled from the primary survey data, 2020.

The above table shows us the number of persons who are saving money in the urban district of Chennai before and after microfinance. By observing the above table, it can be observed that prior to becoming the clients of microfinance; the number of people who were saving is just 40 out of 631. It can be clearly observed that the number of people who were saving is very less.

When we observe the savings situation after microfinance, we can observe that out of the total sample size of 631 members, 493 members have started saving money.

RESULT OF CHI SQUARE TEST

The change in the saving pattern of in the urban district has been confirmed by the statistical test. The calculated chi-square value before and after the program on the number of people saving in both the urban district is 106.4, which is higher than the table value (3.841). It means that the null hypothesis is rejected and alternative hypothesis is accepted. It shows that there is a significant change in the number of people saving in the urban district after availing micro finance facilities.

SAVINGS OF MICROFINANCE CLIENTS- RURAL DISTRICT

SAVINGS(No. of persons)	Before Microfinance		After Microfinance	
	Not saving	Saving	Not saving	Saving
BWDA	298	2	0	300
DPG	296	4	0	300
TOTAL	594	4	0	600

Source: compiled from the primary survey data, 2020.

The above table shows us the number of persons who are saving money in the rural district of Kanchipuram before and after microfinance. By observing the above table, it can be observed that prior to becoming the clients of microfinance, the number of people who were saving is just 4 out of 631 and the number of people who were not saving is 594 out of 600 members. It can be clearly observed that the number of people who were saving is very less.

When we observe the savings situation after microfinance, we can observe that out of the total sample size of 600 members, there is 100% savings.

RESULT OF CHI SQUARE TEST

The change in the savings pattern in rural district of Kanchipuram has been confirmed by the statistical test. The calculated chi-square value before and after the program on working pattern in the rural district is 196.02, which is higher than the table value (3.841). It means that the null hypothesis is rejected and alternative hypothesis is accepted. It shows that there is a significant change in the working pattern of people in the rural and urban districts after availing micro finance facilities.

SAVINGS OF MICROFINANCE CLIENTS IN URBAN AND RURAL DISTRICT – A COMPARISON

SAVINGS (No. of persons)	BEFORE MICROFINANCE		AFTER MICROFINANCE	
	Not saving	Saving	Not saving	Saving
URBAN	591	40	138	493
RURAL	594	6	0	600
TOTAL	1185	46	138	1093

Source: compiled from the primary survey data, 2020.

By observing the above table, we come to know that in both the urban as well as the rural district, prior to microfinance, the number of persons who were saving was very less. This was very low in the rural district than in the urban district.

However, it is interesting to note that this situation has been completely reversed after these people became the clients of microfinance. When we compare the number of persons who have started saving after becoming clients of microfinance, the number of people who have started saving is higher in the rural district than in the urban district as there is a 100% savings level in the rural district.

RATE OF INTEREST

This section shows whether there are any differences in the rate of interest charged by money lenders before and after micro finance in both the urban as well as the rural districts.

Rate of interest	Urban	Rural
Before Microfinance	8 - 10%	5 - 10%
After Microfinance	8 - 10%	5 - 10%

Source: compiled from the primary survey data, 2020.

When we observe the above table, it is clear that microfinance has not affected the rate of interest being charged by the moneylenders in any way. The rate of interest being charged by the money lenders continues to remain the same both before and after microfinance. Hence, we can conclude from the above table that microfinance did not have any influence on the rate of interest charged by the money lenders in both the urban as well as the rural district. This is because of the fact that there is a gap between the supply of and the demand for loans in both the districts and the institutions providing microfinance are not able to bridge the gap and hence, the onslaught of microfinance has not brought about any difference in the rate of interest charged by moneylenders as the demand for loans has not decreased and still a lot of people who had not been covered by microfinance continue to go to moneylenders if they require immediate loans.

However, during the process of data collection, it came to the notice of the researcher that many of the clients of microfinance do not borrow from moneylenders as the SHG (Self help group) in which they are part of comes to their rescue whenever they require loans. Many of the clients of microfinance repaid their earlier loans which they took from moneylenders using the loan amount which they got through micro finance.

RESPONSE OF THE CLIENTS TO MICROFINANCE FACILITIES

This section captures the response of the clients of microfinance to the question posed by the researcher as to whether they feel in a positive way or a negative way as to the impact of microfinance on them. This is done both in the urban as well as in the rural district and the following is the tabulation of the responses given by the clients of microfinance.

	Total number of respondents	Number of clients satisfied with microfinance	Number of clients not satisfied with microfinance
Urban	631	631	0
Rural	600	600	0

Source: compiled from the primary survey data, 2020.

By observing the above table, it is clear that 100% of the respondents in the urban district of Chennai as well as in the rural district of Kanchipuram feel that microfinance has affected them in a positive way. When asked by the researcher as to the reasons why not even a single client is responding in a negative manner, they responded by saying that they do not have anything negative to talk about microfinance as a lot of benefits have been accrued to them by being a member of a SHG. Many responded that they have experienced an increase in the respect given by their husband and in-laws and that they are being taken more seriously in the family and that their opinion is being given importance as they are part of a SHG and hence are capable of securing loans and bringing in money whenever a financial need/crisis arises in their family.

SALIENT FINDINGS OF THE STUDY

Microcredit distributed through SHGs, has been implemented in many parts of Tamil Nādu. In the two districts chosen for our study, the presence of microcredit is very strong. Based on our empirical

study, it has been observed that microfinance has got a very strong impact on the lives of the people. Due to the onslaught of microfinance, it has been observed that there is a significant increase in the level of income of the clients in both the urban as well as the rural district with the increase more pronounced in the urban district than in the rural district. This is because of the existence of higher economic activity in the urban area in comparison to that of the rural area. In the urban scenario, better opportunities are available and also the need to earn a higher income in the urban area is higher when compared to that of the rural district as the cost of living is comparatively higher in the urban district than that of the rural district.

An observation of the expenditure pattern of the clients shows that there are certain similarities in the expenditure pattern in the urban as well as in the rural district in the area of education. However, in the urban area, education is given more priority in comparison to that of the rural area as more number of respondents has awareness about the importance and benefits of education and hence, the expenditure on education is more in urban area than in rural area.

Unemployment has reduced dramatically in both the rural as well as the urban areas as the clients were equipped with a better understanding of the various self-employment opportunities open to them and had the means for the setting up for entrepreneurial ventures. There is a pronounced increase in the setting up of entrepreneurial ventures like flower shops, candle making, tailoring and embroidery units, breakfast centers, roadside coffee/tea shops, making of papads and pickles and selling them in shops, making of idly/dosa batter and door delivering them to customers, manufacturing underwear, children's toys, incense sticks, rearing of poultry, cattle rearing, opening of crèches, vegetable shops, fruits shops etc. It gives them a foothold to climb onto

the ladder of development by providing them credit facilities and as seen through the results of the study, it has lead to a definite increase in the number of income earners in the areas covered under the study. Besides, the training facilities provided by the microfinance institutions equipped them to start self-employment ventures thus ensuring a steady source of income.

It has been found out that microfinance has not had any effect on the rate of interest being charged by money lenders in both the rural as well as the urban district. However, microfinance has definitely rescued the poor people from the clutches of greedy moneylenders and Marwaris who charge exorbitant rates of interest and thus exploit the poor people. The majority of the clients interviewed for the study responded that after becoming a client of microfinance, they have stopped going to moneylenders and Marwaris. Many of the clients have actually used their loan amount taken from microfinance to repay back the loans they have taken from moneylenders.

Microfinance has promoted the habit of savings amongst its clients. This is due to the fact that compulsory group savings are becoming the norm. In the study, it can be observed that there is a significant increase in the level of savings in both the urban as well as the rural scenarios. In the rural district, the level of savings is 100% because the MFIs in the rural areas are enforcing a compulsory savings policy in order to promote savings. The savings are deposited in a group account and every month; all the group members are required to make a compulsory deposit into this account. Whenever a financial need for a larger amount arises amongst the members of the group, then with the approval of the group leader and other group members, this financial need is met with the accumulated savings in the bank account and then repaid back to the group in installments by depositing back into the bank account and so the cycle continues. Hence, microfinance has promoted not only the habit of savings amongst the clients but also promoted banking habits.

EXTERNALITIES WITNESSED DUE TO MICROFINANCE

POSITIVE EXTERNALITIES

Financial inclusion of the poor people has been made possible whereas previously, these very same people were considered as “unbankable” by the formal banking sector due to their inability to provide collateral and hence were not considered for credit facilities by the commercial banks.

As MFIs are in a position to have a greater outreach, they are able to provide access of financial products to a large number of people when compared with the formal commercial banks.

Microfinance has led to a definite increase in the standard of living and confidence of its clients and after becoming a client of microfinance, many have experienced an increased respect and importance being given to them by their families as they are contributing productively to the household income and are capable of bringing in additional finance to the family as and when needed. These women have also become adept in taking initiative, setting up entrepreneurial ventures, organizing group activities and meetings, maintaining accounts and records, inculcating leadership qualities etc. All this is being possible through the increased social interaction and exposure they are getting by being a client of microfinance whereas prior to becoming a client of microfinance, their activities and interaction were limited to their respective houses/kitchens.

Dependence of the poor people on moneylenders has reduced. The poor people used to depend mostly on the moneylenders for their financial requirements and in the process get exploited by them. However, after the onslaught of microfinance, there is a great reduction in the number of people approaching moneylenders for loans.

Due to the increased income levels as well as income stabilization experienced by the recipients of microfinance, it has been observed that more and more children are being sent to schools and this has got a direct bearing on the reduction in the levels of child labor and the promotion of education. Microfinance has led to the empowerment of women not only in India, but also across the world.

NEGATIVE EXTERNALITIES

Most of the microfinance institutions are based on a “target-oriented approach” and are in search of high profits and high growth rates in order to attract a higher rate of private equity. Hence, they have forsaken their social mission in order to quickly gain market share among poor borrowers, leading to multiple lending practices, over-indebtedness among poor, abusive collection practices and unproductive usage of loans.

We can notice a transition of the microfinance clients from being “risk averters” to “risk lovers” and the unhealthy lending practices which are being followed by the MFIs are leading to the microfinance clients getting addicted to more and

more debt with disregard to their repayment abilities as they take debt from multiple sources.

SUSTAINABLE MICROFINANCE

There is a wide spread criticism as to whether microfinance is sustainable because the agencies dole out only small sums of money for short periods of time and hence they are more likely to finance consumption and low level investments rather than promote sustainable development objectives. Microfinance institutions themselves might increasingly reach financial self-sustainability and attract private capital flows to their mission of poverty alleviation. Private financial flows are attractive for obvious reasons. Private flows instead of government flows mean donor governments are spending less on development aid and the MFIs would not need to rely on fickle donors. Private capital flows dwarf development assistance, and steering some of these flows to the service of microfinance for the poor could make a real difference for millions of households. Moreover, relying on private flows of capital will put greater pressure on MFIs to provide greater transparency and to become more efficient in their operations, which in turn, would be beneficial to donors, the institutions and the borrowers. MFIs have demonstrated that it is possible to serve poor clients, operate in a financially sound manner, and reach scale. The Microfinance Information Exchange, which tracks performance for about 150 MFIs, has found that about forty percent of the institutions it tracks are financially self-sufficient, and many others are nearly so. Financial self-sustainability does not seem to be confined to a particular lending strategy, region, or poverty status of the borrower base. Moreover, microfinance programs are increasingly being linked to remittances from abroad as a development strategy. Given the large size of these flows, which account for a significant part of gross domestic product in some developing countries, remittances may become an important source of capital for microfinance institutions. While there is enormous progress in this regard, reaching financial self-sustainability and scale has proved elusive for many microfinance institutions, and even those that are self-sustaining have required significant donor support. This is not surprising because even with high repayment rates, the transaction costs in lending small amounts to lots of poor borrowers are significantly high. Moreover,

even if self-sufficiency can be realized, private flows can have dangers too. They can flow out, as well as in. Still, the drive towards financial self-sustainability can help improve the efficiency, discipline, and transparency of microfinance institutions, all to the good, even if the industry as a whole does not reach financial self-sufficiency and always require donor funding. Financial self-sustainability is the best-case scenario.

CONCLUSION

The advent of microfinance has brought about tremendous changes in the outlook of financial institutions with regard to their opinion on the “creditworthiness” of the poor and it has also proved that the poor are not “unbankable” and that their repayment rate is much higher than that of the repayment rate recorded in the formal banking sector.

The researcher finds that the provision of micro-finance is without doubt, a step towards socio-economic development. There is no doubt that micro-finance contributes significantly to the success of SHG members in improving their economic and social welfare. They utilize the funds in a productive manner and hence generate profits in a sizable manner, after meeting their regular expenses and loan repayment needs. Most of the microfinance clients covered in this research is first generation entrepreneurs. Yet they do the business with reasonable economic sense which is contributing significantly to their socio economic improvement. Micro finance helps in increasing their self-confidence and thereby they become socially empowered.

When we look at the future of the MFIs in India, it is for certain that they would thrive and they would always continue to do so due to the fact that they have a far greater outreach and access to the poor people than any commercial bank would ever do so and the fact remains that there is a huge demand for microfinance. But the incredible growth rate which had been witnessed in the microfinance sector would not be witnessed from now onwards as there would be a definite reduction in private equity investments in this sector. There would definitely be growth, but then it would be a slow and steady growth. All the MFIs are anxiously awaiting the policy guidelines to be given by the RBI and also the MFI Regulation Bill to be passed in the

Parliament. However, all the recommendations of the Malegam committee might not be accepted. What would be accepted and what would be rejected remains yet to be seen.

To conclude, this sample study on micro-finance reveals that the provision of micro-finance to poor people plays an important role in the growth and development of the people below the poverty line. There is sufficient empirical evidence to say that there are significant socio-economic benefits experienced by the clients of microfinance due to the provision of micro finance. However, the benefits of microfinance can be accrued only when the microfinance institutions keep their social objective in the forefront and act accordingly and make an effort to balance their economic objectives with that of their social objectives instead of concentrating too much/solely on a target oriented approach. In order to survive and thrive in the new challenging environment, the MFIs need to meet the demand for the microfinance and tailor their products based on the needs and preferences of the clients and be more flexible in their approach. The success rate and sustainability depends upon how they adapt to the current situations, diversify their products, train their existing manpower to deal with the current scenario etc. There should be a central regulating authority to regulate MFIs to ensure this balance. Whether this would happen or not remains to be seen.

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