

SOCIO-ECONOMIC STATUS OF RURAL POOR AND SOURCE OF FINANCE WITH REFERENCE TO THE CLIENTS OF PRIVATE MICROFINANCE INSTITUTIONS

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Abstract: In India poverty is classified in to two types' viz. absolute poverty and relative poverty. Absolute poverty treated by the Government by providing various welfare schemes and programmes to uplift the poor from below poverty line. The poor's those are slightly economically active and are in search of financial assistance to improve their livelihood are treated by developmental schemes of public organization. The financial needs to start new livelihood activity and to expand the existing livelihood activity are fulfilled by the various ways. The National Banks, Cooperative Banks, SHG and private microfinance institutions are these sources. The poor those are unbanked and unreached by the government financial sources are focussed by the private microfinance institutions. The poor women from various socioeconomic category approaches to the private microfinance institutions. The paper is based on the primary data collected for the doctoral study. The primary data has been collected from 340 women from Pandharpur taluka of Solapur district those are clients of the private microfinance institutions. The present research paper is arguing that women from socially and economically backward are approaching to the private microfinance institutions instead of government financial sources.

Key Words: Poverty, Private Microfinance institutions, Micro-credit.

Introduction: One third of the world's poor population lives in India. Around 70 per cent of them lives in rural areas and depends on agriculture and related activities. Poverty can be defined as lack of employment to earn livelihood, lack of food to survive, lack of shelter to reside, lack of ability, lack of opportunity to have access to education, lack of money to be spent on basic necessities of life.

Poverty in India: In India poverty is classified in to two types' viz. absolute poverty and relative poverty. Absolute poverty treated by the Government by providing various welfare schemes and programmes to uplift the poor from the poverty line. The poor's those are slightly economically active and are in search of financial assistance to improve their livelihood are treated by developmental schemes of public organization. The financial needs to start new livelihood activity and to expand the existing livelihood activity are fulfilled by the various ways. The National Banks, Cooperative Banks, SHG and private microfinance institutions are the sources to meet financial need. The poor those are unbanked and unreached by the government financial sources are focussed by the private microfinance institutions. The poor women from various socio-economic categories are approaching to the private microfinance institutions.

Role of Credit in Poverty Eradication: Credit has a vital role in the eradication of poverty. People need money to meet consumption needs as well as for productive purposes. In *The Poor and Their Money*, Stuart Rutherford (2010) cites the following types of needs:

- **Life-cycle needs:** Wedding, funerals, child-birth, education, house construction, festivals, etc.
- **Personal emergency needs:** Sickness, injury, theft, unemployment, accidents, etc.
- **Needs during disaster:** Fire, floods, cyclones, wars, riots, etc.
- **Investment needs:** New business, expansion of existing business, purchase of assets, land, etc

To fulfill these needs, the poor depend on their wage, assets and available savings. But when these cannot be fulfilled with their own income, they need to be dependent on informal sources of credit, like friends,

relatives and moneylenders. Sometimes they try to get credit from formal financial sources like credit cooperative societies, banks, etc. In fact, the formal financial sources have failed to fulfill these credit needs of the poor because the poor don't have collateral or property to mortgage. People approach the informal sector, though they have high interest rates, because the informal sector is closer to the place of living of the poor and, thus, has reliable source of information about its prospective clients. Easy loan process, doorstep service, less documentation are the main reasons behind approaching to the private microfinance institutions.

Microfinance: Microfinance is a kind of financial development which has primary focus of eradication of poverty by making available financial services to the poor. Most of the people think about microfinance is a micro-credit i.e. lending small loans to the poor. But microfinance is not only of lending the credit but it also has a broader meaning and perspective that includes insurance, transfer of money and importantly savings, (Barr, Michael S., 2005). According to the Micro Credit Summit (1997), "Micro credit refers to the small loan programmes extended to the very poor people for self-employment projects generating income allowing them to care for themselves and their families". The term 'micro' includes:

- Small size of the saving
- Small size of loan
- Shorter repayment period
- Smaller repayment dues
- Micro-enterprises
- Smaller risks

Generally, microcredit and microfinance are used synonymously. However, microfinance is something different and means more than microcredit. It includes saving, insurance, loans, fund transfer and a wide range of financial services.

Microfinance and Socio-economy of Poor: Poor from the rural area are from different socio-economic background. They are approaching different financial sources to fulfil their financial need. The approaching clients are slightly economic active they may have some sort of economic activities from which they can earn the money for their livelihood. To start new livelihood activity or to expand the existing livelihood activity poor need the financial support which is given by the private microfinance institutions. Beside of social categories they approach to the private microfinance institutions. The poor women from reserved categories and from general category are approaching to the private MFIs for credit and other financial services.

Methodology: The paper is based on the primary data collected for the doctoral study. The primary data has been collected from 340 women from Pandharpur taluka of Solapur district those are clients of the private microfinance institutions. The respondents are selected by using the simple random sampling method.

Hypothesis:

1. Main hypothesis: 'Socially and economically backward people are availing loan from private MFIs'.

Sub-hypotheses:

- a) Association between economic status (type of ration card) and source of finance (from bank or MFIs).
- b) Association between social status (General or Reserved) and source of finance (from bank or MFIs).

Result and Discussion:

Table No. 1 Category of the Respondents

Category	Frequency	Percent
General	130	38.2
SC	114	33.5
ST	21	6.2
OBC	37	10.9

NTDNT	38	11.2
Total	340	100.0

Table No.1 depicts the category of the respondents. It has been classified into five categories -- General, Scheduled Caste (SC), Scheduled Tribe (ST), Other Backward Class (OBC), and Nomadic and De-notified Tribe (NTDNT).

The majority (38.2%) of the respondents belong to the General category and the good number of the respondents belongs to the SC category. Some of the respondents belong to NTDNT and OBC, at 11.2 percent and 10.9 percent, respectively. Very few respondents belong to the ST category.

Thus, the table concludes that majority (61.8%) of the respondents who approached the private MFIs belong to the reserved category. It can be concluded that socially backward communities are approaching the private MFIs for loan.

Table No. 2 Annual Income of the Family

Annual Income (In ₹)	Frequency	Percent
Below 25000	21	6.2
25001 to 50000	181	53.2
50001 to 75000	92	27.1
75001 to 100000	21	6.2
Above 100000	25	7.4
Total	340	100.0

Table No. 2 describes the annual income of the families of respondents. It has been categorized into five groups of below 25000, 25001 to 50000, 50001 to 75000, 75001 to 100000, and above 100000.

It is found that more than half of the respondents (53.2%) have annual income of rupees 25001 to 50000s. A good number of the respondents (27.1%) earn rupees 50001 to 75000 annually. The same number of respondents have an annual income below rupees 25000 and above rupees 100000.

It is evident from the table that a majority of the respondents are earning between 25000 and 75000, which shows their families belong to the relatively poor category and not the absolute poor category. It reveals that private MFIs are providing loan to the economically active poor not to the absolute poor.

Table No. 3 Ration Card * Type of Ration Card

Availability of Ration Card	Type of Ration Card		Total
	Yellow (BPL)	Orange (APL)	
Yes	191 56.84%	145 43.15%	336 100.0%
No	--	--	04
Total	191 56.84%	145 43.15%	340 100.0%

Table No. 3 explores the availability of ration card and type of ration card. The type of ration card is categorized into two groups that are yellow representing below the poverty line family and orange representing above the poverty line family.

Out of 340 respondents, most of them (336) have a ration card. More than half (56.84%) of the respondents have yellow ration card, which shows below poverty line status of the family. More than one-fourth (43.15%) respondents have orange ration card, representing families above poverty line.

It is evident from the table that a greater proportion of the families from below poverty line is approaching private microfinance institutions for loan. It is also seen that respondents from the above poverty line group and who are economically active are approaching the private MFIs for loan.

Hypothesis:

1. **Main hypothesis:** ‘Socially and economically backward people are availing loan from private MFIs’.

We test this hypothesis by constructing two sub-hypotheses:

- Association between economic status (type of ration card) and source of finance (from bank or MFIs).
- Association between social status (General or Reserved) and source of finance (from bank or MFIs).

This has been done as follows:

- a) **Testing of association between economic status (type of ration card) and source of finance (from bank or MFIs).**

The null and alternative hypotheses are as follows:

H₀: There is no association between economic status (type of ration card) and source of finance (from bank or MFIs).

H₁: Economically backward people are availing loan from private MFIs.

Chi-square test: Economic status and source of finance**Table 1.1: Chi-square test: Economic status and source of finance**

Type of ration card	Source of finance for business		Total	Chi-Square Value	d.f.	p-value
	Bank	Private MFIs				
Yellow	7 35.0%	184 58.2%	191 56.8%	4.137	1	0.042
Orange	13 65.0%	132 41.8%	145 43.2%			
Total	20 100.0%	316 100.0%	336 100.0%			

From Table No. 1.1, it is clear that the p-value is 0.042, which is significant (p-value <0.05 – significant, p-value >0.05 – insignificant). Thus, we conclude that there is an association between economic status (the type of ration card) and source of finance (from bank or MFIs). Thus, the alternative hypothesis ‘economically backward people are availing loan from private MFIs is accepted.

- b) **Testing of association between social status (General or Reserved) and source of finance (from bank or MFI).**

The null and alternative hypotheses are as follows:

H₀: There is no association between social status (General or Reserved) and source of finance (from bank or MFIs).

H₁: Socially backward people are availing loan from private MFIs.

Chi-square test: Social status and source of finance**Table 1.2: Chi-square test: Social status and source of finance**

Category of the Respondents	Source of finance for business		Total	Chi-Square Value	d.f.	p-value
	Bank	Private MFIs				
General	8 40.0%	122 38.1%	130 38.2%	0.28	1	0.867
Reserved	12 60.0%	198 61.9%	210 61.8%			
Total	20 100.0%	320 100.0%	340 100.0%			

From Table No. 1.2, it is clear that the p-value is 0.867, which is insignificant (p-value >0.05 – insignificant). Thus, we conclude that there is no association between economic status (type of ration card) and source of finance (from bank or MFIs).

Thus, the null hypothesis 'There is no association between social status (General or Reserved) and source of finance (from bank or MFIs)' is accepted.

1 b)

From Table 1.2, we have

The proportion of respondents who approached private MFIs as a source of finance	
General	Reserved
38.20%	61.80%

We use Z-test to test the following hypothesis. The null and alternative hypotheses are as follows:

H_0 : There is no significant difference between the proportion of general and reserved category respondents in approaching private MFIs as a source of finance

H_1 : The proportion of reserved category respondents in approaching private MFIs as a source of finance is significantly larger than general category respondents.

Let,

P_1 be the proportion of general category respondents approaching private MFIs as a source of finance

P_2 be the proportion of reserved category respondents approaching private MFIs as source of finance

We can restate our null and alternative hypotheses as follows:

$H_0: P_1 = P_2$ and $H_1: P_1 < P_2$

The value of the test statistic, Z, is given by

$$Z = \frac{P_1 - P_2}{\sqrt{PQ\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}} \quad (1)$$

Which follows $N(0,1)$.

The calculated value of Z is 4.235(say, Z_{cal})

The table value of Z at $\alpha=5\%$ level of significance is 2.33(say, Z_{tab}).

Thus, $Z_{cal} > Z_{tab}$, we reject H_0 at $\alpha=5\%$ level of significance and conclude that the proportion of reserved category respondents approaching private MFIs as source of finance is significantly larger than general category respondents.

Conclusions: Poverty is one of the obstacles in all kind of development. It can be reduced or eradicated by using various means. Microfinance is emerged as a tool to eradicate poverty from the rural India. The rural women from the reserved categories are approaching to the private microfinance institutions for financial assistance. The banks and other government financial institutions are failed to reach the small entrepreneurs. Economically active poor benefitted from the credit they received from the private MFIs. Women from socially backward community are approaching more in number to the private MFIs. It can be concluded that eradication of poverty is possible by using the microfinance as a equipment.

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