

Impact of Microfinance Companies on Low Income Groups: A Case Study of Aurangabad District

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Abstract:

In a country like India where 70 percent of its population lives in rural area and 60 percent depend on agriculture (according to the World Bank reports), micro-finance can play a vital role in providing financial services to the poor and low income individuals. Micro-finance is regarded as a useful tool for socio-economic up-liftment in a developing country like India. It is expected to play a significant role in poverty alleviation and development. The emphasis of present paper is to study the performance and role of microfinance institutions in the development of India. The study revealed that the number of MFIs availing loans from banks during the year 2019-20 and 2020-21 increased from 9.8 per cent to 257.6 per cent. The total loans to MFIs by banks decreased during 2020-21 by 7.2 per cent over the previous year. The loan outstanding against MFIs increased all the subsequent years. It increased by 13.7 per cent and 14.3 per cent in 2019-20 and 2020-21. It is further found that the business models of MFIs in India are becoming urban centric as is indicated by the fact that the share of rural client's base of different states/UTs in 2017 with 2016 has declined, except Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir and Andaman. The highest increase was in Andaman (267%) followed by Jammu & Kashmir (17 %).

Keyword: Microfinance Companies, Income & Revenue, Agriculture, etc.

Introduction:

Microfinance is considered as an effective mechanism to reduce poverty and vulnerability in rural areas. It is also seen as a mechanism through which women empowerment can be fostered. However, the linkages between women empowerment, household poverty and Micro-credit are complex and multi-layered. The proponents of micro-credit argue that targeted credit can be used as an instrument for enhancing poorer women's existing socio-economic conditions and thereby altering the relations between gender and class, in their favor. On the other hand, critics say that while a marginal increase in income and assets can enhance well-being and economic security, the increase could be too little to affect the pervasively entrenched political and economic relations. This paper selectively reviews the empirical evidence on the poverty impact of micro-credit to bring out the different channels through which this impact works. Using the data from the national Family Health Survey-III, an attempt has been made to analyse the regional variations in women's access to micro-credit programme in India as well as its various socio-economic correlates. In section-I, the literature on the effect of micro-credit programme on poverty have been summarized. The overall scenario of Micro-credit programmes in India has been discussed in section-II. The relationship between microfinance and poverty has been analyzed in section-III. Key findings of the study have been presented in the concluding section.

Impact of Microfinance on Low Income group in Aurangabad District:

Aurangabad is a city in the Indian state of Maharashtra. It is the administrative headquarters of Aurangabad district and is the largest city in the Marathwada region. Located on a hilly upland terrain in the Deccan Traps, Aurangabad is the fifth-most populous urban area in Maharashtra with a population of 1,175,116. The city is known as a major production center of cotton textile and artistic silk fabrics. Several prominent educational institutions, including Dr. Babasaheb Ambedkar Marathwada University, are located in the city. The city is also a popular tourism hub, with tourist destinations like the Ajanta and Ellora caves lying on its outskirts, both of which have been designated as UNESCO World Heritage Sites since 1983. Other tourist attractions include the Aurangabad Caves, Daulatabad Fort, Grishneshwar Temple, Jama Mosque, Bibi Ka Maqbara, Himayat Bagh, Panchakki and Salim Ali Lake. Historically, there were 52 Gates in Aurangabad, some of them extant, because of which Aurangabad is nicknamed as the "City of Gates". In 2019, the Aurangabad Industrial City (AURIC) became the first greenfield industrial smart city of India under the country's flagship Smart Cities Mission.

Microfinance as an Instrument for Poverty Reduction:

The limited access to formal credit by the poor has long been cited as a major reason for the inability of the poor to utilize opportunities to enhance their capabilities. The persistence of informal credit in rural areas has been attributed to four complementary reasons--the limited supply of formal credit, limits in state capacity to implement its policies, the political and economic segmentation of local markets, and the institutional weaknesses of many microfinance programs (Tsai, 2004). Improving the financial access of the poor was one of the stated objectives of the development planning initiatives in a number of developing countries, but these programmes were severely criticized for their limited impact on poverty reduction, high administrative and transaction costs and leakages of various kinds as well as for their dependence on subsidies.

Who Benefits From Micro financing:

While microfinance can certainly benefit those stateside, it can also serve as an important resource for those in the developing world. For example, cell phones are being used as a way to bring financial services such as micro lending to those living in India.

It's also made headway in the Maharashtra, where burgeoning entrepreneurs with no collateral are able to take out loans of up to 5 to 10 lakh. Microfinance can help women break the cycle of poverty. For example, a young, single mother from Paraguay took this small investment of \$60 to start an empanada and snack stand. She continued building her business, repaying this loan and taking out larger loans to buy a building for her venture, complete with a refrigerator and attached home for her family.⁹ This is microfinance at its best. In fact, women are major microfinance borrowers, making up 80% of loans in 2018, according to the 2019 Microfinance Barometer. Around 65% of total borrowers live in rural areas, which mean that a large number of female microfinance borrowers live in areas with limited resources.

Objectives of Study:

1. To eradicate poverty amongst the poor and achieve sustainable independence.
2. To bring lower income groups and micro enterprise into the mainstream.
3. To enable poor segments of the population and microenterprises to participate in income generating economic activities, thereby equalizing opportunities and reducing inequalities.
4. Microfinance is a broad category of services, which includes microcredit.

Hypotheses:

1. Microfinance increases the level of income among the microfinance's member of households.
2. Microfinance reduces the level of poverty among the microfinance's member of households.

Aurangabad:

Aurangabad is a district in the Maharashtra State of India. Total area of Aurangabad is 10,131 km² including 9,821.54 km² rural area and 309.35 km² urban area. As per 2011 stats, Aurangabad has a population of 37,01,282 peoples, out of which urban population is 16,20,170 while rural population is 20,81,112. The district has a population density of 365.1 inhabitants per square kilometre. There are about 7,51,915 houses in the district, including 3,30,965 urban houses and 4,20,950 rural houses. When it comes to villages, there are about 1,314 villages in aurangabad district. The Aurangabad district is further divided in to Tehsils / Blocks / Community Development Blocks (C.D.Blocks) for administrative purposes. In India, the Block or C.D.Block is often the next level of administrative division after the tehsil. It is important to note that, In some states of India C.D.Blocks are equal to tehsils.

Analysis of Data:

Age of selected 500: Age of a self –group is one of the significant factors for understanding its progress. After six months of the formation of group, the group is allowed to open saving account with the bank and if the bank is satisfied the group becomes eligible for getting the credit facility from the bank. The study disclosed that of the 242 500, 47.93% had the age between 3-5 years and 45.45% 500 were between 1-3 years old. 11 500 had completed 5 years while 5 500 had age less than one year (Table-1).

Classification of Respondents:

Table 1
Classification of Respondents

1)	Literacy level of the respondents		
	Illiterate	123	27.91
	Up to 7 th	84	13.8
	SSC	139	36.81
	HSC	103	15.04
	Graduation	51	6.44
	Post graduation	-	-
	Total	500	100
2)	Caste category wise classification of respondents		
	Open	150	26.07
	SC	105	14.11
	ST	59	5.83

	VJNT	41	9.51
	OBC	145	44.48
	Total	500	100
3)	Occupational background of respondents		
	Agriculture	137	29.75
	Agriculture labour	119	27.31
	Tiny business activities	109	24.23
	Service	87	14.42
	Other	48	4.29
	Total	500	100
4)	Family Income wise distribution of respondents		
	0-500	137	46.32
	501-1000	119	22.31
	1001-1500	109	11.96
	1501-2000	87	10.12
	2001 and above	48	8.89
	Total	500	100
5)	Economic status of the respondents		
	421(86.20)	79(13.80)	500(100)
6)	Respondents of Low Income Groups		
	NGOs / VOs	137	32.82
	MAVIM	113	28.53
	Banks	89	15.64
	Mahila Mandals	73	7.06
	Relatives / friends	76	12.58
	Others	12	3.37
	Total	500	100
7)	Loan assistance by Low Income Groups From Microfinance Companies		
	Up to 1000	18	5.52

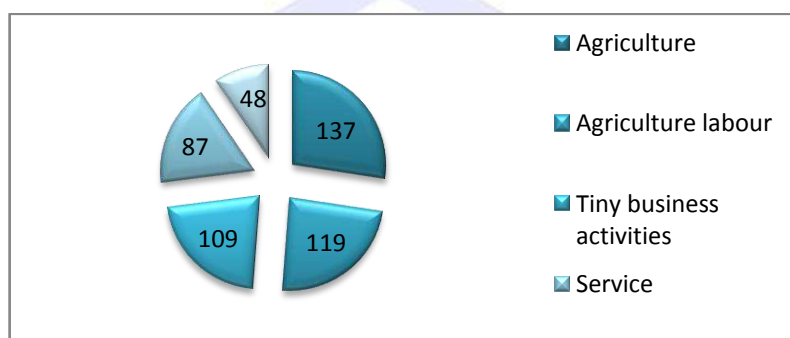
	1000-2500	61	18.71
	2500-5000	173	22.4
	5000-10000	71	24.23
	10000-15000	153	21.78
	Above-15000	24	7.36
	Total	500	100
8)	Use of loaned amounts by the respondents		
	Medical treatment	42	6.75
	Education	40	6.14
	Food grains	25	4.6
	Marriage	27	5.21
	Festivals	37	6.44
	Household needs	30	6.13
	Religious purpose	27	5.22
	Natural calamities	49	6.45
	Business / trade	198	51.53
	Miscellaneous	25	1.53
	Total	500	100
9)	Position of loan repayment		
	repayment loan before time	25	1.53
	repayment loan in time	384	79.76
	delaying loan repayment	91	18.71
	Total respondents	500	100

Literacy level:

Education is the most important factor required for all round development of human being. In spite of concerted efforts by the government and NGOs, the literacy level in India is not up to the mark. The incidence of illiteracy in poor communities, particularly in remote rural areas is a matter of serious concern. As far as literacy level of the respondents under study is concerned, 72.09% of the aggregate 500 respondents were literates while 27.91% were illiterates. Of 500 respondents, 36.81% were matriculates, 15.04% had passed HSC while 6.44% had completed their graduation (Table 1). No respondents had completed post graduation. One of the graduate members had started functional literacy class for illiterate members.

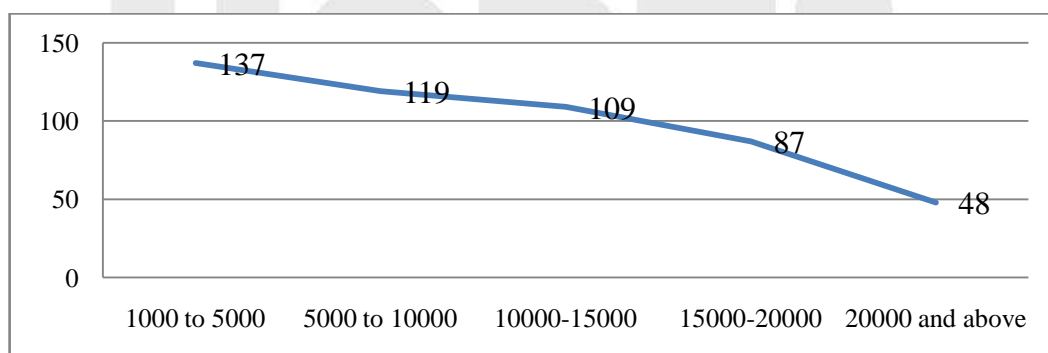
Caste wise classification of respondents: Caste system in our country, particularly in rural areas is very strong. Majority of the respondents belonged to other backward classes i.e. 44.48% followed by the open category being 26.7% of the aggregate 500 respondents under study (table 1). The respondents from SC and ST category constituted 19.94% while VJNT respondents accounted 9.51%. It is a matter of great satisfaction that poor people, irrespective of their castes and religions, are coming together for self-help and mutual help by way of 500.

Figure No.1
Occupational background of respondents



Occupational background of respondents: The occupational background of the respondents give in table-1 indicates that 29% respondents had agriculture as their occupation while 27.31% were agriculture laborers. Of the 500 respondents 79 (24.23%) were engaged in small traditional occupations such as, broom making, leather work, tailoring etc. and 14.42% were engaged in services like school peons, Aanganwadi sevikas, village Health sevaks etc. 14 respondents were engaged in non-traditional activities like brass band, mandaps and photography.

Figure No.2
Family Income wise distribution of respondents



Monthly family income: As far as monthly family income of the respondents under study is concerned, majority of them were earning meager income. Of 500 respondents, 46.32% were earning merely Rs. 1000 to 5000 per month while 22.71% were earning between Rs.5000-10000 p.m. Only 8.89% respondents had monthly income more than Rs.2001 (table 1). Around 26%

population of India is living below poverty line. 500 can be panacea for poverty alleviation provided the programme is implemented effectively. Majority of the respondents i.e. 86.20% were below poverty line³ (table.1) as per the norms of the state government of Maharashtra. In order to bring poorest of the poor above poverty line, micro finance initiatives must be extended in a large scale.

Motivating factors: Low Income Groups an effective tool for thrift, investment, and asset and job creation. It can be seen from table 1 that NGOs and Voluntary organizations motivated 107 (32.82%) respondents to join the 500 while Mahila Mandals encouraged 23 (7.06%) respondents to join Low Income Groups. The MAVIM, a special corporation for welfare of women in Maharashtra, had encouraged 93 (28.53%) respondents to join the 500. A sizeable number of the respondents i.e.15.64% were induced by banks, 12.58% were motivated by relatives and friends , and other such as, village development officers, school teachers Anganwadi sevikas encouraged 3.37% respondents join self-help groups.

Savings Changes: Capital formation process starts from saving. Even small savings can create a huge fund. Self-help group encourage members to save regularly. It is interesting to understand that what are the changes in saving habits and saving amounts of poor people before and after joining the 500. It was disclosed that 43.25% respondents had monthly savings between Rs. 10-50, were increased between Rs.50-100 after joining the 500 while 21.16% respondents having savings between Rs.51-100, had increased substantially to Rs.101- 150. In case of 17.48% respondents the monthly savings had increased from Rs.101-150 to Rs.151-200.

Monthly Saving of Low Income Groups:

Table No. 2
Monthly Saving of Low Income Groups

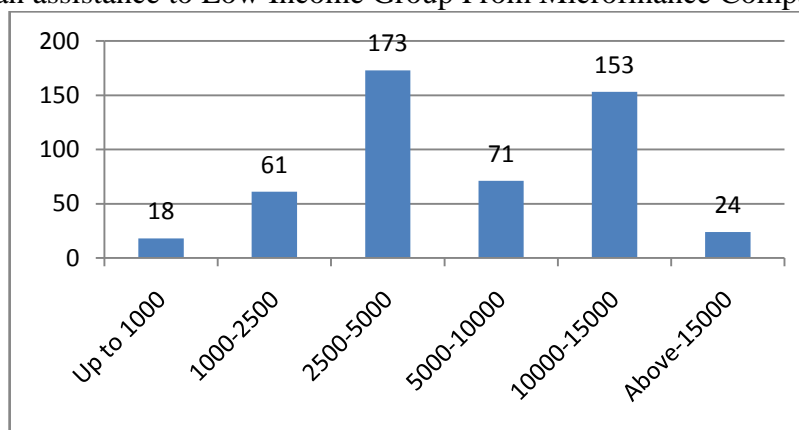
Monthly Savings before joining Low Income Groups(Rs.)	Monthly savings after joining Low Income Groups(Rs.)	No. of respondents	Regularity in saving
1	2	3	4
1-100	1-100	251(43.25)	135(95.74)*
101-200	101-200	93(21.16)	66(95.65)
201-300	201-300	77(17.48)	55(96.49)
301-400	301-400	49(11.96)	37(94.87)
401-500	401-500	30(6.13)	20(100.00)
Total	-	500(100.00)	313(96.00)

It can be seen from table 2 that 96% respondents had regular savings. It was also noticed that irregular contributors were charged fine ranging between 1-2% p.m. on delayed amount saving is the major activity of self-help group. Savings (thrifts) leads to creation of Warm funds.⁴ these funds are available for internal money lending as per requirements of the members.

Loan assistance to Low Income Group From Microfinance Companies:

Figure No. 3

Loan assistance to Low Income Group From Microfinance Companies

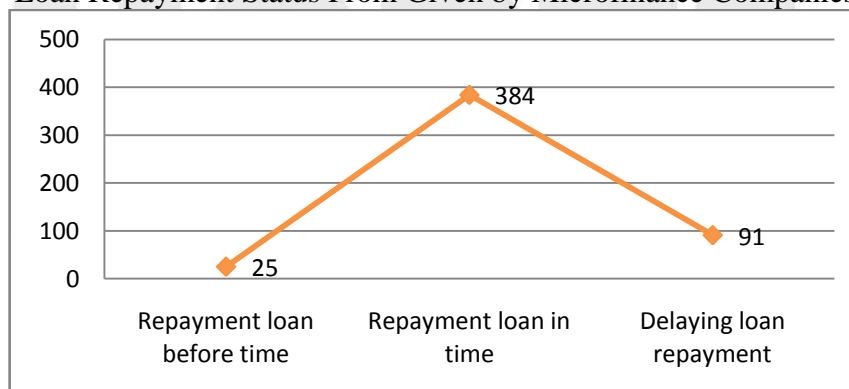


Loan assistance to Low Income Group: The members of the 500 require funds for meeting emergency needs like expenditure on medicine, festival, education fees etc. they also need funds for running small economical activities of their livelihood. After satisfactory gradation of the Low Income Groups, it becomes eligible for getting credit from the bank. The funds so obtained from micro financial institutions are Cold Funds.⁵ The respondents regarding the credit assistance from self help groups to the members are given in table 1. The data analysis disclosed that the highest number of the member i.e. 24.13% (79) availed loan assistance between Rs. 5000-10000 from their respective 500, followed by 22.40% member who obtained loan assistance between Rs.2500-5000. Of 500 respondents, 21.78% had got loan amount in the range of Rs.10000-15000 and more than 7% respondents had availed loan assistance above Rs.15000 from their respective 500. Only 5.52% respondents had borrowed less than Rs.10000. It is to be noticed that loan assistance by the 500 depends mostly on the gradation, performance and financial discipline shown by the group.

Loan Repayment Status From Given by Microfinance Companies:

Figure No. 4

Loan Repayment Status From Given by Microfinance Companies



Loan Repayment: Repayment of loan amount with in a stipulated time is the soul of any financial system. Micro financing through self-help groups also emphasizes on timely repayment of

the loan amount taken by the members. The responses regarding loan repayment by the respondents under study are given in table-1. With regard to loan refund by the respondents, it was disclosed that out of 500 respondents, 5 (1.53%) had repaid their loans before maturity date while 260 (79.76%) respondents repaid their loan amount in stipulated period. In all, 81.29% repaid their loan amounts in time. However, 18.71% respondents were found irregular in repaying the loan amount and they had to pay penalty @ 2-3.5% p.m. on the due amount delayed by them. The study also disclosed that there were over dues in case of 11% loan accounts of the aggregate loan accounts of the 500. In percentage terms, loan recovery (on an average) was 89%.

Assets and Job opportunities created by the 500: Micro finance activities are undertaken with an aim of asset creation so that the group of poor people may have a permanent source of income. It is revealed from, table-3 that out of 242 500 under study, 237 (97.93%) 500 were found engaged in small economic activities. Of 242 500 under study, 21.07% had started goat rearing, 17.77% 500 were engaged in dairy and 11.16% 500 had been in Drone, Patravali manufacturing. Women members had preferred Papads, Pickles, Tailoring, and Broom making as their economic activities. The aggregate assets created by 237 500 amounted to Rs. 90.21 lakh and job opportunities were 519. On an average, assets creation was Rs. 38,064 per Low Income Groups while employment generation was 2.19 jobs per Low Income Groups. However, 5 (2.07%) 500 could not undertake economic activities.

Assets created by Respondents:

Table No. 3
Assets created by Respondents

No. of Resp.	Economic activity	Assets created by 500	Nos	Estimated Value of assets	Employment Generated (Nos)
91	Goat rearing	Goats	490	10, 29,000	25
23	Sheep rearing	Sheep	51	76,500	4
63	Dairy	Cows	200	10, 00,000	10
19	Floor mill	Flour mills	9	2, 70,000	9
36	Thresher services	Threshers	16	6, 40,000	33
45	Tailoring	Sewing machines	231	4, 15,800	234
39	Transportation	Three wheelers	19	47, 50,000	38
19	Oil manufacturing	Small oil mills	9	1, 35,000	18
17	Retail trading	Kirana shops	7	7, 00,000	10
33	Broom making	----	--	--	39
37	Drone, Patravali Making				

55	Papad, Pickles, Noodles etc.	Equipments	30	5,000	45
23	No economic activity	----	--	--	--
Total – 500			90, 21,300		519

Source: Field Survey, 2021

Self-help group's bank linkage programme:

Views of respondents on assisting agencies: Self-help group's bank linkage programme is a socio-economic programme. Different agencies i.e. the government and government organizations, Non-government organizations, financial institutions etc. have been involved in implementation of this programme. The success of any development programme essentially depends on how actively the beneficiaries and implementing agencies are participating.

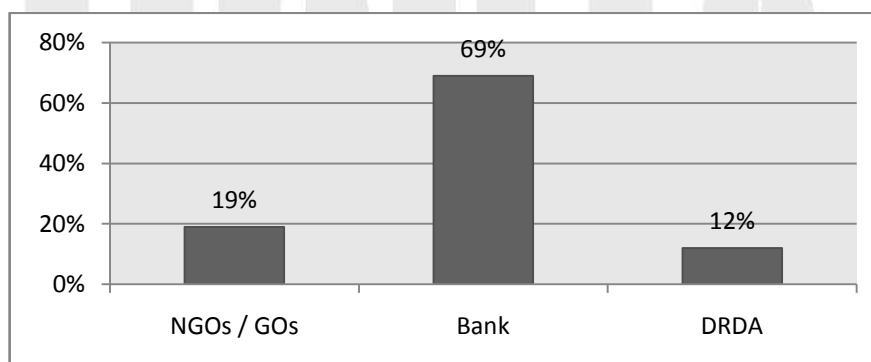
Supporting Groups for Low Income Group:**Table No. 4**

Supporting Groups for Low Income Group

Agencies	Helpful	Not much helpful	No. Response	Total
NGOs / GOs	211	107	8	500
	(64.72)	(32.82)	(2.46)	(100)
Bank	209	97	20	500
	(64.11)	(29.75)	(6.14)	(100)
DRDA	247	47	32	500
	(75.77)	(14.42)	(9.81)	(100)

Figure No. 4

Supporting Groups for Low Income Groups



When asked about their experiences about the assisting agencies, majority of the respondents were found satisfied with the services provided by these agencies. Of 500 respondents,

64.72% stated that NGOs and Government organizations helped them very much while 32.82% were found unsatisfied with their services (table-5). A few of them categorically stated that a number of NGOs are mushrooming just for earning incentive money. Once they get the funds they neglect 500. Banks have to play a very crucial role in promoting and credit supplying to the 500. In opinion of 64.11% respondents, banks had been cooperative and helpful while more than 29% respondents criticized the indifferent attitude of bank officers. In case of DRDAs assistance, 75% respondents were satisfied. However, 14.42% respondents gave bad remarks regarding procedure of DRDAs. All 92 women respondents belonging to promoted by MAVIM had good experiences with the corporation.

Impact of Microfinance on Low Income Groups:

Table No.5

Views of respondents of social impact of Microfinance and Nature of Problem faced by 500 Respondents

Social impact	No. of Respondent	% to total
Views of respondents on social impact of 500		
Became more social, increased social relations	167	51.22
Sense of respondent's citizen	89	27.3
Development of leadership qualities	74	22.7
Respondents to social changes	97	29.75
Cooperative and positive attitude	181	57.97
Knowledge and information	107	32.82
Self confidence and courage	123	37.73
Participation in social activities	205	62.88
Personality development	191	58.59
Nature of problem faced by 500 Respondents		
Lack of training and skills	195	59.82
Deficiency in numerical skills	89	27.3
Lack of family support	93	28.53
Dominance by male members	145	44.48
Uncertain and lower income	281	86.2
Indifferent attitude of banks	107	32.82
Political interference	94	28.83
Lack of marketing facilities	162	49.69
Insufficient financial assistance	137	42.02
Group conflicts	96	29.45
High interest burden	159	48.77
Indifferent attitude of NGOs	78	23.93
Trouble from vested interests	91	27.91

Source: Field Survey, 2021

Social impact of 500 on members: Actually, social impact of the groups is not quantifiable. However, an attempt has been made to collect the responses on particular points. The responses

given in table-6 indicate that the 500 movement has a considerable impact on social life of the members, albeit slow and small. Of the 500 respondents, 62.88% stated that they had more participation in social activities than earlier i.e. before joining the group, while 51.22% respondents expressed that they had become more social and had more relations with people than earlier. 191 respondents out of 500 had got the opportunity of personality development as they got the opportunity of initiating the discussion and preside over the group meetings.

More than 57% respondents said that after joining the Low Income Groups, they learnt the lessons of co- operation and positive thinking which really empowered them in the periods of crisis. As a result of 500 functioning in democratic way, the members had developed sense of respondent's citizens (27.30%), positive response to social changes (29.75%), self –respect and self confidence (37.73%) and leadership qualities (22.30%). Self-help group, as it is evident, are instrumental in all round development of so far underprivileged, neglected sections of the society. Besides thrifts and credit, these groups are centers of social engineering as the base of the group formation is cooperation and democratic principles.

Conclusion:

Considering the number of clients (the poor) and range of services, there is tremendous scope for the development of micro finance market in India. Micro –Finance institutions-NGOs NBFCs, Banks etc. have a pivotal role to play in micro-finance market. In order to give boost to this sector, there is need of introduction of conducive regulatory framework for protection of the clients, the institutions and progress of the market. Micro-finance for micro enterprises can be one of the most effective poverty reducing instruments. Large loans taken by small number of borrowers minimizes administration costs. Expansion of micro finance markets world over has shown that small finances to small enterprises can be instrumental in reducing poverty. The need of the hour is to promote more and more micro finance institutions and strengthen them so that they are in a position to create financial resources and provide more services to the needy poor people. It should be noted that tiny business activities can be started anywhere, as they need small space, small quantity of capital and indigenous technology and skills, which are inherited by the artisans / craftsmen. These activities are mostly based on local resources.

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