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# Reaching the Poor with Microfinance: A Case of Rural South India

**Vidya Rajaram Iyer*, Jivraj Patki****

**Abstract** *Microfinance has been recognised as one of the important instruments to meet the financial requirements of the low income customers or commonality lending groups including consumers and self-employed personnel, who lack access to banking and other related financial services (Mehta, 2008). Scheduled banks are not able to penetrate the rural prospective customers and usually are not keen in giving small loans to low-income families without security. Microfinance is one of the financial institutions that work towards achieving the national goal of 'financial inclusion'. The purpose of this paper is to explore the scope of micro finance firm in rural South India and understand various financial requirements of poor and middle class people residing in villages and their profit and contribution level of the businesses.*

**Keywords** *Microfinance, Rural India, Rural South India, Poverty, Tamil Nadu*

## INTRODUCTION

Microfinance has been recognised as one of the important instruments to meet the financial requirements of the low income customers or commonality lending groups including consumers and self-employed personnel, who lack access to banking and other related financial services (Mehta, 2008). It ensures access to financial services with timely and adequate credit to vulnerable groups such as weaker sections and low income groups at an affordable cost. Generally, the micro credit is condemned for ignoring saving opportunities. However, since credit re-payment is on a daily or weekly basis, it surprises us on the earning and saving capabilities of vulnerable sections of society, even if it is of small amount. It is basically the provision of credit without collateral, usually in relatively small amounts and for short periods of time. The positive about microcredit is that it allows even the formal financial institutions to enter into this form of lending that are dominated by informal group such as money lenders.

The concept of lending in group whose members get sequential loans, has been seen as the basic innovation of microfinance that permits them to serve their clients without collateral, who would otherwise be excluded not only because of the risk of default but because of high transaction costs involved in sorting more and less reliable borrowers and high interest rates. This is achieved through peer monitoring, since the members of the group now have a direct interest in ensuring that no individual member defaults. This reduces both ex ante moral hazard and adverse selection, since the borrowers, who are presumed to have greater knowledge of one another, will not choose to be in groups with potential defaulters (Stiglitz, 1990). The paper focuses on a scope and need of microfinance in rural South India with the help of primary survey done on a sample village at three levels. The objective of the paper is to understand whether rural villages of Tamil Nadu require micro credit to develop their economic and livelihood status. Is there a need and scope for institutions like microfinance to invest in their operations and thereafter sustain? Geo mapping was used to understand the location factors influencing their livelihood and the awareness towards use of technology and financial products.

The microfinance which is operating in South India is not only providing microcredit to the rural people but is also coupled with micro-markets and micro-education. Their basic operation includes forming groups, training group members through micro-education and providing loans through self-help groups (SHGs). The paper is arranged as follows. The next section briefly explains about microfinance sector. Third and fourth sections throw light on data analysis and discussion of the results while fifth section concludes the paper. We have presented the charts in Appendix for reference.

## MICROFINANCE SECTOR

Microfinance in India was started during 1980s with small efforts at forming informal self-help groups (SHG) to provide access to credit services. It grew significantly in the past decades from a humble beginning. National institutes like the Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are dedicating financial resources as well as

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their time to microfinance. Microfinance needs to be defined and also understood for example, if an SHG extends a loan for an economic activity, it is seen as microfinance but if a commercial bank gives a similar loan, it is not treated as microcredit. When a NGO gives a similar loan it is treated as microfinance. Therefore, we define microfinance not by form but by the intention of the lender. Self-Employed Women's Association (SEWA) is one of the examples of microfinance at national level. NGOs also help the poor for their business and they see microfinance as an activity that feeds into economic activities. For example, the South Indian Federation of Fishermen's Societies (SIFFS) first supported fishermen by providing technical and marketing assistance through their organisation and when it turned ineffective, it started providing loans itself. We also have organisations with microfinance at the core that is diverse in their operation, orientation, and incorporation.

Traditionally, banks did not provide financial services to clients with little cash income. They incur sizeable costs to manage a client account even though the amount is small. For example, although the total gross revenue from delivering one hundred loans worth thousand each will not differ greatly from the revenue that result from delivering one loan of one lakh, it takes nearly a hundred times as much work and cost to manage a hundred loans as it does to manage one. The fixed cost of processing loans of any size is considerable as assessment of potential borrowers, their repayment prospects and security; administration of outstanding loans, collecting from delinquent borrowers, etc., has to be done in all cases. There is a break-even point in providing loans below which banks lose money on each transaction they make. Poor people usually fall below that breakeven point and because of these difficulties, when poor people borrow them often rely on relatives or a local moneylender, whose interest rates are usually very high. Table 1 provides a comparative statistics between Asia and India on access to finance and technology.

Some principles that summarise a century and a half of development practice were encapsulated in 2004 by Consultative Group to Assist the Poor (CGAP) and endorsed by the Group of Eight leaders at the G8 Summit on June 10, 2004:

1. Poor people need not just loans but also savings, insurance, and money transfer services.
2. Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.
3. Microfinance can pay for itself. Subsidies from donors and government are scarce and uncertain, and so to reach large numbers of poor people, microfinance must pay for itself.
4. Microfinance means building permanent local institutions.
5. Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.
6. The job of government is to enable financial services, not to provide them.
7. Donor funds should complement private capital, not compete with it.
8. The key bottleneck is the shortage of strong institutions and managers. Donors should focus on capacity building.
9. Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.
10. Microfinance institutions should measure and disclose their performance – both financially and socially.

Some of the primary financial products of microcredit include:

- **Pre-linkage loan:** This loan can be provided to a self help group within 30 days of its formation that serves as a tester loan to gauge repayment capacity and establish credit history. The loan can be provided to a maximum of Rs. 5000 ($100) per member.
- **Activity term loan:** This loan could be initially Rs. 15,000 ($300) per member which can be provided to a self-help group largely for the purpose of income generating activities based on their repayment history for the pre-linkage loan and their attendance and participation in meetings.
- **Self-help groups:** Self-Help Groups (SHGs) are self-assembled groups of 15 to 20 rural women who come together to guarantee each other's loans and form a learning and support group for one another. The self-help group model involves meetings facilitated by one of their member welfare associates. The groups assemble in local communities and are not only offered microcredit loans but also continuous guidance on their economic activities. Continuous learning and exposure to markets cultivate both the personal and business capabilities of individuals and thereby expand their aspirations and opportunities. This self-help group model reduces the cost of credit and information delivery and mitigates credit risk.

**Table 1: Finance status of India and Asia for the year 2011**

| India | | | |
|---|---|---|---|
| South Asia | | | Lower middle income |
| Population, age 15+ (millions) | 887.9 | GNI per capita ($) | 1,570 |
| | Country data | South Asia | Lower middle income |
| **Account (% age 15+)** | | | |
| All adults | 53.1 | 46.4 | 42.7 |
| Women | 43.1 | 37.4 | 36.3 |
| Adults belonging to the poorest 40% | 43.9 | 38.1 | 33.2 |
| Young adults (% ages 15–24) | 43.2 | 36.7 | 34.7 |
| Adults living in rural areas | 50.1 | 43.5 | 40.0 |
| **Financial Institution Account (% age 15+)** | | | |
| All adults | 52.8 | 45.5 | 41.8 |
| All adults, 2011 | 35.2 | 32.3 | 28.7 |
| **Mobile Account (% age 15+)** | | | |
| All adults | 2.4 | 2.6 | 2.5 |
| **Access to Financial Institution Account (% age 15+)** | | | |
| Has debit card | 22.1 | 18.0 | 21.2 |
| Has debit card, 2011 | 8.4 | 7.2 | 10.1 |
| ATM is the main mode of withdrawal (% with an account) | 33.1 | 31.1 | 42.4 |
| ATM is the main mode of withdrawal (% with an account), 2011 | 18.4 | 16.9 | 28.1 |
| **Use of Account in the Past Year (% age 15+)** | | | |
| Used an account to receive wages | 4.0 | 3.5 | 5.6 |
| Used an account to receive government transfers | 3.6 | 3.1 | 3.3 |
| Used a financial institution account to pay utility bills | 3.4 | 2.7 | 3.1 |
| **Other Digital Payments in the Past Year (% age 15+)** | | | |
| Used a debit card to make payments | 10.7 | 8.5 | 9.6 |
| Used a credit card to make payments | 3.4 | 2.6 | 2.8 |
| Used the Internet to pay bills or make purchases | 1.2 | 1.2 | 2.6 |
| **Domestic Remittances in the Past Year (% age 15+)** | | | |
| Sent remittances | 9.9 | 10.7 | 14.2 |
| Sent remittances via a financial institution (% senders) | .. | 20.1 | 30.9 |
| Sent remittances via a mobile phone (% senders) | .. | 7.7 | 7.7 |
| Sent remittances via a money transfer operator (% senders) | .. | 13.7 | 18.3 |
| Received remittances | 9.8 | 12.2 | 17.8 |
| Received remittances via a financial institution (% recipients) | .. | 15.8 | 26.0 |
| Received remittances via a mobile phone (% recipients) | .. | 4.7 | 5.7 |
| Received remittances via a money transfer operator (% recipients) | .. | 9.8 | 16.6 |
| **Savings in the Past Year (% age 15+)** | | | |
| Saved at a financial institution | 14.4 | 12.7 | 14.8 |
| Saved at a financial institution, 2011 | 11.6 | 11.1 | 11.1 |
| Saved using a savings club or person outside the family | 8.8 | 8.8 | 12.4 |
| Saved any money | 38.3 | 36.2 | 45.6 |
| Saved for old age | 9.9 | 9.1 | 12.6 |
| Saved for a farm or business | 7.0 | 7.3 | 11.8 |
| Saved for education or school fees | 16.0 | 14.6 | 20.0 |
| **Credit in the Past Year (% age 15+)** | | | |
| Borrowed from a financial institution | 6.4 | 6.4 | 7.5 |
| Borrowed from a financial institution, 2011 | 7.7 | 8.7 | 7.3 |
| Borrowed from family or friends | 32.3 | 31.4 | 33.1 |
| Borrowed from a private informal lender | 12.6 | 10.9 | 8.5 |
| Borrowed any money | 46.3 | 46.7 | 47.4 |
| Borrowed for a farm or business | 9.0 | 8.6 | 9.2 |
| Borrowed for education or school fees | 9.7 | 8.9 | 10.1 |
| Outstanding mortgage at a financial institution | 3.7 | 3.8 | 4.7 |

*Source*: Global Findex data, World Bank website

## DATA AND METHODOLOGY

As a part of micro education and micro markets, data were collected in the villages of Madurai, South India for understanding their ecosystem. The purpose of the study was to understand the existing facilities in the villages and its impact to the family and business opportunities. Both primary and secondary data were used for this study. The primary data collection was done through interviewing people at the village level according to the study requirement. This study has three components namely village survey; business survey and family survey. Photographs were taken in each village and geo-tagged in google maps with the help of an expert in geo-informatics in the corporate office, so as to know the connectivity between the villages.

The village survey was taken using snowball method. Key persons in the villages such as Sarpanch, Head Master/ Head Mistress, Post Master, School teachers/Anganwadi teachers, Government officers, President, doctors, ward members were identified and from them further respondents were contacted for personal interview. Business survey could help to know very well about their way of doing businesses, their profitability and their approach towards financing their business. Random samples of hundred respondents were taken in each village to understand the type and nature of business. Their peak business season and off season were noted in order to know the seasonality of the products and also the season when they earn more. Surveying the families helped out to find out the living style of the people. The details about type of family structure, details of the family members such as age, education qualification, occupation, marital status, their religion were noted to know about their social status of the family. It was exciting to get to know about the village people's capability to do their businesses even though many of them were illiterate.

## RESULTS AND DISCUSSIONS

This study facilitated the researcher to demonstrate the use of Geographical Information System (GIS) in the field of development for better planning and monitoring. During the process, the facilities available in the villages, the business availability and the distance between the nearby villages and towns were known. The population in the villages, their educational level, their awareness to the mobile phones, the distance travelled for procuring raw materials and selling their finished products and other basic details were found. The study also helped to realize the potential of photographs as one of the methods to understand the ground reality.

From the primary study and data analysis it was found that rice, coconuts, sugarcanes, and fruits were the major crops in agriculture business. Particularly rice is the major crop of villages in Madurai because rice occupies 25% among the crops. Agriculture business was done by 63% of people and 50% were into animal husbandry. More than half of population were into MNREGA scheme. Rice cultivation is done in two cycles per year. The time period of one cycle is 4 months. The profit would be varying based on the market price. Here the salary/wages was the highest expense in rice cultivation. More than 50% of women were house wives and hence microfinance has a great opportunity to help these women. And also more than 25% of women were working in agriculture and 19% women were doing animal husbandry business. The average profit from agriculture is around four thousand per month but there are other businesses like tailoring and household chores.

There were only three places where veterinary hospitals were available, but almost 95% of the village had cattle and poultry rearing. Even if the Government feels that providing a hospital is costly, there can be a veterinary doctor who can visit the village once a week and conduct medical check-ups. Out of the 52 villages of study, 23 has primary healthcare centre and 2 villages has hospitals. Villages bordering the town have better healthcare facilities than away from the town. Government has appointed Village Health Nurse (VHN) who needs to each house in a village. But in more than 70% of villages she visits only two times a week and goes to each house rarely. The reason is due to distance factor and non proper supervision of their work. Government constructed separate toilets in villages for women and kids. They have spent by spending a lakh for building this complex. But no one is using this facility and it is in dilapidated condition in few villages. The condition is same for public bathing room in villages. An Anganwadi teacher says, “The main reason for no one using these facilities are – Government didn't appoint anyone to clean the toilets and when we say people can come along and contribute some money for maintenance of the same, people are unwilling to give money and prefer using open space”.

Lack of awareness on hygiene among the people is the major failure for sound hygiene system. The location of these hygiene complexes in inaccessible areas makes it even more difficult for the women to use. This spatial analysis helps them understand the facilities in the village and the population so it can be used for the purpose of planning. This can also be used for recommendations to Government for better location of schools and other infrastructure facilities.

## CONCLUSION

This study facilitated the researcher to demonstrate the use of geographical information system (GIS) in the field of development for better planning and monitoring. During the process, the facilities available in the villages, the business opportunities and the distance between the nearby villages and towns were studied. The population in the villages, their educational level, their awareness to the mobile phones, the distance travelled for procuring raw materials and selling their finished products, and other basic details were found. The study has thus, highlighted the need for understanding a village before implementing any developmental interventions.

Regarding their source of information, surprisingly 100% of the samples have agreed that their main source is from regional satellite channel. Tamil Nadu Government's free television also plays an important role in it. Since everyone is having their own television, advertisements made in the satellite channel reaches the village people quicker than any other source. At the end of the interview, everyone was asked about their dreams and aspirations towards their family. Almost all the married persons replied as they want to well educate their children at least. They also want their children to move to nearby cities or towns for further studies and job. Thus, the awareness for financial products needs to be increased to make them utilise credit services for their socio-economic development.

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## APPENDIX

This section consists of charts and photographs related to our study. The source of charts, tables and photographs are field survey bu the author from May to June 2013.

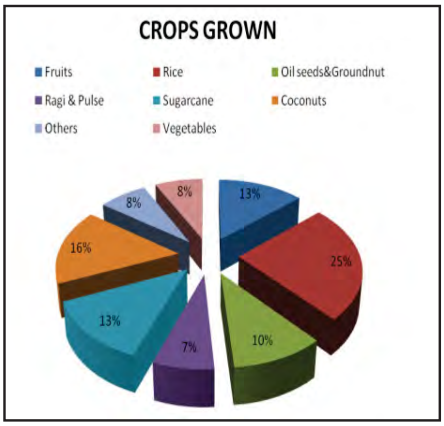


**Fig. 1: Crops Grown in the Study Area**

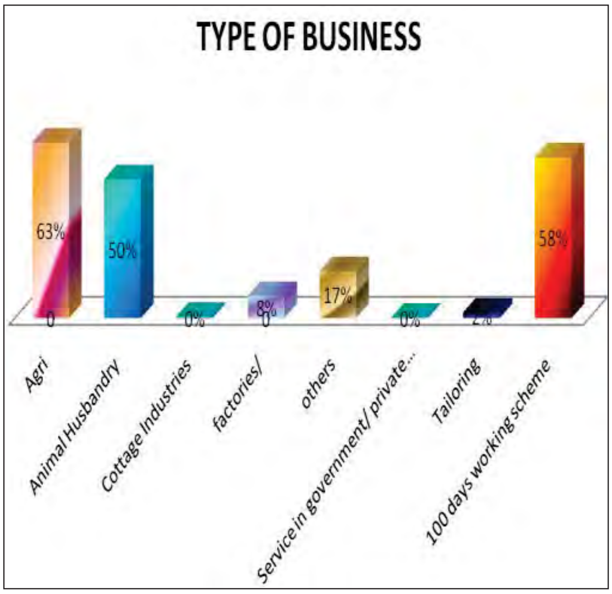


**Fig. 2: Types of Business Prevalent in Study Area**

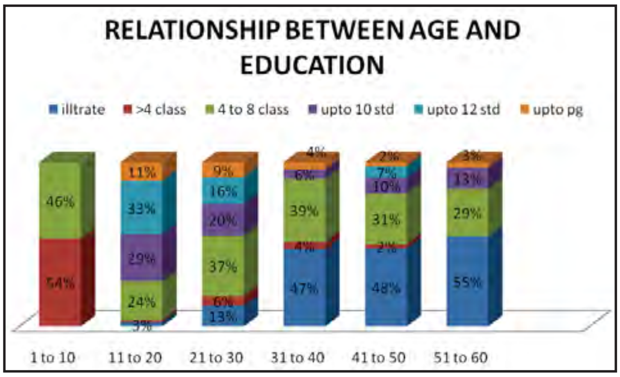


Fig. 3: Relationship between Age and Education

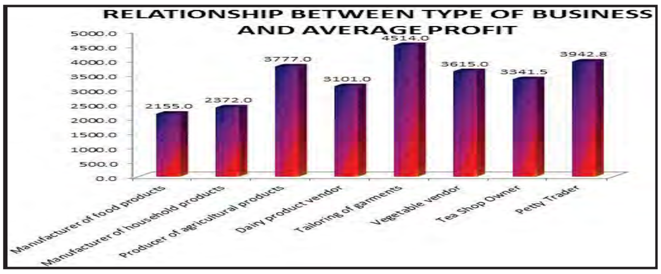


Fig. 4: Relationship between Type of Business and Average Profit

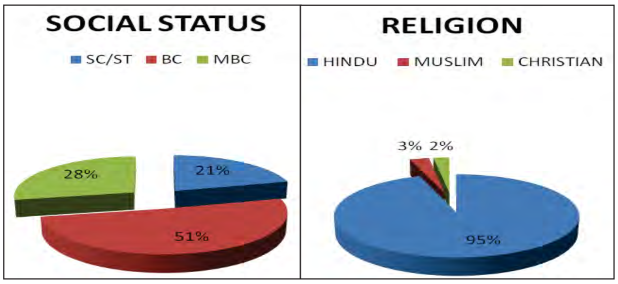


Fig. 5: Comparison between Social Status and Ambition

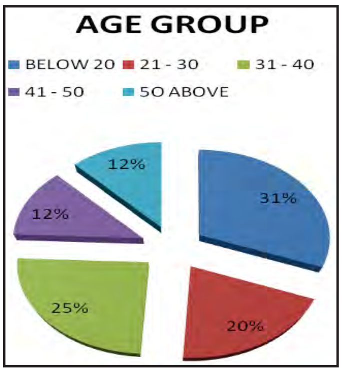


Fig. 6: Age Group of Respondents

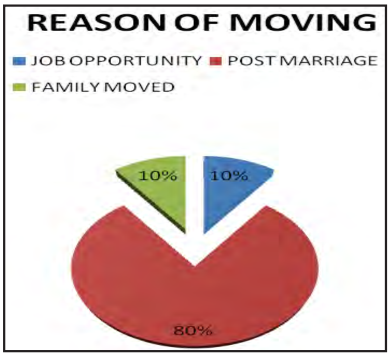


Fig. 7: Reason of Moving from Village

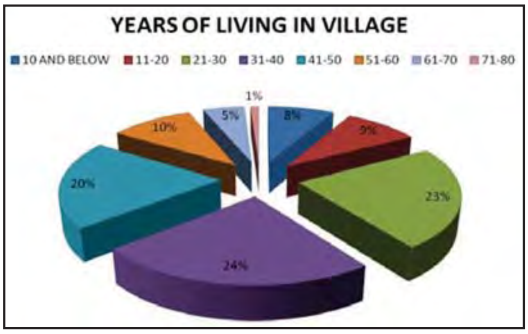


Fig. 8: Time Spent by Respondents in Village

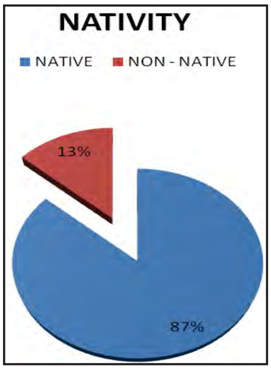


Fig. 9: Nativity of Respondents

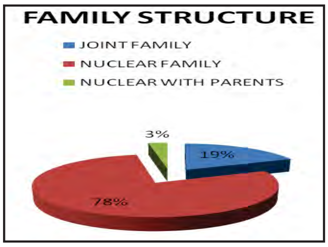


Fig. 10: Family Structure of Respondents

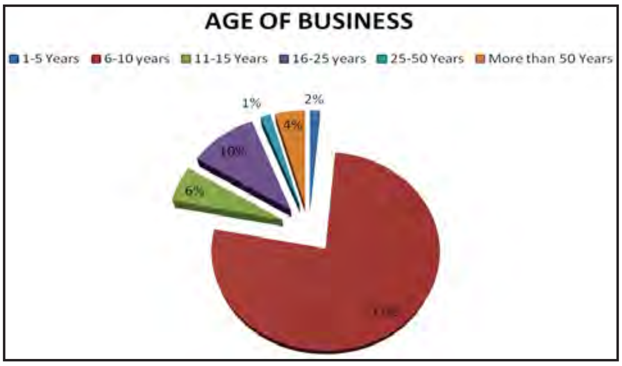


Fig. 11: Age of Business

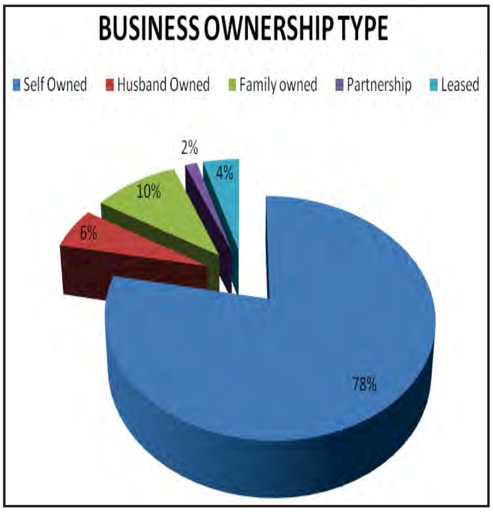


Fig. 12: Type of Ownership of the Business

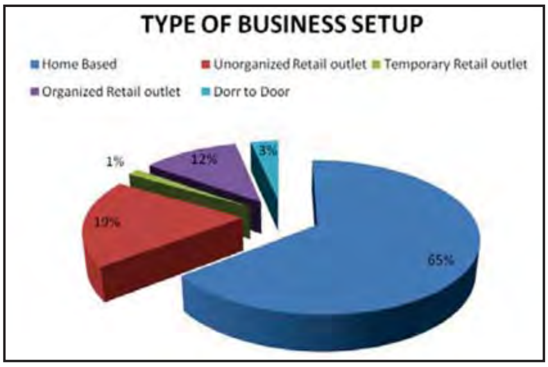


Fig. 13: Type of Business Set Up

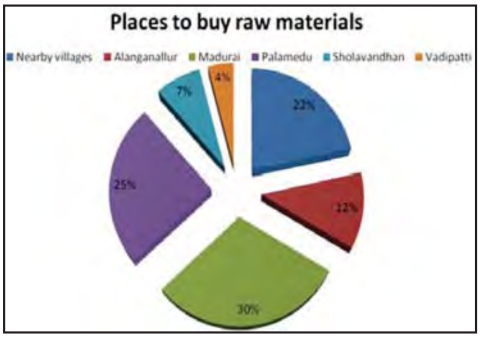


Fig. 14: Places to but Raw Materials

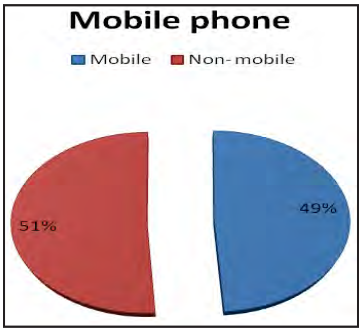


Fig. 15: Distribution of Respondents Having Mobile Phones

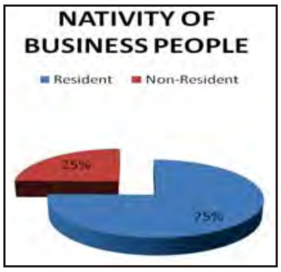


Fig. 16: Nativity of Business People

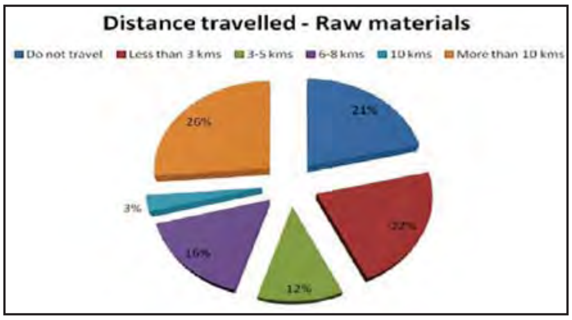


Fig. 17: Distance Travelled to Purchase Raw Materials

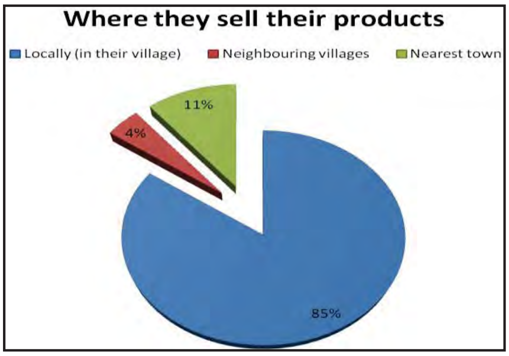


**Fig. 18: Distance Travelled to Sell the Products**

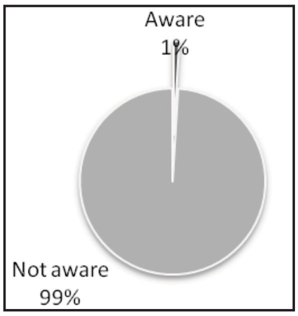


**Fig. 19: Awareness about Financial Products**

**Table 1: Population in each village**

| Name | Popula-tion | Name | Popula-tion |
|---|---|---|---|
| A.Kovilpatti | 876 | Manickampatti | 650 |
| Ambalathadi | 1195 | Maravapatti | 1102 |
| A.Ramnagar | 145 | Maravapatti | 1102 |
| Anaikulam | 502 | Meenakshipuram | 186 |
| Arasampatti | 545 | Mettupatti | 2105 |
| Ariyur | 860 | Nagammakoil | 120 |
| Athanoor | 865 | Nagari | 248 |
| Ayyankottai | 1074 | Narayanapuram | 2013 |
| Ayyur | 159 | Paraipatti | 1100 |
| C.Pudur | 2049 | Periyaoorcheri | 876 |
| Chatravellalapatti | 945 | Pillaiyarnatham | 749 |
| Chinnaoorcheri | 458 | Rajakalpatti | 1210 |
| Devaseri | 1105 | Siruvalai | 1501 |
| Errampatti | 1902 | Sithalankudi | 1261 |
| Gengamuthoorpatti | 459 | sukkampatti | 300 |
| Jallikodankipatti | 205 | T.Kozhinjipatti | 749 |
| Kalanai | 1054 | Tettur | 1082 |
| Kattakulam | 455 | Thoppur | 102 |
| Kodangipatti | 1665 | V.Puthur | 251 |
| Konapatti | 542 | Vairavanatham | 879 |
| Kuruvithurai | 1298 | Valaiyapatti | 1453 |
| Lakkampatti | 264 | Vayalur | 1190 |

**(a)**

**(b)**