

ROLE OF MICRO FINANCE COMPANIES IN THE DEVELOPMENT OF WOMEN- A STUDY IN MADURAI DISTRICT

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MADURAI KAMARAJ UNIVERSITY
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1.1 Introduction

Micro Finance is being used as an effective tool to alleviate poverty and to ensure the financial sustainability of the poor people , especially the rural women. As a provider of loan to individuals with low income to start and or to run self employment Micro Finance emerges as an important source of finance for those deprived of banking related services and an effective means to promote economic development, to generate employment and to support micro entrepreneurs and small business people. It enables the growing entrepreneurs to raise reasonable business loan safely and consistent with ethical lending process.

With a huge segment of the world's underprivileged, India is likely to have a large possible demand for micro finance which necessitates the consideration of changing role of micro finance on rural development in India. Micro Finance denotes exceptionally small loans to very poor families to enable them to engage into productive activities. Micro Finance Bank is an Institution that extends small loan or micro finance to applicant who financially belongs to the lowest group of society. Loans are extended to borrowers for the start of a business, repair of houses and enhancement of the general living condition of their families and the community. Micro finance is considered as a tool for socio – economic development, and can be differentiated from donations.

When it comes to rural development, despite the growth of the credit infrastructure, credit flow to the poor and especially to poor women, remained next to nothing which led to the set up of National Bank For Agriculture and Rural Development (NABARD) with the objective of framing appropriate policy for rural credit, provision of technical assistance, backed liquidity support to banks, supervision of rural credit institutions and other developmental initiatives. But later it was found that the existing banking policies, systems ,procedures, deposits and loan products were possibly not well matched to meet the instant needs of the poor.

It was later understood that the preference of the poor was on the easy accessibility to these services and products, over the cheap financed credit. The unfriendly, though not hostile, attitude of the financial institutions kept the borrower far away from them. Hence alternative policies, systems and procedures, savings and loan products, other matching services, and new delivery mechanisms, which would fulfill the requirements of the poorest, especially of the women members of such families have to be evolved and executed. The increasing emphasis on Micro Finance for improving the access to credit for the poor forced a large number of NGOs to start their own micro finance programme's to develop the people in their respective areas. Thus Micro Credit has become a major tool of development.

Interestingly non – profit NGO's in India have taken the timely steps in the right direction to effect changes a major portion of significant institutional structure to assist and encourage the activities of these groups. They originally initiated the concept of Micro Finance and continue to work towards the delivery of Micro Finance projects in India especially for rural development.

1.2 Micro Finance in India

The term micro finance came into existence in 1970 when organizations, such as Grameen Bank of Bangladesh with the micro finance pioneer Muhammad Yunus, were starting and shaping the modern industry of micro financing. Even Micro finance In India can map out its origin back to the early 1970s when the Self Employed Women's Association (SEWA) of the state of Gujarat formed an urban co operative bank, called the Shri Mahila SEWA with the objective of providing banking services to poor women employed in the unorganized sector in Ahmadabad City, Gujarat. The micro finance sector went on to evolve in the 1980s around the concept of SHGs, informal bodies that would provide their clients with much – needed savings and credit services

The large size and population of around 1000 million, places India's GDP among the top 20 economies of the world. However, out of 400 million people or about 60 million households who live below poverty line only about 20 percent have access to credit from the formal sector and a large segment of the rural population has no accessibility to the recognized financial intermediary services, including savings. Credit on rational terms to the poor would certainly ensure mitigation of poverty. Hence micro credit assumes significance in the Indian context. With about 60 million households below or just above the strictly defined poverty line and with more than 80 percent unable to access credit at reasonable rates, it is obvious that there are certain issues and problems, which have obstructed the reach of micro finance to the needy. Despite globalization and liberalization of the economy, opportunities for the unskilled and illiterate people are not increasing fast enough, as compared to the rest of the economy. In this context, the institutions involved in micro finance have a significant role in reducing inequality and contribution in rural development for overall growth.

Over a quarter of Indian population lives below poverty line. The world Bank reports that India accommodates, around 260 to 290 million poor, numbers that rise to around 390 million if poverty is measured by the International Standard of those living on less than 1US\$ a day. Almost half of India's poor, that is nearly 133 million, are found in three states of Uttar Pradesh, Bihar, and Madhya Pradesh. Rural area in India is the home of three quarters of India's poor which is supported by the increasing urban and rural disparities. The Indian government's poverty reduction strategy focuses on infrastructure, social development (especially education and health),and rural livelihoods. The improvement of rural livelihoods is the aspect of poverty reduction that Micro finance Institutions concentrate on. Most poor people manage resources to develop their

enterprises and their home over a time. Financial services enable the poor to force their initiative, accelerating the process of assembling incomes, assets and economic safety.

Traditional finance Institutions hesitate to lend money to the low – income families and women – headed households and, the income of many self employed households is not stable, regardless of the size. A large number of small loans is the need of the hour to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for guarantee which many low – income households do not possess. Over the last ten years, however, successful experiences in providing finance to small entrepreneurs and producers show that poor people, when given access to responsive and timely financial services at market rates, pay back the loans and use the profits to increase their income and assets. This is not shocking since the only realistic alternative for them is to borrow the money from informal market. Community banks, NGOs and credit groups around the world have shown that these micro enterprise loans can be profitable for borrowers and for the lenders, making micro finance one of the most effective poverty reducing strategies.

Indian government has considerably enhanced allocation for the provision of education, health, sanitation and other facilities which promote capacity building and well being of the poor. The Indian government lays emphasis on providing financial services to the poor and under privileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan at concessional rate to priority sector which included agriculture and other rural activities and weaker sections of society in general. The aim was to provide resources to help the poor start micro enterprises to attain self sufficiency. The government of India had also launched various poverty alleviation programmes like Small Farmers Development Scheme (SFDS) 1974 -1975, Twenty Point Programme (TPP) 1975, National Rural Development Programme (NRDP) 1980, Integrated Rural Development Programme (IRDP) 1980, Rural Landless Employment Guarantee Programmes (RLEGP) 1983, Jawahar Rozgar Yojana (JRY) 1989, Swarna Jayanti Gram Swarajgar Yojana (SGSY) 1999 and many other programmes. But none of these programs achieved the desired goal because of poor execution and malpractice on the part of government officials. Public funds meant for poverty alleviation were misappropriated or diverted through manipulation by the locally powerful or corrupt. To supplement the efforts of micro credit government of India had started a scheme namely Integrated Rural Development Programme (IRDP) in 1980. But these supply side programmes (ignoring demand side of economy) achieved little. It involved the commercial banks in giving loan of less than Rs 15000 to socially weaker section.

1.3 Micro Finance and Development of Women

The Micro Finance initiative in the private sector in India can be traced back to the initiative undertaken by Shri Mahila SEWA (Self Employed Women's Association) Janata Sahankari Bank Ltd 1949 for providing banking services to the poor women employed in the unorganized sector in Ahmadabad in Gujarat. This Bank was established at the initiative of 4000 self employed women workers who contributed a share of Rs 10 each with a specific objective of providing credit to these women so as to empower them and free them from the vicious circle of debt. In 2009 SEWA Bank had over 318,594 account holders with a total working capital of Rs 1291.89 million.

Though women are equal half of the society. Their role in economic activities and decision making is very low. Micro financial schemes play a vital role in increasing women's participation in economic activities and decision making. There has been huge growth of organization, known as Micro Finance Companies (MFC) in the field to deal with the micro financial activities with increasing demand for rural finance, and the shortages of formal sources, the MFCs have tremendous challenges and opportunities in micro finance in India. As familiarity of women with finances responsibility; makes them trustworthy, reliable and prompt savers development of women also occupies central place to wide development goals. Women development is a crucial factor in the eradication of poverty, as the women are the key contributors to the economy and to fighting with poverty through both remunerative and un - remunerative work at home, in the community and in the workplace. MFC's have been recognized as one effective means of empowering women.

1.4 Statement of the Problem

Micro Finance has been playing a pivotal role in the alleviation of poverty of the poor in general and rural women in particular since 1990 by ensuring financial sustainability, through the funds raised from various agencies including United Nations Development Programme (UNDP) and United States Agency for International Development (USAID), World Bank. It is found that the micro credit programmes have proved their mettle in the upliftment of the rural poor and further they have contributed their mite for the development of the various stake holders, particularly women. There is, however, a concern for financial stability of the Micro Finance Companies.

Despite support from the Central / State Governments, Commercial Banks and Financial Institutions, the financial position of some of the Micro Finance being nodal agency is found to be unstable chiefly because of the financial mismanagement and the lack of managing capability of the persons at the helm of affairs. Hence the researcher makes an attempt to study the "Role of Micro Finance Companies in Development of Women". which would provide some inputs to the

Micro Finance Companies for implementing changes in providing micro finance to the needs of women members which in turn promote Women Development.

1.5 Objectives of the study

Based on the proposed research model the objectives of the study are listed below:

- To analyze the socio-economic profile of the highly experienced and less experienced respondents before and after joining Micro Finance Companies.
- To measure the level of awareness of respondents towards Government Schemes for women.
- To measure the members' attitude towards the services offered by the Micro finance Companies.
- To examine the members' economic development through Micro Finance Companies.
- To identify the factors which enable and effect women development through Micro Finance Companies.

1.6 Hypotheses of the study

Based on the objectives of the present study, the following hypotheses are formulated;

- ❖ There is no significant relationship between socio-economic profile of the highly experienced and low experienced members.
- ❖ There is no association between motives to join Micro Finance Companies by the highly experienced and low experienced members.
- ❖ There is no association between socio-economic profile of the members and changes in economic conditions before and after joining Micro Finance Companies.
- ❖ There is no significant difference between the socio-economic profile of the members and their economic development through Micro Finance Companies.
- ❖ There is no significant difference between in the involvement of highly experienced and low experienced members towards Micro Enterprises' activities.
- ❖ There is significant association between the preference of highly experienced and less experienced members towards the repayment period of time.
- ❖ There is no significant relation between the level of awareness of highly experienced and less experienced members towards Governments schemes.
- ❖ There is a significant association between the highly experience and less experienced members in respect of the factors affecting the growth of women development.

1.7 Need of the study

The Micro Finance has been introduced and promoted to put an end to the lack of access to finance to the rural poor particularly women. Micro Finance and micro credit aim at the creation and sustenance of women empowerment. The services are micro credit, insurance savings products

and so on. One of the models adopted for the disbursement of micro credit is Micro Finance Companies(MFC). The role of which in Women Development at the local area for future policy implications has to be thoroughly examined. Since the women development can be assessed in various dimensions which include economic, social, cultural, political, and psychological spheres, there is a need to focus on all united development among the women through the Micro Finance Companies. Hence, the present study has made an attempt on this aspect.

1.8 Scope of the Study

The present study takes into account of women members who availed Micro Loans from the top select six Micro Finance Companies in Madurai District. The scope of the study has been restricted to cover the women awareness and their attitude towards Micro Finance offered by these Institutions. The researcher has focused on the factors which determines the demand for micro finance and its effect on women development through Micro Finance Companies. This study also determine the important discriminate aspects among the less experienced and highly experienced members of Micro Finance Institutions.

1.9 Research Methodology

A systematic analysis of information is vital for any research. In order to obtain reliable results, it is essential to evolve scientific method of data collection and apply appropriate and reliable technique for the analysis of information. The Research Methodology followed in the current study is discussed in the following heads,

1.9.1 Research Design

A research design is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It is a frame work or blue print that plans the action for research project. The present study has made an attempt to describe the background of the members of Micro Finance Companies and their view's on the economic development, women development, schemes offered by Micro Finance Institutions, factors which enable or affect women development. It is descriptive in nature. Apart from this the present study has its own objectives and structured methodology.

1.9.2 Selection of Study Area

The researcher has selected Madurai District for this study. The present study is confined to selected women beneficiaries of Micro Finance Companies at Madurai District of Tamilnadu. Even though agriculture is the major occupation of the people in Madurai, the Government has set up Industrial Estates in different parts of the city such as SIDCO Industrial Estate, K.Pudur, Kappalur, Hoisery Estate, Urangaanpatti, Electrical and Electronics Industrial Estate, Automobile Industrial Estate and launching Economic Zone to rise Industrial growth as well as building entrepreneurs and creating new jobs. DIC and Centre for Entrepreneurship Development also

organizes programmes to promote entrepreneurship among women. Moreover Finance is the major determinant for the women to succeed in their business. Hence many Micro Finance Companies in Madurai District facilitate the women to provide finance at their door step. In this context, an attempt is being made to study the Role of Micro Finance Companies in Madurai District.

1.9.3 Selection of Sampling Units

The sampling plan of the study consists of different stages, the sampling considered for the study is multi stage sampling technique.

Stage 1: This stage comprised of Micro Finance Institutions in India. Among the Micro Finance Institutions operating in India, the top twenty companies are selected based on the volume of transactions. Annapurna Micro Finance PVT ltd is the number one Micro Finance Company in India based on the volume of transactions. It is followed by Arohan Financial Services PVT, Kolkata and Asirvad Micro Finance Pvt. Ltd at Madurai District.

Stage 2: The researcher has selected six Micro Finance Companies namely S.M.I.L.E Microfinance Limited, Asrivad Micro Fianace Limited, Grama Vidiyal Micro Finance Pvt Ltd, Equitas Micro Finance Ltd, Janalakshmi Financial Services Ltd, Madura Micro Finance Ltd. That form part of the top twenty Micro Finance Institutions and that are operating in Madurai District.

Out of the six Micro Finance Companies selected for the study, S.M.I.L.E has two branches in Madurai and all other companies have one branch each. Similarly, S.M.I.L.E Micro Finance Ltd., has the highest membership in Madurai (713) that is followed by Asirvad Micro Finance Ltd., (324) and Grama Vidiyal Micro Finance Pvt. Ltd., (308).

Stage 3: In this stage the the sample size of the study is determined by applying Solvin's formula. The formula is

$$n = \frac{N}{1 + Nc^2}$$

Whereas n = Sample Size, N =Total Population

And e – error of margin. In the present study.

$$n = \frac{2187}{2187(.03)^2 + 1} = 738.85 = 739$$

The determined sample size of 739 members is distributed to each Micro Finance Company on the basis of the number of members in each group to the grand total. The distribution of company wise sample members is shown in Table 1.1

Table 1.1**Selected Respondents for the Study**

S.No	Name of the Company	Sample	Percentage to the total
1.	S.M.I.L.E Microfinance Limited	241	32.61
2.	Asrivad Micro Fianace Limited	109	14.75
3.	Grama Vidiyal Micro Finance Pvt Ltd	104	14.07
4.	Equitas Micro Finance Ltd	99	13.39
5.	Janalakshmi Financial Services Ltd	97	13.14
6	Madura Micro Finance Ltd	89	12.04
	Total	739	100.00

A maximum of 241 members are chosen from S.M.I.L.E Microfinance Limited, followed by Asrivad Micro Finance Limited and Grama Vidiyal Micro Finance Pvt Ltd with the sample size of 109 and 104 respectively. The selected sample size of Equitas, Janalakshmi Financial Services Ltd and Madura Micro Finance Ltd are 99, 97 and 89 respectively. The respondents from each Micro Finance Company are selected on the basis of (random method). which means that, the applied sampling procedure of the study is stratified proportionate random sampling.

1.9.4 Tools for collection of Data**1.9.4.1 Pilot Study**

In order to collect primary data, a Pilot study was carried out with 10 members each from all six Micro Finance Companies in the study area. Based on their feed back, necessary and relevant addition, deletion, inclusion and simplification were carried out to prepare the Interview schedule to collect the primary data from the chosen respondents.

1.9.4.2 Primary Data

The present study is based on both primary data and secondary data. The primary data for the study has been collected by applying the interview schedule specially designed for the study. The interview schedule consists of five parts. The first part deals with the profile of the members and their reasons for joining Micro Finance Companies. The second part focuses on various indicators of economic development of the members of Micro Finance Companies both before and after joining Micro Finance Companies. The third part examines members view's on various services offered by Micro Finance Companies. The fourth part includes the various components of women development namely income, wealth, movable assets and empowerment of members of Micro Finance Companies before and after joining Micro Finance Companies. The final part of the

schedule discusses the factors which enable and affect the women empowerment through Micro Finance Companies.

1.9.4.3 Secondary Data

The secondary data for the study has been collected from published and unpublished sources related to Micro Finance. Statistical Hand book of Madurai District, The other sources include Annual report of NABARD, Books, Journals, Newspapers, Magazines, Periodicals, Research reports, related websites and the like.

1.9.4.4 Reliability and Validity Test

The reliability of the variables, included in each construct, had been computed with the help of Cronbach Alpha. The maximum threshold of Cronbach's Alpha is 0.60. In the present study, the Cronbach Alpha has been computed to test the overall reliability of variables in each construct related to various aspects in women Development through Micro Finance Companies.

1.9.5 Tools for Analysis of Data

The researcher used a combination of methods to analyse the data. Different statistical tools were employed for analyzing the data. To draw meaningful inference, the collected data has been processed with the help of appropriate statistical tools which are listed below:

1. Analysis of Variance
2. Confirmatory Factor Analysis (CFA)
3. Two Group Discriminant Analysis
4. 't' Statistics

1.10 Research Gap

Even though, the studies related to Micro Finance and its impact are too many, there is no exclusive study on the role of Micro Finance Institutions on women development in Madurai District. Hence, this research gap motivated the researcher to study the "Role of Micro Finance Companies in the Development in Women in Madurai District.

1.11 Limitations of the study

- ❖ The scope of the study is confined to only Micro Finance Companies at Madurai District.
- ❖ Only six companies are selected for the study out of top 20 Micro Finance Companies.
- ❖ The Scope of the study is confined to the members of Micro Finance Companies in Madurai only.

- ❖ Level of women development through Micro Finance Companies is measured exclusively on the bias of the views expressed by the respondents at pre and post Micro Finance Companies period.

1.12 Chapter Scheme

Chapter 1: Introduction

This chapter deals with introduction of research, Micro Finance in India, Micro Finance and Women Development, statement of the problem ,objectives, hypotheses, need of the study , scope of the study, research design, conceptual model of study and limitations of the study.

Chapter 2: Review of Literature

This chapter deals with various related studies conducted in the past which focus on the research problem according to the objectives of the study.

Chapter 3: Theoretical Perspective of Micro Finance

This chapter reveals the theoretical perspective of the Micro Finance Companies in India.

Chapter 4: Analysis of Socio-Economic Profile of the Respondent

This chapter deals with the Socio-economic profile of the members in the study area, level of awareness of Government scheme and their attitude on services offered by Micro Finance Companies,

Chapter 5:

This chapter analyse the role of Micro Finance Companies towards women development in the study area.

Chapter 6: Summary and Conclusion

This chapter presents the summary of findings and conclusions of the study.