MFIs Lending and Poverty Reduction

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ABSTRACT

The paper aims to study the impact of the Microfinance lending in India as a powerful instrument for poverty Reduction. Social businesses like microfinance, due to their sensitive client base, need to walk a fine line to balance their commercial interests with the social and moral expectations of a wide variety of stakeholders. This study attempted to investigate the effects of MFIs on poverty reduction. It intended to cover credit facilities provided by the MFI and clients perception on income improvement and/or reduced poverty levels. The study found that there is an impact of Micro Finance Institutions (MFIs) lending on income levels of beneficiaries and poverty reduction.

Key wards: *Micro-credit, Poverty Reduction, Microfinance, Poverty and Micro Finance Institutions (MFIs)*

Introduction

Poverty is a pervasive problem in our society. Spanning across the world, poverty exists in different levels and various forms. In 2005, the World Bank revised the international poverty line up from $1 a day to $1.25 a day, but countries are allowed to set their own national poverty line. At the current threshold of $1.25 a day, the World Bank estimates that around 25% of the population in developing regions lives below the poverty line (United Nations, 2009), the figure translates to 1.3 billion people living in poverty or about 20% of the global population (The World Bank Group, 2010).

The World Bank broadly defines poverty is a "pronounced deprivation in well-being" (Khandker & Haughton, 2009). Poverty is often related to inadequate incomes. Recent studies, however, emphasize that five clusters disadvantages (lack of assets, physical weakness, isolation, vulnerability and powerlessness) characterize the poor (Deaton, 2008). A distinction between poverty Reduction and reduction is often made in this regard (Banerjee et al. 2010). The former is a short-term improvement in the material position of the poor, while the latter is   long-term reduction in the dependency of the poor on those aspects of the structure which perpetuate poverty, and of vulnerability with respect to changes in their environment.

Increasing access to credit for the poor has always remained at the core of Indian planning in fight against poverty (India Poverty Report, 2011). Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. However, conventional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households.

Literature Review

Several studies have been published on microfinance and poverty reduction. In some of these studies, microfinance has brought positive impact to the life of clients, boost the ability of poor individuals to improve their conditions and others have indicated that poor people have taken advantage of increased earnings to improve their consumption level, health and build assets. It also helps them to diversify the household income, smoothen the household expenditure and enable them to cope with economic shocks and fluctuations (Ledgerwood, 1998; Littlefield, Murduch, & Hashemi, 2003; Robinson., 2001).

According to the finding of panel data, Bangladeshi microfinance was found to have positive effect on poverty reduction and household expenditure especially food and non-food (Khandker 2005). The Uganda microfinance has a positive impact on the rural clients "*households*" income diversification and assets accumulation (Morris and Barnes 2005). Based on retrospective data gathered from Guatemala and Ghana microfinance instructions, the impact of microfinance was shown to be positive on borrowers' households as well as businesses (Mcintosh, Villaran, and Wydick 2008). Microfinance has positive

impact on the borrowers' income especially in urban areas in India (Imai et al 2010). However, other studies have shown that microfinance is said to play insignificant role towards poverty reduction.

Purpose of Study

The purpose of the study was to examine the effects of Micro Finance Institutions on poverty reduction in Andhra Pradesh. The study restricted to select beneficiaries in Andhra Pradesh.

Objectives of the Study
The study was guided by the following objectives:
- To study the impact of MFIs lending on income levels of Beneficiaries.
- To measure the impact of MFIs lending on Poverty Reduction in Andhra Pradesh.

Hypotheses
- The MFIs lending on improving the income levels of beneficiaries is insignificant.
- There is no impact of MFIs lending on poverty Reduction.

Research Methodology

The study is based on primary data. The primary data was collected from select Micro Finance Institutions and beneficiaries through structured schedules. The study used descriptive survey design. The primary data was collected through schedules. The field survey has been carried out in the Andhra Pradesh, through random sampling technique and 600 respondents were selected for the field survey. It would also help coverage of a wide area using representative samples.

Data Analysis

The data ascertained through the structured interview schedules were analyzed and interpreted with the help of statistical tools: (i) Chi-square (x^2) test and (ii) factor analysis. Further, care was taken to relate respondents comments and observations to draw unbiased inferences on the facts which revealed by the study.

Social Economic Background of Select Beneficiaries

Age, social status, marital status, education, type of family, annual income and rate of interest etc, are some of the important variables that affect the beneficiaries in their empowerment and development. Microfinance has emerged as a needful programme to cater to the needs of the most underprivileged people (Socio Economic Survey, 2010-11). The major concern today is ever increasing poverty and there is urgent need of empowering, enabling the most neglected sections of the society through original support to all poverty reduction programmes. Considering the poverty of funds with poor people, the need of hour is to provide adequate credit to the needy people to enable them to undertake entrepreneurial activity. Microfinance is expected to play a pivotal role in poverty eradication and employment generation.

The analysis of data is as follows.

Table – 1
Income Earned by Respondents before and after joining JLG

S.No	Income (Rs. per month)	Before joining		After joining	
		No. of Respondents	Percentage	No. of Respondents	Percentage
i	Up to 500	90	15	18	3
ii	501 – 600	168	28	42	7
iii	601 – 700	120	20	72	12
iv	701 – 900	108	18	138	23
v	901 – 1100	78	13	174	29
vi	Above 1101	36	6	156	26
	Total	600	100	600	100

Source: Primary Data

It is evident from the table 1 that MFIs offer loans to poor and non-poor clients. It is observed from the above table that the average monthly income earned above Rs.1101 drastically increased. According to respondents, increase in income has been spent on better nutrition for the children and on health care of the family.
1. To know whether the income levels of the MFIs clients have increased or not the following hypothesis is tested.

Hypothesis
Ho: "**the MIFs lending on improving the income levels of beneficiaries is insignificant**".

O	E	O-E	$(O-E)^2$	$((O-E)^2)/E$
90	54	36	1296	24
168	105	63	3969	37.8
120	96	24	576	6
108	123	-15	225	1.83
78	126	-48	2304	18.29
36	96	-60	3600	37.5
18	54	-36	1296	24
42	105	-63	3969	37.8
72	96	-24	576	6
138	123	15	225	1.83
174	126	48	2304	18.29
156	96	60	3600	37.5
			CAL VALUE	250.84
			TABLE VALUE	16.7
			DF	5

Since the calculated value (250.84) is more than table value (16.7) at 5 per cent level of significance, the null hypothesis is rejected. It is inferred that there is a significant improvement in income levels of respondents after joining the JLGs.

Further, New Poverty Line suggested by Suresh Tendulkar (which is based on income of people i.e., Rs.672 per month in rural area and Rs.858 per month in urban area) is used to test poverty level of respondents using chi-square test. It is observed from the table 1 that 37 per cent (222) respondents out of sample respondents of 600 are above poverty line before they joined JLGs. It is also evident from the above table that MFIs offer loans to poor and non-poor clients. Impact of microfinance on poverty is

tested for the remaining 378 (63 per cent) respondents, as these respondents are below poverty line before they joined JLGs.

Table – 2
Income Levels of Respondents to Test Poverty Levels

S.No	Income (Rs. per month)	Before joining		After joining	
		No. of Respondents	Percentage	No. of Respondents	Percentage
i	Up to 500	90	24	18	14
ii	501 – 600	168	44	42	32
iii	601-700	120	32	72	54
	Total	378	100	132	100

Source: Primary Data

Table 4 indicates that out of 378 respondents who were below poverty line before joining JLGs, 35 per cent (132/378) were still below poverty line after joining joint liability groups. It means 65 per cent of respondents (378-132=246/378) have come out of poverty. It is clear from the above analysis that microfinance is considered as one of the tools of poverty Reduction.

3. To know whether there is any impact of MFIs lending on poverty Reduction the following hypothesis is tested.

Hypothesis

  Ho: "There is no impact of MFIs lending on poverty Reduction".

O	E	O-E	(O-E)^2	((O-E)^2)/E
90	80	10	100	1.25
168	156	12	144	0.92
120	142	-22	484	3.4
18	28	-10	100	3.57
42	54	-12	144	2.67
72	50	22	484	9.68
			CAL VALUE	21.49
			TABLE VALUE	10.60
			DF	2

Since the calculated value (21.49) is more than table value (10.60) at 5 per cent level of significance, the null hypothesis is rejected. Hence, it is inferred that out of 63 per cent (378/600) of MFIs clients who lived Below Poverty Line (BPL) before joining JLGs 65 per cent (246/378) respondents were out of poverty after joining the joint liability groups.

The following statements indicate the degree of satisfaction or agreement level (on a 5 point scale) of the house hold or a person after he or she has received loan from a microfinance institution. In order to reflect the opinion of MFIs clients the Likert 5 point scale was used as mentioned here under.

Rating Scale: 1= Strongly Disagree 2= Slightly Disagree 3= Disagree 4= Agree

5= Strongly Agree

a.	The rate of interest of micro credit is reasonable	1 2 3 4 5
b.	Procedure of obtaining loans from MFIs/Banks is easier than borrowing from money lender	1 2 3 4 5
c.	The income of members has increased	1 2 3 4 5
d.	The saving of members has increased	1 2 3 4 5
e.	Better facility access to children education	1 2 3 4 5
f.	Better facility access to health care	1 2 3 4 5
g.	Financial status of the family has increased	1 2 3 4 5
h.	Role of women in decision-making process has increased	1 2 3 4 5
i.	Loan received from MFIs/SHGs was helpful to run the small business activities	1 2 3 4 5
j.	Employment opportunities have increased	1 2 3 4 5
k.	Improvement in living standard/livelihood of the family has increased	1 2 3 4 5
l.	Household assets have increased	1 2 3 4 5
m.	Income assets have increased	1 2 3 4 5
n.	Income sources have increased	1 2 3 4 5
o.	Social status in society has increased	1 2 3 4 5
p.	Banking habits have increased	1 2 3 4 5
q.	Business skills have increased	1 2 3 4 5
r.	Leadership skills have increased.	1 2 3 4 5

FACTOR ANALYSIS:

In factor analysis if the extraction value is more, it means most of the respondents are agreeing with the factor. Above communalities analysis indicated that the resondents agreed that their income source have increased (.766) followed by Loan received from MFI was helpful to run the small business activities (.721), banking habits have increased (.687) and business skills have increased (.671).

To find out the beneficiary satisfaction factor analysis is used. It should be clear that the first few factors explain relatively large amount of variance where as subsequent factors explain only small amounts of variance. SPSS then extracts all factors with Eigen values greater than 1, which are nine factors in the above table. First nine factors influence 57 per cent satisfaction levels of beneficiaries. The above analysis also indicates that higher values have more influence on customers' satisfaction.

While preparing final factor analysis table each question with highest value (ignore sign) goes to the related factor. Example in first row the highest value 0.460 is in 5th column i.e. question 'a' goes to factor 5. In second row the highest value 0.373 in 3rd column i.e. question 'b' goes to factor 3.

Questions Combined in Factors

Factors	Questions	% of variance	Cumulative %
1	c, h, o, r	7.358	7.358
2	q	6.775	14.133
3	b, k, n	6.570	20.703
4	e, m	6.343	27.046
5	a, f, i	6.292	33.337
6	g	6.155	39.493
7	d, p	5.897	45.390
8	l	5.783	51.173
9	j	5.585	56.758

From the above table it is clear that the factors 1, 2, 3, 4, 5 are influencing 33.337% in which questions a, b, c, e, f, h, i, k, m, n, o, q, r are present which should not be neglected.

Factor 1: Income, Social status, Leadership skills and Role of women in decision-making has increased; **Factor 1 is named as women empowerment**.

Factor 2: Small business, Business skills have increased; **Factor 2 is named as better trading.**

Factor 3: Income sources and living standards increased due to easy loans obtained from MFIs/Banks; **Factor 3 is named as enhancement of living standards**.

Factor 4: Improvement in children education and income assets; **Factor 4 is named as better education**.

Factor 5: Improvement in health care and small business due to microloans at reasonable interest rate; **Factor 5 is named as health**.

Conclusion

India is a country of continental proportions, and poverty is a multidimensional phenomenon and the government of India launched many initiatives that have a bearing on poverty such as Bharat Nirman, National Rural Employment Guarantee Act, Sarva Shiksha Abhiyan and Rural Health Mission etc. however, due to high population growth rate, illiteracy, ignorance, caste based politics, urban and rural divide, social inequity and discrimination still people living below poverty line is high. As per the official estimates of poverty released by the Planning Commission poverty ratios of rural areas and urban areas of Andhra Pradesh for 2004-05 were 11.2 per cent and 28.0 per cent respectively and that for the State as a whole was 15.8 per cent. The corresponding figures for All India during the same period were 28.3 per cent, 25.7 per cent for rural and urban areas and 27.5 per cent for the Nation as a whole.

Microfinance is one of the poverty alleviation tools which has gained world wide recognition since 1990s and has been proven to have positive effects on poverty levels in developing countries. For the present study 600 beneficiaries have been selected to know whether their income levels have increased or not and whether they have come out of poverty or not after joining joint liability groups. The analysis revealed that the income levels of beneficiaries have increased after joining the joint liability groups.

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Annexes

Factor Analysis -1

Communalities		
	Initial	Extraction
The rate of interest of micro credit is reasonable	1.000	.652
Procedure of obtaining loans from MFIs/Banks is easier than borrowing from money lender	1.000	.504
The income of members has increased	1.000	.473
The saving of members has increased	1.000	.522
Better facility access to children education	1.000	.546
Better facility access to health care	1.000	.592
Financial status of the family has increased	1.000	.475
Role of women in decision-making process has increased	1.000	.521
Loan received from MFI was helpful to run the small business activities	1.000	.721
Employment opportunities have increased	1.000	.632
Improvement in living standard/livelihood of the family has increased	1.000	.574
Household assets have increased	1.000	.549
Income assets have increased	1.000	.554
Income sources have increased	1.000	.766
Social status in society has increased	1.000	.331
Banking habits have increased	1.000	.687
Business skills have increased	1.000	.671
Leadership skills have increased	1.000	.445
Extraction Method: Principal Component Analysis.		

Factor Analysis - 2

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.324	7.358	7.358	1.324	7.358	7.358
2	1.219	6.775	14.133	1.219	6.775	14.133
3	1.183	6.570	20.703	1.183	6.570	20.703
4	1.142	6.343	27.046	1.142	6.343	27.046
5	1.132	6.292	33.337	1.132	6.292	33.337
6	1.108	6.155	39.493	1.108	6.155	39.493
7	1.062	5.897	45.390	1.062	5.897	45.390
8	1.041	5.783	51.173	1.041	5.783	51.173
9	1.005	5.585	56.758	1.005	5.585	56.758
10	.991	5.507	62.265			
11	.979	5.440	67.705			
12	.914	5.078	72.783			
13	.901	5.006	77.789			
14	.870	4.832	82.621			
15	.820	4.556	87.177			
16	.797	4.428	91.605			
17	.759	4.218	95.823			
18	.752	4.177	100.000			

Extraction Method: Principal Component Analysis.

Factor Analysis - 3

Component Matrix^a

	Component								
	1	2	3	4	5	6	7	8	9
The rate of interest of micro credit is reasonable	.195	-.071	.092	-.358	.460	.111	.095	.380	.308
Procedure of obtaining loans from MFIs/Banks is easier than borrowing from money lender	-.051	.356	.373	.344	.121	.186	-.162	-.021	.203
The income of members has increased	.409	.240	.242	.123	-.028	-.396	.025	.081	-.102
The saving of members has increased	-.201	-.103	.233	.244	.270	.296	.348	-.266	.069
Better facility access to children education	.195	-.031	.355	-.401	-.064	.260	.191	.279	.184
Better facility access to health care	-.065	-.267	.320	-.035	-.465	-.182	-.249	.295	.123
Financial status of the family has increased	.113	-.037	.121	.390	.000	-.465	.229	.017	.158
Role of women in decision making Process has increased	.609	.028	-.076	-.032	-.080	.037	.038	-.306	.200
Loan received from MFIs/SHGs was helpful to run the small business activities	-.172	.154	.144	.071	.527	-.187	-.425	.177	-.341
Employment opportunities have increased	-.127	.236	-.302	.160	-.014	-.375	.234	.241	.436
Improvement in living standard/livelihood of the family has increased	-.002	.115	-.570	-.053	-.185	.129	.008	.349	-.245
Household assets have increased	.362	.176	-.064	.332	.054	.239	-.087	.453	-.011
Income assets have increased	.050	-.328	.214	.413	-.124	.204	.370	.312	-.384
Income sources have increased	.154	-.376	-.403	.199	.398	.009	.152	.000	.073
Social status in society has increased	-.309	-.274	.086	-.122	-.087	-.225	.269	.064	-.061
Banking habits have increased	-.126	-.231	-.125	.369	-.223	.322	-.400	.008	.391
Business skills have increased	-.142	.656	-.026	.006	-.220	.232	.332	-.032	-.081
Leadership skills have increased	.562	-.114	.001	.013	-.105	.005	-.077	-.202	-.240

Extraction Method: Principal Component Analysis.

a. 9 components extracted.