

MINOR RESEARCH PROGRAMME

By

Dr Heribert Nazareth

Socio- Economic Impact Of Micro

Financing Through Self Help Groups- A Study With Reference To Mangalore Taluk

Executive summary

Self-help groups (SHGs) are usually informal groups whose members have a common perception of need and importance towards collective action and SHG is a small economically homogeneous affinity group of the rural poor voluntarily coming together to save small amount of money regularly, which is deposited in a common fund to meet emergency needs and to provide collateral free loan decided by the group. Of course, the basic principles of the SHGs are group approach, mutual trust, organization of small and manageable groups, group cohesiveness, spirit of thrift, demand based lending, collateral free, women friendly loans, peer group pressure in repayment, skill training capacity building and empowerment. The broad goals of a SHG are to bring about personal and economic- social change for its members and society. Thus, the distinctive feature of the SHGs is creating socio-economic awareness among the members. SHG is formed and groomed by a NGO or a bank branch or a Government agency called a Self Help Promoting Institution (SHPI).

Without personal assets, paid or self employed, the world's poor has found it exceptionally grueling to generate sustainable income opportunities. Where commercial lending demands to acquire credit, their unenviable and impoverished circumstances render the impoverished so competent to access external financial support mechanism.

Micro finance has increasingly begun to be seen as a contributor to the reduction of poverty in developing countries, by creating opportunities for the poor to engage in economic and productive activities (UNSCO 1997). The concept of micro finance involves the accessibility to collateral-free loans from financial institutions by small groups or association of poor individuals. The membership fee collected by the group is deposited in banks as a savings, which in turn imparts eligibility to these groups to access institutional finance.

Micro finance schemes are particularly targeted towards poor and rural women, who are often faced with discrimination not only by financial institutions, but also within their own households. The provision of micro financial assistance to women, on one hand can increase their household wealth through income generating activities initiated

through such assistance, and on the other, can empower women. Empowerment of rural women through micro finance does not limit itself to financial empowerment through improvement in income, savings and living conditions and improvement in financial management capability and financial security. This is where the mechanism through which these rural women graduate themselves for accessing microfinance comes into the foray, One form of micro finance mechanism is SHG. SHGs were organized under the initiative of National Bank for Agriculture and Rural Development (NABARD) and directions of Reserve Bank of India. Promoted by the governments as well as non-government organizations, it is a group of rural poor, particularly women, who have volunteered to organize themselves into a group for eradication of poverty of the members through collective internal savings and access to external credit. Access for external credit is achieved through SHG-Bank Linkages based on group solidarity instead of formal collateral.

Objectives

The purpose of the study is to know the demographic characteristics of the people and to know the impact of SHG and micro finance on the economic and socio life of the respondents

The important objectives are:

1. To know the personal data
2. To understand the socio-economic conditions the SHG members
3. To analyse the impact of micro finance through SHGs on the members

Methodology

Exploratory Research design is used for the study. The study pre-dominantly depends on Primary data and Secondary data. Primary data was collected by employing a structured questionnaire. The questionnaire was pre-tested in a initial sample of 20 members for validity and consistency. Secondary data was collected through newspapers, journals magazines and internet. A sample of 300 SHG members are selected at random for study .

To analyze the data collected the statistical tools like percentages and weighted averages mean score are used.

Relevance

Micro Finance involving the extent of small loans and other financial services to low income groups is a very important conduit designed to facilitate financial inclusion and assist the poor to work their way out of poverty. It has the potential to fill the critical gap left by formal financial institutions in providing financial services to the low income groups.

Mainstream institutions shied away from providing financial services to the poor considering them unviable owing to high cost involving in reaching out to the unbanked/under banked areas where there is not enough scale of operations due to low numbers and low value of transactions

Micro Finance became a leading and effective strategy for poverty alleviation with the potential for reaching the poor and transforming lives of poor people. It is argued that micro finance can facilitate the achievements of the Millennium Developments Goals as well as national policies that target poverty reduction, empowerment of women assisting vulnerable groups and improving standard of living.

Chapter classification-

The study on social economic development of Socio- Economic Impact of Micro Financing through Self-Help Groups-A Study with Reference to Mangalore Taluk has divided into four chapters

Chapter 1 deals with Introduction, Historical background, the area covered under the study, relevance of the study, Research Methodology Chapter Classification and conclusion

Chapter 2 deals with Concepts and Review of Literature

Chapter 3 c deals with socio-economic background of the respondents

Chapter 4 deals with summary of the study relevant suggestions and conclusion

Summary and Findings

Majority of the respondents (48.3 percent) are of the age group of above 41 years. More than 85 percent of them are married. Most of the respondents (41.3 percent) are having less than S.S.L.C. qualification and majority of them are having beedi rolling as their occupation. A significant proportion of respondents (74.7 percent) are having a monthly

income of Rs. 5,000- 10,000. Nearly 65 percent of the respondents have more than 8 years of membership in SHG. A significant proportion of respondents adopt weekly savings. A vast majority of more than 85 percent of the respondents save Rs. 500 or less per week. A vast majority of the respondents are of the opinion that SHG through Micro finance help them to improve economic conditions in addition to get loan and increase their habit of savings. After joining SHG, almost all the respondents (97.3 percent) have improved their economic conditions. The information to join SHG and get benefits out of it is mainly obtained through family members (31.7 percent) or through neighbours (13.3 percent). All the respondents selected for study operate their savings bank account through commercial banks. Since amount of expenditure has increases to a large extent, majority of the respondents have borrowed a loan of Rs. 2, 00,000 or more (51.3 percent) and a sizeable number of respondents have borrowed a loan of Rs.1,00,000 - 2,00,000. The loan borrowed by the respondents is mainly utilized for the purpose of house repairs/construction (54.7 percent) and 42.7 percent have utilized the loan for health and education for children. Respondents borrow loan to start some income generating activity. Majority of the respondents (42.7 percent) choose such income generating activity in which the products produced are easily marketable. After joining SHG, the income of the respondents has considerably increased. More than 63.3 percent of the respondents said that their monthly income has increased by more than Rs. 5,000 per month.

The study reveals that SHG through Micro finance has contributed to a considerable extent in the individual development of the respondents. The study reveals that, in addition to have better self-awareness (weighted average mean score 1.67), it has helped in personality development (weighted average mean score 1.40) and freedom to decide mode of savings (weighted average mean score 1.33).With regard to social development of the respondents, a vast majority of the respondents (W. A. M. score 1.69) have freedom to attend social functions. A significant number of respondents expressed their opinion that they have freedom to take decisions regarding education to their children (W. A. M. Score 1.39) and they have freedom to spend their earning (W. A. M. score 1.35). As regards economic empowerment/development of SHG members through micro finance the study reveals that there is significant development in savings (W. A. M. Score 1.98) and there is considerable increase in the family income (W. A. M. score 1.71). In addition it has helped to understand banking operations (w. A. M. Score 1.27) and reduced dependence on male members.

Recommendations

On the basis of the research undertaken as well as information collected through primary and secondary data, following recommendations are suggested

*There should be secure and convenient deposit facilities to groups and individual members of the group. There is substantial scope for introducing new saving products and insurance products or groups as well as individuals.

*Training and capacity building of members for accelerating economic empowerment.

*Participation of community based organisation.

*One room community hall-about 20 percent of SHG groups have no place to conduct meetings. They conducted meetings either on the village or under the shade of village trees etc. This calls for strengthening village infrastructure in terms of providing at least one room community hall where their members can meet and transact business.

*Leadership rotation: Only 18 percent of the sample SHGs follows the practice of rotation or election of leaders. Low leadership rotation is an area of concern. It may lead to major information asymmetry and causation of moral hazards. Therefore leadership rotation or election of leaders is to be strictly to be practised for future sustainability of the group.

*Unenthusiastic attitude of the bankers for the promotion of SHG should be changed. Occasionally they point out the reason like shortage of staff, time etc just to avoid the dealing with SHG promotion. So there is a need for rigorous training for capacity building and to change their attitude to strengthen SHG promoted by bankers.

*SHGs may associate themselves in all developmental work such as infra structure development, construction of schools, roads etc.

* Greater thrust should be given on Human Resource Development.

*Most of the M.F.Is suffer from late loan repayment problem and so there is a need to improve the technique or device for effective recovery of loan.

*Creation of opportunities of Self employment from the financial services to SHG members receive should be focussed for longer financial stability of the poor.

*Proper education and information to members should be emphasised.

- * There should be transparency in the working of SHG groups
- *The SHG-Bank Linkage chain should be reframed as SHG-NGOs-Bank Linkage programme in order to achieve the desired results.
- *The central Government, State Governments and NGOs should make sufficient efforts to increase the number of SHGs through educating the people.
- *The people's participation in SHGs, micro finance and poverty alleviation programmes should be encouraged.
- *Mere credit alone is not an adequate strategy for strengthening SHGs in rural areas, but there is need for the 'post credit services' approach, with the focus on evaluating the mode of loan used productively.
- *Most of the SHG members are illiterate; as a result they cannot maintain proper records and accounts. Therefore some literacy centres are to be opened in order to create awareness and to update their knowledge.

Conclusion

Socio-economic development of the rural poor is the pressing need of the day. A problem cannot be viewed in isolation. The present study provides evidence to the fact that Microfinance through SHGs laid the seeds for rural development because, the all round economic development depends upon rural development. Banking the 'un bankable' through Microfinance is a valuable contribution to the development planning as it presents alternative way to development. It has aided in making the passage from darkness to light for thousands of poor people struggling to breathe.

SHGs of rural women can form of community development activities. The pooling of minuscule and individual financial savings of the members through group activities can act has a strong back bone for women empowerment. Supplemented by the linkages of the SHGs with banks, thereby enabling micro- credit facilities, the financial power of these rural women substantially increased.

The present study evidences the existence of strong linkages of SHGs with banks. The very reason of members, has opined by them, in joining the group is the improved chances of accessibility to loans. Also the opportunity to undertake economic activities through group efforts. Thus, there exist strong positive relation between the reason for joining the group and the existence of bank linkages.

On the realistic aspect it is also found that the members still depend on indigenous money lenders, forcing high interest payments. The Microfinance through SHGs is not still relieving the rural population from the clutches of money lenders. It points to the important fact of insufficiency of funding through the bank linkage programmes. Thus, SHG driven Microfinance may suffer from serious limitations, reducing its possible impact on empowerment. The lack of transparency in the SHG activities and inaccessibility to official records may further hinder the effectiveness of the movement. Thus, what emerges from the present study is a gloomy state of SHG and its access to Microfinance. Insufficiency of finance, lack of transparency in activities and poor use of finance for productive or income generating activities act as a limiting factor in achieving the intended empowerment.
