

## A STUDY ON MICRO CREDIT OF SELF HELP GROUPs IN BODINAYAKANUR TALUK

Dr. M. Manoharan\*

V. Alagu pandian\*\*

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### INTRODUCTION

According to the United Nations Report in 2002, almost one fifth of the world population was living in extreme poverty, earning less than one dollar a day. Nobel Laureate Dr. Muhammad Yunus, the promoter of micro-credit in Bangladesh suggested micro-finance for alleviating poverty. Micro finance is being motioned as an important instrument. Therefore, this concept has attracted the attention of both policy makers and academicians.

Micro finance programmes have been introduced during the last 10 years in many developing countries.

The micro finance programme in India has been adopted after the economic reform measures were adopted. The micro finance sector has grown rapidly over the last decade in India. There are main models of micro finance in India.

- (1) The SHG model under the SHG-bank linkage program (SHG-BLP) and
- (2) The Micro –finance institution (MFI) model.

The present paper is an attempt to study micro credit and their progress with a view to find out the extent of micro credit through them and their weakness.

Micro finance is defined as provision of thrift credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban area. The micro finance enables them to raise their income levels and improve living standards. Micro credit institutions are the ones which provide these facilities.

Micro-finance has usually features as very small loans, no collateral, the formation of borrower groups, borrowers from among the rural and urban poor, loans for income generation etc.

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\*Associate Professor of Commerce, C.P.A. College, Bodinayakanur.

\*\*Lecturer, Institute of cooperative Management, Dehradun.

## STATEMENT OF THE PROBLEM

In India bank loans are offered only against securities. Most of the people don't have assets to offer as securities and therefore, they could not avail any bank loans to undertake any economic activities. It is more of true to Indian women who don't possess any of the family assets, if any, in their own name. The co-operative societies were formed especially in rural areas to meet the financial needs of the people. But the co-operative movement has failed in this country. Thus the financial needs of the poor people remained unfulfilled. They could not participate in the economic development of the country and thereby they could not improve their living conditions. To overcome this problem, NABARD desired and introduced micro credit system to cover unbanked poor people in India. Accordingly Banks were instructed to offer micro credit by having linkages with self help groups. Thus the movement of self help groups especially formed by women gained momentum in our country. In this regard there is a need to study the impact of micro-credit on the living conditions of the poor people and in particular among women folks.

## OBJECTIVES OF THE STUDY

The major objectives of the Study are as follows:

- ❖ To study the socio economic conditions of the sample women beneficiaries of micro-credit scheme.
- ❖ To find out the factors which motivate the members to avail micro finance.
- ❖ To analyse the attitude of SHG members towards micro-credit.
- ❖ To assess the impact of micro credit on the economic conditions of SHG members.
- ❖ To examine the problems encountered by SHG members while availing micro credit and suggest suitable solutions to solve the problem.

## SCOPE OF THE STUDY

This study is mainly confined to analyse the impact of micro credit on sample respondents in the study area. The impact is measured in terms of changes in the level of income, employment, expenditure, savings and borrowings after availing the micro credit. The empowerment through micro credit is measured in terms of social, economical, political, and capacity building after availing the micro credit. Moreover the loan repayment aspect of the target groups is also studied.

## METHODOLOGY AND DATA SOURCE

The data required for the study have been collected from both primary and secondary sources. A structured interview schedule is prepared to collect primary data from sample

self-help group members. Based on physical, cultural and socio-economic environment of the self-help group members in the region, the interview schedule is designed, pre-tested, finalized and detailed information is collected from the members of self help group based on micro finance availed, factors motivated to avail micro-finance the impact and problems faced by them. The secondary data is collected from relevant books and journals like southern economist, industrial herald, and social welfare.

### **Sampling Design**

There are one municipality and 26 NGOs who are in SHG in Bodinayakanur Taluk. Out of 26 NGOs, nine NGOs were selected based on their performance. From each NGO, five self help groups were randomly selected. From each group selected, four self-help group members were selected at random. Similarly five groups were selected at random from the municipality. Here also, four members were selected by using simple random technique. Thus the total sample size was 200. Thus multi-stage random sampling method was adopted with the selection of the NGOs, groups and members.

### **Tools of analysis**

- ❖ To assess the impact of micro-credit on the economic conditions of SHG members paired t-test was applied.
- ❖ To find out the factors which motivate the SHG members to avail micro-finance, factor analysis were used.
- ❖ To find out the attitude of the members towards micro-credit, chi-square test was applied.
- ❖ To analyse the problems faced by them while availing micro credit, garrett ranking technique was used.
- ❖ To study the growth rate in micro – credit based on various schemes, compound growth rate has been used.
- ❖ To study the magnitude of variability, co-efficient of variation was used.
- ❖ To analyse the socio-economic conditions of the sample respondents, simple percentage analyse was used.

### **Study Period:**

The study is based on both primary and secondary data. The primary data were collected from the self help groups during the month of November and December. The secondary data were collected from annual reports of NABARD and RBI for a period of five years starting from 2004-05 to 2008-09.

### Factors Motivate in Availing Micro Credit

A motive is a driving force that causes a person to take action and to satisfy specific needs. By studying motivation, bankers can analyse the major force which influence the SHG members to avail micro credit. Indian SHG members, in particular, are strongly motivated by status and appearance. While availing micro credit the factor that motivate the SHG members in the study area are classified into awareness among members, simple procedure, self employment, low interest and simple repayment procedure. Among these various motivating factors, the dominant factors are analysed with the help of factor analysis.

### Factor Analysis

Mathematically, factor analysis is somewhat similar to multiple regression analysis. Each variable is expressed as a linear combination of underlying factors. The amount of variance a variable shares with all other variables is included in the analysis. The co-variation among the variable is described in terms of a small number of common factors plus a unique factor for each variable. These factors are not over observed. If the variables are standardized, the factor model may be represented as

$$F_1 = W_{i1}X_1 + W_{i2}X_2 + W_{i3}X_3 + \dots + W_{ik}X_k$$

Where

$X_i$  =  $i^{\text{th}}$  standardized Variables

$A_{ij}$  = Standardized multiple regression co-efficient of variable  $i$  on common factor  $j$ .

$F$  = Common Factor

$V_i$  = Standard regression co-efficient variable  $I$  on unique factor  $i$ .

$V_1$  = The unique factor for variable  $i$

$M$  = Number of common factor.

The unique factors are uncorrelated with each other and with the common factors. The common factors themselves can be expressed as linear combination of the observed variables.

$$F_1 = W_{i1}X_1 + W_{i2}X_2 + W_{i3}X_3 + \dots + W_{ik}X_k$$

Where,

$F_i$  = Estimate of  $i^{\text{th}}$  factor

$W_i$  = Weight of factor score co-efficient

$K$  = Number Variable

It is possible to select weights or factor score co-efficient, so that the first factor explains the largest portion of the total variance. Then a second set of weight can be selected, so that the second factor accounts for most of the residual variance, subject to being uncorrelated with the first factor. This same principle could be applied for selecting additional weights for the

additional factors. Thus the factor can be estimated so that their factor scores, unlike the value of the original variables, are not correlated. Further more, the first factor accounts for highest variance in the data, the second factor the second highest and so on.

The rotated factor matrix, for the buying decision factor or attributed of micro credit towards buying behavior is given below.

### Rotated factor matrix for the attributes of micro credit

**Table – 1: Rotated factor matrix for the attributes of micro credit**

	Component				
	1	2	3	4	5
Encouragement and training given by government	.809	-.196	.203	-.008	.139
No need for security	.793	.147	-.081	.256	-.219
Banking services at low cost	.570	.278	-.047	-.304	.550
Simple procedure	.126	.854	.047	-.005	.117
Easy disbursement	-.136	.767	.175	.090	-.113
Self employment	-.084	.104	.818	-.026	-.032
To start micro enterprises	.028	.088	.670	.068	-.034
To avail various promotional assistance	.251	-.020	.588	-.030	.316
Low rate of interest	-.115	-.100	.068	.779	.093
Bankers are very co-operative	.221	.158	-.025	.749	.038
Suitable repayment period	.144	.178	.267	.224	.675
Low amount of installment	.306	.280	.348	-.174	-.624
Simple repayment procedure	.140	.388	-.081	.502	-.556

Extraction Method : Principal Component Analysis.

Rotation Method : Varimax with Kaiser Normalization.

The above table exhibits the rotated factor loading for the thirteen statements (Attributes) of micro credit. It is clear from the table that all the thirteen statements have been extracted into five factors.

**a. Rotation converged in 12 iterations.**

The rotated factor matrix, for the buying decision factor or attributed of micro credit towards buying behavior is given below.

**Table- 2: Factor – 1 Awareness**

Sl. No	Variables	Factor Loading	Communality H <sub>2</sub>
1	Encouragement & Training given by Govt	.809	.753
2	No need for Security	.793	.770
3	Banking Services at Low Cost	.570	.799

Among the attributes of micro credit, the attributes such as 'Encouragement and Training programme given by NGO & Govt' 'No need for security' and 'Banking services which are low cost' constitute factor 1. The above said three attributes with higher factor loading on factor I are characterized as 'awareness' all three attributes which have high communality indicating that the attributes within the factor 1 have very high association among them.

**Table – 3: Factor – 2 Simple Procedure**

SL. NO	Variables	Factor Loading	Communality H <sub>2</sub>
1	Simple Procedure	.854	.762
2	Easy Disbursement	.767	.658

The attributes such as 'Simple Procedure' and 'easy disbursement' with high factor loading constituted factor2. The above said attributes with high factor loading on factor 2 are characterized as "simple procedure".

The higher factor loading on its attributes helps in identifying attributes associated with factor2. All the attributes have high communality indicating that the variables within factor 2 have high association.

**Table – 4: Factor – 3 Self Employment**

SL. NO	Variables	Factors Loading	Communality
1	Self Employment	.818	.689
2	To start micro Enterprises	.670	.464
3	To avail various promotional assistance	.588	.570

It is observed from the above table that the attributes of micro credit such as 'self employment' 'to start-micro enterprises' and 'avail various promotional assistance' constituted factor 3 with higher factor loading. The above said three attributes with high factor loading on factor 3 are characterized as "self employment".

**Table- 5: Factor – 4 Low Interest**

SL. NO	Variables	Factor Loading	Communality
1	Low Rate of Interest	.779	.643
2	Bankers are very co-operative	.749	.637

The attributes such as 'Low rate of Interest' and 'bankers are very co-operative' constituted factor 4. The above said attributes with high factor loading on factor 4 are characterized as 'low rate of interest'. The higher factor loading on its attributes help in identifying attributes associated with factor 4 all the attributes have high community indicating that the variables with in factor 4 have very high association.

**Table – 6: Factor – 5 Simple Repayment**

SL. NO	Variables	Factors Loading	Communality
1	Suitable repayment period	.675	.630
2	Low amount of installment	.624	.713
3	Simple repayment procedure	.556	.739

Among the attributes of micro credit, the attributes, such as 'suitable repayment period', 'low amount of installment' and 'simple repayment procedure' constituted factor 5 with higher factor loading are characterized as 'simple procedure' above three attributes the high communality value of the attributes indicates that the attributes within the factor have very high association among them.

### **Decision Behavior Factors towards micro credit**

The factor analysis of 113 attributes relating to the decision behaviors to avail micro credit, identified five decision factors and the results are presented in table 7.

**Table- 7: Motivating factors of micro credit**

SL. NO	Factors	Eigen Value	Percentage of Variance	Cumulative Percentage of variance
1	Awareness	2.506	19.274	19.274
2	Simple Procedure	1.999	15.374	34.649
3	Self Employment	1.609	12.376	47.025

4	Low Interest	1.421	10.933	57.957
5	Simple Repayment	1.231	9.471	67.428

Source : Primary data

Kaiser – mayer – olikin measumes of sampling adequacy = 0.687

Bartlett’s Test of Sphericity : chi-square = 637.777

Degree of freedom = 78

Significance = .000

It is observed from table that the five factors such as awareness, simple procedure, self employment, low rate of interest and simple repayment were extracted out of ten attributes. These factors account for about 67.428 percent of variance in the data Eigen value for the first factor ‘Awareness’ is 2.506, which indicates that the factor contains very high information than the other factors. The first factor ‘Awareness’ provides the maximum meights of decision behavior of micro credit in the study area.

The second important factor called ‘simple procedure’ account for 15.374 percent variance. The eigen value of this factor is 1.999.

The third and the fourth factors, ‘self employment’ and ‘low interest’ account for 12.376 percent and 10.933 percent variance with the Eigne value of 1.609 and 1.421 respectively and the fifth factors ‘simple repayment’ account for 9.471 percent Eigen values of 1.231. These factors are also important in dealing with micro credit.

High value of Kaiser-Mayer-Olkin (KMO) test of sampling adequacy (0.687) indicates the correlation between the pairs of variables explained by other variables and thus factor analysis is considered to be appropriate in this model.

## SUMMARY AND FINDINGS

The collected data are analysed and summary of the findings are given below.

Though the commercial banks are reluctant initially in financing the rural women entrepreneurs, they are liberal in sanctioning loans to establish micro enterprises in the rural areas.

### SHGs BANK LINKAGES PROGRAMME

The formation of SHGs have become important institutions in providing micro credit to the women. These SHGs by having linkages with banks provide adequate credit to rural women in becoming self-employed. The number of SHGs financed at all India level by banks increased from 1228000 to 2007-08 and to 1610000 in 2008-09. The amount of bank loans disbursement increased from Rs 8849 crores in 2007-08 to Rs 12254 crores in 2008-09.



In Tamilnadu , the number of SHGs covered under bank linkage programme in the year 2006-07 is 229562 the total number of SHGs members is 51.68 lakhs. The amount of loan disbursed in the year 2006-07 is Rs 1837.61 crores.

The easy availability of micro – credit through SHGs made the sample respondents self employed. 45 per cent of the sample respondents were able to be involved as agricultural laboureres, 37.5 per cent were able to start petty business, and the remaining 17.5 per cent were self employed.

The rural women entrepreneurs face financial, social, physiological and economical constraints. They are ranked by adopting Garrett ranking technique.

The rural women entrepreneurs are of the view that the social constraints is the biggest problem, they are facing while establishing micro enterprise. They give utmost importance to Economic problems.

Physiological problems should be assigned third rank. The knowledge and General problems should be assigned fourth and fifth ranks respectively.

### **CHARACTERISTICS OF THE SAMPLE RESPONDENTS**

It was found from the study that the sample respondents have developed attitudes at varying level towards micro credit facilities available for rural women entrepreneurs. It was also found that 30.0 per cent of the respondents have high level of attitude followed by 48.5 per cent with medium level of attitude and the remaining 21.5 per cent with low level of attitudes towards the role of SHGs in the empowerment of women.

The factor such as age, literacy level, marital status, occupation, income, family size, family type, religion, members position in the group, quantum of micro-credit applied and received.

The age of the respondents has significant relationship with the level of attitudes of the respondents towards micro-credit facilities.

The factor namely literacy level has significant influence on the level of attitude of sample respondents.

The level of income of the sample respondents strongly influences their level of attitudes of the respondents irrespective of the role of micro credit on the empowerment of rural women.

The factor namely marital status of rural women affects the level of attitudes of rural margin women significantly towards role of micro-credit on the empowerment.

The position in the group of the SHGs members has significant influence on the level of attitude of sample respondents.

The factor namely religion has no significant influence on the level of attitude of sample respondents.

The family size of the SHG members has not influenced the level of attitude of the sample respondents.

The factors namely quantum of micro credit and received has not significantly influenced the sample respondents.

The factor occupation of the sample respondents has strong influence over their level of attitude in respect of micro-credit facilities and empowerment of women.

The savings of the SHGs increased from Rs 3785 crores to 5546 crores in the year 2008-09.

Bank loans provided to MFIs loans disbursed by to Banks MFIs-increased from Rs 1970 crores in 2007-08 to Rs 3732 crores in 2008-09 and the outstanding bank loans against MFIs have increased from Rs 2749 crores in 2007-08 to Rs 5009 crores in 2008-09.

### **FACTORS WHICH MOTIVATE TO AVAIL MICRO-CREDIT**

**Awareness among the attributes of micro credit**, the attributes such as 'Encouragement and training programme given by NGO an Government', 'No need for Security', 'Banking Services are at Low Cost'.

**Simple procedure** : The attributes such as 'simple procedure', 'easy disbursement' with high factor leading constituted factor 2. **Self employment** is the third factor to motivate micro credit such as, 'self employed' 'to start micro-enterprises', 'to avail various promotional assistance'.

The fourth factor is **low interest rate** with attributes such as 'low rate of interest', 'bankers are very co-ordial'.

**Simple repayment** is the fifth factor among the attributes such as, 'suitable repayment period', 'low amount of installment', 'simple repayment procedure'.

### **IMPACT OF MICRO CREDIT**

#### **Consumer durable goods**

The average consumption of utensils of the respondents during post of micro credit period significantly increased from the pre-micro credit period.

Average consumption of Jewellery of the respondents during the post micro credit period has not significantly increased from the pre-micro credit period.

Average consumption of TV/Radio the respondents during post micro-credit period significantly increased from the pre-micro credit period.

#### **Annual household income**

Average annual income from house hold industry of the respondents during post micro credit period significantly increased from pre micro credit period.

Average annual income from non agriculture wages of the respondents during post micro credit period has not significantly increase from pre micro credit period.

#### **Annual house hold expenditure**

Average consumption of food of the respondents during post micro credit period significantly increased from the pre micro credit period.

Average expenditure on rent for the respondents during post micro-credit period does not significantly increase from that the pre micro credit period.

The average annual clothing expenses incurred by the respondents during post micro - credit period significantly increased from the pre-micro credit period.

#### **Mode of savings**

The change in savings in banks of the respondents during post micro-credit period significantly increased from the pre micro credit period.

The change in savings in post office of the respondents was statistically significant during post micro-credit period from what they were during pre micro credit period.

### **SUGGESTIONS**

1. The government and NGOs should motivate the rural women to form lot of SHGs which would guide them to start different type of petty business.
2. The government and NGOs should give training programmes and advertisements to SHGs and micro-finances. It should be useful to SHG members in knowing the micro finance facilities.
3. The Co-operative Banks and Regional Rural Banks should develop their branches in most backward areas. It should be useful to the poor rural women in getting more credit facilities.
4. The NABARD should stand as a guarantor to all the loans given to the SHG members. The financial institutions should not insist in any collateral securities from SHG members.
5. As the rural women are not having any asset facilities, the financial institutions may provide credit facilities to the SHG members and it can be useful to start their business units.
6. The government should give high level of subsidies than at the present level to the rural women, as they have a lot of limiting factors in running the business when compared to their counterparts in Urban areas.

## CONCLUSION

To improve the poor rural women they must be given opportunities to start their earning. Hence they should be assisted in all possible ways to become self-employed. The government and other voluntary organizations, should give more importance to self-employed among rural poor women. The poor rural women SHG members can be developed by the government with the conduct of more training programmes in the rural areas. The women may develop confidence in availing of micro-credit. Thus when the rural women gain economic strengths, naturally they will also get better status in their homes and in the society

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