IMPACTS OF MICROFINANCE ON INVESTMENT LEVEL OF HOUSEHOLD

Dr Surender Ahlawat,

Assistant Professor,
Department of Economics,
Chaudhary Devi Lal University,
Sirsa-125055, Haryana, India.

Abstract

The present study examines the impacts of microfinance on annual household investment level in Haryana. For this purpose, primary data of member as well as non member self help groups were collected through schedule in the district of Jhajjar. The present paper reveals that participation in the self help groups have positive impacts on annual household investment level of members' more than non members of self help groups. In last, this micro finances model seems to be a good model for annual household investment level in Haryana.

Keywords: Microfinance; Self Help Groups; Social Change; Finance.

1. Introduction:

Financial and social inclusion is an important topic on the political and economic agenda in all over the world and one of the objectives of the 2020 strategy of the European Union. Microfinance in its various forms – micro-credit, micro-savings, micro-insurance, etc. – is generally look as improving livelihoods, reducing vulnerability and fostering social as well as economic empowerment. In India, microfinance also plays an important role in bridging the gap between the mainstream financial sector, often very reluctant to serve those individuals/micro-entrepreneurs perceived as riskier and less attractive from a business point of view, and the regional/national social policymakers, often biased towards supporting weaker groups but without a clear strategy on how to stimulate an active inclusive role. Consequently, microfinance can be considered as an activity which can have a positive impact on inclusive finance and serve as an important policy tool for policymakers. It is also a clear thing that poor people want all type of financial services. The benefits of financial services are obvious and increasing evidences suggest that low income households are actively seeking new and better ways to invest in a more secure future. The poor require financial services to undertake different expenditures when there is wide miss-match in the inflow of income and outflow of expenditures in their household and business economy. Rural households face broad range of risks and crises such as natural, life cycle related, health related, economic, social, political and environmental.

Microfinance refers to the entire range of financial services rendered to the poor. It also includes skill up gradation and entrepreneurial development that would enable

them to overcome the poverty. The concept of microfinance essentially rests on the premises that (a) to make investment to start up or expand their business, thus improving employment and income, (b) to accumulate assets over time and to hold part of their financial reserves as an income earning, secure and liquid form which affords clear advantage in traditional forms of saving, and (c) to balance fluctuating income and expenditure better in risks and emergencies. Thus, microfinance could be referred to as providing credit support, usually in a very small amount, along with training and other related services to the people with poor resources and skills but they are in a position to undertake micro scale economic activities. Generally speaking, microfinance clients are poor and low-income people who do not have access to formal financial institutions. Moreover, microfinance clients are often self-employed, household-based entrepreneurs such as small retail shop keepers, street vendors, artisan, farmers and service providers. In this way, it may be concluded that microfinance is needed for poverty alleviation, women empowerment and financial inclusion.

In India, micro finance activities have grown under two different systems of patronage i.e. Self Help Group (SHG) – Bank Linkage Model and Micro Finance Institutions- Bank Linkage Model. The SHG – Bank Linkage Model involves Self Help Groups (SHGs) financed directly by the banks viz., commercial banks (public sector and private sector), Regional Rural Banks (RRBs) and Cooperative Banks. While, in Micro Finance Institutions (MFIs)- Bank Linkage Model, MFIs are linked to the banks. Banks provide financial assistance to MFIs so that these MFIs can further provide financial assistance to the SHGs. Both the models have their target at poor and women, predominantly. In the absence of any suitable legal and regulatory framework to carry on with the business of financial service provision, most players in the latter category have devised strategies to circumvent the governmental gaze in the most innovative ways.

Microfinance though SHGs has become a ladder for the poor to bring them up not only economically but also socially, mentally and attitudinally. Linked with micro finance approach, the SHG movement has now been accepted as an effective intervention strategy for poverty alleviation, generating income, empowering the poor and reducing unemployment. SHG linked micro finance includes such credits which are provided to the rural poor on easy terms and conditions and give access to several income generation and employment creation activities.

2. Review of Literature:

Many researchers had conducted the impact assessment studies on the group based microfinance programs and found contradictory results to each others. Some of the researchers have concluded the positive impact of the microfinance on the socio-economic development (Tripathy, 2006; Sundarapandian, 2006; Pandian and Eswaran, 2002) in India and across the world (Hiatt and Woodworth, 2006). Deininger and Liu (2009), Panda (2009) and Subramansan (2010) concluded that assets positions of members of the SHGs have increased after participation in the SHGs. At the same time some other researchers found that the micro finance interventions had little impact on the socio economic development of people (Kabeer, 2005; Shamsuddoha and Azad, 2004). Also (Kabeer, 2001) found out with the negative impact of microfinance in Bangladesh. Banerjee (2009) concluded that expenditure decreased after joining of the SHGs due to significantly increased in the savings.

3. Statement of the Research problem:

Haryana has significant role to play in the SHGs. This state has more developed and industrialization in now days. But it still downtrodden people. Many researchers have found contradictory results of microfinance impacts on members. So the positive impacts of microfinance cannot be generalized and universally accepted throughout the world. In this perspective, the present paper tried to measure the impacts of participation in group based micro finance model in Jhajjar district of Haryana State.

4. Objectives of the study:

1. To find out the impacts of Microfinance on Investment Level of Household.

5. Hypothesis of the study:

H_0: Joining in SHGs by members has not increased the annual investment level of household.
H_1: Joining in SHGs by members has increased the annual investment level of household.

6. Research Methodology:

This research study has based on empirical type and the main objectives of this study have to measure the problems into insights. The researchers have collected data through primary sources. The Primary data have collected through a questionnaire and interviews rose among members and non members of SHGs in Jhajjar district of Haryana. The questions in the Questionnaire were open ended. The household schedule was structured pertaining to the objectives of the study. A comparison between the members with the non members of SHGs household had formed the basis of analysis where the member's households were the households in which the one of the family member was a participant in SHG; and the non members included households where none of the members were under any SHG. The comparative analysis between the members groups and non members groups was a suitable method to study the impact of participation in the microfinance interventions, where there is no evidence of baseline data (White, Sinha and Flangan, 2006). This method is considered as one of the best method for it (Barker, 1999), and it remove exogenous problems (Nguyen, 2007).

This paper focused the household as the unit of analysis than other units like clients or micro- enterprises based on its suitability (Amin et al, 2003; Evans and Adams, 1999; Sarangi 2007 and Zewde and Tollens, 2008). Based on the demand of the objects, four indicators are selected for the study; and these indicators are annual Income, Expenditure, Saving, Investment level of households and Number of working days of respondents. The study was carried out in Jhajjar district of Haryana state in India, which is situated in the eastern region of the state, Haryana and it is considered one of the under developed district in the state. This study engaged multi stage sampling technique. In the first stage, all block of district had been taken. From each block, 01 village was randomly selected. 02 SHGs were selected randomly from each village for members groups and equal number of SHGs members selected for the non members of SHGs. All total 104 household for members groups and another 104 households for non members were sampled. The analysis was done engaging the statistical methods like mean and Standard deviation and paired t-test. The mean is used in this study to present systemic description of the data relating to impact of SHGs

on all indicators. The following formula for calculating the simple arithmetic mean was used:

$$\bar{X} = \frac{\sum X}{N}$$

Where, $\bar{X}$ = sum of the values of the variables considered
N= total number of respondents.

The standard deviation is used in this study to check the inequality, variation of distribution and reliability of data relating to the impact of SHGs on all the indicators. The formula of S.D. for calculating inequality of the distribution was as follows:

$$(S.D.) = \sqrt{\frac{\Sigma(X - \bar{X})^2}{N}} = \sqrt{\frac{\Sigma x^2}{N}}$$

$$Where, x = X - \bar{X}$$

Paired t- test can also be employed to significance a difference between two means i.e. between the member and non member (Abbas, Sarwar and Hussain, 2005; Chandel, 1999). It is used when the sample items are the same but different situations are being analysed like difference between two means in case of paired data. The measurement of paired t test for calculating the difference between two means is given as follows:

$$t = \frac{\bar{d}}{S} \cdot \sqrt{n}$$

where $\bar{d}$ = mean of difference, n = size of the sample,
S = standard deviation of the difference

Simple tabulation was made to the compare the variables between the members and non members of SHGs.

7. Data Analysis and Interpretation:

This sub section discusses the result of descriptive analysis and regression analysis that shows the impact of SHGs on investment level of the households of members and non members of SHGs. This sub section is further sub divided into the following heads:

- ✓ Comparison of members and non members for annual household investment.
- ✓ Impact of participation in SHGs through comparison of annual household investment for members and non members.
- ✓ Results of Logit regression model for annual family investment taking as participation in SHGs as an independent variable.

7.1 Comparison of Members and Non Members for Annual Household Investment.

Table 1 shows a comparison between distributions of annual family investment of members and non members. It is clear from the table that mean, median and mode of the annual investment distribution has increased due to more increase in the saving, income of members and participation in the SHGs. It implies that the members are now investing more money than the non members due to increase in their awareness. However S.D. of non members was found less than members of SHGs. It indicates that increase in annual investment of the household of members have further increased the inequality of distribution of investment in that area. The distribution of annual investment has also been found less positively skewed for non members than the

members. So it may be said that the average investment level has improved after joining the group. Further, the kurtosis shows that the distribution of annual investment of members is more peaked than normal curve which implies that the redistribution of annual investment has taken place and investment of the members has increased in the area.

Table1: Results of Descriptive Statistics for Annual household Investment of SHGs

Descriptive Statistics	Members	Non Members
Mean	39288	17740
Median	24000	10000
Mode	0	0
Standard Deviation (S.D.)	52749.2	24700.9
Skewness	2.9	1.8
Kurtosis	13.04	3.4

7.2 Impact of Participation in SHGs through Comparison of Annual Household Investment for Members and Non Members.

Table 2 takes only one variable as annual household investment. In this analysis a null hypothesis has been setup as given below:

H_0 : $\bar{d}$ = 0 (Joining in SHGs by members have not increased the annual investment level of household)

In this study, the table value of t- test ($t_{.05}$ = 1.960) at 5 per cent level of significance and corresponding to 103 degree of freedom has been considered. The table shows that the calculated value of t- test related to annual household investment level has been obtained 4.536 which were found more than the table value. So, the null hypothesis is rejected and thus it was found that the participation or joining in SHGs have increased the annual household investment level of members.

Table 2: Results of Paired t- test for Annual Household Investment.

Variable	Members	Non Members	Paired t- test		
			t- test	df	Sig. (2-tailed)
Annual Investment	$\bar{X}$ = 39288.46 S.D.= 52749.20	$\bar{X}$ = 13894.23 S.D.= 18939.82	4.536	103	.000

7. 3 Results of Logit Regression Model for Annual Household Investment Taking as Participation in SHGs as an Independent Variable.

Table 3 shows that results of the Logit regression model for annual household investment taking the participation in SHGs as an independent variable. Here annual household investment is considered a dependent variable. The table shows that the participation in SHGs is positively related with the annual household investment as evident from the positive value of coefficient. The coefficient of participation in the SHGs was found Rupee 21548.07 which indicates that if a person joins SHGs, then the income of his/her will increase by Rupee 21548.07. Here R^2 is 0.60 which indicates that increase in annual household investment due to participation in SHGs has only been

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explained by 60 per cent. So 40 per cent is the error term. But p-value is showing that both variables have been found highly significant.

Table 3: Results of Logit Regression Model for Annual Household Investment.

Variable	Coefficient	Standard Error	t- ratio	p- value
Constant	17740.38	4038.6	4.39	.000
Participation in SHGs	21548.07	5711.5	3.77	.000
Dependent variable = Annual Household Investment $R^2 = 0.60$				

8. Conclusions:

It is concluded that the SHGs interventions has led a positive impacts on annual household investment of members of SHGs in Haryana. The annual household investment in a year is significantly higher that of the non members in SHGs. Thus, so far the survey results showed that there have been some positive impacts of SHGs based microfinance model on annual household investment of members of SHGs. This paper concludes that Micro finance model looks to be a good model for increasing annual household investment level in Haryana.

9. Suggestions:

1. It is found that Information regarding loans and new schemes must be provided by the govt. to the members of SHGs.

2. All families must also be encouraged for formation of new SHGs to solve their big problems like poverty and unemployment in an effective manner.

3. Government should be provides all updated information regarding on Micro finance and Self Help Groups on authorized websites and circulars to the people.

4. In the last, it may be suggested that the concept of SHGs must be compulsory launched by the Govt. on a large scale by involving all poor people.

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