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IMPACT OF MICRO FINANCE ON ECONOMIC DEVELOPMENT OF SELF HELP GROUPS IN KARUR DISTRICT**Dr. N. Balakrishnan,**

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Abstract

Rural development is pre-requisite for economic development of our country. In India, 400 million people are waiting for small loan. Microfinance can be an important element of an effective poverty reduction strategy. It provides micro credit to the rural and urban poor without collateral securities.

“Self Help Group” is a tool to remove poverty and improve the rural economic development. The research is an attempt to study the impact of micro finance on economic development of SHGs in Karur District, covering the sample of 550 members. The present study has covered 8 Blocks of Karur District. In order to identify the growth impact, 5 years old SHGs were taken for this study. It was a Purposive random sampling. This is purely a descriptive study. The study focused on the income, expenditure and savings of selective respondents after joining in the SHGs.

From the research, it is clearly understood that the SHGs are tool to promote rural savings, employment and empowerment. For analyzing the data, tools, like, simple percentage, ANOVA, paired t test, multiple regression and Friedman have been used. It was found that the income of the SHGs members has been increased after joining in the SHGs. So that, the monthly household expenditure and savings have been raised considerable level. The research concludes that the economic development of the SHGs are quite success.

Key words: Self Help Groups, Poverty, Micro finance, Economic Development

1. INTRODUCTION

The rural India is the real India; therefore, rural development is a pre-requisite for economic development of the country. Of the total population of around 1000 million in India, over 720 million people, or about 130 million households live in rural areas. Rural India contributes over 50 percent of the Gross Domestic Product (GDP). Agriculture is the primary source of livelihood in rural areas. It contributes about 27 percent of GDP but has over 66 percent of employment. This explains why a large proportion of the rural population has low

income, with over 40 percent living below the poverty line. In India, there are 400 million people in nearly six million villages waiting for small loans.

1.1 BASIC CONCEPTS AND FEATURES OF MICRO FINANCE

The mantra “Microfinance” means banking through groups. The essential features of the approach are to provide financial services through the groups of individuals, formed either in joint liability or co-obligation mode. The other dimensions of the microfinance approach are:

- Savings/Thrift precedes credit
- Credit is linked with savings/thrift
- Absence of subsidies
- Group plays an important role in credit appraisal, monitoring and recovery.

Microfinance is the term most often used to describe financial services for poor people in developing countries. Microfinance includes micro credit or micro loans (small amounts of money lent to poor people to finance for self-employment activities or for other purposes), savings, payment transfers (services which enable breadwinners living elsewhere to send small amounts of money regularly to family members back home, a major revenue stream in many developing countries), micro insurance, and other financial services.

Differences between Micro Credit and Micro Finance

S.No	Characteristics of Loan	Micro Credit	Micro Finance
1	Size of Loan	Small	Small
2	Repayment Period	Short	Short
3	Sources of Mobilization	External	Both external and internal
4	Repayment	Definite obligation to repay	Obligation if source external
5	Collateral	May or may not be needed Not needed	Not needed
6	Purpose of use	Mostly fixed; limited scope for deviation	Flexible; consumption, income generation, any other
7	Scope of operation	Usually individual loans, though group loans might be given	Mostly group loans trickling down to individuals

Source: Society for Development studies, series of policy, Research studies.

1.2 INTERNATIONAL INITIATIVE

The Nobel Prize of the year 2006 for Peace had justifiably been given to the Bangladeshi economist and innovative entrepreneur Prof. Muhammad Yunus for his famous micro credit innovative business model and his Grameen bank. Self Help Group model has been emerged as an institutional instrument in the struggle against poverty in India.

Mohammed Yunus, popularly known as the father of micro-credit system, started a research project in Bangladesh in 1979 and came out with ideas of micro-credit and that resulted in the establishment of Grameen Bank in 1983.

1.3 INDIAN INITIATIVE

The first effort was taken up by NABARD in 1986-87, when it was supported and funded as an action research project on “saving and credit management of self help groups” of Mysore Resettlement and Development Agency (MYRDA). In 1991-1992 NABARD launched a pilot project to provide micro credit by linking SHGs with bank. In 1999, Reserve Bank of India had set up a micro-credit cell to make it easier to micro- credit providers to institutional development process.

1.4 AN INCLUSIVE FINANCIAL SECTOR FOR ALL

Financial services are available only to a small percentage of the world's population, meaning that the poor are usually excluded. A more inclusive financial sector would require that everyone in need of financial services could access them under sustainable and cost-effective conditions, regardless of location, income, or assets. Microfinance is a concrete attempt to build an inclusive financial sector in a manner that could alleviate poverty. The term Microfinance Institutions (MFIs) refer to the broad range of organizations which provide such financial services to the poor.

2. SIGNIFICANCE OF THE STUDY

The formal sector credit was very limited and hardly available for small borrowers. SHGs have broken this trend and it has made it possible for the small borrowers who are the members of SHGs. Microfinance are emerging as a powerful instrument for poverty alleviation in the new economy. In India, Micro finance is dominated by Self Help Groups (SHGs), as a cost effective mechanism for providing financial services to the “Un reached poor”, which has been successful not only in meeting financial needs of the rural poor but also strengthen the collective self help capacities of the poor. Microfinance should be focused on economically active poor, who can afford to borrow and repay money as part of their normal budget and who are not living in an emergency situation.

Micro finance is necessary to overcome exploitation, and to create confidence to the economic self reliance of the rural poor. This research puts forward how micro finance has

received extensive recognition as a strategy for economic development. This research seeks to find out the impact of Micro finance with respect to poverty alleviation and SHGs economic development, and the empowerment of rural poor.

3. HYPOTHESES

1. There is no significant increase in income, expenditure and savings after joining in the SHGs.

4. STATEMENT OF THE PROBLEM

Poverty and unemployment are the major problems of any under developed country, to which India is no exception. The resources, skills, information and technology base of the poor are very weak, especially that of women. Hence, their scales of operation, irrespective of the economic activity persuaded by them, are very small. Their credit needs arise due to their consumption and social obligations in addition to their capital base for their economic activities. Though, it is a well-known fact that the Indian banking and financial system has made a commendable progress in extending its geographical spread and functional reach, the poor women are hitherto neglected. In times of such emergencies, the poor women are forced to rely on moneylenders and are over burdened with both high rate of interest and untimely advances.

The more attractive scheme with less effort finance is “Self Help Group”. It is a tool to remove poverty and improve the rural economic development. In this context, several pertinent questions raised are:

1. What are the distinct features of Microfinance and the Role of Self Help Groups?
2. What is the impact of Microfinance on economic status of the SHG members in Karur District?
3. How the income, expenditure and savings pattern of the members have been modified after joining SHGs?

Hence, the present study is an attempt to provide answer these questions and thereby to bring forth practical solution to concentrate on the Impact of Microfinance on Economic Development of Self Help Groups in Karur District.

5. OBJECTIVES OF THE STUDY

The following are the objectives of the study:

1. To highlight the distinct features of Microfinance and SHGs.
2. To study the impact of Microfinance on economic status of the SHG members in Karur District.
3. To examine the income, expenditure and savings of the members after joining SHGs.
4. To evaluate the impact of microfinance on the empowerment of women in Karur District.

6. METHODOLOGY AND TOOLS

The study is a descriptive research and comprises both of primary and secondary data. The secondary data are collected from the publications, documents, annual reports, journals, magazines, books, periodicals and internet. Data at the district level are collected from the records of the Rural and women Development Departments in Karur District.

For the purpose of collecting primary data, a pilot study was conducted. The questionnaire initially prepared was pre-tested with the sample of 50 focused and responsible respondents. As the questionnaire method of data collection evinced insufficient response from the respondents, all the questions were included in the interview schedule and data were collected by personally visiting the members at their place.

6.1 SELECTION AREA FOR THE DATA COLLECTION

The present study has covered 8 Blocks of Karur District. In order to identify the growth impact, 5 years old SHGs were taken for this study. It was a Purposive random sampling. This is purely a descriptive study. This study is compiled with the help of the primary data. The primary data were collected with the help of specially prepared interview schedule. The schedule includes the questions related to the general information about the SHGs members, income, expenditure, savings and loan schemes available to SHGs members, repayment performance of SHGs, status of member and impact of microfinance on economic development of SHGs.

6.2 SHG SAMPLE SELECTION

Sl.No.	Block	No. of SHGs	5 years old SHGs	25% of Sample
1	Karur	821	240	60
2	Thanthondimalai	875	307	77
3	K.Paramathi	873	294	74
4	Aravackurichi	658	256	64
5	Kadavur	1121	426	107
6	Krishinarayapuram	796	233	58
7	Thogamalai	728	215	54
8	Kulithalai	736	224	56
	TOTAL	6608	2195	550

	TOTAL URBAN	2102		
	TOTAL RURAL	4506		

6.3 Tools used in this study

The data collected through Interview Schedule were scrutinized and the Statistical Packages for Social Studies (SPSS) were used for analysis. Simple trend, percentage analysis, Paired t – test, ANOVA test are used.

7.REVIEW OF LITERATURE

Burkett and Paul (1989) paper derives its inspiration from the renewed interest in group lending as a method of providing credit for small farmers in developing countries. The establishment of group lending is seen as a partial response to the apparent failure of previous subsidized loan projects to meet set objectives. Group lending reduces risks, lowers administrative and transaction costs; and it is argued that its design and evaluation should reflect the goal of improving the quality of rural financial services.

Huppi and others (1990) The article indicates that successful group lending schemes work well with groups that are homogeneous and jointly liable for defaults. The practice of denying credit to all group members in case of default is the most effective and least costly way of enforcing joint liability.

Fernando and Nimal (1994) Fernando provides a summary of the major criticisms of the conventional approach to rural credit. The need for a broader view and a holistic approach, and the importance of institution building is emphasized. Subsidies in building institutional capacity essential in rural savings mobilizations, the role of private commercial banks, and the need for directed finance programmes are outlined.

Mellor and W.John (1995) The development of appropriate rural financial institutions in Pakistan can greatly facilitate the process of economic development. Such institutions would enable the mobilization of savings deposits, thus providing banks with the necessary resources to undertake rural lending.

A study by **V. Puhazendhi (1995)** entitled “Transaction Costs of Lending to the Rural Poor-Non-Governmental Organisation and Self-help Groups of the Poor as Intermediaries for Banks in India” estimates the average transaction cost of lending for the banks per account at 3.68 per cent of the loan amount, if the loan is given directly to the borrower.

Abdul Hayes et al (1998) analyzed the relationship between poor women’s participation in micro credit programmes and their empowerment by taking both SHG and non-SHG members in

rural Bangladesh. They have split the concept of Women Empowerment into three components and measured separately in order to arrive at a better understanding of their underlying factors and their relationship to women's empowerment.

C.U.Okoye (1998) Assessing the participatory aspects of credit programmes: Evidence from a village adoption scheme in Nigeria. Development Policy Review 16: 115-30. This paper draws on the experience of a rural credit programme (The Village Adoption Scheme (VAS) in Anambra state, Nigeria) to explore how participation can remove some of the acknowledged causes of failure in rural finance institutions and credit programmes.

Malaisamy and R.Srinivasan (2001) compared the micro finance performance of SHGs and PACBs in Madurai district of Tamil Nadu. They found that majority of the PACBs were willful defaulters which was not observed with SHGs. A comparison of over dues of SHGs beneficiaries with those of co-operatives showed that the latter had a high level of over dues compared to the former.

Sakuntala.N (2005), in her book empowering women: An alternative strategy from rural India, pointed out that the more vital inhibiting factors leading to the disadvantaged position of women are their ignorance, powerlessness and vulnerability. She emphasized the need for bringing about an attitudinal change among women as the most important step towards empowerment.

Sahu Lopamudra, Singh Suresh K, (2012). Women empowerment is an essential precondition for elimination of poverty. Many International and National bodies have stressed on women empowerment giving attention to their participation in society, decision-making, education and health. In India, Micro finance and Self Help Group (SHG) intervention have brought tremendous change in the life of women at the grass root level.

8. ANALYSIS AND INTERPRETATION OF DATA

8.1 OPINION OF RESPONDENTS ON ADVANTAGES OF THE SHGS VIEWED BY THE MEMBERS OF SHGS

The following Table 1 explains the opinion on advantages of the SHGS viewed by the members of SHGs.

TABLE - 1
OPINION ON ADVANTAGES OF THE SHGS VIEWED BY
THE MEMBERS OF SHGS

Opinion on advantages of the SHGs viewed by the members of SHGs	Strongly Agree	Agree	Moderate	Disagree	Strongly Disagree	Total
a) Activity should continue forever	110 (20)	261 (47)	113 (21)	56 (10)	10 (2)	550 (100)
b) Improved status in the family	128 (23)	146 (27)	116 (21)	140 (25)	20 (4)	550 (100)
c) Improved self confidence	137 (25)	323 (59)	34 (6)	43 (8)	13 (2)	550 (100)
d) They do not have to take loan from the money lenders	178 (32)	255 (46)	57 (10)	52 (9)	8 (1)	550 (100)
e) To raise money at the time of genuine needs	172 (31)	278 (51)	57 (10)	37 (6)	6 (1)	550 (100)
f) Get knowledge about banking system	170 (31)	261 (47)	68 (12)	38 (7)	13 (2)	550 (100)
g) To know the other women's problem	152 (28)	260 (47)	60 (11)	63 (11)	15 (3)	550 (100)
h) Opinion on Overall advantages of the SHGs	187 (34)	250 (45)	87 (16)	19 (4)	7 (1)	550 (100)

Note: Figures in the Parentheses represent the percentage to total

The above Table clearly explains that opinion on advantage of the SHG viewed by the members. 47 per cent of the respondents agreed that SHG activity should continue forever. 27 per cent had opinion to improve the status in the family, 59 per cent of the respondents opinion to improved self confidence, 46 per cent of the respondents agreed that they do not have to take loan from the money lenders, 51 per cent of the respondents viewed that to raise money at the

time of genuine needs. 47 per cent of the respondents accepted that get knowledge about banking system and to know the other women's problem.

TABLE 2. REGRESSION STATISTICS

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.185 ^a	.034	.022	.855
a. Predictors: (Constant), Women problem, Continual activity, Knowledge of banking system, Family status, Genuine needs of money, Self Confidence, Not to take loan from money lenders				

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.042	7	2.006	2.746	.008 ^a
	Residual	395.901	542	.730		
	Total	409.944	549			
a. Predictors: (Constant), Women problem, Continual activity, Knowledge of banking system, Family status, Genuine needs of money, Self Confidence, Not to take loan from money lenders						
b. Dependent Variable: Overall opinion on advantages of SHG						

Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.452	.333		10.371	.000
	Continual activity	-.063	.038	-.069	-1.636	.102
	Family status	.020	.031	.028	.644	.520
	Self Confidence	.106	.041	.112	2.561	.011
	Not to take loan from money lenders	-.031	.040	-.035	-.781	.435
	Genuine needs of money	.069	.042	.070	1.634	.103
	Knowledge of banking system	-.013	.038	-.015	-.345	.730
	Women problem	.070	.038	.084	1.870	.062
a. Dependent Variable: Overall opinion on advantages of SHG						

Dependent Variable : Overall opinion on advantages of SHG (Y)

Independent Variables

X1 Continual activity

X2 family status

X3 self confidence

X4 Not to take loan from money lenders

X5 Genuine needs of money

X6 knowledge of banking system

X7 women's problem

Multiple R value = .185

R² = .034

F value = 2.746

P value = 0.008 (denotes significant at 1% level)

The value of R (.185) is the correlation of the 7 independent variables like as Continual activity, family status, self confidence, Not to take loan from money lenders, Genuine needs of money, knowledge of banking system, women's problem with the dependent variable overall opinion on advantages of SHGs (Y). After all the inter correlation among the 7 independent variables are taken in to account.

The R square (.034) which indicates that all the independent variables together explain 3.4% of the variance in overall opinion on advantages of SHGs which is significant (F=2.746,P<0.008).

The Multiple Regression Equation is

$$Y = 3.452 - .063 + 0.20 + .106 - .031 + .069 - .013 + .070$$

This equation indicates that overall opinion on advantages of SHGs increase by .020 for every unit increase in family status, 0.106 units for every unit increase in self-confidence, .069 units for every one unit increase in genuine needs of money, .070 units for every one unit to increase women problem.

TABLE 3. MONTHLY INCOME OF THE RESPONDENTS

Monthly Income	Before joining		After joining	
	Frequency	Per cent	Frequency	per cent
Less than Rs.2,000	167	30.36	15	2.73
2000-4000	260	47.27	150	27.27
4000-6000	82	14.90	281	51.09
6000-8000	12	2.19	81	14.73
Above 8000	04	0.73	23	4.18
Non-Earning	25	4.55	0	0
Total	550	100.0	550	100.0

Source: Primary Data

The above table depicts that many house wives (4.55%) did not earn anything before joining in SHGs, but after a member of the SHGs, they are also earning reasonably. This increases the willingness to participate in the SHGs' activities. Many women members independently involve in the economic activities individually and with other group members after joining SHGs. Therefore they are now economically independent and contribute to increase their household income. The above table reveals that all Non-Earning members became earning members after joining SHGs.

Regression statistics

The table 4 reveals that the F value obtained (1.172) is the highest and significant at 0.322 level of confidence and hence the hypothesis. There is a significant difference between sense of security, feeling of savings, personal property, status home and society, and overall opinion on savings is rejected.

TABLE – 4

Regression Statistics						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	
1		.092 ^a	.009	.001	.579	
a. Predictors: (Constant), Sense of Security, Feelings of Savings, Personal property, Status in Home and Society						
ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.572	4	.393	1.172	.322 ^a
	Residual	182.772	545	.335		

	Total	184.344	549			
a. Predictors: (Constant), Sense of Security, Feelings of Savings, Personal property, Status in Home and Society						
b. Dependent Variable: Overall opinion on savings						

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.464	.294		11.777	.000
	Feelings of Savings	.043	.043	.043	1.001	.317
	Status in Home and Society	.064	.042	.066	1.516	.130
	Personal property	.027	.039	.030	.687	.493
	Sense of Security	-.006	.042	-.006	-.141	.888
a. Dependent Variable: Overall opinion on savings						

CO EFFICIENT STATISTICS

Dependent Variable: Overall Opinion on savings Y

Independent Variables

X1 Feeling of savings

X2 Status in Home and Society

X3 Personal Property

X4 Sense of Security

Now the obtained regression model is

$$Y = 3.464 + .043X_1 + .064X_2 + .027X_3 - .006X_4$$

Since $R^2 = .009$ and the ANOVA show the F ratio is insignificant. There is no dependency on overall opinion on savings.

9. SUGGESTIONS

The following are the various suggestions were made to develop the effective functioning in the study area.

1. There is increase in the mean monthly income, mean monthly expenditure and mean monthly savings of the SHGs, there is no empirical evidence available to prove that this factor would enhance the functioning of SHGs. Therefore, it is suggest that the further research is required to identify the impact of financing of SHGs.
2. To improve the overall functioning of SHGs in the study area, the problem of scarcity of water, unemployment and lack of transportation should be corrected. Whereas on the other hand, there is need to improve men from alcoholic, women from atrocities and sanitation in general.

10. CONCLUSION

While examining the advantages SHGs the analysis has shown that gaining Self confidence is important determinant than other advantages like continuous activity and knowledge of banking system etc. The study made an analysis about financing of SGHs in the study area. The two aspects such as before joining in SHGs and after joining in SHGs. Income, expenditure and savings were examined. It obvious from the analysis, that there is increased in the mean monthly income, monthly expenditure and monthly savings of the SHGs. Finally, the research concludes that SHGs are supported to women economic development through micro finance.

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