

# THE IMPACT OF MFIs ON ECONOMIC DEVELOPMENT OF RURAL WOMEN THROUGH SELF HELP GROUPS

(An Empirical Study with special reference to Sivagangai District, Tamilnadu)

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## Abstract :

Micro Finance Institutions (MFIs) in India are perceived as a life-giving technique for every Self Help Groups (SHGs) in order to ensure the sustainable socio-economic development for the rural India. This research paper attempted to study the Impact of MFIs on economic development of rural women through SHGs, the sample size include 1000-respondents from the 100 SHGs in Sivagangai district of Tamilnadu, the study reveals that MFIs have influence the socio-economic development of rural women through SHGs. The validity of the results has been tested statistically by applying the appropriate statistical technique.

**Keywords :** MFIs, SHGs, Socio-Economic development

In India micro credit groups are being recognized by the Government as an effective tool for achieving the distributional objectives of monetary policy. In the recent period, considerable emphasis has been placed on promotion of micro credit enterprises in view of perceived inadequacies of existing agencies in providing productive credit to those with little or no previous access to formal credit facilities. The self-help group (SHG) – Bank linkage model has emerged as the most dominant model of micro finance delivery in India.

## SELF – HELP GROUP :

A SHG is a registered or unregistered group of micro entrepreneurs with a homogenous social and economic background, voluntarily coming together to save small amount regularly and mutually agreeing to contribute to a common fund to meet their needs on mutual help basis. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment thereof. In fact, peer pressure has been recognized as an effective substitute for collaterals. Besides, financing through SHGs reduce transaction costs for both lenders and borrowers. Self-Help Groups are important vehicles for credit delivery to women in rural and semi-urban areas. Issues relating to structure and sustainability, fundings, regulations and capacity building for SHGs are engaging attention of Reserve Bank of India. The objective has been to accelerate the flow of bank credit to micro-finance institutions while maintaining their decentralized, voluntary and non-bureaucratic character, particularly in rural and semi-urban areas.

The number of SHGs linked to banks aggregated 717360 as on March 31, 2010 with almost 40 per cent concentrated in Andhra Pradesh. More than 90% of the groups linked with banks are exclusive women groups and the scheme has more than 95% on-time repayment record. Cumulative disbursement of bank loans to these SHG stood at Rs.2049 crore as on March 31, 2010, with an average loan of Rs.28650 per SHG and Rs.1766 per family. There are at present, 49 commercial banks, 192 RRBs and 264 Co-operative Banks associated with the SHG-bank linkage programme.

## MICRO CREDIT FINANCIAL SERVICES IN INDIA :

The concept of micro has existed in the country since the early nineties. Now the scheme gets tremendous achievement with the help of co-operatives. Micro credit is mainly concerned with women vendors. India is becoming one of the largest micro finance markets in the world, especially with the growth of women's

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saving credit groups (self help group- SHG) which are set to reach 17 million 2008 at the latest. Micro credit scheme has great potential in creating employment opportunity on day to day life, promoting saving habit, developing personal assets, increasing income level, improving socio-economic power etc. Loans under micro credit programmes are very small on an average less than \$ 100 by world standards and in hundreds of rupees by Indian standards. Micro credit continues to target the rural and urban households, with emphasis on women borrowers, provision of finance for creation of assets and their maintenance and bringing in greater quality of services. Some of the unique characteristics of micro-credit scheme are as follows:

- Focusing and targeting the women vendors
- No need of financial and non-financial sureties / securities for borrowing credit
- Simple procedures
- Loans are mostly short-term in nature
- Easy repayment procedures
- No legal formalities
- Quick disbursement of loans
- Encouraging and accepting savings of women
- Low transaction cost
- Immediate actions to further loans to those who have paid promptly
- Credit follows thrift.

#### **NABARD Status of Micro Finance in India 2009-2010 Report :**

The Micro Credit Innovations Department (MCID), NABARD has released the Status of Micro Finance in India 2009-10 report.

#### **Physical :**

- Total number of SHGs savings linked with banks : 69.53 lakh
- Out of total [of which] exclusive Women SHGs : 53.10 lakh
- Out of total [of which] – SGSY SHGs : 16.94 lakh
- Total number of SHGs credit linked during 2009-10 : 15.87 lakh
- Out of total [of which] exclusive Women SHGs credit linked : 12.94 lakh
- Out of total [of which]-SGSY SHGs credit linked : 2.67 lakh
- Total number of SHGs having loans outstanding as on 31 March 2010 : 48.51 lakh
- Of which exclusive Women SHGs : 38.98 lakh
- Of which-SGSY SHGs : 12.45 lakh
- Estimated number of families covered up to 31 March 2010 : 97 million

#### **Financial :**

- Total savings amount of SHGs with banks as on 31 March 2010 : Rs 6198.71 crore
- Out of total savings of exclusive Women SHGs : Rs 4498.66 crore
- Out of total savings of SGSY SHGs : Rs 1292.62 crore
- Total amount of loans disbursed to SHGs during 2009-10 : Rs 14453.30 crore
- Out of total loans disbursed to Women SHGs : Rs 12429.37 crore
- Out of total loans disbursed to SGSY SHGs : Rs 2198.00 crore

- Total amount of loans outstanding against SHGs as on 31 March 2010 : Rs 28038.28 crore
- Out of total loans o/s against Women SHGs : Rs 23030.36 crore
- Out of total loans o/s against SGSY SHGs : Rs 6251.08 crore
- Average loan amount outstanding per SHG as on March 2010 : Rs 57795
- Average loan amount outstanding per member as on 31 March 2010 : Rs 4128

#### **Preface of Status of Micro Finance in India 2010 – Nabard Report :**

The Self Help Group (SHG)-Bank Linkage Programme, in the past eighteen years, has become a well known tool for bankers, developmental agencies and even for corporate houses. SHGs, in many ways, have gone beyond the means of delivering the financial services as a channel and turned out to be focal point for purveying various services to the poor. The programme, over a period, has become the common vehicle in the development process, converging important development programmes. With the small beginning as Pilot Programme launched by NABARD by linking 255 SHGs with banks in 1992, the programme has reached to linking of 69.5 lakh saving-linked SHGs and 48.5 lakh credit-linked SHGs and thus about 9.7 crore households are covered under the programme, envisaging synthesis of formal financial system and informal sector.

In view of the large outreach and pre-dominant position of the microfinance programme, it is important to keep a continuous track of the status, progress, trends, qualitative and quantitative performance comprehensively. To achieve this objective, Reserve Bank of India and NABARD issued guidelines in the year 2006-07 to Commercial Banks, Regional Rural Banks and Cooperative Banks to furnish data on progress under microfinance. The data so collected covers various parameters like savings of SHGs with banks, bank loan disbursed to SHGs, bank loan outstanding against SHGs, gross nonperforming assets of bank loans to SHGs, recovery performance of loans to SHGs. Further, the banks also furnished the data regarding bank loans provided to Micro Finance Institutions (MFIs). NABARD has been bringing out the consolidated document annually.

The major support provided by NABARD under Micro Finance Development and Equity Fund relates to promotion and nurturing of SHGs by Self Help Promoting Institutions and training and capacity building of the stakeholders in the Sector. NABARD is also experimenting innovative projects for further developing the microfinance through Joint Liability Groups. It is perceived that all the stakeholders under microfinance sector would use the information as input and feedback relating to the sector for bringing about policy changes and improvement in operational strategies.

#### **REVIEW OF RELATED LITERATURE :**

**Mathew P.M. and M.S. Nair (1986)** in their book "Women organization and women interests" State that grass roots organizations of the rural women were earlier seen as delivery mechanism services and for training women in house hold activities. These organizations are now seen as mobilizes the visibility and bargaining power of women to strength their voice in development decisions and to develop economic activities on a collective basis and ensure access to developmental inputs.

**R. Hooja (1987)** in her book "Administrative intervention in Rural Development" explained that Self-Help has been the philosophy of the projects of voluntary organizations the projects proceed with the assumption that any neighborhood, no matter how poor, can do something to improve itself by its own efforts and that any approach for outside help should be resorted to only after it has exhausted its own resources fully. This is not always an easy message to get across to poor people who sometimes felt that the Government should freely meet their needs because they are poor.

**Kurukshetra. N (1995)** a self-help group is a homogeneous gathering of person usually not more than 20-25 individuals who join on a voluntary basis from rural poor. In order to undertake an economic activity

such as thrift and credit or use of a common asset on the basis of equality and nurturing trust. A self-help group is a homogeneous group of not more than 25 individuals who have come together to secure greater economic and financial strength through mutual help.

**A.P. Fernandez (1995)** in his book "The concept of Pacific Rural Finance" explained that SHGs are informal groups formed on voluntary basis, perceived as people's institutions, providing the poor with the space and support necessary to take effective steps towards greater control on their lives in private and also society, in other words, the informal groups provide the poor with the means for "economic and social entitlement" the group formations are based on a growing institutional concept in terms of resources and management skills of the members, to increase their confidence to get involved in issues and programmes in the public and private spheres.

**Ojha.R.K. (2001)** Points out that certain criteria have been designed for the eligibility of Self Help Groups to be linked, with the bank, viz., the group should have been in active existence for at least a period of six months. The group should have successfully undertaken savings and credit operation from its own resource. The members of SHGs should preferably have homogeneous background and interest. The group is maintaining proper accounts/records.

**Jaya S. Anand (2002)** studied the Women Empowerment through Self Help Groups. His study shows that the Self Help Groups created awareness about newer economic opportunities available to women and the ability needs to tap them. All the groups have taken up individual economic activities but group activities are very few.

**P. Sorubarani and Dr. G.Thenmozhi (2007)** "A study of SHG Gateway to Women Empowerment " reveals that the NABARD brought out a regular recognized as an alternative delivery system, and the measures suggest to encouraging linking of SHG's with banks for this purpose. The RBI issued instructions to commercial banks regarding establishment of linkage by them directly with NGOs and SHGs. It is concluded that the empowerment of women through NGO & SHGs enable to create thrift habit among the women and to obtain the leadership quality.

**Finance Minister, Shri Pranab Mukherjee (2010)** has emphasized the need for strengthening of movement of Self-help Groups for financial inclusion so that small and marginal farmers could get access to higher doses of credit in taking out productive land based activities. He said that the southern India has been successfully operating Self Help Group (SHG) movement, especially of women. Figures on financial inclusion show almost 57 lakh accounts opened through the business correspondent model. He said that "experience in SHG formation could be leveraged to benefit development of the villages in agriculture through formation of Joint Liability Groups of farmers, as well. The small and marginal farmers could then find greater strength in accessing higher doses of credit in taking up productive land based activity."

Although south has good growth in micro credit via the SHGs, NGOs, Microfinance Institutions (MFIs) and PSU Banks; RBI is examining on lending rates by some of these institutions.

#### **STATEMENT OF THE PROBLEM :**

Even though, there are so many studies related to the SHGs in India, there is no exclusive study relating to the savings habit of SHGs, so that in order to study the income and savings of the members before and after joining the SHGs, the study titled impact of Micro Finance Institutions on Economic Development of Rural Women through Self Help Groups has been conducted with the following hypotheses and objectives.

#### **HYPOTHESIS OF THE STUDY :**

- There is no significant difference between average monthly income of SHG members before and after joining SHGs,

- There is no significance difference between average monthly savings of SHG members before and after joining SHGs,

**OBJECTIVES OF THE STUDY :**

- To study financial assistance provided to SHGs under micro finance system of commercial banks, cooperative banks and NABARD
- To study economic impact of self help groups on rural women in Sivagangai District
- To summarize findings of the study and provide suggestions for improving economic development of rural women through SHGs

**METHODOLOGY :**

The present study is an empirical research based on survey method. This study is based on both primary and secondary data. The primary data are collected from the members of the SHGs through questionnaire. Secondary data are collected from the published sources i.e., books, journals, websites, and other reports of Government agencies, NABARD and banks. The validity of the results has been tested by applying statistical tool of 't' test analysis.

**SAMPLING DESIGN :**

It was planned to select 100 self help groups established after 2005 in the Sivagangai District by using random sampling method for the purpose of this study, however total numbers of respondents of this study will remain at 1000 (100 x 10 members per group). The interview schedule was administrated with the help of government officials involved in formation of SHGs in order to collect data from the respondents.

**ANALYSIS AND INTERPRETATION :**

The following variables are identified to study economic development

- Income earned by women before and after formation of SHGs,
- Savings before and after formation of SHGs,
- Income generating activities of women and types of activities before and after formation of SHG.

**1. AVERAGE MONTHLY INCOME OF SHG MEMBERS :**

The researcher has interviewed one thousand (1000) members belong to hundred (100) SHG to collect data related to monthly income before and after joining SHGs. One group consists of ten (10) members. The total number of group members are classified into Six Taluks, each Taluk it contains one hundred and eighty (180) members except Ilayangudi Taluk, because population is lower than other Taluks. That is why the researcher has taken only one hundred (100) respondents of the particular Taluk.

**Table – 1.1 Average Monthly Income of SHG Members**

Members	Average Monthly Income		% Increase
	Before joining SHG Rs.	After joining SHG Rs.	
Taluk-I (Tirupathur)	2100	3800	181
Taluk-II (Karaikudi)	2400	4500	187
Taluk-III (Sivagangai)	2500	4300	172
Taluk-IV (Devakottai)	2100	4200	200
Taluk-V (Manamadurai)	2300	3700	161
Taluk-VI (Ilayangudi)	2200	3500	159

Source: primary data

Table 1.1 shows that average monthly income of SHG members of Taluk- I (Tirupathur) before joining SHG was Rs.2100 and it has increased to Rs.3800 after joining SHG. The percentage increase is 181 percent. Average monthly income of SHG members of Taluk- II (Karaikudi) before joining SHG was Rs.2400 and it has increased to Rs.4500 after joining SHG. The percentage increase is 187 percent. Average monthly income SHG of members of Taluk- III (Sivagangai) before joining SHG was Rs.2500 and it has increased to Rs.4300 after joining SHG. The percentage increase is 172 percent. Average monthly income of SHG members of Taluk- IV (Devakottai) before joining SHG was Rs.2100 and it has increased to Rs.4200 after joining SHG. The percentage increase is 200 percent. Average monthly income of SHG members of Taluk- V (Manamadurai) before joining SHG was Rs.2300 and it has increased to Rs.3700 after joining SHG. The percentage increase is 161 percent. Average monthly income of SHG members of Taluk- VI (Ilayangudi) before joining SHG was Rs.2200 and it has increased to Rs.3500 after joining SHG. The percentage increase is 159 percent.

The researcher has attempted to test the hypothesis there is no significant difference in the average monthly income of SHG members before and after joining SHGs. This hypothesis is tested by using 't' test

Ho:  $\mu_1 = \mu_2$

Ha:  $\mu_1 \neq \mu_2$

**Table 1.2**  
**Testing of Hypothesis**

Average monthly income Before joining SHG	Average monthly income After joining SHG	D (X-Y)	D <sup>2</sup>
2100	3800	-1700	2890000
2400	4500	-2100	4410000
2500	4300	-1800	3240000
2100	4200	-2100	4410000
2300	3700	-1400	1960000
2200	3500	-1300	1690000
<b>TOTAL</b>		<b>-10400(<math>\sum D</math>)</b>	<b>18600000(<math>\sum D^2</math>)</b>

$$= \frac{20090000 - (-1980)^2 \times 5}{5 - 1}$$

Degree of Freedom

V = n-1

= 6-1

= 5

Table value at 5% level = 2.132

The calculated value is more than the table value. The null hypothesis is rejected. It is concluded that there is a significant difference in the average monthly income of SHG members before and after joining SHGs.

**2 AVERAGE MONTHLY SAVINGS OF SHG MEMBERS :**

The researcher has interviewed one thousand (1000) members belong to hundred (100) SHG to collect data related to monthly savings before and after joining SHGs.

**Table – 2.1 Average Monthly Savings of SHG Members**

Members	Average Monthly Savings		% Increase
	Before joining SHG Rs.	After joining SHG Rs.	
Taluk-I (Tirupathur)	350	750	214
Taluk-II (Karaikudi)	370	850	230
Taluk-III (Sivagangai)	360	820	228
Taluk-IV (Devakottai)	350	720	206
Taluk-V (Manamadurai)	320	670	209
Taluk-VI (Ilayangudi)	300	650	217

Source: primary data

Table 2.1 shows that average monthly savings of SHG members of Taluk- I (Tirupathur) before joining SHG was Rs.350 and it has increased to Rs.750 after joining SHG. The percentage increase is 214 percent. Average monthly savings of SHG members of Taluk- II (Karaikudi) before joining SHG was Rs.370 and it has increased to Rs.850 after joining SHG. The percentage increase is 230 percent. Average monthly savings SHG of members of Taluk- III (Sivagangai) before joining SHG was Rs.360 and it has increased to Rs.820 after joining SHG. The percentage increase is 228 percent. Average monthly savings of SHG members of Taluk- IV (Devakottai) before joining SHG was Rs.350 and it has increased to Rs.720 after joining SHG. The percentage increase is 206 percent. Average monthly savings of SHG members of Taluk- V (Manamadurai) before joining SHG was Rs.320 and it has increased to Rs.670 after joining SHG. The percentage increase is 209 percent. Average monthly savings of SHG members of Taluk- VI (Ilayangudi) before joining SHG was Rs.300 and it has increased to Rs.650 after joining SHG. The percentage increase is 217 percent.

The researcher has attempted to test the hypothesis, "There is no significant difference in the average Monthly Savings of SHG members before and after joining SHGs".

Ho:  $\mu_1 = \mu_2$

Ha:  $\mu_1 \neq \mu_2$

**Table 2.2 Testing of Hypothesis**

Average monthly income Before joining SHG	Average monthly income After joining SHG	D (X-Y)	D <sup>2</sup>
350	750	-400	160000
370	850	-480	230400
360	820	-460	211600
350	720	-370	136900
320	670	-350	122500
300	650	-350	122500
<b>TOTAL</b>		<b>-2410(<math>\sum D</math>)</b>	<b>983900(<math>\sum D^2</math>)</b>

**Degree of Freedom :**

$$V = n-1$$

$$= 6-1$$

$$= 5$$

Table value at 5% level = 2.132

The calculated value is more than the table value. The null hypothesis is rejected. It is concluded that there is a significant difference in the average monthly savings of SHG members before and after joining SHGs.

**3. TYPES OF INCOME GENERATING ACTIVITIES OF WOMEN AND LEVEL OF LOAN AMOUNT RECEIVED FROM BANKS :**

The economic empowerment of poor women is the only means for poverty eradication. Increased access to credit liberates them economically. Loans ensure employment and income to poor women. The loan given or channelised by the SHGs are used for productive purposes by women.

**Table – 3.1**  
**Distribution of the sample respondents by nature of activity**

Loan Level	Textiles and Tailoring	Pickle and Appalam Bus.	Hand Looms	Other Business	Total
Rs.	No. of Respondents				
1000-3000	70	50	80	60	290
3001-5000	50	40	60	50	230
5001-7000	30	30	40	70	220
7001-10000	30	30	50	50	180
10001-15000	20	-	20	20	80
<b>TOTAL</b>	<b>280</b>	<b>260</b>	<b>250</b>	<b>210</b>	<b>1000</b>

**Source: Primary data**

The above Table 3.1 shows the loan provided to the women respondents by banks and the nature of entrepreneurial activity. In the study area women are involved in a wide range of income generating activities. It is found that majority of the women, 280 respondents are in Textiles and tailoring business, because they find it easy to manage with their skills and education. 260 respondents are in Pickle and Appalam business, 250 respondents are in Hand loom business and 210 respondents are in the other business.

**MANAGERIAL IMPLICATIONS :**

The study has reveals the following specific results

- Out of 1000 members, monthly income of 420 members is up to Rs.2000, 340 members are in the category of Rs.2000 - 3000, 140 members are in the category of Rs.3000 – 4000 and monthly of 100 members is Rs.4000 and above.
- Out of 1000 members, 520 save up to Rs.100 per month, 320 save Rs.100 – 200 per month and 160 members are above Rs.200 per month.
- ‘t’ test result shows that monthly income of SHG members and their savings are independent.

- 't' test reveals that marital status of SHG members and their monthly savings are independent.
- Out of 1000 respondents, 240 respondents have expressed that low rate of interest is the reason for the prompt repayment of loan, 370 respondents expressed that retaining image and goodwill for the prompt repayment of loan, 390 respondents have expressed that getting further loan is the reason for the prompt repayment of loan.
- All the respondents have received loans from the banks. Out of 1000 respondents, 280 respondents have received loan from banks for textiles and tailoring business, 260 respondents have received loan for pickle and appalam business, 250 respondents have received loan for handlooms and 210 respondents have received for other business activities.
- In the study area women are involved in a wide range of income generating activities. It is found that 28 percent of the women are in textiles and tailoring business, because they find it easy to manage with their skills and education. 26 percent of the women take up pickle and appalam business, 25 percent of the women take up handlooms and 21 percent of the women take up production and processing business.

It is suggested that the members of SHGs should identify viable and feasible income generating entrepreneurial activities in order to enhance and strength their economic empowerment, further It is suggested that the commercial banks / co-operative should establish a separate branch to serve SHGs. The bank should appraise viability of entrepreneurial projects of SHGs members and monitor their ongoing projects. The Government machineries and NGOs should sponsor and organize periodical meetings to explain economic issues relating to SHGs members. This will help them to get economic development really.

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