

# ECONOMIC IMPACT OF SELF HELP GROUPS AND MICROFINANCE IN RAMANAGARA DISTRICT OF KARNATAKA

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## **ABSTRACT**

*Self help groups are formed with a view to mobilize savings of poor and marginal sectors of society. With this view self-help groups in Karnataka are formed as village organizations. Self Help Groups and Microfinance is an essential precondition for elimination of poverty. There is a need for financial inclusion. Poor people are ignored by Banks. Their participation is lacking in business, society, education, health and training. In India self-help groups and microfinance have brought tremendous change in the life of poor at the grass root level. This paper discusses about the economic impact of self-help groups and microfinance on SHG members before joining SHG and after joining SHG. This is a quantitative study. It is based on primary and secondary data collected from different sources. The collected data has been analyzed through various statistical techniques i.e. SPSS, EXCEL and conclusion were drawn.*

**Key words:** *self-help groups, poverty alleviation, microfinance, economic impact, financial inclusion.*

## **1. INTRODUCTION**

Dignity is the right of every citizen and poverty is an obstruction to a dignified life. Poverty, unemployment, poor health, lack of education, lack of training, etc. are the major problems in many developing nations. Poor persons are denied of credit facilities for want of collateral. There are unbanked persons who are denied of loan facilities. There is a wide gap between rich and poor. No person should be denied loan facilities for want of collateral. Financial inclusion is the order of the day for balanced development and growth. Self Help Group is defined as “a small economically homogenous and affinity group of rural poor voluntarily formed to, save and mutually agree upon a collective decision”. The common fund, established through individual contribution by way of savings will be lent to its members as per group decision. The concept of SHG serves to underline the principle of “for the poor, by the poor, of the poor”. Self Help Group mechanism has been widely accepted as an integral part of micro credit. Several directives and guidelines from the Reserve Bank of India and NABARD to the commercial banks have clearly mentioned the needs to recognize the self help groups as a potential tool of micro credit. The Reserve Bank of India has launched the programme of linking self-help group with lending institutions like commercial banks so that the credit requirements of Self Help Groups can be properly attended to, by the commercial banks. Along with the self-help group, NGO's also playing a pivotal role in obtaining the micro credit for the rural poor.

Among the various districts of Karnataka, Ramanagara District occupies a predominant position in the starting of SHG's. Ramanagara District comprises of four taluks, namely, Ramanagara, Magadi, Channapatna and Kanakapur. The urban centers have more rural bias and the economic activities are more agro-based. Hence, the SHG's have been formed for meeting the needs of agricultural and industrial activities of the poor and unbanked persons. NABARD schemes and Government of Karnataka schemes resulted in more number of SHG's in the District.

Microfinance is the provision of financial services to low income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is "a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance and fund transfers." Those who promote microfinance generally believe that such access will help poor people out of poverty. Micro finance in the recent past has emerged has a potential instrument for poverty alleviation and women empowerment. Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients.

The word 'micro finance' has its origin in 1970 when some organizations started to engage actively in giving micro loans to some pre-qualified people. One of the prominent organization that institutionalized the word 'microfinance' was Grameen Bank of Bangladesh grounded by the man we called 'microfinance pioneer', Muhammad Yunus. Micro finance take various forms like - Peer pressure groups, Associations (SHGs), Bank guarantees, Community banking, Co-operatives, Credit unions, Grameen banks, Groups, Individual, Intermediaries NGO's, Small business and Village bank.

## 2. REVIEW OF LITERATURE

R.H. Waghmode and J.H. Kalyan (2014) Gender equality and women's empowerment are human rights that lie at the heart of development and the achievement of the millennium development goals. Despite the progress six out of ten of world's poorest people are still women and girls, less than 16 percent of the world's parliamentarians are women. Women are still systematically subjected to violence. The women empowerment connotes economic empowerment, social empowerment, legal empowerment and political empowerment.

Yunus (2007) in a study explained the differences between the Grameen Bank and conventional banks. He explained the Grameen Bank methodology was almost the reverse of the conventional banking methodology. More than half of the population of the world was deprived of financial services of the conventional banks. As conventional banking was based on collateral, focused on men, located in urban centers and owned by rich with the objective of profit maximization. The Grameen Bank started with the belief that credit should be accepted as a human right, where one who did not possess anything get the highest priority in getting a loan. Grameen Bank had the objective of bringing financial services to the very poor, particularly women to help the fight poverty, stay profitable and financially sound. They were poor because society had denied them the real social and economic base to grow on.

Sharma (2007) In the study, "Microfinance and Women empowerment" examined that empowerment is an indicator to build broadly in eight criteria i.e., mobility, economic security, ability to make small and large purchases, involvement in major household decisions, relative freedom from domination by the family, political and legal awareness, participation in public protests and political campaigns.

Suguna (2002) Mention three dimensions of rural empowerment namely economic, social and political. The economic empowerment includes skill development, income generation, credit availability, whereas the social empowerment consists of equal treatment, equality of respect, equality of opportunity, equality of recognition and equality of status. The political empowerment represents the process of controlling power and strengthening of their vitality.

### 3. OBJECTIVES OF STUDY

1. To understand the nature and scope of microfinance.
2. To study self-help groups in economic point of view.
3. To study the economic impact on members before and after the joining of SHG's.

### 4. LIMITATIONS OF THE STUDY

1. The study is limited only to Ramanagara District of Karnataka.
2. The primary source of data reliability depends on data given by the respondents.
3. The time period is the constraint. The time available for research is limited.
4. The study focuses on SHG and microfinance only.

### 5. SCOPE OF STUDY

The Reserve Bank of India identified large gap in the demand and supply of credit to the poor and suggests the urgent need to widen the scope, outreach and scale of financial services to cover the un-reached populace. The study will try to find out the reasons behind it. Paradox is that when banks are moving towards bankruptcy, whereas microfinance institutions are recovering 100% loan without having any NPA's even without any collateral security. The present study addressed itself to the basic research theme of contribution of microfinance institutions in social development and appraised the contribution of microfinance to achieve the goal of financial inclusion.

### 6. RESEARCH METHODOLOGY

The present study is based on primary as well as secondary data. The personal interview method has been adopted to collect primary data. For this, a well designed and pre-tested interview schedule was prepared to collect the information relating to the study. With a view to identify the growth of micro credit scheme, the research had an in depth review of previous studies undertaken, relating to the topic of the present study. Further the researcher had preliminary discussion with the officials of the Sthree Shakti Scheme and few NGO's registered in Sthree Shakti Scheme, Ramanagara District. The secondary data were collected from banks, journals, Reserve Bank of India Bulletins, NABARD annual Reports and reports of the project implementation unit, Ramanagara District.

**Sample Size:**

In India, various financial institutes are engaged in providing microfinance. These institutions are both from the public sector and private sectors. The population is the universe for the study is Self Help Groups in Ramanagara District. The sample size is 200 members from self help groups. The samples have been selected on Simple Random Sampling method.

**Techniques of the Study:**

The data collected will be analyzed and interpreted by applying need based statistical tools and techniques. The same will be presented in the form of tables, charts and through running materials for interpretation by various interested group.

**Hypotheses:**

**Ho<sub>1</sub>:** Self Help groups do not require microfinance for the development of its members.

**Ho<sub>2</sub>:** There is no impact of micro financial institution initiative on SHG members.

**7. ANALYSIS AND INTERPRETATION OF DATA**

To understand the economic impact of self help groups and microfinance and its significance from economic point of view. We consider tabulated data of demographic variables, Taluks, Age, Occupation along with economic variables namely Personal Income, Amount of Savings, before and after the membership of SHG (per month).

The economic profile of the sample self help group members such as household income, expenditure, savings in SHG's, standard of living of the respondents and their economic contribution to their family, average annual income, average contribution to the family income, savings pattern before joining SHG and after joining SHG, progress of income and savings per month is seen on the Table-1 below;

**Table – 1****Taluk wise Details of Personal Income before the membership of SHG (per month)**

TALUK	Personal income below Rs. 2000	Personal income Rs. 2001 to 3000	Personal income Rs. 3001 to 4000	Personal income Rs. 4001 to 5000	Personal income Above Rs. 5000	Total
Ramanagara	23	12	09	02	01	<b>47</b>
Magadi	18	14	11	03	02	<b>48</b>
Channapatna	34	13	07	02	01	<b>57</b>
Kanakapura	27	14	05	01	01	<b>48</b>
<b>TOTAL</b>	<b>102</b>	<b>53</b>	<b>32</b>	<b>08</b>	<b>05</b>	<b>200</b>

### Personal Income after the membership of SHG

From the Table – 2 it has been observed that Taluk wise detailed personal income after the membership of SHG (per month) is been analyzed. It is observed that among the earning per month after becoming members of SHG's has increased tremendously in every Taluk.

**Table – 2**

**Taluk wise Details of Personal Income after the membership of SHG (per month)**

TALUK	Personal income below Rs. 4000	Personal income Rs. 4001 to 6000	Personal income Rs. 6001 to 8000	Personal income Rs. 8001 to 10000	Personal income Above Rs. 10000	Total
Ramanagara	16	09	11	04	02	42
Magadi	19	11	07	05	01	43
Channapatna	27	20	05	03	04	59
Kanakapura	36	08	06	04	02	56
<b>TOTAL</b>	<b>98</b>	<b>48</b>	<b>29</b>	<b>16</b>	<b>09</b>	<b>200</b>

### Testing of Hypotheses:

Hypothesis 1:

Ho – Self Help Group members does not require microfinance for the development of its members.

H1 – Self Help Group members require microfinance for the development of its members.

To test the above hypothesis beneficiaries' perception about social empowerment are considered on five point agreement scale with following code. Strongly agree, Agree, Neither agree nor disagree, Disagree and strongly disagree. For testing above hypotheses we compare mean rating scores with score 3 (which gives positive agreement opinion rating score). For testing purpose we rewrite the above hypotheses as below;

Null Hypothesis: Mean rating scores for social development is greater than 2.

Alternate Hypothesis: Mean rating scores for social development is less than or equal to 2.

For testing above null hypothesis we use only one Sample 't' test with hypothesized mean value 2. The details of which are tabulated as follows.

### Observation:

From Table – 3, it is observed that, 't' value for null hypothesis is -5.810 is less than -2.326. Also 'p' value is 0.000 which is less than 0.01. Hence the null hypothesis cannot be rejected at 5% and 1% level of significance.

Table – 3

**One Sample ‘t’ Test of mean v/s hypothesized score 2 for requirement of microfinance and Self Help Group members**

	Mean score	Sample size	Degree of freedom	Calculated ‘t’ value (one tailed, upper)	Significant P value
Hypothesized mean scores for requirement of microfinance to SHG members	=2				
Observed Mean rating scores for requirement of microfinance to SHG members	=1.614	n = 200	d.f = 200	t= -5.810	P = 0.000

Critical ‘t’ values:

1. At 5% level of significance the corresponding ‘t’ value with Degree of freedom 200 is  $\pm 1.546$
2. At 1% level of significance the corresponding ‘t’ value with Degree of freedom 200 is  $\pm 2.325$

**Interpretation:**

On the basis of above data it can be inferred that Mean rating scores for requirement of microfinance and Self Help Group members is less than or equal to 2.

**Findings:**

Self Help Group members require microfinance for the development of its members.

Hypothesis 2:

Ho: There is no impact of microfinance institution initiative/support/encouragement on SHG members.

H1: There is impact of microfinance institution initiative/support/encouragement on SHG members.

To test above hypothesis beneficiaries perception about impact of micro financial institution initiative are considered on five point agreement scale with following code. Strongly agree, Agree, Neither agree nor disagree, Disagree and Strongly disagree. For testing above hypothesis we compare mean rating scores with score 2 (which gives positive agreement opinion rating score). For testing purpose we rewrite above hypotheses as below.

Null Hypothesis: mean rating scores for impact of micro financial institution initiative on SHG members is greater than 2.

Alternate Hypothesis: Mean rating scores for impact of micro financial institution initiative on SHG members is less than or equal to 2.

Table – 4

**One Sample ‘t’ Test of mean v/s hypothesized score 2 for impact of micro financial institution initiative on SHG members**

	Mean score	Sample size	Degree of freedom	Calculated ‘t’ value (one tailed, upper)	Significant P value
Hypothesized mean scores for impact of micro financial institution initiative on SHG members	=2				
Observed Mean rating scores for impact of micro financial institution initiative on SHG members	=1.614	n = 200	d.f = 200	t= -29.206	P = 0.000

Critical ‘t’ values:

1. At 5% level of significance the corresponding t’ value with Degree of freedom 200 is  $\pm 1.546$
2. At 1% level of significance the corresponding t’ value with Degree of freedom 200 is  $\pm 2.325$

**Observation:**

From the Table – 4, it is observed that ‘t’ value for null hypothesis is -29.206 which is less than -2.325. Also p value is 0.000 which is less than 0.01. Hence the null hypothesis cannot be rejected at 5% and 1% level of significance.

**Interpretation:**

On the basis of above data it can be inferred that Mean rating scores for impact of micro financial institution initiative on SHG members is less than or equal to 2.

## 8. FINDINGS

There is an increase in earnings of members after joining the Self Help Groups. There is an economic impact of Self Help Groups, microfinance and micro financial institution initiative on SHG members.

## 9. CONCLUSION

Self Help Groups and Microfinance has made tremendous progress in India. Savings and credit are the two basic elements in any developmental strategy. People irrespective of their position, should be encouraged to save and must be given safe and profitable options to save. Similarly, they must not be denied access to credit. Formal financial services are not available to all. Want of collateral is not the reason to deny the economic right of a person. Time is now ripe that the policy makers and practitioners swing into action.

Self Help Groups and microfinance has become a household name, in view of the variety of benefits reaped by the poor from microfinance services. Self Help Groups have become the vehicle of development process, converting all developmental programmes. At present a large number of SHG's, banking agencies and microfinance institutions are pursuing this programme for upliftment of the poor. Reserve Bank of India considered it as Priority Sector Lending in 1996. The programme is also the main contributor towards financial inclusion in the country. Microfinance and SHG's are powerful tool for social and economic development. It has been recognized as an effective strategy for financial inclusion. It assures loan without collateral, reduction in transaction cost, door step financial services to unbanked persons, employment opportunities or self-employment. There is an economic impact of self help groups and microfinance on their members after joining self help groups.

## 10. REFERENCES

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