



Microfinance, Factors affecting social capital Formation and Challenges faced - A study with reference to Chikkaballapura district

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Abstract:

Purpose: The major objective of presented research paper is to know whether the demographics impacts on the study on microfinance. Further, the study also conducted to know the factors of social capital formation and challenges faced by microfinance. There are 119 lakh SHGs in India with deposits over 47240 crores as on 31st March 2022 and 34 lakhs SHGs have been credit linked during the FY 2021-22 and savings all India stood at 25576.94 crores (NABARD, 2022). **Design:** A previously known questionnaire was administered as schedule after taking the level of literacy in the rural areas Chikkaballapura district of Karnataka. A total of 110 questionnaires were in the hand and out of 110 ten questionnaires were rejected due to in-competences. χ^2 and co-efficient of concordance, weighted average and GFC Index quantitative techniques were performed. **Findings:** The study found the presence of significant variation in the demographic profile of respondents. Further, the study reveals factors of social capital and in the rank order includes network connection, relational social capital, the second being improves social performance of MFIs and better repayment capacity. The challenges of microfinance includes financial literacy as the first challenge, lack of accessibility as the second rank and the third rank was awarded to the quality of SHGs.

Keywords : Accessibility, over indebtedness, homogeneity, network, repayment, trust, lending, environment.

Introduction :

Microfinance Institutions have a loan portfolio of Rs.46000 crores as on March, 2023, showing > 10% in year-on-year growth. Microfinance positively contributed to the overall growth in standard of living and livelihood activities (Madhubala Swamy, 2014). SHGs help in capacity building, training and participatory approach in the planning of self employment ventures. SHGs provide the platform for the promotion of activities in clusters and the provision of infrastructure facilities, technology (Sethi and Atibudhi, 2001; Borbora and Mahanta, 2001). Microfinance services both the unbanked and under banked reduces poverty (John Agyekam Addae, 2015). Microfinance as an instrument that will aid development of the society and alleviate poverty (Li Gen and Hu, 2011).

Social capital facilitates collective action for mutual benefit. It is an asset associated in relationships that facilitated instrumental action among people and sharing of knowledge and resources from one to another person (Coleman, 1988). Social capital consist of features of social organisation such as first, norms and networks that can improve efficiency of society by facilitating co-ordinated action (Putnam, 1995). Social banking connects individuals to groups and network, building social capital with poor people with other organisations (Bourdieu, 1985). Microfinance programmes which are encouraging in group lending encourage to use social capital which is embodied in personal relationships and network. Alleviation of poverty is a big challenge at present. Rural people in the poverty are unable to provide any security in order to avail any loan. The low level awareness of any direct programmes and capital formation benefits makes them further to lead a degraded life in the society.

Statement of the problem:

Microfinance in India achieved wonderful results in the area of basic financial discipline and it set a broader thinking among rural people to strive for progress and development. Against the governmental socio economic welfare schemes failure in India, microfinance programmes are attaining greater significance as they aim at alleviation of poverty, slow removal of unemployment and develops among respondents to become entrepreneurs in certain areas. India's sow lies in the rural and rural population is important and need more attention (Sadaf Sayeed, 2023). Microfinance programmes are designed exclusively for the women development and microfinance institutions encourage women to participate in the economic activities and often provide necessary knowledge in the form of training along with the loans. India can prosper if women are developed and in turn society also develops and thus micro finance discharges a significant sole positively benefiting Indian economies by adding value, productivity and business development among the marginalised people. Further, the microfinance encourages savings formation and encourages a systematic operative style of microfinance learns the basic financial discipline. Another significant role discharged by microfinance institutions is about development of women empowerment and SHGs facilitating women's access to finance.

Review of literature:

Times of India (2023) stated that MFIs operating in India that prevent them from adopting financial innovations despite being beneficial for both leaders and borrowers. Further, the author specified constraints limiting the abilities of MFIs to prioritize designing and implementing innovative financial products. They include technological constraints, regulatory barriers, customer demand.

Pramod Kumar (2021) expressed that microfinance is used to help the financially disadvantaged providing them with a source of income and employment, contributing to their overall well being and helping the deserved. Further, the researcher has stated that microfinance has been found to raise the standard of living, increase income and create jobs for those who use the services.

Monikasagar et al., (2023) are of the opinion microfinance in India shows the trend of positive impact in inclusive growth, which is most important to provide opportunities to all sectors of the economy through microfinance. Further, the researchers stated that SHGs bank linkage programme is playing an important role in women empowerment. Different development activities are provided by the microfinance institutions which include financial literacy, education and capacity building, livelihood promotion, preventive health care etc., but most of the microfinance institutions work in the Southern region of India.

Mohammad Abu Saleh et al., (2023) are of opinion in microfinance service have grown in popularity in recent years and have been utilised to alleviate poverty. The study found that women have a higher rate of recovery than males and most of the MFIs lead loans and cash to women rather than males. The researchers suggested some strategies should be evolved to face the challenges.

Objectives :

1. To study the demographics impacting on the study.
2. To analyse the factors of social capital formation.
3. To study the challenges of microfinance.

Hypothesis :

H₀₁ There exist no significant variation in demographics impacting on the study.

H₀₂ There are no factors of social capital formation.

H₀₂ There are no challenges faced by SHGs in the study area.

Research questions

1. Which demographics are impacting on the presented research work?
2. What are factors of social capital formation?
3. What are the challenges of microfinance?

Limitations

1. The study confines to a limited area.
2. The sample is limited.
3. Any dependency in the study requires further depth study.

Research Methodology:

Chikkaballapur district was carried out of Kolar district in 2007. There are 6 sub-districts in Chikkaballapur district and they are Gowribidanur, Gudibande, Bagepalli, Chikkaballapura, Shildaghatta and Chintamani. There are 243 villages and Bagepalli is the largest taluk by area wise and Chintamani is the largest by population. 115 questionnaires were administered for the purpose of data collection. 15 questionnaires were rejected as they were incomplete.

Questionnaire : The study instrument being questionnaire was administered as schedule since the level of formal education is average and many of the respondents may not understand the questions included in the questionnaire. Modifications were incorporated in the questionnaire after conducting pilot survey.

Sources of data : The presented study depends upon both primary and secondary data. Primary data gathered through a well administered questionnaire and the through a well administered questionnaire and the secondary data includes journals, books and internet.

Participants : The participants of the study includes respondents selected 6 blocks of Chikkaballapura districts. All the selected village SHGs members were interviewed and the data collected. The participants belongs to three blocks of Chikkaballapura district.

Sample and sampling technique : There are 6 blocks in Chikkaballapura district viz., Bagepalli, Chikkaballapur, Chintamani, Gowribidanuru and Shidlaghatta. Three blocks Bagepalli, Chikkaballapur and Gowribidanur blocks selected convenient sampling technique was followed which collecting data from the respondents.

Sample plan	No. of SHGs	SHGs	Sample
Chikkaballapura Block			
Dibburu	781	79	17
Agalagurki	773	70	16
Gowribidanuru Block			
Alakapura	779	74	16
D. Palya	633	58	13
Chintamani Block			
Amoor	941	77	20
Chinnasandra	860	89	18
Total Sample	4767	447	100

Source: NRLM <http://nrlm.gov.in>>SHG Report *Actual calculation.

Method of analysis : The study used quantitative techniques in analysing the impact of demographic variables on the study, factors of social capitalisation. These quantitative techniques include χ^2 , contingency co-efficient, weighted arithmetic mean and microfinance challenges index.

Micro Finance Challenges Index :

$$MFCI = MFCI_{SA} + MFCI_A + MFCI_{SWA}$$

Where in $MFCI_{SA}$ is the respondents strongly agree for the different statements.

$MFCI_A$ is the respondents agree over the statements.

$MFCI_{SWA}$ is the respondents somewhat agree.

Survey Findings:

Table - 1 highlights data about demographic profile of respondents. In the presented research work there are 85 married and 15 unmarried. 45 respondents completed 10th standard followed by 20 studied up to the level of pre-university course (PUC), 15 completed a general bachelor degree and 10 each a degree in post graduate and ITI certificate holders. 45 respondents occupation is agriculture followed by 21 vegetables sellers 13 pickle and papad sellers and working nearby urban market and 5 textile pieces sellers. The monthly income data reveals that 45 respondents monthly income is in between 5K - 10K followed by 25 getting in between 10K-15K, 9 respondents in between 25K-30K, 8 getting in between 15K-20K and 6 getting > 30K. 75 availed loan, 11 waiting, 8 not availed and 6 new entry, 65 trained, 29 not trained and 6 not interested and 90 faced problems and 10 not faced. 56 participated in trade fairs, 25 waiting and 19 not participated and out of 100, 85 respondents are interest in savings formation and 8 no and 7 are interest but new respondents. All the demographic are showing significant relation with high degree of relationship except participation in trade fairs which shows low degree of relationship.

Table-2 let slip data about factors of social capital formation. To measure social capital formation the statements are considered and these statements are taken from different previous researchers. Statements No. 1 & 2 taken from the previous work of Lumimatal et al., (2020) the third statement from Hermes et al. (2005) and the fourth statement from Karlam's (2007). The fifth statement and cassur et al. (2007) from Cassas et al., (2007), the sixth statement taken from Wydick et al, (2011), the seventh from Sandeen and Johnson (2012), the 8th Statement from Nahapiet and Ghoshal, (1998), the 9th from Raj Agarval et al. (2015) and 10th from Awin et al. (2007), the 11th statement from Wydick et al., (2011) and 12th statement from Burzynska et al. (2015). To measure the effect of social capital formation factors weighted arithmetic mean was performed. The expressions of respondents defined as "f" and weight as "w". The opinion of respondents expressed are presented by utilising 5 point Likert scale starting from SA to CDA. The opinions which are placed under different point of Likert scale are multiplied by "w" to get "fw" and "fw" is divided from the sum of "w" i.e., $5 + 4 + 3 + 2 + 1 = 15$. The first rank was awarded to statement 1, the second rank to 6th Statement, the third rank to the statement 10, and the remaining factors are rewarded on the basis of strength of "WA".

Table-3 highlights data about challenges faced by MFIs in the study area. The table contains 27 statements statement 1 to 8 taken from Mohammed Abu Suleh et al. (2023), and statement 9 to 14 drawn from Finezza blog (2020). Further, the statement 15 to 19 drawn from Ruchika Mahajan (2017) and from 20 to 22 drawn from the previous research from Sambasiva Rao Aluru (2010). Statment 23 to 27 taken from the previous research work of Arabi, U (2019). To measure the challenges Microfinance Index was framed. The study awards first rank to statement 15, the second to the 1 and the third rank to the statement No. 20. All the statements show significant variation and high degree of relationship. The opinions collected from are placed in the form of 3 point Likert scale and corresponding weights of 3, 2 and 1 are also assigned. Further, microfinance challenge Index (MFCI) was framed.

Discussion :

The crucial role discharged by microfinance institutions is the area of permitting long term financial independence in the poverty struck areas. It help sustained impact by educating the microfinance respondents on low to create their own business and how to properly manage and grow their money. SHGs have created a massive social infrastructure uniquely positioned to reach innumerable microfinance clients on a continuous basis. Microfinance is no more a financing channel with multiple credit products, repayable over a longer duration (Sanjeev Kumar Dey, 2015). Microfinance acts as substitute for physical collateral to serve as

guarantee for small loans. Microfinance can build social capital new because it enhance group solidarity among members (Saharia Karak et al., 2007). The study found that all demographics profile impacting on the study and exhibits significant variation and shows high degree of relationship between the microfinance programmes and socio-economic characteristics of respondents. Further, the study found factors like network connection, relational social capital, improved social performance of MFIs and better repayment factors impacting social capital formation. The challenges of microfinance includes financial literacy as the first ranked challenge, lack of accessibility as the second ranked challenge and the third ranked challenge. The collected data presented in the form of tables and suitable quantitative techniques were performed and the result are interpreted.

Conclusion:

Microfinance has proved its capabilities of creating access to financial services and strongly working for poverty and unemployment alleviation. Chikkaballapur district was carved out of Bengaluru in 2007 and from that period onwards no strong effort was made to know the impact of microfinance in the clients of microfinance. Since Chikkaballapur is famous for sericulture, grapes and vegetables, the rural women are absorbed in the agriculture which is a source of livelihood activity of women in the Chikkaballapura district. A greater awareness has to be created about micro credit utilization and about greater need of financial literacy among the respondents. The study found the presence of significant variation in the demographic profile of respondents. Further, the study reveals factors of social capital and in the rank order includes network connection, relational social capital, the second being improves social performance of MFIs and better repayment capacity. The challenges of microfinance includes financial literacy as the first challenge, lack of accessibility as the second rank and the third rank was awarded to the quality of SHGs.

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Table-1 : Socio-economic characteristics of respondents

Characteristics	χ^2	TV @ 0.05	df	Result of χ^2	"c"	Result of "c"
Marital Status	49.00	3.841	1	Significant	0.57	High Degree
Education	43.50	9.488	4	Significant	0.55	High Degree
Occupation	67.23	11.070	5	Significant	0.63	High Degree
Monthly income (INR)	72.74	11.070	5	Significant	0.64	High Degree
Loan availed	133.84	7.815	3	Significant	0.75	High Degree
Training	53.06	5.991	2	Significant	0.59	High Degree
Problems faced	64.00	3.841	1	Significant	0.62	High Degree
Participated in trade fairs	23.85	5.991	2	Significant	0.43	Low Degree
Savings formation	120.15	5.991	2	Significant	0.73	High Degree

Source: Field Survey

Note : χ^2 = Chi-square

'c' = $\sqrt{(\chi^2 / \chi^2 + N)}$

Where 'c' = Contingency Co-efficient, N = Number of Observations

When the value 'c' is equal or nearer to 1, it means that there is high degree of association between attributes. Contingency co-efficient will always to be less than 1. High degree is considered here if 'c' is 0.50 and above.

Table-2 : Factors of social capital formation

	Factors of social capital formation	Weight	5	4	3	2	1	T	WA
		Likert	SA	A	N	DA	SDA		
1	Lending techniques based in exchanges relations	f	70	21	2	3	4	100	IV
		fw	350	84	6	6	4	450	30.00
2	Social capital makes transactions possible in environment where in FIs face data problem	f	66	25	-	3	6	100	XI
		fw	330	100	-	6	6	442	29.47
3	Social capital reveals that social ties help group leaders to improve their screening and motivating efforts resulting in lower mis understanding	f	62	28	8	-	2	100	VI
		fw	310	112	24		-	448	29.87
4	Group members share same culture resulted in better repayment	f	60	30	8	-	2	100	VIII
		fw	300	120	24	-	2	446	29.73
5	Group homogeneity and inter group that assures repayment	f	78	12	2	3	5	100	IV
		fw	390	48	6	6	5	450	30.00
6	Improves social performance of MFIs	f	78	18	-	1	3	100	II
		fw	390	72	-	2	3	467	31.13
7	There is a trade off between financial and social performance	f	62	26	4	5	3	100	XII
		fw	310	104	12	10	1	437	29.13
8	Network connection, relational social capital like trust, acceptance, friendship, share and norms and languages	f	83	13	-	-	4	100	I
		fw	415	52	-	-	4	471	31.4
9.	Social capital determined by trust relational social capital	f	65	28	-	7	-	100	X
		fw	325	112	-	7	-	444	29.60
10.	Better repayment capacity	f	82	5	4	3	6	100	III
		fw	410	20	12	6	6	454	30.27
11.	Religions networks lead to access to credit	f	75	15	-	-	10	100	IX
		fw	375	60	-	-	10	445	29.67
12.	Trust & cultural dimension and the financial performance repayment rates, costs and interest rates	f	72	18	-	5	5	100	VII
		fw	360	72	-	4	5	453	29.80

Source: Field Survey

Note : Likert scale : SA - Strongly Agree, N - Neutral, A - Agree, DA - Disagree, SDA - Strongly Disagree

Weights : 5 + 4 + 3 + 2 + 1 = 15

Weighted Average = Total / Sum of Weights

Table - 3 : Challenges of Microfinance

	Factors of challenges facing microfinance	Status of challenges				R	x ²	Result of x ²	“c”	Result of “c”
		SA	A	SW A	MF CI					
1	Lack of accessibility	85	10	5	100	11	421.25	Significant	0.89	High Degree
		255	2	18	280					
2	Unhealthy competition	70	18	12	100	XV	271.52	Significant	0.85	High Degree
		210	36	12	258					
3	Seasonal migration	65	25	10	100	XI	222.93	Significant	0.83	High Degree
		195	50	10	255					
4	Political unawareness	68	23	7	100	XV	254.04	Significant	0.84	High Degree
		204	46	7	257					
5	Extending vulnerable groups	69	25	6	100	X	256.68	Significant	0.84	High Degree
		207	50	6	263					
6	Resource constraints	75	15	10	100	VII	319.43	Significant	0.87	High Degree
		225	30	10	265					
7	Threatening the financial discipline	61	18	21	100	XX	200.32	Significant	0.81	High Degree
		183	36	21	240					
8	Low level knowledge of MFIs	65	20	15	100	XX	220.20	Significant	0.83	High Degree
		195	40	15	250					

9	Over indebtedness	59	22	19	100	XX V	180.32	Significant	0.80	High Degree
		177	44	19	240					
10	Higher interest rates	73	21	6	100	VI	292.11	Significant	0.86	High Degree
		219	42	6	267					
11	Widespread depending on Indian Banking system	76	20	4	100	V	319.15	Significant	0.87	High Degree
		228	40	4	272					
12	Lack of enough awareness of financial services in the economy	81	12	7	100	IV	390.98	Significant	0.89	High Degree
		243	24	7	274					
13	Regulatory issues	65	28	7	100	XV	221.17	Significant	0.82	High Degree
		195	56	7	258					
14	Choice of appropriate model	59	40	1	100	XV	180.71	Significant	0.80	High Degree
		177	80	1	258					
15	Financial illiteracy	88	12	-	100	I	444	Significant	0.90	High Degree
		264	24	-	288					
16	Lack of information	65	30	5	100	XII I	220.55	Significant	0.82	High Degree
		195	60	5	260					
17	Inability to generate funds	62	28	10	100	XX I	198.38	Significant	0.81	High Degree
		186	56	10	252					
18	Weak governance	58	21	21	100	XV II	174.14	Significant	0.79	High Degree
		174	42	21	237					
19	Regional imbalances	74	18	8	100	VII	305.67	Significant	0.86	High Degree
		222	36	8	266					
20	Quality of SHGs	80	16	4	100	III	361.38	Significant	0.88	High Degree
		240	32	4	276					
21	Loan size of groups	66	29	5	100	XI	229.16	Significant	0.83	High Degree
		198	58	5	261					
22	Over stretching to achieve scale	69	23	8	100	XI	256.56	Significant	0.84	High Degree

	and access without critical assessment of human power etc.,	207	46	8	261					
23	Imparting training to banks and SHG members	71	22	7	100	IX	274.11	Significant	0.86	High Degree
		213	44	7	264					
24	Moving from credit to enterprise activity	69	22	9	100	XII I	257.66	Significant	0.84	High Degree
		207	44	9	260					
25	Problem of delivery cost	56	32	12	100	XX IV	155.15	Significant	0.78	High Degree
		168	64	12	244					
26	Formation of SHG federations	61	25	14	100	XX III	192.49	Significant	0.81	High Degree
		183	50	14	247					
27	Capacity of building of MFIs	64	26	10	100	XX	214.50	Significant	0.82	High Degree
		192	52	10	254					

Source : Field Survey

df = 2, tv = 5. 991

MFCI = Micro Finance Challenges Index

x² = Chi-square

R = Rank