

# Role of Micro Finance Factors in the Development of Self Help Groups (SHG) in Tamil Nadu

<sup>1</sup>Anudevi, <sup>2</sup>Dr. Saifil Ali

<sup>1</sup>Research Scholar (PhD), BSMED, Bharathiar University, Coimbatore  
& Asst. Professor, Balaji Womens College,

<sup>2</sup>Research supervisor, Professor & Director, Agni School of Business Excellence, Vadamadurai, Dindigul District, Tamil Nadu

**Abstract:** Self-help group (SHG) is a village-based financial intermediary usually composed of 10–20 local women. Most self-help groups are located in India, though SHGs can also be found in other countries, especially in South Asia and Southeast Asia. Microfinance improves the socio-economic status of the Self help groups. The aim of microfinance program is to fulfil the financial needs of low-income groups with the help of banks and it leads to the development of Self Help Groups. Research studies on SHGs in the state reveals that these groups consisted of mostly 15-20 members mostly belonging to backwards areas of the society. SHGs in India have become a potential tool for the empowerment of women, social solidarity and socio-economic betterment of the poor in their own setting. This paper forms part of an analytical research study on the role of microfinance factors in the development of Self help group in Tamil Nadu state. The study was conducted with a sample of 560 members of self help groups belonging to different districts in Tamil Nadu, using multistage sampling and stratified sampling. It has been found that the factors influencing self help groups are socio economic benefits, perception, gain availed, social security, social relationship with respect to microfinance. It is recommended that the resources should be utilised in the efficient way to develop self help groups in the state.

**Keywords:** Microfinance, Self Help Groups, Socio-economic benefits.

## 1.0 Introduction

Microfinance, by its name refers the whole journey of financial and non financial services that cover skill up gradation, entrepreneurship development rendered to the poor and needy people for the purpose of enabling them to overcome poverty. Microfinance refers to loan; saving, insurance, transfer services and other financial products targeted at low levels clients. Microfinance in India is mainly provided through Self-Help Groups (SHGs), Microfinance Institutions (MFIs) and some other methodologies.

The network of many financial institutions like public and private sector commercial banks, co-operative banks, regional rural banks (RRBs) and MFIs is used to provide microfinance services to the poor people. Microfinance programme claims to provide the poor an access to capital and give them opportunities to climb the economic ladder. The microfinance as a tool in poverty reduction, improves socio economic conditions of the poor and empowerment particularly in rural areas. It is a method to meet the credit requirements in rural areas. It puts credit, savings, insurance and other basic financial services like fund transfer (Robert et al, 2004) within the reach of poor and low income household & their microenterprises. Ultimately, the goal of microfinance is to give low income people an opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance.

NABARD has defined micro finance as follows: “Micro finance is all about provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi urban and urban areas for enabling them to raise their standard of living.” Micro finance is an instrument to fight against poverty. According to Nobel Committee, micro finance can help the people to break poverty, which in turn is seen as an important prerequisite to establish long last peace.

## 1.1 SHGs in India – An overview

Self help groups are necessary to overcome exploitation, create confidence for the economic self-reliance of rural people, particularly among women who are mostly invisible in the social structure. These groups enable them to come together for common objective and gain strength from each other to deal with exploitation, which they are facing in several forms. A group become the basis for action and change. It also helps buildings of relationship for mutual trust between the promoting organization and the rural poor through constant contact and genuine efforts.

Self help groups plays an important role in differentiating between consumer credit and production credit, analyzing the credit system for its implication and changes in economy, culture and social position of the target groups, providing easy access to credit and facilitating group/organization for effective control, ensuring repayments and continuity through group dynamics; setting visible norms for interest rates, repayment schedules, gestation period, extension, writing of bad debts; and assisting group members in getting access to the formal credit institutions. Thus, self help group disburses microcredit to the rural women for the purpose of making them enterprising women and encouraging them to enter into entrepreneurial activities. Credit needs of the

rural and urban poor women are fulfilled totally through the SHGs. SHGs enhance equality of status of women as participation, decision-makers and beneficiaries in the democratic, economic, social and cultural spheres of life.

The rural poor are in-capacitated due to various reasons such as; most of them are socially backward, illiterate, with low motivation and poor economic base. Individually, a poor is not weak in socio-economic term but also lacks access to the knowledge and information, which are the most important components of today's development process.

## 2.0 Review of Literature

- Pitt & Khandker (1998) studied the impact of microfinance on poverty in Bangladesh. The study showed that the poverty rate of BRAC (Bangladesh Rural Advancement Committee, set up in 1970) members fell down. This rate of poverty reduction started to minimise with the duration of membership and with cumulative loan size. From this study it is observed that the poverty is declined with the usage of microfinance.
- Anjugam & Alagumani (2001) concluded that microfinance has brought considerable improvement in decision making skills among women, creates them confidence in managing the financial crisis of the family, decision making capacity in household matters and assertiveness in protesting against social evils like drinking water problem, dowry and gambling etc.
- Cheston & Susy (2006) found that in many MFIs, women have become preferred clients as their income benefits their families through improved nutrition, health, education and social status and for the well-being of the nation; due to better performance of the women in the group lending programmes and prompt payment of loan amount the preference is given to women.
- Allen et al (2007) conclude that in spite of a large banking sector, about 40% of the Indian population does not have bank accounts. over 75% of the Indian population still lives below \$2 a day, and a vast majority in rural areas below the poverty line, microfinance the provision of thrift savings, credit and other financial products and services at a very scale to the poor and needy to enable them to raise their income and improve their standard of living is a key to financial inclusion in India.
- According to Singh (2008), microfinance services are designed to help the underprivileged to increase their income, provides financial stability to run their life, with the help of the microfinance the backward areas avail the credit from the banks, the aim of microfinance services is to serve for the underprivileged people.
- Cull et al. (2008) found that there is a remarkable success in maintaining high rates of loan repayment in microfinance sector, but their study also suggests that profit-maximizing investors would have limited interest in most of the institutions that are focusing on the poorest customers and women, but still there is no full-fledged repayment is done by many groups and also the highest fees and high transaction costs is charged.
- Mayoux & Hartl (2009) said that microfinance factor has contributing not only to poverty reduction and financial sustainability, but also increases economic empowerment, and political empowerment for women themselves, thereby addressing goals of gender equality and empowerment.
- Mahajan & Bansal (2009) concluded that the impact of microfinance on women empowerment in Punjab and found that participation in microfinance have not only significantly increased income, but has also developed regular saving habits among women. As a consequence, women could actively participate in household decision making, besides enhancing their social and psychological empowerment.
- Dhanya & Sivakumar (2010) commented that in spite of the improvements in savings and banking habits due to the participation in microfinance programmes, it also improved the helps to face the problem of default, affecting the sustainability of the SHGs.
- Emerlson (2011) found that the impact of microfinance programme especially through Self-Help Groups (SHGs) has been effective in making positive social change to all members, irrespective of the direct borrowers of the micro credit.

Therefore, microfinance is a new tool used to meet the credit requirement in rural areas. It is being viewed as one of the most powerful tools for uplifting the economic conditions of the asset-less poor through group approach that ensures active participation and involvement of the beneficiaries in effective implementation of the programme.

## 3.0 Research Design

### Objectives of the study

- To study the micro finance lending practices adopted by nationalised public sector commercial banks in extending credit to micro enterprises.
- To analyse the past performance of commercial banks in extending financial services to SHG's.

### Methodology

Research design adopted in this study is descriptive. The data collected for this paper based on Primary and secondary data. Data have been collected through books and various websites and publications of recent research papers available in different websites

and magazines. Sampling technique adopted in this study is multi-stage sampling and simple random sampling to select the respondents for the study. The members of the SHG are taken as sample from various districts and hypothesis were tested based on the statistical tools like Chi-square and ANOVA.

#### 4.0 Analysis and Findings

Analysis and interpretation are central steps in the research process. The aim of the analysis is to organize, classify and summarize the collected data so that they can be better comprehended and interpreted to give answers to the questions that triggered the research. Interpretation is the search for the broader meaning of findings. Analysis is not fulfilled without interpretation; and interpretation cannot proceed without analysis. So, both are inter dependent.

##### Factor Analysis

Factor analysis based on impediments faced by SHG's while availing loan from banks using KMO and Bartlett's Test.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.665
Bartlett's Test of Sphericity	Approx. Chi-Square	1894.768
	Df	105
	Sig.	<0.000**

The Kaiser-Meyer-Olkin Measure of Sampling Adequacy is a statistic that indicates the proportion of variance in variables that might be caused by underlying factors. The Kaiser-Meyer-Olkin value of 0.665 which is greater than 0.50 indicate that a factor analysis is useful with our data. Bartlett's test of Sphericity tests the hypothesis that correlation matrix is an identity matrix, which would indicate that variables are unrelated and therefore unsuitable for structure detection. Since P value is less than 0.01, the hypothesis is rejected and indicate that variables are related a factor analysis and is useful with our data.

**Table 4.1 Factor Loading, Eigen value and Percentage of Extraction using Principle Component Method based on impediments faced by SHG's while availing loan from banks**

##### Rotated Component Matrix (a)

Factor	Statement for impediments faced by SHG's while availing loan from banks	Factor loading	Eigen Values	% of variance	Cumulative %
I	Cumbersome process of getting loan	0.837	2.252	15.014	15.014
	Bank staff is not co-operative.	0.674			
	Fear factor about recovery process.	0.623			
II	Lack of financial knowledge	0.784	1.791	11.940	26.953
	Poor response of authorities	0.656			
	Difficulties to approach the authorities	0.569			
III	Delay in sanctioning the loans	0.822	1.732	11.544	38.497
	Lack of administrative experience	0.486			
IV	High rate of interest on loan	0.679	1.570	10.465	48.962
	Inadequate loan amount	0.651			
	Lack of co-operation among members	0.650			
V	An Entrepreneur should be an information seeker	0.873	1.376	9.174	58.136
	Limited number of installments for repayment of loan	0.421			
VI	Micro entrepreneurs are generally unable to take moderate risk	0.828	1.375	9.165	67.301
	Success of an SHG depends on market performance	0.603			

We note that 6 factors have been extracted, based on our criterion that only Factors with Eigen values of one or more should be extracted. We see from Cumulative Percentage of Variance Explained in the above table that the 6 Factors extracted together account for 67.301percent of the total variance from the information contained in the original 15 variables.

This is a pretty good result, because we are able to economize on the number of variables (from 15 we have reduced them to 6 underlying factors), while we lost only about 27.723 percent of the information content (67.301 percent is retained by the 6 Factors extracted out of the 15 original variables). This represents a reasonably good solution for the problem.

Also from the above table of the rotated factor matrix, notice that three variable have loadings of on 0.837, 0.674 and 0.623 factor I with Eigen value of 2.252 and their percentage of extraction is 15.014. This suggests that Factor 1 is a combination of these 3 original variables which are “Cumbersome process of getting loan”, “Bank staff is not co-operative”, and “Fear factor about recovery process”. At this point, the researcher’s task is to find a suitable phrase which captures the essence of the 3 original variables which form the underlying concept or “factor”. In this case, Factor I could be named as “Bank loan procedure”.

Similarly the other factors are notice that three variables have loadings of 0.784, 0.656, and 0.569 on factor II with Eigen value of 1.791 and their percentage of extraction is 26.953. This suggests that Factor 2 is a combination of these 3 original variables which are “Lack of financial knowledge”, “Poor response of authorities”, and “Difficulties to approach the authorities”. At this point, the researcher’s task is to find a suitable phrase which captures the essence of the 3 original variables which form the underlying concept or “factor”. In this case, Factor II could be named as “Authoritative constraints in banks”.

Similarly the other factors are notice that two variables have loadings of 0.822, and 0.486 on factor III with Eigen value of 1.732 and their percentage of extraction is 38.497. This suggests that Factor 3 is a combination of these 2 original variables which are “Delay in sanctioning the loans” and “Lack of administrative experience”. At this point, the researcher’s task is to find a suitable phrase which captures the essence of the 2 original variables which form the underlying concept or “factor”. In this case, Factor III could be named as “Loan sanction status”.

Similarly the other factors are notice that three variables have loadings of 0.679, 0.651

And 0.650 on factor IV with Eigen value of 1.570 and their percentage of extraction is 48.962. This suggests that Factor 4 is a combination of these 3 original variables which are “High rate of interest on loan”, “Inadequate loan amount” and “Lack of co-operation” among members. At this point, the researcher’s task is to find a suitable phrase which captures the essence of the 3 original variables which form the underlying concept or “factor”. In this case, Factor IV could be named as “Loan constraints”

Similarly the other factors are notice that two variable have loadings of 0.873, and 0.421 on factor V with Eigen value of 1.376 and their percentage of extraction is 58.136. This suggests that Factor 5 is a combination of these 2 original variables which are “An Entrepreneur should be an information seeker” and “Limited number of installments for repayment of loan” among members. At this point, the researcher’s task is to find a suitable phrase which captures the essence of the 2 original variables which form the underlying concept or “factor”. In this case, Factor V could be named as “Entrepreneurial attribute”.

Similarly the other factors are notice that two variables have loadings of 0.828 and 0.603 on factor VI with Eigen value of 1.375 and their percentage of extraction is 67.301. This suggests that Factor 6 is a combination of these 2 original variables which are “Micro entrepreneurs are generally unable to take moderate risk”, “Success of an SHG depends on market performance” among members. At this point, the researcher’s task is to find a suitable phrase which captures the essence of the 2 original variables which form the underlying concept or “factor”. In this case, Factor VI could be named as “Entrepreneurial risk and market performance”.

Based on the analysis and findings in the study, it is suggested that,

- (1) There should be improvement in the social benefits gained by the SHG, the microfinance programme should increase the social security of the members and all the factors of social benefits should be given equal importance
- (2) The time scheduled to repay the amount should be extended to members for collecting the amount so that it helps to reduce the burden of SHG members and improves the social relationship
- (3). It is concluded that there is association between social benefits of SHG members as per experience and Level of Role of MFS with respect to microfinance towards SHG’s. It is suggested that
- (4) The level of satisfaction on MFS has to increase to satisfy the members of SHG’s and
- (5) The educational qualification of members in rural areas has to be improved, the microfinance procedures are not well known by people in backward sectors.

## Conclusions

To conclude, the potential for growing micro finance institutions in India is very high. Financial institutions need to educate villagers on the ease of procedures for availing loans. The repayment schedule should be designed to suit the seasonality of

members' income (e.g. availability of money after harvest). Due weight should be given to SHGs on training the poor with necessary skills to become efficient money managers and successful entrepreneurs by eradicating the financial and social constraints faced by them. At the mass level awareness should be given about different schemes sponsored by the Government. With the help of microfinance programme the people in the rural sectors has gained socio-economic benefits which improved their income, standard of living and reduce poverty therefore role of microfinance helps to development of SHG members in day to day life which leads to development of economy.

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