

# Microfinance: Banking for the Poor



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## Abstract

The present research paper narrates that higher economic development does not ensure the eradication of poverty. Higher growth rate and income inequality can hinder the growth rate itself. The study reveals that access to credit or finance can bridge the gap and is the appropriate prescription and the right pill to eradicate the problem of poverty. In India, microfinance operates largely through Self-Help Groups. Self-Help Groups (SHG) banking practice is convenient to the requirements of the vulnerable sections of rural India. Microfinance is one such viable, cost-effective collateral free developmental intervention inculcating the habit of savings among the poor to build up funds of their own to meet emergencies and to ensure employment creation and generation of income. It is heartening and gratifying to note that a significant increase has taken place in most of the household items and there is a move of the members graduating towards microenterprises after joining the group. The study concludes that today, rural folk has accepted SHGs as an alternative banking.

**Keywords:** Banking, Microfinance, Microenterprises, Income, Poverty.

## Introduction

Throughout human history, poverty and exclusion are identified as the greatest hindrances in human development. Mere development does not ensure the eradication of poverty. Higher growth rate and income inequality can hinder the growth rate itself. Access to credit or finance can bridge the gap and is the appropriate prescription and the right pill to end this menace. For such categories, the state intervenes in the form of schemes for the improvement in the standard of living and quality of life. Microfinance is one such developmental intervention aiming at employment creation and generation of income.

## Microfinance through SHG Route

SHGs are essentially informal groups formed to attain a collective goal. Their members have a common perception of need and importance towards collective action. People, who are homogenous with respect to social background, heritage, caste or traditional occupations, usually come together to form such informal groups, for a common cause to raise and manage their collective savings for the benefit of all the group members. The basic objectives of the SHGs are to develop savings capability among the poorest sections of the society, which in turn reduce dependence on financial institutions and develop self-reliance.

## Objectives of the Study

1. To understand the role and reach of SHGs in spreading financial literacy
2. To throw light on the loan utilization pattern of members and to assess the potential and performance of SHGs in promoting self-employment and income generation among the rural poor in the study area.

## Review of Literature

Literature reviews evidences that "Microfinance has emerged as a visible channel to the poor as their access to conventional credit channels is constrained by the requirement of collateral and high transaction cost. Microfinance is preferably routed through SHGs" (Ghate, 2007)." "Microfinance has worked largely through SHGs. Millions of poor and illiterate women in India are today using small loans to rewrite their present and future. These microfinance institutions include banks, non-government organizations, refinance institutions and SHGs developing with small loans and deposits in rural, enabling people to raise savings, productive investments and thereby their standard of living" (Nadarajan and Ponmurugan, 2006). A study was conducted by drawing samples from four states including Gujarat, Rajasthan, Himachal Pradesh and Madhya Pradesh indicate the five major reasons for SHG borrowing. 26.72 per cent of members borrowed loan for consumption purpose, farm activities (14.59 per cent), medical exigencies (11.32 per cent), house repair (10.74

percent) and income generating activity (9.92 per cent). Consumption took the top position in all the surveyed states. The study concluded that the SHG financing has reduced the dependency of its members on moneylenders for financial needs. The income level of SHGs members has also gone up on account of their becoming the member of SHGs. Dairy (buffalo rearing) was found to be the most preferred activity due to the familiarity of SHG members with management and availability of regular income from the asset. The availability of raw material and sufficient demand in the local market were the important factors went in favor of the selection of dairy activity. Overall, the dependence of SHG members on informal sources of finance has come down over a period of time (Mani and Sudheer, 2012). Evidence from a study of 190 members from 64 SHGs in Punjab shows that an average amount of saving of ₹ 100 per month by each member in a group participant is very important to conduct oneself confidently in a group. The members have to arrange meetings weekly or fortnightly, visit other villages, interact with important local people, go to banks and meet various government officials. This requires a good level of confidence in dealing with officials, group members and other members of the community. Around 74 per cent of the respondents are confident in dealing with the other members of the society. (Mahajan and Bansal, 2009). "Microfinance in Bangladesh has indeed reduced violence against women" (Kabeer, 2001).

Out of 272 women beneficiaries, 262 (96 per cent) have admitted that microfinance has resulted in social justice for them. And 233 (86 per cent) feels that it helped in ending domestic violence. But very few felt that it helped in preventing bigamy and remarriage of widows. Moreover, 118 (43 per cent) felt that microfinance has also helped in anti-alcoholism in the village. The number of assets owned has also increased in case of domestic animals and household goods whereas land remains almost the same. Out of the increased income, the beneficiaries have invested in housing. The number of members living in Katcha house has reduced from 206 (63.4 per cent) to 97 (29.8 per cent) and the number of members living in Pucca house has increased from 52 (16.0 per cent) to 145 (44.6 per cent). (Goyal and Goel, 2015).

Out of 302 members selected for study from SHG members of Dakshina Kannada district, the study shows that borrowing from external sources has completely stopped due to the provision of microcredit and was estimated to be around 44 per cent and the proportion of members who started saving only after joining the group was estimated to be around 81 per cent. The proportion of SHG members reporting that they are able to acquire assets was estimated to be as high as 82 per cent. A great majority of them have purchased the assets and thereby improved their standard of living (Jayasheela and Hans, 2014).

#### **Methodology**

##### **Primary Data**

The micro-level empirical part of the study is based on a field survey carried out by the researcher

through the structured questionnaire confined 150 SHG members confined to 9 villages of Udupi Taluk of Udupi district of Karnataka State. Out of 150 members studied, 70 members sponsored by South Canara District Cooperative Bank Ltd, 60 members promoted by Sri Kshetra Dharmastala Rural Development Project (SKDRDP) and 20 members from the group (Stree Shakthi) promoted by the government (HDR, 2014).

Besides secondary data for the study is obtained from published and unpublished records, books, magazines and journals.

#### **Findings and Discussions**

##### **Socioeconomic Profile of SHG Members**

The study of socioeconomic profile of members is essential to understand the group dynamics and to know the extent of homogeneity in the composition of members. In the case of SKDRDP, 33 members (55 percent) are in the age group of 30-40 years. Similarly, in the case of Navodaya, 51 members (72.8 percent) are in the age group of 30-40 years. In case Stree Shakthi also, 14 members (70 percent) are in the age group of 30-40 years. It is believed that the minority population does not participate in the SHG programme. This has been proved wrong. Of the total 150 members studied, 21 members belong to the Muslim community and 3 are from the Christian community. Members of SHGs studied mainly comprised of beedi workers and homemakers. As expected, very few were found belonging to the farming community and petty traders.

##### **SHGs: Transmission Channel:**

The base of microfinance as a tool of empowering rural poor is the need for developing a habit of voluntary savings or thrift among the poor not only to inculcate saving habit, but also to build funds of their own to meet any emergencies therefore considered as an important component of microfinance programme. The savings generated by individual members of the group studied during the field study. In the case of SKDRDP, out of the 60 members surveyed, 40 members (66.7 percent) have savings of < ₹ 5000, 10 members have savings between ₹ 5000 -10000. In the case of Navodaya, out of 70 members, 40 members (57.1 percent) have generated savings of < ₹5000. Out of 20, Stree Shakthi 10 members (50 percent) have savings of < ₹ 5000. Out of 150 members, 90 members (60 percent) have savings of < ₹ 5000 which is the highest. In the case of SKDRDP, Navodaya and Stree Shakthi of Udupi Taluk, average savings per member are ₹ 7135, ₹ 6808 and ₹ 6620 respectively. Average savings per member for SKDRDP is the highest and Stree Shakthi is the lowest.

##### **Loan Utilization Pattern**

Table-1.1 shows loan utilization pattern of SHG members. Age of the SHG and loan utilization pattern for microenterprises is directly related. The average loan amount borrowed for microenterprise for SHGs of 5-6 is highest at ₹ 81428.57. Similarly, average loan utilized for health care purpose also shows a positive trend. Loan borrowed for agricultural activities, shows a declining trend. Amount of loan

borrowed for domestic consumption for SHGs of 5-6 is highest at ₹ 134230.77. Loan for other uses like house repair and construction house construction, land purchase shows an upward positive trend. These loans cannot be regarded as unproductive. The P value indicates the level of significance of SHG loan utilization between the SHGs of different age groups. SHG loans utilization is significant ( $p=.008$ ) for micro enterprise development. Similarly, SHG loan utilization is significant ( $p=.047$ ) for health care. SHG loans utilization is significant ( $p=.001$ ) for domestic consumption expenditure.

#### **Income Generation of the Members before and after SHG Lending**

In the ultimate analysis, the benefit derived by both SHGs as microfinance institutions and members in terms of income enhancement is important for the success of the SHG programme. An attempt, therefore made to assess the impact of the SHG programme on the income status of the members studied. The field data on generated by the group members prior to loan and after a loan is compiled. The Table-1.2 shows the income generated before acquiring membership in SHG.

Table-1.3 exhibits NGO-wise details of income generated by the members after acquiring membership in SHG. In the case of SKDRDP, 80 percent of the members were below the income 10,000 per month before joining the group. But after joining the group situation improved in the income levels of the people. A number of members below income have come down to just 12 (20 percent). Before joining the group there only 12 (20 percent) with income between ₹ 10000-20000. After joining the group the percentage is up from 20 percent to 33.3 percent. Members with income between ₹ 20001-30000 were zero before joining the group. But after acquiring membership 26 members (43.3 percent) graduated to income level between ₹ 20001-30000. Members with income between ₹ 30001-40000 were zero. But after joining the group 2 members are in this group. In the case of a Navodaya number of members in income below ₹ 10000 in Udupi Taluk was 94.3 percent before joining the group. But after joining the group, the number of members below ₹ 10000 income level came down to 38.6 percent. Members with income between ₹ 10000-20000 went up to 55.7 percent. This has been just 5.7 percent before joining the group. In the case of Stree Shakthi, 75 percent of the members were incomes below ₹ 10000 before joining the group. After joining the group, the number of members with income below ₹ 10000 came down to 20 percent.

#### **Supplementary Source of Income Generation**

The additional source income and entrepreneurial activities undertaken by the members and the details of additional activities other than the main source of income is compiled. In case SKDRDP of Udupi Taluk, for 11 women members (40.8 percent) are in tailoring is an additional source of income, 7 members (25.9 percent) are engaged in jasmine cultivation for generating additional income, and 6 members (22.2 percent) are serving as the

housemaid for generating additional income. Altogether 27 members are involved in additional income generating activities. In the case of Navodaya, 14 members (32.5 percent) are serving as the housemaid, 12 members (27.9 percent) are engaged in jasmine cultivation. Altogether 43 members are involved in additional income generating activities. In the case of Stree Shakthi, 2 members are (28.6 percent) are in jasmine cultivation and 3 members (42.8 percent) serving as the housemaid, for generating additional income. Altogether 7 members are involved in additional income generating activities.

#### **Impact of SHG Lending on Asset Creation**

The main purpose of the study is to gauge whether as a result of joining SHGs, the members experienced any improvement in the standard of living of the people and to throw light on the qualitative changes taken place among the members. The field data compiled in this regard are exhibited in Table-1.3.

It is heartening and gratifying to note that a significant increase has taken place in most of the household items after joining the group and some members graduating towards microenterprises. Access to microfinance through participation in SHGs definitely has facilitated these improvements to take place easily. The finding of the study is loud and clear. Total self-employment ventures undertaken by the SHG members before acquiring membership were 14 and after membership self-employment ventures increased to 54. Of the total 54 micro enterprises, 17 are in dairy farming and five each in tailoring and jasmine cultivation. Members are also involved in too many supplementary sources of income to generate additional income. Members moved from lower income levels to higher income levels after joining the group. Data on income before and after SHG lending empirically proves this point. Not only income levels of the people increased, but also poor could acquire the assets and the imprints of SHG lending on the quality of life is incredible.

#### **Conclusion**

The Indian economy at present is at a crucial juncture, on one hand, the optimists are talking about India becoming one of the top economies of the world within the few decades and on the other hand, about one-fourth of Indian population is still living below poverty (NABARD, 2017). The enormity of the task understood from this number and if India is to stand among the league of developed nations, there is no denying the fact that poverty and reduction of income inequalities have to be the topmost priority. In this backdrop, the impressive gains made by SHGs in the coverage of rural population with financial services offer a ray of hope.

#### **Acknowledgements**

In order to carry out field study, field level data was collected from a selected sample of 30 groups promoted by NGOs and State in Udupi district and 150 SHG members. All the groups sponsored by NGOs are women groups. The outcome of this paper is only because of sincere cooperation and relentless support of the NGOs and SHG members during the field study.

**End Notes**

1. SKDRDP: Sri Kshetra Dharmastala Rural Development Project (SKDRDP), a voluntary organisation was started functioning in the year 1982 with the objective towards the well being of the rural poor especially women .During the initial years SKDRDP was considered as charity phase distributed as compensation for the people while they worked n their own lands.
2. Navodaya: South Canara District Central Co-operative Bank (Navodaya) SCDDC Bank established in 1914 and is operating in Dakshina Kannada and Udupi districts. From 1999 onwards, it started promoting SHGs. The Bank is now functioning, as Self-Help Group Promoting Institution (SHPI) The SHG promoted by this bank is known as 'Navodaya SHG'.
3. Stree Shakthi: Of the various poverty removal schemes state sponsored Swarnajayanthi Grama Samruddhi Yojana (SGSY), a new version of the IRDP was launched in 1999. Weaknesses existed in the IRDP was identified and repackaged scheme named SGSY aimed at assisting the poor below the poverty line to venture into income generating schemes through the provision of bank credit and subsidy. This scheme also provides for involvement of NGOs, banks as agencies for promoting SHGs.In the year 2000-01 the Government of Karnataka launched a unique scheme called 'Stree Shakti Programme' through the provision of micro credit for the empowerment of women. This programme is implemented through the Department of Women and Child Development.

**Tables**

**Table 1.1**  
**Changing Pattern of Loan Utilization**

| Purpose of loan                   | in ₹           | Age of SHG (Years) |          |           |          |           |           |
|-----------------------------------|----------------|--------------------|----------|-----------|----------|-----------|-----------|
|                                   |                | <4                 | 4 -5     | 5 --6     | 6 -7     | 7 -8      | >8        |
| Micro Enterprise                  | Average amount | 43076.92           | 41666.67 | 81428.57  | 58333.33 | 70909.09  | 66428.57  |
|                                   | No.            | 13                 | 24       | 14        | 18       | 11        | 7         |
| Education                         | Average amount | 62000.0            | 48500.0  | 68000.0   | 39285.7  | 55500.0   | 49166.6   |
|                                   | No.            | 10                 | 20       | 5         | 14       | 10        | 6         |
| Health Care                       | Average amount | 36666.67           | 36250.00 | 41666.67  | 50833.33 | 66250.00  | 58333.33  |
|                                   | No.            | 33                 | 4        | 3         | 6        | 8         | 3         |
| Agriculture and Allied activities | Average amount | 80000.00           | 57000.00 | 55000.00  | 35000.00 | 50000.00  | 0         |
|                                   | No.            | 1                  | 5        | 2         | 1        | 2         | 0         |
| Domestic Consumption              | Average amount | 79117.65           | 62666.67 | 134230.77 | 96388.89 | 58928.57  | 74444.44  |
|                                   | No.            | 17                 | 30       | 13        | 18       | 14        | 9         |
| Others                            | Average amount | 125000.00          | 91666.67 | 125000.00 | 50000.00 | 100000.00 | 163333.33 |
|                                   | No.            | 8                  | 8        | 4         | 3        | 5         | 6         |

**Source:** Field Survey data

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## ANOVA Test

| Purpose of Loan                   | F     | P    |
|-----------------------------------|-------|------|
| Micro Enterprise                  | 3.397 | .008 |
| Education                         | 1,037 | .404 |
| Health Care                       | 2.736 | .047 |
| Agriculture and Allied activities | .272  | .886 |
| Domestic Consumption              | 4.415 | .001 |
| Others                            | .638  | .675 |

Source: Based on Table-1.1

Table-1.2

## Income Generated Prior to SHG Loan

| Income per month In □ | SKDRDP No. | %     | NSSG No. | %     | SSG No. | %     | Total | %     |
|-----------------------|------------|-------|----------|-------|---------|-------|-------|-------|
| Below 10000           | 48         | 80.0  | 66       | 94.3  | 15      | 75.0  | 129   | 86.0  |
| 10000-20000           | 12         | 20.0  | 4        | 5.7   | 5       | 25.0  | 21    | 14.0  |
| 200001-30000          | 0          | 0.0   | 0        | 0.0   | 0       | 0.0   | 0     | 0.0   |
| Total                 | 60         | 100.0 | 70       | 100.0 | 20      | 100.0 | 150   | 100.0 |

Source: Field Survey data

Table-1.3

## Income Generated After SHG Loan

| Income per month | SKDRDP No. | %     | NSSG No. | %    | SSG No. | %    | Total | %     | Value  | p    |
|------------------|------------|-------|----------|------|---------|------|-------|-------|--------|------|
| Below 10000      | 12         | 20.0  | 27       | 38.6 | 4       | 20.0 | 43    | 28.7  | 33.549 | .000 |
| 10000-20000      | 20         | 33.3  | 39       | 55.7 | 13      | 65.0 | 72    | 48.0  |        |      |
| 200001-30000     | 26         | 43.3  | 4        | 5.7  | 3       | 15.0 | 33    | 22.0  |        |      |
| 30001-40000      | 2          | 3.4   | 0        | 0.0  | 0       | 0.0  | 2     | 1.3   |        |      |
| Total            | 60         | 100.0 | 70       | 100  | 20      | 100  | 150   | 100.0 |        |      |

Source: Field Survey data

Table-1.3

## Changes taken place in selected Household Durables in Udipi Taluk

| Assets              | SKDRDP             |                   | NSSG               |                   | SSG                |                   | Total              |                   |
|---------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
|                     | Before Joining SHG | After Joining SHG | Before Joining SHG | After Joining SHG | Before Joining SHG | After Joining SHG | Before Joining SHG | After Joining SHG |
| Housing Owned       | 19                 | 19                | 28                 | 28                | 3                  | 3                 | 50                 | 50                |
| Pacca House         | 4                  | 32                | 3                  | 53                | 2                  | 11                | 9                  | 96                |
| Television          | 19                 | 33                | 27                 | 42                | 3                  | 9                 | 49                 | 84                |
| Cooker              | 14                 | 24                | 31                 | 32                | 4                  | 7                 | 49                 | 63                |
| Smartphone          | 12                 | 33                | 21                 | 46                | 3                  | 8                 | 36                 | 80                |
| Motor Vehicle       | 13                 | 39                | 27                 | 32                | 4                  | 9                 | 44                 | 70                |
| Livestock           | 14                 | 25                | 22                 | 34                | 4                  | 5                 | 40                 | 64                |
| Sanitary Facilities | 28                 | 29                | 23                 | 47                | 4                  | 16                | 55                 | 92                |
| Gobar Gas           | 21                 | 32                | 27                 | 32                | 3                  | 11                | 51                 | 75                |
| Cable Network       | 9                  | 29                | 18                 | 39                | 3                  | 14                | 30                 | 82                |
| Electricity         | 23                 | 35                | 31                 | 37                | 5                  | 13                | 59                 | 85                |
| Solar System        | 3                  | 17                | 14                 | 12                | 1                  | 3                 | 18                 | 32                |
| Personal computer   | 6                  | 16                | 8                  | 17                | 2                  | 6                 | 16                 | 39                |

Source: Field Survey data