“Impact of Micro Finance Institutions on Self Help Groups Growth” – A Case Study of Gulbarga & Bidar District, Karnataka

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Abstract

Indian banking system faces a lot of challenges in providing financial services to every strata of the society. At present, more than one fourth of the population is excluded from the financial ambit and several socio-economic factors are directly or indirectly responsible for such a state of affairs. Microfinance institutions (MFIs) and several self help groups (SHGs) have emerged as subsector of financial system to provide service to the needy, especially the women and weaker section of the society. These institutions and organizations have been playing a critical role in enriching an inclusive financial system of Indian economy and empowering women and weaker section of the society across the nation. Poor’s, being an integral part of the socio-economic system needs more equitable distribution of power, a greater space in the vital decision making processes at home as well as in their professional, political and social life. Empowerment of poor’s through legal, educational and social institutions will lead to a true and wholesome development of the society. Microfinance through self help groups (SHG) has been recognised internationally as the modern means to combat poverty and rural unemployment, especially among women. Role of Self help group (SHG) and Microfinance Institution (MFI) in achieving the economic dimension of this goal is noteworthy. This paper studies the impact of Microfinance Institutions (MFI’s) on Self Help Group (SHG) growth with special reference to Gulbarga district, Karnataka.

Key words

MFI, SHG, Women, Poor’s etc.

I. Introduction

Many existing studies empirically analyse the close relationship between microfinance and poverty. Most of these studies conclude that microfinance’s potential in reducing poverty (Armendariz & Morduch, 2005; Bakhtiari, 2011; Gibbons & Meehan, 2002; Johnson & Rogaly, 1997 ; Imai, Arun, & Annim, 2010), is high on the public agenda nowadays, especially after the UN year of Microcredit in 2005 and the awarding of the Nobel Peace Prize to Mohammad Yunus and the Grameen Bank in 2006. Based on this close relationship between microfinance and poverty, several studies have postulated a positive correlate between microfinance and consumption expenditure, especially if loans are taken by women (Pitt & Khandkar, 1998 and khandkar, 2005). Indeed, microfinance financial services provide a range of financial products and substantial flow of finance, often to very low-income groups or households, who would normally be excluded by conventional financial institutions ((Kurmanalieva, Montgomery and Weiss, 2003). Microfinance has brought positive impact to the life of clients, boost the ability of poor individuals to improve their conditions and others have indicated that poor people have taken advantage of increased earnings to improve their consumption level, health and build assets (Appah & al (2012)). Today, increasingly microfinance is becoming an important investment opportunity, mainly in developing regions such as Latin America and African, and all major international institution like the European Union, the United Nations, the World Bank, the Asian Bank, and the American Development Bank dedicate funding and research to microfinance. The relationship between microfinance and poverty is still in question and this paper provides some new empirical evidence on the poverty-reducing effects of microfinance institutions. Specifically, by using the cross-country data—including a pane data, we estimate models in which the poverty headcount ratio and Household final consumption expenditure are explained by MFIs’ gross loan portfolio per capita and certain control variables, namely the Gross domestic product (GDP), international openness, inflation rate, domestic credit and a regional dummy. We find consistently that a country with higher MFIs’ gross loan portfolio per capita tends to have lower levels of poverty headcount ratio and higher level of expenditure of consumption which corroborates the poverty reducing role of microfinance.

Present status of Microfinance in India

Microfinance industry has witnessed 29% growth in loan disbursements in the first quarter of FY2016-17 over the last year, according to the recently released quarterly report on the industry by Microfinance Institutions Network (MFIN), a Self-Regulatory Organisation (SRO) of the RBI regulated NBFC MFIs. In its 18th edition of the ‘Micrometer Report’ for Q1 FY16-17, MFIN observed that the microfinance industry has experienced a growth of 89% since Q1 FY15-16 and has grown by 9% over the last quarter. As on end-December 2016, banks accounted for 37 per cent (Rs 36,683 crore) of microfinance portfolio of Rs 98,625 crore; five years earlier, a handful of MFIs accounted for more than half. The last fiscal (FY16) has been a watershed year for the microfinance industry. In the last one year, it has undergone a paradigm shift. With Bandhan becoming a full-fledged bank and few other MFIs opting for small bank licence, it witnessed some new institutions and consolidation of business amongst others. With Bandhan, Ujjivan, Ulkarsh and others embarking on a new journey, many assumed a shrinkage of the loan book, but MFIs have surprised all. According to Sa-Dhan’s “Bharat Microfinance Report–2016”, the microfinance industry is pegged at R63,853 crore. While as
of March 2016, the total loan portfolio of MFIs had reached an all-time high of over R63,853 crore clocking 31% growth, if Bandhan’s loan portfolio of R9,524 crore of FY15 is taken out, the actual growth rate of the sector is over 60%. The sector is beginning to see benefits of scale. For instance, the top-10 MFIs contributing 80% of the sector’s gross loan portfolio (GLP) or over R40,000 crore, have a weighted average interest rate of 23.13%, far below the 26% cap under PSL guidelines. The report highlights that over 36 MFIs members have reduced rates significantly in the last fiscal itself.

Addition of nearly three million new clients goes on to show that the microfinance industry, having reached its inflection point, is growing steadily. The sector witnessed a healthy growth in its client base to over 4 crore. But the average loan per borrower of R11,425 was less than last year’s R13,162. However, more than 100% growth of 13 MFIs, does raise concern about sustainability.

II. Statement of the Problem
NGOs transform the beneficiaries into borrowers leading to establishment of systems and structures in which a sustainable process of linking the poor borrowers to sources of capital and other financial services with formal financial institutions is achieved. There is little doubt that support for microenterprise has dramatically increased since the late 1980s. This study critically examines the credit initiated microenterprise development of the NGO as a strategy to promote poverty alleviation. Satisfactory through the performance of the NGO is in ensuring access of the poor, particularly poor women, to institutional sources of credit, and alleviating poverty to some extent.

III. Objectives of the Study
- To evaluate the extent of influence and support of microfinance institutions in implementing microfinance programmes for upliftment of disadvantaged part of society.
- To examine the employment activities of Self-Help Groups under microcredit programmes in the study area.
- To study the role of Self-Help Groups in socio-economic empowerment of women and poor’s in Gulbarga & Bidar district.
- To evaluate the problems being faced by the SHGs in implementing the micro-credit programmes.
- To suggest appropriate policy measures based on the findings, which emerge from the proposed study.

IV. Methodology of the Study
The present study is based on both secondary and primary data and a systematic random sampling method has been adopted for survey. The primary data has been collected from Gulbarga district. The sample size comprised of 200 beneficiaries from microfinance activities in the Gulbarga district of Karnataka State. The present study has selected two taluks in the district for the purpose of primary data collection.

A sample of 200 SHGs which have been in existence for a minimum of three years is selected on random basis, out of which a sample of 50 SHGs promoted by SKS and 50 SHGs promoted by the government were studied in Gulbarga district and a sample of 50 SHGs promoted by Stree Shakti and 50 SHGs promoted by the government were selected for the purpose of the study in Bidar district. Since SHGs in the initial stages would be involved only in mobilization of saving and availing credit mainly for consumption purpose, a minimum of three years’ experience criteria was found necessary for selection of SHGs.

The random sampling technique has been adopted for selection of the SHGs from the selected NGOs and the Stree Shakti groups in Gulbarga and Bidar district. The field work was conducted during the year 2009-2010. An attempt is made in this paper to construct a consolidated empowerment index of SHGs based on the level of institutional and financial performance of the SHGs of different promoters studied in different districts and determine the relative importance of various determinant factors by using correlation matrix and regression model. Multiple regression analysis was used to explore the effects of different determinants on empowerment of SHGs.

V. Analysis and Interpretation
A. Determinants of Empowerment and Sustainability
According to Tuckman (1965), each group passes through distinct stages of development. Initially, with limited resources – both financial and human resources- most of the SHGs dependent on the promoters support and limit their operations only to meet the emerging financial needs. Gradually, the SHGs diversify and take up income generating activities. It is usually hypothesized that SHGs managing efficiently and practicing savings and credit along with income generating activities have been more successful and sustainable. This would imply that the institutional sustainability of the SHGs ultimately depends on the socio-economic empowerment of the members.

The factors determining the sustainability of SHGs and socio-economic empowerment of members are numerous; institutional factors such as size of groups, active participation of members, and efficient management; financial factors include regular saving, internal lending and credit linkage with bank; and socioeconomic characteristics of the members like income, education, etc. It is therefore important to know the level of empowerment of SHGs studied and the relative importance of the factors behind the same.

The empowerment of a SHG is determined by a number of managerial (institutional) and financial indicators of performance of SHGs. Hence, the empowerment index was constructed by taking into consideration both institutional sustainability factors and financial performance indicators. The institutional sustainability index of the SHG was constructed with the help of five variables, namely, leadership, regularity of meetings, training in capacity building, size of the group, and drop-out rate of the members from the group. The financial performance index of the SHG was constructed with the help of four indicators, namely, level of savings, purpose of loans, amount of loan and income generating activity of the members in the group. The variables were assigned scores of 0 to 20 based on the level of performance in the case of institutional variables, and 0 to 25 in the case of financial variables.

Based on the minimum score of 0 and maximum score of 100, separate indices were computed for institutional sustainability and financial performance. An integrated empowerment index was constructed by a merger of the two. The empowerment index thus reflects both institutional and sustainability of SHGs.
The investigation of the data in the table shows the gap in the level of empowerment between the SKS promoted SHGs and government promoted Stree Shakti SHGs on one hand and between the SKS promoted SHGs in Gulbarga district and SKS promoted SHGs in Bidar district. The pattern of division of SHGs based on the empowerment index also differs broadly between different categories of SHGs studied. In the case of SKS-SHGs in Gulbarga district, two-third of them is found in the empowerment index to be above 60. About 30 percent of their SHGs are in the empowerment index ranging between 40 and 50, and 14 percent between 40 and 60. None are found in the empowerment index below 40. As against this, in Bidar district, 44 percent of NGO sponsored SHGs are found in the empowerment index below 60, 42 percent of them between 60 and 70 and only 12 percent above 70.

In the case of government sponsored Stree Shakti SHGs in different districts, the picture that emerges is more or less similar. In Gulbarga district, 34 percent of the SHGs are found in the empowerment index above 50; 40 percent between 50 and 60, and 24 percent below 60. In Bidar district, on the other hand, 40 percent are above 70; 38 percent between 60 and 70, and 16 percent, below 60. It clearly shows that SKS role in training, capacity construction and encouragement of income generating activities has enabled their SHGs to achieve higher level of empowerment. Since SKS and the government have not played any role in these areas, their SHGs are far below in the ladder of the empowerment index.

Though promoters play a important role in the empowerment of SHGs as obviously seen above, internally, factors such as the age or maturity of SHG, social status of members, education level of the members and their income could also play enabling role in influencing the empowerment of SHGs. With a view to understand the nature and extent of association of these determinants, the correlation coefficients were computed with the empowerment index, which is shown in Table 2.

Table 1. Distribution of SHGs based on Micro finance Empowerment Index

<table>
<thead>
<tr>
<th>Index</th>
<th>SKS</th>
<th>Stree Shakti</th>
<th>SKS</th>
<th>Stree Shakti</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-40</td>
<td>1</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>40-50</td>
<td>5</td>
<td>10</td>
<td>16</td>
<td>28</td>
<td>38</td>
</tr>
<tr>
<td>50-60</td>
<td>11</td>
<td>22</td>
<td>20</td>
<td>42</td>
<td>70</td>
</tr>
<tr>
<td>60-70</td>
<td>20</td>
<td>16</td>
<td>8</td>
<td>14</td>
<td>32</td>
</tr>
<tr>
<td>70-80</td>
<td>11</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Above 80</td>
<td>80</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100</td>
<td>50</td>
<td>100</td>
<td>200</td>
</tr>
</tbody>
</table>

Table 2. Correlation Coefficients of Important Determinants of Empowerment

<table>
<thead>
<tr>
<th>Variables</th>
<th>Gulbarga</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SKS</td>
<td>Stree Shakti</td>
<td>SKS</td>
<td>Stree Shakti</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age of the group</td>
<td>0.25</td>
<td>0.21</td>
<td>0.187</td>
<td>0.025</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Status</td>
<td>-0.15</td>
<td>-0.119</td>
<td>0.17</td>
<td>0.266*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>-0.166</td>
<td>0.099</td>
<td>-0.125</td>
<td>0.238</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>0.406**</td>
<td>-0.168</td>
<td>0.298*</td>
<td>0.029</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

** Significant at the 0.01 level (2-tailed). *Significant at the 0.05 level (2-tailed).

Note: Age of SHGs in years since formation, social status measured by scoring by caste status of members, education by education level of the members and income is measured by the average income level of the sample members in the group.

The analysis of correlation coefficients shows that the age of the group is directly associated with the empowerment index in all the groups in both districts considered. Though statistically not significant, the correlation coefficient of the age of SHGs with the empowerment index is positive in all cases. It is higher in the case of SHGs, both sponsored by the SKS and the government in Gulbarga district as compared to SHGs sponsored by SKS and the government in Bidar district. Another important factor found positively associated with the empowerment index is the income level of the members. In the case of SKS-SHGs, the coefficient was found to be 0.406 and statistically significant. Similarly, in the case of SKS-SHGs, it was 0.298. Surprisingly, the income factor has inverse correlation coefficient of 0.168 in the case of Stree Shakti SHGs in Gulbarga District, while in the case of Stree Shakti SHGs in Bidar district, though positively correlated; it has the lowest coefficient of 0.029.

It is interesting to note that in Gulbarga district, the social status was found negatively correlated with empowerment index in both categories of SHGs studied, while in Bidar district, it has a positive correlation coefficient. In the case of Stree Shakti groups in Bidar district, it has statistically significant coefficient of 0.298. The emerging implication is that in Bidar district, the social status of members plays a determining role in empowerment and sustainability of SHGs, but in the case of Gulbarga district, it has no role. In contrast to the findings of the role of social status, the correlation coefficient of education of members is found negative...
in the case of SHGs sponsored by NGOs, while for Stree Shakti SHGs, it is positive in both the districts. In case of Stree Shakti SHGs in Bidar district, the correlation coefficient of education is found to be the highest, reflecting its importance in determining the empowerment of SHGs.

An attempt is also made in the study to carry out regression analysis to determine the relative importance of these casual factors of empowerment of SHGs. The multiple regression models are used by considering the empowerment index as dependent variable (Y) and causal age of groups (X1), social status (X2), education (X3), and income (X4) as independent variables. The multiple regression models are constructed for each category of SHGs studied in both the districts. Table 3 presents the estimates of the regression analysis carried out.

<table>
<thead>
<tr>
<th>Determinants</th>
<th>Gulbarga</th>
<th>Bidar</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SKS</td>
<td>SKS</td>
</tr>
<tr>
<td></td>
<td>Stree Shakti</td>
<td>Stree Shakti</td>
</tr>
<tr>
<td>Coefficient</td>
<td>Std Error</td>
<td>Coefficient</td>
</tr>
<tr>
<td>Constant</td>
<td>54.475</td>
<td>9.422</td>
</tr>
<tr>
<td>Age of SHGs (X1)</td>
<td>0.932</td>
<td>0.737</td>
</tr>
<tr>
<td>Social Status (X2)</td>
<td>-0.652</td>
<td>1.527</td>
</tr>
<tr>
<td>Education (X3)</td>
<td>-0.687</td>
<td>0.65</td>
</tr>
<tr>
<td>Income (X4)</td>
<td>1.525*</td>
<td>0.66</td>
</tr>
<tr>
<td>R2</td>
<td>0.201</td>
<td>0.098</td>
</tr>
</tbody>
</table>

**Significant at the 0.01 level (2-tailed). *Significant at the 0.05 level (2-tailed).**

The regression coefficients show the relative importance of the four selected variables in determining the empowerment of SHGs, while the signs indicate the direction of influence of these variables with the dependent variable namely empowerment index. R2 shows the total influence of these variables on the empowerment of SHGs. The regression results in Table 3 shows that the collective influence of all these independent variables in empowerment of SHGs as reflected in R2 is not very significant in all categories of SHGs. In Gulbarga district, all these variables collectively explain only 19 percent of variation in the empowerment index in the case of SKS promoted SHGs and 8 percent in the case of Stree Shakti groups. As against this, in Bidar district, the total influence is 12 percent in the case of SHGs promoted by SKS, and 33 percent in the case of Stree Shakti groups.

The relative importance of the selected variables in determining the empowerment level differs widely in different categories of SHGs and in different districts. In the case of SKS promoted SHGs, the income level and age of the groups have a positive influence in empowering the groups. The social status and education level are found to be not important. Instead their influence is in a negative direction. This may be apparently due to the fact that their members mainly belong to lower social status with lower education level. Contrary to this, in the case of the Stree Shakti groups in Gulbarga district, education and age of the group are found to have significant positive influence, and social status and income have a negative impact on the empowerment.

In Bidar district, the findings are quite different. In the case of SKS promoted SHGs, social status followed by income and age of groups are found to be important determinants of empowerment. Education has surprisingly a negative impact. As against this, in the case of Stree Shakti groups in Bidar district, social status followed by education are found to be important and both age and income variables have a negative impact on empowerment.

From the regression analysis, it is, thus, clear that it is difficult to generalize on the relative significance of various factors that determine the empowerment and sustainability of SHGs. The diversity in the socio-economic background, differences in back-up and capacity building services provided by the sponsoring agencies, diversity in terms of operating models, maturity in terms of experience in management of the groups and graduating to sustainable income generating activities play a significant role in ensuring empowerment of the members and sustainability of the SHGs. Comparatively, the high level of empowerment of SKS linked SHGs also clearly demonstrate the significance of the role of promoting agencies, which is not merely restricted to group formation but also in provision of back-up services in capacity building, graduation to microenterprises, smooth marketing arrangements and closely monitoring the activities of SHGs. Then only, SHGs can successfully and on sustainable basis graduate from mere micro finance users to microenterprise entrepreneurs.

**VI. Conclusion and Recommendations**

Micro finance institutions can be more an effectual strategic instrument for poverty mitigation only if it used for income generating microenterprise development. As the members of SHGs belong to the poor and weaker sections of the society, the outlook and survival of SHGs eventually depends on their graduation towards microenterprise development for generating income to progress the standard of living of its members. If this transformation in SHGs does not take place in medium and long term perspective, their sustainability will be in threat. Based on the findings of the field study and interaction with the SHGs, their members mainly belong to lower social status with lower education level.

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ii. Vertical market combination strategy is required to market-link SHGs products. In order to attain this, private sector should be encouraged to outsource SHGs for their products. The lessons from Chinese model of Townships and Village Enterprises (TVEs) are also worth considering in this regard.

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