International Journal of Commerce and Management Research
ISSN: 2455-1627
www.managejournal.com
Volume 1; Issue 1; November 2015; Page No. 52-57

Microfinance: Does it really improve the wellbeing? - A study of Haryana

Ashwani Deswal

Research Scholar Haryana School of Business, GJUST Hisar, Haryana, India

Abstract

"Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little". In order to provide that little, Government launched microfinance scheme to improve the social and economic wellbeing. In this paper efforts have been made to identify the extent of wellbeing of borrowers in Haryana in the form of income enhancement. It's a primary study where the data related to income, credit, assets, family size, and education has been collected by using a structured questionnaire. The impact of each factor on income enhancement has been analyzed by using various statistical tools such as multiple regression and ANOVA. The result indicates microfinance is leading factor for improving the income as compare to other factors.

Keywords: Self Help Groups, Income enhancement, financial inclusion

Introduction

Poverty in the communities is a result of multiple factors and thus requires multi-pronged and concerted approach to handle the issue. One of the possible reason for poverty in India is attributable to the limited access of banking services, consequently low-income households unable to have credit on time and poor remains poor. The success of Grameen Bank in Bangladesh motivated Indian banking system to shift from class banking to mass banking. It was, however, realized that, notwithstanding the wide spread of formal financial institutions, these institutions were not able to cater completely to the small and frequent credit needs of most of the poor. This led to a search for alternative policies and reforms for reaching out to the poor to satisfy their credit needs. In 1992 NABARD, the apex Agriculture and Rural finance bank of India, provided solution to the problem in the form of self-help group (SHG) - bank linkage programme (SBLP), commonly known as microfinance. Micro finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. The government of India, with an aim to reduce poverty launched "Aajeevika" - National Rural Livelihoods Mission (NRLM) by the Ministry of Rural Development (MoRD), in June 2011 with an agenda to cover 7 Crore rural poor households, across 600 districts, 6000 blocks, 2.5 lakh Gram Panchayats and 6 lakh villages in the country through self-managed Self Help Groups (SHGs). In the context of Haryana, The State Rural Livelihood Mission was framed for reaching out, mobilize and support 8.5 lakh plus rural poor households (Tendulkar Committee 2004-05) across 21 districts, 124 blocks, 6255 Gram Panchayats and 6841 villages. There are various agencies in Haryana who supports poor households by providing Micro Credit such as Haryana Women Development Corporation provides loan from RMK @ 8% p.a. interest the Corporation will give loan to SHGs and the individual members @ 5% p.a. interest and the balance 3% interest will be provided by the Corporation. Another scheme names as Swayamsidha launched a Self Help Groups based programme with emphasis on convergence activities. The objective is to ensure that Self Help Groups members avail the benefit of all schemes and services in an integrated and holistic manner. Mewat Development Agency (MDA) is also promoting SHGs under the IFAD programme in Mewat district. Apart from these schemes like SGSY, NABARD-SHG-BANK LINKAGE PROGRAMME, Micro Credit Scheme under which Haryana Women's Development Corporation (HWDC) and SWA-SHAKTI PROJECT are operational in Haryana state for alleviating the poverty improving the well-being of poor households.

Review of Existing Literature

The review of literature about the microfinance sector in India and outside reveals the interest in assessing the performance of microfinance sector. Micro-credit is considered as one of the significant tool for solving economic problems of the poor households. There are various studies on micro credit and microfinance which shows that there is positive impact of micro credit on the self-help group members through enhancing their income. There are various dimensions of research studies related to microfinance. Some scholars have talked about Microfinance Institution Products and Services, others talked about Paradigm shifts in the Microfinance, Some have taken Client targeting by microfinance industry, but mostly research work has been done related with poverty reduction and women empowerment through microfinance**.** Initially most of the studies examined the growth of microcredit by studying the outreach and repayment status of loans and if outreach i.e. number of borrowers was increasing and repayment was made on time, it means this sector performing successfully (khandker, 1999)

D. Von Pischke (1992) [1] highlighted in his paper that credit programs for poor people should naturally expand--especially on the deposit side--to serve much larger numbers of these individuals. Rahman (1992) [11] in his article "The Informal Financial Sector in Bangladesh: An Appraisal of Its Role in Development." Found that the size of informal market is increasing and the high rate of interest charged by domestic moneylenders indicates the true scarcity of funds availability. Khandker (1995) in his paper titled "Fighting Poverty with

Microcredit Experience in Bangladesh" found that Credit facilitates poor people to triumph over their liquidity constraints and undertake some income generating activities. Furthermore, credit helps poor people to smoothen their consumption patterns in times of lean periods of the year. Morduch (1998) [7], in his paper "Does Microfinance really help the poor?, Concluded that the potential impact of micro credit loans are associated with the reduction of vulnerability, not of poverty per se. The consumption-smoothing appears to be driven largely by income-smoothing, not by borrowing and lending. Dichter (1999) [3] highlighted the role of non-governmental organizations (NGOs) in microfinance and concluded that the record of NGO in microfinance is a poor one, which need to be restructured for effective implementation of microfinance programme. Shetty (2008) [5] examined the impact of microfinance and concluded that the access to "credit plus services" of microfinance programme has improved the income, employment, assets, household expenditure, housing condition and empowerment of the poor Robinson (2011). Microfinance fosters growth in low-income segments of the economy and improves the distribution of income.

The evidence with respect to the impact of micro credit on women's status and well-being is mixed. Some studies have found positive results as micro credit is helping them to become more economic and socially empowered and as a result violence against them has also decreased (Amin, Becker, & Bayes, 1998; Holvoet, 2005; Muraleedharan, 2009; Puhazhendhi, 1999) [4, 8, 9]. Other studies have cited unintended side effects such as pressure to repay the loan, more stress due to more responsibility, violence against women and overall no significant impact on empowerment (Mayoux 2002; Montgomery, 1996; Rahman 1998) [10]. One of the main gaps in research studies is that the extent of wellbeing and empowerment is unclear (Rahman, 1998) [10].

After considering all the aspects and dimensions related to microfinance and micro credit studies it can be said that there is mix of response regarding the impact of microfinance on poverty reduction and overall economic wellbeing of poor household.

How SHGs gets loan granted?

As per the instruction of RBI all commercial banks and RRBs need to open saving bank accounts of SHGs irrespective of their registration, in other words un unregistered SHG can also open a saving bank account in order to avail loan facility. Opening bank account requires the following documents:

- Resolution from the SHG :
- Authorization from the SHG :
- Copy of the rules and regulations of the SHG

It is important to point here that a savings bank account passbook may be issued to the SHG and it should be by the name of the SHG and not in the name of any individual/s member of Self-help group.

Once the SB account is opened with the bank, members of the SHG need to contribute their saving (Regularly) in that account for availing loan facility. Before grating the loan and for deciding the quantum of loan the banks need to access the performance of SHGs. Following is the check list adopted by banks for accessing the performance of SHGs.

Check List to Assess the Performance of a Shg

S.NO	*Factors to be checked*	*Very good*	*Good*	*Unsatisfactory*
1	Group Size	15 to 20	10 to 15	less than 10
2	Type of members	Only very poor members	2 or 3 not very poor members	many not poor members
3	Number of meetings	Four meetings in a month	Two meetings in a month	Less than two month meetings in a month
4	Timings of meetings	Night or after 6 p.m.	Morning between 7 and 9 a.m.	Other timings
5	Attendance of members	More than 90%	70 to 90%	Less than 70%
6	Participation of members	Very high level of participation	Medium level of participation	Low level of of participation
7	Savings collection within the group	Four times a month	Three times a month	Less than three times a month
8	Amount to be saved	Fixed amount	Varying amounts	---------------------
9	Interest on internal loan	Depending upon the purpose	24 to 36%	More than 36%
10	Utilization of Savings Fully amount by SHG	Fully used for loaning to members	Partly used for loaning	Poor utilization
11	Loan recoveries	More than 90%	70 to 90%	Less than 70%
12	Maintenance of books	All books are regularly maintained and updated	Most important Registers (minutes, Savings, loans, etc.) are updated	Irregular in maintaining and and updating books
13	Accumulated savings	More than Rs. 5000/-	Rs. 3000-5000/-	Less than Rs. 3000/-
14	Knowledge of the Rules of the SHG	Known to all	--------------------	Not known to all
15	Education level	More than 20 percent of members can read and write	--------------------	Less than 20 per know to read and write
16	Knowledge of Govt. programs	All are aware of Govt. programs	Most of the Members know about Govt. programs	No one knows

(**Source:** Handbook of NABARD**)**

After gathering related information banks grant loan based on the score achieved by SHGs. SHGs achieved 12 to 16 “very good” factors, can get loans immediately. If the SHGs score ranges 10 to 12 “very good” will be granted loan but, will be given 3 to 6 months’ time to improve, before loan is given and if SHGs with rating of less than 10 “very good” factors will not be considered for loan.

Objectives of the study

This paper attempts to evaluate the income improvement of borrowers of Haryana State Rural Livelihood Mission (HSRLM)

The paper has followings objectives:

1) To analyze and prioritize the variables which are responsible for income enhancement of borrowers such as micro credit, education, assets and family size.
2) To understand the criteria followed by banking officials of approving/granting micro loan to borrowers.
3) To suggest some measures for improving effectiveness of micro finance scheme

The first objective was attained by formulating a structured questionnaire and data related to micro loan, education, assets, and income of 320 borrowers was collected and analyzed. The primary survey was conducted in the month of August-September 2014. Secondary data was used for attaining the second objective.

Methodology

Sample Selection

Stratified simple random sampling technique was utilized to collect the sample for the study. The Haryana state was first divided into its four divisions, Ambala, Gurgaon, Hisar & Rohtak. As the study was focused on improvement of the wellbeing of the rural poor households, thus, two districts from each division were selected on the basis of %age BPL households (highest & lowest).

Division	District	% BPL
Ambala	Kurukshetra	33.08
	Yamuna Nagar	28.28
Gurgaon	Faridabad	18.73
	Mewat	27.67
Hisar		
	Fatehabad	35.51
	Hisar	24.69
Rohtak	Rohtak	18.64
	Sonipat	26.4

(Source: HSRLM, Annual Action Plan (AAP) 2013-14**)**

Due to unavailability of related data of Karnal district and minute difference of %age BPL households, Sonipat district was considered for the study. As microfinance works best at the level of SHGs, hence, Number of SHGs was taken as the criterion for selection of further strata. Two blocks were selected from each district on the basis of highest and lowest numbers of SHGs, further, two villages were selected from each block having the maximum number of operational SHGs.

Division	District	No. of SHGs	Block	Village
Ambala	Kurukshetra (Highest %age BPL households)	Max	Thanesar	Dhurala (Max SHGs)
				Jyotisar (Max SHGs)
		Min	Ladwa	Budha (Min. SHGs)
				Lohara (Min. SHGs)
	Yamuna Nagar (Lowest% age BPL households)	Max	Jagadhri	Parwalo (Max SHGs)
				Rod Chappar (Max SHGs)
		Min	Sadhaura	Naya Gaon (Min. SHGs)
				Sarawan (Min. SHGs)
Gurgaon	Mewat (Highest %age BPL households)	Max	Hodal	Banchari (Max SHGs)
				Sondh (Max SHGs)
		Min	Hasanpur	Baroli (Min. SHGs)
				Likhi (Min. SHGs)
	Faridabad (Lowest% age BPL households)	Max	Nuh	FP Namak (Max SHGs)
				Kherla (Max SHGs)
		Min	FP Jhirkha	Malhaka (Min. SHGs)
				Tigon (Min. SHGs)
Hisar	Hisar (Lowest% age BPL households)	Max	Ratia	Alikan (Max SHGs)
				MP Sotar (Max SHGs)
		Min	Tohana	Kanheri (Min. SHGs)
				Nangla (Min. SHGs)
	Fatehabad (Highest %age BPL households)	Max	Hansi I	Bhatala (Max SHGs)
				Sisai Bolan (Max SHGs)
		Min	Adampur	Adampur (Min. SHGs)
				Mohbatpur (Min. SHGs)
Rohtak	Sonipat (Highest %age BPL households)	Max	Lakhan Majra	Lakhan Majra (Max SHGs)
				Titoli (Max SHGs)
		Min	Sampla	Dataur (Min. SHGs)
				Kharawar (Min. SHGs)
	Rohtak (Lowest% age BPL households)	Max	Sonipat	Juan (Max SHGs)
				Mahipur (Max SHGs)
		Min	Mundalana	Busana (Min. SHGs)
				Mundalana (Min. SHGs)

Ten (10) households from each of these 32 villages were selected at random for the survey. The help of the SHGs of the village was taken to reach the households and the heads of the family were interviewed to gather the data relevant to the study. The interview questions were based on the questionnaire designed for the purpose.

The data was then regressed to understand the impact of microfinance and other factors like education, family size and assets on improvement of the wellbeing of the rural Haryana.

Questionnaire design

A questionnaire comprising of 30 closed ended questions was designed to collect the information regarding the income, assets, family size, microfinance and education from the 320 sample households. The collection of data was not a simple task. The reasons were illiteracy and conservative culture. Thus, although the questionnaire was closed ended, the data was collected as a combination of quantitative and qualitative data in the form of informal interviews. The required information was then refined out of the pool of information gathered about the locality and the living conditions of the sample households.

Income

Income was considered as a measure of the wellbeing of the households. The aggregate annual income of the family members living together was taken into consideration. The income was assessed by putting forward questions about means of livelihood and sources of income. The average monthly income per household was found to be Rs. 6500 which accounted for per capita monthly income of around Rs. 845.

Education

The education level was judged by the education of the head of the family. The number of years of schooling was taken as the base for analyzing the level of education. The average education was around 8 years, Bachelors (mostly in the field of arts or commerce) being the highest level of education. Most of the literate people had dropped out of school after fifth grade. The main reasons that can be accounted for the poor literacy rate in the region included need for earning money to meet basic needs, family pressure, lack of funds & lack of proper schooling facilities in and around the village because of which, children had to often walk for kilometers for reaching their schools.

Family size

Family size included the total number of members living in the same household and sharing the family income. This included the immediate and extended family of the head of the family. The average family size was found to be 7 with a range between 5 and 14 members.

Microfinance

Due to limited connectivity with formal banking system of India and inevitable need of credit makes low income households dependent on informal/domestic moneylenders. With the implementation of microfinance scheme reformed this problem up to certain extent and borrowers are getting loan approved despite their low creditworthiness. The data collected for the study reveals that the average size of micro credit is 24000. (Maximum loan per SHG member should not exceed Rs.50, 000/-.) The respondent had repaid their loan and some of them have taken fresh loans for enhancing their economics activities.

Assets

Assets may include land, livestock, house, house hold items, vehicles etc. But for the purpose of study, only irrigation land was taken as a measure of assets. The reason is that the revenue collected from the rearing of the livestock is minimal. In fact, most of the times, livestock is best utilized for repayment of bad debts and loans. All the households had their own semi built up houses. The standard of the houses was almost same. None of the houses had any household items like fan, table, television, fridge etc. Almost all the households had similar kind of vehicles which included bicycles, scooters and tractors.

Hence, irrigation land in terms of Bigha was taken into consideration under the head of assets.

Hypothesis

1) There is no significant relation between improvement in the wellbeing of the SHGs and their education, family size, assets and the microfinance provided to them.
2) The variation in education, family size, assets and the microfinance have no significant impact on variation in income.
3) Education, family size, assets and microfinance have no impact on improvement of the wellbeing of the SHGs

In order to test these hypotheses, a multiple regression model was adopted for the sample collected.

The Regression Model

To analyze the impact of various factors identified on improvement in the income of the sample data, the following multiple regression model has been formulated:

$y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4$

Where:

y = Annual income of a Self Health Group (as a measure of wellbeing)

α = The coefficient of unexplained variation in wellbeing.

x_1 = Education (in years)

x_2 = Family Size (total number of members living together)

x_3 = Microfinance provided to the SHGs in the past year (in Rs.)

x_1 = Assets including irrigation land (in bigha)

Results and Discussion

The paper has been designed to study the improvement in the wellbeing of poor communities of the Haryana State. As stated earlier, the assets including house, livestock, irrigation land etc. cannot be taken into consideration for a comparative analysis of wellbeing. The reason is that house and land are never liquefied by these communities, and livestock is used more for repayment of loans instead of income generation. Thus only present annual income was taken into consideration. Thus the data was entered in the MS Excel and a multiple regression model was applied to check the various hypotheses stated above. The results of the tests for each hypothesis have been discussed separately.

Hypothesis 1: There is no significant relation between improvement in the wellbeing of the SHGs and their education, family size, assets and the microfinance provided to them.

H_0: $r^2 = 0$

H_1: $r^2 \neq 0$

To test this hypothesis, the coefficient of determination (r^2) was calculated for the sample data. The results have been tabulated as below

Table 1

Regression Statistics	
Multiple R	0.863859239
R Square	0.746252785
Adjusted R Square	0.743030598
Standard Error	8215.150872
Observations	320

From the table, we can see that the value of adjusted r is approximately 0.743. Thus the hypothesis is rejected out rightly.

It means that 74.3% of the change in income can be attributed to the four factors taken into consideration viz. education, family size, microfinance and assets. This shows a strong positive dependence between the variables.

Hypothesis 2: The variation in education, family size, assets and the microfinance have no significant impact on variation in income.

H_0: $F_{table} < F_{critical}$

H_1: $F_{table} > F_{critical}$

To test the hypothesis, ANOVA was applied on the data collected and the results have been shown in Table 2.

Table 2

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	62521058289	15630264572	231.5982332	1.84947E-92
Residual	315	21258941711	67488703.84		
Total	319	83780000000			

The table value of F is 231.59 while the critical value for degree of freedom (4, 315) is 2.40. As the table value is much higher than the critical value, hence the hypothesis may be rejected and thus, we can infer that the variation in education, family size, microfinance and assets together have an effect on variation in annual incomes of the sample SHGs.

Hypothesis 3: Education, family size, assets and microfinance have no impact on improvement of the wellbeing of the SHGs.

H_0: $\beta_1 = \beta_2 = \beta_3 = \beta 4 = 0$

H_1: $\beta_1 \neq \beta_2 \neq \beta_3 \neq \beta 4 \neq 0$

To test whether there is a regression among the given variables and to measure the extent of the relationship between the income and the four factors taken into consideration viz. education, family size, microfinance and assets, T test was performed and the results are summarized as below:

	Coefficients	*Standard Error*	*t Stat*	*Lower 95%*	*Upper 95%*
Constant	31296.96958	2481.825815	12.61046178	26413.91905	36180.02011
Education (Yrs)	1447.250984	143.6431183	10.07532419	1164.629778	1729.87219
Family Size	638.5890786	280.672072	2.275214182	86.3601909	1190.817966
Micro Finance (Rs)	1.221717131	0.102023991	11.97480238	1.020982535	1.422451728
Assets (Land) (Bigha)	116.5144065	176.5836629	0.659825516	-230.918094	463.9469069

It is evident from the table that the t value of all the variables except the assets is more than the critical value (±1.96). Hence all the variables except assets (land) have a significant role in improvement of the annual income of the SHGs.

But, the Microfinance plays the biggest role in improvement of the annual income. The reasons could be attributed to easy availability of funds at easy repayment conditions. On the basis of the personal interviews conducted with the sample SHGs, it can be inferred that the credit money from the microfinance is mostly utilized for one or more of the following four purposes:

(1) For starting tiny enterprises like grocery stores, handicrafts, bangle stores, flour mills, carpentry shops etc.
(2) For buying seeds, fertilizers or equipments for agriculture.
(3) For buying and maintaining livestock.
(4) For personal consumption like medical expenses, education of children, weddings of daughters and sisters, maintenance of the house etc.

In either case, this would help in increase of the overall income.

Microfinance is followed by education. The literacy rate in rural Haryana is very low. 88 people in the sample were illiterate which accounts for more than 25% population. The heads of more than half of the sampled households did not study after fifth grade. But as the level of education grew, a general increment in the income was recorded. This can be attributed to a better exposure to the outer world, better utilization of credit and assets, and more awareness about agricultural and nonagricultural commercial activities.

While the illiterate and less literate households were interested in meeting with their immediate requirements, the literate households had a wider outlook and an urge to improve their standard of living by the means of investment in the ongoing economic activities. As the number of literate family member's increases, each member can contribute towards improvement in the wellbeing of the household.

The family size comes next in contribution in the annual income, although the impact is very small. As the family size increases, the number of earning hands increases and also the capacity to take multiple loans is enhanced. This further contributes in improvement of the wellbeing of the family.

The assets have found to be not affecting the wellbeing of the household in a great manner. As in the livestock and the houses were exclude from the assets. The land is a nonmoving asset for these households as they would never sell their lands.

The money from the microfinance is exhausted in fulfilling the daily needs and very less amount is invested in economic activities. Thus the impact of land holding on income improvement is found to be almost nil.

Conclusion and Suggestions

The prime aim of providing micro credit to poor households is to invest the sum in income generating activities such as, for purchasing livestock (Buffalo, sheep. Goats) or assets like Cycle-Rickshaw, Sewing Machines. However there is no restriction to use the loan for personal consumption like House Repair, Education, Medicine, Marriage, and Festival. During the study it was observed that borrowers prefer to utilize the sum more for personal consumption rather than investing in economic activities as the sum granted to them is not enough to start up any business. Even though the study found that micro finance has a contribution in enhancing the income of the borrowers (those who have invested the sum), but due to the lack of proper motoring of the concerned staff, its effectiveness remains limited. There is a need to create awareness about the scheme. Other important aspect is “Regular training programmes” as it will help the borrowers to know the various unknown aspects of the scheme. It was also found in the study microfinance still need to reach for those, who actually need it most. The government should help micro enterprises (for those borrowers who have started their own business) by framing appropriate policy and involving the concerned departments.

References

1. Adams Dale W, Von Pischke JD. Microenterprise Credit Programs: Déjà Vu. World Development 1992; 20(10):1463-70.
2. Amin R, Becker Bayes. NGO Promoted microcredit programs and women’s empowerment in rural Bangladesh; quantitative and qualitative evidence. The journal of developing areas, winter. 1998, 221-236.
3. Dichte, Thomas. NGOs in Microfinance: Past, Present and Future— an Essay. World Bank, Sustainable Banking with the Poor project, Washington, D.C, 1999.
4. Holvoet N. The Impact of Microfinance on Decision-Making Agency: Evidence from South India, Development and Change, 2005; 36(1):75-102.
5. Shetty Naveen K. The Micro Finance Promise in Financial Inclusion and Welfare of the Poor: Evidence from Karnataka, India, Institute for Social and Economic Chang, Working 2008, 205.
6. Khandker SR. Fighting Poverty with Microcredit Experience in Bangladesh, Published for the World Bank, Oxford University Press, 1998.
7. Morduch Jonathan. Does Microfinance really help the poor? New Evidence from Flagship Programs in Bangladesh (accessed on 20 August 2005), 1998.
8. Muraleedharan K. Measuring Empowerment, Asian Economic Review, 2009; 51(2):1013-1018.
9. Puhazhehdhi V. Evaluation Study of SHG’s: Important Findings Of microfinance In Tamil Nadu, Paper Presented in a Workshop, August, BIRD, Lucknow, 1999.
10. Rahman A. Micro credit initiative for equitable and sustainable development; who pays? World development, 1998, 27(1):67-78.
11. Rahman Atiq. The Informal Financial Sector in Bangladesh: An Appraisal of Its Role in Development.” Development and Change 1992; 23:147-68.
12. Robinson Marguerite. The Microfinance Revolution: Sustainable Finance for the Poor. The World Bank, 2001.
13. Seemi Waheed. Does Rural Micro Credit Improve Well-Being of Borrowers in the Punjab (Pakistan)? Pakistan Economic and Social Review 2009; 47(1):31-47.