

## EFFECTIVENESS OF MICROFINANCE AND SHG<sub>s</sub> IN INCREASING STANDARD OF LIVING: A STUDY IN BOUDH DISTRICT

Rakesh Kumar Panigrahi\*  
TusharKanti Das\*\*

### Abstract

*A majority of microfinance program target women with the explicit goal of empowering them. There are varying underlying motivations for pursuing women empowerment. The main objective of the present study was to study the effectiveness of Microfinance through Self-Help-Groups (SHGs) for socio-economic development of the rural people particularly in the Boudh district of Odisha. In order to achieve the main objective the present study was also carried out with the following specific objectives-to study the socio-economic background of respondents; examine the Pre-SHG and Post-SHG status of SHG members; study the impact of SHGs on the respondents;The questionnaire and answer were analysed and presented through non-parametric test i.e. Chi square test, ANOVA test. Findings of this study are that there is a positive relation between microfinance institution and overall economic development of poor people in rural area. It plays an important role for income and savings of people in rural area.*

**Key Words:** Self Help Groups, Empowerment, Micro-finance, Poverty Alleviation

**JEL Code:** O17, M54, G21, O15

### I. Introduction

Microfinance is defined as any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals which fall just above the nationally defined poverty line, and poor individuals which fall below that poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for micro enterprise, and insurance and savings for risk mitigation and consumption smoothing.

A large variety of actors provide microfinance in India, using a range of microfinance delivery method. Since the founding of the Grameen Bank in Bangladesh, various actors have

---

\*Research Scholar (M.Phil.), Department of Business Administration, Sambalpur University,  
Email: rakesh.mba02@gmail.com

\*\*Reader, Department of Business Administration, Sambalpur University, Email: tkd@live.in

endeavoured to provide access to financial services to the poor in creative ways. Governments have piloted national programs.

NGOs have undertaken the activity of raising donor funds for on-lending, and some banks have partnered with public organizations or made small inroads themselves in providing such services. The range of activities undertaken in microfinance include group lending, individual lending, the provision of savings and insurance, capacity building, and agricultural business development services. Whatever the form of activity however, the overarching goal that unifies all actors in the provision of microfinance is the creation of social value.

The main objective of the present study was to study the role of Microfinance through Self-Help-Groups (SHGs) for socio-economic development of the rural people particularly in the Boudh district of Odisha. In order to achieve the main objective the present study was also carried out with the following specific objectives-To study the socio-economic background of respondents. To examine the Pre-SHG and Post-SHG status of SHG members. To study the impact of SHGs on the respondents. To study the benefits received by the respondents through various income generating activities. To study the various problems faced by the SHG members in the study area.

## **II. Literature Review**

The literature on Self Help Group and micro finance is relatively one of the youngest. Its origin may be traced back to approximately thirty years but the literature available is very large. This chapter reviews the various empirical studies available on Self Help Groups and micro finance and its impact on the lives of rural people.

Though the literature available is fairly large, the review is limited to the core issues to identify the major trends. 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".

K. Manoharan Nair and Girija (2005) in their article, "Microfinance - The New Development paradigm for poverty eradication and women empowerment", state that experience has shown that many of poverty alleviation programmes through organized credit channels have not achieved the required success. Hence to bridge the gap between the demand & supply of funds in the lower rungs of rural economy, the microfinance schemes of NABARD have made a smooth foray into the role played by microfinance in eradicating poverty and empowering women to manage the enterprises.

C.S. Reddy (2005) in his work, "self-help groups: A key stone of microfinance in India, analyse that microfinance has evolved over the past quarter century across India into various operating forms and to varying degree of success. One such form of micro finance has been the development of the self-help group's movement based on the concept of "Self Help", small

groups of women have formed into groups and operate a saving first business model whereby the member's savings are used to fund loans. The results from these self-help groups (SHGs) are promising and have become a focus of inters examination as it is proving to be an effective method of poverty reduction.

Soundarapandian (2006) in his paper, analyzed growth of SHGs and the role of microfinance in developing the rural entrepreneurship and he further suggested that though there is a positive growth rate of SHGs in states but in terms of SHGs, there is a wide variation among states. Linkages of banks with SHGs is found impossible for this variations.

Kalavat Kamble and Gangadhar B. Sonar(2006) in his work, "The Role of SHGs in Women Empowerment study on selected SHGs promoted by voluntary organization in Gulbarga District of Karnataka" studies that the role of socio-economic empowerment of women. The socio-economic conditions of the SHG women are increasing to a significant level irrespective of different backgrounds. Earlier they used to be home and not exposed to the society and were part of the system. Now they can come out and approach the government machinery, conduct meeting, to signature & more importantly have a good amount of money in their hand. SHGs are mostly focused from financial aspects rather social one this trend is more in the SHGs promoted under government programme. The fact that self-help groups, are increasingly attracting younger generation, this generation not only needs social and economic empowerment but also assertive capacity, freedom from atrocities and a new self-image to claim themselves as fully human.

Swain and Wallentin (2007) studied Self Help Groups in 5 states (Orissa, Tamil Nadu, Andhra Pradesh, Uttar Pradesh and Maharashtra) and concluded that there is significant increase in the level of women empowerment over a period of time (2000-2003). However, it does not mean that every woman has been empowered to the same degree, but on the average, the Self Help Group members were empowered over this period.

Rajagopalan (2009) studied micro finance in Africa. His study revealed that micro finance in Africa lags behind when compared to other parts of the world, though the sector is growing in Africa. Micro finance in Asia is the largest both in terms of MFIs and outreach. He concluded that Africa is known for chronic poverty which needs poverty alleviation programme and micro finance is one such programme.

IIPO Economic Intelligence Unit (2010) in its studied "self-help groups (SHG): means of women empowerment", conclude that growth of SHGs are essential for the member as they ensure better standards of living and their by the individual; family and social empowerment. Hence the social empowerment by the SHG members is moderate family empowerment achieved by the members in the family are moderate. Empowering women is pre-requite for creating a good nation- whom are empowered, society with stability assumed. Empowering

of women is essential as their thoughts and their value system lead the development of a good family and good society and ultimately a good nation.

In spite of various constitutional safeguards and legislative measures as well as numbers of programmes and policies initiated by the government for the betterment of women, no significant development took place in the socio economic empowerment of women.

Reeta Rautela, Gaurao Pant and Other (2011) in their study - "Microfinance - A New mantra for rural development", concluded that microfinance is a powerful for poverty alleviation and development. In order to declare microfinance success in India, not only do tens of millions of more people need to be reached but those services must have a transformational impact on their lives and those of their family members. For that considerable work and continuous efforts are needed to diversify the service of funding for microfinance to attract more foreign investments for well-established microfinance institutions (MFIs), to use all the possible channels to serve more rural and urban poor, to develop its staff as more productive and professional to make it more poverty- focused and profitable. Microfinance services can not only solve their own poverty, but can also serve as a complementary tool within a broader strategy to reduce poverty.

V.J.R. Emerson Moses (2011) in his research paper of economics reported that Jawaharlal Nehru said "you can tell the condition of the nation by looking at the status of women", empowerment of women has emerged as an important issues in our country. In India the further reported that nearly half of the population consists of women. In India their work participation rate is less than half that of men. The role of women in the development of nation is very important nowadays. SHG helps the women in uplifting their living conditions and also encompass the social, economic, educational level to improve their empowerment level. The component of empowerment of women level. The component of empowerment of women are access to economic resources, participation in economic decision making, opportunities for self-development, participation in socio-political decision making, scope for skill development and impact on general welfare of the family and community.

### **III. Data Source and Methodology**

**Sources of Data:** The study is exploratory in nature and is based on both primary and secondary data. Secondary data was collected from various journals, articles, working papers, NGO reports etc. Primary data was enumerated from a field survey in the study region. (Boudh).

**Area of Sampling:** The study was conducted in the district of Boudh through a field survey to get an insight of the benefits and challenges faced by women in SHGs. **Sample Size:** 50 samples from 3 SHGs from the area of study have been considered to conduct the present study.

**Method for data collection:** A structured interview schedule was prepared and used for collecting data from the women SHG member. Both open ended and close ended questions were included in the schedule. **Statistical tools:** Anova, Chi-Square, cross tabulation and percentage analysis are used for the analysis of the data.

#### **IV. Data Analysis**

The poor people cannot utilize the money properly which they have taken loan from various MFI, because of their non-productive use of the loan amount. Once they have taken loan then they enjoy the loan amount with misutilise such as purchase of luxurious product that is mobile, motorcycle, dish TV, any other electronic gadgets...etc. Up to finish the loan amount. On the other hand they use that amount in house hold consumption in this way they cannot gain their income. So their standard of living is not increasing. In this case the mission and objective of MFI is not fulfilling.

On the other hand, various stake holders such as RBI, NABARD etc. are regular supply the demand of beneficiary through the MFI. And government has been taking various programmes for poor people for their increase in standard of living. NABARD is an apex institution, accredited with all matters concerning policy, planning and operation in the field of credit for agriculture and other economic activities in rural areas

in India. NABARD's vision is to facilitate sustained access to financial services for the unreached poor in rural areas through various microfinance innovations in a cost effective and sustainable manner.

The questionnaire is meant for the people of rural area of Boudh. The sample size is of 50 people. For interviewing each SHG group 30 minutes were taken. In between that period detail information were collected relating to their group and personal information. All the related information is presented in tabular form and is analyzed for the better understanding of the topic. Along with this, the analysis helps us to determine to which extent rural area people are affected through MFI. The questionnaire and answer were analyzed and presented through *ANOVA test (Table 2)*, *Chi square test (Table 3)*.

#### **V. Interpretation**

BCCB (Govt. MFI) has been more impact on the beneficiary as compare to the private MFI. It gives regular loan to the beneficiary with affordable interest rate. Maximum number of beneficiary has taken loan up to rupees 40000 which they are running their small business and increase standard of living. As the matter in return on instalment amount they are able to return up to Rs. 1000 monthly or Rs. 225 to Rs. 300 weekly basis. Beyond Rs. 1000 they are not able to return the amount because they have small business.

Loan amount is spending both productive use as well as non-productive use by the

beneficiary. Here is no impact on the monthly or weekly basis instalment payment by the beneficiary. They return their amount according to instalment. Impact of changes in expected income is slowly increasing by the beneficiary because they spend more money in productive use. In the case of payment mode maximum number of beneficiary make regular payment through group meeting. Maximum percentages of beneficiary have taken loan from government bank (BCCB). If there is a complaint or suggestion by the beneficiary then lenders always respond to them solve the matter. Maximum number of beneficiary has the knowledge with interest rate. As in categories wise loan amount has taken by the beneficiary is that maximum number of belongs to OBC category and up to Rs. 40000 people are able to take loan. From the loan amount they can earn monthly from Rs. 2000 to 4000. They are belonging to different occupation such as business, weaving, tailoring, and appliqué, bovine. But weaving is the maximum strength amount.

Categories wise loan amount has taken by the beneficiary is significant because only OBC categories utilize their money for productive use other category spend their money in non-productive use. Income wise also purpose taking credit is insignificant because they spend more money on non-productive use when they earn more. In the occupation of weaving and appliqué beneficiary spend more money in productive use.

From the data all category view that government bank (BCCB) the best source of borrowing. Up to Rs. 4000 monthly income people view that government bank (BCCB) is the best source of borrowing. People belongs to weaving occupation believes that their income is increasing. From the 50 beneficiary every one belongs to one MFI holder. Maximum number of beneficiary is taking loan SHGs. They have the knowledge interest rate of the loan amount. The beneficiary utilizes their money in the household consumption, cultural expenses, etc. They save their money for education, medical treatment, emergency requirement... etc. From the 50 beneficiary no one have a BPL registered or benefited through NREGA programme. Some beneficiary get loan as per demand and some are not. There is no conflict between SHGs member. They agree that SHGs is the best model for women empowerment. Their position has been improving after the helping hand of MFI. They believe that through microfinance increase their standard of living.

## **VI. Findings**

There is a positive relation between microfinance institution and overall economic development of poor people in rural area. It plays an important role for income and savings of people in rural area. It assesses to capacity building support through various social work. Microfinance enhances the quality of life of the person living in rural area and aware about the "Human Rights". It is noticed that all the respondents agreed that micro finance brought courage and self-confidence and improved their skill and self-worthiness. It is found that microfinance improved the literacy level of rural women improved awareness on children education to high

level of respondents. Majority of the respondents expressed that their awareness about environment improved after taking part in micro finance programs actively. Maximum number of respondents accepted that microfinance has brought economic development directly and indirectly happiness and peace in the family. Women are economically and socially empowered after joining SHG and getting micro finance as 92 percent reported that poverty level reduced by participating micro finance program. As far as the self-help group is concerned they don't face any type of problems or compulsions from leaders or from other members in the group. Women are given full freedom to express their opinions.

It is also noticed that most of the women are not aware of the trainings organized by the NGO. The NGO shall actively take part in various trainings sessions provided to all women members wherein they can gain more knowledge about the various income generating activities. There is appreciable development in coordination between groups and within group leaders and decision making among respondents.

There is a significance improvement in the income of the respondents after joining SHG. There is a definite improvement in psychological well-being and social empowerment among rural women as a result of participating in micro finance through SHG program.

### **VII. Suggestion**

Micro finance institution basically give intention to backward area people to change their life style. Special incentives should be provided to MFIs employee working particularly at the backward area. The use of new technology must be given training to SHGs member and some meeting should be held regularly. Loan must be given at the right time to the right person so the right person that it can be used properly and interest shouldn't have broaden to people. A proper monitoring of SHG member is required. So that they can't use loan amount improperly.

Based on the present study the following suggestions have been made for future line of work. Special training programme should be provided regarding the proper accounts keeping and accounting experts should be invited as a resource person so that the beneficiaries can enhance their accounting knowledge and maintain their cash book and other necessary books of accounts accurately. For better functioning of the groups women should be properly educated and periodical training at regular intervals may be made and also a study on the respective field may be conducted to outcome the findings.

### **VIII. Conclusion**

Finance is an element which everyone needs. Regular and immediate finance can play an important role for development of socio-economic conditions of the people particularly the rural poor. Microfinance is expected to play a significant role in poverty alleviation and rural development particularly the rural women. The potential for growing micro finance institutions in India is very high. Major cross-section can have been benefited if this sector will grow in its

fastest pace. From the analysis of data it can be concluded that numbers of members have started savings only after joining the groups while majority of the members have no savings in the pre-SHG era. After joining the groups most of the members solved their problems alone.

By studying the Micro finance of the company the efficiency of finance department in managing liquidity comes in to picture. Through SHGs members MFI is managing its liquidity very well; a thorough study of the microfinance of the company brings out many opportunities for improvement. Basically this programme helps in various ways like, making people aware of increase their income as well as saving which can lead to overall development of people in rural areas. Governments have done a lot of programmes like different financial institution, 'NABARD', RBI and different nationalised banks but it does not cover all areas. So different MFIs are following this concept by providing loans. And this programme is on now. So this analysis has been done and the role of MFI is to increase the standard of living of below poverty line. The rural area Self Help Groups are performing well. The study concludes that microfinance brought psychological and social empowerment than economic empowerment. Impact of micro finance is appreciable in bringing confidence, courage, skill development and empowerment. The SHG members feel free to move with their groups and leaders. It leads them to participate on various social welfare activities with good co-operation. While interacting with the respondents, it is noticed that some members are expecting the NGO to come up with more training sessions in income generating activities.

### **IX. Limitations**

Limitations of the study are Sample size is only 50, Limited to rural area, Only three villages, analysis of data on a yearly basis, Collection of data only from those who engaged in income generating activities, Data only from microfinance holder. Due to time constraint the study was not carried out for the larger part. Further research can be carried out to find the Impact of Microfinance and Self-Help Groups on standard of living of the people.

### **References:**

- Jaya, A. S. (2005). Self Help Groups in empowering women. In Noida: Rainbow Publishers, 285-309.
- Basu, P. & Srivastava, P. (2005). exploring possibilities: Micro finance and Rural Credit Access for the poor in India. *Economic Political Weekly*, 40(17) 1747-1756.
- Chengappa, M. B. "Micro-Finance and Women Empowerment: Role of Nongovernment Organizations",
- Dogra, B. (2005). Women Self Help Groups: Kindling Spirit of Entrepreneurship. In S.B. Verma (Ed.) *Status of Women in Modern India*. New Delhi: Deep & Deep publications. 361-363.
- Dulal, H. B., Chris, D. G. & Roger, R. S. (2008). Do Microfinance Programmes Really Save



the Poor? Evidence from Rural Southeast Nepal. *Journal of South Asian Development*, 3(2), 253-256.

- Gupta, S. P. (2009). *Statistical methods*, Thirty eight revised Editions, Sultan Chand & Sons Publishers, and New Delhi.
- Hermes, N. & Robert, L. (2007). Impact of Micro finance: A critical Survey. *Economic Political Weekly*, XLII (6), 462-465.  
[http://www.istr.org/Abstracts2010/pdf/ISTR2010\\_0212.pdf](http://www.istr.org/Abstracts2010/pdf/ISTR2010_0212.pdf) .
- Kamani, A. (2007). Micro finance Misses its mark. *Stanford Social Innovation Review*, 2007. 36-37 [www.ssireview.org](http://www.ssireview.org)
- Kothari, C. R. (2012), *Research Methodology: Methods and Techniques*, New Age International (P) Limited, Publishers.
- Kumari, I.Y. & Rao, S. B. (2005). *Development of Women and Rural Development*. New Delhi: Serial Publications, 214-306.
- Lakshamma, S. K. (2005). Empowerment of women through DWCRA program in A.P.: A case study. In Koteswara Rao (Ed.) *Empowerment of women in India*. New Delhi: Discovery Publishing House, 283-33.
- Makombe, Iddi. Eulalia Temba and Aggrey kihombo(2005). Micro credit and women's Empowerment: Evidence from the Credit scheme for Productive Activities of women in Tanzania. In Vineetha Menon, P.R. Gopinath Nair and K.N. Nair.(Eds.) *Alleviating Poverty* Noida: Rainbow Publishers. 233-251.
- Mor, N. (2014). Committee on Comprehensive Financial Services for Small Business and Low income household, Reserve Bank Of India.
- Morduch, J. & Barbara, H. (2002). Analysis of effects of micro finance on Poverty Reduction. NYU working paper 1014. June 28, 2002.  
[www.nyu.edu/wagner/workingpapers.html](http://www.nyu.edu/wagner/workingpapers.html)
- Murthy, R., Raju, K. K. & Amitha Kamath. (2005). Towards women empowerment and poverty reduction. In Neera Burra. Joy Deshmukh– Ranadive, and Ranjani K. Murthy (Eds.) *Micro credit, poverty and Empowerment* New Delhi: Sage Publications. 161-19.
- Parameswaran, M. P. (2005). *Empowering people*. Delhi: Daanish Books, pp 169-170.
- Rajendran, K. and Raya, R. P. (2010) Impact of Micro Finance - An empirical Study on the Attitude of SHG Leaders in Vellore District (Tamil Nadu, India). *Global Journal of Finance and Management*, 2(1), 59-68, <http://www.ripublication.com/gjfm/gjfmv2n15.pdf>.
- Rao, M.V. (2005). Socio-Economic Development of Women: A case study of Self Help Groups in Midnapore District. In Purnendu Sekhar Das (Ed.) *Decentralised Planning and Participating Rural Development* New Delhi: Concept Publishing. 155-17.

**Table 1: Number of beneficiaries**

<b>Stratum of location(Rural)</b>	<b>Sample beneficiaries</b>
Butupali,Boudh district	25
Nuasai,Boudh District	10
Babusai,Boudh District	15
<b>Total</b>	<b>50</b>

**Table 2: Data Analysis of SHG<sub>s</sub> Holder (ANOVA – Test)**

<b>SL .NO.</b>	<b>VARIABLES</b>	<b>Calculated Value</b>	<b>Tabulated Value (from the F table)</b>	<b>ACCEPT/REJECT Null Hypothesis</b>
1	CATEGORY WISE LOAN AMOUNT TAKEN	<b>5.47*</b>	<b>4.26</b>	<b>REJECT</b>
2	INCOME WISE LOAN AMOUNT TAKEN	<b>1.61</b>	<b>5.14</b>	<b>ACCEPT</b>
3	OCCUPATION WISE LOAN AMOUNT TAKEN	<b>7.05*</b>	<b>3.88</b>	<b>REJECT</b>
4	CATEGORY WISE PURPOSE OF TAKING CREDIT	<b>1.87</b>	<b>5.99</b>	<b>ACCEPT</b>
5	INCOME WISE PURPOSE OF TAKING CREDIT	<b>1.89</b>	<b>7.71</b>	<b>ACCEPT</b>
6	OCCUPATION WISE PURPOSE OF TAKING CREDIT	<b>5.29</b>	<b>5.32</b>	<b>ACCEPT</b>
7	CATEGORY WISE BEST SOURCE OF BORROWING	<b>25.51*</b>	<b>5.99</b>	<b>REJECT</b>
8	INCOME WISE BEST SOURCE OF BORROWING	<b>4.12</b>	<b>7.71</b>	<b>ACCEPT</b>
9	OCCUPATION WISE BEST SOURCE OF BORROWING	<b>16.84*</b>	<b>5.32</b>	<b>REJECT</b>
10	OCCUPATION WISE EXPECTED OF TOTAL INCOME	<b>30.07*</b>	<b>3.24</b>	<b>REJECT</b>

Source: Authors' own calculation. Note: \* indicates significance of the F- Statistics at 5% level.

**Table 3: Data Analysis of Loan Amount (CHI SQUARE-TEST)**

<i>SL.NO.</i>	<i>VARIABLES</i>	<i>Calculated – <math>\chi^2</math></i>	<i>Tabulated - <math>\chi^2</math></i>	<i>ACCEPT/REJECT Null Hypothesis</i>
1	IMPACT OF MFI TO THE NUMBER OF BENEFICIARIES	<b>75.71*</b>	<b>5.991</b>	<b>REJECT</b>
2	EFFECT ON LOAN AMOUNT TAKEN BY THE NUMBER OF BENEFICIARIES	<b>66.20*</b>	<b>9.488</b>	<b>REJECT</b>
3	IMPACT OF RETURN ON INSTALLMENT AMOUNT	<b>66.20*</b>	<b>11.07</b>	<b>REJECT</b>
4	IMPACT ON PURPOSE OF TAKING CREDIT	<b>15.4*</b>	<b>9.48</b>	<b>REJECT</b>
5	IMPACT ON TYPE OF INSTALMENT PAY	<b>0.08</b>	<b>3.841</b>	<b>ACCEPT</b>
6	IMPACT ON CHANGES IN THE EXPECTED INCOME	<b>41.68*</b>	<b>7.815</b>	<b>REJECT</b>
7	EFFECT ON MAKE REGULAR PAYMENT	<b>106.96*</b>	<b>7.815</b>	<b>REJECT</b>
8	IMPACT ON BEST SOURCE OF BORROWING LOAN	<b>32*</b>	<b>3.841</b>	<b>REJECT</b>
9	EFFECT OF LENDER'S RESPONSE FROM BENEFICIARIES SUGGESTION	<b>32.06*</b>	<b>5.991</b>	<b>REJECT</b>
10	IMPACT ON KNOWLEDGE WITH INTEREST RATE	<b>32*</b>	<b>3.841</b>	<b>REJECT</b>

Source: Authors' own calculation. Note: \* indicates significance at 5% level.