



MYTHS & REALITIES OF MICRO FINANCE: A STUDY IN GURGAON DISTRICT

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ABSTRACT

The major obstacle in the economic upliftment of rural household is perpetual poverty and the lack of adequate credit. To overcome this hurdle Micro Finance has evolved as a powerful mechanism to deliver financial services particularly to the bottom of pyramid i.e that section of the society that has been excluded from the services of the main stream institutions. Micro finance and the self help group scheme has been recognized and accepted as one of the new development paradigm for alleviating poverty through social and economic empowerment of poor. The paper attempts to analyse the findings of the Primary survey conducted in Gurgaon district in the year 2007-08 in five villages of the self help group members and repeated the survey in the year 2014-15 to check whether in reality the economic and social conditions of members has improved after being associated with Micro finance. The paper also provides insight on the working of self help groups & what are the constraints in functioning of these groups.

KeyWords: Micro finance, micro credit, bottom of pyramid, poverty, self help groups

INTRODUCTION

Since Independence the priority agenda before the government officials and ministries has been to initiate programmes of poverty alleviation and rural development. In this context an important solution to the problem is the provision of rural credit. For Instance Morduch

(1999) emphasizes that much of poverty can be alleviated and traditional economic and social structures transformed fundamentally by providing financial services to low income households. The catalytic role played by credit for accelerating the economic development has been well recognized all over the world. In this context microcredit has emerged as a ray of hope, as the name suggests, microcredit means extending small loans to poor people, that too without any collateral. It has evolved as a powerful mechanism to deliver financial services, especially credit to a bottom of pyramid that has largely been excluded from the formal financial sector and main stream institutions. In economics, the bottom of the pyramid is the largest, but poorest socio-economic group. In most developing nations microcredit has mushroomed under the umbrella of microfinance which includes not only credit but also provision of financial services such as savings, remittances, risk mitigation products like insurance, financial counseling etc. Many consider microfinance as a powerful tool for alleviating poverty, fostering gender inequality and as an instrument of social transformation. For instance, Khandelwal (2007) claims it can be used effectively to address poverty, empower the socially marginalized poor and strengthen social fabric. One approach to microfinance that has gained prominence is Self Help groups where a group of few individuals-usually poor and often women-who pool their savings into a fund from which they can borrow as and when necessary. This group is linked with a bank or rural cooperative or NGO. Over time the bank begins to lend to the group as a unit, without collateral, relying on self monitoring and peer pressure within group for repayment of these loans. The paper attempts to study the members of these Self help groups that how it has impacted their life since the study is repeated study reason there being to check whether the life of people has changed especially their economic and social status after being associated for long time with the group.

OBJECTIVES

The paper attempts to focus on Impact of the Micro finance on the social and economic aspects of Self help group members. For this the specific objectives are 1.To understand the concept of Micro Credit, Micro Finance & Self help groups.2.To study the impact of Microfinance on economic upliftment of rural people whether there is a positive change on the income and asset pattern of SHG members.3.To study the changes in the social aspect of group members after being associated with SHG.4 .To study the working of SHG's.

LITERATURE REVIEW

The present section explores literature on microfinance. Various authors have quoted a variety of reasons for the need of microfinance institutions. Many of them consider Micro Finance as a powerful tool for alleviating poverty, gender inequality, a gizmo for social transformation etc. In the context of the restricted role played by Formal Financial Institutions Morduch (1999), examined that most important of all else the same it remains far more costly to lend small amounts of money to many people than to lend large amounts to a few. The inability of the credit institutions to deal with the credit requirements of the poor effectively has led to the emergence of micro-finance or micro-credit system as an alternative credit system for the poor. At this point of situation, micro financing or group lending is being looked upon as the instrument that can be considered as the golden stick for poverty alleviation vis-à-vis rural development as suggested by Das (2003). Shankar, Rao, Shah (2007), discovers that the rural credit is one of the cushions against the seasonal, unforeseen shocks. They argued that since rural incomes were seasonal in nature, credit is needed to smoothen out the asymmetry between the flow of earnings and cyclicity of expenditure. Even 60 years after independence, rural Indians have no guarantee of state provided education and health. The public distribution and social security systems wrecked by inefficiency and corruption. In the similar perspective Morduch (1999), express the hope is that much poverty can be alleviated and the economic and social structures can be transformed fundamentally by providing financial services to low income households. The institutions are united under the banner of micro finance and they share the commitment to serve the clients that have been excluded from the formal Banking sector.

Swaminathan (2007), examined how the gap in the formal rural credit sector in rural India can be filled by providing Micro Credit to the “poorest of the poor”. Nair (2005), reviewed the future of Microfinance in India stating that there should be convergence between formal and informal systems, the former deriving its strength from adequate financial resources and a robust system of regulation and governance, and the latter from its capacity to streamline the grassroots delivery of services, appears to be the microfinance model that would eventually evolve in the country. Kabeer (2005), agreed that while access to financial services can and does make important contributions to the economic productivity and social well-being of poor women and their households, it does not “automatically” empower women –any more than do education, political quotas or any other interventions that feature

in the literature of women's empowerment. Nair (2005), paper quotes that the SHG's (Self Help Groups) are the major form of microfinance in India and there are very less chances of delinquencies on the loans provided to these groups. It suggests that federations could help SHG's to become institutionally and financial sustainable because they provide economies of scale that reduce transaction costs and make the provision of these services viable. Sharma and Bharatish (2006), discusses that SHG's has played a pivotal role in the upliftment of the poor by providing credit to the weaker sections of the society, supporting the fact that by increasing the financial capabilities of the poor and extremely poorer sections of the country population will only encourage the economies performance.

Naidu, Nagaraja and Gangaiah (2006), examined that the number of SHGs is substantially increasing. These groups are mobilizing thrift deposits and receiving timely matching and revolving funds to generate employment activities to their livelihood. Change of leadership is a must for sharing the responsibilities by all members and generates leadership qualities in each member.

Harikumar, Pillai (2006), extended that the very existence of SHGs is highly relevant to make the people of below poverty line hopeful and self reliant. SHGs enable them to increase their income, improve their standard of living and status in society. It acts as a catalyst for bringing this section of the society to the mainstream.

Basu and Srivastava (2006), recommend that, if SHG Bank Linkage is to be scaled –up to offer mass access to finance for the rural poor, then much more attention will need to be paid towards: the promotion of High quality SHG's that are sustainable, clear targeting of clients, and ensuring that banks linked to SHGs price loans at cost covering levels. A result of the study conducted in AP and UP state indicates that the majority of the beneficiaries of SHG Bank Linkage are from the poorer groups.

In the same context Swaminathan (2007), expose that Micro credit is neither a successful anti- poverty strategy nor it is an adequate response to the huge unmet credit needs of the rural population. This is not to deny that micro credit loans to rural working households can serve as a kind of palliative reform in the countryside. Morduch (1999), suggest that the greatest promise of microfinance is so far unmet.

Khandelwal (2007), found out that Micro Finance is not a panacea but it is one of the effective tools to help poor from a self development perspective. Extremely poor people like people suffering from malnourishment, illness, lack of skills etc can not be a target for Micro

Finance since Micro Finance will not be a efficient solution for them. The problems of such people have to be tackled by the govt through an appropriate mix of welfare scheme. For these people, as Robinson (2000) has said-“Microfinance is the next step-after they are able to work”.

Kalpana (2005), examined that microfinance programmes did not reach destitute sections, that the extreme poor sections who participated were not a majority and that the majority of the clients belonged to moderate poor and vulnerable non poor households. Satish (2005), concludes that Microfinance is a means or an instrument for development, not an end in itself. The growth of microfinance has to necessarily accompany by the overall growth in mainstream rural finance.

Kalpana (2006), concludes that whatever the model by which Micro Finance is extended to the poor(whether SHG’s or the Grameen), the fundamental issues are the same and pertain to incorporation and retention of very poor sections, to the challenges of offering a variety of financial services that are fine tuned to the borrowers needs keeping the low affordable cost, enhancing the participation of poor in decision making with regard to the terms and cost of credit and it is to be recognized by the policy makers that micro credit can be no more than a small part of a comprehensive strategy for poverty reduction.

METHODOLOGY

The present Section aims at providing research design and methodology used in the study. Using the Non Probability Quota Sampling technique, a sample survey of various SHG members of Gurgaon District was conducted earlier in 2007-2008. The study was repeated again in 2014-15 within the same district the survey was carried out. It was carried out in the following five villages 1) Teekli village 2) Aklimpur village 3) Dhamdhoj village 4) Bhondsi and 5) Badshahpur village, the ease of accessibility of these villages played a significant role in selecting these villages. 35 respondents were contacted personally from these villages to get their viewpoint on the concept of Micro Finance and especially towards the SHG (Self Help Group). The SHG (Self Help Groups) is a group of rural poor who have volunteered to organize themselves into a group for eradication of poverty of the members. They agree to save regularly and convert their savings into a Common Fund known as the Group corpus. The members of the group agree to use this common fund and such other funds that they may receive as a group through a common management.

Table 1:Profile of the Respondents (Sample Characteristics)

Demographics	No of Respondents=35 Year=2007-2008	No of respondents=35 Year=2014-2015
Sex		
Male	13	15
Female	22	20
Age		
20yrs-35yrs	20	22
35yrs-50yrs	13	11
Above 50yrs	2	2
Education		
Illiterate	6	4
Can sign	4	6
Primary	4	4
Middle	2	1
Secondary	10	8
Higher Secondary	5	6
Graduate	4	6
Landholding		
Own Land	10	7
Do not own Land	25	28
Principal Livelihood source		
Agricultural	10	6
Non farm activity	2	1
Mixed	4	4
Service	8	10
Others	11	14
Annual Income		
Less than Rs10,000	15	8
Rs10,000-Rs25,000	6	8
Rs25,000-Rs50,000	12	15
Rs50,000-Rs,100,000	2	4
Rs1, 00,000 and above	0	0

It can be observed that majority of them were females and were in the age group of below 40 years. A major percentage of them were literate and secondary pass and they belong to the category of the people whose annual income fall into the category of Rs25,000-Rs50,000. It can be concluded that the SHG group so formed are homogenous i.e belonging to the same age group, same village and the educational qualification are secondary pass. The following results

can be seen in the below figure 1 that after the mapping of variables the profile of the respondents are almost identical for both the years.

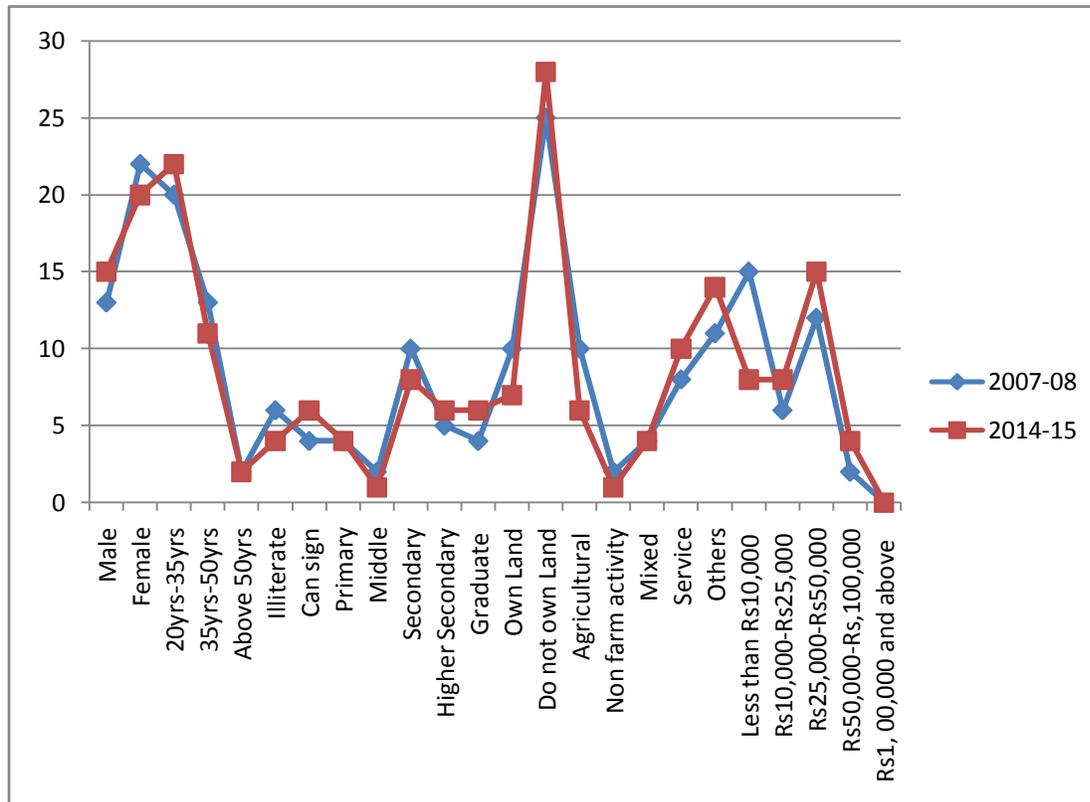


Fig 1

Development of Questionnaire:-

For the purpose of the study, Primary data was collected through a structured non-disguised questionnaire. The SHG members were interviewed within the Gurgaon District covering the respective five villages: - 1) Teekli village 2) Aklampur village 3) Dhamdhoj village 4) Bhondsi and 5) Badshahpur village.

The questionnaire is basically divided into three sections. The first section focus on the profile of the respondents, the second section focus on the working of SHG’s and the final section covers the economic and social impact of Micro finance on the SHG’s members.

FINDINGS:

The present section indicates the results of the survey and its implications both quantitatively and qualitatively.

Table 2 :REASONS FOR JOINING SHG

		2007-08	2014-15
1	Low Income	15	11
2	Unemployment	4	14
3	Low Cost loan	9	3
4	Other(Social obligation)	7	7

As per the survey it has been observed that low Income is the prime factor for respondent to join SHG's in 2007-08 which has shifted to unemployment in the year 2014-15. It has been noticed than in 2007-08 low income is the prime factor for the respondents to join the SHG (Self Help Group) programme followed by the reason that it is the low cost loan available to them among all other sources . Everybody has agreed they want more income or that they want to come out of their hand to mouth condition. Therefore many of the respondents felt that SHG is a source from where they can avail low cost loan and can invest the same in income generating activities. In the year 2014-15 the reason for joining SHG is unemployment followed by low income since many of them are literate and qualified they want job since not able to find it they become members of this group to avail loan and to start their own small business. Also still in villages they have social obligations like ceremonies of marriage ,death for which they need money and they can easily get the funds arrange through these self help groups that means even after seven years the condition of the members are same although they become qualified in comparison to previous survey but still they are not able to come out of social pressures or so called social obligations.

Table 3:Alternative sources of loan available to villagers

S.No		2007-08	2014-15
1	Banks	5	10
2	Friends	4	3
3	Relatives	20	18
4	Money Lender	6	4

As we can observe the dependency of self help group members on alternative sources for loan is more on informal sources rather than banks .Still people free it is easy to arrange loan from relatives without any formalities rather than depending on other formal sources.Although the ratio of person approaching banks have increased in past 7 years but still a lot has to be done to get them out of the clutches of money lender and relatives burden.

Table 4: Constraints in the functioning of the Self help groups

S.No		2007-08	2014-15
1	High Interest Rate of loan	2	2
2	Conflicts within Group	15	20
3	Lack of Awareness	4	2
4	Repayment of loan	2	4
5	Lack of attention of Bank Officials	10	7
6	Insufficiency of loan amount	0	0
7	Other	2	0

Out of villages studied the outcome from village's respondents is that it is the conflict within the group which acts as a biggest constraint in the functioning of the group which is similar response in the previous survey. Many of the group respondents agreed that though the groups are being formed and it also works for few months and when some member defaults in the repayment nobody is there to check upon their activity and after some time the group dissolves. The redressal mechanism is not there if the group is not functioning properly. Many respondents say that they have become the member but some of the cunning member of the group have default and from then they do not know where their money have gone which they have save and from

where they can get it back. Since they are not very educated or some are even illiterate they do not know how to approach the bank for complaining their problem.

While in other villages the problem is somewhat different here the problem is with the bank officials. According to them that NGO member or the bank official does not take interest in the formation of the group or for the formality sake once they have formed the group they are least bothered to check about the functioning of the group.

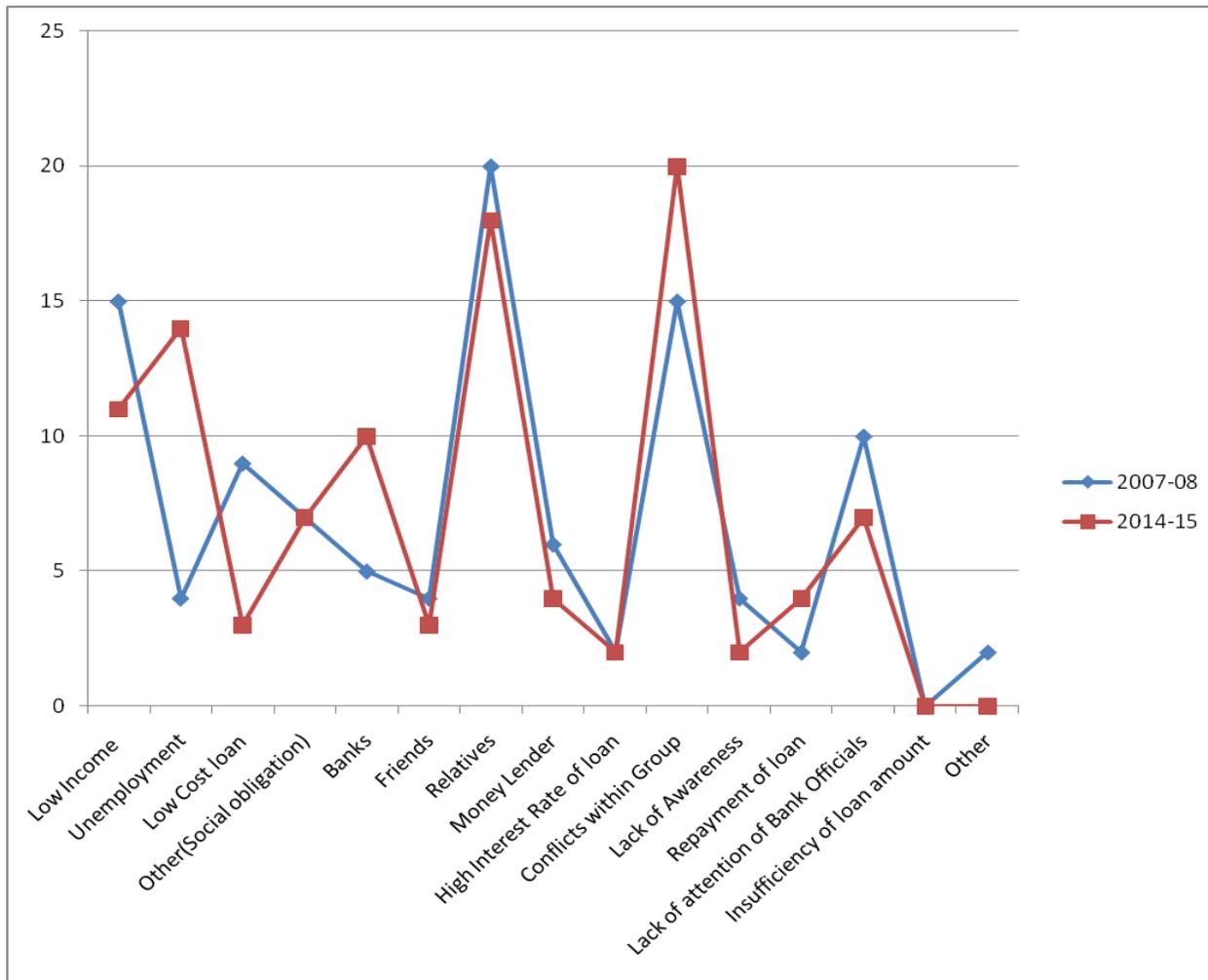


Fig-2

In Fig 2 after the mapping of variables of reason for joining SHG, the alternative sources of loan available to the group member and the constraints in functioning of the group. It has been noticed that in 2007-08 low income is the prime factor for the respondents to join the SHG (Self Help Group) programme followed by the reason that it is the low cost loan available to them among all other sources however in 2014-15 unemployment is the primary reason for them to be associated with SHG's as explained above. The results indicate that for both the years the primary alternative source available to the villagers is their own relatives followed by other

sources and the biggest constraint in the functioning of the group is the conflict within the group for both the years.

Table 5: Impact of Income from SHG on basic amenities

S.no		2007-2008	2014-2015
1	Water supply	4	4
2	Sanitation Facilities	12	10
3	Medical Facilities	13	10
4	School for children	4	10
5	Market facilities	2	1

As the above table indicates that the impact of Income from SHG is more on Medical and Sanitation facilities in comparison to water supply and school for children and the market facilities for the year 2007-2008 while in the year 2014-2015 the impact of income generated by SHG's has also make them to send their kids to schools instead of making them to sit idle or to work as child labor and they also maintain the sanitation and water supply facilities. This shows that the consumption loan available through SHG's has helped households undertake improvements on their existing living conditions e.g install improved sanitation facilities. It has also helped in meeting the medical expenses and also they are now sending their children to schools which shows the positive impact of income from SHG's.

Table 6: Impact of SHG membership on the social position of Respondents

S.No		2007-2008	2014-2015
1	Change in Confidence Level	10	10
2	Treatment from Family Members	3	4
3	Status in Village	15	18
4	Violence in Family	7	3

The above table indicates that as far as social impact of SHG's membership is concerned it is more on the status in the village, followed by increase in the confidence level and treatment from family members which have changed for both the years in study. However it has still not made any perceptible impact on the incidence of domestic violence even though the income or their

status has improved. Although the domestic violence has declined in last seven years but still that problem exists.

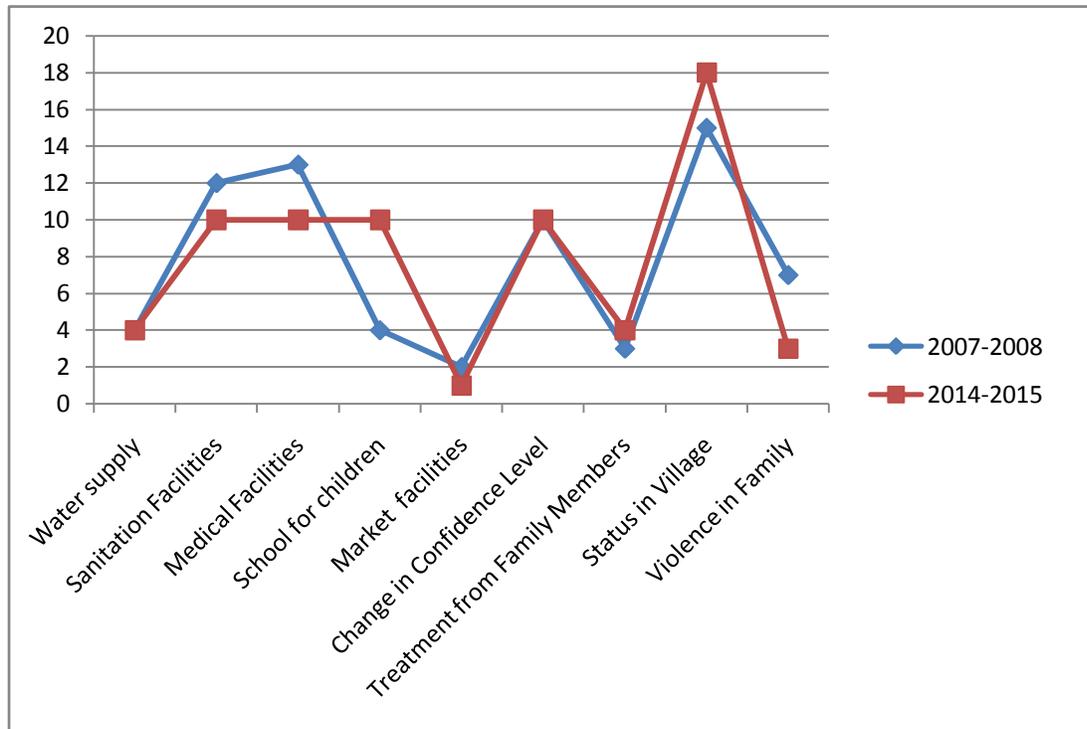


Fig-3

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CONCLUSIONS

The research paper is an extension of the primary study conducted in the year 2007-08 and repeated in 2014-15, who are associated with self help groups for more than five years. The study findings indicate that the prominent rationale for joining SHG was to get an increase in income in the year 2007-08 which has shifted to being unemployed. Thus the results show that SHG's have given them an avenue either for extra income or if they can't find a job they

can start their business like some of them have opened a tailoring shop, beauty parlour, embroidery shop, confectionery etc.

The findings reflect that the dependency of self help group members on alternative sources for loan is more on informal sources rather than banks. Still people think it is easy to arrange loan from relatives without any formalities rather than depending on other formal sources. Although the ratio of members approaching banks have increased in past 7 years but still a lot has to be done to get them out of the clutches of money lender and relatives burden.

As far as the constraints in the working of SHG's is concerned there are two major factors one relating to the conflict within the group and the other is the lack of Interest shown by the Bank officials. These two factors vary from village to village. In some villages the Bank officials are quiet active in forming the group there is divergence within group members and on the other hand where the villagers are immensely interested in forming the group there is no Bank official or NGO member to assist them.

The majority of respondents conveyed that after being associated with SHG they have utilized that income for setting up proper sanitation facilities and they can meet any unforeseen health expenditure and medical contingencies for which earlier they have to go to sahukaars who exploit them by charging usurious interest rates. Although in the year 2014-15 they agreed that now after being associated with the SHG's for long time they realized that it is very important to save. Since counseling sessions are also undertaken in some SHG's by bank officials they realized that it is very important to send the children to schools rather than making them sitting idle or to make them work as child labor for getting extra income.

The study reveals that the members overall status in the village has also got better after being linked to SHG's since as their income and savings has increased and they invest the same for the investment related programmes such as purchase of livestock, making pucca makan that means having cemented house which improves their financial status. However it has still not made any perceptible impact on the incidence of domestic violence even though the income or their status has improved. Although the domestic violence has declined in last seven years but still that problem exists. This underscores the important point that improvement in economic condition of women alone is not sufficient to solve domestic violence problem. True empowerment can only through more education of of both men and women and through greater social awareness and consciousness via this process.

Thus the results seems to reflect that the SHG's do have a positive impact on the socio-economic position of the members but the programme has far reaching impacts and there are many areas to improve upon for the overall development of the weaker sector. Although SHGs help in improving standard of living , but it cannot be treated as panacea for all problems faced by the poor .

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