

# SHG Members Perception on Problems for the Microfinance Investment in Income Generation Activities

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*Abstract*— Microfinance programme has been well-recognised world over as an effective tool for poverty alleviation and improving socio economic conditions of rural poor. In India too, microfinance programmes are making a strong headway in its efforts to reduce poverty and reduce the poor. Moreover these programmes have come to be regarded as supplementary development programmes, which widen the financial service delivery system by linking the large rural population with formal financial institutions through (SHGs Self Help Groups). The rural poor, with the intermediation of voluntary organisations join together for self help groups to secure better economic growth. This has resulted in the formation of a large number of self help groups in the country, which mobilize savings and recycle the resources generated among the members. These self help groups enable them to come together for a common objective and gain strength from each other.

*Keywords*— **micro finance, economic growth, rural empowerment, self help group etc.,**

## INTRODUCTION

NABARD has been instrumental in facilitating various activities under microfinance sector, involving all possible partners at the ground level in the field. NABARD has been encouraging voluntary agencies, bankers, socially spirited individual, other formal and informal entities and also government functionaries to promote and nature SHGs. The focus in this direction has been on training and capacity building of partners, promotional grant assistance to Self-Help Promoting Institutions (SHPIs), Revolving Fund Assistance (RFA) to MFIs, equity support to MFIs to supplement their financial resource and provision of 100% refinance against bank loan provided by various banks for microfinance activities.

Today, Self-Help Groups and MFIs are the two dominant forms of microfinance in India, Microfinance in India currently being provided by three sectors: the government, the private sector and the charities. These three sectors as large as they are, have only a small fraction of the capital and geographic scale required to meet the overwhelming need for finance amongst India's rural poor. The major form of microfinance in India is that based on women's Self-Help Groups (SHGs) (Jayaram .R 2005)<sup>4</sup>. The present study focuses on the microfinance through SHGs.

SHG-Bank Linkage Programme, developed and managed by NABARD, allows SHGs to obtain loans from banks - commercial rural and co-operative. The banks lend to the SHGs that are eligible for NABARD refinance for these loans at a subsidized interest rate. The programme started in 1992 as a pilot project and was upgraded to a regular banking programme in 1996 and has expanded rapidly since then. NABARD's refinance has however been falling in proportion - possibly because of the prevailing low interest rates, high level of liquidity in banks and, not the least, because of the banks starting to see the program as a profitable proposition.

The majority of world's population is poor, and over 500 million of world's poor are economically weak (Rajivan Anuradha 2007)<sup>5</sup>. They earn their livelihood by being self employed or by working in micro enterprises. These micro enterprises make a wide range of goods in small workshops, engaged in training and retail activities, make pots, pans, furniture, or sell fruits and vegetables. Microfinance, in simple words, refers to the entire range of financial services provided to the poor including skill up gradation, entrepreneurial development that would enable them to overcome poverty. Various SHPIs and NGOs have been recognised as entities in the microfinance concept especially in providing credit plus services. NGOs which were initially confined to the social aspects of development, have been enlarged to help the poor and weaker sections of the rural society in their economic pursuit through the promotion and nurturing of SHGs. Microfinance in India has helped in poverty eradication, economic empowerment and inclusive growth. Several studies conducted in India and abroad after comparing the situation of SHG members during pre-SHG period on various socio economic parameters have proved that those who join the SHGs are in a better socio-economic condition.

## SIGNIFICANCE OF THE STUDY

Poverty is a crucial problem in all developing countries in the present day world. It is felt that the problem of poverty can be solved through concerted effort by the state. Poverty alleviation has always be one of the primary objectives of the different governments in India and is always one of the main goals of any planning in national economy. Therefore it is of prime

importance to formulate situation specific poverty alleviation policies and programmes and for generation of minimum level of income for rural poor, which forms a substantial part of national population in our country. Since the early national plans, successive governments in independent India have emphasized the link between improving access to finance and reducing poverty. In the post nationalization period in India for the development of rural areas thrust was always there on the banks to increase credit in rural areas for the socio economic development of the rural poor. Since independence no significant impact has been made on the grim poverty situation prevailing in rural areas despite the presence of a vast network of commercial, co-operative and rural banks and other financial institutions in the rural areas (Aiyar.Swaminathan.s.Anklesaria 2009)<sup>7</sup>.

### **STATEMENT OF THE PROBLEM**

India like most of the developing countries is facing the problem of extreme poverty, particularly in rural areas within which almost a quarter of our population lives. A large section of Indian population is still surviving well below the standard of living at which they could become active participants in the large economy. According to the data of the Planning Commission, over the time, while the percentage of people below poverty line in India fell, the number of the poor has barely changed over the last three decades (Sabyasachi Das 2003)<sup>9</sup>. Thus, even after 65 years of independence, over a quarter of our population still remains poor. India still accommodates a vast majority of population which is economically deprived in terms of income, access to resources, control over resources and political power, gender biases, child labour, different forms of human abuse, etc. One of the prime reason for this, which the researchers have often pointed out is the unavailability of timely credit.

### **OBJECTIVES OF THE STUDY:**

1. To study the impact of SHGs on the economic empowerment.
2. To study the awareness of the respondents about SHGs

### **HYPOTHESES**

Ho1: Microfinance activities do not influence the economic empowerment of SHGs and also their standard of living.

Ho2: The survival of microfinance activities do not influence the upgradation of the SHG members.

### **Constrains and Problems in Microfinance Activities of the SHGs**

The demand for micro-financial services provides huge challenges and the opportunities for the Indian market. Protective financial services provided by the government through subscribed credit may be critical for poor people, but they do little help in the long run for pulling people out of poverty. History shows that majority of the subsidized credit schemes initiated by the government have failed. Hence, promotional financial services are required, primarily for enhancing livelihood among poor people.

The basic thinking behind the microfinance movement in India is that access to microfinance can enable rural poor to start or expand a microenterprise and allow them to rise above poverty. However, experience has showed that micro credit alone cannot do this job. What is actually required is the combination of credit along with other services. Microfinance plus is a necessity and in a successful enterprise backward and forward linkages have to be made available to the group members.

It is also observed that the poor borrowers from microfinance organizations often do not graduate to higher and higher loans and consequently to productive small enterprises. While credit may initially be a ruling constraint for micro enterprises, to grow beyond a certain size, other constrains come into play. Micro-enterprises are therefore unlikely to grow substantially without inputs that can address these additional constrains. Various reasons like lack of interest, inadequate literacy among the members and insufficient training facilities are often held responsible for under development of micro-enterprises in the rural region. Graduation of SHG members into entrepreneurs requires intensive training and handholding on various aspects like understanding of markets, potential mapping, fine tuning of skills and entrepreneurship management (Dr. K. Kamalakannan 2011)<sup>7</sup>.

In order to examine the problems, constrains and challenges of micro financing in income generation activities, questions were asked from the respondents related to problems for the microfinance investment in income generation activities. The main problem of microfinance in income generation activity is generally linked with the choice of enterprise, illiteracy/poor education of respondents, non-availability of timely credit, lack of proper marketing and inadequate fund facilities that is why questions related with these aspects were asked from the respondents. The problems faced by the respondents have been examined with the test of factor analysis.

### **FACTOR ANALYSIS (PRINCIPAL COMPONENT ANALYSIS) :**

Principal Component Method is applied to reduce the variables into predominant factors. In particular this analysis is applied over a block of 5 points scale statements or any other defined scales to emerge with meaningful factors. In the present research work, the researcher after reviewing national literature regarding SHGs and eradication of poverty has identified 30 variables pertaining to women empowerment. These statements are responded to by the respondents in likerts 5 point scale technique. The application of factor analysis over the 30 variables fetched following results:

**Table 1**  
**Factor Analysis - KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.749
Bartlett's Test of Sphericity	Approx. Chi-Square	6337.151
	Df	435
	Sig.	.000

Extraction Method: Principal Component Analysis.  
Rotation Method: Varimax with Kaiser Normalization.  
a. Rotation converged in 11 iterations.

From the above table it is found that the KMO measures of sampling adequacy is 0.749 and Bartlett's Test of Sphericity with approximate chi-square value 6337.15 is statistically significant at 5% level.

Therefore it can be concluded that the 30 variables possess appropriate variance over the required and adequate sample size. These variables also form a normal distribution and are grouped to frame the meaningful factor. It leads to further verification of individual variance as shown in the following table:

**Table 2**  
**Factor 1- Inattentive Activities**

Factors	Component
Default in Repayment of Loan	.730
Distrust with Leaders	.662
Not Aware of Rights	.660
Lack of Family Support	.644
Inefficient Leaders	.605
Castiesm	.565
Political Involvement	.561
Lack of Knowledge	.555
<b>Total</b>	<b>4.982</b>

Source: Computed

From the rotated component matrix, it is understood that the first factor consists 8 variables, default in repayment of loan (0.730), distrust with leaders (0.662), not aware of rights (0.660), lack of family support (0.644), inefficient leaders (0.605), castiesm (0.565), political involvement (0.561) and Lack of knowledge (0.555). Hence this factor can be named as "Inattentive Activities".

The inattentive activities factor enumerates that the awareness among the respondents is most significant for the SHG activities to carry out successfully. It also reveals that this awareness leads to easy repayment of loan, extension of activities, etc.,

**Factor 2:** Table 3.17 shows that the second factor, with 9 variables, Problem in Consumer Preference for SHG Products (0.401) has the highest significant positive loading. As these items factored under this factor pertain to degeneration problem, Factor 2 is called as "Deteriorated Activities".

**Table 3**  
**Factor 2 - Deteriorated Activities**

<b>Factors</b>	<b>Component</b>
Lack of Consumer Preference towards SHG Product	.737
Difficult in maintaining Accounts	.401
Easy Lending from SHG	.733
High Interest Rate	.699
Lack of Experts	.613
Lack of Team Spirit	.600
Financial Irregularity	.567
Middlemen in Loan Sanctioning	.565
Lack of transparency	.390
<b>Total</b>	<b>5.305</b>

Source: Computed

The second factor is obtained with the composition of 9 variables listed below: lack of consumer preference for SHG products (0.737), difficult in maintaining accounts (0.401), easy lending from SHG (0.733), high interest rate (0.699), lack of experts (0.613), lack of team spirit (0.600), financial irregularity (0.567), middlemen in loan sanctioning (0.565), lack of transparency (0.390). Therefore this factor extracted can be called "Deteriorated Activities". This factor explains the respondents problems in different fields of the working condition. It is further added that the respondents restrain themselves in the degenerated activities.

**Factor 3:** Table 3.18 analyses that the third factor, with 5 variables, "Inadequate Loan (0.710)" has the highest significant positive loading. As these items factored under this factor pertain to Problem of Sufficiency and Comfort, Factor 3 is called "Discommoded Factor".

**Table 4**  
**Factor 3 - Discommoded Factor**

<b>Factors</b>	<b>Component</b>
Inadequate Loan	.710
Inconvenient Terms	.696
Misuse of Funds	.660
Lack of Incentives	.590
Family Pressure to avail Loan	.503
<b>Total</b>	<b>3.159</b>

Source: Computed

The third rotated component is obtained from 5 variables which are inadequate loan (0.710), inconvenient terms (0.696), misuse of funds (0.660), lack of incentives (0.590) and family pressure to avail loan (0.503). Hence this factor is named "Discommoded Factor". The discommoded factor enumerates that the SHG members are not convenient about their terms and conditions. Moreover their fund availability is not up to their expectation and there is also lack of incentive.

**Factor 4:** The table 3.19 analyses the fourth factor, among the 5 variables Marketing Inefficiency (0.779) which has highest significant positive loading. As this item pertains to problem of marketing, Factor 4 is called as "Promotional Incapable".

**Table 5**  
**Factor 4 - Promotional Incapable**

Factors	Component
Marketing Inefficiency	.779
Dropouts affect sustainability	.731
Lack of mutual support	.669
Interval of meeting is too long	.507
Lack of consultancy	.372
<b>Total</b>	<b>3.058</b>

Source: Primary Data

The fourth factor that is obtained from 5 variables are marketing inefficiency (0.779), dropouts affects sustainability (0.731), lack of mutual support (0.669), Interval of meeting is too long (0.507) and lack of consultancy (0.372). Therefore this factor is named as Promotional Incapable Factor. This factor reveals that SHG members are not capable of marketing their products because right consultancy and mutual support is lacking. Therefore, dropouts must be reduced and meetings have to be held at short and regular intervals.

**Factor 5:** Table 3.20 analyses the fifth factor, with the 3 variables Inequality in Issue of Funds (0.697) has the highest significant positive loading. As this item pertains to inequality problem, Factor 5 is called as “Unfair Distribution”

**Table 6**  
**Factor 5 - Unfair Distribution**

Factors	Component
Inequality in issue of Funds	.697
Lack of loan in time	.558
Lack of support from promotion agency	.500
<b>Total</b>	<b>1.755</b>

Source: Primary Data

From the 3 variables, the fifth factor is obtained: inequality in issue of funds (0.697), lack of loan in time (0.558) and lack of support from promotion agency (0.500). Hence this factor is named as unfair distribution. This factor reveals that funds are not issued equally and the loan is not distributed when the necessity arises and guidance of promotional agency is missing.

## MAJOR FINDINGS

The major constrains in the microfinance activities according to the respondents are inattentive activities, lack of generation of activities (deteriorated), inconvenient terms and conditions (discommoded), promotional incapability and unfair distribution.

- Respondents pointed out that lack of adequate fund and highest interest rates are the biggest obstacles in starting a small business. Besides these, lack of credit institutions, rigid banking process and non availability of timely credit are the other important financial constraints in starting a viable income generating activity.
- According to the respondents lack of market is the most important market related constraint. Besides that low price of output, far away market places and large number of intermediaries are some other major marketing related hurdles in the effective functioning of SHGs in the microfinance activities.

## RECOMMENDATIONS

The government needs to recognize the potential of micro-financial services to maintain investment and expansion in key economic sectors and thus to add significantly to national economic growth.

- Monitoring and review indicators should be strong enough for effective implementation of programme for asset creation and verification.
- There must be proactive steps not only in identification of key activities but also immediate transfer of technology with technical knowledge to microfinance either individuals or SHGs.

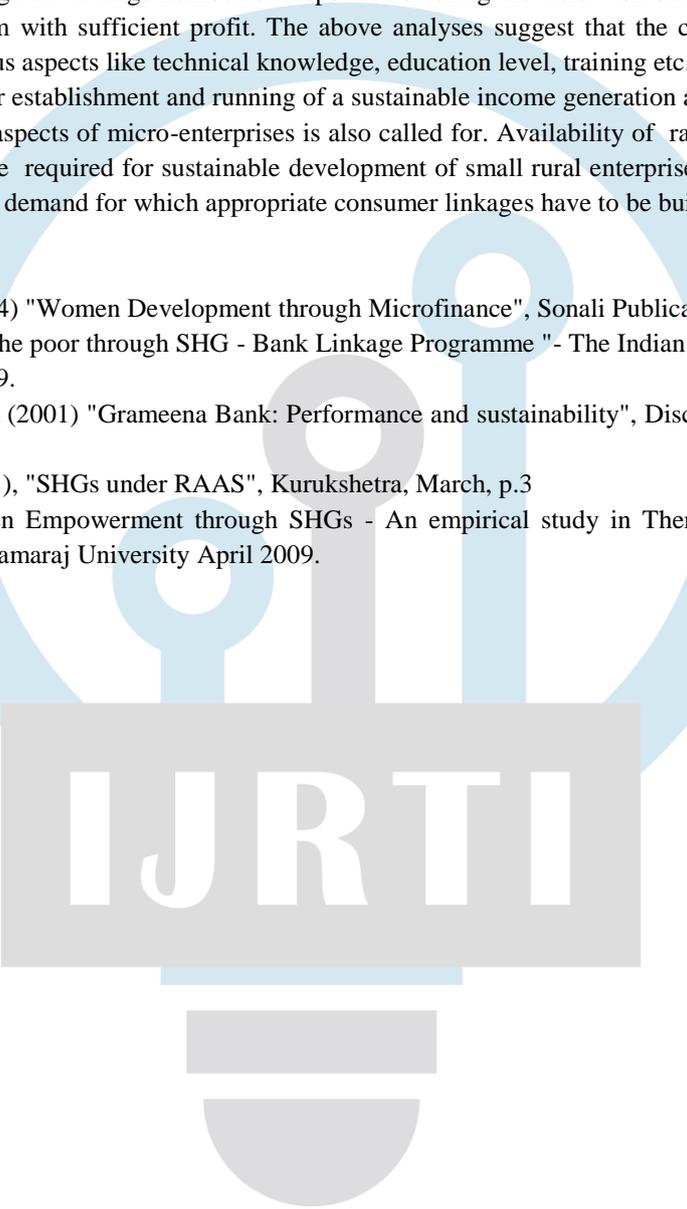
- More emphasis needs to be given to basic skill development and other behavioural trainings. Women must be given financial and business related training inputs seriously. The teams of resource persons need to be developed for delivering adequate training inputs.
- Public/government lands need to be handed over to individual/SHGs for carrying their activities in cases where these sections do not possess their own land required for business activities.

## CONCLUSION

Thus, it is clear from the above analysis that all the five factors influence the proper functioning of SHGs in the microfinance system. As we have seen already, all the respondents are not active in terms of starting income generation activities and their proper management. Most importantly, they find it difficult to identify income generation activity which is profitable as well as sustainable in the long run. A large number of respondents during the field visit said that they do not know what to produce which can provide them with sufficient profit. The above analyses suggest that the capacity building of the sampled respondents has called for various aspects like technical knowledge, education level, training etc. Development of the sample size in all these aspects is required for establishment and running of a sustainable income generation activity. Skill development of the sampled respondents in various aspects of micro-enterprises is also called for. Availability of raw materials, marketing, training, proper branding and publicity are required for sustainable development of small rural enterprises. The key issue to marketing is that the products must have local demand for which appropriate consumer linkages have to be built.

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