

# THE ECONOMIC IMPACT OF MICROCREDIT DISBURSED THROUGH SHG's; A STUDY IN KERALA STATE

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**Abstract**—Poverty in India is widespread with the nation estimated to have one third of world's poor. Microfinance has been proposed as a possible solution for the maximum outreach and alleviation of poverty in the rural poor especially the disadvantaged sections of the society. In terms of financial exclusion India's world rank is 4th with 135 million people. The term empowerment has been widely employed for over a decade, both in the discourse of international organizations and by politicians and actors in the field, notably by those promoting microfinance schemes throughout the world. Generally speaking, empowerment refers to greater access to power by underprivileged or vulnerable segments of the population. In India, therefore, this includes the poor, women, and also the scheduled castes (SC) and scheduled tribes (ST). In its initial judicial meaning (Oxford Dictionary), to empower is to give somebody the power or authority to do something. This paper examines the role of micro finance for empowerment of rural poor

**Keywords**—Empowerment of Rural Poor, Micro Finance(key words)

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## 1. INTRODUCTION

Microfinance is not a new development. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as experiment, on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh. Since then several microfinance institutions came up and have succeeded in reaching the poorest of the poor and have devised new ground-breaking strategies with time for the fulfillment of their vision. These included the provision of collateral free loans to poor people, especially in rural areas, at full-cost interest rates that are repayable in frequent installments. Borrowers are organized into groups and peer pressure among them, which reduced the risk of default. Microfinance is now being considered as one of the most important and an effective mechanism for poverty alleviation. These are also effective mechanisms through which to disseminate precious information on ways to improve the health, education, legal rights, sanitation and other living standards, which are of relevant concerns for the poor. Above all, many micro-credit programs have targeted one of the most vulnerable groups in society. Despite wide expansion of the banking network in India a sizable population still remains outside the formal banking system. Poor masses of the country still depend on informal credit sources for credit. These informal sources have exorbitant terms and poor conditions. Insufficiency of a formal banking system to providing credit to the poor paved the way for emergence of microfinance in India. Two different concepts of microfinance viz. SHG-Bank Linkage Program and Microfinance Institutions (MFIs) have emerged in India. Though microfinance in India is dominated by the SHG-Bank Linkage Program, services offered by other MFIs have experienced tremendous growth in recent years. Thousands of MFIs are offering financial services in different parts of the country, but it is generally believed that only a few are performing well. Most MFIs depend heavily on donor subsidies. Some successful MFIs, however, are servicing largenumbers of clients and making profits without subsidy and grants. Efficient functioning of these MFIs is critical for long run sustainability.

## 2. NEED FOR THE STUDY

Aware that the 'trickle down' effects of economic growth take too long to reach the poor, governments in the region have relied on centrally administered support programs and planned interventions to raise living standards, such as:

- Subsidized food at below market rates.
- Micro finance.
- Relief employment or food-for-work programs.

These have produced mixed results. Subsidized food has often not reached the needy due to faulty targeting and the unscrupulous diversion of supplies. Micro-finance loans have been used more for consumption than investment and generally not repaid fully. For example, about 60 percent of the loans given out under India's Integrated Rural Development Program (IRDP) are estimated to be in default (UNDP: 1993).

The food-for-work programs have been more effective since these involve manual work where daily labor wages are paid partly in food and partly in cash and which, therefore, attract only the really needy. However, in many instances,

information regarding periods of slack work in rural areas is not available in time for food-for-work programs to be organized when they are most needed.

- Lack of involvement of rural poor in development, resulting in marginalization of non-agricultural workers and landless laborers in economic development.
- Disregard of local resources, knowledge, skills and collective wisdom.
- A 'superior' attitude in government machinery at various levels and a 'passive' and 'servile' attitude among the rural poor.
- Imposition of development programs without understanding local conditions; technology disseminators not tuned to local socio-economic and cultural realities.

### 3. PRESENT SCENARIO IN INDIA

The entry of the banks into the microfinance sector happened first under pressure because of the guidelines of the Reserve Bank of India (RBI). Nevertheless more and more banks go beyond those guidelines and innovate in order to conquer new market shares in a sector which they regard now as lucrative. The ICICI Bank is probably the one which displays the most aggressive attitude. Apart from various specific products as well as partnerships with multiple IMFs, at the beginning of 2004 ICICI concluded two security deals with two leading IMFs: BhartiyaSamruddhi Finance Ltd of the BASIX group and SHARE Microfin Ltd. If ICICI is the likely pioneer in this sector, others have followed. For example the Andhra Bank (District of Coimbatore, Tamil Nadu) has recently launched a credit card scheme for the SHGs, allowing them to withdraw up to Rs.200,000 in credit (revolving fund with an annual rate of 8%). The credit card holders can also benefit from free insurance issued by the Life Insurance Corporation of India as well as scholarships for their children's studies. Obviously, the RBI guidelines are not the sole argument anymore: the "poor" truly are considered a new market niche. It should be noted that, if this "niche" is lucrative, it is because it relies on General Introduction 17 famous concept of Self-Help Groups – the loans are not given individually but to groups – and that most of the time, an NGO takes on the role of social intermediary between the bank and the borrowers. We can then easily understand the enthusiasm of the banks for which the transaction costs and risks are greatly reduced. Anyway, the banks are very clear on this point: if they continue to invest in the microfinance sector, it is because the SHGs are "good clients". On the national level, NABARD estimates the reimbursement rate at 95%.

### 4. REVIEW OF LITERATURE

Kurian(1977) in a paper entitled 'Anand Pattern'-an overview explains the difficulties encountered in the implementation of operation flood. Programme and states the importance of shaping the institutional structure according to the expressed needs of the farmers. He stresses the importance of rural modernization for sustained agricultural development because it is necessary to keep the enterprising young people in the rural area itself.

Sathish(2001) in his article 'some issues with formation of self-help groups' illustrates in detail the important problems in the formation of SHGs. This works as a functionary of the NABARD which pioneered the micro financing practices in the country led him to raise certain views and to find out the answers with a view of forming clear perspectives on micro financing and SHGs. certain conditions should be fulfilled by the SHGs in order to connect it with banking credit facilities.

In his study "micro finance through SHGs: A boom for the rural poor" Das(2004) argues that easy access of poor to credit is the biggest need of the house rather than cheaper rate of interest. Micro finance provides opportunity to the poor for getting sufficient amount of credit easily to start any income generating activity. Micro finance not only deals with savings and insurance part. It ensures the right to save and is one of the most powerful weapons which work for bringing the poor rural people into the main stream.

The author states that microfinance basically aims not only at the self-sustainability of poor people through income generating activities but also provides credit for consumption purpose.

The author concludes that microfinance through SHG has now become a modern economical weapon for the poor to fight against poverty. Many big and small organizations are taking part in this revolution of microfinance vigorously.

Balu.v.(2005) in his article "developing women entrepreneurship through SHGs" stresses the need for the empowerment of women. Throughout history, women have collectively struggled against direct and indirect barriers to their self-employment, their social, political and economic participation. By the end of the 19th century, women had begun to organize themselves. Gradually they have taken up certain things like education, work etc.

The author gives a clear definition for empowerment. He says 'empowerment is a process of awareness and capacity building leading to greater participation, greater decision making power and control of the transformative action'. The empowerment of women covers both individual and collective transformation. The article observes that empowerment is

possible through SHGs. It is beneficial not only to women, but to their family and the entire community. So women empowerment is very much essential and SHGs play a vital role in it.

Rajaram (2005) in his paper micro finance in India try to examine the trend of different types of micro credit viz; agriculture micro credit, weaker section micro credit, SHG microcredit, in the light of the data pertaining to each category and present alternative models of micro credit with a view to make a paradigm shift from “financial sector reform” to “micro credit reform”. Policy imperatives have been examined with the aim that all models discussed in the paper can become fictional and micro financial services are accessible to all the eligible poor.

## **5. RESERCH GAP**

The present analysis of review of literature clearly states that there is a need for a study to analyse and evaluate micro finance for empowerment of rural poor.

## **6. SIGNIFICANCE OF STRYDY**

Poverty is one of the widespread hurdle in achieving higher escalation and attractive standard of living of the people in the majority of the low income countries. About 1.5 billion people in developing countries are living not as much of US \$ 1.25 a day as per to World Bank report. Over the years, a huge amount of the countries have been running different policies and programs to eliminate poverty. Along with these measures and policies most effective policy is microfinance which, in last couple of years as said, has been adopted by below income countries in a proposal to demolish poverty. Microfinance is not a innovative subject matter. Its olden times can be tracked to early 1700s. Microfinance segment has grown-up rapidly over the earlier period. Micro finance targets at supplementary economically disqualified communities, to attain superior levels of asset building and income safety at the domestic and community level. Admittance to monetary services and the subsequent shift of monetary resources to poor women enable them to become economic dealers of revolution. Women become economically self-sufficient, put in directly to the well-being of their families, take part in a livelier role in decision International Journal of Multidisciplinary Research and Development ~ 715 ~ International Journal of Multidisciplinary Research and Development making and are able to deal with systematic gender inequalities. Micro finance is accessing financial services in an casually formal route, in a flexible, receptive and perceptive manner which or else would not have been feasible for the formal system for proving such services because of factors like high operational cost emanating from the low scale of function, lofty turnover of clients, frequency of transaction etc. (Vijay Mahajan and G. Nagasri, 1999).

## **7. OBJECTIVES OF THE STUDY**

- To analyse the role of micro credit for the empowerment of rural poor.
- For analysing to what extend micro credit has improved the standard of living of rural people.
- To suggest appropriate policy measures based on the findings, which emerge from the proposed study.

## **8. LIMITATIONS OF THE STUDY**

- Ineffective use of Micro finance.
- Weaknesses in rural development policies and programmes in India.

## **9. FINDINGS**

- Effective working of Kudumbashree SHG under Micro finance.
- Decentralization should be done for making micro credit more effective.

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## 11. CONCLUSION

As the microfinance industry is developing very rapidly, institutions are increasingly concerned with developing new products and services. Although the dynamics underlying the micro finance industry have shifted to a new phenomenon that many decision makers still do not fully understand, the risks need to be managed efficiently in the industry of micro finance. The microfinance industry has experienced dramatic growth during the last two decades, in general and the last decade, in particular. The next decade will most probably see a continuation of this growth. Such growth is not only sought by many MFIs but also needed in most countries because the unserved and underserved markets continue to remain large.

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