

Need, Issues & Impact of Microfinance on Living Conditions of People- A Case Study of SHG, Mf in Thane)

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Abstract: *Today microfinance has become a familiar term that many associate with financially sustainable poverty reduction. But some, argue that it make poor people's lives even more rigid by making them slaves of debt. Seeing that no country in the world has more clients associated with its microfinance sector than India, there is a need for examining the quality of the growth in the Indian microfinance movement. The initial motivation for this research was to understand & study the real scenario of microfinance its implications, needs & impacts on conditions of people in Thane area the purpose of this work is to Suggest develop, an effective system of microfinance which will help poor people in Thane. The author focuses on the need issues in implementation and impact by considering the challenges for MFIs. To test the impact on the lives of people in Thane the paper uses data from a survey of clients, crisil database & other stakeholders of MFI, which is collected by the author during 2011-2012. Finally, there is an attempt to define the role of MF participation on poverty alleviation in selected area using econometric techniques, showing a correlation between income, SHG groups, MFI contribution & poverty level in Thane. A further motivation was the desire to study the facts, evaluate build effective models and to create a prototype solution in MF.*

Keywords: MICROFINANCE, SHG (Self-help group), JLG (Joint Liability Group)

Introduction

Typical microfinance clients are poor and low-income people that do not have access to other formal financial institutions. Microfinance clients are usually self-employed, household-based entrepreneurs. Their diverse “microenterprises” include small retail shops, street vending, artisanal manufacture, and service provision. In rural areas, micro entrepreneurs often have small income-generating activities Data on the poverty status of clients tends to suggest that most microfinance clients fall near the poverty line. Women often comprise the majority of clients. The research accounts for why microfinance in India is needed, how the microfinance approaches aim to reach the people that traditionally are excluded from formal financial services, and it explores strengths and weaknesses in microfinance approaches. The paper discuss the MF approach, relationship between the size of microloans SHG and the impact it has on the lives of poor persons, the problems associated, and it also takes a closer look at the success credibility, competition between the providers of microfinance with focus on Thane city.

Since its humble beginnings in Bangladesh in the 1970s, microfinance has grown in reputation as a poverty alleviation tool to be developed and delivered by non-state actors outside of formal markets. If the 2006 Nobel Peace Prize, jointly awarded to Muhammad Yunus and the

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Grameen Bank, can be taken as any indication, microfinance has been broadly embraced by the international community as a viable tool of social, economic, and even political change. Following the Prize there has been more attention to microfinance organizations than ever before and the capacity of the industry continues to grow rapidly due to donor interest and funding. At the end of 2007 the Microcredit Summit Campaign reported over 3,552 microfinance institutions had served more than 154 million new and continuing clients and 533 million associated family members across the developing world (Daly-Harris 2009). However, there is some concern among practitioners and academics that the rapid growth trajectory of the industry has narrowed its focus to profitability and proliferation rather than transformation of clients' lives, compromising the social mission so integral to the ethos of microfinance. There is criticism that losing sight of this mission will lead microfinance to become just another example of poorly managed development finance, inattentive to the real needs of vulnerable populations (Dichter 2007).

There was a concern in the society that some of MF institutions allegedly charge very high interest rates and redeem loans through coercive methods which cause poor clients to commit suicides. The concerns raised also led me addressed the Andhra Pradesh Ordinance. The ordinance came in order to regulate the microfinance institutions .The very aim of this paper is to find the real need, impact &issues of MF.

This research explores the conditions under which micro credit is an appropriate rural development intervention. The study attempts to examine the role of MF institutions in thane its credit rationing mechanism, in the market. There are certain issues that are to be tackled are high borrower transaction costs, formal credit rationing and the segmentation of the rural credit market: This can be sorted out by regulated lending interest rate, and the symmetric information .The ordinance is an actual blessing for the sector.

The Motivation for the Research

The paper accounts for why microfinance in India is needed, how the microfinance approaches aim to reach the people that traditionally are excluded from formal financial services, and it explores strengths and weaknesses in banking poor through the microfinance approaches. The paper will discuss the group lending approach, the relationship between the size of microloans and the impact it has on the lives of poor persons, the problems associated with low quality self-help groups, and it takes a closer look at the competition that is going on between the providers of microfinance and the effects this competition might cause. The concerns raised in this paper are in my view worrisome developments, and I believe that it needs to be raised awareness of them.

The ordinance came in order to regulate the microfinance institutions as some of them allegedly charge extortive interest rates and redeem loans through coercive methods which cause poor clients to commit suicides. The ordinance might be a blessing in disguise more than it is an actual blessing for the sector. In essence microfinance is not very much different from the mainstream commercial finance operations but because microfinance serves a totally different client segment, which is poor, they have to address the challenges that arise from their clients dire circumstances. Few challenges that any poor faces are health, lack of housing, lack of education, access to basic necessities, and unexpected threats such as natural disasters that endanger their lives. Influence of these factors on individuals' economic ability cannot be ignored. MFI Products focus on these kinds of issues to reduce poverty. Some of the issues that have an impact on poverty are: Health: Ill health and sickness are one of the few reasons why

poor have not been able to pull out of poverty. Micro finance service providers in India are : 1. Informal Sector: money lenders, pawnshops, loans from relatives, friends, etc 2. NGO, MFI's: these extend microfinance to poor by forming Groups. E.g Grameen model 3. SHG-Bank Linkages: could have an NGO as an intermediary.. The two models of group lending: 1. JLG (Joint liability group). 2. SHG (Self help group).

JLG (Joint Liability Group) Potential clients are asked by the MFI to organize themselves into groups. The members individually make regular savings and take regular loans. They each have individual savings and loan accounts. This model is pioneered in Bangladesh and is based on Grameen bank model. The main purpose of JLG is to facilitate mutual guaranteeing and execution of a joint liability the group formation process may be facilitated by an NGO or by a bank itself. Members start making individual savings and lend by earning interest decided by the group. SHG opens a savings account with bank to deposit the savings and soon qualifies to take loans. This loan is used by the group to supplement its own funds for on lending to its members.

Relevance of Study: India has nearly 400 million people living below or just above the poverty line. Approximately, 75 million households need micro finance and of this, 15 million are urban slum dwellers (Sriram 2002)

Microfinance claims to provide the poor an access to capital giving them opportunity to climb the economic ladder. India is fast becoming one of the largest micro finance markets in the world even then; the link between micro finance and poverty alleviation is not proven. Impact assessment is necessary to understand the outreach and effectiveness of micro finance in meeting development objectives. Also, it is important to understand that Micro finance services are an instrument of development and not an end in themselves. For most, if not all, actors in India- NGO's, MFO's, donors, even bankers- Micro finance is not only about the efficient and sustainable delivery of micro-financial services. The ultimate goal is to reduce poverty. Hence, it is important to understand: Do they move poor people out of poverty? How are the various products contributing to poverty reduction?

For this research, Thane has been selected as a case study. In Thane, almost 26% of city's population accounts for slum population. Although quite a significant proportion of the poor is above the traditional poverty line, they do suffer from other deprivations.

Self Help Group (SGH) Bank Linkage Model

The Self Help Group has between 10 and 20 members who pool savings and lend among themselves. It was first conceived by NGOs like MYRADA and PRADAN (1980s). Since 1996, NABARD mainstreams a nationwide bank linkage programme that offers additional i.e. beyond their own savings-credit to SHGs. Banks typically provide the group a loan amounting to four times the groups' savings but, as the group matures, and based on the groups' track record, banks are ready to lend more. Borrowed and saved funds are rotated through lending within the group using flexible repayment schedules (usually monthly repayment); SHGs thus save, borrow and repay collectively. SHG funds may be distributed either to one or more members of the group – who are personally responsible for repayment to the group, or spent collectively by the group. The group is free to decide the interest rate charged to its members, but typically, a member borrows from the group at about 24 percent per annum. After a loan from a bank is fully repaid, the group may borrow again, often a larger amount.

Grameen Group Model

The Grameen Group comprises of five member's who guarantee each other's loans which are provided by microfinance institutions. The Grameen methodology *VISION—The Journal of Business Perspective* 1 Vol. 13 1 No. 3 1 July–September 2009⁵⁴ 1 Barman, Mathur and Kalra have been reached by the microfinance sector in different forms, with an expansion of 9.9 million during the year (Srinivasan, 2008).

Review of Literature

The principal contribution of this research is due to the existing literature available in form of various research papers & articles on MF, SHG in India & abroad from 2000 to 2011.

1. Mohana Rao R.M., "A Study of Women Self-help Groups in Andhra Pradesh", (Andhra University, 2000.)
2. Stephanie Janet "Microfinance: its impacts on Children and Women." These studies explore the type of impacts that microfinance can have on women and children.
3. Hotze B. LONT "Financial SHOs, Social Security, and State Involvement" At Java a wide variety of financial SHOs are popular, They can perform a wide variety of functions. One of them is the insurance function. In this respect, financial SHOs can play a part in the social security fabric that people develop and maintain in order to cope with risks and uncertainties. The Indonesian government has not made efforts to use these MF institutions to develop a state social security system. 2000 Amsterdam School for Social-science Research)
4. Awuor S. Odaga "The Magic Key? Microcredit Finance and the Environment" This master's paper seeks to determine whether or not microcredit institutions in Sub Saharan Africa are incorporating within their lending practices concepts of environmental consciousness. State University of New York-Syracuse)
5. Simone Phillips "Scaling Up Microcredit Enterprises" This research explains how beneficial microcredit enterprises have been in overcoming poverty and what is the capacity of microcredit enterprises to affect more general change. This research provides answers to the questions raised on Hunger and Poverty regarding the effect of governments and international organizations on NGOs and other civil society organizations, Dept. of Political Science, University of Tasmania
6. Jimmy Roth "When is micro credit an appropriate rural development intervention" This research explores the conditions under which micro credit is an appropriate rural development intervention. The research is designed to assist credit agencies considering embarking upon rural micro credit projects in developing countries. Institute of Development Policy and Management University of Manchester
7. M. S. Sriram "Information Asymmetry and Trust: A Framework for Studying Microfinance in India (Vikalpa 2005)" In trying to understand the innovation of microfinance and how it has proved to be effective, the author looks at certain design features of microfinance. He first starts by identifying the need for financial service institutions, which is basically to bridge the gap between the need for financial services across time, geographies, and risk profiles. In providing services that bridge this gap, formal institutions have limited access to authentic information both in terms of transaction history and expected behavior and, resort to seeking excessive information thereby adding to the transaction costs.

8. Dwarkanath H.D.(2005)His study analysed characteristics &development of self-help groups in the state of Andhra Pradesh &found that SHG were mainly using the loan facilitate from the cooperative credit banks, commercial banks ,mahila banks ,Maheshwaran Banks & had produced more than 50 varieties of products.
9. Susanna Khavul---Microfinance: Creating Opportunities for the Poor? This paper studied Microfinance as a new way of financial capital for stimulating economic growth in developing countries. as it has direct engagement with the poor However, microfinance is poorly understood, and it remains unclear whether it delivers on its promises.
10. Smita G.Sabhlok, "Self-Help as a Strategy for Women's Development in India", 2006. This paper focused on how SHG can contribute for women's development in India

Statement of the Problem

1. Need for MF research is due to the fact that Despite major growth of microfinance,
2. There are more poor people in India (THANE) now than ever before those are not getting formal financial assistance. The researcher is more interested to study MF SHGs contribution in Thane Area.
3. Microfinance in Maharashtra is still a young industry (EG:-After several years of operation as an NGO, SKS Society found itself constrained by the not-for-profit business model. In response to the growing demand of A microfinance, SKS Society created a private company, SKS Microfinance Private Limited in 2003, which became a Non-Banking Financial Company (NBFC) in 2005. Finally, in May 2009, the Company was converted into a public limited company.
4. We all still don't clearly understand basic impacts, or relative value of different models. Microcredit has been blamed for many suicides in India: aggressive lending by microcredit companies in Andhra Pradesh is said to have resulted in over 80 deaths in 2010. "Micro-credit has been changing people's lives and revitalizing communities" "Most of the poor are in deep trouble due to these loans &Poor people are committing suicides because of peer pressure of the organizations for repayment.
5. Many misconceptions about microfinance prevail in the society Bangladesh's government ordered Nobel laureate Muhammad Yunus from his post as head of his microfinance Grameen Bank - a humiliating blow for an activist whose revolutionary idea of giving out small loans lifted many out of poverty.
6. Lot of news debate controversies regarding MF, SHG, profit/no profit organizations Muhammad Yunus publicly stated his disagreement, saying that the poor should be the only beneficiaries of microfinance Prime Minister Sheikh Hasina has accused Grameen Bank and other microfinance institutions of charging high interest rates and "sucking blood from the poor borrowers.
7. Need of ordinance (says Pranav Mukhargi then finance minister) " The Andhra Pradesh microfinance ordinance was issued for protecting the Women Self Help Groups (SHGs)from exploitation by the microfinance institutions through very high interest rates and coercive means of recovery. The ordinance is being viewed by SHGs' promoters as an opportunity to control the rampant growth of MFIs and they are already gearing up to launch it as a countrywide.
8. It's a growing industry which will help poor to poor people. (Microfinance pioneer Professor Muhammad Yunus, founder and managing director of Grameen Bank, has been

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awarded the US Presidential Medal of Freedom for 2009 Yunus has pioneered microfinance movement in Bangladesh which has now become a global phenomenon.

Objectives

The Goal of Research is thus to find an answer to many questions such as:

- 1) Define real situations accurately as there are lot of debate & issues related to MF across the world hence to create useful knowledge in MF
- 2) Despite major growth of microfinance, there are more poor people in Thane (India) now than ever before & MF is still a young industry We still don't understand basic impacts, or relative value of different models of MF Hence objective is to find the impacts issues & needs of MF in Thane
- 3) Many misconceptions about microfinance prevail in the society such as who benefits from microfinance? Why don't micro-businesses grow? How do different products of MF affect different people in Thane in different ways? Was failure of MF due to complexity of operations, low interest rates on loans or uneven distribution? so the other objective is to find strategies which can be followed to focus on cheap loans at concessionary interest rates.

A case study of Thane

However, the density of population continues to be a major challenge for Mumbai and suburban Mumbai. Thane District of Maharashtra comprises an area of 9,558 sq.km. As compared to the national density of 382 people per square km and Maharashtra's 365 persons per sq. km, Density of population in Thane is 1,157, considerably up from 851 per sq km during 1991-2001. 72.2% of the population lives in about 638,000 villages and the remaining 27.8% lives in more than 5,100 towns Its population growth today is 35.26%, which is double the national average of 17.6%. The newly acquired status, however, is cause for serious concern among policy planners and bureaucrats, who are debating how to cope with the expanding population and provide infrastructure, services to meet the growing demand. Total population of Thane is 11,054,131 as per latest provisional figures released by Directorate of Census Operations in Maharashtra. This shows increase of 35.3% percent in 2011 compared to figures of 2001 census. As per census 2011. The recent state economic survey pegged Thane's per capita income at Rs. 1.5 lac a year in 2009-10. "The half of the population is living below the poverty line and struggling to make ends meet. Industry is unwilling to shift to these pockets, making the residents migrate to towns or continue with traditional farming, which is loss-making,". (Nitin Yeshwantrao, TNN Apr 1, 2011). Some administrators also think the population explosion will create more inequalities and put a strain on social infrastructure. "Whether Government has any plans on how to address the needs of such a growing population in Thane? I think figures above clearly indicates that there is need to help these people who are below poverty line by providing them financial assistance In this scenario there is need to see how effective mechanism, regulation & efficient models of SHG can be adopted to assist people living in poverty who wouldn't usually qualify for regular banking services because they have no form of collateral or formal identification.

Hypothesis

- a. There is correlation between SHGS (MF services, loans) & living conditions of people in Thane.
- b. There is no correlation between SHG (MF services loans) & Poverty in Thane.

Methodology

Type of study

The Methodology is divided into following stages: First stage Research included an understanding of the existing Microfinance products by visiting the SHG (Microfinance institutions) in Thane & after Consultation with different levels of stakeholders on their objectives, issues, benefits and their impact on hypothesis is explored

Area of Study

Visits to these MF institutions in Thane & interactions with people those availed these facilities helped in identifying the MFI beneficiaries who then are identified geographically. The locations with maximum beneficiaries are selected for further studies which then, lead to identification of sample (clients) used for various analyses.

Universe and Sample

An attempt to include different classes of poor in Thane and the impact of different products on them is made. For this purpose random sampling technique is used. Then the history of interventions by MFI, SHG, and Government in the Thane area & Impacts is studied.

Data Collection & proposed tools

Next stage of research included questionnaires, & discussions, interviews with clients. Final stage included measurements of the impacts of SHG microfinance on living conditions of people in Thane. Here, comparison between certain indicators (based on products) for the Clients & non- clients is studied.

Data Analysis & Techniques to be applied

In the present study the demographic factors (variables) such as area, family income educational qualification, age, family size, membership, Loan availed through SHG, poverty data is analyzed through cross tabulation and statistical tools such as regression analysis & chi test etc.

Pilot Study

The collected data are subjected with the correlation and chi-square test of independence in order to determine if there is significant variation in the tendency to borrow from the clients of SHG and MFI model of microfinance. The test is applied when we have two categorical variables from a single population. It is used to determine whether there is a significant association between the two variables i.e. indebtedness to moneylender and being client of particular type of microfinance model .In order to answer the above stated key research questions, we conducted a pilot survey in different blocks representing rural area of Thane district in Maharashtra. This survey is conducted among households of few villages covering four blocks of the selected district. Although the choice of location is based purely on convenience basis, the selection of households is made such as to include both categories of respondents (members of SHGs as well as MFIs) relevant for our study.

Primary data on different socio-economic aspects of the households is undertaken and details of micro-financial services availed by them is collected directly from the clients through the structured questionnaire and personal interview. Qualitative information is also collected through Focus Group Discussions (FGDs) and semi-structured interviews of the bankers, NGOs

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and MFIs operating in the area to understand the supply-and demand sides of the problem of microcredit in the selected research area. The field study is conducted and further cross verification through statistical tools is made.

Limitations of the Study

The study is based on the information supplied by the respondents through questionnaires by direct interview method rather than by observation i. e Researcher cannot see or check physically how members of the group had been benefitted through MF institutions. The possibility of misinterpreting the responses also exists as the some of the respondents being poor& uneducated may not understand the questionnaire in English Language.

Significance of the Study

The research helps to understand the real scenario of MF institutions its impacts in Thane Area. It further helps in understanding the financial needs of poor people in Thane area & the extent up to which the contributions of MF institutions help in satisfying these needs in the selected Area .Finally it is concluded that this contribution of MF is really reducing the poverty of people in these regions so further steps can be taken by Government SHG, NGO, Gramin Banks in strengthening different models of MF in Thane which will ultimately help in improving the financial ,social, conditions of people in these area.

Conclusions

The table shows correlation between area, family income, family size and Loan availed through SHG. A strong positive correlation is observed 0.771 between family income and Loan availed through SHG

Correlations					
VAR00006 Loan availed through SHG	Pearson Correlation	1	.179	.771	.145
	Sig. (1-tailed)		.107	.000	.158
	N	50	50	50	50
VAR00007 area	Pearson Correlation	.179	1	.482	.209
	Sig. (1-tailed)	.107		.000	.073
	N	50	50	50	50
VAR00008 family income	Pearson Correlation	.771	.482	1	.467""
	Sig. (1-tailed)	.000	.000		.000
	N	50	50	50	50
VAR00009 family size	Pearson Correlation	.145	.209	.467""	1
	Sig. (1-tailed)	.158	.073	.000	
	N	50	50	50	50

1. Increasing penetration to drive future growth
2. Penetration of MFIs amongst poor households
3. Growth to be backed by ease of access to capital
4. Prospective clients to prefer availing loans from MFIs over banks
5. Large NBFCs to increasingly dominate the business
6. Banks to remain major source of funds for microfinance Industry
7. High equity capital requirements to support growth To raise this capital, MFIs would need to tap the capital market and PE players. The success of the first few IPOs is very important, because any failure will limit the ability of MFIs to tap the capital markets.

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