

MICRO CREDIT UTILISATION OF SHG

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ABSTRACT

Background

Credit is the life blood and key input for the overall development of the economy. Micro credit is used as an effective tool for poverty alleviation by providing small loans at lower interest rate to weaker sections of the society. It offers a platform to develop small business opportunities which includes the entire range of financial services such as savings, money transfers, insurance, production and investment credit as also housing finance and includes the need for skill upgradation and entrepreneurial development that would enable them to overcome poverty.

Materials and Methods

The present study was designed to analyse the utilisation of micro credit provided to SHGs by SGSY and later under NRLM scheme in Alappuzha District. A Sample of 50 SHGs was taken from the Alappuzha District using simple random sampling method. The primary data were collected through interview schedule. The data thus collected were statistically tested by using Chi-square test and Friedman repeated measures analysis of variance on ranks by using SPSS 16.0 for drawing conclusions and interpreting results.

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Results

The study revealed that most of the respondents engaged in agricultural and allied activities and all the respondents availed credit facilities. Most of them utilized the loan for starting productive activity. By the utilization of credit, the income level and saving habit of the SHG members were increased. SHG members faced problems, viz. procedural complexity and Non-availability of loan in time. Even though SHG members faced these problems, they were able to engaged in productive activity and generate income for their future.

Conclusion

Most of them utilized the loan for starting productive activity. By the utilization of credit, the income level and saving habit of the SHG members were increased. SHG members faced problems, viz. procedural complexity and non-availability of loan in time.

Key Words: Micro Finance, Micro Credit, Self Help Group, Self-Help Group Promoting Institution, SHG Bank Linkage Programme

Manuscript

Introduction

Micro finance provides credit support in small does along with training and other related services to people who are resource- poor but who are able to undertake economic activities.¹ Micro credit as a tool of poverty alleviation and empowerment has gained importance in the credit needs of the people. The provision of micro credit involves initiatives on the part of state and non - state organisations in making available very small amounts of credit to poor clients.²

The term micro credit was coined by the Grameen Bank to provide small loans to the very poor households. The credit delivery system of micro loans can take various forms such as the 'joint liability' group, 'self-help groups' and 'solidarity groups'. In case of the Grameen Bank, groups are made of five people with 'joint responsibility of 5 the group' in case of a default. A Self-Help Group (SHG) is a group of 10 to 20 persons from a homogenous background who come together

¹(Karmakar.K.G, 2008)

²(Bura, Joy, & Murthy, 2010)

for addressing the common problems. They collect voluntary small savings on a regular basis and lend small amounts to the members from their pooled group savings. At a later stage these groups are able to access institutional sources of credit for income generating activities. Many times, the Self-Help Group Promoting Institution (SHPI) promotes these SHGs and provides support to their activities. The SBLP (SHG Bank Linkage Programme) in India uses SHGs for its credit delivery system. Loans are given to all group members simultaneously. The idea behind group lending is to use peer pressure for repayment of loans. **Kalpesh and Nikunj (2015)**¹ in a study “Social impact of Micro finance” found out that microfinance activity played a vital role for socio-economic empowerment of the women. The objective of the study was that there was a positive relationship between access to microfinance facility and increase in the status of women within households and communities. The study examined the social impact of microfinance activities on selected SHGs (self-help group) members of North Gujarat, India. Exploratory Factor analysis was performed on 510 women respondents. Three factors were extracted from exploratory factor analysis namely, development in personality, enhancement in social attentiveness and enhancement in decision taking ability. Subsequently, a regression model was performed to check the significance of microfinance on the increment in self-confidence of the women. **Amaresh and Artitraa (2015)**² in a study “Micro Finance for Economic Empowerment of Rural India” attempted to assess the potential of microfinance to overcome the limitations of formal institutional finance, and effectively contributed to the economic empowerment of the vast majority of rural mass in India. The study revealed that microfinance very well suited to the socio- economic realities of the rural poor in India and effectively contributes to their economic prosperity. The majority of beneficiaries of microfinance did not possess necessary endowments, technical skills and qualifications for availing of formal institutional finance. Microfinance helped them to provide a tremendous potential for reducing economic inequality and rural poverty. **Mohammed and Wencong (2013)**³ in a study “Micro-Credit and Poverty Reduction: A Case of Bangladesh” analysed the access of micro-credit to rural poor and its impact on their poverty situation and relevant factors related to income of the micro-credit recipients. It was revealed from the study that positive impact was found on income, assets endowment, standard of living and poverty reduction. Utilization of credit appeared to be the major factor for credit recipients raising income compared to their control group. It was found that micro-credit tends to be an important factor to have an impact on household income which minimizes the poverty

situation to a reasonable extent. **Abdullah and Malarvishi** (2013)⁴ in a study “Investigating the Effect of The Utilization of Microcredit on Hardcore Poor Clients Household Income and Assets” examined how Amanah Ikhtiar Malaysia (AIM)’s clients had been using the microcredit received and the effect of microcredit utilization on household income and asset. It was revealed from the study that a relatively high percentage of old respondents used credit in trading activities and they engaged in self-employed production, trade and service activities more than new clients. Average monthly household income and market value of total household assets were also found to be higher for the respondents who used credit in income generating activities. The study proposed that AIM should focus on the usage of credit in income generating activities by its clients and AIM should review and re-structure the existing policies to increase the employment rate and income generating opportunities of client’s household members. This could be done by providing appropriate training, diversifying the loan program and offering loan for non-income generating activities.

Significance of the Study

Micro credit through SHG emerged as a turning point for the development of the poor. It has been used as an important tool for poverty alleviation and for employment generation. The banks and financial institutions provide credit facilities to the weaker sections of the society, who have limited access to resources or employment generation. Micro finance Programme through the network of Self Help Groups has emerged as the most successful strategy in the form of supplementary credit delivery mechanism which would bridge the gap between demand and supply of fund in the lower level of economy. Micro credit creates many benefits for low-income groups. The present study is intended to analyse in detail the extent of microcredit utilized by the SHG members functioning in Alappuzha District and the credit related problems faced by them.

Scope of the Study

The scope of the study is limited to the micro credit utilisation of male and female Self-Help Groups functioning in Alappuzha district and the credit related problems faced by them.

Objectives of the study

1. To analyse the micro credit utilisation of SHGs in Alappuzha district.

2. To know the credit related problem faced by SHGs in Alappuzha District.

Hypotheses of the Study

H₀₁ There is no significant difference in the purpose of taking loan among the SHG members in Alappuzha District.

H₀₂ There is no significant difference in the nature of credit related problem faced by the SHG members of the Alappuzha district.

Research Methodology

Selection of Sample

Sample for the study was selected from the male and female SHGs functioning in Alappuzha District. There were in all 17,032 SHGs in Alappuzha District as on 01-12-2015. Out of these, 50 SHGs were selected at random for the study.

Collection of Data

Both primary and secondary data were collected for the study. The primary data were collected from the respondents using structured interview schedule. Secondary data were collected from the rural development agencies, reports, periodicals, websites etc.

Tools of Analysis

The data collected were suitably analysed keeping in view the objectives of the study by using SPSS16.1 for drawing conclusions and interpreting results. Statistical tools like percentage, Chi-square test and Friedman repeated measures analysis of variance on ranks were used. Friedman test was applied to examine whether there is any significant difference in the nature of problem faced by the SHG members of the Alappuzha district. Chi-square test was applied to determine whether there is any significant difference in the purpose of taking loan by the SHG members in Alappuzha District.

Period of study

The survey was conducted during the period from September to October 2015.

Micro Credit Utilisation of SHGs -Analysis

The study revealed that 56% of the respondents were engaged in agricultural activities, 16% of them in Food Processing, 14% of them in service, 8% of them in manufacturing and 6% of them were engaged in tailoring and garment making activities (Table 1). Most of the respondents (72%) had a monthly income of less than Rs.5000 from productive activities (Table 2). 58% of the respondents had a monthly savings of less than Rs.1000 from their productive activities (Table 3). 70 % of the respondents had investment with Bank, 22% of them had investment with SHG and 8% of the respondents had investment with society. 86% of them had a total investment of less than Rs. 5000 out of their savings. (Table 4). The study pointed out that 98% of the respondents were able to generate good or adequate revenue from the productive activities (Table 5). All the respondents availed credit in Alappuzha district. Most of the respondents borrowed below Rs.200000 (Table 6). 58% of the respondents borrowed the amount at an interest rate of 5% to 10%, 32% of the respondents borrowed the amount at an interest rate of less than 5% (Table 7). 52% of the respondents utilized the loan for starting productive activity and 48% of them utilized for starting an enterprise (Table 8). One of the hypothesis of the study was that there is no significant difference in the purpose of taking loan among SHG members in Alappuzha District. Chi-Square test was applied to test the hypothesis. The test result (Table 9) revealed that there is a significant difference in the purpose of taking loan since the p value $0.000 < 0.05$. Therefore, the null hypothesis **H₀ is rejected**.

74% of the respondents got loan only once and 26% of the respondents got twice for their productive activity (Table 10). 68% of the respondents used the first cycle of loan for starting a venture and 32% of them used for agriculture and allied activities (Table 11). 50 % of the respondents were satisfied with the loan scheme of SHG (Table 12). The study revealed that 86% of the respondents faced problem in getting loan and 14% of the respondents did not face problem in getting loan. The major problem faced by the respondents in getting loan was the “procedural complexity” (Mean score =1.84) followed by “security requirements” (Mean score =2.86). The major financial problem faced by the respondents in getting loan was the “Non-availability of loan in time” (Mean score =2.50) followed by “High rate of interest” (Mean score =2.94). The second hypothesis of the study was that there is no significant difference in the nature of credit related problem faced by the SHG members of Alappuzha district. Friedman chi-square test was applied to test the hypothesis. The test results given in Tables 13 and 14 revealed that

there is a significant difference in the nature of credit related problems faced by the SHG members in Alappuzha district, since the p value $0.000 < 0.05$. Hence, the null hypothesis H_{02} is rejected.

Conclusion

Most of the respondents were engaged in agricultural and allied activities and only a few engaged in food processing, service providing, tailoring & garment making and manufacturing activities. All of them availed credit for the working of SHG in Alappuzha district. Most of them utilized the loan for starting productive activity. By the utilization of credit, the income level and saving habit of the SHG members were increased. SHG members also faced credit related problems, viz. procedural complexity and Non-availability of loan in time.

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Table 1 Productive Activity undertaken

Productive Activity	Frequency	Percent
Agriculture and Allied activities	28	56
Tailoring and Garment making	3	6
Manufacturing	4	8
Service	7	14

Food Processing	8	16
Total	50	100

Source: Primary Data.

Table 2 Monthly Income from Productive Activity

Monthly Income(Rs.)	Frequency	Percent
Less than Rs.5000	36	72
5000-10000	13	26
10000-15000	1	2
Total	50	100

Source: Primary Data.

Table 3 Monthly Savings of the Respondents

Monthly Savings (Rs.)	Frequency	Percent
Less than 1000	29	58
1000-2000	13	26
2000-3000	7	14
3000-4000	1	2
Total	50	100

Source: Primary Data.

Table 4 Total Amount of Investment of the Respondents

Amount of Investment(Rs)	Frequency	Percent
Less than 5000	43	86
5000-10000	5	10
10000-15000	1	2
15,000 and Above	1	2
Total	50	100

Source: Primary Data.

Table 5 Revenue Generated from the Productive Activity

Responses	Frequency	Percent
Inadequate	1	2
Adequate	24	48
Good	25	50
Total	50	100

Source: Primary Data.

Table 6 Amount Borrowed

Amount Borrowed(Rs.)	Frequency	Percent
less than 50000	4	8
50000-100000	9	18
100000-150000	15	30
150000-200000	12	24
200000-250000	4	8
250000-300000	1	2
300000-350000	3	6
350000 & Above	2	4
Total	50	100

Source: Primary data.

Table 7 Rate of Interest

Interest Rate	Frequency	Percent
Less than 5%	16	32
5% - 10%	29	58
10% - 15%	4	8
15% & Above	1	2
Total	50	100

Source: Primary Data.

Table 8 Purpose of loan

Purpose of loan	Frequency	Percent
To start an enterprise	24	48
To start productive activity	26	52
Total	50	100

Source: Primary Data.

$\chi^2 = 22.360$ with 2 degrees of freedom significant at 5% level.

Table 9 Cycles of loan completed

Cycles	Frequency	Percent
One	37	74
Two	13	26
Total	50	100

Source: Primary Data

Table 11 Purpose of First cycle of loan

Purpose of First cycle of loan	Frequency	Percent
Starting Venture	34	68
Agriculture and Allied Activities	16	32
Total	50	100

Source: Primary Data.

Table 10 Level of Satisfaction with the Loan Scheme

Responses	Frequency	Percent
Dissatisfied	23	46
No opinion	2	4
Satisfied	25	50
Total	50	100

Source: Primary Data.

Table 11 Problem faced by SHG in getting Loan

Problem	Mean	Rank
Procedural Complexity	1.84	I
Security Requirements	2.86	II
Frequent Visit to bank	3.58	III
Non-cooperation of employees	4.66	IV

Source: Primary Data

$\alpha^2=102.747$ with 4 degrees of freedom significant at 5% level.

Table 12 Financial Problem by faced SHG

Financial Problems	Mean	Rank
Non-availability of loan in time	2.50	I
High Rate of Interest	2.94	II
Shortage of working capital	3.37	III
Low return	4.51	IV

Source: Primary Data

$\alpha^2=124.205$ with 4 degrees of freedom significant at 5% level.