



## UTILIZATION AND IMPACT OF MICRO CREDIT ON RURAL WOMEN

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### Abstract

He asset less and risk averse poor borrowers do not get credit in times of distress. They depend on money lenders who charge high interest rates. Their needs are often urgent in nature, and credit demanded is small. They do not have any assets to offer as collateral. They form small informal group of ten to twenty members and save among themselves. After substantial savings, depending on their group performance, they are extended small loans from the banks. The group's guarantee acts as collateral for the banks. The repayment rates of such informal groups, know as Self Help Groups are found to be high.

### Introduction

Microfinance is defined as the provision of thrift, credit and other financial services such as money transfer and micro-insurance products for the poor, to enable them to raise their income levels and improve their living standards (Karmakar, 2008). In the development paradigm, micro-finance has evolved as a need-based policy and programme to cater to the so far neglected target groups (women, poor, rural, deprived, etc.). The microfinance industry is growing at the rate of 40% (Sadhan), but the impact of microfinance is still not clear. Impact studies have resulted in conflicting results (Kandker (2005), Kabeer (2001)). This paper focuses on the utilization of micro credit and the economic impact of micro credit on the beneficiaries of SHG- bank linkage programme in the study area.

### Need of the Study

- Microfinance has enabled rural women of today to save from their earnings in a group and in turn access loans from banks, without any collateral. Women are now more empowered socially and economically, however there is a need to answer the following questions.
- How are the micro loans being used by the beneficiaries?
- Do older members of the SHG- Bank linkage programme use this credit for more productive use?
- Is there a positive economic impact on income, asset creation of the member after accessing micro credit?
- If so, do older group show a higher income, savings and asset holdings as compared to recent groups?

### Objectives of the Study

- To study the socio economic profiles of rural beneficiaries accessing microfinance products.
- To study the loan utilization by the beneficiaries.
- To study the impact of micro credit on economic well being of its beneficiaries.

### Scope of the Study

The scope of the study is confined to two mandals in the Warangal district of Andhra Pradesh. Two mandals namely sangem and Wardhannapet mandals were taken for the study.

### Source of Data

The data used for analysis is primary data, collected from hundred and fifty members of rural self help groups. Data was collected through structured interview schedules, in depth interviews and focus group discussions with the members.

### Methodology

The paper focuses on the utilization of micro credit and the economic impact of micro credit on the beneficiaries of SHG-bank linkage programme in the study area. A sample of 150 Self Help Group (SHG) members was selected through multi stage random sampling technique. Two Mandals and one village from mandal were selected randomly. Groups and members were selected randomly after drawing the list of groups available in the village. Data regarding the perception of members on economic impact of Micro credit was gathered through use of structured schedules and in depth interviews. To study the utilization of credit and impact, SHGs are stratified as older groups (groups existing for greater than five years) and younger groups (less than or equal to five years). The paper attempts to prove the following hypothesis.

1. Association with SHG and Loan Utilization by the members are independent.
2. There is a positive economic impact due to access to micro credit
3. There is a significant difference in savings, income and value of the asset after joining the programme among old and new group members.



Micro credit is highly fungible in nature. The credit is used for consumption, education, marriage, buying household assets, investing in income generating activities and for starting or running micro enterprises. For the study the utilization is broadly classified under consumption, education, Income generating activities and Micro enterprise activities. Table 1.1 illustrates the demographic profiles of members under study.

**Table 1.1: Profiles of SHG Members**

Group age	Number of members	Education of members	Number of members
1 -5 years	52 (34.66)	illiterate	86 (57.3)
6- 1 2 years	98 (65.33)	primary	21 (14)
Member age		upper primary	23 (15.33)
1 8-25 years	27 (18)	high school	20 (13.33)
26-40 years	88 (58.6)	<b>Income (monthly inRs)</b>	
above 40 years	35 (23.3)	below 1500 (below BPL)	41 (27.33)
<b>Occupation</b>		1501-3000	48 (32)
job	17 (11.3)	3001-4500	36 (24)
business	65 (43.33)	4501-6000	25 (16.66)
labour	31 (20.66)	above 6000	nil
agriculture	37 (24.6)		
Land holding	4	Dependency on money lenders	-
nil	91 (60.66)	before joining the programme	79 (53)
small (< 2.5 acres)	52 (34.66)	after joining the programme	31 (21)
marginal (2.5 -5 acres)	7 (4.6)	after joining the programme	28 (18)
large (> 5 acres)	nil	Dependency on money lenders	-

Source: Interview Schedule, Figures in brackets represents percentage. BPL- BelowPoverty Line.

The credit utilization by the beneficiaries under the above categories is illustrated in table 1.2

**Table 1.2: Loan Usage Pattern**

Loan Utility	Loan Dosage*				
	1 <sup>st</sup> loan	2 <sup>nd</sup> Loan	3 <sup>rd</sup> loan	4 <sup>th</sup> Loan	5 <sup>th</sup> Loan
Consumption	52	43	23	18	42
Income Generating	12	11	22	16	8
Education	15	16	17	21	17
Micro Enterprise	21	29	38	44	33

\*Figures mentioned are in percentage; Source: Interview schedule

The table indicates an increased use of loan for productive purpose. The four loan doses show a decrease in usage of loan for consumption purpose. The figures indicate that loan amount during the third and fourth dosage are used increasingly for productive purpose, rather than for consumption. However during the fifth loan dosage the utility for consumption has increased correspondingly loan used for Income generating activities show a decrease.



After in depth interviews with the beneficiaries it was found that two reasons attributed to the decrease. Beneficiaries who have expanded their business well, find the loan insufficient, and have used these loans for other purposes. They still depend on money lenders for higher amounts of loans. Second reason cited was the low absorption of credit among beneficiaries. They did not find further need to invest in other avenues and risk diversifying their livelihood activities. They have instead used the loan to smoothen their consumption need.

### Hypothesis Testing

1. Association with SHG and Loan Utilization by the members are independent.

**Table 1.3: Group Age and Loan Utilization by SHG Members**

Group Age	Consumption	IGA	Education	Micro Enterprise
1-5 years	26	6	5	15
6-12 Years	42	18	18	20
Level of Significance		0.05		
Degrees of Freedom		3		
Results				
Critical Value		7.814728		
Chi-Square Test Statistic		4.1063		
p-Value		0.2502		
Conclusion Accept Null Hypothesis				

Source: Compiled from interview schedule

The above data indicates that there is no association between Group Age and Loan Utilization. Older groups need not necessarily use the loan for productive purpose.

### Impact of Micro Credit

Table 1.4 gives an insight into the various aspects of an individual's life being affected by the micro credit in the study area. It gives details regarding the economic impact in terms of improvement in income level, accessibility to credit, accessibility to formal institutions, increase in employment generation, increase in saving, increased expenditure in food and increase in asset creation of the household, based on the perception of its members. A five point like It's scale was used to capture the perception of the members. The average score and ranking of economic attributes are listed in table 1.4.

The following Hypothesis is framed

2. There is a positive economic impact due to access to micro credit.

**Table 1.4: Impact of Micro Credit on Economic Empowerment of Women -Perception of Rural SHG Members**

I	Attributes Affecting Economic Impact due to Micro Credit	SHGs Member Mean Scores	Ranking of Attributes
1.	Increase in Income	4.084	3
2.	Increase in access to credit	4.259	1
3.	Increase in access to formal institutions	3.558	5
4.	Improvement in Employment of the HH	3.090	6
5.	Increase in savings	4.233	2
6.	Increase in expenditure of food	2.94	7
7.	Increase in value of Assets	3.870	4

Source: Questionnaire

Members felt that Microfinance has led to increase in access to credit followed by increase in savings, income, increase in



value of assets, access to formal institution, increase in employment and lastly increase in expenditure of food. Taking 2.5 as the mean score on the five point scale, it is seen the all the above attributes have a mean score greater then this value. It can be concluded that there is a positive economic impact due to micro credit.

Since there exists a positive impact due to micro credit, what remains to explore is whether the older groups feel a greater impact with regard to the above attributes when compared to younger group. The following hypothesis tests the same.

3. There is a significant difference in savings, income and value of the asset after joining the programme among old and new group members.

To study the impact of income, asset creation and savings, z test of difference in means for older and younger group members is tested at 5% level of significance. From Table 1.5 it is seen that the mean income, mean savings and value of assets, after joining the programme is more for older group members compared to younger group member. There is a significant different in the above variables among old and young group members, at 5% level of significance.

**Table 1.5: Impact on Income, Saving and Asset of the Member Household**

Attribute	Older group Members ; n1 =98	Younger group members; n2 = 52	Result
Mean increase in monthly income of the household after joining the microcredit programme (in Rs.)	Mean =1355.98	Mean = 1052.88	Significant difference*
Mean increase in household's asset value after joining the programme (in Rs.)	Mean= 15525	Mean = 5000	Significant difference
Mean increase in member's saving after joining the programme (in Rs.)	Mean = 7094.90	Mean = 4458.96	Significant difference

\*At 5% level of significance.

### Limitations of the Study

1. The study is restricted to the two mandals under Warangal district of Andhra Pradesh and cannot be generalized for other SHG members.
2. The study has considered only certain factors leading to economic empowerment another factor affecting economic development such as infrastructure index, Government subsidies have not been considered.
3. The study does not explore the social and political impact of micro credit.

### Findings

1. Micro loans are highly fungible. Micro credit extended by banks can be used for several purposes. It has been observed that during the initial stages micro credit has-been used for consumption. With increase in loan dosage, utility shifts to productive use. It has been observed that during the fifth dosage loan, usage for consumption has increased substantially. This increase was due to low absorption of credit on one hand and insufficient loan for micro entrepreneurs on the other hand.
2. It has been found that there is a positive economic impact on increase in income, saving, employment and creation of assets-due to micro credit.
3. The study found a significant difference in household income, savings and asset value among old and new group members after joining the programme.
4. It has been observed that there is no shift in the occupation of beneficiaries after joining the programme.

### Suggestions

1. The amount of loan extended to the members is inadequate to start a micro enterprise.
2. Loan amount is used by the members for their individual purpose, and no monitoring is done to channel the funds for creation of an enterprise.
3. Lack of field staff has poked a big problem for SHGs in the study area, which resulted in the delay in acquiring a loan on time, which in turn leads to dropouts, affecting the sustainability of SHGs.
4. Lack of training to take up micro enterprise activities needs to be addressed first.



5. Members taking up micro entrepreneurial activities should be delivered loan under the Joint liability Group Model, allowing them to access higher loans.

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