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IMPACT OF MICRO FINANCE AND ITS IMPACT ON WSHGs IN HASSAN DISTRICT

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ABSTRACT

In rural areas of Hassan District, many women have turned to microfinance as a way to start and grow small businesses. Access to credit through self-help groups (SHGs) and joint liability groups (JLGs) has given women the opportunity to invest in activities like tailoring, food processing, petty shops, and livestock. This study looks at how microfinance influences the social and economic lives of women entrepreneurs, not only in terms of business growth but also in household decision-making, savings habits, and social participation. Field surveys and interviews were conducted with women borrowers across different villages, along with discussions with local NGOs and bank representatives. The study examines both financial outcomes-such as increased income, better working capital use, and asset creation-and social outcomes, including confidence, mobility, and a greater role in family decisions. The findings show that microfinance works best when loans are timely, adequate, and linked to training or market support. Women who combine credit with skills development and digital payment systems are more successful in expanding their businesses and securing steady earnings. At the same time, challenges remain. Some women face repayment difficulties when loans are not aligned with their business cycles, while others struggle with multiple borrowing and lack of support from family members. In such cases, loan repayments often come from household income rather than business profits, limiting growth. The study suggests measures such as aligning loans with seasonal business needs, providing simple bookkeeping and digital training, offering small emergency overdrafts, and strengthening producer groups to improve bargaining power. Overall, microfinance has had a positive effect on women entrepreneurs in Channarayapatna, but its long-term sustainability depends on coupling financial access with skills, markets, and institutional support.

Keywords: Microfinance; Women entrepreneurs; Rural empowerment; Financial inclusion.

MICRO-FINANCE IN INDIA – AN OVERVIEW

The growth of microfinance initiatives and institutions over the past decade and a half must be placed in the context of overall developments in the rural credit scenario in order to comprehend the reasons for the emergence of micro-finance products and their particular appeal to poor borrowers. One interpretation of the growth of the microfinance movement in India is that it developed as a direct result of and in answer to the failure of official attempts to address the credit needs of the poor; it is thus an articulated civil society response to the policy drift in the rural sector during the 90s. This view must contend with the reality that official policy has pioneered several micro-finance instruments through institutional channels; many of them specifically targeted the rural poor and they did expand the rural credit network and improved access to institutional credit by the poor.

It must also be noted that the most widely prevalent model in the sector, i.e. the SHG-bank linkage model, seeks to leverage the impressive network of banks and financial institutions in the country, which are products of earlier efforts to push rural credit. The major change in policy that supported the model to take off was the RBI's decision allowing banks to lend to groups – not just to individuals in groups – even if they were not registered, but provided they functioned according to the norms required of registered bodies.

A fair conclusion would be that microfinance initiatives and institutions emerged in the gaps that had been created for tiny borrowers in the formal rural financial sector. Its current popularity with small borrowers and the FFIs alike proves that it has filled a niche, not just for borrowers, but also for lenders, who saw an answer to their dilemma of containing transaction costs and covering the risks of lending to the poor by advancing loans to groups rather than to individuals.

THE DEMAND FOR MICRO-CREDIT IS LARGE, AND LARGELY UNMET

Sadhan, an association of major microfinance institutions in India, estimated the credit use of families below the poverty line at Rs.495 billion in 1998 based on annual needs of Rs. 6,000 for rural families and Rs. 9,000 for urban families. Of this, Rs. 240 billion (49 percent) was for rural consumption, Rs .120 billion (24 percent) was for rural production, Rs. 74 billion (15 percent) was for urban consumption, and Rs.61 billion (12 percent) was for urban production. Other estimates confirm that consumption accounts for about two-thirds of the credit used by the poor (Task Force, 1999; Mahajan and Gupta Ramola, 1996). The NABARD task force also noted that nearly three-quarters of the demand for consumption credit is for short-term credit to deal with emergencies such as illnesses and household expenses during the lean season.

Poor people have various demands for micro-loans. Practitioners have identified three groups, each of which has specific needs for financial services (Mahajan, 2000) At the very bottom in terms of income and assets, and most numerous, are those who are landless and are engaged in agricultural work on a seasonal basis, and manual labourers in forestry, mining, household industries, construction and transport. This segment requires, first and foremost, consumption credit during those months when they do not get employment, and for contingencies such as illness.

The experience of various MFIs and NGOs in microfinance indicates clearly that while the poor initially want loans that are comparatively small, they often graduate after 6 months to credit for trading, animal husbandry and agriculture (on leased land). Marginal farmers and rural artisans too take loans for consumption and not just for working capital. The next market segment is small and marginal farmers and rural artisans, weavers and those self-employed in the urban informal sector as hawkers, vendors, and workers in household microenterprises. This segment mainly needs credit for working capital, a small part of which also serves consumption needs. This category also needs term credit for acquiring additional productive assets, such as irrigation pump sets, bore wells and livestock in case of farmers, and equipment (looms, machinery) and work sheds in the case of non-farm workers. This group largely comprises the poor but not the poorest.

The third market segment is of small and medium farmers who have gone in for commercial crops, such as surplus paddy and wheat, cotton, groundnut, and others engaged in dairying,

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poultry, fishery, etc. Among non-farm activities, this segment includes those in villages and slums; engaged in processing or manufacturing activity, running provision stores, repair workshops, teashops, and various service enterprises. These persons are not always poor.

One market segment which is of great importance to micro-finance is women. The Census 2001 figures reveal that out of a total of 54.1 million marginal workers, 47.1 million were women. According to the 43rd round of the National Sample Survey, 53.6 % of rural female workers expressed the need for initial finance, and 22% for working capital facilities to undertake income- generation activities. It appears that the interest rate ceiling by banks only limits the availability of capital to the poor, who might be willing to borrow at higher rates of interest.

MICROFINANCE MANAGEMENT SYSTEMS

The women and/or the groups are eligible for borrowing generally after they have proved that they save regularly every week over a period of at least 6 months. The credit could be availed through (i) internal lending; (ii) formal banking system; and (iii) financial agencies other than banks (this could be an NGO, a Federation or microfinance agencies set up by the NGO). Generally, a set pattern is followed. Initially, women access the internal lending provided by the group. When more funds are needed, the SHGs can decide to access bank linkages and, if national banks are unwilling, they could opt to look at other financial agencies. NGO facilitation in this process was viewed as very important. Getting too many loans at an early stage, at higher rates of interest than the nationalized bank, and from credit institutions at too generous a scale without a check on the actual needs, all affect survival of the SHGs. The internal lending within each group is decided by the members of the group: who should borrow, when should the loan be paid back, when should interest be levied, etc. It is mandatory to show progress in the lending within the group before other types of credits are accepted.

It is of interest to estimate the kind of funds that are being transacted in the SHGs. A woman's saving of Rs.20 per week saves Rs.80 in a month. In an SHG with 15 members this adds up to Rs.1,200 per month and Rs.14,400 annually. If the groups have been functioning over the last 3 years, it adds upto Rs. 43,000 in principle. Further interests on this, and other fees like the fines on late repayment are added, this can be rounded to Rs.50,000. This is the amount of funds that is being rotated in the SHGs.

Although the formal banking system is no longer unfriendly to SHGs (i.e., to groups of poor women who do not have assets), some of the officials are not pro-poor. The list of defaulters with the bank adds strength to their argument. The procedures with the banks continue to be cumbersome. However, accessibility of the groups to the banks depends on the credibility and rapport of the NGOs with the banks. The NGOs take on the role of social intermediary between the bank and the borrowers. For the banks, the transaction costs and risks are reduced. In Channapatna, the total savings in the bank by 78 SHGs is Rs.19,266,509, interest on loan, adds up to Rs.248,241, and from other income is Rs.12,805. The loan amount availed equals Rs.3,292,217 and the repayment has been Rs.2,282,582.39 Such is the strength of microfinance. Such transactions are creating an impetus for the NGOs and the federations to become micro credit organizations.

OBJECTIVES OF THE STUDY

The main objectives of the present study are as follows

1. To study the emergence of micro finance in order to empower the women in India in general and in Karnataka in particular.
2. To examine the economic impact of micro finance with reference to; capital formation through savings mobilization of women SHGs in the study area.
3. To analyse the impact of micro finance on standard of living of the women beneficiaries in Hassan district.
4. To study and rating the services provided by the WSHGs to the community members
5. To suggest suitable policy initiatives to further improve micro finance programmes more effectively for the livelihood security of women.

METHODOLOGY AND DATA SOURCE

In this study both primary and secondary sources of data have been collected. To investigate the proposed objectives and verify the hypotheses at field level, a sample survey has been undertaken following multi-stage purposive random sampling design in selection of SHGs in the study area. Factual opinions have been collected from the participating functionaries of the programme such as Banks, Government Departments, NGOs and the common public. A combination of both the analytical and descriptive design has been employed for the present study. Efforts have been made to extract the primary data by attending group meetings and participating in workshops on the subject. Field investigations and direct observations have been undertaken in order to identify and extract quantitative as well as qualitative changes that were taking place and to elicit the perspectives of the poor. Key stakeholders have been covered during the discussions. Some of the sources of secondary data for the study are; existing literature and data in websites, various publications of Central, State and Local Governments, and other sources like books, magazines, newspapers, reports, articles, seminar papers published by universities and research institutions. For the primary information 500 respondents i.e., 50 respondents from each taluks of Hassan District have been selected on simple random sampling basis.

CASE STUDY ANALYSIS

With the above background an analysis of the role of Microfinance on Self Help Groups in the development of women, and how microfinance has played a vital role in generating income and employment among the WSHGs in Hassan District have been carried out.

THE IMPACT OF SHGS ON THE SOCIO-ECONOMIC ASPECTS OF THE MEMBERS

This section deals with the economic and social impact of SHGs on women. Economic impact is measured in terms of increase in income after joining SHGs, change in assets, spending of income and its influence on empowerment (indicators). Most of the women were house wives and had no earning before joining SHGs. The following table gives a picture of women before joining SHGs.

The linkage between poverty and unemployment is as good as the two sides of the same coin. The impact of SHGs on various kinds of income generating employment activities is shown in table - 1.

Table - 5.1 : Impact on Employment

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Sl. No.	Nature of Work	Before	%	After	%
1.	Only House work	185	37.0	98	19.6
2.	Milk business	10	2.0	22	4.4
3.	Lady tailor	57	11.4	76	15.2
4.	Shopkeeper	10	2.0	44	8.8
5.	Agricultural Labour	10	2.0	10	2.0
6.	Making a Broom	36	7.2	10	2.0
7.	Floor Mill	10	2.0	33	6.6
8	Other	98	19.6	10	2.0
9	Milk Business & Lady tailor	10	2.0	98	19.6
10	Milk Business & Agri. Labour	22	4.4	10	2.0
11	Milk Business & Agri. Business	22	4.4	23	4.6
12	Milk Business & Chili cutting Machine	10	2.0	23	4.6
13	Milk Business and Other	10	2.0	10	2.0
14	Milk Business, lady tailor and Agri. Business	10	2.0	33	6.6
	Total	**500**	**100.0**	**500**	**100.0**

Source: Field Survey.

The above table discloses the status of employment before and after joining SHGs. The average employment index value during is 35.714 Standard Deviation is 49.834 before joining SHGs. The average employment index value 35.714, standard deviation is 31.964, after joining SHGs for the reference period.

The table shows that the percentage of females spending their time in house work has been reduced from 37% to 19.6%, indicating that they are finding gainful employment after joining the SHGs. The activities where the employment has increased are milk business, lady tailor shopkeeper and floor mill indicating the fact that more absorption is found in jobs with semi skill which are more suitable for females with low skills. The proportion of employment with multiple activities is also significant. It shows that the females are adopting the jobs which suits are suitable to them.

IMPACT ON LEVEL OF INCOME

The more visible positive impact on the SHGs is observed in the form of increase in the level of income after joining the SHGs group. The observations are presented below in table – 2.

Table – 2 : Income Position of the SHG members

Sl. No.	Income of SHGs Member	Income Before joining SHGs	%	Income After joining SHGs	%
1.	No income	182	36.4	92	18.4
2.	1 to 10000	164	32.8	202	40.4

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3.	10000 to 20000	76	15.2	82	16.4
4.	20000 to 30000	44	8.8	40	8.0
5.	30000 to 40000	34	6.8	40	8.0
6.	40000 to 50000	-	-	20	4.0
7.	50000 to 60000	-	-	8	1.6
8	60000 to 70000	-	-	8	1.6
9	100000 to 200000	-	-	8	1.6
	Total	**500**	**100.00**	**500**	**100.0**
	Mean	8245		16899	
	Variance	118634852.1739		518795564.2512	
	Minimum	1800		2000	
	Maximum	36000		1200000	

Source: Field Survey.

The following changes in the income of the SHG participants are as follows:

1. The average income of the respondents which was Rs.8245 has increased to Rs.16899, indicating an increase of 105% during the period of ten years. It shows an increase in the growth of income by 21%.
2. The increase in lowest bottom is only from Rs.1800 to Rs.2000 showing very small change in income but if we consider the top income category it is observed that the income has jumped from Rs.36000 to Rs.1200000.
3. Members have benefited differently in income generation due to differences in their skills, initial capital and knowledge.

IMPACT ON SAVINGS

The increase in savings is one of the healthy indicators of economic prosperity. The change in the income levels before and after joining SHGs is noteworthy. In the following table the monthly savings of the respondents are presented.

Table - 3 : SHG Member's Monthly Savings

Sl. No.	Monthly Saving of SHGs	Before joining	%	After Joining	%
1.	No Saving	435	87.0	0	0
2.	30	0	0	14	2.8
3.	40	22	4.4	26	5.2
4.	50	0	0	98	19.6
5.	80	0	0	14	2.8
6.	100	0	0	42	8.4
7.	120	0	0	26	5.2
8	160	22	4.4	14	2.8
9	200	21	4.2	266	53.2
	Total	**500**	**100.00**	**500**	**100.0**

Source: Field Survey.

The following conclusions are drawn as regards the savings of the SHGs are concerned

1. The average savings of the members which stood at Rs. 17.39 increased to Rs.159.56. This implies that the savings of the SHG members increased by more than nine times or by 917%.
2. The variance in the savings has also increased during the period under study. This shows an increase in inequality in the savings among the members.
3. The increase in savings of the members is attributed to the strong will of the members for their economic betterment and institutional requirement as the bank finances the SHGs on the basis of the funds generated by SHGs.

DEPLOYMENT OF SAVINGS

The deployment of savings or the portfolio savings of the SHG members improves the safety, profitability and liquidity of the savings. Following changes are observed by the SHG members regarding their deployment of savings.

Table - 4

Deployment of Savings

Sl. No	Destination of Savings	Number of SHGs (After)	%	Number of SHGs (Before)	%
1.	Savings	304	60.8	0	0
2.	SHGs and Commercial banks	146	29.2	0	0.0
3.	SHGs and Cooperative banks	20	4.0	10	2.0
4.	SHGs and Regional Banks	12	2.4	02	0.4
5.	SHGs and Post Offices	18	3.6	10	2.0
	Total	**500**	**100.0**	**22**	**4.4**

Source: Field Survey.

Out of 500 respondents before joining SHGs only 22 respondents i.e., 4.4% opined that they had savings with cooperative banks, regional rural banks and post offices. The deployment of savings before joining the SHG and after joining the SHG is presented in the table - 4.

IMPACT ON BORROWING

The poor families struggling with poverty were compelled to borrow from various sources as the institutional sources were not available and hence they were compelled to borrow from non institutional sources. The following table – 5.30 shows the borrowing pattern of borrowing before joining to SHGs and after joining SHGs. Out of 500 respondents 310 were taken loans from SHGs after joining the group, but before joining SHGs no respondents were taking loans. The data clearly indicates that after joining to SHGs the trend has been completely changed. The other informal sources were relatives and friends before joining SHGs and after joining SHGs have replaced the informal sources of borrowing and the share of borrowing through SHG increased to 100%.

Table - 5

Sources of Borrowing by SHGs Members

Sl.	Name of the Loan Giver	Loan taker after	%	Loan taker	%

No		joining SHGs		before joining SHGs	
1.	Loans from SHGs	310	62.0	0	0
2.	Moneylender	0	0	85	77.28
3.	Jewellery	30	6.0	0	0
4.	Relatives and Friends	0	0	25	22.72
5.	Cooperative Banks	60	12.0	0	0
6.	Commercial Banks	70	14.0	0	0
7.	Regional Banks	30	6.0	0	0
	Total	**500**	**100.0**	**110**	**100.0**

Source: Field Survey.

ECONOMIC EMPOWERMENT OF WOMEN THROUGH SHGS

Table – 6 depicts the impact of SHGs activities on economic empowerment. Almost 200 respondents constituting 40% were found to be in an advantageous position of generating savings, 150 respondents constituting 30% found to be contributing to household expenses, 55 respondents constituting 11% were found to be benefited by the awareness of financial management and 50 respondents constituting 10% were found to be self-dependent and 45 respondents constituting 9% were found to be benefited by income generation.

Table – 6

Economic Empowerment of SHG members

Sl. No	Particulars	No.of respondents	Percentage
01	Income generation	45	9
02	Savings	200	40
03	Local facilities	-	0
04	Self dependence	50	10
05	Awareness of financial management	55	11
06	Contribution to house hold expenses	150	30
	Total	**500**	**100**

Source: Field Survey.

CONCLUSION

The above study clearly indicates that due to micro credit, Women Self Help Group members were able to improve their livelihood security in the study area. It is a challenge for all directly or indirectly involved with the microfinance movement to constantly seek to improve the appropriateness and quality of the financial services available to the poor. Embracing pragmatism over principle and practice over theory, different MFIs should focus on the real job in hand: developing institutions that can create and provide the broad range of micro financial services that will support poor people in their efforts to improve their poverty situation. Developing such flexible financial services is, however, a complex task and one that takes time-not the donors' prescribed time of 3 to 5 years.

Microfinance is not a quick fix but the kind of slow, often frustrating step-by-step process that is usually the hallmark of real change. In order to have a significant impact in the rural credit market, the banks needs to redesign its lending policies to incorporate flexibility both

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in the amount of loan disbursed and the repayment schedule on the basis of household resource endowment. Designing a differentiated and diverse lending policy sensitive to the individual absorptive capacity of different clients can provide a real choice to its member households. This may go side by side with its present group-based lending. This will enable the banks to compete more successfully with the informal lenders. The judicious mixture of short and long-term savings products alongside the standardized loans would provide the bank members with a range of convenient and useful services.

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