Chapter–I

INTRODUCTION AND DESIGN OF THE STUDY
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1.1 INTRODUCTION

Credit has become one of the vital tools for socio-economic upliftment, especially for the rural population who depend on either formal or informal credit to meet their varied production or consumption requirements. Rural and weaker sections in India prefer to seek institutional finance owing to its many subsidy components and better terms of credit. The Government functionaries and banks work in close partnership in directing credit flows to the deprived and less privileged. However, the institutional lending agencies have inherent weaknesses like inordinate delay in sanctioning loans, inadequacy of loan amount, non-availability of small loan amount for production and consumption purposes which prohibit the marginal farmers and weaker sections of the rural area from approaching the institutional agencies. The inadequacies of formal institutions in serving the rural poor effectively led to a review of the informal financial systems and lending groups. One such informal financial system in India, namely ‘Chit funds’ are old institutions in which members made periodic contributions that are pooled into a fund from which money is given to the members.

Micro-finance is another effort to provide a wide range of financial services to the poor on sustainable basis. The Micro-Credit approach based on savings emerged as a popular global approach to combat poverty and it is also seen as a more comprehensive, integrated and viable approach especially to rural development. It envisages delivery of
small loans at full interest without any collateral and they are repayable in frequent installments. These organizations targeted mostly women owing very little or no land.

Self Help Groups (SHGs) in India which are classified under the informal organizations, intentionally or unintentionally help the formal banks by increasing the number of accounts through inculcating banking habits in the rural people, especially the women. Micro-finance has been widely credited for empowering women by increasing their contribution to household income, the value of their assets, and control over decisions that affect their lives. This activity is the result of NABARD’s work in the micro-finance sector which started in 1992 through a pilot project for promoting 500 SHGs. As the idea gained acceptance from the banking system and the results were promising, the Reserve Bank of India (RBI) encouraged this positive initiative by issuing instructions to banks in 1996 to cover SHG financing as a mainstream activity under their priority sector-lending portfolio.

The Government of India made linking SHGs with banks a national priority from 1999 onwards through its periodic policy and budget announcements. The NABARD continues to nurture the expansion of the outreach of the programme by providing umbrella support to the stakeholders. Now, it is easily the largest and fastest growing micro-finance programme in the world in terms of its outreach and sustainability.

1.2 STATEMENT OF THE PROBLEM

The will, the power and the efforts of women in the economy are not fully utilized for the programmes of micro-finance. The schemes of micro-finance have reached the
poorest women in rural areas but the effectiveness of micro-finance is not up to the expected level. The SHG bank linkage programmes activate the implementation of micro-finance to the poor women. The women are in vicious circle of poverty and they are also in the grip of socio-economic, political, cultural, demographical, medical, environmental, and philosophical problems. A large number of the rural poor continued to remain outside the fold of the formal banking system for getting the loans.

Group formation and group cohesiveness among the SHG members are weak. Credit risk is high due to the irregular income of the poor. The credit extended to the members of SHGs is diverted to unproductive purposes which in turn lead to dwindling of repayments and mounting of overdue.

The SHG bank linkage programme had yielded benefit to commercial banks and RRBs as well as SHG members. The activities of SHGs have increased the employment, income, man-days of work, empowerment, social status, work independence, basic skills, financial knowledge, saving habits, health care, sanitary conditions, and education of the woman members.

Thus, many problems are noticed in the functioning of SHGs because the taste and preference of the members have been changing over the years. This approach in recent times has received wide publicity and popularity. It is in this context that the researcher studies the various issues relating to the impact of micro-finance in the economic development.
1.3 SCOPE OF THE STUDY

This study is mainly confined to analysing the impact of micro-finance on the sample woman beneficiaries in the study area. The impact is measured in terms of change in the level of income, employment, expenditure, savings and borrowings after availing of the micro-finance. Empowerment through micro-finance is measured in terms of leadership, decision making, economic, personality, social and managerial after availing micro-finance. Further, the attitude of respondents on the micro-finance, the role of commercial banks in micro-finance, the micro-enterprises and the problems in it is also studied. The study area is confined to Madurai district of Tamil Nadu.

1.4 OBJECTIVES OF THE STUDY

The objectives of the present study are summarized below:

1. To analyse the socio-economic profile of the member of SHGs in the study area;
2. To exhibit the level of involvement of SHG members in micro-enterprise;
3. To analyse the changes of SHG members economic conditions due to micro-financing;
4. To evaluate the level of empowerments of SHG members due to micro-financing;
5. To measure the attitude of members of SHG on micro-finance and enterprises and the role of commercial banks in micro-financing;
6. To analyse the problems faced by the SHG members in micro-enterprises; and
7. To study the impact in perception of the SHG members towards the problems in micro-enterprises on their level of performance.
1.5 HYPOTHESES OF THE STUDY

The hypotheses of the present study are summarised below:

1. There is no significant association between the profile of the respondents and their level of various empowerments at the Pre and the Post micro-financing periods.

2. There is no significant impact of micro-financing on the economic conditions and empowerments.

3. There is no significant difference among the rural and urban respondents regarding their view on the various aspects related to micro-finance, micro-financing and the role of commercial banks in micro-financing.

4. There is no significant difference among the rural and urban respondents regarding their view on micro-finance, micro-enterprises and problems in micro-enterprises and

5. There is no significant impact in the perception of the problems in micro-enterprises on the level of performance among the respondents.

1.6 OPERATIONAL DEFINITIONS

1.6.1 Block/Union

A district is divided into several blocks for administrative purposes. Micro-finance is administered at the block level.
1.6.2 Poverty Line

A family with per capita income of Rs.10,254.00 or less is considered a family below poverty line.

1.6.3 Household

A household is a group of persons related by blood, marriage or adoption, living under the same roof and sharing a common kitchen continuously for not less than one year at the time of interview. A single person constitutes a household, if a kitchen is maintained by him or her. Domestic servants are excluded although they might stay with the household and share the kitchen.

1.6.4 Household Income

The income of the household includes the total earnings of all the members of the household from all sources during one year.

1.6.5 Full Employment and Under Employment

Generally eight hours of work a day is called full employment and less than eight hours of work a day is treated as partial employment.

1.7 METHODOLOGY OF THE STUDY

This is an empirical study based on surveys. Both primary and secondary data were collected for analysis. The relevant secondary data have been collected to study the performance of the Commercial Banks and the functioning of the micro-finance sector over a period of time. The appropriate primary data were collected to measure the socio
economic profile, the involvement of the Self Help Group members in micro-enterprises, to examine the changes in economic conditions of the respondents due to micro-finance, to evaluate the empowerment of respondents through micro-finance and to analyse the attitude of respondents towards micro-finance operations.

1.8 AREA OF THE STUDY

Madurai District is the study area covering thirteen blocks which avails of Micro-finance facility namely Kottampatti, Melur, Madurai East, Madurai West, Alanganallur, Vadipatti, Tirupparankundram, Chellampatti, Tirumangalam, Kallikudi, T.Kallupatti, Sedapatti and Usilampatti. Madurai District is situated in the South of Tamil Nadu State. It is bounded on the North by the districts of Dindigul, Tiruchirappalli and on the East by Sivagangai and on the West by Theni and South by Virudhunagar.

1.9 PERIOD OF THE STUDY

To study the micro-financing services of commercial banks towards Self Help Groups, the secondary data were collected for 18 years from 1992-1993 to 2009-2010 at National level and six years from 2006-2007 to 2011-2012 at Madurai District level. To analyse the impact of micro-finance among the Self Help Groups, the primary data have been collected from 648 respondents for a period of one year from 10th July 2011 to 09th July 2012.
1.10 SAMPLING FRAMEWORK OF THE STUDY

There are 267 commercial banks in Madurai district. All the 267 commercial banks are included for the study. The sample was selected five each from all the 267 bank branches with the help of bank officials in order to maintain a proportionate representation from each block and equal representation from all banks. Hence, the total sampled respondents came to 1335. The applied sampling procedure is convenience sampling method which comes under non-probability sampling. By following convenient sampling, both researcher and respondents felt comfortable in dealing with the information necessary for the study. An attempt to collect the data from the sampled respondents consumed six months of time. During the first attempt only 24.49 per cent of sample respondents fully responded the schedule. Hence, a second attempt was also made to collect the data. The response rate was 24.04 per cent to the total. It also consumed another six months of time to collect the data. Since the researcher is not having enough time to go for third attempt, only two attempts have been made. The total sample size and the respondents who responded to the interview schedule in all the 13 blocks and Madurai city is presented in Table 1.1.
TABLE 1.1
Distribution of Sample Size of the Study

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Block name</th>
<th>No. of commercial banks</th>
<th>Sample selected @ 5 per branch</th>
<th>Response at 1 Attempt</th>
<th>Response at II Attempt</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alanganallur</td>
<td>6</td>
<td>30</td>
<td>8</td>
<td>11</td>
<td>19</td>
</tr>
<tr>
<td>2</td>
<td>Chellampatti</td>
<td>8</td>
<td>40</td>
<td>12</td>
<td>7</td>
<td>19</td>
</tr>
<tr>
<td>3</td>
<td>Kallikudi</td>
<td>5</td>
<td>25</td>
<td>7</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>4</td>
<td>T.Kallupatti</td>
<td>5</td>
<td>25</td>
<td>10</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>5</td>
<td>Kottampatti</td>
<td>5</td>
<td>25</td>
<td>9</td>
<td>7</td>
<td>16</td>
</tr>
<tr>
<td>6</td>
<td>Madurai East</td>
<td>8</td>
<td>40</td>
<td>19</td>
<td>10</td>
<td>29</td>
</tr>
<tr>
<td>7</td>
<td>Madurai West</td>
<td>18</td>
<td>90</td>
<td>32</td>
<td>28</td>
<td>60</td>
</tr>
<tr>
<td>8</td>
<td>Melur</td>
<td>13</td>
<td>65</td>
<td>17</td>
<td>24</td>
<td>41</td>
</tr>
<tr>
<td>9</td>
<td>Sedapatti</td>
<td>9</td>
<td>45</td>
<td>12</td>
<td>11</td>
<td>23</td>
</tr>
<tr>
<td>10</td>
<td>Tirumangalam</td>
<td>9</td>
<td>45</td>
<td>11</td>
<td>14</td>
<td>25</td>
</tr>
<tr>
<td>11</td>
<td>Tiruparankundram</td>
<td>24</td>
<td>120</td>
<td>39</td>
<td>34</td>
<td>73</td>
</tr>
<tr>
<td>12</td>
<td>Usilampatti</td>
<td>9</td>
<td>45</td>
<td>18</td>
<td>13</td>
<td>31</td>
</tr>
<tr>
<td>13</td>
<td>Vadipatti</td>
<td>10</td>
<td>50</td>
<td>16</td>
<td>12</td>
<td>28</td>
</tr>
<tr>
<td>14</td>
<td>Madurai city</td>
<td>138</td>
<td>690</td>
<td>117</td>
<td>134</td>
<td>251</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>267</td>
<td>1335</td>
<td>327</td>
<td>321</td>
<td>648</td>
</tr>
</tbody>
</table>

The response rates on the interview schedule among the borrowers at the first and second attempts are 24.49 and 24.04 per cent to the total respectively. Hence the sample size included came to 648 respondents.
1.11 COLLECTION OF DATA

The study is an analytical one and comprises of both primary and secondary data. The secondary data are collected from the publications, documents, annual reports, journals, magazines, books and periodicals. Data at the district level are collected from the records of the Women Development Department and the office of the Mahalir Thittam of the Government of Tamil Nadu. On the basis of the information gathered, a well designed pre-tested interview schedule was drafted and used in the field survey to collect primary data.

1.12 CONSTRUCT DEVELOPMENT OF INTERVIEW SCHEDULE

A special care was taken to develop the interview schedule to collect the primary data from the respondents. The interview schedule is divided into three important parts. The first part covers the socio-economic profile of the respondents their level of involvement in micro-enterprise activities and the impact of micro-enterprise on their economic conditions. The second part of the schedule includes various empowerments among the respondents at the pre and the post micro-finance periods. The third part of the schedule covers the respondents attitude to micro-financing, micro-enterprises, the role of commercial banks in micro-financing and problems in micro-enterprises. The relevant variables related to this constructs have been collected from the review of previous studies. A pilot study was conducted among 100 micro-finance borrowers. Based on the feedback, certain modifications, additions and deletions were carried out. A final draft of the interview schedule was finalised to collect the primary data.
1.13 FRAMEWORK OF ANALYSIS

The data after collection were processed and analysed in accordance with the outline laid down for the purpose at the time of developing the research plan. The collected data were analysed with the help of appropriate statistical tools according to the relevance of the information available and the nature of the scale of data. The applied statistical tools and tests are given below.

1.13.1 Exploratory Factor Analysis

Factor analysis is a very useful method for reducing data complexity by reducing the number of variables being studied. It is a good way for resolving the confusion and identifying latent or underlying factors from an array of seemingly important variables. In a more general way, factor analysis is a set of techniques which, by analyzing correlations between variables, reduces their number into fewer factors which explain much of the original data, more economically.¹ In the present study, Factor Analysis has been administered to narrate the variables in the components of various aspects related to micro-financing.

1.13.2 Confirmatory Factor Analysis

Confirmatory Factor Analysis is one of multivariate statistical tools applied to confirm the extracted variables in the factor by the exploratory factor analysis which

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explains the factor in a reliable manner or not (Segars and Grover, 1993). It is mentioned by the reliability and validity of variables in each construct developed in the present study. The content validity, the convergent validity and the discriminant validity have been tested through the Confirmatory Factor Analysis. In the present study, the CFA had been administered to examine the reliability and validity of variables related to each concept developed in the present study namely micro-finance, micro-enterprise, role of commercial banks in micro-financing, problem in micro-enterprises and the overall attitude towards micro-enterprises.

1.13.3 Discriminant Analysis

Discriminant Analysis is a technique for analyzing data when the criterion or dependent variable is categorical and the predictor or independent variables are interval in number. The Discriminant Analysis techniques are described by the number of categories possessed by the criterion variable. When the criterion variable has two categories, the technique is known as the two-group discriminant analysis.

The discriminant analysis linear combination is given in the following form:

\[ Z = b_0 + b_1X_1 + b_2X_2 + \ldots + b_nX_n \]


where

\[ Z = \text{Discriminant Score} \]
\[ X_1, X_2, \ldots X_n = \text{Independent Variables} \]
\[ b_1, b_2, \ldots b_n = \text{Discriminant co-efficients} \]

The relative contribution of the independent variables in the total discriminant function was calculated by

\[ I_j = b_j (X_{j1} + X_{j2}) \]

Where

\[ I_j = \text{The important value of the } j^{\text{th}} \text{ variable} \]
\[ b_j = \text{Independent variables} \]
\[ X_{jk} = \text{Mean of the } j^{\text{th}} \text{ variable for the } k^{\text{th}} \text{ group} \]

The relative importance weights were computed by

\[ R_j = \frac{I_j}{\sum_{j=1}^{n} I_j} \]

The Wilk’s Lambda was calculated as a multi-variant measure of group difference over discriminating variables. Its value varies between 0 and 1. Large values of Wilk’s Lambda indicate that the group means do not seem to be different. Small values of Lambda indicate that the group means seem to be different. The confusion or prediction matrix contains the number of correctly classified cases and misclassified cases by the estimated discriminant function.

In the present study, two group discriminant analyse have been administered to identify the important discriminant variables among the rural and urban respondents
regarding their various empowerments, attitude on micro-finance, micro-financing, micro-enterprises and problems in micro-enterprises.

1.13.4 Multiple Regression Analysis

Multiple regression analysis is a statistical technique that simultaneously develops a mathematical relationship between two or more independent variables and an interval scaled dependent variable. 5 The general form of the multiple regression model is as follows:

\[
Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_k X_k + e
\]

This is estimated by the following equation:

\[
Y = a + b_1 X_1 + b_2 X_2 + \ldots + b_k X_k + e
\]

The \( R^2 \) co-efficient reveals the extent of explanation made by the independent variables on the dependent variable.

The F-test is used to test the null hypothesis that the co-efficient of multiple determinations in the population, \( R^2_{\text{pop}} \), is zero. This is equivalent to testing the null hypothesis \( H_0 = \beta_1 = \beta_2 = \beta_3 = \beta_k = 0 \). The test statistic has an F distribution with ‘k’ and (n-k-1) degree of freedom.

In the present study, the multiple regression analysis was used to evaluate the impact of the micro-finance on the level of empowerment and the impact of problem perception on the performance in micro-enterprises.

1.13.5 Oneway Analysis of Variance

The Analysis of variance is used for examining the differences in the mean values of the dependent variable associated with the effect of the controlled independent variables, after taking into account the influence of the uncontrolled independent variables. Essentially, the Analysis of Variance is used as a test of means for two or more populations. The Oneway Analysis of Variance involves only one categorical variable, or a single factor.

The one way Analysis of Variance has been applied to find the significant difference among the respondents with different classifications of each profile variable and their views on the micro-finance, micro-financing, micro-enterprises and overall attitude towards their micro-enterprises.

1.13.6 ‘T’ Test

The ‘t’ test has been used to analyse the significant difference between the rural and the urban respondents regarding their views on a number of aspects related to micro-finance, micro-enterprises and the problems in micro-enterprises.

1.13.7 Reliability Test

The reliability of the variables included in each construct was computed with the help of Cronbach Alpha. The minimum threshold of Cronbach Alpha is 0.607. In the

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present study, the Cronbach has been applied to test the overall reliability of the variables included in each construct related to micro-finance, micro-financing, micro-enterprises and empowerments.

1.14 LIMITATIONS OF THE STUDY

The present study is subjected to the following limitations.

1. The primary data collected from the respondents may be subject to memory bias since the respondents do not have any records to disclose the facts relating to the questions in the interview schedule.

2. No inclusion of time and value of money at the pre and the post micro-finance period.

3. The variables related to each construct developed in the present study are drawn from the review of the previous studies and the views of experts.

4. The scope of the study is confined to commercial banks in Madurai district there is an assumption of linear relationship between dependent and independent variables in multiple regression. The ordinary least square (OLS) method was followed to find the estimated regression co-efficient and

5. An attempt to collect the data from the respondents consumed six months of time. During the first attempt only 24.49 per cent of sample respondents fully responded the schedule. Hence, a second attempt was also made to collect the data. The response rate was 24.04 per cent to the total. It also consumed another six
months of time to collect the data. Since the researcher is not having enough time to go for third attempt, only two attempts have been made.

1.15 CHAPTERISATION

The present study is presented in seven chapters.

Chapter I covers the introduction, the statement of the problem, the objectives, the hypotheses, the methodology, the limitations and chapterisation.

Chapter II deals with the conceptual framework of the study and a review of previous studies.

Chapter III explains the theoretical framework of micro-finance and the role of commercial banks in micro-finance.

Chapter IV studies the socio-economic background of the respondents and their economic status at the pre and the post micro-finance periods.

Chapter V analyses the various empowerments at the pre and the post micro-finance periods.

Chapter VI analyses the respondents view on micro-finance, micro-financing, micro-enterprises, the problems in micro-enterprises and the impact of the problem perception on the level of performance among the respondents.

Chapter VII consists of the summary of findings, suggestions, conclusion and scope for future research.