

# Microfinance through Self Help Groups (SHGs): A Study of Tirap District in Arunachal Pradesh

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## Abstract

The failure of the formal banking institutions in delivering adequate credit to the poor, particularly the rural poor, has resulted in the emergence of new paradigm in the form of Microfinance. In recent times, the Self Help Group (SHG) movement has become quite popular in number of state as it enables the poor individuals to obtain economic benefits through joint responsibilities and mutual help. The present study is a modest attempt to assess the impact of Self Help Groups on the living standard of the people in Tirap district of Arunachal Pradesh. The primary data were collected from 50 respondents in the district through schedule, observation and personal interview method; and the secondary data were obtained through review of articles, NABARD publications etc. The study reveals that most of the respondents are not completely content with the various services that are accessible to them. However the study also discloses that the micro credit loans through SHGs are a valuable method of lessening poverty in the study area as it has assisted several deprived poor in improving their standards of living. The paper further intends to suggest some recommendations which could improve the quality of rural life in the study area.

## Keywords

Livelihood, Microcredit, Poverty Alleviation, SHGs

## I. Introduction

The idea of microfinance can be traced back to 1800s when Lysander Spooner wrote about the benefits of micro loans to small businessmen and farmers as a means of getting individuals away from poverty. However it became popularly well-known in the 1970s when the Grameen Bank of Bangladesh was founded by professor Mohammad Yunus, with the main objectives of providing loans to the poor section of the community who otherwise are generally excluded from the formal financial services. Since its establishment in the early 1970s, it has reached millions of underprivileged households in improving their living standards in their country as well as all over the world, with thousands of units in many underdeveloped and developing countries. The concept of microfinance has been so renowned around the world that the United Nations (UN) declared the year 2005 as “*The UN Year of Micro-credit*” and likewise in the year 2006, The Grameen Bank of Bangladesh and its founder Mr. Mohammad Yunus were awarded the Noble Peace Prize “*for their efforts to create economic and socio development from below*”.

Microfinance can be understood as an arrangement of financial services for those lower income individuals and small scale business entrepreneurs who does not have any contact to banking and other related services. The key focus of the microfinance activities has always been the enrichment of the deprived households in the most sustainable manner and the world has witness that it has contributed a lot in the rapid development of the rural population through various services. No country should be considered as a developed nation only because of the advancement

in its technology and other infrastructure innovations; instead the development must be perceived based on the growth and progress in the lifestyle of every citizen. A nation will progress towards the growth course only when all the individuals in the country are part of that growth process with proper access to the fundamental needs of life viz. proper shelter, good food, clothing, adequate health services, education, employment opportunities etc. and these basic necessities of living could be provided or offered to the rural poor households through the microfinance approach and its associated services. Hence, in pursuit for some solutions to the various challenges or barriers of the country’s progress and poverty reduction, microfinance has been acknowledged as one of the most popularly accepted alternative means for attaining relatively small amount of loans by the deprived poor section of the population.

## II. Microfinance and Poverty Alleviation

Poverty presents itself in a countless ways as a very complex trend. The poor section of the society does not suffers only from high rate of unemployment and less income problems, but along with it they also faces the problem of poor health, lack of education, low life expectancy rate etc. Furthermore, the condition of rural poverty is even worse as it is armoured by various social and economic factors which functions in a different way in varying regions. This lack of access to credit and banking facilities by the deprived and poor segments of the country has always been a key concern in India. As a low income developing country where nearly 70 percent of the population are engaged in agriculture sector, the country’s economy is marked by the presence of low living standards, large number of unskilled workers, low per capita income and a very high rate of unemployment. Therefore, since its independence, the Government of India (GOI) together with the Reserve Bank of India (RBI) have undertaken numerous initiatives from time to time in order to provide some definite solution to solve this unending problem of poverty.

However, as the formal financial institutions fail to adequately serves the need of the deprived section of the population, it was realised that a more straight and direct efforts was necessary. Hence, the ineffectiveness of the formal banking lead to the creation of microfinance programmes, with its primary objective of mitigating poverty. In that way, microfinance has emerged as one of the most effective tools of combating poverty, as it assist in ensuring that basic financial services such as savings, credits, insurance and other essential services are within the reach of the underprivileged individuals. Likewise, through various Microfinance Institutions, the deprived section of the population will be able to acquire microcredit loans, protect their savings and even present them with an opportunity to set up their own enterprises which would make them independent and self- reliance.

## III. Review of Literature

Puspa Raj Sharma (2007) revealed that the programme has resulted in women’s better access to economic resources, freedom of

mobility and greater involvement in different household decision making. Swain, Varghese, Adel (2008) concludes that there is a positive relationship between the longer SHGs membership and their ability to generate asset in a sustainable manner. D. Bansal (2010) shows that the maturity of the SHGs is quite significantly contributing and therefore efforts should be made for the stabilisation and sustainability of the group members. Devaraja T.S (2011) states that microfinance has been delivering services where the other financial institutions failed, but the outreach has been too narrow. Misal D.M(2013) conclude that the living standards of the poor cannot be transformed by simply providing donations or aid but through micro credit loans to finance a small scale business as micro-franchising can act as the turning key in the business. Ajay Kumar Verma (2015) reveals that various micro-finance initiatives like KCC schemes, SHGs etc. has helped the poor in improving their socio-economic condition by ensuring well-timed and satisfactory finance backing to the deprived persons in rural and urban areas to upgrade their standard of living and conquer to greatest challenge of the country's economy i.e. unemployment and poverty.

#### IV. Microfinance and Self Help Group (SHG)

Self Help Groups (SHGs) are registered or unregistered groups whose members have a common perception of need and importance towards collective action. A SHG of ten to twenty members are considered as an ideal size, because in a large group the members fail to involve themselves enthusiastically. The members are generally prospective micro entrepreneurs having homogenous social and economic background, voluntarily coming together to mutually contribute towards the common well being. These groups promote savings among its members and use the pooled resources to meet the emergent needs of the members. In a nutshell, SHG is a small group of rural poor, who have voluntarily come forward to form a group for enhancement of economic and social status of the members.

#### V. Need of the Study

Like all the other districts of the State of Arunachal Pradesh, Tirap District face the problems of poverty, unemployment, low income and low level of living standard. Despite the fact that the government has adopted different schemes and policies for the development of the country, the equitable distribution of wealth or the regional balanced growth has constantly been given inferior treatment. Therefore, regardless of the continuous efforts of the government to provide microfinance credit to the marginalised poor through various financial inclusive growth initiatives, the deprived individuals has always been left out from the formal banking system. The poor in the rural areas have been operating mostly in the informal economy where they fail to produce any surplus funds which would help in lifting their standard of living. As a result they lack the income generating ability or start some economic activities, and additionally access to credit is also deeply limited due to shortage of security. Hence the study will assist the researcher in understanding the level of knowledge about the microfinance services among the poor people in the study area and also help them in improving their standard of living by examining the different inconveniences and problems encountered by the poor while obtaining credit. The study would likewise guide the poor people to understand about the various microcredit facilities that are available to them, which would directly or indirectly reduce the poverty in the region.

#### VI. Objectives of the Study

- To study the extent to which rural people have awareness about microfinance.
- To find out the various sources of microfinance available in the study area.
- To evaluate the benefits derived by people engaged in microfinance activities.

#### VII. Methodology

The present study is based on both secondary as well as primary data. For studying the role of microfinance in the selected area, Samples of 50 people were selected and a schedule was prepared keeping in view the objectives of the study in order to collect primary data from the respondents. The data has been collected through random sampling of 50 respondents from 5 different villages under Tirap district of Arunachal Pradesh using schedule and personal interview method. The secondary data have been collected from the reports published by the governments, journals, official websites etc.

The findings of the study are as follows:

- Demographic profile of the respondents
- Monthly income and expenditure
- Awareness level
- Amount of loans
- Fulfilment of the purpose
- Level of satisfactions
- Improvement in living standard and savings

Table 1: Demographic Profile of the Respondents

Factors	Classifications	No of respondents	Percentage
Gender	Male	17	34.00
	Female	33	66.00
	<b>Total</b>	<b>50</b>	<b>100</b>
Age	Below 30	06	12.00
	30-40	16	32.00
	40-50	25	50.00
	Above 50	03	06.00
	<b>Total</b>	<b>50</b>	<b>100</b>
Educational Qualification	Illiterate	21	42.00
	Class 10-12	24	48.00
	Graduation	05	10.00
	Post- Graduation		
	<b>Total</b>	<b>50</b>	<b>100</b>
Occupation	Salaried	05	10.00
	Business	14	28.00
	Agriculture	29	58.00
	Retired	02	04.00
	<b>Total</b>	<b>50</b>	<b>100</b>

Source: Field survey

Table 2: Monthly Income and Expenditure of the Respondents

Factors	Classifications	No of respondents	Percentage
Income	5000-10000	16	32.00
	10000-20000	17	34.00
	20000-30000	14	28.00
	Above 30000	03	06.00
	<b>Total</b>	<b>50</b>	<b>100</b>
Expenditure	5000-10000	25	50.00
	10000-20000	20	40.00
	20000-30000	05	10.00
	Above 30000		
<b>Total</b>	<b>50</b>	<b>100</b>	

Source: Field survey

Table 3: Awareness about Microfinance Credit Facilities among the Respondents

Classifications	No. of respondents	Percentage
No idea	08	16.00%
In brief	42	84.00%
In details		
<b>Total</b>	<b>50</b>	<b>100</b>

Source: Field survey

Table 4: Amount of the Loan

Factors	Classifications	No. of respondents	Percentage
Amount of the loan	10000-20000	36	72.00
	20000-30000	11	22.00
	30000-40000	01	02.00
	Above 40000	02	04.00
	<b>Total</b>	<b>50</b>	<b>100</b>

Source: Field survey

Table 5: Purpose of Loan

Purpose	No of respondents	Percentage
Business	18	36.00
Agriculture	12	24.00
Education	17	34.00
Others	03	06.00
<b>Total</b>	<b>50</b>	<b>100</b>

Source: Field survey

Table 6: Level of Satisfaction

Level of satisfaction	Number of respondents	Percentage
Very satisfied	06	12.00%
Average	34	68.00%
Below Average	06	12.00%
Not satisfied	04	08.00%
<b>Total</b>	<b>50</b>	<b>100</b>

Source: Field survey

Table 7: Improvement in Living Standard and Savings

Particulars	No of respondents	Percentage
No	24	48.00%
Somehow	14	28.00%
Yes	12	24.00%
<b>Total</b>	<b>50</b>	<b>100</b>

Source: Field survey

### VIII. Summary of the Findings

The important findings that have been revealed through the analysis of the study are as follows:

- 66% of the respondents are female and only 34% are male. Most of the respondents fall in the age group of 40-50(50%) and 30-40(32%). Majority of them have educational qualification in between 10-12 (48%), 42% are illiterate and only 10% of the respondents are graduated.
- It has been observed that agriculture (58%) dominates over other occupations as there were 28% engaged in business, 10% in salaried and only 4% of the total respondents were retired.
- Almost 90% of the respondents have only some brief knowledge about the micro finance facilities that are available to them.
- It has been revealed through the study that the rural population of the study area are not aware about the formal sources of microfinance and therefore they had obtained credit only from the Self Help Groups (SHGs) and few NGO that are available in the district.
- In case of the marital status of the respondents' majority of the respondents i.e. 84% are married.
- More than 70% of the respondents were in the favour that providing micro credit loans to rural area instead of urban would result in positive impact.
- It is observe that most of the respondents have undertaken microcredit worth 10k to 20k for duration of less than 1 year.
- Majority of the respondents have undertaken loans mostly for starting small businesses and for financing their children education.
- 66% have suggested that the micro credit facilities that are available to them would have been very helpful for improving their living standards if the amount of loans is increased and the time duration for repayment is longer than one or two years.

- It is observed that microfinance under SHG programme is the most powerful instrument in enhancing the socio economic status of the rural population in the study area.

### IX. Limitations of the Study

- Due to time constraints, the present study is limited only to 50 respondents from 5 different villages of the district. Therefore, it is not a complete representation of the entire state or district.
- The analysis and inferences drawn in this study are based on the information provided by the sample respondents, most of whom are illiterate and therefore opinions regarding their income, savings, empowerment etc. are based on their personal perceptions and views.

### X. Suggestions and Recommendations

1. It has been observed that the respondents are not fully satisfied with the amount of loans received by them as it is quite low as compared to other bank loans. Therefore, it is necessary to increase the credit amount sanctioned for micro-finance loans.
2. The beneficiaries have expressed their grievances that the interest rates of micro loans are still high. Hence, in order to improve the performance of micro-finance activities in the study area, the prevailing interest rate on loans need to be reduced.
3. The study has revealed that the beneficiaries are not pleased with the duration of time that are given to them for repayment of loans, as most of the loans sanctioned to them are only for the period of one year.
4. It has been observed that many of the respondents in the study area are not aware about the various micro-credit facilities that are available to them. Therefore, it is very necessary that the rural people are given proper information about the various microfinance activities in order to motivate and encourage them.

### XI. Conclusion

The present study is an attempt to study the role of micro-finance in reducing poverty and transformation of rural population in Tirap district of Arunachal Pradesh. The study is based on both secondary and primary data. The study highlights the demographic profile of the respondents, their monthly income and expenditure, their level of awareness about the microfinance credit facilities, the details of the loans, fulfilment of the purpose of taking loan, level of satisfaction, Improvement in living standard and improvement in savings by the respondents after undertaking the loans. It has been found out that many of the respondents are not fully satisfied with the credit facilities that are provided to them. However, the study further reveals that the micro credit loans are an effective method for poverty alleviation in the study area and that it has helped many poor people in betterment of their living standards by improving their food habits, proper health and providing quality education to their children.

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