Athambawa Jahfer[1] and Hansiya Abdul Rauf[2]

An Analysis of Economic Impact of Microfinance Programs through Self Help Groups in Sri Lanka

(1) Department of Accountancy and Finance, South Eastern University of Sri Lanka, Oluvil, Sri Lanka.

(2) Department of Management, South Eastern University of Sri Lanka, Oluvil, Sri Lanka.

Abstract: The microfinance is a tool for empowerment of poor people which could contribute for the development of the economy. The objective of this paper investigates whether the micro finance through Self Help Groups would enhance economic and social empowerment of the poor people in Sri Lanka. The data were collected among Self Help Group members during the period 2009 and 2010. The results revealed that no group members were involved in any economic activities in the pre- Self Help Groups; rather they are involving only in household affairs. But, in the post-SHG almost all members involved either in business or production activities in small scale. Although there is high inequality in income distribution among the selected Self Help Groups economically empowered in the post –SHG from no income level. It is also observed, financial institutions are encouraged to micro financing through SHGs since the repayment rate is very high.

Keywords: Micro finance, Self Help Group (SHG), Socio-Economic Empowerment, Sri Lanka

Introduction

The microfinance is a tool for empowerment of poor people which could contribute for the development of the economy. Micro finance facilities are designed to reduce the vulnerability of poor people and to help them move on to higher income growth paths. The concept of micro finance for rural people was introduced in Bangladesh in the year 1976 by Md.Yunus, Nobel Laureate and the Chairman of Bangladesh Grameen Bank and it is now a worldwide movement comprising thousands of specialists, banks, credit unions, co-operatives, village credit societies, Non Government Organizations and charities spanning both the richest and the poorest countries.

Microfinance institutions could play a pivotal role in meeting the financial needs of both poor households and micro enterprises. Traditional financial institutions have failed to provide adequate saving and credit services to the poor. On the supply side microfinance could be the best instrument to bring about poverty eradication by loosening constraints on capital, opening up doors for investment, smoothing consumption over time and meeting emergency liquidity needs. On the demand side microfinance institutions could mobilize poor people's savings and enable them to accumulate interests on their deposits (United Nations, 2000). In Sri Lanka, it has been identified that banking institutions, Government anti-poverty programs (Samurdhi), NGO's, INGO's, Community revolving fund projects and Women Rural Development Societies (WRDS) are involving in micro finance programs.

Group lending has been one of the mechanisms for lending the money effectively for the poor people in the world. SHG is a small economically homogeneous and affinity group of the rural poor, voluntarily coming together with the objective of saving small amount of money regularly or mutually agreeing to contribute to a common fund or meeting their emergency needs, and providing collateral free loan with terms decided by the group at making given rates. The group undertakes the responsibilities of delivering non credit services such as literacy, health and environmental issues. The habit of saving paves the way to repay loans. SHGs empower the poor and train them to take active part in socio economic progress of the nation and make them sensitized, self made and self disciplined citizens.

Group-based lending has been favored by both the donor community and the NGOs in the past decade. Encouraged by the success of the Grameen Bank and other solidarity group programs, replications have grown up in all parts of the world with widespread financial support from donor agencies. Despite a lack of conclusive research, three advantages of group lending are often cited: 1) it reduces institutional transactions costs, 2) repayment rates are more favorable in group lending schemes due to peer pressure and group solidarity, and 3) poor people, and especially women, prefer to work in groups for financial and social reasons. SHGs undertake entrepreneurial activities at smaller level with minimum capital requirements. In future, the inbuilt strength of the SHGs, will pave the way to undertake mega projects, performed by joint stock companies, public sector enterprises etc. SHGs have the power to create a socio-economic revolution in the rural areas of the country. They have proved that they could indeed bring about a change in the mindset of the very conservative and tradition bound people in rural areas. Self help groups have paved the way to bring the poor people into the main stream of social and economic progress of the country.

The objective of this paper is to investigate the impact of micro finance programs through SHGs in Sri Lanka. It also focuses on whether the micro finance through SHG would enhance economic and social empowerment of the poor people.

Previous studies

In the previous studies, the authors (e.g. Besley and Coate (1997), Ghatak (1999) have explained the relationships between the micro financing and SHGs and the benefits of micro financing through SHGs. Micro finance is a financial alternative for people in the lowest bracket of the income distribution that aims to promote economic development by breaking the poverty cycle through access to credit and fostering entrepreneurship. “The hope is that much poverty can be alleviated— and that economic and social structures can be transformed fundamentally—by providing financial services to low-income households” (Morduch 1999, p. 1569).

The rise of the microfinance industry represents a remarkable accomplishment taken within historical context. It has overturned established ideas of the poor as consumers of financial services, shattered stereotypes of the poor as not bankable, spawned a variety of lending methodologies demonstrating that it is possible to provide cost-effective financial services to the poor, and mobilized millions of dollars of “social investment” for the poor. Microcredit is most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most Micro Finance Institutions (MFI) clientele would be unable to participate due to their extreme poverty level. Because borrowers do not have physical capital, MFIs focus on using social collateral, via group lending. Group lending encompasses a variety of methodologies, but all are based on the principal of joint liability. In essence, the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution (Wenner, 1995).

Under joint liability each group member is made responsible for the loans of other group members. If one member defaults, the other group members are required to cover the loan from their own resources, and if they do not, they lose access to future loans. It is thus in each member’s interest to ensure that the other members pay. Social collateral also works through reputational effects on group members in which repayment of loans is seen by group members as necessary to maintain their social standing in the community (Woolcock, 1999). Goldmark (2001) suggests methods that may help build social collateral, thereby making loans even more secure. Van Tassel (1999) constructs a model and one-period game to determine the optimal group lending contract under asymmetric information. He concludes that agents will always form groups with agents of the same type and that agents' types can be distinguished according to the rate at which they are willing to trade increased joint liability commitments for lower interest rates. Ghatak (1999) concludes that group lending not only increases repayment rates and welfare via social collateral, but also due to peer selection by members of the lending group.

Similar to Ghatak, Islam (1995) concludes that lenders using peer-monitoring systems can charge lower rates relative to conventional lenders and that at the same interest rate, the expected rate of repayment is higher with lower risk when using peer monitoring. Within the lending function of microfinance, it is useful to divide loans into enterprise loans and consumption/emergency loans. As mentioned above, the loan programs typical of MFIs almost entirely consist of enterprise loans. Nonetheless, significant unfulfilled market demand also exists for consumption and emergency loans (Woller, 2002). Those in the microfinance industry who assumed that formal MFIs would drive the traditional money lenders out of business have been shocked to learn that the demand for moneylenders has remained robust, even among clients of microfinance programs. A good illustration is the case described by Perry (2002), in which women moneylenders in Senegal used loans from a local MFI to finance their own money lending businesses.

The microfinance movement in Sri Lanka dates as far back as 1906 with the establishment of Thrift and Credit Co-operative Societies (TCCSs) under the Co-operative Societies Ordinance introduced by the British colonial administration. These were the first credit co-operatives to be established in Sri Lanka. The societies fulfilled a wider role during the early decades of the 20th century, being involved also involved in procurement of inputs and distribution of products, a role eventually taken over by the Multi-Purpose Co-operative Societies (MPCSs) which were originally established during the 1940s as Consumer Co-operative Societies and renamed Multi Purpose Co-operatives in the 1950s. In 1985 the Government established 17 Regional Rural Development Banks (RRDBs) through an Act of Parliament. These institutions were given the task of reaching remote rural areas and smallholders who lacked access to financial services from commercial banks. A significant restructuring and recapitalization took place in 1998-1999 and the RRDBs were consolidated into the six Regional Development Banks (RDBs) which exist today.

The Government plays a key role in the delivery of microfinance services. Various Government initiatives in the microfinance sector have been implemented from time to time. These are addressed in more detail in the section titled "Government Policy". According to the "Mahinda Chintana", the 10 year development framework of the present government, around 65% of microcredit in Sri Lanka is provided through the government. The Samurdhi Development Programme which was introduced in 1995, replacing the previous Janasaviya Programme, is the largest of these initiatives. The Program has a savings and credit component which is administered through the network of 1,038 member-owned, Samurdhi Bank Societies (SBSs).

A remarkably high number of funding agencies support microfinance in Sri Lanka. More than 40 organizations, ranging from public donors, international NGOs, and private investors, are active in microfinance. The largest international funders for microfinance are Asia Development Bank (ADB), Japan Bank for International Corporation (JBIC), the World Bank and USAID.

Data and Methodology

Data were collected from both primary and secondary sources in 2009 and 2010. A set of questionnaire was used in the interview survey among the SHG members of selected microfinance institutions. A purposive random sampling was used in the survey. One hundred members of SHG were interviewed to record their opinions about micro financing program through SHG in the Eastern part of Sri Lanka. The secondary data were collected from selected microfinance institutions. The collected data were analyzed with the help of statistical tools using SPSS software package.

Data Analysis: General information

General information about the SHGs is presented in Table 1.

**Table 1:
General information about the SHG**

Marital status	Percent	Age of SHG members	Percent
Single	9.0	20-30	2.0
Married	81.0	31-40	13.0
Divorcee	1.0	41-50	22.0
Widow	9.0	51-60	58.0
Total	100.0	>60	5.0
Working level of SHG members		News paper reading	
Self Employed	75.0	Easily	25.0
A Business Owner with At Least One Employee	16.0	Difficulty	12.0
Working With Family Business	9.0	No	63.0
Total	100.0	Total	100.0

It is observed from Table 1 that 9 percent SHG members are single, 81 percent members are married, divorcee is 1 percent and widow is 9 percent. It also shows 58 per cent sample consists of SHG members in the age group 51-60 years. Further, **25** per cent members easily read the newspapers, 12 percent with difficulty read the news paper and 63 per cent were not in a position of reading news paper. Table 1 further indicates 75 percent of members are self-employed, 16 percent of members area business owner with at least one employed, 9 percent of members are working with family business.

**Table 2:
Expenditure per month (in Rs) by SHG members and their family**

Item	Mean	Standard Deviation
Food	4933.50	1586.927
Education	1582	6888.18
Transportation	298.57	136.493
Saving	359.91	155.654
Housing	-	-
Religious obligation	117.5	55.34
Health	357	205.796
Basic services(energy, water)	1065	1061.38
Loan	742.58	294.445

Table 2 presents the pattern of expenditure of self help groups. 43 percent of members are having enough money to cover the expenditures, 57 percent of members have not enough money to cover the expenditures.

Comparison of Pre-SHGs and Post-SHGs situation: Economic Empowerment of SHGs

It is clear from the study that the average income of the members has increased. In pre SHG situation average monthly personal income of group members were Rs 3154.25 and standard deviation is 1180.55. In the post SHG average monthly income is Rs 5155.25 and standard deviation is 1890.501. Changes in average monthly personal income of the group members in the post SHG situation indicate a high inequality of income distribution among the 80 per cent of group members. 20 per cent of member's incomes are not change in post SHG situation. The analysis of variance shows a high positive correlation of the average monthly personal income of the group members between pre and post- SHG situations (r = 0.525 significant level at5%). This indicates that a high average monthly income of a group is benefited more than that of a group with a low average annual income in the post – SHG situation. Thus the benefit of development is not shared equally between the groups.

It is observed that 52% of SHG members keep their saving in hand at home, 30% of members deposit in the bank, 13% members buy jewelry, 3% member lend to relatives or friend and 2% buy large quantity of rice, sugar, etc. In the post-SHG situation 54% group members achieved the ability to save surplus income. Of 54%, 48.1% members save in Samurthi bank, 29.6% in BRAC, 13% in Peoples' bank and 9.3% in SANASA development bank. The average current balance of saving account 3077.67 and standard deviation is 1483.85. Results also indicate that 15% of group members take loan for the purpose of business, 5% of group members are take for production, and 80% of group members are taken for self employed. 62% of loans are provided by government institution and 38% of loans are provided by non government institution. Almost 95% of SHG members get a higher yield by investing in business. The average size of loan is 11980, and standard deviation is 4197.113. In the case of repayment rate is very good among the SHGs. 68% of members repay their loan once a month, 7% of members repay every twice a month, 25% of members pay every week. The average repayment size of loan per month is Rs 742.58 and standard deviation is Rs 294.445.

In the survey, it was observed average rate of interest is between 8%-12%. 58% of members pay 10-12% interest for their loan, 31% members pay 8-10% interest for their loan, and 11% members pay more than 12% interest their loan. On average interest per month is Rs122.52 and standard deviation is Rs 52.042. However, 64% of members face difficulties on repayment of the loan and interest. It is also notable that in order to settle the loan 59% of members are getting money from their small businesses. 35% of members are borrowing, and 6% are settling from saving.

Economic activities

The results indicate that no group members were involved in the economic activities in the pre-SHG situation. They were mainly involved in household affairs. Out of 100 group members 13% are now engaged in the business. 8% are now involved in the production and 79% of group members are involved in self employed. During the field survey the group members told that they are involved either in business or production activities in the post – SHG situation. Each group is thus specialized in a particular occupation, depending upon the local market demand and hence bank loans are granted accordingly

Social empowerment of the SHG members as well as family

There is an improvement in the use of personal deep tube well in the post-SHGs. Only 11% of group members used the personal deep tube well in the pre-SHGs, but in the post-SHG situation 86% have been able to improve their source of drinking water by installing own deep tube well and water supply and 14% of them remains same condition i.e. using the other sources. The correlation between the uses of own deep tube well and water supply in the pre-SHG and the improvement from the other sources to own deep tube well and water supply in the post - SHG shows a moderate positive correlation ($r = 0.312$) at 1% significance level. In the case of sanitation, 11% of group members had personal lavatory with bath room where as 89% used general lavatory (open air) in the pre-SHG situation. But in the post-SHG situation 76% members have been able to set up own lavatory with bath room and 24% are remaining same as before condition. The correlation between personal lavatory with bath room in pre and post-SHG situation indicate a positive correlation ($r =0.198$) but not significant. 19% of members had better dress quality and 81% were poor quality of dress in pre-SHG situation. On the other hand 85% members are now using the better quality of dress and 15% are still using the poor quality in the post-SHG situation. The correlation of better dress quality of the members between pre and post-SHG situations shows a positive correlation ($r = 0.203$) but not significant. 8% of members listened to the TV/ Radio news and 92% were not in a position of listening TV/ Radio news in the pre- SHG situation. But it was found during the field survey in post-SHG situation that 57% are now listening to TV/ Radio news where as 43% are still remain same as pre-SHG situation. The correlation of the listening to TV/ Radio news between pre and post-SHG situations indicate a positive correlation ($r = 0.340$) at 1% significance level.

Decision making ability of the SHG members:

In the pre-SHG situation 19% members had the ability and 81% had no ability to sale and purchase of goods. But in the post-SHG situation 63% now achieve the ability and 41.8% have no ability to sale and purchase live stock. The correlation of decision making ability regarding live stock sale and purchase between pre and post –SHG situation shows a positive correlation (r = 0.371) at 1% significance level. Also, 13% of members had the ability and 87% had no ability to take decision regarding the transaction involving house hold equipments in the pre-SHG situation. But in the post-SHG situation 64% have achieve the ability and 36% are yet to achieve the ability to take decision regarding transaction involving household equipments. The correlation of decision making ability regarding transaction involving household equipments between pre and post –SHG situations shows a positive correlation (r = 0.290) at 1% significance level.

In addition, 17% of members had the ability to save surplus income and 83% had no such ability in the pre-SHG situation But in the post- SHG situation 54% now achieved the ability to save surplus income and 46% are remain same as before. The correlation of decision making ability regarding control over income and saving between pre and post –SHG situations indicates a moderate positive correlation (r = 0.444) at 1% significance level.

100% members had no control over their loans taken from in formal money lenders in pre-SHG situation. But in the post- SHG situation all the group members have achieved the ability to control over loan. Now they are investing their loan in the economic activities as stated earlier. No group members were involved in economic activities in the pre – SHG. They were mainly involved with household affairs. Most of the SHG members are involved in self employment in post SHG situation.

Although there is high inequality of monthly income distribution among the selected group (coefficient of variation =36.67) but all group members have economically empowered been in the post- SHG situation. High positive correlation in the average monthly personal income (Rs) of the group members between pre and post SHG situations r = 0.525 with 5% significant level. Moderate inequality of the average monthly contribution of the group members to enhance their family income in the post –SHG (coefficient of variation =17.51). High positive correlation in average monthly family income of the group members between pre and post SHG situation r =0.327 at 1% significance level.. Moderate positive correlation between the use of own deep tube well for drinking water in pre-SHG and improvement in post-SHG indicating r = 0.312 with significance level .002. Positive correlation between the using of personal lavatory with bath room in pre-SHG and the same in post-SHG indicating r =0.198 with significance level 0.49. Positive correlation between the better dress quality in pre and post- SHG indicating r = 0.203 and not significant. Positive correlation of listening TV/ Radio news between pre and post – SHG indicating r =0.340 with significance level 0.001. Positive correlation of listening TV serial / cinema between pre and post –SHG indicating r = 0.259 at 1% significance level.. Positive correlation (r = 0.419) of decision making ability regarding the house repair and construction of the group members between pre and post SHG at 1% significance level. A positive correlation (r = 0.371) of decision making ability of the group members regarding the live stock sale and purchase between pre and post SHG at 1% significance level.. A positive correlation (r = 0.290) of decision making ability of the group members regarding the transaction involving household equipment between pre and post SHG at 1% significance level.. A moderate positive correlation (r = 0.444) of decision making ability of the group members to control over income and savings between pre and post SHG at 1% significance level.. 100% achievement has been made by the group members regarding control of their loans taken from bank. In the post-SHG situation, people invest their loans in the productive economic activities.

Findings and Conclusion

This section reveals the findings which were identified from data analyses. Most of the SHG members (81%) are married and 58% members are belong to 51 -60 years age group. Most of the SHG members (63%) do not read the news papers. However, 100% of SHG members are educated at primary level. SHG members (47%) live with up to three members. The members do not work in public or private enterprise or on their own business. But the 75% of members are self employed and they do not involve in other income generating activities.

From the study, it could be concluded that along with economic empowerment, group members are well being empowered socially in the post-SHG, which ensures the optimum standard of living of the group members. One of the important aspects of microfinance programe is to establish rights, status and decision making ability of poor people. It has been found that only a few group members had decision making ability in the family in the pre –SHG. But microfinance programme has changed the scenario and able to fulfill the objective of the programmes. During the field survey the group members indicated that they were dependent on the informal money lenders in the pre-SHG. Later, they are freed from the clutches of informal money lenders through microfinance programme.

However, rural women have been empowered economically as well as socially through the microfinance programme. But they have not been able to earn income equally in the post-SHG because of lack of organized local markets. In this aspect government should intervene and assist them to market their products. The study has also identified that a higher percentage of female members are not still covered by microfinance programme. They are still engaged in household affairs only. So, micro finance institutions should encourage and incorporate them immediately to develop their socio-economic condition. In anticipation, this research may encourage those government as well as non- government organizations, are working in this field in Sri Lanka to improve the socio-economic condition of the poor people in the rural area.

References

Besley, T. and S. Coate, (1997), "Group Lending, Repayment Incentives and Social Collateral", Journal of Development Economics, 46: 1-18.

CGAP, (1998), "How Microfinance Providers Target the Poor?", PACT Publications.

Fernandez, A.P (1998), The MYRADA Experience: Alternative Management System for Savings and Credit of the Rural Poor, Mysore Resettlement and Development Agency, Bangalore

Ghatak, M., (1999), Group Lending, Local Information, and Peer Selection, Journal of Development Economics 60, 229-248.

Goldmark, Lara, (2001), Microenterprise development in Latin America: Towards a new flexibility, Journal of Socio – Economics 30, 145-149.

Gunatilaka, R., et al. (1997). "The Samurdhi Programme: A Preliminary Evaluation." Colombo: Institute of Policy Studies.

Islam, M., (1995), Peer monitoring in the credit market, Journal of Contemporary Asia 26, 452-465.

Kabeer. Naila, (2005), Is Microfinance a 'Magic Bullet' for Women's Empowerment? Analysis of Finding from South Asia" Economic and Political Weekly. Vol. 40, No. 44/45, 4709-4718

Khandker, S. (1998). Fighting Poverty with Micro Credit. Oxford: Oxford University Press.

Morduch, Jonathan,(1999), The microfinance promise, Journal of Economic Literature 37, 1569-1614.

Perry, Donna, (2002), Microcredit and women moneylenders: The shifting terrain of credit in rural Senegal, Human Organization 61, 30-40

Thompson Sara(2006),"microfinance and poverty alleviation measuring the effectiveness of village banking in Haiti A Regression Analysis".

Presented at FINCA International's 2006 Research Symposium

Van Tassel, E, (1999), Group lending under asymmetric information, Journal of Development Economics 60, 229-248.

Vonderlack, R.M.& Shreiner, M. (2001). Women, Microfinance and Savings. Lessons and proposals. Center for Social Development. Washington University: St Louis.

Wenner, M., (1995), Group credit: A means to improve information transfer and loan repayment performance, Journal of Development Studies 32, 263-281

Woolcock, Michael, (1999), Learning from failures in microfinance: What unsuccessful cases tell us about how group-based programs work, The American Journal of Economics and Sociology 58, 17-42.

Woller, Gary, (2002), From market failure to marketing failure: Market-orientation as the key to deep outreach in microfinance, Journal of International Development 14, 305-324.

Yunus, Muhammad, (1999). *The Grameen Bank*. Scientific American. 281(5) p. 114-119.

Zaman, H. ,(2000). Assessing the Poverty and Vulnerability Impact of Micro-Credit in Bangladesh: A Case Study of BRAC." Working Paper, World Bank.