Economic Reforms brought about by Micro Finance Training – A case study of Padarahalli village in Ramanagar Taluk.

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Abstract

There have been numerous studies on the effect of micro finance on its borrowers. However the effect of microfinance training on the trainees has received very little attention. Training is a very important component of microfinance and is bracketed along with other concomitant additives under the umbrella of microfinance plus. This study focuses on the effect of microfinance training on the income levels and the entrepreneurial skills of the trainees in the district of Ramnagara, Karnataka, India. The paper studies the income levels and the entrepreneurial skill of the respondents both trained and untrained and ascertains if there is a significant difference between the two groups. By studying the difference between the two groups the research attempts to study the effect of micro finance training. Primary Data was collected from the respondents using a questionnaire as a tool. This paper starts with an introduction dealing with the evolution of microfinance followed by the relevance of training to microfinance and the government of India's initiatives in this area. The literature review that follows shows that there are only a few studies which dwell on the direct impact of microfinance training. The next part deals with the need for the study, objectives and hypothesis. The analysis and findings which follow shows that there is no significant difference between trained and untrained respondents as far as their income levels and entrepreneurial skills are concerned, which leads one to the conclusion that micro finance training does not have an impact on the income levels or the entrepreneurial skills of the trainees.

Key Words: microfinance plus, RSETI, training, entrepreneurship.

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1. Introduction

There is a distinct relationship between the quantum of capital formation in a country and its present state of economic development. Countries which historically had access to large amounts of capital are now the most developed. The Industrial revolution in Europe was fuelled by the enormous amount of capital which the European countries could amass by impoverishing the countries they ruled. In India, the inadequacy of capital accumulation has been one of the major impediments to economic development. The wealth drained away by alien raiders and the economic exploitation by the British are the main reasons for the poverty of capital in India. The five year plans formulated by successive governments sought to address this problem. In spite of these measures India faced a dearth of capital till recently. With the Liberalisation policies followed by the country from the early 1990's this problem at a macro level is largely resolved through vast amounts of capital inflows by way of Foreign Direct Investment (FDI). This has however resulted in a skewed development of the economy. There is a palpable dichotomy in our economic development where one sector attracts huge amounts of capital while some essential sectors face a dearth of capital. While we have taken giant strides in the areas of defence, infrastructure, machinery etc, the benefits of this development has not trickled down to the people at the bottom of the pyramid. Even today, around forty percent of the populace are grovelling below the poverty line.

Concept of Micro Finance

Successive governments besieged of the problem introduced a plethora of Government programmes like Integrated Rural Development Programme (IRDP), Swarna Jayanthi Gram Rozgar Yojana (SGSY) Swarna Jayanti Shahari Rozgar Yojana (SJSRY), PMRY (Prime Minister's Rozgar Yojana) now renamed as PMEGP (Prime Minister's Employment Generation Programme) and so forth. However, the late seventies saw a revolutionary and innovative concept of creating capital at the grass root level. An economic model developed and experimented by Nobel Laureate Mr. Mohammed Younus has left its imprint at the micro level and has proven to be very effective. Younus's theory and practice of Micro Finance in BanglaDesh has emancipated large number of indigent people there. His model has been replicated and transplanted in our country though in a modified form. There is no doubt that today a large number of families especially those below the poverty line have largely benefitted from the practice of Micro Finance. An extremely simple concept of forced savings by a group of women called Self Helf Groups (SHG) and then lending the money so saved to the needy members of that group at a reasonable rate of interest is the basic foundation of the Micro finance concept. There is negligible delinquency on the part of the group members as peer pressure ensures that the loans they take are repaid on time. In the early stages microfinance was limited to micro savings and credit only. However today it encompasses micro insurance, training, health and other such non financial services. Thus both financial and social intermediation is a part of microfinance. Sensing the development potential the Government through Reserve Bank of India initially forced the Public Sector Banks to lend to these groups to foster their development. A recent study by National Bank for Agriculture and Rural Development (NABARD) states that 98 million families are covered by micro finance as on 31st March 2010. Today Banks and Financial Institutions are competing to lend to these groups as the default rate for repayment of loans is less than 2%. The finance made by the Banks augments the funds of the group and facilitates onward lending within the group members. At the grass root level the finance by banks to SHG's is called "linkage." One inseparable part of micro finance and the earlier Government programmes like IRDP, PMRY etc. was the training provided to the borrowers along with the loan. Even today many of the subsidized loan programmes of the Government are linked to training of the borrowers so much so that without requisite training the borrowers are not eligible for a loan.

Ironically a few scrupulous and unscrupulous NGO's have sensed a business opportunity in lending to the poorest of the poor. Numerous NGO's and Private Micro Finance Institutions have now jumped into the fray to lend to these groups. The unhealthy competition to lend has given rise to many unethical practices as each MFI is in a quest to garner a larger share of this business. The clamour to lend to this sector and the dubious recovery tactics adopted by Micro Finance Institutions (MFI) has created such a furore that the Reserve Bank of India has promptly set up the Malegam Committee to look into the functioning of these MFI's. The exploitation of the poor and the needy by the greedy MFI's has also led to the passing of "The Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Act 2010" by the AP Government.

Training and Microfinance

Training has now become an integral part of micro finance. A few years earlier the training needs of borrowers of micro finance were catered to by a few Government Departments like District Industries Centre, Small Industries Service Institute (SISI) now renamed as Micro Small and Medium Enterprise Development Institute (MSME- DI), Rural Development and Self Employment Training Institute (RUDSETI) and a few other training institutes sponsored by Public Sector Banks. The Government of India now realising the importance of training has chalked out a programme, under the auspices of The Ministry of Rural Development, to establish a training institute in each district of the country. Vide Ministry of Rural Development Circular No. F- No- I- 12011/19/2008 SGSY (Trg) dated 31-12-2010, the Government is committed to open 500 Rural Self Employment Training Institutes (RSETI) in the 11th Five Year Plan. (www.nird.org.in). Training in micro finance is typically skill based training like tailoring, motor winding, carpentry, dairy, bee keeping, beauty parlour, condiments, etc. Training will also include basics of business and finance. These courses are short term courses, the period of training ranging from as less as one day to around three months. In almost all cases training is compulsorily residential. Also training given by the Government Departments and the Public Sector Banks is free of cost. A majority of the trainees are drawn from the rural areas. Many studies have shown that under micro finance training along with finance will go a long way to alleviate the poverty of the borrowers. There are many impact studies done on the effect of microfinance though very few researchers have studied the impact of microfinance training. It is therefore essential to not only study the impact of finance but also the impact of training provided along with the finance. This paper attempts to study the impact of micro finance training on the economic condition of the borrowers.

2. Literature Review

Ranjula Bali Swain and Adel Varghese (2009) from the Department of Economics, Uppsala University, Uppsala, Sweden, in their working paper published by the University titled, " Microfinance 'Plus': The Impact of Business Training on Indian Self Help Groups" arrive at the conclusion that, "Business training impacts assets beyond basic training. The linkage which yields most impact is when banks provide the funding and NGOs provide the training. We find no impact on income for any model type. Future work can explore the costs and find whether the benefits outweigh the cost." One interesting finding of this study is that training has no impact on the income levels of the trainees.

S. Kessy and S.S. Temu (2010) from the Department of General Management and the Department of Accounting, Dar es Salaam Business School, respectively in their paper titled, "The impact of Training on Performance of Micro and Small Enterprises served by Micro Finance Institutions in Tanzania" Published in Research Journal of Business Management Vol 4(2) 103-111, 2010 bearing ISSN No. 1819 -1932 state that the assets and revenue of the Micro and Small Enterprises owned by recipients of training in Business were statistically significantly higher than the assets and revenue of the micro credit borrowers without training. They further state that enterprises that got training showed higher growth than those which did not get training.

Elaine L. Edgcomb in a research article titled, "What Makes for Effective Microenterprise Training? Published in the Journal for Microfinance, Volume 4 Number 1 concludes that effective microenterprise training ensures that clients learn key financial and marketing skills, as well as the "soft skills" or basic competencies that increase a micro entrepreneur's ability to apply them effectively. The research shows that while most clients increase their understanding and use of business skills, there are some differences between more and less successful clients.

Geetha Nagarajan (2005) in a paper published by US AID for American People in March 2005 titled "Microfinance, Youth and Conflict: Emerging Lessons and Issues" states that Microfinance for youth requires careful packaging of training and financial services. For effective use of microfinance by youth, especially below 20 years of age, programs should consider combining entrepreneurial skills training with basic life and financial education. Pushing youth to become independent entrepreneurs without proper training is a recipe for failure. In general and in particularly volatile environments training and financial services provided by the same institution have not always been effective as many MFI's serving youth and adult markets have noted.

Robert Lensink, Roy Mersland and Vu Thi Hong Nhung in a research paper titled "Should microfinance institutions specialize in financial services?" explain that MFIs began to broaden their activities even further, providing financial services as well as business training, health care, and social services. These so-called "plus" activities acknowledge that though financial services are critical to microfinance, they address only one of the many problems of the poor. For example, the poor have comparatively high disease rates, and few know how to use borrowed funds efficiently. In such conditions, microcredit is insufficient.

Isidore Ekpe, Norsiah Binti Mat and Razli Che Razak (2010) in their research paper titled, "The Effect of Microfinance Factors on Women Entrepreneurs' Performance in Nigeria: A Conceptual Framework" published in the International Journal of Business and Social Science Vol. 1 No. 2; November 2010 examine the effect of credit, savings, training and social capital on women entrepreneurs' performance in Nigeria. Through their research they arrive at the conclusion that "Credit, savings, training, social capital, opportunity and attitude to risk are positively related to women entrepreneurs' performance in Nigeria."

Kathryn M. Gow (1999) from the Queensland University of Technology in her research paper titled,"How access to microfinance and education through technology can alleviate poverty in third world countries," gives the example of The CARD Bank which is a

Centre of Excellence when it comes to demonstrating the positive effect of training on people at all levels of the Bank. Office and field observations (December, 1999) by the author, a trainer of long standing, led her to conclude that their culture of training empowered all persons who had contact with CARD. Further in the paper she adds that Motivational training is generally a key factor. The training programs generally includes two days of training for all intending participants before they gain access to loan monies and then at the end of each Centre meeting (each Centre consists of eight groups of five members each), a short training talk is given on issues relating to training in health, sanitation, clean environments, family planning, education, budgeting and product development. Training is needed, not just at the beginning of a program, but throughout the life of the program.

Thyra A. Riley and William F. Steel in a case study for the World Bank produced a paper titled “Kenya Voucher Program for Training and Business Development Services.” They have studied the manufacturing and service sector business in the Jua Kali sector of Kenya and developed a voucher mechanism for imparting training. The vouchers for training will be given to the employers and employees of firms at a discount of 30 to 49 % of the cost. They observe that some MFIs view training voucher graduates as good potential clients, while others are making training through the program a condition of a loan. The Kenya Co-operative Bank is voluntarily training Jua Kali associations on how to establish savings and credit associations, as part of its business development efforts. The Jua Kali savings and credit associations will become future channels and guarantors for the Cooperative Bank’s credit and savings services

Lars Ivar Oppedal Berge (2011) after conducting field experiments on the spill over effects of training wrote a research paper titled, “Measuring Spill over Effects from Business Training Evidence from a Field Experiment among Micro entrepreneurs” His research shows that loan group members frequently interact and discuss business related topics, and that the training itself has contributed to more sharing of knowledge and information. On average, the clients in his sample report that they discuss business related topics with each group member around once per week, suggesting that the weekly loan meeting is the main arena for information sharing.

Didier Krumm (2010) from PlaNet Finance presented a paper titled, “Microfinance Plus programmes” at the 4th University Meets Microfinance Workshop held at the University of Bergamo, on 22nd October 2010. In his paper he observes that Clients that received training were 4 percent more likely to reinvest profits into their business, 3-4 percent more likely to maintain sales records for their business, 7 percent more likely to maintain withdrawal records for their business, and 5 percent more likely to report having implemented changes to improve their business. Finally, the acquisition of business knowledge and the new business practices led to increased business revenues. Sales in the month prior to the surveys were 16% higher for training participants.

Cooper, Jarwo Nutah from The University of Nairobi in his thesis titled, “The impact of microfinance services on the growth of small and medium enterprises in Kenya” predicted that there was a strong positive relationship between microfinance services and the growth of small and medium enterprises in Kenya. A regression analysis was performed to establish the impact of microcredit, micro insurance, and training on the growth in sales level. The regression analysis conducted established that the three independent variables have a positive correlation with the dependent variable. Each of the independent variables: microcredit; micro insurance and training contribute positively to sales growth. It is also evident from the study that without the services provided by MFls most of the SMEs would struggle with their growth objectives or eventually collapse. The study concluded that microfinance services have a strong positive impact on the growth of SMEs in Kenya.

3. Need for the present study.

The status of Micro Finance Institutions and SHGs are at the cross roads in recent times. While the MFI's are indulging in excess loaning with usurious interest rates the borrowers are unwittingly falling into a debt trap. Then there is the paradox of failing MFI's and borrowers committing suicide which mean that problems afflict both the lender and the borrower. With financial literacy and business education percolating to the grass roots ills like excessive borrowing, usurious interest rates and proliferation of NPA's will be remedied. Huge amounts of money are spent by the Government on training and the fruits of this constructive expense are to be measured scientifically.

Unfortunately the focus lights are more on the Institutions themselves rather than on the people who utilize the services of these institutions for their economic upliftment. Government Institutions tend to focus more on Statistical details rather than on the socio economic impact. A recent study by NABARD on the "Status of Micro Finance in India 2009-2010" deals mainly with the lending made by Banks to SHG's and MFI's and not on the impact these loans and the concomitant training had on the borrowers. There are a few research studies on the impact of microfinance but no major or extensive research has been undertaken to study the economic impact of the training on the borrowers. The study may result in interesting inferences which may be used for the benefit of the Institutions and the Groups.

4. Objectives of the study

When enormous importance is attached to the role of training especially in the field of micro finance it becomes imperative for one to study the social and economic impact of training. This study focuses on the economic reforms brought about by training only. Under the umbrella of economic reforms this research endeavours to study whether the training has an impact on the entrepreneurial skills of the trainees by looking into their appetite for undertaking risk, savings to mitigate difficult financial situations, and their commitment to undertake income generating activity. Another important aspect of this research is to gauge whether the training has improved upon the income levels of the trainees. All these factors have been clubbed to define economic reforms as envisaged in the title of this study.

The two main objectives of the study are,

1) To study whether micro finance training has led to increased income levels of trained borrowers vis a vis untrained borrowers.
2) To appraise the effect of microfinance training in generating and promoting entrepreneurship.

Hypotheses for the study.

H 1: There is a difference in Income levels between that of trained borrowers and untrained.

H2: Micro finance training enhances entrepreneurial skill of the trainees.

5. Methodology.

Data Collection: For an ideal impact study data should be collected over a period of time. However due to various constraints collection of longitudinal data was not possible. To overcome this shortcoming cross sectional primary data has been obtained by administering a questionnaire to the respondents from both trained and untrained borrowers. A comparison of data from the trained and untrained borrowers is the basis for this study. The data has been collected from primary and secondary sources. The secondary data was collected from publications in national and international journals, thesis of other researchers on the subject, Government publications, websites of Government Departments and other relevant organizations.

Tools for Data Collection. Primary Data collection was in the form of a questionnaire. The questionnaire used for this study has been adapted from the standard questionnaire developed by 'The Small Enterprise Education and Promotion Network' Washington DC (The SEEP Network) and published in 2007 by them in their book, "Learning from clients – Assessment tools for Micro finance practitioners" written by Candace Nelson.

Sampling frame and Sample Size.

Ramanagara District because of close proximity to the city of Bangalore has pockets of affluence. There are also large areas where people still live below the poverty line and the fruits of development are yet to reach these areas. For the purpose of the present study members from self help Groups in Ramanagar are selected. The respondents were selected randomly but with the following qualifications:

a) Data was collected from married female members of a Self Help Group. Only members of a Self Help Group were chosen because training and loans are given by Banks and MFI's more predominantly to Self Help and Joint Liability Groups rather than to individuals.

b) The respondents are between the age groups of 18 to 50 years. The age limit is so fixed because beyond this range the members are discouraged from joining SHG's. However exceptions in deserving cases were made.

c) The respondents were selected from the self help groups located in Padarahalli village of Ramanagara District of Karnataka.

The number of respondents is fifty two.

Statistical techniques applied.

To find out whether training has had an impact on the income levels of the respondents the changes in income were measured using a five point rating scale and then calculating the mean. The respondents were asked to rate the change in income over the last two years. The lowest point on the scale namely one represented "decreased greatly" whereas the highest point on the scale which was five indicated " increased greatly." None of the respondents have reported that their income has increased greatly which has effectively reduced the five point scale to a four point scale. Change in savings over a period of two years was also used as an indicator for measuring the income levels. The change in savings was also measured using a five point rating scale where the lowest rating was one meaning savings had decreased greatly and the highest rating was five meaning increased greatly. Here again none of the respondents reported that their savings had increased greatly and therefore here also the five point scale was reduced to a four point scale.

Another statistical technique applied was the Pearson's correlation test to find the correlation between income and savings.

To measure the changes in entrepreneur skills the spending pattern of the respondents was measured. Respondents mainly had two sources of funds namely loans and their income. The respondents were asked to spell out the three main expenses they incur with the funds available with them. The intention was to see whether they spend any money on income generating activity apart from the expenses incurred on consumption. It is presumed that those who spend their money on Income generating activity had better entrepreneurial skills.

6. Analysis and Findings

Out of the fifty two respondents forty seven of them were employed and the remaining five were unemployed and therefore did not have any income. Out of the forty seven employed respondents only twenty one of them saved for contingencies. Table – 1 shows the descriptive statistics done using SPSS software. It is found the mean score of the rating scale for all the respondents is 2.2553 which means that most of them had reported a decline in income over the last two years. Table -1also shows the changes in the savings level which has a mean of 2.4286 which again indicates that the level of savings has declined over a period of two years.

Table – 1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Change in income	47	1.00	4.00	2.2553	.79312
Change in savings	21	1.00	4.00	2.4286	.81064

A t- test was conducted to find out whether there were significant changes in income levels between the trained and untrained respondents. There were twenty two respondents who had undergone micro finance training and twenty five who had not. Table – 2 below shows the t value to be 1.645 and the p value to be 0.107. The t value is low and this shows that there is no significant difference in the change of income levels between the trained and untrained borrowers. The p value which should be less that 0.05 is .107 which once again proves that the probability of occurrence of this result is quite high. Therefore the alternate hypothesis H1 should be rejected and the null hypothesis that there is no difference in the income levels between trained and untrained borrowers should be accepted.

Table – 2						
Group Statistics						
	Training	N	Mean	Std. Deviation	t value	P value
Self income status	Yes	22	2.4545	.80043	1.645	.107
	No	25	2.0800	.75939		

Table – 3 shows the degree of correlation between income levels and the level of saving. The Pearson's correlation test shows that the Pearson correlation value is 0.482 and the P value to be 0.031

Table – 3		
Correlations		
		Savings level
Income level	Pearson Correlation	.482
	P value	.031
	N	20

The second objective of the study was to measure the impact of training on the entrepreneurship levels. Those respondents who spent their income on only consumption like Food, FMCG, Clothes, School Fees and Health could be assumed to possess less inclination towards entrepreneurship, whereas those who spent their income on Income Generating activities like Business, Cattle rearing, poultry, piggery and even savings are assumed to possess an inclination for entrepreneurship. Table No.4 shows that both the trained and untrained groups had not invested much in business while to compared to other categories. Though trained grouped invested more in Diary activities there is no significant difference. Trained group spent more money in meeting school fee when compared to untrained group and this is statistically significant at 5% level. Similarly as far as expenses on clothes is concerned, untrained spent more than trained which is again statistically significant at 5% level.

Table No. 4		
	Training	
	Yes	No
	Column N %	Column N %
House exp food	72.7%	81.5%
House exp FMCG	45.5%	33.3%
House exp Clothes	27.3%	70.4%*
inv in business	4.5%	7.4%
House exp school fees	54.5%*	14.8%
House exp savings	.0%	.0%
house exp health	27.3%	48.1%
Dairy	13.6%	3.7%

*sig diff between Yes and No 5% level

The whole study could not prove there is statistically significant difference between Trained and Untrained people on various concepts like Income and Entrepreneurial activities. However, it is proved that, the trained people income level is increased and their savings also increased drastically. Between Income and savings, a relation is established. So, one can reasonably conclude that the intervention of training programme can enhance the income and savings level of the MFI's members.

7. Limitations of the study

1) The present study is confined to the members of the Self Helf Groups and Institutions in Padarahalli village of Ramanagar District. Hence inferences drawn cannot be automatically applied to other areas in India.
2) The study is based on a sample size of 52 only. As it is impossible to study the entire population the study is limited to that extent.
3) Some of the respondents are illiterate and may not understand some of the questions asked during the interview though the interview is conducted in the local language.

8. Conclusion

The study shows that the micro finance training given in its present form has not had an impact on the income levels or the entrepreneurship skills of the trainees. Microfinance training should therefore focus on innovative methods of increasing income at the bottom of the pyramid. Traditional skill training like carpentry, plumbing, motor repairs etc has lost its relevance and innovative training modules are to be designed. Awareness about the various government schemes for the benefit of the poor should form a part of the curriculum. Similarly the benefits of micro insurance should be imparted during the training sessions. Apart from enhancing skills Training, should also include financial soft skills like savings, reinvestment into business, risk, resilience and curbing expenditure on non income generating consumer goods.

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