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The effectiveness of microfinance services for agro enterprise development by the SHGs in Kerala

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ABSTRACT

The study was conducted during the year 2021-22 in the Kerala state by adopting ex-post facto research design. The research project was undertaken in the state of Kerala, which is divided into five agro-ecological zones and three zones Southern, the Central and the Northern zones were purposively selected for the study. Thus Thiruvananthapuram from the Southern zone, Thrissur from the Central zone and Malappuram from the Northern zone were selected as they had the highest number of SHGs among other districts in the zone. Seven SHGs were selected from seven panchayaths (lower most unit of administration in a district) of each district forming 21 SHGs. Ten respondents were randomly selected from each of these selected SHGs. Thus a total of 210 SHG agripreneurs from the three districts of Kerala constituted the sample size of the study. The data from the respondents were collected using interview schedules and focus group discussion. SPSS was used to analyse the data and results are presented in tables to make findings meaningful and easily understandable. The selected SHGs were classified into on farm and off farm agro enterprises. In the study, on farm agro enterprises consist of agricultural production, farming and related activities like seedlings nursery, field crop cultivation, livestock etc. while off farm agro enterprises encompasses all agriculture and allied activities that occur beyond the farm like tissue culture, agro machinery and processing etc. The effectiveness of microfinance services was measured using a scale by Murugan and Sreedaya. The scale had five dimensions namely; microcredit, micro savings, delivery mechanism, repayment and training & advisory. The results revealed that the microfinance services were found to be moderately effective for 52.38 per cent of the selected SHGs (11 SHGs) whereas it was found to be highly effective and least effective for 23.81 percent of the SHGs (five SHGs each) under study. The Principal Component Analysis (PCA) of the five sub-dimensions of microfinance services indicated that, 'microcredit' largely determine the effectiveness of microfinance services followed by the 'micro savings' and 'delivery mechanism'. The study which assessed the effectiveness of microfinance services for agro enterprise development by SHGs could be useful in the process of upgrading the SHGs to successful entrepreneur groups in agriculture and allied areas, which will revitalize the agriculture sector itself.

Keywords: Microfinance services, SHG agripreneurs', Agro enterprise

Introduction

According to Milton Friedman, Nobel Prize winner in Economics 1976, the poor stay poor not because they are lazy but because they have no access to capital. It is an established thing in the current world that low and middle income people face financial constraint and they are powerless to commence their own business. Creation of viable and sustained self-employment through microcredit ought to be correlative strategy. Microfinance is one of the methods of building the limits of poor people and shaping them to self-employment (Tria *et al.*, 2022) [1]. This is valid since a considerable lot of destitute individuals around the globe are as of now profiting by microfinance. Statistics indicate that some 45% of all the people in the world who use microfinance services are living in South Asia (Sakshi *et al.*, 2018) [2].

Microfinance is the small-scale financial services provided to people who cannot access traditional banking services (ILO, 2005) [3]. It also refers to savings product, insurance, pledge and remittances (IBEF, 2013) [4]. Microfinance could be well-defined as the financial instruments, like loans, savings, and other financial products (World Bank Group, 2015) [5]. The term microfinance might also be stated as microcredit' since the credit and repeated credit which is provided to requirements of recipient's with a convenient pace of repayment and at an appropriate interest rate (Verma *et al.*, 2021) [6].

The term "microfinance" got well known and broadly utilized with the foundation of Grameen Bank by Muhammad Yunus (Nobel Peace Prize Winner 2006) during the 1970s supported by the central bank of Bangladesh in 1983. He observed that small amounts of credit could make a huge impact on the poor peoples' lives. The idea was straightforward: microfinance would transform customers' businesses by providing capital; that would increase borrowers' earnings and ultimately eliminate poverty (Yunus, 2016) [7].

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Microfinance and micro enterprise were regarded as ideal means of self-help poverty reduction (Hiatt *et al.*, 2006) [8]. Due to the success of MFIs such as Grameen Bank in Bangladesh, a new paradigm for minimalist microfinance emerged.

Effectiveness is the capability of producing a desired result or the ability to produce desired output. Drucker (2007) [9] mentioned effectiveness as 'doing the right thing' and efficiency as 'doing things right'.

The Agripreneurship or entrepreneurship in agriculture has potential to generate growth, diversify income, and provide widespread employment and entrepreneurial opportunities in rural areas (Hridaya *et al.*, 2022) [10]. Entrepreneurship can be defined as the capability to undertake substantial amount of risk while managing and organizing a new or existing business enterprise with the solitary object of making profits (Okezie *et al.*, 2021) [11]. Entrepreneurship development has made significant contribution in providing employment to millions of people, generating foreign exchange for the growing economy, producing import substitutes, contributing to value addition and utilizing the vast human and natural resources of the country. In view of the above contributions, entrepreneurship development through small enterprises has come to occupy crucial role in the economic progress of the nation (GOI, 2021) [12]. An agro-enterprise refers to any entrepreneurship programme in the field of agriculture. It provide value-adding goods and services and take title to inputs and/or outputs within the agro-food system (Yoganandan, 2017) [13].

A Self Help Group is a group which involves of 15 to 20 people in number, from a homogenous class, who come collected to form savings and credit organization (Anupam, 2012) [14]. RBI (2003) [15] mentioned that a SHG can be either registered or unregistered group of micro entrepreneurs formed voluntarily.

SHG and microfinance has become a stepping stone for the underprivileged, allowing them to rise not only economically, but also socially, psychologically, and emotionally (Sarumathi *et al.*, 2011) [16]. The SHG movement, which is linked to the microfinance approach, has widely recognised as an effective intervention tool for decreasing poverty, producing income, empowering the poor, and lowering unemployment. These alliances ensure support, encouragement, education, and financial assistance to women to realize their personal as well as professional goals for a better future (Sreedaya, 2000) [17].

The microfinance services to the SHGs in India attained a momentum in 1992, once the National Bank for Agricultural and Rural Development (NABARD) started the SHG-Bank Linkage Programme (SBLP) in 1992. The Small Industries Development Bank of India (SIDBI), set up the SIDBI Foundation for Microcredit in 1998. ESAF

(Evangelical Social Action Forum) microfinance is another leading MFI started in 1992 in private sector. These microfinance institutions are supporting the SHGs for starting various enterprises (NABARD, 2021) [18].

The question that how best the microfinance services has been really benefiting the SHGs entrepreneurship still remains to be examined. The present study was conducted to assess the effectiveness of microfinance services to the self help group engaged in agro enterprise development in Kerala.

Methodology

In the light of the above definitions, the effectiveness of microfinance services for agro enterprise development was operationally defined as how effectively micro finance services aids the Self Help Groups involved in agro enterprise development to achieve the development of their enterprise, making optimum use of all the available and potential services of microfinance.

The design of the study was expost facto design. The research project was undertaken in the state of Kerala, which is divided into five agro-ecological zones and three zones Southern, the Central and the Northern zones were purposively selected for the study. Thus Thiruvananthapuram from the Southern zone, Thrissur from the Central zone and Malappuram from the Northern zone were selected as they had the highest number of SHGs among other districts in the zone. Two blocks, from each of the selected districts, were identified through purposive sampling, the blocks with highest number of SHGs were identified. Vellanad and Perumkidavila blocks were selected from Thiruvananthapuram district, Mathilakam and Kodakara were selected from Thrissur district and Areacode and Wandoor were selected from Malappuram district. Seven SHGs were selected from seven panchayaths (lower most unit of administration in a district) of the selected two blocks of each district, through proportionate random sampling forming 21 SHGs. Ten respondents were randomly selected from each of these selected SHGs. Thus a total of 210 SHG agripreneurs from the three districts of Kerala constituted the sample size of the study. Selection of SHGs was done by ensuring the representation of different agro enterprises. The selected SHGs were classified into on farm and off farm agro enterprises (Table 1). In the study, on farm agro enterprises consist of agricultural production, farming and related activities like seedlings nursery, field crop cultivation, livestock etc. while off farm agro enterprises encompasses all agriculture and allied activities that occur beyond the farm like tissue culture, agro machinery and processing etc.

Table 1. Classification of SHGs running agro enterprises based on the nature: on farm / off farm

On Farm Agro Enterprises	Off Farm Agro Enterprises
• Vegetable seedlings nursery • Vegetable production and marketing • Piggery • Poultry • Field crop cultivation • Goat farming • Ornamental fish culture • Organic banana cultivation • Dairy farming • Duckery • Mushroom cultivation	• Honey wax production • Pickle preparation • Coconut vinegar • Agro machinery and labour hire center • Paper bag /Cloth bag • Tissue culture banana • Curry powder / masala production • Nutrimix production • Sweets and snacks preparation • Vermicompost

Effectiveness of microfinance services for agro enterprise development by the SHGs was measured using the scale developed by Murugan and Sreedaya, 2021. The scale contains five dimensions viz., microcredit, micro savings, delivery mechanism, repayment and training & advisory. The data was collected through pretested questionnaires and focus group discussions.

Effectiveness index was calculated based on the five dimensions viz., microcredit, micro savings, delivery mechanism, repayment and training & advisory. Effectiveness of microfinance services was calculated individually from the scores obtained for each respondent and the average score of members in a group constituted effectiveness score of group.

Results and discussion

It was evident from the table 2 that 52.38 per cent of the SHGs (members) belonged to moderate effective category whereas equal number belonged to less and high effective category. This might be due to the insensitivity to the type of enterprises, business cycle, loan disbursement, providing trainings etc. *Ahamad et al. (2020)* [19] reported that the microfinance program need to examine the inclusion and retention strategy in favour of poorest households using multidimensional indicators that were able to capture poverty in its myriad form. *Misal (2013)* [20] revealed that the living standards of the poor could not 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.

On farm agro enterprises to which microfinance services were found to be highly effective were agro machinery and labour hire centre, piggery, dairy farming whereas off farm agro enterprises includes nutrimix production and tissue culture banana. The agro enterprises for which the micro finance services were found to be moderately effective were on -farm agro enterprises like indoor plants sale and nursery, organic banana cultivation, goat farming, vegetable production and marketing, duckery, ornamental fish culture and field crop cultivation and the off farm agro enterprises include coconut vinegar, paper and cloth bag making, mushroom cultivation and honey and honey wax production. The agro enterprises for which the microfinance services were found to be less effective were vegetable seedling nursery, vermicompost and poultry in the on farm agro enterprises area and sweets and snacks preparation and pickle preparation in the off farm agro enterprises area.

Table 2. Distribution of SHGs based on effectiveness of microfinance services for agro enterprise development

N = 210			
Sl. No.	Effectiveness of microfinance Services	Frequency (F)	Percentage (%)
1	Less (< 54.46)	5	23.81
2	Moderate (54.46 - 75.49)	11	52.38
3	High (> 75.49)	5	23.81
	Total 21		100.00
Mean = 65.017, SD = 10.561			

(N = 21)

Table 3. Distribution of SHGs based on the effectiveness of sub components of micro credit, micro savings services

Sl. No.	Effectiveness of micro credit Services	Percentage (%)	Effectiveness of micro savings Services	Percentage (%)
1	Less (< 17.14)	9.52	Less (< 18.46)	23.81
2	Moderate (17.14 - 26.23)	57.14	Moderate (18.46 - 25.24)	47.62
3	High (> 26.23)	33.33	High (> 25.24)	28.57
	Total 100		Total 100	
Mean = 21.69, SD = 4.55			Mean = 21.85, SD = 3.39	

Table 3 depicts that, in some of the cases, the enterprises run by SHGs found micro credit services were very effective (33.33%) while some other enterprises found the micro credit services for agro enterprise development less (9.52%) and moderately effective (57.14%). This can be due to the difference in credit allowed for the enterprise development by the microfinance institutions for the different SHGs. The SHGs secure better credit when they enter with more interesting and promising ideas and have a better track record in performance. Also the enterprises initial investments are considered in the process of credit allotment. The repaying capacity or returns from the project was also considered while sanctioning of credit. The requirement of seed money is much sought by the SHGs as the credit was not as per demand in most of the cases. *Ahamed et al. (2020)* [19] reported that for many SHG clients, out of pocket health expenses remain a major factor in over-indebtedness and in diverting loans away from enterprise or income-generating activities which can affect the effectiveness of micro credit service. He also added that the addition of health literacy component along with access to funds for health reasons complement the underlay microfinance platform as member gain dual value from membership.

It is clear from the table 3 that 28.57 per cent of SHGs reported that micro savings services were highly effective. Micro savings not only

helped them to meet the emergency needs, but also assisted to build a credibility which helped them to fetch more credit facilities and also take up the venture with more confidence. The SHGs that reported micro savings services less effective (23.81%) were included in the less micro credit effectiveness category. The thrift and savings however does not add much to the decision making regarding credit allotment in such enterprises. The SHGs can also have the burden feeling on the thrift practice and savings. If the returns from the enterprises are less than expected, it also affects the thrift practice and savings. From the table 4, it could be noted that irrespective of the enterprises run, it was found that the majority of the SHGs i.e, 28.57 per cent the delivery mechanism was highly effective and 61.90 per cent reported moderately effective. This could be due to the better educational status possessed by SHG members which help them to actively take up paper procedures. Also the improved official conducts like better record keeping, staffs etc. in MFIs and banking institutions made delivery mechanism much better. 9.52 per cent of SHGs reported delivery mechanism less effective. The introduction of digitalism in the microfinance activities might have made the less literate people view delivery mechanism difficult. The shortage of staff in certain MFIs and the poor attitude of the same can also be a reason.

Table 4. Distribution of SHGs based on the effectiveness of sub components delivery mechanism , repayment Services and training & advisory services (N = 21)

Sl. No.	Delivery mechanism services	(%)	repayment Services	%	training & advisory services	%
1	Less (< 17.14)	9.52	Less (< 16.80)	28.57	Less (< 17.78)	23.81
2	Moderate (20.33 - 24.94)	61.90	Moderate (16.80 - 25.88)	52.38	Moderate (17.78 - 23.16)	57.14
3	High (> 24.94)	28.57	High (> 25.88)	19.05		19.05
Total 100			Total 100			
Mean = 21.34			Mean = 20.47			
SD = 4.54			SD = 2.69			

Table 4 indicated that 28.57 per cent of the SHGs found repayment services of microfinance less effective while, 52.38 per cent found it moderately effective and 19.05 per cent found it highly effective. It could be noticed during the study that regularly functioning enterprises found it easy to meet the monthly or weekly repayment from the returns. The peer pressure helps most of the SHGs to repay effectively. The SHGs who view the interest rate and EMI (Equated Monthly Instalment) as high considerably reported less effective repayment services. Their returns or income might be not sufficient to meet the monthly repayments.

Table 4. also indicated that 23.81 per cent of the SHGs found training & advisory services of microfinance less effective while, 57.14 per cent found it moderately effective and 19.05 per cent found it highly effective. SHGs those attended training programmes exhibited more management and technical skills which in turn aided in better business returns. Training, not only technical, in order for nascent entrepreneurship to be sustained over time and to grow, the entrepreneurs needed training in business skills too. The problems with financial management, marketing and packaging, and price setting, do exist in the groups, hence training could be beneficial in these areas also. To run enterprise successfully, proper financial management is the most essential thing, which include pricing of the products, calculating profit margin and utilize the profit effectively.

Principal component analysis of effectiveness of microfinance services

The Principal Component Analysis was used in the present study to identify those sub-dimensions of effectiveness of microfinance services which were mainly responsible for the variation in the effective-

ness scores of the respondents. The linear combinations of dimensions causing maximum variation can be identified by taking the combinations with the highest percentage contributions. The results of principal component analysis based on the five sub-dimensions (variables) of effectiveness of microfinance services are presented in the table 5.

The results presented in table 5 revealed that the first linear combination of the principal components contributed to 77.316 per cent to the total variance, while the contributions made by the second and the third linear combinations of principal components were negligible at 1.171 per cent and .124 per cent respectively. Thus it was obvious that the first principal component accounts for the largest percentage variance (77.316 %) in the entrepreneurial effectiveness score of the SHG agripreneurs and the first three principal components accounted for a cumulative variance of more than 98.91 per cent. In the first linear combination, the largest magnitude of variation (0.954) was contributed by the sub-dimension viz. 'micro credit', followed by 'micro savings' (0.950) and 'Delivery mechanism' (0.860). From the above findings, it was deduced that the effectiveness of the microcredit largely determine their effectiveness of microfinance services. The effectiveness of micro savings and delivery mechanism were found to occupy the next two positions in their order of importance, while the remaining two sub-dimensions were not found to contribute significantly to the variance in the effectiveness of microfinance services. The results indicated that for SHGs, the service of micro credit was having due importance. The concept of SHGs itself was revolving in microcredit and micro savings. The report of NABARD (2021) [18] on SHG Credit link evidently substantiated the results obtained.

Table 5. Result of Principal Component Analysis

	Factor loadings				
	PC1	PC2	PC3	PC4	PC5
Microcredit	.954	.769	.186	-.046	.030
Micro savings	.950	-.233	-.133	-.159	.024
Delivery mechanism	.860	.446	-.228	.101	.002
Repayment	.609	-.265	.096	.022	-.104
Training & advisory	.850	-.504	.098	.082	.089
% variance	77.316	19.524	2.070	.745	.341
Explained					
Cumulative %	77.316	96.840	98.910	99.655	99.995

Conclusion

The results revealed that the microfinance services were found to be moderately effective for 52.38 per cent of the SHGs whereas it was found to be highly effective and least effective for 23.81 per cent of the SHGs under study. In some of the cases, the enterprises run by SHGs found micro credit services very effective (33.33%) while some other enterprises found the micro credit services for agro enter-

prise development less (9.52%) and moderately effective (57.14%). The SHGs that found micro savings services more effective were 28.57 per cent whereas less effective were 23.81 per cent and medium effective were 47.62 per cent. Irrespective of the enterprises, majority of the SHGs found the delivery mechanism effective (28.57% and 61.90% : high and moderate respectively) while 9.52% SHGs found delivery mechanism less effective. Among the SHGs, 28.57 per cent found repayment services of microfinance less effective while, 52.38 per cent found it moderately effective and 19.05 per cent found it

highly effective. Among the SHGs, 23.80 per cent found training & advisory services of microfinance less effective while, 57.14 per cent found it moderately effective and 19.05 per cent found it highly effective. The Principal Component Analysis (PCA) of the five sub-dimensions of microfinance services indicated that, 'microcredit' largely determine the effectiveness of microfinance services followed by the 'micro savings' and 'delivery mechanism'.

There is a need of paradigm shift in perception of SHGs by linking them with entrepreneurship development as a strategic intervention for their overall growth and development. The result of the study will also help the planners and policy makers to further streamline the microfinance services for Self Help Groups engaged in agro- enterprise. The study which assessed the effectiveness of microfinance services for agro enterprise development by SHGs could be useful in the process of upgrading the SHGs to successful entrepreneur groups in agriculture and allied areas, which will revitalize the agriculture sector itself.

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