

# Exploring the Introduction of Certificate Program in Microfinance through ODL: A Study

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## Introduction

Poverty poses a major threat to the development, particularly in India. In view of the first Millennium Development Goal (MDG) of reducing extreme poverty and hunger by half by 2015 (IIBF (2009)), the microfinance education through open distance learning (ODL) assumes importance in alleviation of poverty. Education is considered to be an effective approach and single powerful weapon against poverty. It widens the financial services delivery system by linking the large number of rural population, particularly people living in Below Poverty Line (BPL), with formal financial institutions through Self-Help Groups. However, there was an absence of **microfinance education** to explore possibilities of setting up specialized small business activities or social enterprises to develop the rural economy. Therefore, **microfinance education** and skill-building of rural poor through Open Distance Education and Learning (ODEL) are big challenges to alleviate poverty.

Broadly this paper intends to provide a greater understanding of the role played by microfinance in general and Self-Help Groups in particular in Andhra Pradesh. Further, it intends to analyze the needs assessment of Self-Help Groups (SHGs) to offer a "Certificate / Diploma program in Microfinance" through Open Distance Education and Learning (ODEL) system at Dr. B. R. Ambedkar Open University, India.

## Microfinance and Self-Help Groups

Microfinance is a provision of small loans to the poorest sections of the society who are too poor to qualify for traditional bank loans, as they have no assets to be offered as guarantee. In India, microfinance has been working largely through Self-Help Groups, predominated by women.

A Self-Help Group is a group of about 10 to 20 people, usually women, from a similar class and region, who come together to form savings and credit organization. They use seed money and pool financial resources to make small interest bearing loans to their members to help pay for important needs (NABARD, 2009a).

Pilot study with Society for Elimination of Rural Poverty (SERP) reveals that there are over 3 million SHGs in India and over 900,000 (0.9 million) SHGs exclusively for women covering more than 1 crore members of SHGs in Andhra Pradesh State. It means Andhra Pradesh State alone has about one-third of SHGs organized in India.

## Socio economic profile of SHG members

The profile of SHG members is developed based on the discussions held with focus group, staff of SERP and staff of NABARD. The average number of members in SHGs in Andhra Pradesh is 13. The SHG members mostly come from the disadvantaged sections of society. About 80% of the SHG members are illiterate / neo literate. Around 50% of the SHG members are in the age group of 18-35 years. A large number of SHG members do not own any land or own very little land. Around 55% of the members are agriculture laborers, around 35% of the SHG members are engaged in agriculture and allied agriculture activities. About 10% of the members are engaged in other activities such as petty business, beedi making, floor mills, etc.

## **Objectives of the Study**

The Objectives of the study are:

1. To examine the SHGs operating models and to study their literacy rate and learning needs for commencement and management of small business activities;
2. To identify the content requirement of learning and distance education didactic methods required for learning to occur;
3. To study and analyze as to what extent ODL influences skill development, increase access to wider range micro financial services for the poor and to address their pressing issues.

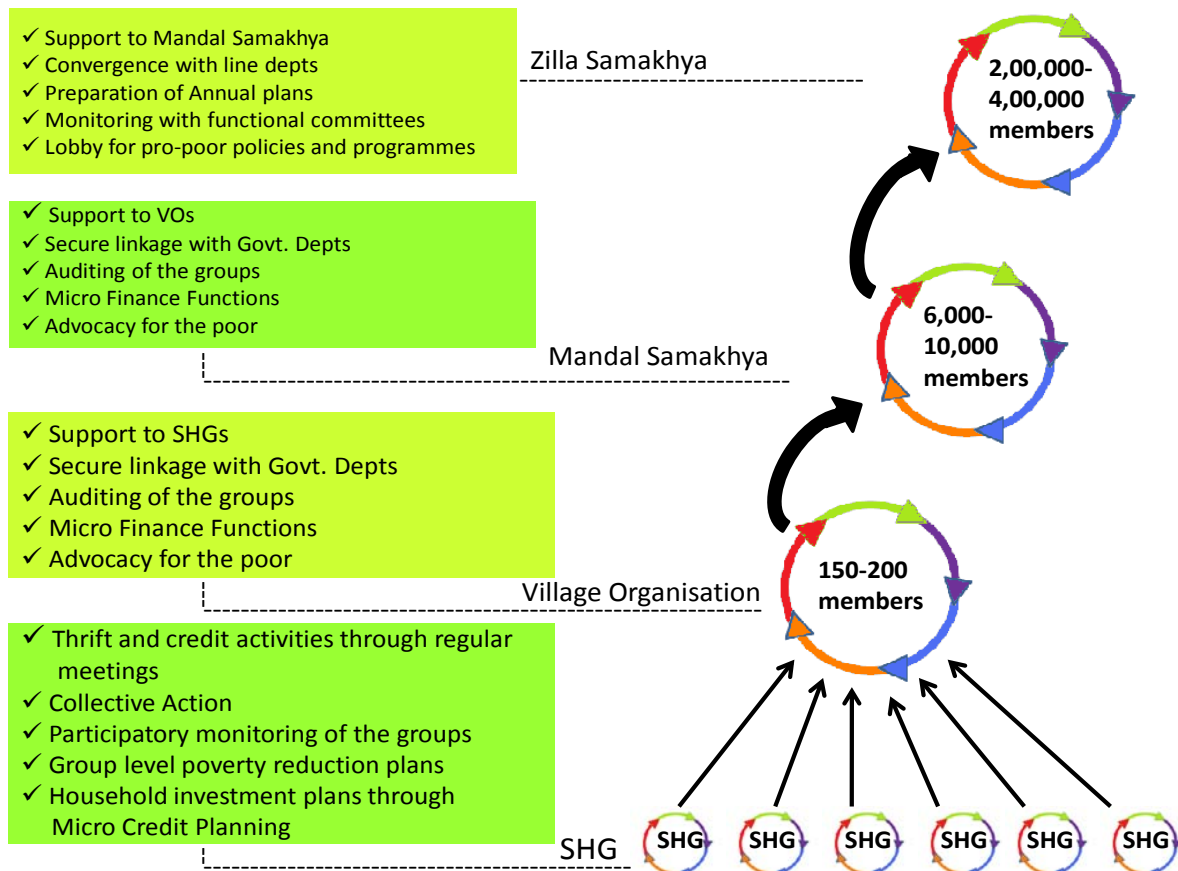
## **Methodology**

The study is a survey method. The target population was all members of SHGs in Andhra Pradesh State. To select the respondents, researcher has identified the Warangal District for data collection. Accordingly the researcher visited “Elkurthy Haveli” village of Geesugonda Mandal in Warangal District. With the help of Project Staff members of SERP, the leaders / community resource persons of SHGs from nearby Villages/Mandals were invited to a meeting. 30 SHGs leaders / community resource persons attended the meeting. These leaders/community resource persons represented 25 SHGs from 5 nearby Mandals (Geesugonda, Chennarao pet, Dharmasagar, Kuravi, Hanamdonda) in Warangal District. These 30 leaders/community resource persons represented 390 members comprising of 23 SHGs. The focus group technique was used to bring together the leaders/community resource persons to answer the questions asked and to discuss specifically identified areas.

## **Structure of Community Managed Institutions**

The SERP has evolved a structure of implementation that ensures that the maximum participation is from the grassroots level, so that the program is a bottom up transformation with the plan and action from the grassroots and facilitation support from the top. The structure of community managed institutions is exhibited in a graph shown below.

## Structure of Community Managed Institutions



Source: SERP

Under the World Bank assisted Indira Kranthi Patham Project, Government of Andhra Pradesh has been focusing on formation of three-tier SHG federations – Village Organization, Mandal Samakhya and Zilla Samakha (District Level Meeting) – to empower the people, facilitate participatory approach and enable people to take the responsibility and to ensure sustainability of SHGs.

The resources of SHGs come from the thrift by the members, bank loan, Community Investment Fund (CIF), interest earned on internal lending and revolving fund assistance provided by the State Government. The savings coupled with the bank finance have been used for internal lending among the members at an interest rate ranging from 12% to 24% per annum. The interest charged by the banks to SHGs is in the range of 8% to 12% per annum. The interesting point is that the SHGs in Andhra Pradesh State are getting bank loan at an effective rate of interest of 3% per annum as the State Government is re-imbursing to SHGs the interest charged by the banks over and above 3% for prompt repayment (NABARD, 2009b).

### Micro-credit through SHG-Bank Linkage program

The Banks in Andhra Pradesh have played a proactive role in financing SHGs. According to SERP, 25 commercial banks, 16 regional rural banks, and around 4000 branches have extended loans amounting to Rs.19,207.54 crores to women SHGs all over the State of Andhra Pradesh which accounts for almost 50% of all bank loans given to SHGs in India (NABARD, 2009c). The phenomenal growth in SHGs movement and bank loan is due to: (i) proactive role played by the State Government, Banks and the policy support given by the NABARD; (ii) “pavala vaddi scheme (interest subsidy scheme)” introduced by

the Government of Andhra Pradesh from 1<sup>st</sup> July 2004; (iii) revolving fund assistance from Government of Andhra Pradesh.

### Focus Group Opinion on Impact of Micro-Credit

The focus group was asked to rate the impact of micro credit on their working of SHGs and improvement in the living standards of the members families. The ratings on each aspect/statement were classified into 5 groups by providing scores to ratings, namely 1=Strongly disagree; 2=Slightly disagree; 3=Disagree; 4=Agree; 5=Strongly agree. The impact of micro credit on living standards of the members of SHGs is exhibited in Table-1

**Table-1: Degree of satisfaction or agreement level (on a scale of 1 – 5\*) of SHGs leaders who attended the focus group meeting.**

Statements	Strongly disagree (1)	Slightly disagree (2)	Disagree (3)	Agree (4)	Strongly Agree (5)	Total Respondents
Working of Self-Help Groups is good	---	---	---	14	16	30
Interest rate on micro credit is reasonable	---	---	---	10	20	30
Income has increased	---	---	04	10	16	30
Saving has increased	---	---	---	15	15	30
Household expenditure has increased	---	---	04	12	14	30
Better access to children education	---	---	06	15	09	30
Better access to health care	---	---	02	15	13	30
Better financial situation of the family	---	---	---	12	18	30
Role of women in decision making process has increased	---	---	02	14	14	30
Small business activities have increased	---	---	08	12	10	30
Household assets have increased	---	---	05	12	13	30
Income generating activities have increased	---	---	02	13	15	30
Average			03	13	14	30

\* Rating scale: 1 Represents the lowest of satisfaction or high disagreement.

5 Represents the highest level of satisfaction or high agreement.

The Table-1 shows that the impact of micro-credit is positive as the majority of focus group members (27) expressed statements either 'Agree' or 'Strongly agree'. It means almost all members of SHGs are benefited with the micro-credit scheme. In a discussion, the focus group mentioned that many poor have come out of the clutches of high cost lenders and because of interest subsidy incentive, the members were encouraged to make their repayment of loan instalments on time and the repayment of loan varies from 95% to 98%.

### Microfinance Education through Open Distance Learning (ODL)

Education has an important place in the process of empowerment of society as it is an important component of human capital. Most of the members of SHGs are uneducated. Due to inherent

constraints of the conventional education system, open distance education is the only alternative to accommodate growing population and to meet the needs of the society. It operates on the premise that knowledge is the key to individual freedom and cultural, social and economic development. As such distance education provides knowledge to empower members of SHGs to gain control of their learning and addresses the barriers to development by delivering education in a multiplicity of networks to meet the needs of members of Self-Help Groups using appropriate technology.

In this direction, the Department of Commerce, Dr.B.R.Ambedkar Open University proposes to offer a **“Certificate Program in Microfinance”** through open distance learning in collaboration with a Society for Elimination of Rural Poverty (SERP) to arm the members of SHGs and community resource persons with knowledge by making microfinance education access to learning for development and to devise new ways to excel in their small business plans. The other purposes of this program are: (i) to create more productive labor force; (ii) to provide training at required levels; (iii) to provide wide spread employment which reduces poverty; and (iv) to improve functional abilities of Self Help Group (SHG) members and community resource persons.

### **Status of Literacy rate**

In rural Andhra Pradesh girls and women are largely excluded from education due to various reasons, such as: (i) less support from their families; (ii) arrangement of early marriage; (iii) after marriage lack of support from their husbands; (iv) lack of accessibility of formal education; (v) lack of financial support, etc. In this study the focus group responded that many members of SHGs are not fully literate and are not able to read and write. As per the information ascertained from the focus group, the ground situation of average literacy among members of SHGs situated in Warangal District of Andhra Pradesh is as mentioned hereunder

### **Average Literacy Status of SHGs in Warangal District of Andhra Pradesh**

25% Members of SHGs	Illiterate
50% Members of SHGs	Append their signatures but cannot read and write.
13% Members of SHGs	Primary and Upper Primary School Education
10% Members of SHGs	High School Education
2% Members of SHGs	Post High School Education and up to first Degree Education.

Source: Survey.

The statistics of literacy reveals that many members (75%) of SHGs are not fully literate and are not able to read and write. Thus the handicap of literacy/education became hurdle for achieving many desired results.

In view of low literacy rate of women in Andhra Pradesh, there is a need to explore a suitable strategy to impart education to the people who are not accessible to it. The guiding question in this context therefore is: how do members/leaders of SHGs, respond to proposed microfinance education for SHGs within the context of high level percentage of uneducated members in SHGs. The areas of research questions are:

- (i) Is the proposed program beneficial to the members of SHGs?
- (ii) What are the training needs of the members?
- (iii) What are the most appropriate methods of teaching-learning to take place?
- (iv) Can the program be adequately taught using the distance learning mode with the support of ICTs?

### **Focus Group Opinion Education to Memebrrs of SHGs**

The participants expressed the view that there were cases where the poor illiterate women members in SHGs could not understand the bank linkage program and apprehended a debt trap ahead for them. As a result, the in-efficient SHGs have been under rated as far as loan consideration is concerned. Pranab Mukherjee, Finance Minister, Government of India has rightly observed that “financial literacy is a prerequisite for effective financial inclusion, which will ensure that financial services reach the unreached and under-reached sections of the society” (The Hindu: 2010).

Questions related to self confidence of women were asked, such as: traveling alone to nearest town/district, handling certain amount of money, addressing community problems. The focus group responded that there is a significant improvement in their self confidence level to travel and to handle money and to address social problems after joining SHGs. Further they mentioned that around 80 to 85% of SHGs availed Bank-linked loans and 60 – 70% of the members have shown significant improvement in their life styles and they were out of financial crisis aspects without knowing the mechanics of bank-linked program.

The discussion relating to microfinance education and the members awareness about concepts of microfinance, the members of focus group revealed that the SHG members normally avail loan for the purposes of: (i) debt swapping – retiring high cost informal loans; (ii) income generating activities/small business activities – such as: dairy farm, floor mill, poultry, rice mill, provision shop, buying of sheep, bullocks, etc; (iii) working capital requirements of trading activities; (iv) long term investment on land; (v) short term needs for agricultural investments, (vi) social needs – such as: health, children's education marriage purpose, house repairs / construction, etc. Thus the microcredit through SHGs has increased small business/working opportunities, employment opportunities but they lack skills pertaining to concept of different kinds of small and micro-business activities and hence they need education to run variety of small and micro business activities.

Further, they mentioned that it was generally noticed that by joining a SHG, many members had improved their financial status but not communication and professional skills despite a few trainings received on various aspects pertaining to formation and functioning of SHGs. Finally they suggested that the members of SHGs need to be educated / trained in the following areas.

- (i) Concept of microfinance and SHGs: to know concept of microfinance and micro-credit loans linked to SHGs and to raise their awareness towards sustainable growth that it contributes to community development and alleviation of poverty;
- (ii) Communication: to improve their skills in communication to address social problems and barriers to community development;
- (iii) Savings: importance of savings, opening bank account and operation of a bank account;
- (iv) Accounting: to record and maintain the loan transactions and small business transactions, calculation of interest on loans. Further they need to trained in maintaining a) Minutes Book, b) Savings and Loan Register, and c) Members Pass Book;
- (v) Technical knowledge – to develop their technical know-how in respect of new income generating activities and small business organizations and preparation of Micro Credit Plan (MCP);
- (vi) Basic mathematics and timely repayment and repeat loaning system;
- (vii) Management: to improve their skills pertaining to personnel management and management of small business organizations;
- (viii) Marketing: to learn the important marketing skills to market their business products.
- (ix) Auditing and Assessment of Self-Help Groups: to know whether the SHG has been functioning well.

Thus the education and training of the members of SHGs through “Certificate Program in Microfinance” is beneficial and an important need for proper functioning of SHGs.

## **Suggestions**

ODL system encompasses many different ways of delivering education and training to learners. In view of ODL's inherent characteristics and in-built system of SHGs, the members of SHGs can be educated by grouping 4 or 5 SHGs in to one Self-Help Study Group (SHSG) in their villages. These may be known as Community Self-Help Group Centres (CSHGC). Counsellors may be arranged to counsel them. In addition, classes may be organized through appropriate ICTs (preferably Radio and TV) to enhance their knowledge and functional abilities. This method of arrangement obviously could be ODL system through community study centres. The contact-cum-counselling classes may be conducted by organizing a mobile study centre with the help of counsellors.

One of the new challenges for education is that high-level skills are needed not only by elite, but by the population in general UNESCO (2002). Anushree et al (2008) rightly observed that apart from improving the access to financial services, SHGs go a long way towards improving the knowledge of their members especially in terms of financial and communication skills.

Newer methods of learning and counselling combining ICTs equip the learners with basic life skill, reading, writing and simple arithmetic environmental science, health and hygiene and social interpersonal skills. Hence, the author felt that it is a pleasant challenge for ODL Institutions to try many new models of education and learning that would help the poor uneducated adults to educate for themselves with the appropriate ICTs support. Thus the education would help the members of SHGs/all the poor to travel from despair to hope, poverty to self sufficiency, and build their confidence for bright future.

## **Conclusion**

The microfinance sector has covered a long journey from micro saving to micro credit and then to micro enterprises / social enterprises and now entering into the field of microfinance education. In this framework of research, the study found out: (i) operating models of SHGs and their learning needs for commencement and management of small business activities; (ii) utilization of SHGs members loans for development; (iii) microfinance education to members of SHGs and their learning needs through distance education mode by using appropriate technology. The responses of focus group suggest that the members of SHGs need microfinance education to the development of management skills, communication skills, marketing skills, maintenance of loan accounts.

This study would contribute in spreading the importance of microfinance education through Open Distance Learning (ODL) system and will develop to carry out research and sharing of research outcomes between educational institutions/countries.

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