



Original Research Paper

MICROFINANCE FOR EMPOWERMENT: AN EXAMINATION OF EFFECTIVE SELF-HELP GROUP PROJECTS IN NORTHERN TAMIL NADU

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ABSTRACT

This study focuses on the empowerment of the members of the Self-Help Group (SHG) through the use of microfinance in selected northern districts of Tamil Nadu. It highlights the socio-economic characteristics of the respondents, the reasons for joining SHGs, the uses of loans, problems encountered by the members and the recommendations for the enhancement of microfinance services. The results indicate that the main reason for forming SHGs was economic independence (62.80%), followed by the promotion of saving habits (58.47%), social recognition (50.00%) and loan facilities (44.83%). The ANOVA results for the key SHG activities show that there is a statistically significant difference between the groups ($F = 20.21889$, $p = 0.001149$). The analysis of respondents by nativity area, however, does not show a statistically significant difference ($F = 10.68376$, $p = 0.082221$). High interest rates and lack of awareness of financial management are also identified as major challenges in the study. It suggests that the socio-economic empowerment and financial resilience of SHG members can be improved by providing them with affordable credit, targeted financial literacy programmes, and better skill development and capacity building support.

Keywords: *Microfinance, Self-Help Groups, Economic Empowerment, Financial Literacy, Socio-economic Development.*

INTRODUCTION

The empowerment of rural communities through microfinance initiatives has become a cornerstone of development strategies in India. In line with this, the current study aims to investigate the impact of microfinance on members of Self-Help Groups (SHGs) in selected northern districts of Tamil Nadu. Microfinance facilitated primarily through SHGs, has emerged as a potent instrument for economic empowerment and poverty alleviation in rural regions. Microfinance plays an important role in extending financial services to low-income communities, while Self-Help Groups can facilitate savings, credit access, and broader economic opportunities for rural households (Kom et al., 2024). By providing access to financial services such as credit, savings, and insurance, microfinance empowers individuals to engage in income-generating activities, thereby fostering economic self-sufficiency and resilience within communities. Agricultural development can be strengthened through integrated approaches that improve diversification, value-chain participation, and economic opportunities for rural communities (Malik & Singh, 2025). This chapter seeks to delve into the socio-economic effects of microfinance on SHG members, exploring how access to financial resources and support

networks has influenced their livelihoods, standard of living, and overall well-being. Through a comprehensive analysis, we aim to uncover the nuanced ways in which microfinance initiatives have contributed to the empowerment and socio-economic advancement of SHG members in the targeted districts of Tamil Nadu.

DEMOGRAPHIC PROFILE OF RESPONDENTS

The demographic profile of respondents offers a comprehensive understanding of the socio-economic characteristics of individuals participating in Self-Help Groups (SHGs) within the selected districts of Tamil Nadu. Through categorization across various parameters, this profile illuminates the diverse backgrounds and circumstances of SHG members, enabling a nuanced analysis of their socio-economic status and needs.

MOTIVATING FACTORS

Motivating factors play a crucial role in driving individuals to join Self-Help Groups (SHGs) and actively participate in their activities. Understanding these factors is essential for SHG administrators, policymakers, and development practitioners to design effective programs and interventions that cater to the diverse needs and aspirations of potential members. The table above

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illustrates the key motivating factors identified among

respondents in this study.

DEMOGRAPHIC PROFILE OF RESPONDENTS

Demographic Variable	No. of Respondents	Percentage	Demographic Variable	No. of Respondents	Percentage
Age			Religion		
- Up to 25	85	17.56%	- Hindu	450	93.00%
- 61	210	43.39%	- Muslim	25	5.17%
- 81	120	24.79%	- Christian	9	1.86%
- Above 45	69	14.26%	Marital Status		
Educational Status			- Married	430	88.80%
- Illiterate	42	8.68%	- Unmarried	35	7.24%
- Primary Education	180	37.19%	- Widow	19	3.93%
- S.S.L.C	150	31.02%	Occupation		
- H.Sc	65	13.43%	- Employed	45	9.30%
- Degree and Above	47	9.70%	- Marginal Farmer	120	0.2479
Annual Income (Rs.)			- Agricultural Labourer	205	0.4236
- Up to 25,000	280	57.85%	- Petty Shop Business	35	0.0724
- 25,001-50,000	204	42.15%	- Others	95	0.1963
Family Pattern			Location		
- Nuclear Family	320	66.12%	- Urban	120	0.2479
- Joint Family	164	33.88%	- Rural	365	0.7541
Family Size			Type of House		
- Up to 2	40	8.26%	- Hut	15	3.10%
- 7	280	57.85%	- Kutcha	60	12.40%
- 11	140	28.92%	- Semi-Pucca	40	8.28%
- 7 and above	24	4.96%	- Pucca	295	60.91%
Social Group			- Terrace	75	15.50%
- Forward Community	30	6.20%			
- Backward Community	250	51.65%			
- Most Backward	180	37.19%			
- SC/ST	34	7.02%			

Motivating Factors

Motivating Factors	No. of Respondents	Percentage
Entrepreneurial status	142	29.33%
Family welfare and Survival	189	39.04%
Income generation	196	40.49%
Loan facility	217	44.83%
Social recognition	242	50.00%
Promotion of saving Habit	283	58.47%
Economic independence	304	62.80%

The table highlights key factors motivating individuals to join Self-Help Groups (SHGs). Economic independence is the top reason, cited by 304 respondents (62.80%), reflecting a strong desire for financial self-sufficiency. Saving habits follow closely, with 283 respondents (58.47%), emphasizing financial planning. Access to loans is a major motivator for 217 respondents (44.83%),

while 242 (50.00%) value social recognition. Income generation (196 respondents, 40.49%) and family welfare (189 respondents, 39.04%) further illustrate financial and household stability as key drivers. Lastly, 142 respondents (29.33%) seek entrepreneurial opportunities. These findings highlight SHG membership's diverse benefits, from economic empowerment to social acceptance.

Purpose of Borrowing

Purpose of Borrowing	No. of Respondents	Percentage
Agricultural & allied activities	35	4.45%
Manufacturing	90	12.25%
Trading	167	45.14%
Investment	15	2.47%
Consumption	150	22.5%
Family health	20	35.5%
Children's education	45	2.57%
Others	56	35.57%

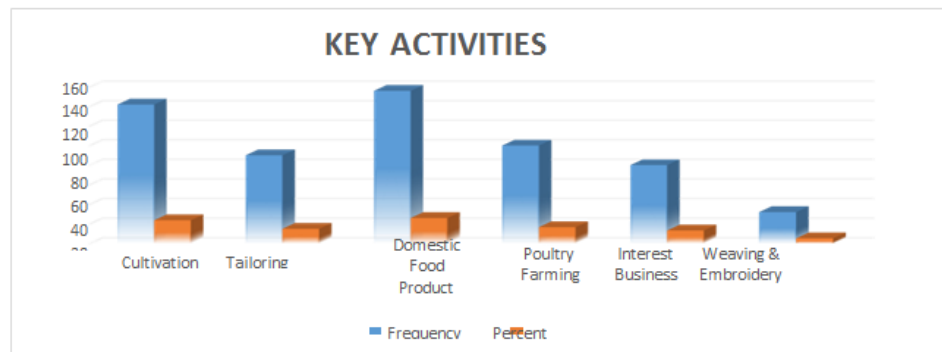
The table above showcases the distribution of respondents across various purposes for borrowing. It indicates that a significant proportion of SHG members borrow funds for trading (34.50%) and consumption (28.71%) purposes (Williams, 2017), suggesting a need for financial support

.Additionally, a notable percentage of respondents borrow for agricultural and allied activities (6.61%) and manufacturing (18.18%), highlighting the importance of microfinance in fostering entrepreneurship and livelihood development in rural areas

Key Activates of SHG (ANOVA)						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	20833.33	1	20833.33	20.21889	0.001149	4.964603
Within Groups	10303.89	10	1030.389			
Total	31137.23	11				

The ANOVA analysis examines SHG activities for significant differences. The "Between Groups" SS is 20,833.33 (df = 1, MS = 20,833.33) (Snakar, 2019), while the "Within Groups" SS is 10,303.89 (df = 10, MS = 1,030.389). The F-statistic of 20.21889 indicates

substantial variance between groups. With a p-value of 0.001149 (below 0.05) and an F-value exceeding the critical value (4.964603), the results confirm significant differences among SHG activities, leading to the rejection of the null hypothesis.



Respondents by Nativity area (ANOVA)

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	40000	1	40000	10.68376	0.082221	18.51282
Within Groups	7488	2	3744			
Total	47488	3				

The ANOVA table analyzes respondent distribution by nativity area (rural vs. urban) for statistical significance. The "Between Groups" SS is 40,000 (df = 1, MS = 40,000), measuring variation between areas (Laopodis, 2020). The "Within Groups" SS is 7,488 (df = 2, MS = 3,744), representing within-area variation. The F-statistic (10.68376) and p-value (0.082221) exceed the 0.05 significance level, indicating no significant difference. Additionally, the critical F-value (18.51282) surpasses the

calculated F (10.68376), confirming no statistically significant difference in respondent distribution by nativity area.

High-Interest Rates Imposed by Financial Institutions: High-interest rates charged by formal financial institutions pose a significant challenge for SHG members, particularly those with limited financial resources. While microfinance institutions aim to provide

accessible credit to underserved populations, the interest rates associated with microloans can sometimes be prohibitively high. Excessive interest burdens may lead to indebtedness among borrowers, exacerbating their financial vulnerability and impeding their efforts to break the cycle of poverty.

Lack of Awareness about Financial Management Practices:

Many SHG members with low financial literacy struggle with savings, budgeting, loan repayment, and risk management, reducing the effectiveness of microfinance. Without proper education, managing finances becomes challenging, limiting socio-economic benefits. Collaborative efforts from microfinance institutions, government, and non-profits are essential. Expanding financial education, lowering interest rates (Gezmen & Eken, 2021), and promoting sustainable livelihoods can enhance financial stability and resilience.

Suggestions for Enhancement

In their pursuit of maximizing the benefits derived from microfinance services, Self-Help Group (SHG) members offer valuable suggestions aimed at enhancing the effectiveness of these services. Some of the key recommendations include:

Lowering Interest Rates to Make Credit More Accessible:

SHG members advocate for the reduction of interest rates associated with microfinance loans. By lowering interest rates, financial institutions can make credit more affordable and accessible to a broader segment of the population, especially those from marginalized or economically disadvantaged backgrounds. Reduced interest burdens would enable borrowers to invest in income-generating activities, meet their financial needs, and improve their overall socio-economic status.

Providing Targeted Financial Literacy Programs:

SHG members stress the urgent need for targeted financial education programs to empower individuals with essential skills in budgeting, saving, debt management, and investment. Boosting financial literacy equips them to make informed decisions, tackle financial challenges, and maximize microfinance benefits. Financial institutions must take action to strengthen financial empowerment and drive lasting economic impact!

Strengthening Support Mechanisms for Capacity Building and Skill Development:

SHG members highlight the need for stronger support in skill development and capacity building. Microfinance institutions can enhance entrepreneurial and vocational skills (Chandradasa, 2019) through training and partnerships with educational and industry stakeholders.

Effective implementation requires collaboration among financial institutions, government, and civil society, ensuring SHG members' active participation for lasting economic empowerment and financial inclusion.

CONCLUSION

The conclusion highlights the substantial impact of microfinance on Self-Help Group (SHG) members in specific northern districts of Tamil Nadu. Through the analysis of motivating factors, borrowing purposes, challenges faced, and suggestions for enhancement (A G, 2020), the study provides valuable insights into the role of microfinance in empowering rural communities. Despite facing challenges such as limited credit access and high-interest rates, SHG members recognize the potential of microfinance to improve their economic independence, living standards, and financial literacy. The study emphasizes the importance of addressing these challenges through measures such as lowering interest rates and providing targeted financial education programs. Overall, the findings suggest that microfinance initiatives have the potential to significantly contribute to socio-economic development in rural areas. By implementing suggested enhancements and addressing challenges, microfinance can further empower SHG members and foster inclusive growth in the region.

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