

An Analysis of the Economic Reforms Brought about by Business Training Component of Microfinance (with Special Reference to the State of Karnataka)

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ABSTRACT

The social intermediation component of microfinance especially business training entails substantial cost. As the target segment for the training is people below the poverty line they are unable to bear this cost. Providers of micro credit are also wary of incurring this cost. As a result business training is largely ignored or provided by a few Institutes funded by the Government and Public Sector Banks. Another problem which the researcher encountered during the course of his research was that the existing business training programmes did not have a clear vision or purpose for which the training was being conducted. The content of the training was loosely collated and lacked a thrust to disseminate financial acumen or entrepreneurship skills. Thus an important component of microfinance suffered due to the negligence on the part of the service providers. Therefore when the funds allocated for training are negligible or scarce it is important to use it effectively. For this it is necessary to know the effectiveness of the training being provided so that necessary changes can be made if deemed necessary.

Keywords: Economic Reforms: Micro Finance, Training

INTRODUCTION

Microfinance is a combination of financial and social intermediation. While the components of financial intermediation include micro credit, savings and micro insurance, components of social intermediation include training, group meetings, health care and other non financial social services. Training has now become an integral part of micro finance. Egbeyemi, J. O. (2002) in his thesis submitted to Dalhousie University Halifax, Nova Scotia, titled, "Micro-finance and community economic development: A case study of African Nova Scotian Business" postulates that, micro-finance encompasses three main aspects which are loans granted to poor people for self-employment to generate income, micro savings and providing technical assistance and training. Again, Audas, M. L. (2002) in his thesis on "Evaluating microfinance: Economic development redefined, reevaluated" argues that it is the integration of an education component and training facilities that has enabled the trainees to gain knowledge about the financial system and easy access to loans. This research focuses on the impact of business training on the income,

financial literacy and entrepreneurial traits of the trainees.

PROBLEM STATEMENT

The social intermediation component of microfinance especially business training entails substantial cost. As the target segment for the training is people below the poverty line they are unable to bear this cost. Providers of micro credit are also wary of incurring this cost. As a result business training is largely ignored or provided by a few Institutes funded by the Government and Public Sector Banks. Another problem which the researcher encountered during the course of his research was that the existing business training programmes did not have a clear vision or purpose for which the training was being conducted. The content of the training was loosely collated and lacked a thrust to disseminate financial acumen or entrepreneurship skills. Thus an important component of microfinance suffered due to the negligence on the part of the service providers. Therefore when the funds allocated for training are negligible or scarce it is important to use it

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effectively. For this it is necessary to know the effectiveness of the training being provided so that necessary changes can be made if deemed necessary.

NEED FOR THE STUDY

The Government of India realizing the importance of training has chalked out a programme, under the auspices of The Ministry of Rural Development, to establish a Rural Self Employment Training Institute (RSETI) in each district of the country. A few of the RSETI's have already started to impart training on various financial products, end use of loan, income generating activity and entrepreneurial skills. It is necessary to evaluate whether such services have the desired outcome. For this a study the effectiveness of existing microfinance training methods and its components is needed. The time also is opportune for conducting such a study as the Government in our country has increased its thrust on issues like financial inclusion, financial literacy, micro-insurance and micro/small enterprises.

SCOPE OF THE RESEARCH

The scope of the research broadly encompassed the theme of training in microfinance and income of the trainees. It also included entrepreneurial traits like willingness to save, propensity to invest in income generating activity and end use of loans. The scope of the research included the financial literacy levels of the trainees like their ability to calculate simple interest, knowledge of bank rules, micro insurance etc. Finally the research dwelt on the interaction effect of age and education of the trainees on their income, entrepreneurial traits and financial literacy.

OBJECTIVES OF THE STUDY

- To study whether the business training component of micro finance has an effect on the income of trained borrowers.
- To appraise the effect of business training in enhancing entrepreneurial traits.
- To assess the impact of training given as a part of microfinance on the financial literacy of the trainees.
- To study the effect of training on income of the trainees with age and education as the moderating variables.
- To study effect of training on entrepreneurial

traits of the trainees with age and education as the moderating variables.

- To study the effect of training on financial literacy of the trainees with age and education as the moderating variables.

NULL HYPOTHESES

- H₀-The business training component of microfinance has no effects on the income of trainees.
- H₀-Business training part of microfinance has no effect in on entrepreneurial traits of trainees.
- H₀-Business training component of microfinance has no impact on the financial literacy of the trainees.
- H₀-The effect of training on the income is not affected by moderating variables like age and education.
- H₀-The effect of training on entrepreneurial traits of trainees is not affected by moderating variables like age and education.
- H₀-The effect of training on financial literacy of trainees is not affected by moderating variables like age and education.

RESEARCH DESIGN

The research design is both analytical and empirical and is based on primary data. The impact studies were done by comparing the income, entrepreneurial traits and financial literacy of trained and untrained borrowers. Information relating to various types of training, training content, amount spent on training etc was collected from the Journals, other research theses, research papers, various government & non government websites. The research approach is quantitative and the theory is tested using hypothetic deductive logic.

SAMPLING DESIGN

- Population: All members of Self Help Groups in the state of Karnataka.
- Frame: All trained and untrained female members of Self Help Groups.
- In the first stage of sampling a few districts in Karnataka were selected and in the second stage random sampling of members of Self Help Groups were done.

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- Sample size: The sample size for this study is 818.

DATA COLLECTION METHOD

Primary data is collected through questionnaire and an objective type test which was administered to the respondents who were women in rural Self Help Group between the ages of 18 to 55 years and Secondary Information is collected from various circulars issued by the Government, agencies like NABARD, RBI, MSME and websites like www.rbi.org, www.dcmsme.gov.in and www.nird.org.in.

STATISTICAL TOOLS USED

Variables Taken

Income, Age, Education, Training, Financial Literacy Index, Entrepreneurship traits and Savings.

Data procured from the respondents was cleaned and their reliability checked using Statistical packages. Subsequently different basic and advanced statistical tools were used to analyze the data. The findings of the study have been depicted using tables, charts and graphs. The following statistical tools were used for analyzing the data procured from the respondents from different locations selected for the study. a) Descriptive Statistics like mean, standard deviation and percentages b) Pearson's Chi Square c) Pearson's correlation d) Cronbach's Alpha e) Multiple linear Regression using OLS f) Item Response Theory and g) One way ANOVA & t-Test

MAJOR FINDINGS OF THE STUDY

- Multi linear regression between independent variables training, age and education on the dependant variable income shows R at .250, R square at .062, which moderately explains the linear relation between set of independent variables on Income.
- Training regressed on Income shows that training has a negative relationship with income levels, standardized coefficient being -.215 at Sig value <0.05.
- Education regressed on income establishes that it does have a linear relationship with income with standard coefficient of 0.112 and sig factor at 0.013.
- Age regressed on income establishes that it does not have a linear relationship with

standard coefficient of 0.040 and sig factor at 0.368.

- The Pearson Chi Square tests show that the trained respondents had higher entrepreneurial traits than untrained respondents at 5% significance level.
- Education regressed on Financial Literacy establishes that it does not have a linear relationship with standard coefficient of 0.040 and sig factor at 0.275.
- Age regressed on Financial Literacy establishes that it does have a negative linear relationship with standard coefficient of -0.080 and sig factor at 0.030.

CONCLUSION

The study shows that the respondents were appreciative of the training provided which is reflected in the mean scores given by them for the training component. However the effect of training on important economic indicators like income, entrepreneurship and financial literacy is very moderate. This shows that the trainees have not taken the lessons learnt from training sessions seriously. Alternatively, the training is not effective and needs critical changes in its content and delivery.

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