

Impact of Microfinance on Poverty Eradication through SHGs: A Case Study of Pratapgarh District (Uttar Pradesh)

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Abstract: *This paper has observed that microfinance has played a very significant role in the development of Uttar Pradesh by achieving its goals as like increment in savings and borrowing patterns, improving economic conditions, reduction in poverty, educational development, employment growth, developed social conditions of people.*

Keywords: NGO.SHG, SBLP, MFI.HH

1. Introduction

Microfinance is considered to be an adequate tool for financing small scale activities/technological applications in the rural areas. Microfinance is about providing financial services to the poor who are not served by the conventional formal financial institutions - it is about extending the frontiers of financial service provision. The provision of such financial services requires innovative delivery channels and methodologies. The needs for financial services that allow people to both take advantage of opportunities and better management of their resources. Microfinance can be one effective tool amongst many for poverty alleviation. However, it should be used with caution - despite recent claims, the equation between microfinance and poverty alleviation is not straight-forward, because poverty is a complex phenomenon and many constraints that the poor in general have to cope with.

Microfinance programmes have become potential tool to generate income and employment and alleviate poverty in India. They are being considered as an important approach to poverty alleviation and enhancement of living standards, particularly in rural areas. The parameter used for evaluation includes utilization of allocated funds, change in poverty level, employment improvement in recovery; heralding a new realization of generation and number or proportion of beneficiaries. Apart from the economic benefits these programmes have social impacts on empowerment of poor women in the communities where the poor live. Moreover, microfinance arrangement for credit supply to the poor through SHG's is has come to be regarded as a supplementary development paradigm, which widens the financial service delivery system by generating enterprises. And reviewed the initiatives taken at linking the large rural population with formal financial institutions through SHGs. In India, NABARD was the first organization to notice the phenomenon of microfinance. Ever since that time the spread of microfinance is steadily growing through the SHGs. However in 1996, NABARD launched nationwide pilot projects to link the SHGs to the banks. As such, in India too, microfinance is making headway in its effort to reduce poverty and empowering rural women. Micro-finance institutions are, other than banks, engaged in the provision of financial services to the poor.

2. Literature Review

Various studies have been conducted highlighting the importance and use of credit particularly in rural areas; Puhazhend and Badatyain (2002) assessed the impact on SHG members in three eastern states, i.e., Orissa, Jharkhand and Chattisgarh. The study also reported an increase household savings and assets for the SHG members after they formed the group. Out of the total sample, 45 per cent reported an increase in assets after joining a SHG. A review of the genesis and development of SHG's in India reveals that the existing formal financial institutions have failed to provide finances to landless, marginalized and disadvantaged groups (moneylenders because loan could be taken at any time as and when needed for any purpose (Rao 2002).

An another study observed that micro-financing through informal group approach has effected quite a few benefits to viz.: (i) savings mobilized by the poor; (ii) access to the required amount of appropriate credit by the poor; (iii) matching the demand and supply of credit structure and reduction in transaction cost for both lenders and borrowers; (iv) tremendous of allocated funds, change in poverty level, employment improvement in recovery; (v) heralding a new realization of generation and number or proportion of beneficiaries. Apart from the economic benefits these programmes have social impacts on empowerment of poor women (Dasgupta 2000). An informal arrangement for credit supply to the poor through SHG's is has come to be regarded as a supplementary development paradigm, which widens the financial service delivery system by generating enterprises. And reviewed the initiatives taken at linking the large rural population with formal financial institutions through SHGs. In India, NABARD was the first organization to notice the phenomenon of microfinance. Ever since that time the spread of microfinance is steadily growing through the SHGs. However in 1996, NABARD launched nationwide pilot projects to link the SHGs to the banks. As such, in India too, microfinance is making headway in its effort to reduce poverty and empowering rural women. Micro-finance institutions are, other than banks, engaged in the provision of financial services to the poor.

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organizational skill, management of various activities of a business, right from acquiring finance, identifying raw material, market and suitable diversification and modernization. (Manimekalai and Rajeshwari (2001)

3. Hypothesis

Microfinance has led to the diversification in demand-oriented financial products reducing incidence of poverty. It has decreased dependence on money lenders, and has increased productive and physical capital, and income diversification.

4. Objectives

To assess the socio-economic impact on the members of the SHGs and the households to which the SHG members belong is to be assessed.

To measure the impact of microfinance on savings and borrowings patterns among SHG members. To explore the implications of microfinance on economic conditions with specific emphasis on assets, levels of income, employment and changes in social conditions.

5. Methodology

The study proposes to use both primary and secondary data. It has primarily be based on information obtained from a primary sample survey conducted at three different levels: the SHGs as a group, the individual members and the various functionaries associated with the Programme of bank-linkage. The study extended over all four regions of the district It covered four block viz, PATTI(a) KUNDA(b) SANDWA(c) LALGANJ(d) region

The SHGs has selected on the basis of two stage sampling and beneficiaries has selected on the basis of systematic random sampling. The indicators to assess the impact will cover a wide range of socio-economic indicators of the individual SHG members and their households. The proposed study also use "before and after" approach to assess the impact of the microfinance.

6. Findings of the Study

Results are divided into two parts, One part deals with the general and socio-economic characteristics and the other looks for the impacts on access and use of financial services, asset accumulation, and income and poverty alleviations.

(A) The results show that more than 90% of SHG members attended at least 70% of all meetings. A huge proportionate of members of SHG belonged to 35-55 yrs. age i.e. 44.16%. 2nd highest proportionate of members were found lying b/w the age group of 26-35, i.e. 37.50% of the total. According to survey results maximum SHG members belong to SC/ST (56.5%) categories. While 30.8% people were from OBC category and only 12.7% people were found belonging to General category.

Further it was seen that 20.84% of all interviewed members of SHGs were those who can sign only, whereas 22.66% people were observed as illiterate persons. 32.5% people received the primary education, while 20% people had received secondary education. According to result major economic activity of the SHG members was Agriculture Labor activity where 26.67% of the total members were found indulged. 15% members were involved in Farm-Activities where as 11.66% members belong to Non-Farm activities and as total 21.67% people were found in mixed activity. 9.16% people were involved in off-farm activities and remaining 15.87% people were involved in other kinds of activities. The 45.83% members were linked to other agencies of government also, 76.66% members were in the favor of SHG that helps in solving the problem of community and social welfare. 46.66% members use SHG for Loan consumption facilities. 75.83% members were observed who were fully aware of objectives and functioning of SHGs. 72.5% members' value of assets were found has been changed due to it.

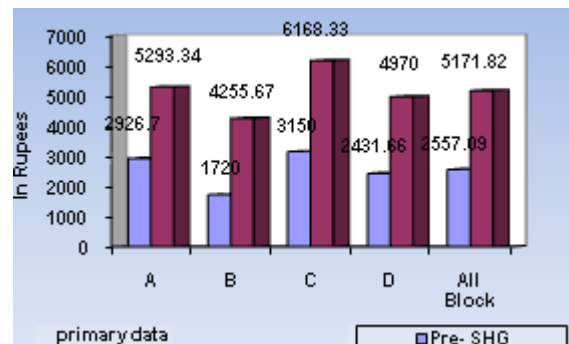


Figure 1: Block Wise Average Average Saving per Year & Per Samples HHs SHG Members

(B) Impacts on access and use of financial services, asset accumulation, income and poverty alleviations

- According to the results of studies, membership in SHGs linked to banks contributed to increased saving rates of members. Members had a saving account with their SHG and nearly all developed a habit of frequent saving of small amounts mostly in the range of Rs. 50-500 per month per member. The average annual savings per SHG member interviewed increased by more than three-fold from Rs. 213 in the pre-SHG situation to Rs. 430 in the post-SHG situation (Figure 1.)
- Positive changes were recorded in studies in the development of the value of physical capital in sample SHG member households. The value of assets increased approximately double of all sample SHG member households when comparing the pre- with the post-SHG situation. The average value of assets increased in participating households of Study by Rs. 3,398.85 or 100% from Rs. 3,382.75 Rs. 6,781.59. The average incremental gain in value of assets was considerably higher in the older SHGs (Figure 2). Most important in the asset structure was livestock, which also realized the highest increases in asset values

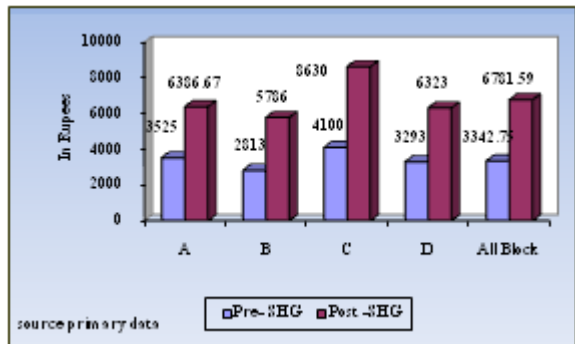
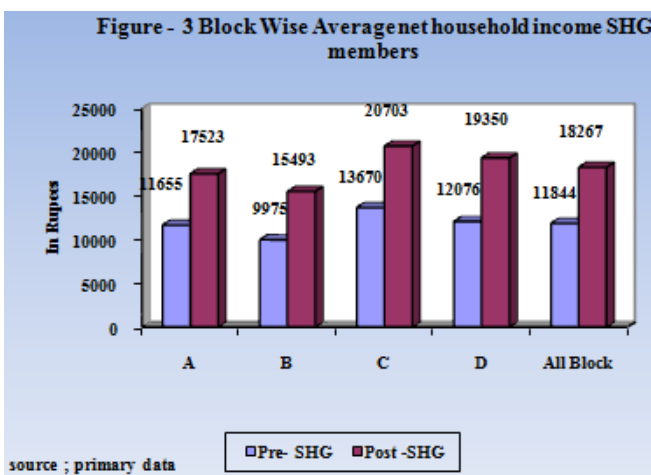


Figure 2: Block Wise Average Value of the Assets Sample of HHs SHG Member

- Positive impacts of the LBP on the income situation of SHG member households were reported in studies. According to the results of Study the average annual net income levels of sample member households increased by Rs. 6,423 or 54.22% from Rs. 11,844 in the pre-SHG situation to Rs. 18,267 in the post-SHG situation. Incremental average net incomes increased very substantially block wise the Block A-from Rs. 11,655 in the situation of pre SHGs to Rs. 17,523 in the situation of post SHG with the difference of Rs. 5,868 i.e. 50.34%.(, Figure 3).



- the study shows that people migrated from the farm activities and agriculture labor category of employment to Off-Farm activities and Non-Farm activities as a reduction was found in Farm activities and agriculture labor by 10% and 13.34% respectively and Off Farm activities where 14.16% people were engaged was in pre SHG situation was increased by 8.34%, now 22 % people were employed in Post SHG situation. In Non-Farm activities where in pre SHG situation only 9.16% people were engaged was found at 17.50% employees working, i.e. a growth of 8.34%. Besides this in other activities also people were migrated as in earlier situation 16.66 % people were found and in later one there was a proportionate of 23.34% people which leads to a growth of 6.68%.
- During the post-SHG situation the proportion increased by 41 %. Changes in consumption in sample member households were investigated in Study. Total consumption per household increased by Rs. 3,808 41% from Rs.9, 287 in the pre-SHG situation to Rs. 13,095 in the post-SHG situation(Figure-4)

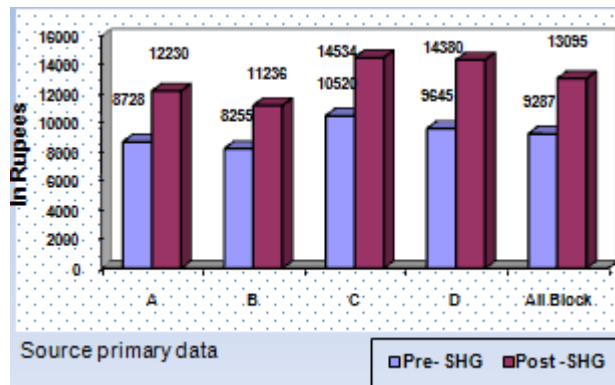


Figure 4: Block Wise Average Consumption per year & per Sample HHs SHG member

- In Pre SHG situation it was found that 19.03% of the total loan amount was used for agriculture, whereas for income generating activities and for consumption 49.40% & 31.57% amount was used respectively. In agriculture field the highest users were the people of Block A& Block D people were found as the lowest user of using loan amount on agriculture field. According to this study in Post SHG the maximum share of provided loan was used in income generating activities which is 71.70% of the total amount. A increment of 22.3% was observed in the same area as compare to Pre SHG situation. A decrement of 4.63% & 17.67% in agriculture and consumptions was observed respectively.
- According to study in Pre SHG situation total loan amount was Rs.5, 11,100 which became Rs. 8, 42,350 by increasing @ 64.81%. a revolutionary role was played by SHG here, as it was found that Bank's share decreased by 9.59%, Moneylenders by 18.36% and other sources by 11.17% and remaining share of loan sources in Post SHG was in the hand of SHG i.e. 39.12% of the total amount. Block D was the area where the maximum effect of SHG was found i.e. 56.74% of the whole.
- According to study we found dependency on money lenders is now reduced by the coming of SHG. According to Table 10, in Pre SHG situation 27.70% share of total Loan Sources was in the hand of money lenders which decreased @ 18.36% and remained on 9.34% only. If we see it block wise then it would be clear that in Block A , B, C & D it was 28.7%, 29.44%, 30% & 20.92% of total sources which became 6.92%, 6.0%, 14.25% & 11.70% respectively
- Most loans were provided for a period of less than 12 months. It was found in Pre SHG situations the time period for the 18% of the total loan was less than six months, for 40% share it was 06-12 months, for 18% share it was 12-24 months and the remaining 24% share of total loan was given for more than 24 months. In contrary to it, in Post SHG situations it was seen that loan rate for 06-12 & 12-24 months was increased @ 13% & 1.50% whereas the loan rate for 0-6 months and more than 24 months was reduced @ 4% & 10% respectively.
- In addition, it was found that the loan borrowing for the interest rate b/w 0-6% & 06-12% was increased by 7.70% & 6.90% respectively. But loan borrowing for the interest rate B/ 12-24% and more than 24% was reduced by 7.10% & 7.50% respectively.This had positive effects

on the reduction of interest rates and capital costs. Overall, loan repayments improved by about 10 percentage points to about 95% in the post-SHG situation.

7. Reduction in Incident of Poverty Line

- In this section, an attempt is made to examine whether there is any significant change in the status of households. The state rural poverty lines for the concerned states for 2004-05 were updated using the CPI of agricultural laborers (CPIAL) to obtain state-specific rural poverty lines for 2006-07. The state-specific poverty lines for 2006-07 were Rs. 5,176.8 annual and Rs. 431.4 per month consumption. While, on the basis of income cut off was considered to be Rs.24,000 annual and Rs. 2,000 per month in Rural area. The cut-off per capita per month poverty lines were applied both at the base level (pre-SHG) income data as well as for the situation (post-SHG) for each of the selected sample household in the survey.
- Sample member households living below the poverty line were estimated in study on the basis of comparing net income levels of the families before and after their association with SHGs. According to the results of Study the share of families living below the poverty line was reduced by 20.83 percentage points, from 95% in the pre-SHG situation to 74.16% in the post-SHG situation.

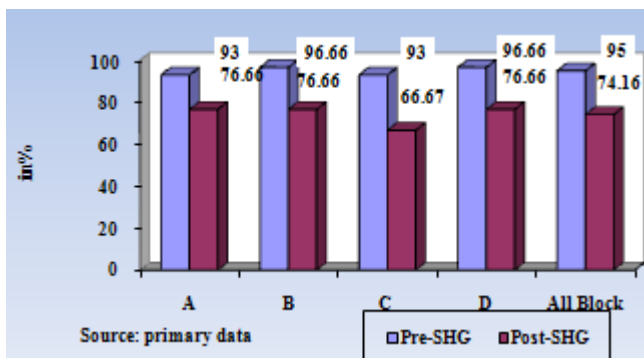


Figure 6: Block Wise Contribution towards poverty alleviation in Sample Member HHs of SHG members HHs below poverty line

8. Conclusions

The results of the analysis that SHGs have been performing better not only as providers of financial services in terms of augmenting savings, lending and ensuring loan recovery, but also in terms of awareness creation and empowerment. They also lead to the development of human resources and management skills, leadership and motivation. Now at the end it can be observed that microfinance has played a very significant role in the development of Uttar Pradesh by achieving its goals as like increment in savings and borrowing patterns, improving economic conditions, reduction in poverty, educational development, employment growth, developed social conditions of people.

9. Suggestions

- The banks and other financial institutions and state government should come forward to help the rural poor

through the SHG's and provide liberalized credit facilities at cheaper rates of interest. There is needed to accept that Poor's needs are not only for self-employment. The Programs should be designed on the basis of the needs of poor at the micro level.

- The various categories for financial institutions in rural Market have exhibited different potentials in serving rural Women. There is need to synchronize their efforts so that their work becomes supplementary and complementary in serving poor.
- Branch managers of financial institutions should in any case be close to the communities they serve, and should be alert for any distribution channel through which they can profitably reach new customers. They should be ensured of the existing level and types of group activity and informal intermediation, and be ready to offer savings and lending products which are appropriate for local Communities.
- There is needed to evolve new products by the banks Commensurate with the requirement of rural poor. The customer-contact-programs especially for poor should be organized to disseminate the information of various Schemes and financial needs of poor.
- Marketing of new distribution may involve training or Community development skills. There is need to evolve training packages for entrepreneurship development to enable rural women as successful business managers and sustaining micro-enterprises. In this task, role of NGO's, Panchayats, Women's organizations etc. may be enhanced to impart training, skill development and technical knowledge.
- A proper mechanism should be evolved to prepare database on SHG's, SHP's, MFI's etc. Moreover, MIS with good management backing needs to be developed to achieve sustainability of micro-financing institutions.
- The factors responsible for poor performance of microfinance and functioning of SHG's should be investigated, examined and analyzed scientifically and systematically to resolve the emerging problems, difficulties and challenges being faced.
- Regulation of micro-financial services is necessary, which helps in long-term sustainability. The interests of small savers, ensuring proper terms of credit, instilling financial discipline and having a proper reporting and supervision System should put in place. Regulation and supervision ensure that micro-financing organizations are run prudently and cases of poor people losing their money due to fraud or incompetence are minimized.
- key elements in the survival and sustainability of the SHG's should naturally be built on those elements that have brought the group together. SHG's have to evolve as sustainable village level institutions for taking active role in the development and governance.

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