SHGs - A Panacea to Poverty Eradication: Evidence from Indian States

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Abstract

Despite various developmental programmes announced by the Government time and again, incidence of poverty in the country still remains high. Self Help Groups (SHGs) represent a form of intervention that is a radical departure from most of the existing poverty alleviation programmes proved as an effective strategy of poverty alleviation, human development and social empowerment. The SHGs have been recognized as useful vehicles to help the poor in accessing financial resources, which were hitherto not available to them and has helped them break away from the clutches of exploitative moneylenders. Economic self-reliant people play a more active role in decision-making and are able to contribute to the economic growth. Access to financial services and the subsequent transfer of financial resources to poor people enable them become the economic agents of change. In this paper, an attempt has been made to analyze the impact of SHG in alleviation of poverty in India. The author also made an effort to show how SHGs become successful as a model of inclusive growth. It is observed that the percentage of BPL population is less in the states where there is large number of SHGs.

Keywords: *SHG, Poverty, Inclusive Growth, Empowerment, etc.*

Introduction

Poverty has been increasingly emphasized not only in academic discourses, but also in the development policy framework in India. Till the end of the Third Five Year Plan concern was on high rate of economic growth with an inbuilt supposition that economic growth would percolate down in the process of development and poverty will be eradicated. Unfortunately, however, the developmental

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programmes seldom benefited everyone uniformly. (Gadanayak 2008). While some are left behind some others are not touched by the benefits of economic growth. It is proved globally that the so-called trickledown effect does not work in all the societies and India is no exception to this.

Different policies and rural development programs from the Government and NGOs are designed to ensure the generation of employment through creation of productive assets which takes a center stage especially in rural areas. As emphasized by Amartya Sen in his writings development is more of expansions in capabilities and in both positive and negative freedoms than increasing material well-being. Assessment of economic development should not merely a measure of an aggregate of economic activity but it should be an assessment of the inclusiveness of economic growth, with emphasis not only on the distribution of gains but also on the security, vulnerability, empowerment, and sense of full participation that people may enjoy in social civic life. Access to financial resources enables the poor to exploit investment opportunities, reduces their vulnerability to shocks, and promotes economic growth. Economic development is essentially a product of collective action in the society. Individual stakes and interests can be enormously varied with not everyone gaining, or at least not gaining in the same degree. Finding ways of reducing the constraints on collective action is equally important. Villages are faced with problems related to poverty, illiteracy, lack of skills, health care, etc., which can be better solved through group efforts. The Self Help Group (SHG) concept evolved as a new banking concept, with a basic concern on extending banking services to the poor in order to stimulate their self help capacity so that they can overcome the poverty and address some of their crucial social problems.

Objectives

The focus of this paper is on the impact of Self Help Groups (SHGs) in alleviation of poverty in India. The author also has tried to show how SHG become successful as a model of inclusive growth. With the help of Reserve Bank of India (RBI) and NABARD data, an analysis has been done to find out the impact of Self Help Groups on poverty alleviation in major states of India.

The SHG Concept

NABARD defines Self Help Group as a small homogeneous group of poor households consisting of 20 or less people from a homogenous class who are willing to come together for addressing their common problems. They make regular savings and use the pooled savings to give interest-bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritization of needs, setting Self-determined terms for repayment, and keeping books and records. It builds financial discipline and credit history that encourages banks to lend to them in certain multiples of their own savings and without any demand for collateral security. Self-help groups are not a new concept in development. The traditional Indian society functioned mainly on the basis of self-help and mutual aid. However, in recent years, they have been emerging as a major strategy for the promotion of informal credit to the poor. Based on local conditions and requirements, the SHGs have evolved their own methods of working. The unique feature of the SHG is its ability to inculcate among its members the sound habits of thrift, savings and banking. Due to this quality SHGs have been recognized as useful vehicles to help the poor in accessing financial resources, which were hitherto not available to them and has helped them break away from the clutches of exploitative moneylenders.

Self Help Groups and Inclusive Growth

The significance and importance of the inclusive concept has been well recognized long back. In recent time there is a growing realization that while the “trickle down” effect of economic growth no doubt works, it takes too long a time and hence there is a need to focus on inclusive growth. The Eleventh Five Year Plan Strategy is “Towards Faster and More Inclusive Growth'. Though the Approach Paper (GOI 2006) has not defined the concept of inclusive growth, (Suryanarayana 2008) the Economic Survey of 2007-2008 presents some estimates of outcome measures (without any evaluation) of inclusive growth in India between 1993-94 and 2004-05 (GOI 2008).

'Inclusive growth', is a little more than just the benefits of growth being distributed equitably and evenly; it is the participation of all sections and regions of society in the growth story and their reaping the benefits of growth (Thorat-2008).

Unless until, the quality of life of the poor is improved, it is difficult to achieve social development. This is only possible through participatory poverty alleviation where the poor have to involve themselves in identifying the poor, prioritize their needs and monitor poverty at micro level. The participatory micro level poverty alleviation is probably the stepping stone towards achieving the goal of poverty alleviation in the country. Infusion of appropriate technology, skills and easier access to credit, especially start-up capital, apart from, facilitating market development, can make the majority population living in rural areas an expanding base for self-sustaining employment and wealth generation and also foster a culture of creative and competitive industry. In C.K. Prahalad's words, “If we stop thinking of the poor as victims or as a burden, and start recognizing them as resilient and creative entrepreneurs and value conscious consumers, a whole world of opportunity will open up”. (Prahlad C.K., 2005). The challenges of achieving of more inclusive growth can be met by policies that encourage easier and affordable access to financial services.

A large segment of the society in India, mainly the low-income group, has little or no access to financial services, either formal or semi-formal. As a result, many people have to necessarily depend either on their own sources or informal sources of finance. In 1992 NABARD launched the SHG Bank Linkage programme. The programme gained momentum when RBI allowed banks to open savings accounts for SHGs despite their not having any legal form. The group leaders operate the SHG accounts. SHGs facilitate collective decision making and provide 'door step' banking to the poor. The banks, as wholesalers of credit, provide the resources, while the NGOs are the agencies that organize the poor, build their capacities and facilitate the process of empowering them. The strength of the SHGs in India is its linkage with the existing banking institutions (Yesudian 2007). It has helped the rural masses hitherto outside the mainstream economy, to come within the mainstream economy of the country. Since the existing banking infrastructure is used, the administrative cost is bound to be low. It also gave the bank the opportunity to penetrate into the rural areas and expand the banking operations in the country. Banks are generally comfortable with the credit worthiness of the SHGs. As on March 31, 2007, over 2.9 million SHGs have been linked to banks involving a total credit flow of over Rs. 180 billion. This shows the magnitude and the impact of the programme in the country. It has become a social movement across Indian villages. A major assumption on which the SHG strategy is based is that participatory institutions of the poor provide them with the space to develop skills and confidence and to mobilize resources. Good SHGs have been known to provide the impetus by which people can change the iniquitous power relations which have been keeping them both in poverty and subjugation (Karnataka Human Development Report 2005).

Self Help Groups and Poverty Alleviation

As a poverty alleviation programme, the success of micro-finance is gauged from its ability to service the population below the poverty line, i.e. targeting the poor. The debate on whether SHGs can be used as tools to lift the poor out of poverty is ongoing in India. Self-help groups have been shown to have positive effects on poor. (Kay 2002). They have played valuable roles in reducing the vulnerability of the poor, through asset creation, income and consumption smoothing, provision of emergency assistance, and empowering and emboldening poor by giving them control over assets and increased self-esteem and knowledge (Zaman 2001). Several recent assessment studies have also generally reported positive impacts (Simanowitz and Walker 2002). Hulme and Mosley had compared the change in income of micro-credit target population and those who are not participating in the micro-credit programme (Yesudian 2007). Their study also differentiated the targeted population into those who are above poverty line and those who are below poverty line. The study showed substantial income increase among the borrowers - an increase of 202 per cent as compared to the non-borrowers. The increase was 133 per cent for the BPL borrowers.

Data Analysis

In the present paper an attempt has been made to explain the relationship between the number of SHGs and poverty. The number of existing SHGs and the population below poverty line in different states is considered for this purpose. Table No. 1 shows the number and percentage of population below poverty line during 2004 -05. It indicates that in major states of southern region the percentage of population below poverty line is less in comparison with the major states of other regions in India.

Table No. 2 shows the average number of SHG and loan disbursement per person belonging to below poverty line. The findings show that in states of southern region the BPL population SHG ratio is very less than the states in other regions. In southern region there are 1214431 SHGs for 337.92 million populations. In Central region there are 267915 SHGs for 769.09 million populations. In Southern region the ratio of BPL population and SHG (Population per SHG) is 28 where as in other regions like Northern, Central, Eastern, West, North-East, the BPL population per SHG is 126, 287, 182, 198, 96 respectively. In context of whole India this ratio is 106.

In this Table, column No 2, the total amount of Bank loan disbursement through SHGs is analyzed. Accordingly the amount of Bank loan disbursed through SHGs in Southern states is estimated to be about Rs. 84676.92 million whereas in other regions like Northern, Central, Eastern, West, and North-East this is Rs. 3985.85, Rs. 8050.07, Rs. 9354.19, 5251.39, 1657.01 million respectively. The overall bank loan extended through SHGs amounts to Rs.112975.4 million. It reveals that out of the total loan disbursement, the share of southern states is around 75 percent indicating the rapid growth of SHGs in this region and their bank linkage.

Last column of the Table No. 2 shows the per capita loan. This is very high in southern region in comparison to other regions of India. The all India figure of per capita loan availability through SHGs is Rs. 474. In Andhra Pradesh where the number of SHGs is the maximum, per capita loan is Rs. 4786 which is much more compared to other states.

In Table No. 3 an analysis of the existing number of SHGs in the states of different regions and the estimated requirement of SHGs has been made. The estimation has been done on the assumption of one SHG for 15 people belonging to Below Poverty Line. In Central region the overall requirement of SHG is more in comparison of other regions. Keeping in view of one SHG for every 15 BPL populations the required number of SHG in this region is about 51,27,267. But the existing number of SHGs is only 2,67,915. It indicates that a large number of people below poverty line are excluded from the net of SHGs. In the states of southern region the growth of SHG shows the fact that here the number of existing SHG is close to the required number of SHGs. In Andhra Pradesh this number is almost equal. The overall India figure shows that against to the required number of 15877467 SHGs there exist only 2238365 SHGs showing a possibility of forming 13639102 SHGs in order to bring more and more people below poverty line under the SHG.

Conclusion

- The findings show that there is a close relationship between poverty alleviation and SHGs.
- SHGs can be considered as an effective model of financial inclusion since they play an important role in loan disbursement among the poor.
- It is also observed that the percentage of BPL population is less in the states where there is large number of SHGs.

Table No. 1: Number & Percentage of Population Below Poverty Line -2004-05

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Table No. 2: Average no. SHG & loan per person (BPL)

[redacted]
& RBI

Table No. 3: State-wise Required Number of SHGs

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