Micro Finance and Poverty Alleviation: An Analysis with SHGS Contribution

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Abstract:
A majority of microfinance program target women with the explicit goal of empowering them. There are varying underlying motivations for pursuing women empowerment. Some argue that women are amongst the poorest and the most vulnerable of the underprivileged and thus helping them should be a priority. The main benefits of micro-credit appear to be reduced vulnerability of the poor to adverse circumstances, increased consumption in the same group and empowerment of women. Fortunately, micro-finance practice in India like some other countries has much to offer to the rural population. These include poverty alleviation, livelihood promotion, developing the local economy, gender empowerment, building organizations and changing wider systems and institutions within society. SHG- banking linkage model is an important model of micro-finance which helps their members to start their own business. Also SHGs in rural area have empowered illiterate and poor women by linking them to the mainstream banking system and involving members in Micro-Entrepreneurship activities. Development of Micro-Entrepreneurship can help reduce the problem of unemployment and several social problems in the society that go with it. It ultimately helps in sustaining the process of development of the nation. This paper tries to link Micro-finance, Self-Help Groups, and Micro-Entrepreneurships of women and makes an attempt to review Indian experience in the case of Self-Help Groups and Micro Finance to show up the importance of Self-Help Groups for Poverty alleviation.

Keywords: *Micro-Finance, Self-Help Group, and it's for poverty alleviation*

1. Introduction

In recent years micro-finance become an important intervention as a tool for rural development and poverty alleviation. In India, In India, many a number of microfinance institutions including NGOs, NBFIs and Government agencies had intensively intervened. Innovation of group based microfinance especially Self-help Groups (SHGs), Grameen Joint Liability Groups (JLGs), Mutually Aided Cooperative Societies (MACS) etc. which replaced the physical collateral with moral and social collateral for micro-loans had probably led to speed up of the microfinance programmes in India. The giant step of NABARD on SHG- Bank Linkage Programme is really praiseworthy which latter considered as one of the biggest microfinance interventions in the world. According to Reserve Bank of India, SHGs may be registered or unregistered group of people, mostly micro-entrepreneurs having homogeneity in their socioeconomic background, who join hands together to contribute regular savings to a common fund and meet their emergency needs on mutual help basis. The peer pressure and collective wisdom ensures the credit use and timely repayments. The peer pressure and collective wisdom substitute the collateral for loans. "In most of the developing countries today, more and more emphasis is laid on the need for development of women and their active participation in the main stream of development process. It is also widely recognized that apart from managing household, bearing children, rural women bring income with productive activities ranging from traditional work in the fields to working' in factories or running small and petty businesses. They have also proven that they can be better entrepreneurs and development managers in any kind of human development activities. Therefore, it is important and utmost necessary to make rural women empowered in taking decisions to enable them to be in the central part of any human development process. Although men, as well as women, face difficulties in establishing an enterprise, women have barrier to overcome. Among them are negative socio-cultural attitudes, legal barriers, practical external barriers, lack of education and personal difficulties. In spite of this for women and especially for poor women, micro-enterprise ownership has emerged as a strategy for economic survival.

2. Objectives of study

1. To understand the relationship between micro- credit and poverty alleviation
2. To analyze the growth of microfinance sector and Self Help Groups in India.
3. To understand the impact of micro credit

3. Research Methodology

This is a descriptive research paper based on secondary data. Data have been found out from different websites, books, research paper and journals collected.

4. Statement of the Problem

Poverty is omnipresent in the world with its varied genesis and dimensions. However, the third world countries including India are the main sufferers. Since Independence, the Government of India has taken several initiatives to tackle the scourge of poverty through area development approach and or sectorial approach. Poverty eradication is not only a development goal. It is a central challenge for human rights in the 21st century. It is necessary to consider things like increase the income of the poor, reduce their vulnerability and increase their self-confidence at the time of framing policy for eradication of poverty. In this regard, Micro finance is often advocated as a solution to multiple social problems. Poor households with access to credit can make investments that bring them out of poverty, household and regional income and wealth disparities are reduced, and group meetings provide forums for collective action that improve gender relations and local governance. The beginning of the micro finance movement was started way back in 1992 with National Bank for Agriculture and Rural Development (NABARD) initiating self-help group (SHG) bank linkage programmes. In the initial stages, micro finance institutions (MFIs) are operating mainly as societies, trusts and co-operatives also initiated micro finance activities through donor funding.

The extent to which micro finance programs are able to reach the poorest of the poor remains an open debate. Access to finance and inexperience are the dominant factors distressing small business owners in the current down turn. Administrators of federal government have responded by slackening monetary policy, firming up banks, reassuring lending and providing demand stimulus through fiscal policies. It is moreover early to express which policies will be effective in supporting recovery of small businesses. A large number of micro finance institutions that serve the poor have modified their micro finance products so as to make them more responsive to poor and small businessmen in both rural and urban contexts. By keeping all, it is an attempt to find answers to the following questions:

1. What is the growth of performance of Micro finance institutions in India?
2. To what extent Micro finance is useful for eradication of poverty both at rural and urban level?
3. What is the existing structure and assisting pattern of various micro finance programmes in rural areas?
4. What are the problems faced by the beneficiaries of micro finance from various micro finance institutions?
5. Whether beneficiaries are having awareness about micro finance?
6. To what extent beneficiaries are satisfied with various schemes, rules and regulations?

5. Poverty in Tamil Nadu

Poverty can be defined either in terms of biological needs or economic condition. Based on biological approach, the poverty line is defined in terms of calorie intake and those who fall below the poverty line are poor. Accordingly, the cut off calorie norm (per capita per day) is set to be 2400 and 2100 calories in rural and urban areas respectively. Based on economic approach, people are grouped based on per capita income/expenditure or standard of living index. The Task Force on Provision of Minimum Needs and Effective Consumption Demand (1979), considered the cut off per capita per month income of Rs. 49.10 and Rs. 56.00 for rural and urban areas respectively based on 1973-74 base year. In terms of per capita expenditure, Rs. 15 and Rs. 20 per month in rural and urban areas respectively at 1960-61 prices are taken to determine the poverty levels. The monthly per capita income for dividing people as BPL in Tamil Nadu is estimated at Rs. 639 for rural and Rs. 808.8 for urban areas. The Tendulkar Committee recommended use of implicit prices derived from quantity and value data collected in household consumer expenditure surveys for computing and updating the poverty lines. The level of poverty could be also measured based on standard of living index constructed using socio-economic indicators. The prevalence of poverty in both rural and urban areas had been estimated for Tamil Nadu. Table 1 provides the trends in the number of persons below poverty line indicating the incidence of poverty in Tamil Nadu for the period 1973-74 to 2009-10.

Table 1: Trends in Incidence of Poverty in Tamil Nadu

Year	Number of Persons Below Poverty Line (in millions)		
	Rural	Urban	Combined
1973-74	17.26 (57.43)	6.69 (49.40)	23.95 (56.94)
1977-78	18.25 (57.68)	7.30 (48.69)	25.95 (54.79)
1983	18.25 (53.99)	7.85 (46.96)	26.10 (51.16)
1987-88	16.18 (45.80)	6.93 (38.64)	23.11 (43.39)
1993-94	12.17 (32.48)	8.04 (39.77)	20.21 (35.03)
1999-2000	8.05 (20.55)	5.00 (22.11)	13.05 (21.12)
2004-05*	13.44 (37.50)	5.97 (19.70)	19.41 (29.40)
2009-10*	7.83 (21.20)	4.35 (12.80)	12.18 (17.01)

Note: 1. Figures in ( ) indicate percentage share to the respective total population.
2. Estimates are based on Tendulkar Methodology.
Source: Planning Commission, Government of India

According to the Table-1 official estimates, the number of people living below poverty line had been on the downward trend over the years. During the second half of Seventies, there were 23.95 millions of persons below poverty line that declined to 23.11 millions by 1987-88 and further declined to 12.18 millions by 2009-10. The decline in the incidence of poverty could be revealed sharply when we examine the percentage share of population below poverty line to the total estimated population. This percentage had declined from 56.94 to 17.01 between the years 1973-74 to 2009-10. The trends in the level and incidence of poverty across rural and urban regions of Tamil Nadu showed differential pattern. In terms of absolute numbers, there was a steady decline in the number of persons below poverty line in the rural areas during the reference period, while an increasing trend could be observed in the urban areas up to 1993-94 and a decline thereafter. However, in terms of relative shares to the respective total regional population, the incidence of poverty had declined in both the rural and urban areas. In fact, the decline was observed to be significantly higher in the rural, compared to that of urban Tamil Nadu. In rural, the percentage share of population below poverty line had declined from 57.43 to 21.20, whereas in urban areas, it had declined from 49.40 to 12.80 between the period 1973-74 and 2009-10.

6. Poverty Estimation

The NSSO tabulates expenditure of about 1.20 lakh households. Since these households have different number of members, the NSSO for purpose of comparison divides the household expenditure by the number of members to arrive at per capita consumption expenditure per month. This is called Monthly Per Capita Consumption Expenditure (MPCE) and is computed on the basis of three different concepts: Uniform Reference Period (URP), Mixed Reference Period (MRP), and Modified Mixed Reference Period (MMRP). As per Tendulkar Methodology, the poverty line has been expressed in terms of MPCE based on Mixed Reference Period. State-wise estimates of Average Monthly Per Capita Expenditure for rural and urban areas separately for the year 2011-12 are given in Table-2. For 2011-12, for rural areas the national poverty line using the Tendulkar methodology is estimated at Rs. 816 per capita per month and Rs. 1,000 per capita per month in urban areas. Thus, for a family of five, the all India poverty line in terms of consumption expenditure would amount to about Rs. 4,080 per month in rural areas and Rs. 5,000 per month in urban areas. These poverty lines would vary from State to State because of inter-state price differentials. The national level poverty ratio based on comparable methodology (Tendulkar Method) for 1993-94, 2004-05 and 2011-12 estimated from Large Sample Survey of Household Consumer Expenditure data of 50th, 61st and 68th round respectively are given below.

Table 2: Number and Percentage of Population below poverty line by states - 2011-12 (Tendulkar Methodology)

Sr.	States /UTs	Monthly per capita (Rs.)		AMPCE* (MPCE) as per Mixed Reference Period (MRP) for 2011-12		% of Persons	No. of Persons (lakhs)	% of Persons	No. of Persons (lakhs)	% of Persons	No. of Persons (lakhs)
		Rural	Urban	Rural	Urban	Rural		Urban		Total	
1	Andhra Pradesh	860	1,009	1563.21	2559.30	10.96	61.80	5.81	16.98	9.20	78.78
2	Arunachal Pradesh	930	1,060	1455.87	2241.63	38.93	4.25	20.33	0.66	34.67	4.91
3	Assam	828	1,008	1056.98	2090.18	33.89	92.06	20.49	9.21	31.98	101.27
4	Bihar	778	923	970.41	1396.65	34.06	320.40	31.23	37.75	33.74	358.15
5	Chhattisgarh	738	849	904.04	1776.21	44.61	88.90	24.75	15.22	39.93	104.11
6	Delhi	1,145	1,134	2690.24	3160.76	12.92	0.50	9.84	16.46	9.91	16.96
7	Goa	1,090	1,134	2460.77	2934.87	6.81	0.37	4.09	0.38	5.09	0.75
8	Gujarat	932	1,152	1430.12	2472.49	21.54	75.35	10.14	26.88	16.63	102.23
9	Haryana	1,015	1,169	1925.96	3346.32	11.64	19.42	10.28	9.41	11.16	28.83
10	Himachal Pradesh	913	1,064	1800.62	3173.30	8.48	5.29	4.33	0.30	8.06	5.59

11	Jammu & Kashmir	891	988	1601.51	2320.28	11.54	10.73	7.20	2.53	10.35	13.27
12	Jharkhand	748	974	919.59	1894.41	40.84	104.09	24.83	20.24	36.96	124.33
13	Karnataka	902	1,089	1395.10	2898.94	24.53	92.80	15.25	36.96	20.91	129.76
14	Kerala	1,018	987	2355.53	3044.22	9.14	15.48	4.97	8.46	7.05	23.95
15	Madhya Pradesh	771	897	1024.14	1842.35	35.74	190.95	21.00	43.10	31.65	234.06
16	Maharashtra	967	1,126	1445.89	2937.06	24.22	150.56	9.12	47.36	17.35	197.92
17	Manipur	1,118	1,170	1334.55	1448.91	38.80	7.45	32.59	2.78	36.89	10.22
18	Meghalaya	888	1,154	1315.11	2293.82	12.53	3.04	9.26	0.57	11.87	3.61
19	Mizoram	1,066	1,155	1384.44	2426.53	35.43	1.91	6.36	0.37	20.40	2.27
20	Nagaland	1,270	1,302	1756.70	2279.42	19.93	2.76	16.48	1.00	18.88	3.76
21	Odisha	695	861	904.78	1830.33	35.69	126.14	17.29	12.39	32.59	138.53
22	Punjab	1,054	1,155	2136.39	2743.07	7.66	13.35	9.24	9.82	8.26	23.18
23	Rajasthan	905	1,002	1445.74	2206.93	16.05	84.19	10.69	18.73	14.71	102.92
24	Sikkim	930	1,226	1445.06	2528.11	9.85	0.45	3.66	0.06	8.19	0.51
25	Tamil Nadu	880	937	1570.61	2534.32	15.83	59.23	6.54	23.40	11.28	82.63
26	Tripura	798	920	1194.14	1996.66	16.53	4.49	7.42	0.75	14.05	5.24
27	Uttarakhand	880	1,082	1551.42	2452.02	11.62	8.25	10.48	3.35	11.26	11.60
28	Uttar Pradesh	768	941	1072.93	1942.25	30.40	479.35	26.06	118.84	29.43	598.19
29	West Bengal	783	981	1170.11	2489.89	22.52	141.14	14.66	43.83	19.98	184.98
30	Puducherry	1,301	1,309	2309.92	2959.82	17.06	0.69	6.30	0.55	9.69	1.24
31	A & N Islands	-	-	2508.19	4439.03	1.57	0.04	0.00	0.00	1.00	0.04
32	Chandigarh	-	-	2543.57	3000.27	1.64	0.004	22.31	2.34	21.81	2.35
33	Dadra & Nagar Haveli	-	-	1094.20	2346.15	62.59	1.15	15.38	0.28	39.31	1.43
34	Daman & Diu	-	-	2239.45	2163.94	0.00	0.00	12.62	0.26	9.86	0.26
35	Lakshadweep	-	-	2533.07	2666.49	0.00	0.00	3.44	0.02	2.77	0.02
	All India	**816**	**1,000**	**1287.17**	**2477.02**	**25.70**	**2166.58**	**13.70**	**531.25**	**21.92**	**2697.83**

Source: NSSO Report No. KI. (68/1.0) on Key Indicators of Household Consumer Expenditure in India 2011-12, NSS 68th round, National Sample Survey Office.

Note: Average Monthly Per Capita Expenditure (AMPCE)*

Notes:

- Population as on 1st March 2012 has been used for estimating number of persons below poverty line. (2011 Census population extrapolated)
- Poverty line of Tamil Nadu has been used for Andaman and Nicobar Island.
- Urban Poverty Line of Punjab has been used for both rural and urban areas of Chandigarh.
- Poverty Line of Maharashtra has been used for Dadra & Nagar Haveli.
- Poverty line of Goa has been used for Daman & Diu.
- Poverty Line of Kerala has been used for Lakshadweep.

7. Impact of Micro-Finance

Micro finance plays an input supplementary role in creation of assets of the poor. There are two dimensions of the impact of micro finance. Firstly, it facilitates the SHG members in general and enhancing their income which helps in strengthening their livelihood, increases the self confidence in managing their micro finance programmes. The strategy for poverty reduction accelerate the rapid economic growth with a focus on micro finance, access to basic minimum services for improving the quality of life of poorest of poor; and direct state intervention in the form of targeted antipoverty programmes. Rural development is primarily concerned with addressing the needs of the rural poor in the matter of sustainable economic activities. Alleviation of rural poverty can be achieved by identifying income-generating activities with focus on micro finance as the basic input for socio-economic development. Role of micro finance in eradication of poverty was stressed by the United Nations in its Economic and Social Council meet. Micro credit emphasizes building capacity of a micro entrepreneur, employment generation, trust building and help to the 'micro entrepreneur' at initiation and during difficult times. Micro credits are enough for innovative and hardworking micro entrepreneurs to start small business such as making handicraft items. From the income of these small businesses the borrowers of micro credit can enjoy better life, food, shelter, health care and education for their families and above all these small earnings will provide a hope for better future.

8. Deposit Mobilization

The increasing participation of women in SHGs has helped the women to raise their economic standard. The most popular role of SHGs is promotion to savings of women. The SHGs inculcate a habit of thrift among women. The groups also encourage the development of a long- term vision. It enhances the level of confidence in women that they have something to fall back upon in times of distress. It is important to note that 91 per cent of the members reported that they could not save prior to SHGs membership as against 9 per cent members who could do so earlier also. Moreover, 98 per cent of the member's confessed that their tendency to save had improved after joining SHGs. Out of these 86 per cent of the respondents reported regularity in savings.

Table-3: SHGs Savings with the Banks as on 31 M arch 2009-2010

Agency	Posit ion as on	Total SHGs savings with the Banks as on 31st M arch 2009/ 10		Per SHGs Savings
		No. of SHGs	Amount	Rupees
Commercial Banks	31/03/2009 31/03/2010 **% growth**	3549509 4052915 **14.2**	2772.99 3673.89 **32.5**	7812 9065 **16.5**
Regional Rural Banks	31/03/2009 31/03/2010 % growth	1628588 1820870 11.8	1989.75 1299.37 34.7	12218 7136 41.6
Co- Operative Banks	31/03/2009 31/03/2010 **% growth**	6121147 6953250 **13.6**	5545.62 6198.71 **11.8**	9060 8915 **1.6**

Source: Status of micro finance in India NABARD 2009-2010

Table 3 exhibits that as on 31st March 2010, a total of 69.53 lakh SHGs were having saving bank accounts with the banking sector with outstanding savings of Rs. 6198.71 crore as against 61.21 lakh SHGs with savings of Rs. 5545.62 crore as on 31st March 2009, thereby showing a growth rate of 13.6 per cent and 11.8 per cent, respectively. Thus, more than 97 million poor households were associated with banking agencies under SHG-Bank Linkage Programme. As on 31stMarch 2010, the CBs lead with savings accounts of 40.53 lakh SHGs (58.3%) with savings amount of Rs. 3673.89 crore (59.3 %) followed by RRBs having savings bank accounts of 18.21 lakh SHGs (26.2%) with savings amount of Rs. 1299.37 crore (21.0%) and Cooperative Banks having savings bank accounts of 10.79 lakh SHGs (15.5 %) with savings amount of Rs. 1225.44 crore (19.8%). The share under SGSY was 16.94 lakh SHGs with savings of Rs. 1,292.62 crore forming 24.4 per cent of the total SHGs having savings accounts with the banks and 20.8 per cent of their total savings amount.

9. Advancing of Loans

The group disburses loan to members from the savings of the group. The group gets access to credit from the banks and disburses the amount among members. The group decides the rate of interest to be charged, repayment schedule, procedure of recovery etc. The social objective for seeking loans like illness, education and marriage are given priority while disbursing the loan. The actual status of the borrowing indicates that about 63 per cent of the respondents have borrowed loan from SHGs for health purposes. Food and household consumption, social obligations and income generating activities are the other major objectives of seeking loans.

Table 4: SHGs Loans Disbursed by Banks to SHGs during the year 2009-2010

Agency	Position as on	Total Loan Disbursed by Banks to SHGs during the Year		Per SHGs Loan Disbursed
		No of SHGs	Amount	Rupees
Commercial Banks	2008-2009	104587	8060.53	80237
	2009-2010	977521	9780.18	100050
	% growth	**2.7**	**21.3**	**24.7**
Regional Rural Banks	2008-2009	405569	3193.49	78741
	2009-2010	376797	3333.20	88461
	% growth	**7.1**	**4.4**	**12.3**
Co-Operative Banks	2008-2009	199430	999.49	50117
	2009-2010	232504	1339.92	57629
	% growth	**16.6**	**34.1**	**15.0**
Total	2008-2009	1609586	12253.51	76128
	2009-2010	1586822	14453.30	91083
	%growth	**1.4**	**17.9**	**19.6**

Source: Status of micro finance in India NABARD (2008-2009) (2009-2010)

Table 4 states that during 2009-10, banks have financed 15.87 lakh SHGs, including repeat loan to the existing SHGs, with bank loans of Rs.14,453.30 crore as against 16.10 SHGs with bank loans of Rs. 12,253.51 crore during 2008-09, registering a decline of 1.4 per cent of SHGs but a growth of 17.9 per cent in bank loans disbursed. Out of the total loans disbursed during 2009-10, SHGs financed under SGSY accounted for 2.67 lakh (16.9%) with bank loan of Rs. 2198.00 crore (15.2%) as against 2.65 lakh SHGs (16.4%) with bank loan of Rs. 2015.22 crore (16.4%) during2008-09. During 2009-10, average bank loan disbursed per SHG was Rs. 91,083 as against Rs.76, 128 during 2008-09. The average loan per SHG ranged from of Rs. 1, 00,050 per SHG by CBs to Rs. 57,629 per SHG by Cooperative Banks.

10. Conclusion

India still is the home to the largest population of the poor in the world and about 37% of population is below poverty line. The levels of poverty are high and because of this problem Self Help Groups movement occupies a significant agenda in the poverty reduction and empowerment of women for poor people. Micro-finance program are important institutional devices for providing small credit to the rural people in order to alleviate poverty and SHG bank linkage, have the potential to minimize the problems of inadequate access of banking services to the poor. Many studies highlighted that SHGs have inculcated saving habits in poor. Many studies reveal that increased availability of micro-credit to the poor through SHG bank linkage program will help rural people to take up larger productive activities and decrease the dependence on money lenders. But, In spite of the impressive figures of micro- finance in India as have exposed in tables. It is still too small to create a massive impact in poverty alleviation. However; Indian experience in the case of Micro-finance and SHG is shown that this strategy is suitable strategy for developing and underdeveloped countries against poverty.

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