

The Role of Self Help Groups in Alleviating Poverty in India– An Appraisal

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Abstract

Today, Self help groups (SHGs) are playing a major role in economic development as well as poverty alleviation in India. Majority of the poor and marginalized are building their lives, families and society through the interventions of SHGs. A growing number of poor people (mostly women) in various parts of the country are members of SHGs and they are actively engaging in SHGs activities like savings, income generation, standard of living and making of self reliance through self employment. Further, even after more than 62 years of planning, various poverty alleviation programmes, the official estimates shows that around 1/4th of total population still lives in below the poverty line in India. The financial requirement is one of the basic needs of the poor people of the society for their socio-economic upliftment (Sundaram, A 2012). Hence, the growth of SHGs has been playing a dominant role in poverty reduction through providing financial support to the poor people especially in developing countries like India. In this direction, the present paper has been made a modest attempt to analyse the growth and trends in SHGs and the impact of SHGs on the poverty alleviation in India over a period of time (2001-2012). There are so many empirical studies have been done pertaining to the SHGs and other aspects but the studies relating to the impact of SHGs on poverty alleviation especially in India are very scanty. So, to fulfil this gap the present study has been undertaken.

Key Words: SHGs, Poverty, Refinance, Savings, Loans, Growth and Trends.

1. Introduction

Today, Self help groups (SHGs) are playing a major role in economic development as well as poverty alleviation in India. Majority of the poor and marginalized are building their lives, families and society through the interventions of SHGs. A growing number of poor people (mostly women) in various parts of the country are members of SHGs and they are actively engaging in SHGs activities like savings, income generation, standard of living and making of self reliance through self employment. Further, even after more than 62 years of planning, various poverty alleviation programmes, the official estimates shows that around 1/4th of total population still lives in below the poverty line in India. The financial requirement is one of the basic needs of the poor people of the society for their socio-economic upliftment (Sundaram, A 2012). Hence, the growth of SHGs has

been playing a dominant role in poverty reduction through providing financial support to the poor people especially in developing countries like India.

1.1 Self-Help Group is So Important In India...Why?

Self-help groups (SHGs) play today a major role in poverty alleviation in India. A growing number of poor people (mostly women) in various parts of India are members of SHGs and actively engage in savings (in actual term Thrift) and credit (S/C), as well as in other activities (income generation, natural resources management, literacy, child care and nutrition, etc.). The SHGs are so important in India because of the following reasons;

- ➔ To alleviate poverty
- ➔ To increase employment opportunity
- ➔ To accelerate economic growth
- ➔ To raise status in society is the prime reason for respondents joining the SHG
- ➔ To promote income generating activities

1.2 Poverty alleviation through Self Reliance: How?

In order to change the face of socio-economic scenario, micro enterprises and SHGs are playing significant role in the self-employment by raising the level of income and standard of living rural people. In this framework, one of the most vital aspects of rural self employment is the formation of SHGs which is a valuable investment in human capital through training and capacity building measures. From dairy to mechanised farming, weaving, poultry, food processing units, mushroom cultivation; Rural India has been busy setting up micro-enterprises by forming SHGs. The group members use collective wisdom and peer pressure to ensure appropriate use of fund and its timely repayment. These are informal groups in nature where members come together towards collective action for common cause. The common need is meeting their emergent economic needs without depending on external help. SHG movement is supposed to build economic self reliance of rural poor, overcome misuse and create confidence predominantly among women who are mostly unseen in the social structure.

1.3 Effects of SHGs



Image courtesy: <http://www.rajeshtimane.com>

In India, self employment has been recognized as an essential force of development as well as poverty alleviation in rural and urban areas. It has emerged as a strategy designed to improve the socio-economic life and mainly focuses on extending the benefits of development to the poorest in the rural and urban areas improving their standard of living and self-realization. SHGs in India

are integrating the low income segments with rest of the rural community by ensuring them a better participation in a more equitable share in the benefit of developments. These Groups are not only speeding up economic growth, but also providing jobs and improving the quality of rural life towards self-reliance. Self-employment needs a very wide ranging and comprehensive set of activities, relevant to all aspects of rural economy and covering rural people including skilled, unskilled and landless labours and artisans of Rural India. Even though the Rural Indians put their entrepreneurial skills in all the rural development activities their economic status has not improved to the expected level. Although they have much potential; they are ignorant of converting their skills into reality.

2. The Present Status of Self-Help Group in India

Even after more than 62 years of planning, various poverty alleviation programmes, official estimates shows that around 1/4th of total population still lives below the poverty line in India the financial requirement is one of the basic needs of the poor rural people of the society for their socio-economic upliftment. Amongst the poor the most disadvantageous group are the women and they constitutes almost half of the population of India.

According to new data, 29.8 per cent or 360 million Indians were poor in 2009-10 as compared to 37.2 per cent or 400 million in 2004-05. However, the decline is based on a poverty line calculated at Rs.22.43 per person per day in rural areas, and Rs.28.65 per person per day in urban areas, which is lower than the earlier Rs.32 a day mark.

In rural areas, Scheduled Tribes exhibit the highest level of poverty (47.4%), followed by Scheduled Castes (SCs), (42.3%), and Other Backward Castes (OBC), 31.9%, against 33.8% for all classes. In urban areas, SCs have HCR of 34.1% followed by STs (30.4%) and OBC (24.3%) against 20.9% for all classes. Nearly 50% of agricultural labourers and 40% of other labourers are the poverty line in rural areas, whereas in urban areas, the poverty ratio for casual labourers is 47.1%. Monthly per capita incomes of Rs 859.60 in urban regions and Rs 672.80 in rustic regions, respectively, have been determined as the novel poverty line.

The unemployment rate in India was last reported at 9.4 percent in 2009/10 fiscal year. Historically, from 1983 until 2010, India Unemployment Rate averaged 8.11Percent reaching an all time high of 9.4 Percent in December of 2009 and a record low of 5.9 Percent in December of 1994. The unemployment rate can be defined as the number of people actively looking for a job as a percentage of the labour force. While India's unemployment rate has dropped from 8.2% in 2004-05 to 6.6% in 2009-10, the number of jobless is still huge in absolute terms. The country added some 11.7 million people to the workforce between 2004-05 and 2009-10, and the labour pool, based on the 2009-10 national sample survey, and is estimated at 428.9 million. Over half the country's workforce is self-employed and women receive less pay than men for similar jobs, latest government data shows. While 51% of the country's total workforce is self-employed, only 15.5% are regular wagers or salaried employees and 33.5% casual labourers, according to a survey by the National Sample Survey Office (NSSO).

The proportion of the self employed (vulnerable workers) has declined significantly in the development process. The proportion of self employment in the total employment is as low as 8% and 10% for women and men respectively in developed regions and as high as 64% and 57% for women and men in developing regions. In India the overwhelming proportion of workers is in the self employment category. About 64% of the rural and 46% of the urban workforce is engaged in self-employment. In India 20.51% of the workforce are living below the poverty level. The

proportion is highest (31.9%) among casual labour and second highest (17.17%) among the self employed. However, in terms of absolute number, the self employment category has the highest number of poor – 45.28 million, followed by casual labour – 41.45 million. As per 2001 census 48.2 percent (49.60 crores) of total population are women, while the 2011 census provisional figures released on 31 March 2011 reveals that the female population has risen by 18.12 percent to reach 586.5 million (58 crores). Microfinance to Self Help Groups (SHGs) may be considered as a vital tool for meeting the Women constitute around fifty percent of the total human resources in our economy. According to the Chaitanya and Chalana study, it is an excellent program. If the scheme is implemented properly, there will be no need for another scheme (Chaitanya and Chalana (undated)). The only way to lower the risk that the rural poor face would be to reduce their vulnerability through the use of microfinance to engage positively in capacity building as well as poverty alleviation.

Hence, the growth of SHGs has been playing a dominant role in poverty reduction through providing financial support to the poor people especially in developing countries like India. In this direction, the present paper has been made a modest attempt to analyse the growth and trends in SHGs and the impact of SHGs on the poverty alleviation in India over a period of time (2001-2012). There are so many empirical studies have been done pertaining to the SHGs and other aspects but the studies relating to the impact of SHGs on poverty alleviation especially in India are very scanty. So, to fulfil this gap the present study has been undertaken.

3. Objectives of the Study

The present research paper mainly focused on the following objectives

- To analyse the assessment of the growth and trends of SHGs in terms of number of members, savings and refinance.
- To examine the impact of SHGs on poverty reduction in India

4. Methodology

The present paper is both descriptive and analytical in nature. It has been prepared purely on the basis of secondary data which have been collected from various sources like NABARD, MYRADA, RBI reports and selected published articles etc. In this paper two important tools has been used to analyse the role of SHGs in poverty alleviation. First it has made use of exponential growth model to examine the growth and trend pattern of SHGs members, Savings and refinance related to India over a period of time i.e., 2000-2011. Further, it has been used multiple regression model to examine the impact of SHGs on poverty reduction in India.

4.1 Model Specification for growth and Trends of SHGs in India

This paper has been used Exponential growth model to analyze the growth of microfinance and other related aspects like SHGs, bank loan sanctioned and refinance. Exponential Growth Rates were computed for growth pattern of SHGs, Loan sanctioned and Refinance at India level. These Exponential Growth Rates were estimated by fitting an exponential function of the following form:

$$Y_t = \beta_0 \beta_1 t e^{U_t} \dots \dots \dots (2)$$

Where Y_t is dependent variable, β_0 and β_1 are the unknown parameters, U_t is disturbance term. The equation (1) could be written in the logarithmic form as follows:

$$\text{Log } Y_t = \beta_0 + \beta_1 t + U_t \text{-----(3)}$$

Above equation was estimated by applying ordinary least square method and exponential growth rate of growth was obtained by taking antilog of estimated regression coefficient, subtracting 1 from it and multiplying the difference by 100, as under:

$$\text{Gre} = (\text{A.L. } \beta_1 - 1) \times 100 \text{-----(4)}$$

Where β_1 is an estimate for all the significance of growth rates was tested by applying t-test as follows;

$$t = \frac{\beta_1 \text{-----}}{\text{Se}} \sim t(n-2) \text{ d.f. -----(5)}$$

Se

Where β_1 is the regression estimate, se (β_1) is the respective standard error.

5. Growth and Trends of SHGs in India

India remains one of the largest and most active financial inclusion markets in the world. The Indian government has also recognized its role globally in financial inclusion by joining CGAP as a member during 2012. India is also participating in the G20's Global Partnership on Financial Inclusion. Not only is India expanding its leadership role it also brings into the global dialogue a diverse set of approaches to financial inclusion: SHGs, MFIs, Commercial Banks, Insurance Companies, Pension Funds, Cooperatives and agent-banking through Business Correspondents.

The 2011 Findex data reports that one in three adult Indians has a bank account, a figure higher than many low-income countries though it also indicates how much more work remains to be done. In recent years there is excitement about banks using Business Correspondents (banking agents) an approach with enormous potential. However, the BC approach is still new and unproven in the Indian environment amid the excitement about BCs other efforts are needed to keep other financial inclusion approaches alive and vibrant. For instance, rates of SHGs expansion have slowed in recent years even though they still offer enormous untapped potential. Hence, in this section an attempt has been to analyse the growth of SHGs, loan amount sanctioned to SHGs from banks and refinance of the SHGs members in India over a period of time 200-08 to 2013-14.

Table 1: Growth of Number of Micro finance (SHGs), Bank Loan Sanctioned and Refinance in India 2000-01 to 2010-11

(in Crores)

Year	No. of SHGs	Bank Loan (in Rs. Crores)	Refinance (in Rs. Crores)
2000-01	1,49,050	287.89	244.85
2001-02	1,97,653	545.47	395.26
2002-03	2,55,882	1022.33	622.47
2003-04	3,61,731	1855.53	705.44
2004-05	5,39,365	2994.26	967.76
2005-06	6,20,109	4499.09	1067.72
2006-07	11,05,749	6570.00	1292.86
2007-08	12,27,770	8849.26	1615.50
2008-09	16,09,586	12253.50	2620.30
2009-10	15,87,000	14453.30	3173.56
2010-11	12,00,000	14548.00	2545.36

Source: NABARD Status of Micro Finance 2010-2011

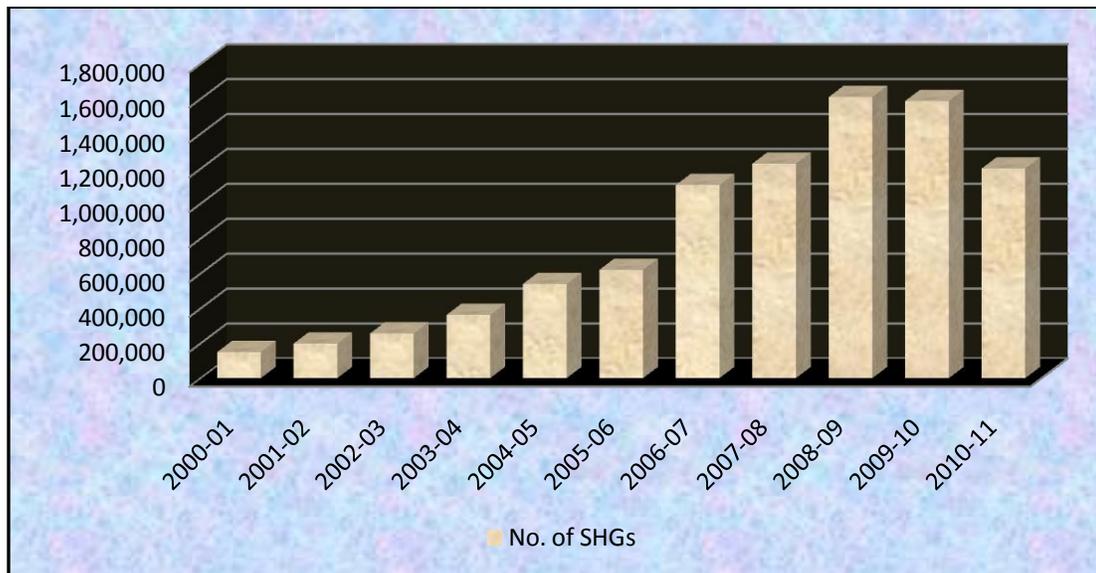
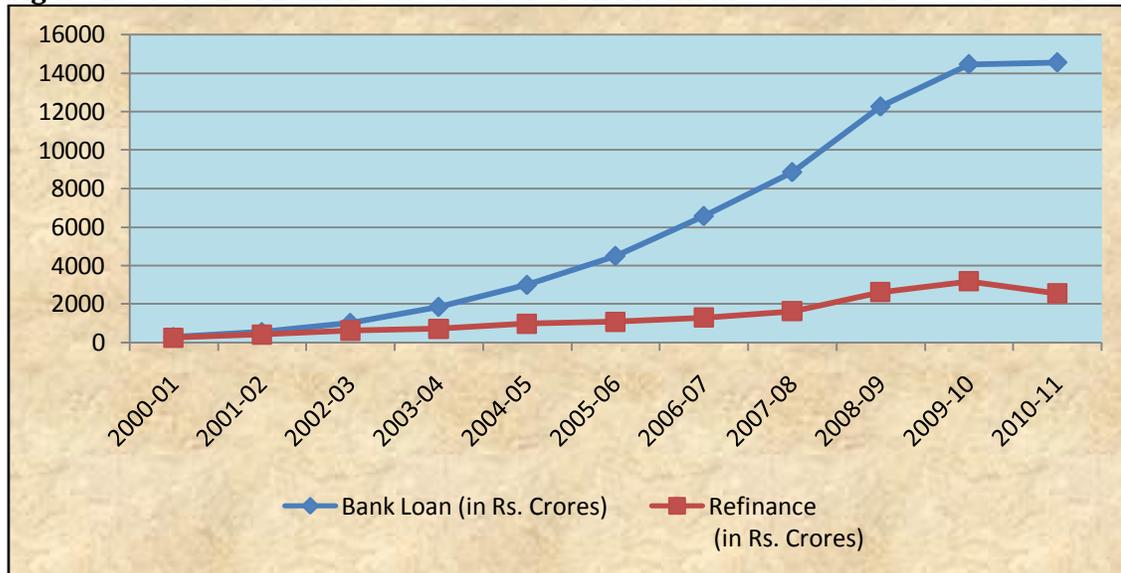
Figure 1: Growth of Number of SHGs in India 2000-01 to 2010-11

Figure 2: Growth of Bank Loan Sanctioned and Refinance in India 2000-01 to 2010-11

The table 1 has clearly shows that, the growth of SHGs, Bank loan sanctioned and Refinance of the members over period of time 2000-2011. The figures 1 and 2 also representing the growth and trends in the above said factors. Here, the paper also attempted to analyse the exact proportion of the variation occurred in growth and trends of the said variables over a period of time. For that, it has been used exponential growth model.

Table 2: Model Summary and Parameter Estimates for the Growth of Number of SHGs, Loan Sanctioned and Refinance

Dependent Variable: No of SHGs						
Equation	Model Summary					Parameter Estimates
	R Square	F	df1	df2	Sig.	b1
Exponential	.829	48.513	1	10	.000	1.790

Dependent Variable: Loan Sanctioned						
Equation	Model Summary					Parameter Estimates
	R Square	F	df1	df2	Sig.	b1
Exponential	.894	84.183	1	10	.000	1.146

Dependent Variable: Refinance						
Equation	Model Summary					Parameter Estimates
	R Square	F	df1	df2	Sig.	b1
Exponential	.884	76.100	1	10	.000	.999

The above table 2 shows that, the results of the growth pattern of number of SHGs, loan amount sanctioned by banks and refinance position over a period of time 2000-01 to 2010-11. Here, exponential growth model has been used to measure the growth of such variables. According to the results given in table it has been reveal that, the average growth of number of SHGs is 17.9 percent which is statistically significant at 1 percent level with the F value of 48.51 and the R Square value of 0.829.

Further, the study also tested the growth of the bank loan sanctioned by the banks over a period of time. According to the above results, it has shown that the average growth of sanctioned loan amount also increased with an average growth of 11.46 percent which is also significant at 1 percent level with the F value of 84.143. Hence, the R square value is 0.894.

Subsequently it has been proved in the above table 2, the growth of refinance also increased positively with an average growth rate of 9.9 percent which is also significant at 1 percent level with the F value of 76.10 and the R square value is 0.884. Finally it has been reveal that, the growth of the SHGs is very high compared to the remaining two indicators of poverty alleviation such as bank loan sanctioned and refinance. Where as the growth of bank loan sanctioned also increased in the study period but the refinance growth is very low compared to the average growth of SHGs and bank loan sanctioned to the members. It is very clear in the above analysis that, the average growth of SHGs and sanctioned loan amount of banks are positive in nature. According to the empirical study there is a positive relationship between the average growth of SHGs and loan sanctioned by the banks. Hence, it is also one of the important sources to alleviate the poverty.

6. Impact of SHGs in Poverty Reduction in India

Removal of poverty is the main objective of planning in India since from the inception of planning periods and so; the poverty alleviation programmes have been given greatest importance in the field of economic development. For the removal of poverty, a direct anti-poverty scheme is required so that it can combat with all those factors which tend to increase the forces of poverty in the both rural and urban areas. But the process of poverty alleviation can be more sustainable when all the members of the family are involved. Therefore, reduction of poverty should be an important concern of the development countries in order to attain economic development and welfare of the people. For alleviating rural poverty and freeing the rural masses from the vicious circle of poverty, a direct implementation of anti-poverty scheme is urgently required for which credit has long been identified as one of the most crucial input for the upliftment of people.

The self-help group (SHG) approach is a new paradigm into the field of rural development which main objectives are to increase the well-being of the poor people, provide access to resources and credit, increase self-confidence, self-esteem and increase their creditability in all aspects of lives. Self-help group is a voluntary and self-managed group of women, belonging to similar socio-economic characteristics, who come together to promote savings among themselves.

The poverty alleviation intervention of the SHG is in the form of undertaking economic programmes to provide employment, giving micro finance services to the poor so that they can get themselves acquainted with skills and occupational diversification. This new initiative was taken up by Swarnajayanti Gram Swarozgar Yojana, implemented in 1999, to organize the poor into Self-help group.

This paper attempts to explore the impact of SHGs on poverty reduction in a modest way, particularly the assessment of strategies adopted by the members; the performance of SHG in income generation and the impact of micro credit on occupational structure of the members of the self-help groups (SHGs) i.e. basically provided by the SHGs' to their members. The objectives that have been taken to fulfil the work are that the self-help groups have significant impact on poverty alleviation and the availability of financial supports either adequate or not adequate to members of the self-help groups. The paper is arranged as- in the this section the variables which are influencing significantly on such aspect and analytical tool of the study has been discussed, followed by impact of assessment of SHGs in the above mentioned directions through the Multiple Regression Model and finally the conclusion.

6.1. Estimation Methodology

This section attempts to empirically pin down the impact of SHGs caused for the economic growth through poverty alleviation. The study has been examined the impact of number of SHGs, bank loan sanctioned amount, Refinance, and other factors influencing on poverty reduction in India for the period of 2011. The study has used the same time series data over a period of time from 2000-2011. The paper has been tried to analyse the impact of SHGs, loan amount sanctioned and refinance on poverty alleviation in India by employing the following multiple regression model to measure the influence of the factors like Number of SHGs, Bank Loan Sanctioned Amount, Refinance and poverty level.

The model has been built as follows

$$POV = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + U \dots \dots \dots 1$$

$$POV = \beta_1 + \beta_2 SHG + \beta_3 BLSA + \beta_4 REFN + U \dots \dots \dots 2$$

Natural Log form of the model is as follows

$$\ln POV = \ln \beta_1 + \beta_2 \ln SHG + \beta_3 \ln BLSA + \beta_4 \ln REFN + U$$

Where poverty (POV) is the dependent variables, β_1 to β_4 are the parameters (Independent Variables) to be estimated and the U is the disturbance term which as usual statistical properties. Here, the explanatory variable SHG is the number of SHGs, BLSA is the bank loan sanctioned amount and REFN is the refinance of the members which have been expected the positive influence on the poverty reduction. Subsequently, the study also expected that, there is a positive influence of the factors like SHG, the bank loan sanctioned amount (BLSA) and the refinance of the members (REFN) on the poverty reduction in India.

Table 3: Results of Multiple Regression Model

Dependent Variable: POV				
Method: Least Squares				
Sample: 2002 2012				
Included observations: 11				
Variable	Co-efficient	Std. Error	t-statistics	Prob.
SHG	-1.65E-05	0.000189	0.087636	0.09330**
Bank Loans	0.042711	0.038909	1.097714	0.03144*
Refinance	-0.149828	0.119946	-1.249127	0.02581*
Constant	728.5634	63.37005	11.49697	0.00000
R-squared	0.766854			
Adjusted R-squared	0.650281			

Note:*and**denotes 5% and 10% level of significance

The table 2 clearly shows that, the various determinants of poverty in India. As the co-efficient values shows, there is a negative relationship between growth of SHGs and poverty, the result is also statistically significant at 10 percent. Further, refinance made by SHGs also negatively influenced on the poverty, which is also significant at 5 percent level of significance. Although, there is an unexpected relationship between sanctioned bank loans and poverty level, the value is negligible. As the Adjusted R squared value represent 65 percent of the variation in poverty explained by the three indicators i.e., growth of number of SHGs, sanctioned bank loans and refinance.

7. Conclusion and Policy Implication

We may conclude that from the above analysis, there is need of certain government policies in the direction of giving financial loan for the SHGs with the minimum interests and subsidies which leads to improve the growth of SHGs and the livelihood of the people. Further, NGOs has to create awareness to save their income among the people which is more helpful to self employment and self reliance. The government has to voluntarily implement some programmes related to SHGs in connection with the reduction of poverty in India like other poverty eradication programmes. Since the regression results shown the variables the growth of number of SHGs, bank loan sanctioned and refinance are significantly influencing the poverty, the policy makers should have to give much more importance to reduce the incidence of poverty through giving financial support for the above aspects. Because, the financial requirement is one of the basic needs of the poor people of the society for their socio-economic upliftment. Hence, the growth of SHGs has been playing a dominant role in poverty reduction through providing financial support to the poor people especially in developing countries like India.

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