

SHG-MICRO-FINANCE MECHANISM OF POVERTY ALLEVIATION AND ITS PROBLEM: WITH REFERENCE TO THE OUTCOME OF SOME EMPIRICAL STUDIES

Triptimoy Mondal

Assistant Professor, Department of Commerce, AKPC Mahavidyalaya, Bengai, West Bengal, India

Received: 25 Dec 2018

Accepted: 31 Dec 2018

Published: 12 Jan 2019

ABSTRACT

Since last three decades, one of the major objectives of policymakers is to remove poverty from India. For this purpose, various initiatives like enhancing the growth rate initiating various Poverty Alleviation Programmes have been taken up. It has also been realized by the policymakers that increase in GDP alone is not the solution of poverty as all sections are not able to avail the benefit of economic development. Due to this reason, various Poverty Alleviation Programmes (PAPs) have been initiated targeting a specific group from the economically weaker section at the grass root level. But, still, results were not very encouraging. In the next step, Inclusive growth is adopted as a strategy of poverty alleviation in which major emphasis is given for the inclusion of excluded sections, particularly the women and the poor, in the development process. NRLM or National Rural Livelihood Mission is such a programme, the major objective of which is to organize the poor into SHG (Self Help Groups) groups and make them capable of self-employment. Various research outcomes concerning SHG-Microfinance showed that there is a positive impact of SHG- Micro-finance approach on the alleviation of poverty. Based on these outcomes, these papers strived to analyze the effectiveness of the SHG-Microfinance Mechanism and tried to point out some inherent limitation of the mechanism in the ground of reality based on experience and finally concluded with some suggestions.

KEYWORDS: *Self Help Groups (SHGs), SHG-Microfinance Mechanism, Poverty Alleviation Programmes (PAPs)*

INTRODUCTION

Since last three decades one of the major objectives of policymakers is to remove poverty from India. For this purpose, various initiatives were taken for enhancing the growth rate. Accordingly, just after the liberalization, India's GDP growth witnessed an upward change. It was hoped that it will be a solution to the problems associated with poverty. But due to some crucial reasons at the grass root level, results were not very overwhelming. It has also been realized by the policymakers that increase in GDP alone is not the solution of the deep-rooted problem of poverty. Due to this reason, various programmes and policies were started at the grass root level. These include the implementation of various Poverty Alleviation Programmes (PAPs) targeting a specific group from the economically weaker section at the grass root level. But, still, results were not very encouraging. It is presumed that growth is necessary but not sufficient for the poverty eradication as all sections are not able to avail the benefit of economic development particularly those who live in remote rural areas. In the next step, Inclusive

growth is adopted as a strategy of poverty alleviation in which major emphasis is given for the inclusion of excluded sections, particularly the women and the poor, in the development process. Pandit Jawaharlal Nehru once said: "If you educate a man you educate an individual, however, if you educate a woman you educate a whole family. Women empowered means mother India empowered". There is no doubt that woman empowerment is essential for the eradication of poverty as well as for the development of the nation as women constitute about fifty percent of the total workforce of India. Recognizing the fact, our government has also adopted various initiatives in this regard. NRLM or National Rural Livelihood Mission which is a remodeled version of previous SGSY or Swarnajayanti Gram Swarozgar Yojana is one such programme which is presently running all the states and UTs across the country. The major objective of the programme is to organize the poor into SHG (Self Help Groups) groups and make them capable of self-employment. It is well recognized that participation in the SHG enhances the economic and social capacity of the poor particularly women that contribute to the poverty alleviation through their empowerment.

Keeping these in view, this paper has been divided into six main sections. In the first section, attempt has been taken to describe the concept of SHG, micro-finance, microcredit, and the SHG-Microfinance to make them understood to a common man. In the next section, poverty trends and some major poverty alleviation programmes initiated by our government has been discussed. In the third section, some major research outcomes concerning SHG-Microfinance have been pointed out. In the next section, the functionality or the working mechanism of the SHG approach of poverty alleviation has been discussed. In the fifth section, this paper has highlighted some major challenges in the implementation of the mechanism. Finally, in the last section, the paper ends with some suggestions by the author from his personal viewpoint.

SHG, MICROCREDIT, AND MICRO-FINANCE

Homogeneous group of poor people (10-20) created for mutual help that acts as a mini cooperative of the poor and provides micro financial services for their socio-economic upliftment is known as Self Help Groups or SHG. Providing micro financial services like small savings; small loan, small insurance etc. is termed Micro-finance. The two terms Micro-finance and Micro-credit though used interchangeably are different in this context. Generally, credit means loan. Whenever we need money we either approach friends, relatives, money lender or bank. Amount of credit or loan depends upon the requirement and financial status of the recipients. It may be large, medium or small. When the amount of loan or credit is of small amount it is known as Micro-credit. This microcredit is generally needed by the people from the poor economic background. Microfinance, on the other hand, is a much broader concept than microcredit and refers to loans, savings, insurance, money transfers, and other financial services targeted at poor and underprivileged people having very low-income.

SHG-Microfinance Mechanism

A system by which micro financial services are provided through the SHGs for the socio-economic upliftment of the poor and underprivileged sections with the intention of bringing them out from the cycle of poverty through the generation of self-employment is termed, in the context of this paper as SHG-Microfinance Mechanism or simply SGHMF (Figure-1).



Figure 1: SHG-Micro-Finance Mechanism

In this system, the core point is a Self Help Groups which is just like a mini cooperative formed generally by the poor and underprivileged sections particularly women for their mutual help.

For the success of the SHG-MF Mechanism of poverty alleviation, the first and foremost criteria are the joining of the poor into the Self Help Group. Now the question arises as to why the poor needs to join the SHG? The poor need to join the Self Help Group (SHG) due to several reasons. This can be highlighted from two main viewpoints as described below.

From the Viewpoint of the Poor: Vulnerability of the poor (High possibility of being attacked adversely in many situations) & having almost no access to formal banking services It provides them an opportunity to save, to lend from the group in time of need, to get involved in various kinds of Income Generating Activities (IGAs) and thereby to come out from their extreme poverty.

From the Viewpoint of Economic Development: It ensures the participation of the poor particularly women in the development process and ensures Inclusive Growth. It has been recognized that only the high growth in national income alone does not address the challenge of poverty reduction and balanced regional development. Nor does growth in itself improve human development. Consequently, all the efforts of the government – in agricultural and rural development, in the industry and urban development, in infrastructure and services development, in education and health care development–sought to promote inclusive growth. In India, the benefits of economic growth have not equitably reached to different parts of our society. Despite the robust economic growth, a large number of groups remain excluded from the opportunities and services provided by the financial sector. Such excluded groups include basically the poor and underprivileged section particularly women. Sustainable and equitable development is not possible unless all these underprivileged sections of the economy are included. SHG-MF Mechanism may be one of the ways to include such underprivileged sections in the development process.

POVERTY TRENDS AND SOME MAJOR POVERTY ALLEVIATION PROGRAMMES (PAPs)

As per estimates of 2011-12 every 4th person in India is poor. This means, about twenty-seven crores of Indians were poor in 2011-12. But there is a considerable decline in the poverty percentage starting from 1973-74. As per the latest data, there is a decline in poverty ratio in India from about 45 percent in 1993-94 to 37.2 percent in 2004-05. There was a further decline from 37.2 percent in 2004-05 to 21.9 percent in 2011-12. Although the number of poor people increased in the earlier two decades (1993-94 to 2004-05), there was a significant reduction in the number of the poor during 2004-05 to 2011-12. If the present trend continues, the people below the poverty line may come down to less than 20 percent in the next few years. The current government strategy of poverty alleviation is based on two planks:

- **Promotion of Economic Growth:** Over a period of about thirty after independence, there was almost no change or very little change in per capita growth rate and not much reduction in poverty. Official poverty estimate which was about 45% in the 1950s remained almost same up to 1990s. But during the 1980s to 1990s growth rate jumped to 6% as compared to 3.5% in 1970s and thereafter starts rising. Percentage of poor started falling with the increase in growth rate. There is a substantial decline in poverty ratio in India from 44.3 percent in 1993-94 to 37.2 percent in 2004-05 and 21.9 % in 2011-12. It shows that there is a strong link between economic growth and poverty reduction.
- **Targeted Anti-poverty Programmes:** Most of the poor are not able to take opportunities of economic growth as a large number of people live in the village and are dependent on agriculture. In this situation, govt. takes some anti-poverty programmes targeting a particular section of poor which are known as Targeted anti-poverty programme. Some of the anti-poverty programmes undertaken by the government at present are discussed below:

Prime Minister's Rozgar Yojana (PMRY): Prime Minister's Rozgar Yojana started in 1993. The main target of the programme was to create self-employment opportunities for educated unemployed youth in rural areas and small towns.

Rural Employment Generation Programme, REGP: The Rural Employment Generation Programme was launched in 1995. The *aim* of the programme is to create self-employment opportunities in rural areas and small towns. The main target of the programme was to create 25 lakh new jobs for the poor.

Swaranjayanti Gram Swarozgar Yojana (SGSY)

This programme was launched in April 1999. The main target of the programme was to bring the assisted poor families above the poverty line by organizing them into self-help groups, training, credit, technology, infrastructure, and marketing. The objective of SGSY is to provide sustainable income to the rural poor.

Pradhan Mantri Gramodaya Yojana (PMGY): This programme was launched in 2000 in all the States and Union Territories of India, in order to achieve the objective of sustainable human development in the village level. The main target of the programme was to create and improve basic services like primary health, primary education, rural shelter, rural drinking water, and rural electrification.

Mahatma Gandhi National Rural Employment Guarantee Act, 2005: Mahatma Gandhi National Rural Employment Guarantee Act", or MGNREGA, is a social security measure that aims to guarantee the 'right to work. It aims to provide 100 days of wage employment to every household to ensure livelihood security in rural areas. One-third of the proposed job kept reserved for women. It provides 220 crore man day of employment to about 4.78 crore families.

National Rural Livelihood Mission (NRLM): It is a poverty alleviation programme implemented by the Ministry of Rural Development, Government of India. It is the remodeled form of previous SGSY programme. The present scheme is basically focused on promoting self-employment and organization of rural poor. The basic idea behind this programme is to organize the poor into SHG (Self Help Groups) groups and make them capable of self-employment. In 1999 after restructuring the Integrated Rural Development Programme (IRDP), Ministry of Rural Development (MoRD) launched Swarnajayanti Grameen Swarozgar Yojana (SGSY) to focus on promoting self-employment among rural poor. SGSY is now remodeled to form NRLM thereby plugging the shortfalls of SGSY programme. This scheme was launched in 2011 with a budget of \$5.1 billion and is one of the flagship programmes of the Ministry of Rural Development. This is one of the world's largest initiatives to improve the livelihood of the poor. This programme is supported by the World Bank with a credit of \$1 Billion. The scheme was succeeded by Deen Dayal Antyodaya Yojana on 25 September 2015.

OUTCOME OF SOME EMPIRICAL STUDY CONCERNING SHG-MICROFINANCE

- There is a significant association between the participation in the Self Help Groups (SHGs) and the level of empowerment of poor tribal women, Sarkhel and Mondal (2014)
- SHG Members have been empowered through microfinance activities and they have engaged themselves in various types of activities which have enhanced their quality as well as their standard of life. They also explained that Micro-finance can be synergetic if exercised through SHG and may result in eradication of poverty as well as for the solution of their family-related problems, Ramakrishna & Mohinuddeen (2013).
- According to Singh et al (2013) the empowerment of women through SHGs would give benefit not only to the women at the individual level but also to the family as well as to the community as a whole through collective action for the development.
- There is a significant association between the level of empowerment and the level of annual family income, Sarkhel, and Mondal (2013).
- There is a significant association between the levels of education and the level of empowerment of the members of the

SHGs. It is also found that there is a significant association between the number of training taken by the members and their level of empowerment, Mondal (2016),

HOW DOES SHG-MICRO-FINANCE MECHANISM WORK? SHG Microfinance Mechanism works in a sequential way as stated in the following figure (Figure-2).



Figure 2: Working of SHG-MF Mechanism

At the starting phase, govt. encourages participation of the poor into SHGs. Participation gives the members of the Self Help Groups a greater scope for interactions both within and outside the group. This interaction within and outside the groups makes them conscious. Apart from this opportunity of interaction participation into the Self Help Groups gives them an opportunity of saving, lending from group fund and participating in the Income Generating Activities (IGAs). Due to participation in various income generating activities, their level of income increases and they come out from their extreme poverty. As a result of this, they became able to provide education and health care facilities to their family members, which lead to an increase in the productivity as well as the earning capability of the next generation. Finally, this increase in productivity, as well as the earning capability, contributes to economic growth.

SOME MAJOR PROBLEMS IN THE IMPLEMENTATION OF THE MECHANISM

SHG Micro-finance mechanism of poverty alleviation no doubt has a greater impact on poverty alleviation as well as accelerating economic growth through inclusive growth. It includes socially neglected and economically backward individuals particularly the women in the development process. As a result of this, the unproductive workforce starts contributing in GDP of the country. If applied successfully it will simultaneously reduce poverty percentage and increase the growth rate. But, there are certain problems or shortcomings of the mechanism which can be understood or felt by the field level researchers.

Existence of different classes poor: It is generally seen that there exist different levels of poor or the rich among the poor who are dominating and influential. These dominating and influential members try to earn a lion's share of the profit of the group by exploiting the ignorant and illiterate members. Even though the ignorant and illiterate members have contributed a lot towards production activity, yet they are not properly paid. As a result, it affects the enthusiasm and energy of the illiterate persons which affect the group activity and even the sustainability.

Problem inherent to this mechanism: As SHGs are basically concerned with a poor and underprivileged section. Most of the members are undereducated or illiterate. Even though the governments take measures for creating awareness among the members about various schemes beneficial to them, still a great majority of the members are unaware of the schemes of assistance offered to them. It also includes the problem of proper maintenance of records and management of the group.

Complications in the institutional arrangement: The institutional arrangement for the SHG-Microfinance activity in our country is complicated. A simple system is very much important for the rural backward and illiterate people as they don't know how to get a bank loan, maintain records, cash book, and ledger. For obtaining assistance and support the group members have to approach the block level or district level, officers. Sometimes, the officers are not very co-operative with the SHG members. As a result, SHGs are not able to grow suitably for the accomplishment of its objectives.

Dominance of the male members: It is practically seen that a majority of the uneducated women are found to be influenced by their male counterparts in taking loans, distribution of loans and subsidies. Thereby conflicts among the group members go against the ethics of SHGs. Moreover, there is lack of unity among women members owing to other reasons.

Frequent Political Interference: It is found that in rural areas, there are political interventions in group finance. If the group is not in favor of the local MLA or M.P, then that group is deprived of getting the loan in time. Some of the group members are therefore busy running after the local leaders instead of doing their work. This obstructs the independent functioning of the SHGs.

Difficulties in the assessment of SHG-Microfinance Mechanism in reality: It is very difficult or impossible to assess properly the contribution of this mechanism towards poverty alleviation or towards economic growth. This is because the poor people, particularly from rural areas, get them involved in a number of activities and participate in SHG as a sub-activity. As a result, the contribution of this SHG-MF mechanism cannot be assessed separately. It becomes also very difficult to identify the problems of the SHG of the particular region and to appropriate measure.

CONCLUSIONS AND SUGGESTIONS

We cannot think of a developed nation with about a third of the nation under poverty and half of them not actively involved in the development process. Globalization has its own share in creating disparity among the population by demanding educated and skill, creating inequality on the basis of income and living standard. Discrimination has been a long stable part of our society and culture where people had been discriminating on the basis of religion, caste, creed, status, and gender, making people fail over many phases of life. The gap between rich and poor can be bridged by education but when we look regionally, we find a failure of the government to indulge in and to propel the people to read and write. Lack of education is the source of all basic problems. It creates unconsciousness and disparity among people i.e., the difference in the income level

as well as poverty. We can find many measures from different sources to eradicate this problem but it can only be attained by following a systematic procedure and for this the following guidelines may be followed.

We need to arrange for providing real education and basic infrastructure for making such mechanism of poverty alleviation and development effective. At the top level, we need a strong planning center that doesn't work for vote bank but for true work and development. We need such a centre that does not cripple the society by subsidies rather empowers people to get an education and to work for the self. Hence, sufficient infrastructure, capacity building and skill up gradation, provision of adequate and timely finance, effective supervision and monitoring of investment activities, strong political can be prescribed to solve out the problems associated with SHG-Microfinance mechanism of poverty alleviation and development.

Providing subsidies cannot be a solution so, less subsidies but more employment opportunity measure is to be undertaken. Similarly, proper population control measure, as well as proper estimation of BPL population, is necessary. From this, it can be suggested that poverty can be eradicated through the empowerment of the poor by involving them into Self Help Groups (SHGs) mechanism along with giving proper emphasis on other factors as suggested.

REFERENCES

1. **Mondal, Triptimoy (2014)**, "Transition from SGSY to NRLM: A comparative analysis of the two schemes", *International Journal of Social Science & Interdisciplinary Research (IJSSIR)*, Vol.- 3 (3), MARCH (2014) Pp, 205-215 Online available at www.indianresearchjournals.com
2. **Mondal, Triptimoy and Sarkhel, Jaydeb (2014)**, "Participation of tribal women in the Self Help Groups and its impact on empowerment on them: A comparative study between pre-SHG and post-SHG situations of the respondents from a tribal inhabited block from the district of Bankura, west-Bengal", *Indian Journal of Landscape Systems & Ecological studies; Volume-37, No.-1, June-2014 Pp 228-237*
3. **Mondal, Triptimoy (2016)**, "Factors on which empowerment of women depend? A study on the poor tribal women members of SHGs", (EPRA), *International Journal of Economic & Business Review January, 2016/ Volume4/Issue 1/Pp164-173*
4. **Ramakrishna, Khaja Mohinuddeen J. (Nov 2013)**, "Women empowerment through micro finance: an empirical study of women Self Help Groups in Bellary district, Karnataka", *ACME international journal of Multidisciplinary Research 11.1 November-2013*.
5. **J. Shirisha, K. Uma Devi & S. Suchiritha Devi**, *A Review on Self Help Groups -Financial Inclusion Programme and Its Impact in India, International Journal of Applied and Natural Sciences(IJANS), Volume 7, Issue 3, May 2018, pp. 11-20*
6. **Sarkhel, Jaydeb and Mondal, Triptimoy (2013)**: "Can Self Help Groups (SHGs) Bank Linkage Programmes really empower poor women? A case study of tribal inhabited Ranibandh Block of Bankura district of West Bengal", *Indian Journal of Landscape Systems & Ecological studies; Volume- 36, No.-2, December-2013 Pp 99-109*

7. **Shetty, Sowjanya and Hans, V. Basil**, *Role of Education in Women Empowerment and Development: Issues and Impact* (September 26, 2015). Available at SSRN: <https://ssrn.com/abstract=2665898> or <http://dx.doi.org/10.2139/ssrn.2665898>
8. **Singh, Ranbir and Raghuvanshi, Nisha** (Jan 2012), "Women entrepreneurship issues, challenges and empowerment through Self Help Groups: An overview of Himachal Pradesh", *International Journal of Management Research and Review*, 2(1); Pp-72-88
9. https://en.wikipedia.org/wiki/National_Rural_Livelihood_Mission.

