CHAPTER I
INTRODUCTION

Microfinance programme has been well-recognized world over as an effective tool for poverty alleviation and improving socio-economic conditions of rural poor. In India too, microfinance programmes are making a strong headway in its efforts to reduce poverty and empower the rural poor. Moreover, these programmes have come to be regarded as a supplementary development paradigm, which widens the financial service delivery system by linking the large rural population with formal financial institutions through SHGs (Self Help Groups). The rural poor, with the intermediation of voluntary organizations join together for self help to secure better economic growth. This has resulted in the formation of a large number of self help groups in the country, which mobilize savings and recycle the resources generated among the members. These self help groups enable them to come together for a common objective and gain strength from each other.

Microfinance, in simple worlds, refers to the entire range of financial services provided to the poor including skill upgradation, entrepreneurial development that would enable them to overcome poverty. Various SHPIs and NGOs have been recognised as an entity in the microfinance concept especially in providing credit plus services. NGOs, which were initially confined to the social aspects of development, were enlarged to help the poor and weaker sections of the rural society in their economic pursuits through the promotion and nurturing of SHGs. Microfinance in India has helped in poverty eradication, economic empowerment and inclusive growth. Several
studies conducted in India and abroad after comparing the situation of SHG members during pre-SHG and post-SHG periods on various socio-economic parameters have proved that those who join the SHGs end off in a better socio-economic condition.

In India, NABARD was the first organization to notice the phenomenon of microfinance, SHG-Bank Linkage Programme, since its pilot project in 1992, has emerged as the leading micro finance programme in the country. It is recognised as an effective tool for extending access to formal financial services to the unbanked rural poor. Encouraged by the success, the programme has been adopted by State Governments as a major poverty alleviation strategy. According to NABARD, a SHG consists of an ‘average size’ of 15 people from a homogeneous social or economic class, all of them come together for addressing their common problems. The SHGs meet regularly and save small sums of money. They rotate these small-pooled savings as loans within the SHG. They maintain records of such financial transactions and slowly learn the basic aspects of financial management. They then approach a bank and leverage their accumulated savings for higher loans, which they then intermediate within the SHG. The groups are promoted either by banks or non-governmental organisations (NGOs) and are credit linked to various models developed by banks. In India, the SBLP (SHG– Bank Linkage Programme) has now been in operation for well over a decade. According to NABARD, as on 31 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 31 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 31 March 2010, the share of women SHGs in the total SHGs with saving bank accounts was 53.10 lakh SHGs forming 76.4 per cent as compared to the previous year’s share of 79.5 per cent. 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 lakh 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. Regarding the regional distribution of SHGs, the NABARD’s report suggests that up to March 2010, 32.23 lakh SHGs are operating in south India, followed by 13.74 lakh SHGs in the east, 9.45 lakh SHGs in the west, 7.65 lakh SHGs in the central region and 3.51 lakh SHGs in the northern region. However, the north-east has only about 2.92 lakh SHGs.

The existing literature on SHG- bank linkage programme (discussed widely in the next chapter) reveals an overall picture of great promise on the socioeconomic well being of the member’s households. Much has happened in this sector during the past decade and a number of studies have already evaluated the outreach and the coverage of SHG programmes. But there appears to be lack of study on the effect of SHGs in the non-farming sector. The present study has tried to fill that gap.

1.1 Significance of the Study

Poverty is a crucial problem in all developing countries in the present day world. It is felt that the problem of poverty can be solved through a concerted effort by the State. Poverty alleviation has always been one of the primary objectives of different governments in India.
and is always one of the main goals of any planning in national economy. Therefore it is of prime importance to formulate situation specific poverty alleviation policies and programmes for generation of a minimum level of income for rural poor, which form a substantial part of national population in our country. One initiative is credit infusion in the rural sector. Since the early national plans, successive governments in independent India have emphasized the link between improving access to finance and reducing poverty. In the of post nationalization period in India for the development of the rural areas thrust was always there on the banks to increase credit in rural areas for the socio-economic development of the rural poor. Since independence no significant impact has been made on the grim poverty situation prevailing in rural India despite the presence of a vast network of commercial, cooperative and rural banks and other financial institutions present in the rural areas.

The failure of these institutions gives rise to the role of the governmental and other institutional players to provide favourable environment to the poor to develop their own organizations. The decade of 1990’s witnessed growth of various people’s organizations. Most importantly the failure of the state led and formal financial system in reaching to the rural poor give rise to the emergence of microfinance movement in the country. Linked with micro-finance, the SHG approach and movement has now been accepted as an effective intervention strategy for poverty alleviation.

India has nearly 400 million people, living below or just above an austerely defined poverty line. About 75 million households therefore need micro-finance. Of these, nearly 60 million households are in rural
India and remaining 15 million are urban slum-dwellers. The current annual credit usage by these households was estimated in 1998 to be Rs. 465,000 million or US $10 billion. It is estimated that the number of small loans accounts from banks covered some 40 million households in 2000. The remaining 35 million households are perhaps meeting their credit needs from the informal sector. In such a scenario microfinance has emerged as a breakthrough in providing credit to the rural poor which will eventually help in poverty eradication and economic empowerment. Various microfinance models yielded wonderful results and has proved that poor are bankable, credit worthy and can be trusted with collateral free loans. In India, households getting micro-credit now outnumbered poor households. Outstanding micro-finance loans total 80 million. Some borrowers have multiple loans, so net beneficiaries may total 60 million households. This is more than 55 million poor households and more than a quarter of India’s 220 million households.

Most people living in the rural areas of the country draw their livelihood from agriculture and allied sectors. Accordingly, the strategy of the Government has been to improve the economic and social conditions of the underprivileged sections of the rural population with emphasis on agricultural production and also the non-farm sector to promote productive employment opportunities, by integrating traditional production infrastructure, skills and locally available raw material. Though the agricultural sector occupies a pivotal place in the national economy both in terms of its contribution to the gross domestic product and employment generation. However the data available from the National Sample Survey Organization (NSSO) clearly shows that
the non-farm employment growth had been significantly higher than farm sector employment growth during the last thirty to forty years. The rural non-farm sector generally refers to all non-agricultural activities: mining and quarrying, household and non-household manufacturing, processing, repair, construction, trade and commerce, transport and other services in villages and rural towns undertaken by enterprises varying in size from household own-account enterprises to factories.

Though the growth of employment in the rural non-farming sector is significant in the last few decades but still the rural non-farm sector in India is facing large number of problems. But the most significant problem which the rural non farm sector is facing since independence is the timely availability of funds. According to the Census of India (2001), 70% of the total rural population does not have access to banking services (savings or credit through the formal banking system). An effort has been made by the government to overcome this problem through the SHG bank linkage programme. Through its SHG Bank linkage programme the government is encouraging people to come together, to make groups and to work together in the viable non-farm activities so as to address their common problems. The microfinance project intervention in terms of formation and stabilization of SHG comprising of people by extending credit support and promotion of thrift to promote viable economic activities in the backward areas has resulted in empowerment of people involved in these activities. However, there is scarcity of resource literature regarding the impact of SHG’s on their socio-economic empowerment and also on whether these activities are viable in the long run or not. Against this
background, present study has been carried out to assess the impact of micro-finance on non-farming sector and to find out what are the problems and constraints associated with these non-farm activities. Also an attempt has been made to assess the impact of microfinance on socio-economic conditions of women SHG members.

1.2 Statement of the Problem

India like most of the developing countries is facing the problem of extreme poverty particularly in the rural areas within which almost a quarter of our population lives. A large section of Indian population is still in existence which is surviving well below the standard of living at which they could become active participants in the larger economy. According to the data of planning commission, over the time, while the percentage of people below poverty line in India fell, the number of the poor barely changed over the last three decades (321.3 millions in 1973, 322.9 millions in 1983, 320.3 millions in 1993–94 to 301.7 millions in 2003–04). Thus, even after 60 years of independence, over a quarter of our population still remains poor. India still accommodates a vast majority of population which is economically deprived in terms of income, access to resources, control over resources and political power, gender biases, child labour, different forms of human abuse, etc. One of the prime reason for this, which the researchers has often pointed out is the unavailability of timely credit

Microfinance has emerged as one of the way for fighting against poverty in rural areas, where most of the India's poorest people live. It puts credit, savings, and other basic financial services within the reach of poor people. Accessing small amounts of credit at reasonable interest rates gives people with the willingness and know-how an opportunity
to set up a small business. Prime objective of providing microfinance through SHGs is to bridge the gap between demand and supply of funds in the lower rungs of the rural economy. Financial inclusion and social exclusive schemes can be implemented and maintained only with the help of active performing Self Help Groups. The range of activities undertaken in microfinance through SHGs include group lending, individual lending, the provision of savings and insurance, capacity building, and business development.

In India growth in agriculture has slowed down in the post green revolution period. The share of agriculture and allied activities in GDP has been declining steadily. As a large segment of the workforce in rural area earn their livelihood from agriculture, deceleration in agricultural growth rate could lead to rising poverty and an acceleration of migration to urban areas. In order to maintain and raise the rural living standards, the rural non-farm sector has to play a crucial role in terms of income and employment generation in the rural areas and in overall economic development of the country. Non-farm sector activities are not only labour-intensive but also give rise to a shift from wage employment to self-employment in rural areas and act as a poverty reduction measure. But most of the people engaged in non-farm sector in rural areas are facing number of problems like lack of institutions for necessary training, lack of technical knowledge, non-availability of cheap raw-materials, shortage of power, lack of road connectivity, lack of market to sell finished products, lack of road connectivity etc.

However the major problem which the rural non farm sector is currently facing is the timely availability of funds, an effort has been made by the government to overcome this problem by providing loan
to people engaged in non-farm sector through the SHG Bank Linkage Programme (SBLP). Against this background, the present study is an attempt to examine the role of micro-finance investment in non farming sector through SHGs financed by the banks in Aligarh district of Uttar Pradesh under the topic “Economic Viability of Micro-Finance Investment in Non-Farming Sector through SHGs: A Case Study of Aligarh District”.

1.3 Objectives of the Study

The main objectives of the study are as follows:

i. To review the history of micro financing through SHGs in India.

ii. To review the growth and development of micro financing in Bangladesh and its relevance to India.

iii. To examine the socio-economic status of the selected SHG’s members involved in various non-farm activities.

iv. To find out the economic viability of microfinance investment in non-farming sector through SHGs Bank linkage programme in Aligarh district.

v. To find out various problems and constraints with special reference to availability of raw materials, technical guidance, marketing and training facilities, etc affecting viability of the non-farm activities in which SHG’s members are involved.

vi. To find out impact of micro financing through SHGs on the socio-economic status of rural women.

vii. To suggest measures that how, the micro-finance investment in non-farming sector and empowerment of women through micro-financing under SHG Bank linkage programme, can be made
more effective and viable on the basis of case study of Aligarh district.

1.4 Research Methodology

The dimension of the study relates to the analysis of the effectiveness of SHGs in the starting and survival of non-farm activities and in the empowerment of women from the view point of selected SHG members. This study analyses various aspects of nonfarm activities in which selected SHG members are engaged. The study also analyses various aspect of socio-economic empowerment of women through SHG’s. This study is partly evaluatory and partly analytical in nature. The impact of the SBLP on selected SHG members and information about the various non-farm activities in which they are involved is based on the assessment of the detailed information obtained from a primary sample survey. The field survey was conducted in selected blocks of Aligarh district. Relevant data were collected through interview schedules covering the qualitative and quantitative aspects of SHGs and their members. Further, their responses on problems faced by the SHGs in pursuing various non-farming activities and their suggestions on improvement of the SHG’s performance were gathered through discussions. The records maintained by SHGs were also looked into for the collection of quantitative data about the SHGs. Relevant information from the banks and SHPIs was collected on the performance of the selected SHGs on loans taken and disbursement and repayment performance of loans. Besides, collection and analysis of primary data, secondary data and relevant literature has been compiled, analyzed and reviewed accordingly.
1.4.1 Area of the Study

For this study, “Economic Viability of Micro-Finance Investment in Non-Farming Sector through SHGs: A Case Study of Aligarh district” five Blocks were selected i.e. Dhanipur, Gangiri, Jawan, Lodha and Khair from the district Aligarh. These blocks were selected in consultation with various officials related with the SHG movement because of the presence of SHGs which are involved in non-farming activities.

1.4.2 Selection of Sample SHGs and SHG’s members

50 SHGs involved in non-farming activities were selected for the study from these five blocks in consultation with DDM (District Development Manager of NABARD for Aligarh district), Bankers, and NGOs. These SHGs have got the linkage with the RRB Shreyas Gramin Bank (head office in Aligarh). Only those SHGs were selected which were two or more years old and are well established in savings and credit operations. Similarly only those SHGs have been selected which have undergone good credit operations with bank linkage. In the final stage, a complete list of members in the selected SHGs was obtained from the officials of the SHGs and five SHG members per SHG were selected at random. Thus a total of 250 SHG members spanning over 50 SHGs became the final sample frame. Relevant data was collected through well structured interview schedules, covering the qualitative and quantitative aspects of SHGs and their members. These sample respondents selected for the study are indulged in the number of non-farming activities important one of them are dairy works, small kirana shops, tailoring, pickle manufacturing, candle manufacturing, carpet weaving, vegetable selling and leaf plates manufacturing.
Table No. 1.1
Sample Size

<table>
<thead>
<tr>
<th>District</th>
<th>Blocks Name</th>
<th>No. of Villages</th>
<th>Sample SHGs Identified</th>
<th>SHG Members Interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aligarh</td>
<td>Khair</td>
<td>3</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Dhanipur</td>
<td>2</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Gangiri</td>
<td>4</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Jawan</td>
<td>2</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Lodha</td>
<td>2</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>13</td>
<td>50</td>
<td>250</td>
</tr>
</tbody>
</table>

1.4.3 Collection of Data

The study was based both on the primary data as well as secondary data. The relevant primary data was collected from the selected SHG members by employing well structured interview schedule/questionnaire. Two sets of interview schedule were used to collect information about SHGs and selected SHG members. The primary data was collected from 250 respondents spanning over 50 SHGs. The researcher has visited different villages from each block and meets the respondents. Before collection of data the purpose and importance of investigations have been explained to them. The respondents are encouraged to give free and frank information. The relevant data are collected from them by establishing a good rapport by and large; the responses are good and fair. The respondents have extended full co-operation in successful data collection. Information was also collected through discussions with functionaries, like officials.
of bank branches, officials of NGOs, DDM of NABARD etc in the selected district.

Besides various secondary sources such as Annual Reports, Statements, Journals and Periodicals etc together with books, seminar papers, websites, etc. formed the sources for the collection of secondary data for the study.

1.4.4 Analysis of Data

Primary and secondary information collected through various sources have been analyzed quantitatively and qualitatively. The filled in interview schedules were thoroughly checked, edited, processed and analysed using appropriate statistical tools such as percentage analysis, mean, standard deviation and analysis of variance (ANOVA) F-test to estimate and find out the results.

For the study purpose the total numbers of selected SHGs have been classified into three types: SHGs with only female members (all women SHGs); SHGs with only male members (all men SHGs); and SHGs comprising both male and female members (mixed SHGs). Most of the questions are designed on five point scale (i) strongly disagree (1), (ii) somewhat disagree (2), (iii) neutral (3), (iv) somewhat agree (4) and (v) strongly agree (5). The sample member’s responses to various elements under each question are totaled and divided by 250 sample numbers to get the mean response. Analysis of variance (ANOVA) F-test is used to test for the significance of differences between means of different groups. Significant values of F indicate that the means are significantly different from one another. The entire statistical tests are conducted at 5 per cent and 1 per cent level of significance.
Inferences, results and conclusion have been drawn out from the analysis of data. The data in tabular form has been analyzed, interpreted and discussed in the respective chapters. The policy recommendations are based on critical appreciation of pertinent literature and analysis of research findings.

1.5 Scope of the Study

Alleviation of poverty remains a major challenge before the Indian government. Acceleration of economic growth, with a focus on non-farming sectors, which are employment-intensive, will, facilitates the removal of poverty in the long run. Considerable scope exists for development of micro-finance through SHGs in India since there is enormous unmet demand for financial services in the country. As reported by the census of India (2001), 70% of the total rural population in India does not have access to banking services. In this context, the current study provide detailed insight into various aspects of selected SHGs working in non-farming sector in Aligarh District besides various issues which are hampering their performance have also been discussed. There is a need for a critical examination of the strategies adopted, the interventions sought, funds flow and its utilization, organizational structure of the SHGs etc to understand the impact of microfinance. Understanding these issues is the basis for providing recommendations focused towards better functioning of SHGs that would not only generate growth in the rural sector but would eventually lead to the growth of the whole economy. Within the limited scale of the study and objectives, the recommendations have been formed based on the field observations and the issues emerging therein
as well for the further strengthening of the SHG Bank Linkage approach.

1.6 Limitations of the Study

The study is mainly confined to Aligarh district. In this study primary investigation is restricted to the selected SHGs in various blocks of Aligarh district because studying of all SHGs in the selected district is not possible for an individual researcher due to constraints imposed by money, time, energy and efforts.

This study is restricted to selected SHGs who are supported by NGOs and availed micro-credit from bank, i.e. Shreyas Gramin Bank. The study is limited mainly because its findings and recommendation are based on the limited coverage of small sample size and area, also due to limited use of statistical tools and techniques and due to poor availability of secondary sources of data. Moreover, the newly formed SHGs which are still in infancy stage have their own limit alone in terms of their stabilization and bank linkages and hence their impact has been limited. However, review of literature and secondary data has been presented in the national perspective.

1.7 Organization of the Study

The study is divided into nine chapters. Chapter one deals with the introduction of the study, this covers the concept and issues of SHG movement in India, significance of the study, objectives, study design, methodology of the research and scope of the study. Chapter two presents a review of associated literatures on this subject. Chapter three discusses about growth and development of microfinance in Bangladesh and its relevance to India. Chapter four gives an overview
of growth and development of SHG-Bank Linkage Programme in India and various issues associated with it. Chapter five discussed about functioning of selected SHGs in Aligarh district and their overall performance. Chapter six examines the socio-economic status of the selected SHG members and issues related with various non-farm economic activities in which they are involved. Chapter seven discusses various problems/constraints associated with non-farm activities. Chapter eight focuses on the impact of micro-financing on selected women members of SHG’s and discusses about their participation in household decision making and mobilization of thrift and credit etc. Finally chapter nine presents summary of conclusions, main findings and recommendations.

References:

1. NABARD, Status of Micro Finance in India-2009-10, NABARD Mumbai.