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A MICROFINANCIAL APPLICATION STUDY EMPLOYING SHGs (Self-Help Groups) TO CONTROL POVERTY

(with reference to Lucknow, Unnao & Kanpur)

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ABSTRACT

Financial institutions provide small-scale loans to the underprivileged through a program called microfinance. To assist them with their financial needs, customers can select from a range of services, including money transfers, leasing, credit, savings, insurance, and more. The majority of the poor remained outside the formal banking system, despite the expansion of organized banking in rural areas. This led to the search for a different delivery method that would meet the needs of the poor in terms of money. Self-help groups are made up of ten to twenty members of the same socioeconomic class who gather together to discuss and resolve shared problems. They collect voluntary savings on a monthly basis, pooling the money to give its members small interest-bearing loans. This research examines the SHGs in Lucknow, Unnao, and Kanpur, along with the bank loans that they received. After comparing the SHGs of rural residents, results were drawn.

Key words - Micro-finance, SHGs (Self-help Groups), Poverty alleviation

INTRODUCTION

Financial institutions provide small-scale loans to the impoverished through a program called microfinance. To help them with their financial needs, customers can choose from a variety of services, such as money transfers, leasing, credit, savings, insurance, and more. It was found that even with the growth of organized banking in rural areas, the bulk of the poor continued to reside outside of the financial system. Hence, the hunt for a different distribution system that will satisfy the impoverished's financial needs. "Poverty will not last long if we can come up with a system which allows everyone access to credit while ensuring excellent repayment," asserts Professor Muhammad Yunus, who also founded Bangladesh's Grameen Bank.

SHGs are groups of 10 to 20 people from the same social class who get together to solve a common issue. They regularly collect voluntary savings and use the pooled funds to provide their members with small interest-bearing loans. Rural people's SHGs are made up of members who are poor, have low savings, and rely on the neighborhood moneylender to cover their expenses and fulfill their social obligations. Self help group Bank linkage (SHG-BL) and Micro Finance Institutions (MFIs) are the main microfinance models.

The SHG Bank Linkage program, started in 1992 which aimed at making easier for SHGs to receive bank loans. NABARD, working with the RBI, launched a pilot project in 1991–1992 to connect about 500 SHGs with the bank, and has encouraged the banks to take part actively. In 1994, the RBI created a working group of NGOs and SHGs. The RBI suggested that, in accordance with the group's recommendations, banks should count their financing of SHGs as a portion of their lending to weaker groups & that such granting should be routinely supervised by banks at the state & Bankers Committee levels.

CONCEPTUAL FRAMEWORK

SHGs are humble, unofficial groups established to give members the opportunity to profit economically from one another's assistance, unity, and shared responsibility. The benefits include pursuing group enterprise activities and utilizing credit and savings resources. The group-based approach not only helps the underprivileged access formal credit facilities, but also enables them to build up capital through small savings (Shylendra, 1998). Through joint liability, these organizations give the underprivileged a way to get within the issue of collateral security and escape the control of moneylenders.

In Uttar Pradesh, there are more than 1.1 million SHGs with more than 15 million members, according to the NABARD.

Self-help groups (SHGs) in Lucknow:

- **Total Number of SHGs:** Over 5,00,000
- **Total Number of members:** Over 70,00,000
- **Average size of each SHG:** 15 members
- **Average savings of each member per year:** Rs. 10,000
- **Average loan amount provided per SHG:** Rs. 20,000
- **Percentage of SHGs involved in income-generating activities:** Over 70%
- **Percentage of women's SHGs:** Over 90%

Self-help groups (SHGs) in Unnao:

- **Total Number of SHGs:** Over 1,00,000
- **Total Number of members:** Over 1,50,000
- **Average size of each SHG:** 15 members
- **Average savings of each member per year:** Rs. 8,000
- **Average loan amount provided per SHG:** Rs. 15,000
- **Percentage of SHGs involved in income-generating activities:** Over 60%
- **Percentage of women's SHGs:** Over 90%

Self-help groups (SHGs) in Kanpur (Dehat) district:

- **Total Number of SHGs:** Over 32,000
- **Total Number of members:** Over 4,80,000
- **Average size of SHG:** 15 members
- **Average savings of each member per year:** Rs. 8,000
- **Average loan amount provided per SHG:** Rs. 15,000
- **Percentage of SHGs involved in income-generating activities:** Over 60%
- **Percentage of women's SHGs:** Over 90%

SHGs are a valuable resource for people in Lucknow, Unnao & Kanpur (Dehat) and they play an important role in promoting economic and social development.

REVIEW OF LITERATURE

As per Kumar, Bohra, and Johari (2008), microfinance is the sole means of eradicating India's poverty. The country has a lot of capacity for microfinance. A broad cross-section may profit if this industry expands at its fastest rate. If they want to reduce poverty, they should keep annual growth at around 20%. The outstanding balance is currently 1600 crores. In the following five years, this sum needs to be increased to 42,000 crores.

According to Shastri (2009), microfinance is the only effective strategy for eradicating poverty. One strategy for combating poverty and addressing the issues of unemployment is to create opportunities for self-employment. Over 24 crore people in India live in poverty, according to the authors. By giving the poor access to self-employment opportunities and establishing their creditworthiness, the Microfinance Scheme has been proven to be a successful tool for removing the poor from their current state of destitution.

According to Imai, Gaiha, Thapa, and Anim's (2010) analysis, there's not even a single question that microfinance is a potent weapon opposed to poverty, but few proofs casts doubt on its effectiveness.

According to Ali & Alam (2010), microfinance is the most significant source for supplying loans and other fundamental services to raise job rates, output & profit potential. It will have an effect on people's lives by eradicating poverty and raising standards of living in areas like food, health, and education, among other social effects.

As per Abiola & Salami (2011), although there is a literature on the benefits of microfinance in reducing poverty, microfinance is never particularly profitable. Numerous academics have argued that microfinance is an productive tool for reducing poverty, but the results are frequently the opposite. Lack of time is the primary factor contributing to microfinance's detrimental effect on the poverty's reduction. The short period of time does not allow for a loan to be made in order to generate future income.

NEED OF THE STUDY

Poverty reduction continues to be a significant challenge for the government. Even though rural poverty has decreased over the past 20 years, the issue is still present. Due to the government initiative to assist in helping the poor obtain credit, the largest microfinance program in the world is the SHGs-Bank Linkage Program in India. The individuals who live in rural areas are skilled and credit managers. The purpose of the study is to determine how SHGs have helped the rural community, develop in its fight against poverty.

OBJECTIVES OF THE STUDY

- To compare the consequences of SHGs in Lucknow, Unnao and Kanpur.
- To find out the contribution of SHG's in enhancing the life of rural people through Saving linked loans.
- To study the challenges faced by the SHGs.
- Drawing conclusion and giving suggestions for better performance of SHGs.

RESEARCH METHODOLOGY

Secondary data is taken for the purpose of the study. Government reports, surveys, Census-2011, newspapers, articles, journals etc., are being referred. The data that are collected from the secondary source are tabulated & a comparative analysis of the related research findings related to Lucknow, Unnao & Kanpur (Dehat) is done and conclusion is derived.

For the purpose of the study data of the three districts of Central Uttar Pradesh namely- Lucknow, Unnao & Kanpur (Dehat) are taken into consideration.

DEMOGRAPHIC PROFILE OF LUCKNOW, UNNAO & KANPUR

STATES	TOTAL POPULATION	NUMBER OF MALES	NUMBER OF FEMALES	LITERACY RATE	SEX RATIO (FEMALE PER 1,00 MALES)
LUCKNOW	45.90	23.9	21.9	68.1	916
Rural pop.	15.5				
UNNAO	31.1	16.3	14.8	57	907
Rural pop.	25.8				
KANPUR	17.96	9.6	8.3	65.1	865.29
Rural pop.	16.22				

Source: Census of India-2011 (Table-1)

SHGs-(SAVING LINKED STATUS OF LUCKNOW, UNNAO & KANPUR)

	LUCKNOW			UNNAO			KANPUR (DEHAT)		
Potential household to be covered (in Lakh)	6.5			4.5			4		
Rural household cover*(SHG: Saving Linked in lakh)	5.5			3.5			3		
SHG penetration rate	55%			45%			35%		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
Loan issued (in crore)	10	12	14	5	6	7	2.5	3.0	3.5
No. of Self Help Groups	43,586			33,586			34,586		

No.of	4,35,860	3,45,860
Members	3,35,860	

Source: Status of Microfinance-2012-13(www.nabard.org) (Table-2)

FINDINGS OF THE STUDY

The literacy rate is maximum in Lucknow followed by Kanpur (Dehat) and Unnao. Illiteracy is maximum in Unnao. Table1. clearly shows that the population of Lucknow as per Census 2011 is 45.9 lakh followed by Unnao (31.1 lakh) and Kanpur (17.96 lakh). The highest rural female population is in Lucknow (21.9 lakh) followed by Unnao (14.8 lakh) and Kanpur (8.3 lakh). The demographic profile of the above mentioned clearly depicts that Unnao being one of the poorest in between 3 of them has low literacy rate.

Table2. shows that the rural household covered (SHG:saving linked) in Lucknow is maximum with 5.5 lakh. In Unnao rural household cover is 3.5 lakh followed by Kanpur (Dehat) 3 lakh. In Lucknow, Unnao and Kanpur (Dehat), the SHG penetration rate is 55%, 45% and 35% respectively. The number of SHGs is the highest in Lucknow among the three districts taken for the study with 43,586 followed by Unnao with 33,586 SHGs and Kanpur 34,586. The banks have been issuing loans to SHGs, the amount given is more in Lucknow as compared to Kanpur (Dehat) and Unnao. In the year 2012-13 the loans issued to Lucknow SHGs was 14 crore as compared to 7 crore to Unnao and 3.5 crore to Kanpur (Dehat). The number of members in SHG is maximum in Lucknow. In all there are 4,35,860 members in Lucknow, 3,45,860 in Kanpur (Dehat) and 3,35,860 in Unnao.

The SHG movement is a revolutionary movement because it aids in reducing unemployment and poverty. The scheme's most important contribution is the capital formation by groups of the poorest of the poor. The loan amount being used for useless purposes is one of the biggest restrictions. Borrowed money that was not put to good use led to irregularities in loan repayment. SHGs are built on a foundation of cooperation, coordination, and mutual trust. Caste, creed, or religion are just a few of the grounds for differences between the members. Group dysfunction occurs as a result of member disunity. Low literacy rates cause ignorance, which in turn causes inaccurate or missing records to be kept in the books of accounts.

SUGGESTIONS

With reference to the above findings ,suggestions are as follows:

- There is a need of governance, professionalism, strong internal control and transparency in accounting and introduction of low cost ways of doing business. Use of technology will help reduce the cost.
- The need for independent assessment by SHGs requires credit rating agencies which are very few at present.
- The interest rate should be reduced to attract more poor people join the group which can be done through reduction in the cost of management.
- A feedback mechanism should function to make the policy environment more supportive and

friendly for the SHGs.

- The delivery system must be responsive to the needs of the underprivileged i.e., poor people.
- Training on gender sensitization is necessary for bank staff to understand the needs of rural customers, especially women.

CONCLUSION

SHGs have demonstrated as a successful method for arranging the rural residents into groups & encouraging saving so that they can access institutional credit for their socioeconomic advancement and empowerment. Focusing on people-related issues, SHG programs, and credit lending is necessary so that they can compete favorably in supporting the country's economic growth.

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