Chapter 17
Impact of Self-Help Group (SHG) Membership on Income and Income Inequality:
A Case Study of Birbhum District in West Bengal

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ABSTRACT

The microfinance program has now been recognized as an effective tool to empower economically the rural women folk. The earning is the most important direct outcome of micro finance participation unlike acquiring empowerment. Participation in the program helps women to inculcate their saving habit. It gives access to the formal credit to them. All these have direct impact on their economic condition. This study explores the impact of microfinance program on the income of the program participants of Birbhum District in West Bengal in India. The study also focuses on how participation helps in reducing inequality in income of the participants. The major finding of the study is that women self-help group (SHG) members have the higher level of income compared to that of non-SHG members. The study also shows that SHG participation also helps them in reducing inequalities in their income. Gini coefficient and Lorenz curve technique has been used to assess the income distribution of the respondents.

INTRODUCTION

The biggest economic problem in India over the decades has been the poverty on a mass scale. Solution of the problem is employment and income generation; but the poor people to that end lack the financial resources. The supply of financial resources could therefore be one nice solution to reduce the vulner-

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ability of the rural poor. Nobody will deny that the supply of rural credit to its desirable extent and at amicable conditions by private financial institution is not possible. The banks were therefore nationalized and rural financial institutions were established with a friendly approach to provide credit to the poor people. The nationalized banking sector had accepted the challenges of supply of cheap, adequate and timely rural credit. In spite of forty years' effort of Indian banking sector, a large section of rural people has remained exiled in the of financial inclusion. Using the 59^{th} round NSSO data, the committee of financial inclusion reports that 459 Lakh out of 893 Lakh, that is, 51.4% of farmer households are financially excluded from both the formal and informal sources. Of the total farmer households, only 27% had access in formal sources of credit. One third of them also borrow from non-formal sources. Of the total farmer households, 66% are the marginal farmer households. Only 45% of the marginal farmer households had access to formal or informal sources of credit. Among the non-cultivator households nearly 80% do not have access to credit from any sources. Only 36% of ST and 51% of SC and OBC farmer households are indebted mostly to informal sources. Owing to the region-wise NSSO data, it is evident that financial exclusion is most acute in Central, Eastern and North Eastern region. There was 64% of all financially excluded farmer households' concentration in these regions. Overall indebtedness to formal sources of finance alone is only 19.66% in these three regions (4.09% for North Eastern region, 18.74% for Eastern region and 22.45% for Central region). Analysis of the data provided by the Basic Statistical Returns (BRS) of scheduled commercial banks reveals that critical exclusion in terms of credit manifest in 256 districts, spread across seventeen states and one union territory with a credit gap of 95% and above. This is in respect of commercial banks and RRBs. Credit coverage by cooperatives is also on a relatively low level as nearly 62% of its members are non-borrowing members (Kapoor, 2011).

Former financial institutions were scared of providing rural credit due to their pre-conception that serving the rural poor is both costly and risky. This is primarily because of scattered nature of agricultural borrowers with the demand for credit in low volume. The expenditure on credit per transaction is remaining same, whatever the loan size. Expenditure on transaction on a large amount of loan is therefore relatively low compared to the small size loans. ICICI Bank in a study has shown that for a loan size of Rs. 25000/- the transaction cost comes to 8.62% for a bank, whereas for a loan of Rs. 10000/- it becomes 21.56% (Kapoor, 2011). The borrowers also involve transaction cost in terms of loss of valuable time, travel cost and other non-interest costs in getting and repaying loans. Providers may have the risks in the form of loan default, price risk due to unexpected change in interest rate and risk due to information asymmetries because the borrowers have more information about their project than do the lenders. Finally, the financial system developed in India is naive in serving financially the rural poor. India's policy has been largely supply and target driven. Emphasis has been given to credit rather than financial services. Credit largely directed for priority sector lending. Significant government subsidies have been channeled through the financial intermediaries. Rural finance was taken with a perspective of social obligation but not potential business opportunity. Further the formal financial sector failed to recognize the mismatch between the hierarchy of credit needs and credit availability, resulting in adverse usage of credit.

The conventional way of serving the poor by providing cheap credit therefore had come to an end with failure. Microfinance particularly the group based microfinance activity in this situation has emerged out as one of the solutions in serving the poor. Solidarity group approach inculcates the saving habits of the poor and thereby it is possible to mobilize rural savings. In microfinance lending collaterals are almost not required. However collective liability of the group can be considered as one kind of social collaterals. Microfinance activity also helps to reduce the transaction cost of the financial institutions. If the group members are properly trained they can maintain transaction records of the group and can communicate