INCOME GENERATION THROUGH MICRO-FINANCE IN RURAL INDIA: AN ECONOMIC ANALYSIS OF PERFORMANCE OF SELF HELP GROUPS

by

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CERTIFICATE

The Thesis entitled "Income Generation through Micro-finance in Rural India: An Economic Analysis of Performance of Self Help Groups", being submitted by Shri Kamala Kanta Tripathy to the Indian Institute of Technology Delhi for the award of the degree of DOCTOR OF PHILOSOPHY is a record of bonafide research work carried out by him. He has worked under my guidance and supervision and has fulfilled the requirements for the submission of this thesis which attained the standard as required for a Ph.D. degree of the Institute. The results presented in this thesis have not been submitted any where else for the award of any other degree or diploma.

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ABSTRACT

The primary sector provides livelihood support to about two-thirds of India's population. One of the key problems of those dependent on agriculture and allied activities in rural areas is the non-availability of timely credit at affordable rates of interest. The traditional concern about accessibility of agricultural credit to the needy rural inhabitants is still alive even after increasing bank branch network, improving co-operative banking structure, evolving specialised rural banking institutions and the setting up of various financial agencies like the National Bank for Agriculture and Rural Development. Due to a variety of problems associated with the government linked credit agencies, the attention has now shifted towards an innovative model of credit delivery mechanism related to micro-finance.

The nucleus of one of the largest prevailing micro-finance models viz, Self-Help Group (SHG)-Bank linkage model in India has been built around the basic psychological principle of self-worth and the important feature of self-help. Swarnjayanti Gram Swarozgar Yojana (SGSY) is based on this model and is considered as the world's largest government-run micro-finance programme in rural areas.

While the emphasis, under various micro-finance programmes in India, has generally been on the socio-economic empowerment of the beneficiary clients, the present study depends on field data collected from four districts of India to examine some of the selected income effects on the rural poor who have organised themselves into SHGs under SGSY and are living below a particular benchmarked poverty line.

Besides using basic statistics like Mean, Median, Standard Deviation, Correlation and Factor Analysis, the data have been analysed through Linear and Binary Logistic Regression models. The findings of the study highlight that micro-finance has a negligible income impact on asset-less rural poor and indicates that under-privileged, deprived and disadvantaged members would in every possibility end up losing more from the facility provided through this self-employment ventures. The analysis of the earning function of the respondents for the total sample in Haryana and Orissa indicates that land and other productive assets have a statistically significant relationship with income per

capita. The land and income earning are inversely related highlighting that the land based economic activities have not been remunerative enough to increase the income of the beneficiary. The positive relationship between inheritance of productive capital assets from pre-SHG period with the income earning function has negated the basic objective of SGSY, that envisages increment of income of the landless, disadvantaged and deprived people. It is also found that there is a relatively higher income impact of the programme in the forward regions compared to the backward regions of the country. The study has also highlighted that the respondents who are under the supervision and nurturance of NGO officials earn more than their counterparts who are nurtured and financed by government agencies.

The lack of regular inter-loaning activity within the SHGs is found to be the most important bottleneck in their sustainable performance. Besides this, the non-availability of finance, product quality and project appraisal have been other important issues leading to the better performance of group activities. Low financial base of the group, non-provision of socio-economic incentive to members, absence of group owned and group operated economic activities and the lack of rotation of leadership among the members jeopardise the objectives of the micro-finance programme.

While analysing the impact of micro-finance on poverty and living conditions of the respondents, it is observed that the SGSY programme through its micro-finance approach has not been very effective in reducing poverty in backward regions. In contrast, however, there is a sharp reduction in the intensity of poverty among the respondents who are nurtured by the NGOs.

The study concludes with the observation that the need of the hour is to form quality groups, enhance necessary infrastructure in the backward regions, raise education level, upgrade capacity and skill and set up an effective monitoring mechanism on investment activities. The immediate and imminent policy implication is to identify and narrow down problem areas under the programme, target the identified regions and ensure proper coordination amongst field level agencies to enhance the income and employment opportunities.

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