

## Chapter 18

# Poverty and Inequality of SHG–Member Households: Evidence From Villages in North Andaman Island

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### ABSTRACT

*This chapter explores the penetration of SHGs and assesses socio-economic status and its inequality for the SHG-member households in North Andaman Island in the union territory Andaman and Nicobar Islands of India. The authors have used the Gini coefficients for computing inequalities and log-linear model for estimating the impact of borrowing on food and non-food expenditure. It is revealed that the incidence and intensity of poverty of the sample households is not so serious. Majority of the sample women under SHG schemes actively participate in group activities and have obtained micro credit. Inequality in household income is lower than the inequality in per capita income. Moreover, inequality for health expenditure is higher compared to the inequality in food expenditure. Borrowing through SHGs accelerates non-food expenditures not investment in income generating activities. However, SHGs inculcates empowerment of the participations.*

### INTRODUCTION

Group centric microfinance has a long history. In the late nineteen century there were many group-centric microfinance institutions in Asia. Credit union and Fisherman group in Indonesia, Totines or Hui in Vietnam, Bishimandal and Nidhis in India, particularly in southern part, were popular group-centric microfinance institutions in that time. The main characteristic of these groups was that members' periodic contribution pooled into one fund which was used to extend loan to the credit worthy member. Because

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of no or negligible information gap between lender and borrowers there was low or negligible transaction cost for loan. However, these microfinance institutions were absolutely informal in nature and suffered from paucity of fund. These group-based microfinance institutions mainly provided business loan to the members. Actually, these groups were of the small business men. They had no role in poverty alleviation and inculcation of empowerment of the members and non-members in the service area. After penetration of the strong formal banking system these informal groups lost its function. But poor and vulnerable section in India remained outskirt of the banking system due to lack of appropriate banking counselling and collateral to the poor people. Throughout the last century cooperatives in India went in ups and down for accelerating rural development. Early time of the last quarter of the last century it was identified that poor people specially women found very little utility from the strong banking system in India and abroad. Different studies like Jain (1989), Narayanaswamy et al. (2003) have mentioned the limitations of the cooperatives for alleviating poverty in India. To bring up the economic and social conditions of the poor through financial inclusion, the SHG-bank linkage scheme in India has been coined in mid 1980s. The program initially promotes the savings habit of the SHG members and gradually provides loans to the members for income generating purposes or for meeting the emergencies. The SHG model in India, which is our prime interest, is a large model of group-based microfinance launched in 1992, but it is implemented far later in North Andaman Island. The model started under the supervision of NABARD. In this model, 5 to 20 poor people voluntarily form a group under a financial institution or a governmental/ non-governmental agency. After formation, each member of the group starts savings equally per week/month. Promoted agency introduces the group with a formal financial institution and group opens an account and deposits its pooled savings regularly. Usually after six months, the formal financial institution starts lending to the group and subsequently increases the amount depending on its pooled savings. Obtaining the loan the group extends the loan to the members in accordance with its own rules and regulations. In India banks charge 12% interest per year from the group and the group charges an interest rate of 24% to 36% per year from the SHG members (Adhikary & Bagli, 2012,). Most of the beneficiaries of the model are rural poor women. Loans are extended based on the pooled saving and policy of the financial institutions. Repayment schedule of these loan are flexible in between six months to thirty-six months. Theoretically, the participation in SHG is voluntary but in India some governmental or non-government organizations encourage potential poor persons to form group.

## **LITERATURE REVIEW AND OBJECTIVES**

There have been many studies on the working of SHGs conducted in different parts of world including India. In India most of the empirical studies have covered the SHGs working in the States of Orissa, Andhra Pradesh, Maharashtra, Tamil Nadu West Bengal and Uttar Pradesh (Deshmukh-Randive, 2004; Kumar & Anand, 2007; Bali Swain & Varghese, 2009, Adhikary & Bagli, 2012). Most of the studies have discussed mainly various socio-economic parameters of SHGs members related to the situation during pre-SHG and post-SHG periods. They have found that participation in SHG ensures the financial inclusion for the rural unbanked people in general and women in particular. Participation and duration of involvement in SHG reduces borrowing cost. Borrowings from SHG smooth the expenditure on food, health and children education for the people. Other studies (Nair, 2005; Moyle et al., 2006; Chakrabarti, 2004) assessed more specific type of issues such as role of SHG federations in providing sustainability of SHGs, economic and personal empowerment of women and role of microfinance in poverty eradication.

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