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SHG Microfinance and The Non-Food Consumption Share Approach (NFS)

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ABSTRACT The Non-Food consumption Share approach (NFS) in Dakshina Kannada and Mysore districts of Karnataka was calculated using the pattern of utilization of loan by SHGs through microfinance. Higher non-food consumption share is considered to be the indicator of poverty alleviation. The food share was very low and the NFS was considerably high, indicating that SHGs in both districts are progressive. However the utilization of loan to achieve this result reflects that it was not good enough. The SWOC analysis reveals that loan utilization for the purpose not specified (others) was extremely high, probably posing severe stress on micro finance threats. The weaknesses among SHGs were that more money was spent towards purchase of gold and repayment of old loans. Utilization towards children's education and marriage was comparably low. NFS being very high in both districts indicate that SHG-micro finance played an important role in poverty alleviation

KEYWORDS : Non-Food consumption Share, SHG, Microfinance and Poverty alleviation.

Introduction

The most persistent challenge facing some parts of the world is poverty alleviation. The factors responsible for this include income inequality, unemployment and underemployment, inadequate access to basic services and resources by the poor, inequitable distribution of assets, technology and socio-economic opportunities (Haq and Bhatti, 2001). The magnitude of poverty is higher in rural areas. Malik(1984), Ercelawan(1990), Havinga et al.,(1989) and Jafri(1999) and the World Bank(1995), state that the basic needs poverty line reflects are "cost of clothing, housing, health and education. The present analysis deals with the issue that to be poor is lacking some basic needs" which includes the non-food consumption share. NFS was first developed by Orshansky(1965) and was extended by Watts(1968) and Huppi and Ravallion(1991). In most of the non-food consumption approach, more than 50% of consumption expenditure goes for food and the rest is allocated for clothing, housing, fuel, furniture and fixture, education, health and miscellaneous items. Calorific requirements are of prime importance, yet they are not the only human needs. During the detail study on the role of SHGs in microfinance, it was observed that the loan taken for various activities varied to a greater extent. This paper attempts to examine the relationship between food consumption share and the non-food consumption share, a structure related to poverty alleviation of SHGs in two districts of Karnataka, Mysore and Dakshina Kannada.

Materials and Methods

A well-structured closed end questionnaire was designed and circulated among 131 SHGs in Mysore district and 80 SHGs in Dakshina Kannada district. The financial portfolio in the form of total expenditure among these SHGs was calculated from 2006 to 2011.The non-food share in total consumption expenditure is taken as the poverty threshold. Households having non-food share lower than this threshold level are considered as poor. Minimum expenditure of all needs, food as well as non-food is calculated by using Extended Linear Expenditure System (Ali, 1995). It is reported that 50% of total expenditure is allocated for food and the other 50% goes to non-food expenditure. The non-food consumption share is calculated as NFS=NFE/TE x 100, where NFS represents the percentage of non-food consumption share, NFE is interpreted as non-food consumption expenditure and TE is total consumption expenditure.

Results and Discussions

Engel's Law of consumption (1857) is an economic observation which states that as income rises, the proportion of income spent on food falls, even if actual expenditure on food rises (Wiki). Lower food consumption indicates higher standard of living. Further it states that "The poorer a family, greater the proportion its total expenditure that must be diverted to the provision of food". Stigler(1954) states that "greater the income, smaller the relative percentage of outlays for subsistence".

These two statements are indicative of the fact that the non-food consumption share is generally found to be an increasing function of real income, and thus can be considered a valid welfare indicator. Huppi and Rawallion (1991) state that family welfare is positively related with income and hence the non food share can be used as a property for family welfare.

Tables 1-3 depict the results of the non-food consumption share calculated for the districts of Danshina Kannada and Mysore. The non-food consumption share in DK district is found to be considerably high and ranged between a minimum of 77.4% during 2006 to a maximum of 96.33% during 2007. The expenditure incurred is in the form of loan obtained for the purpose of housing, children's education, marriage, purchase gold, repay old loan and for other purpose. The maximum loan obtained for food source is highest (22.53%) during 2006 and least during 2007(3.77%). A similar observation can be made when the NFS for the total loan of both districts are considered. The NFS in both districts go hand-in-hand, indicating similarity in operation of SHGs in Both districts. The NFS in Mysore district is significantly high during 2010-2011(92.66%) and is least during 2006(72.12%). These findings are indicative of the fact that SHGs in both districts have obtained loan in higher sums mainly for the non-food consumption purpose.

Table 1. Details of loan taken for various purposes in D.K. District (%)

Purpose	2000-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Agriculture	49000	13300	324750	289420	250815	93716	1021001
Housing	31000	70700	311100	575462	701470	228500	1918232
Education	17500	15380	58670	126450	159000	60500	437500
Marriage	000	16100	125500	150580	214332	106461	612973
Purchase of Gold	44000	34405	117400	285385	206073	102540	789803

	Repay old Loan	Others	Total
	11000	65000	217500
	76000	126475	352360
	140445	566982	1644847
	270823	460912	2159032
	327287	667405	2526382
	87440	151635	830792
	912995	2038409	7730963

Table 1.1: Calculated NFS values for various purposes in DK District

Purpose	2000-06	2006-07	2007-08	2008-09	2009-10	2010-11
Agriculture	22.53	3.77	19.74	13.41	9.93	11.28
Housing	14.25	20.06	18.91	26.65	27.77	27.50
Education	8.05	4.36	3.57	5.86	6.29	7.28
Marriage	00	4.57	7.63	6.97	8.48	12.81
Purchase of Gold	20.23	9.76	7.14	13.22	8.16	12.34
Repay old Loan	5.96	21.57	8.54	12.54	12.95	10.52
Others	29.89	35.89	34.47	21.65	26.42	18.25
% NFS	77.48	96.21	80.26	86.59	90.07	88.70

Table 2. Details of loan taken for various purposes in Mysore District

Purpose	2000-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Agriculture	115500	82900	419693	748254	591240	87770	2045357
Housing	1200	170750	133365	373380	465416	198450	1342561
Education	22400	69000	167070	307504	154216	54284	774474
Marriage	13000	140450	363540	450587	431384	85228	1484189
Purchase of Gold	3000	29170	83565	204750	38930	6000	365415
Repay old Loan	10700	130751	505740	325297	424346	135560	1532394
Others	248470	332517	1434146	1738158	1697329	628132	6078752
Total	414270	955538	3107119	4147930	3802861	1195424	13623142

Table 2.1: Calculated NFS values for various purposes in Mysore District

Purpose	2000-06	2006-07	2007-08	2008-09	2009-10	2010-11
Agriculture	27.88	8.68	13.51	18.04	15.55	7.34
Housing	0.29	17.87	4.29	9.0	12.24	16.60
Education	5.41	7.22	5.38	7.41	4.06	4.54
Marriage	3.14	14.70	11.70	10.86	11.34	7.13
Purchase of Gold	0.72	3.05	2.69	4.94	1.02	0.59
Repay old Loan	2.58	13.68	16.28	7.84	11.16	11.34
Others	59.98	34.80	46.16	41.90	44.63	52.54
% NFS	72.12	91.32	86.49	81.06	84.45	92.66

Table 3. Details of Total Loan and NFS values for Both Districts

Purpose	DK(Total)	NFS	Mysore(Total)	NFS
Agriculture	1021001	13.20	2045357	15.01
Housing	1918232	24.81	1342561	9.86
Education	437500	5.66	774474	5.68
Marriage	612973	7.93	1484189	10.89
Purchase of Gold	789803	10.22	365415	2.68
Repay old loan	912995	11.81	1532384	11.2
Others	2938409	26.37	6078752	44.6
Total	7730913		13623142	
% NFS		86.8		84.73

According to Ali(1995), 51% of total expenditure is allocated for food and 49% goes towards non-food expenditure. The threshold level is however calculated by using "Extended Linear Expenditure System" (Stone, 1954). The SHGs in the present study have NFS during 2006-2011 at an extremely high level and are well above poverty levels.

Jafri and Khattak,(1995) state that poor families spend greater proportion of their total expenditure on food and a smaller proportion towards non-food sources. In the two districts under study this is not so, because more amount was spent as non-food expenditure. The point to be stressed here is that SHG microfinance in the two districts has been a success and is playing an important role in poverty alleviation. More and more members are utilizing loan for the purpose of non-food consumption and lesser amounts towards food which is in accordance with Engel's Law. Limitations in the study are concerned with sample size and the area covered under this study.

To justify the utilization of loan for various purposes the non-food and food source, data was subjected to SWOT analysis. The results are plotted in fig 1. SHGs in both districts, no doubt have utilized loan in higher amounts towards NFS and may have achieved poverty alleviation to a considerable extent, but the pattern of utilization of loan is of serious concern. Usage of loan for food source is very low and can be classified as the major strength in poverty reduction. Loan for other purposes which is not specified is strikingly high. There are chances that some amount may have been utilized towards food and this may be considered as a challenge to loan utilization. Loan for marriage and children's education are very low and are categorized as weakness because these are desirable aspects of quality improvement. Opportunities are those of reducing loan for purchase of gold and repayment of old loan. Probabaly, an integrated approach towards proper utilization of microfinance through SHGs and thereby striving towards raising the level of poverty alleviation may result in better standards of living in both the districts of study.

Fig.1. SWOC analysis for NFS(DK and Mysore Districts)

S. Strengths • NFS 85-87% • FS 13-15%	W. Weaknesses • Purchase of gold 3-10% • Repay old load 11-12%	Internal factors
O. Opportunities • Loan for Children's education 6-7% • Marriage loan 11-18%	C. Challenges • Utilization of loan for other purpose 26-45%	External factors
Positive	Negative	

Conclusion

By forming SHGs for the purpose of microfinance, members of DK and Mysore have decreased the incidence of poverty among their groups, which was considered to be very high in rural areas. The fact that expenditure towards non-food consumption has increased is an indication of poverty alleviation. Encouraging more SHG- microfinance in rural areas should be emphasised. The strength of the study is increased spending pattern towards NFS expenditure, while weaknesses are spending low amounts towards children's education and marriage purpose. Opportunities exist among SHGs to reduce expenditure towards purchase of Gold and repaying old loan. The most important of all is to specify loan utilization for "others". There is every possibility that some percent of this may be used for food consumption. It can be said SHG-Microfinance is an important tool in poverty alleviation in the Districts of Mysore and Dakshina Kannada.

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