“I did something that challenged the banking world. While conventional banks look for the rich, we look for the absolutely poor. All people are entrepreneurs, but many don't have the opportunity to find that out.”

- Prof. Mohammed Yunus

“Access to financial markets is important for poor people. Like all economic agents, low-income households and micro enterprises benefit from credit, savings and insurance services. Such services help to overcome the risk and to have smooth consumption, thereby allowing the people to take advantage of profitable business opportunities and increase their earning potential. The special features of the financial markets, often serve poor people very badly since they have insufficient traditional forms of collateral assets to offer. Unfortunately they are often excluded from traditional financial markets. Transaction costs are very high for small loans, typically demanded by poor people. And in areas where population density is low, physical access to banking services has been very difficult” (World Bank, World Development Report, 2001).

India has a population of 1,027.01 million with 742 million living in rural areas (Census of India, 2001). About 40 percent of the rural population and 23.62 percent of the urban population are estimated to be living below the poverty line (Mishra and Purrie, 2001). Finance is an extraordinarily effective tool in spreading economic opportunity and fighting poverty. The main emphasis on antipoverty programmes directed through formal financial institutions was to provide the poor with access to credit and improve their income and standard of living.

In order to reduce poverty among the rural poor, various programmes such as food for work, targeted wage employment and other rural developmental programmes were undertaken by the government. This smoothened the consumption expenditure, creating jobs, developing skills and at times redistributing income from the wealthier to the poor (Ravallion, 1991). Even then, lack of capital among the poor makes it difficult to undertake productive activities which could generate employment
opportunities. In this situation, provision of credit seems to be an important means to generate self-employment opportunities for the poor in rural areas (Khandker, 1998). Government plays a major role in extending credit to the poor by sponsoring several programmes, which provides financial assistance through capital subsidy and bank credit. All these were possible mainly because of excellent rural financial institutions in the country created through nationalisation of commercial banks and expansion of rural branch network (Rao and Zeller, 1998).

Though the achievement in terms of credit disbursed under the government programme was impressive, benefits proportionate to the credit did not accrue to the borrowers. Most of the studies on poverty alleviation programmes revealed that only 27 percent of rural credit was deployed to the rural population (Rangarajan, 1995). The formal financial institutions have failed to provide credit and other services to the rural poor (Braverman and Guash 1984, 1989; Hoff and Stiglitz, 1990; Bouman, 1984 and Desai and Namboodiri, 1996). The poor performance was due to the following reasons. Primarily, the responsibility of identification of economic activities and eligible borrowers was not vested with banks. Secondarily, there was little post disbursement follow up since banks did not consider these programmes as their own (Government of India, 1985). Moreover, if consumption needs of the poor were not met, they had a strong tendency to divert whatever loans they received, for consumption purposes. The above reasons resulted in the misuse of credit leading to poor recovery of loans (Rath, 1985).

1.1 PROBLEMS OF RURAL FINANCIAL INSTITUTIONS

Rapid expansion of rural branch network and pumping heavy doses of credit to the rural poor had their own problems to the rural financial institutions. The core problem was the high transaction cost in financing large number of small borrowers who required credit frequently and in small quantities. Their demand for credit was mostly for consumption purposes. Banks perceived these demands for credit as for non-productive purposes (Desai, 1987 and Namboodiri and Shiyani, 2001). In view of this, banks felt that banking with poor was not economically viable and a high-risk phenomenon. As a result, the rural credit delivery system was burdened with poor
quality loans, high level of overdues, non-performing assets, subsidised and uneconomic rate of interest and high transaction costs (House, 1995 and Tiwari and Fahad, 2000). This is because the institutional agencies lack the required mechanism to assess the credit requirements of the rural poor. Rural credit markets are plagued with asymmetric information and imperfect enforcement (Hoff and Stiglitz, 1990 and Binswanger and Rosenzweig, 1986) which create inefficiency in both production and consumption and disproportionately affects the poor in rural areas (Foster, 1995).

The main emphasis on anti poverty programmes directed through formal financial institutions was to provide the poor with access to credit and improve their income and standard of living. However, in reality they have not reached the rural poor and improved their status substantially (Naidu, 1985; Tripathy, 1984; Feder et al., 1989 and Huppi and Feder, 1990). But the credit has resulted in creating loan waivers and bailing out of non-performing assets which in turn weakened the financial system and loan repayment discipline among the borrowers (Meyer, 2001).

1.2 PROBLEMS OF RURAL POOR

The benefits of the capital subsidy to the poor was reduced by high transaction costs, which included expenses on repeated visits to the government offices and banks, opportunity costs in terms of wages foregone during such visits and costs associated with strict documentation procedures. It is estimated that on an average, the poor incurred an expenditure of about 18.90 percent of the total amount towards the transaction cost (House, 1995). Besides high transaction cost, inability of small borrowers to offer collateral security against the loan has also affected the flow of credit to them. Despite wide banking network in India, the financial services of formal banking system remain inaccessible to the majority of the poor women in rural areas forcing them to rely mainly on informal sources of credit. These sources provide timely credit without any collateral security for all purposes (Bouman and Houtman, 1988; Hoff and Stiglitz, 1990; Udry, 1990 and Foundation for Development Co-operation (FDC), 1992).

Hence, in most of the developing countries, attempts were made to develop co-operative credit societies by bringing together people of small means for fostering
thrift and mutual help for their economic betterment. However, they have achieved only limited success due to large size and heterogeneous economic status of their members and decision-making by well off members. Besides, they depend more on government for financial assistance, which play a major role in the growth of these institutions. Often people see the co-operatives as government agencies and not as their own institutions (Nanda, 1994). So, in order to meet the credit requirements of the rural poor women and at the same time to reduce the transaction cost for both formal financial institutions and borrowers (clients), some other institutional innovations need to be created (Zeller and Sharma, 1998). The performance of formal financial institutions particularly in their lending to the poor in India has been unsatisfactory. They face a number of constraints in broadening their services to the poor. As a result of the inaccessibility of the formal banking system to the poor, micro finance institutions emerged, which act as an impetus for community activity (Swarup, 2001). There has been a surge of interest in micro finance in the recent past, particularly in reaching the poor families in a more effective way (Kaladhar, 1997).

1.3 EVOLUTION OF MICRO FINANCE INSTITUTIONS

The task force on supportive policy and regulatory framework for micro finance has defined micro finance as provision of thrift, credit and other financial services and products for very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards. Micro credit emphasises more on loans while micro finance stresses support services like market assistance, technical assistance, capacity building, insurance, social and cultural programmes and promotion of thrift along with loans. Micro finance programme was launched to improve the standard of living of the poor people. This is directed through Self Help Groups (SHGs) to the poorer section of the society for taking up income-generating activity.

Micro finance institutions have emerged as an effective alternative to formal credit institutions in alleviating poverty with high rate of loan recovery and potential for self-sustainability. Several informal and innovative approaches in financing the poor were promoted in a sustainable manner in developing countries over the past
20 years. It can help to reduce poverty by increasing the poor’s income and purchasing power, enabling them to accumulate assets and thus promote economic growth. It has also been demonstrated to empower poor women by giving them more control over financial services (Nelson and Gupta, 2003).

Prof. Mohammed Yunus, Professor of Economics in Chittagong University of Bangladesh was the founder of micro finance model and “access to credit as human right” forms the basis and foundation for micro finance model in Bangladesh (Jha, 2002). Grameen Bank (GB) of Bangladesh is one of the pioneers among the micro finance institutions in the world. It provides finance to groups formed by poor people, even if the groups have five members to start with. The group deposits its savings and gets loan directly from bank. It helps the banks in screening the borrowers and assuring repayment. The group ensures high loan recovery rate since default by any member jeopardises the other member’s ability to receive future loans. Grameen Bank groups do not develop much skill in financial management among the group members because the group members do not handle their own funds by providing loans to the members. Only 0.50 percent of loan is deducted to develop a group fund. Hence, groups under Grameen Bank model permanently remain dependent on banks or Non-Governmental Organisations (NGOs). However, SHGs are different from Grameen Bank groups, which are independent of banks for their credit requirement.

Around 585 micro finance institutions in Bangladesh had lent a total amount of over US$ 400 million to eight million borrowers mostly in rural areas. It has been followed as a model for the development of micro finance institutions in India and elsewhere. The important feature of this bank was 98 percent recovery rate and provision of credit without any collateral security. Some other successful micro finance institutions in other countries are Bangladesh Rural Advancement Committee (BRAC) of Bangladesh, Bank Raykat Indonesia (BRI) in Indonesia and Bank for Agriculture and Agricultural Co-operatives (BAAC) in Thailand. Micro finance institutions in South East and South Asia remain successful in terms of outreach and performance in delivering credit services to the poorest of the poor women and the rural artisans in rural and urban areas, selection of borrowers and offering cost
effective approaches to formal institutions (Yaron, 1994 and Besley, 1994). The impact of these micro finance institutions on rural households resulted in women holding assets other than land, changes in labour supply, household expenditure (Pitt and Khandker, 1998) and empowerment of women (Kabber, 2001; Satish, 2001 and Meyer, 2001). Moreover, banking linkage results in low transaction cost and good repayment contributing for profitability and reduction in non-performing assets of the banks (Rengarajan, 2001).

One of the major differences between micro finance approach and direct credit approach is that micro finance institutions strive to attain long run sustainability. Of the 20 crore target poor households in the Asia Pacific Region, less than five percent have access to financial services. Outreach of micro finance institutions was less in Nepal, Sri Lanka and negligible in Pakistan, Malaysia and Thailand. World Micro Credit Summit at Washington D.C., February 1997 announced a global target of supporting 100 million of the world's poor families especially the women, with micro credit for self-employment and other financial and business services by the year 2007 (Yunus, 1997; Micro Credit Summit Report, 1997; Morduch, 1999; Nair, 2001 and Patel, 2002). Recent study reported that around 2,931 reporting institutions are working globally on micro finance programme and it has reached about 80.90 million people till the end of 2003 and out of these, 67.70 percent are accounted as the poorest clients in the world (Nair, 2005). Micro finance through SHG-Bank Linkage Programmes is being propagated as an alternative system of credit delivery for the poorest of the poor groups. In other words, micro finance is a programme for the poor and by the poor to mobilise the savings and use them to meet their financial needs (Pandey, 2008). Micro finance includes the entire range of financial services rendered to the poor other than providing credit. It includes skill upgradation and entrepreneurial development which would enable them to overcome poverty (Puhazhendi and Satyasai, 2002 and Banerjee, 2002). Micro finance is a small amount of money with collateral free loan to jointly liable groups in order to foster income-generation and poverty reduction through enhancing self-employment (Chowdhry, 2003).
1.4 EVOLUTION OF SELF HELP GROUPS (SHGs)

Informal agencies oriented to savings and credit functions are not a new phenomenon in India (Desai and Namboodiri, 2001). Some forms of credit operations existed even before 1904 when the Co-operative Credit Society Act was passed. Credit instruments such as Nidhis and Chit funds are popular especially in South India. They have several distinguishing features such as encouraging thrift, mobilising small savings and inculcating the habits of punctuality and planning. The useful role played by these institutions in rural areas as an important source of credit to people with moderate needs was well recognised (Namboodiri and Shiyani, 2001).

After realising the limitations of existing formal system, the obvious need for an efficient alternate credit delivery system was felt in the country. Asia and Pacific Regional Agricultural Credit Association (APRACA) discussed this issue in a workshop conducted during 1986 and it resulted in financing of SHGs. SHGs are considered as an important institution at local or village level, through which members of the group save and lend among themselves. Initially, SHGs was intended to bring together people particularly economically weaker sections and to undertake activities of mutual interest. Later, it was evolved as an institutional arrangement for collective saving, consumption credit as well as integrating social and economic goals among small groups. Now SHG concept is evolved to cater to the needs of the rural poor by providing finance and other services to attain social and economic empowerment especially of rural women. SHGs in India are informal groups comprising mostly of women (90 percent) with 15-20 members in a group.

The SHG approach assumed significance when National Bank for Agriculture and Rural Development (NABARD) recognised the SHGs as people’s institution and canalised micro finance programme through SHGs especially to rural women (Puhazhendi and Satyasai, 2002). NABARD has pioneered the concept and implemented the SHG-Bank Linkage Programme since 1992 and the SHGs have become a predominant component of the Indian financial system. The most significant initiative taken by the Indian banking sector which has the potential to transfer the rural economy is SHG-Bank Linkage Programme. The concept of micro
finance for SHGs has proved that even the poor are worthy of bank loans. Among the real and potential clients of micro finance, women are the most appropriate targeted beneficiaries, since it is argued that the entire household benefits from the loans, when given to women. As part of poverty alleviation measures, the Government of India has implemented self-employment programmes like Swaranajayanti Gram Swarojgar Yojana (SGSY), District Poverty Initiative Programmes, Development of Women and Children in Rural Areas (DWCRA) and SWASHAKTI where, the major emphasis has been laid upon SHG formation, social mobilisation, training and capacity building of women and their access and control over economic resources.

1.4.1 Concept of Self Help Group

The SHGs are voluntary associations of people formed to attain a collective goal. People who are homogeneous with respect to social background, heritage, caste or traditional occupation come together for a common cause to raise and manage resources for the benefit of the group members.

The process by which the group of people with common objectives are facilitated to come together in order to participate in developmental activities i.e., savings, credit, income-generation, etc., is called group formation.

Although the SHGs can be formed for any developmental activity, for the financial institutions to use them as a conduit for banking activities, the SHGs should be practicing thrift and credit and be familiar with money management (Gupta, 1993).

1.4.2 Characteristics of Self Help Groups

- The group should be homogeneous, which may be in terms of heritage, caste, creed, religion, economic status, occupation, activity, common interest and social background in addition to that the members should be in the age group between 18 and 60 years.
- The group should be an ‘Affinity Group’ – affinity may be in terms of like mindedness, mutual trust, confidence and concern for the poor.
- The system of caste, creed and religion is not a bar to SHG formation.
Group should be voluntarily formed with 'self-select' members and there should not be any political interference.

Members should have the mentality to function democratically to have proper repayment ethics and one member in one group only.

Group should democratically select three representatives among themselves.

The responsibilities of the leaders are to convene meetings, maintain records, resolve conflicts among members and deal with banks, government and other agencies.

Leaders should be given designation such as Animator, Representative – I and Representative – II, normally rotated once in a year and the period may be extended if all the members desire and for the benefit of the group.

Meetings should be conducted at regular intervals in a specific place at specified time and penalty may be imposed for late coming and absence.

The conduct of the meetings and resolutions passed should be recorded in the minutes book. Members should decide on regular savings at regular interval and savings should be collected in group meetings. Savings bank account should be opened in the name of the group.

Among the three representatives selected, any two of them should be authorised to operate the bank account and the savings amount should be lent to the needy members. The group should decide on the priority, quantum of loan, repayment period and rate of interest.

After six months of good performance, the group should decide on availing loan from banks. The amount of group corpus and the bank loan should be lent to the members based on their need and repaying capacity. All the members are jointly and severally responsible for the proper utilisation of loan amount and prompt repayment.

Collection of savings, disbursement of loan, repayment of loan and other financial activities should take place only in group meetings.

Inclusion and deletion of members should be recorded properly and all members should participate in group discussions.
On the strength of these features, the functions of the SHGs have been decided.

1.4.3 Functions of Self Help Groups

a) Savings and Thrift

- All SHG members regularly save a small amount. The amount may be small, but the savings have to be regular with a continuous habit pursued by all the members.
- ‘Savings First Credit Later’ should be the motto of every SHG member.
- SHG members take a step towards self-dependence when they start small savings. They learn financial discipline through savings and internal lending.

b) Internal Lending

- The SHGs should use the savings amount for giving loans to members.
- The purpose, the rate of interest, schedule of repayment etc., are to be decided by the group itself.
- Proper accounts have to be kept by the SHGs.

c) Conduct of Meetings

- Regular meetings should be conducted weekly or fortnightly or monthly at scheduled times in specific places.
- In every meeting, the SHG should be encouraged to discuss the problems and find solutions to the problems faced by the members of the group. Individually, the poor people are weak and lack resources to solve their problems. The group can help its members to ease the difficulties and come up with solutions.

d) Availing Bank Loan

- The SHG takes loans from the bank and lends it to its members.
e) Others

- Selection of office bearers
- Rotational leadership
- Evolving norms / bye laws on their own
- Opening of bank account
- Book keeping and maintenance of records
- Credit management
- Linkage with banks, government etc.,
- Awareness programmes / trainings
- Sorting out issues concerning family, women, children, habits etc.,
- Other social activities.

The great merit of SHGs has been their ability to inculcate among members the sound habits of thrift, savings and banking. The strength of SHG-Bank Linkage Programme in mobilising small savings of the poor, utilising funds optionally through collective wisdom, transparent and democratic participation, ensuring excellent repayment through group dynamism and peer pressure and reduction in transaction costs both for the banks and the SHG members has been demonstrated amply in various parts of the country. In its endeavour for economic empowerment of the poor through improved access to bank credit, NABARD collaborates with non-governmental organisations and micro finance institutions in promotion of SHGs and linking them with banks.

Due to the encouraging results of SHGs under Bank Linkage Programme, Reserve Bank of India included financing to SHGs as a mainstream activity of banks under priority sector lending in 1999. This programme was expected to cover over five lakh SHGs with cumulative loans exceeding Rs.1,200 crore reaching over eight million households (Tripathy, 2003; Kroop and Suran, 2002 and Seibel and Dave, 2002). The typical characteristics of SHG are presented in Figure 1.
CONCEPT OF SELF HELP GROUP

A Small Economically Homogeneous and Affinity Group of Rural Poor Voluntarily Coming Together

- To Save Small Amounts Regularly
- To Mutually Agree to Contribute to a Common Fund
- To Meet their Emergency Needs
- Have Simple and Responsive Rules
- Collective Decision-Making
- Conflict Solving through Collective Leadership and Mutual Discussion
- Collateral Free Loans with Terms Decided by the Group
- Market Driven Rate of Interest


FIGURE 1

1.5 WOMEN AND MICRO FINANCE

Women are an integral part of every economy. All round development and harmonious growth of a nation would be possible only when women are considered as equal partners in progress with men. Women’s contribution to national development is crucial. “Women represent 50 percent of population, make up 30 percent of the official labour force, work 60 percent of all working hours but receive only 10 percent of the world’s income and own less than one percent of the world’s property” (Sahay, 1998). Women are deprived of their economic status especially in rural areas and absence of adequate opportunities act as obstacles on the path of women towards economic and social progress (Dwarakanath, 2002).

The status of women can be improved by organising them at the grass root level (Agarwal, 1985). Moreover, women’s access to credit is an important criterion to assess the performance of rural financial institutions. It is based on the premise that women are less liable to default and that they utilise credit in a more prudent way.
The direct access to credit accompanied by savings could become a catalyst for change that brings benefits to rural women as well as their families and communities (Monica and Perrett, 1991). Micro finance provided through SHGs enables the members to satisfy their consumption needs as well as other production needs. The members and leaders are the decision-makers and the decisions and behaviour are guided by agreements (Uphoff, 1992 and Chavan and Kumar, 2002).

Together with access to credit for women, SHGs are important for sustainable rural development and food security. They not only mobilise economic and social capital and regulate their use in a most efficient and sustainable manner, but also encourage people to take a long term view by creating common expectations and a basis for co-operation that goes beyond individual interest. SHGs play a crucial role in implementing policies aimed at eliminating market failures such as asymmetric information, moral hazard and high transaction cost. They ensure joint liability and consequent peer monitoring of member borrowers (Stiglitz, 1990; Singh, 1995 and Chakrabarti, 2003). Micro finance through SHG-Bank Linkage Programme has in recent times come to be recognised and accepted as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor with focus on empowering women.

1.6 INDIAN EXPERIENCE ON MICRO FINANCE

The demonstrative success of micro credit in Bangladesh, made many developing countries, including India, to introduce the concept with modifications. In India, innovative approach in SHG movement was made by NABARD by the introduction of a pilot project in 1991. SHGs are formed either spontaneously or promoted by certain agencies such as government and non-governmental agencies. Under Central Government, Ministry of Urban Employment is involved in the promotion of SHGs among the urban poor. At the State level, District Rural Development Agency (DRDA) and Mahalir Thittam (MATHI) are organising SHGs among rural poor women with the support from NGOs. Apart from this, Nationalised Banks and Regional Rural Banks are also involved in organising SHGs. NGOs are the pioneers in organising SHGs and linking of groups with banks for taking up
income-generating activities (Kumaran, 2001). The growth of SHGs had been in areas where they received support from NGOs. They support not only in the formation of SHGs but also in identifying activities, imparting training and even financial support at the initial stage. Subsequently the SHGs are linked with banks for savings and credit operations. The bank linkage model which evolved as a core strategy could be used by the banking system for increasing its outreach to the poorest of the poor (Nanda, 1999).

In India, Self Employed Women’s Association (SEWA) in Gujarat and Madhya Pradesh, Mysore Resettlement and Development Agency (MYRADA) in Karnataka, Professional Assistance for Development Action (PRADAN) in Rajasthan, Association of Sarva Seva Farms (ASSEFA) in Tamil Nadu, New Public School Society in Uttar Pradesh and other organisations took up the initiative. The credit needs of groups are met in a convenient, flexible and cost effective way.

Presently over 800 NGOs are actively engaged in microfinance intermediation in the country. India has the world’s largest microfinance programme in terms of outreach, benefiting more than 46.96 million poor households, to gain access to microfinance from the formal banking system in 2007-08 (NABARD, 2008). India has committed to bring 2.5 crore of poor women under microfinance programme and to provide about Rs.15,000 crore as loans to ensure reasonably good living conditions to them in the next five years.

1.7 LINKAGE MODELS IN INDIA

The SHG-Bank Linkage Programme supported by NABARD has emerged as the single largest microfinance programme in the world in terms of outreach. Linking of SHGs with banks is approached in three different models in India (Figures 2, 3 and 4).

Model I : NABARD - Bank – SHG (Direct financial assistance to SHG)
Model II : NABARD - Bank – NGO / SHPI* (as a facilitator) – SHG
Model III : NABARD - Bank – NGO / SHPI - (as financial intermediary) – SHG

* SHPI : Self Help Promoting Institution also termed as Non-Governmental Organisation.
The bank linkage aims at intermediation of the SHGs between the banks and the rural poor for cutting down the transaction costs for both banks and their rural clients. The objectives of linkage programme could be:

- To build mutual trust and confidence between the bankers and the rural poor.
- To evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of informal credit system with the strength of formal financial institutions (Nanda, 1994).

1.8. GROWTH OF SHG-BANK LINKAGE

As on 31st March 2008, a total of 50,09,794 SHGs were having savings bank accounts with the banking sector with outstanding savings of Rs.3,785.39 crore as against 41,60,584 SHGs having savings of Rs.3,512.17 crore as on 31st March 2007, thereby having a growth rate of 20.40 percent and 7.80 percent respectively. Thus, more than 7.01 crore poor households were associated with banking agencies under SHG-Bank Linkage Programme. As on 31st March 2008, the Commercial Banks had the maximum share of SHGs’ savings with 28,10,750 SHGs (56 percent) with a savings of Rs.2,077.73 crore (55 percent) followed by Regional Rural Banks with savings bank accounts of 13,86,838 SHGs (27.70 percent) and a savings of Rs.1,166.49 crore (31 percent) and Co-operative Banks having a savings bank accounts of 8,12,206 SHGs (16.20 percent) with a savings of Rs.541.17 crore (14.30 percent).

The SHG-Bank Linkage Programme continued to be the predominant microfinance model in the country. During 2007-08, 5,57,965 new SHGs were credit linked with banks, taking the cumulative number of SHGs credit linked to 3.48 million of which 90 percent of them are women groups. In addition, 5,58,375 existing SHGs received repeated finance during the year 2007-08 amounting to Rs.8,849.26 crore taking the cumulative bank loan disbursed to SHGs upto March 2008 to Rs.26,890.26 crore. During the last nine years (1999-2008) the number of SHGs linked to banks had gone up from 32,995 to 34,77,965 (Figure 5). This shows an impressive annual growth rate at 68 percent. The compound annual growth rate for
the cumulative bank loan to SHGs is even more impressive at 94 percent, close to doubling each year. The faster growth in bank loans to SHGs has led to almost a four-fold increase in the average loans per SHG from Rs.16,816 in 1999-2000 to Rs.63,926 in 2007-08. These figures reflect the outstanding success of the programme. The phenomenal outreach of the programme has enabled more than 46.96 million poor households to gain access to microfinance from the formal banking system, registering a growth of twenty four percent over 2006-07.

Regarding model wise linkage of SHGs, 17 percent, 75 percent and eight percent of SHGs were linked with banks under Models I, II and III respectively (Figure 6). Of the total number of SHGs linked with banks, the Commercial Banks have linked the highest number of SHGs (55 percent) followed by Regional Rural Banks with 31 percent and Co-operative Banks with 14 percent. In terms of loans disbursed to SHGs, 63 percent of total loan amount was disbursed by Commercial Banks followed by Regional Rural Banks, which were 28 percent and Co-operative Banks (9 percent) (Figure 7).

Southern region accounted for 48.20 percent of SHG linkage and 71.40 percent of the total loan disbursed in India, which indicates the predominance of microfinance programme in this region (Figure 8). The details regarding status and progress of SHG-Bank Linkages are given in Appendices 1 to 4.

1.9 STATUS OF MICROFINANCE IN TAMIL NADU

In Tamil Nadu, 6,18,441 SHGs had savings with the banks to the extent of Rs.51,638.86 lakh as on 31st March 2008; out of which 4,51,305 SHGs had savings with the Commercial Banks (Rs.39,838.69 lakh), 69,025 SHGs with the Regional Rural Banks (Rs.3,711.54 lakh) and 98,111 SHGs with the Co-operative Banks (Rs.8,088.63 lakh). During the year 2007-08, 1,81,637 SHGs were given loans to the extent of Rs.1,27,485.25 lakh with a share of Commercial Banks 1,35,750 SHGs (Rs.94,194.70 lakh), Regional Rural Banks with 13,466 SHGs (Rs.14,219.55 lakh) and the Co-operative Banks with 32,421 SHGs (Rs.19,071 lakh).
GROWTH OF SHG – BANK LINKAGE IN INDIA

![Graph showing growth of SHG-Bank linkage in India]

Source: NABARD, Annual Report (2007-08)

FIGURE 5

MODEL WISE LINKAGE OF SHGs IN INDIA

![Pie chart showing model wise linkage of SHGs in India]

Model I: NABARD – Bank – SHG  
Model II: NABARD – Bank – NGO (Facilitator)  
Model III: NABARD – Bank – NGO (Financial Intermediary) – SHG


FIGURE 6
AGENCY WISE SHG – BANK LINKAGE IN INDIA

Source: NABARD, Annual Report (2007-08)

FIGURE 7

REGIONAL SPREAD OF SHG – BANK LINKAGE IN INDIA


FIGURE 8
1.10 IMPACT OF MICRO FINANCE

The experience of micro finance through SHGs in India showed that it was one of the successful interventions in rural credit market. It proved that the poor are bankable (Patel, 2002) and poverty alleviation was possible without subsidies (Khandker, 1998). The studies on micro credit policy in India indicated that group lending through SHGs reduced the lending and transaction cost of public banks (Puhazhendi, 1995 and Zeller et al., 1997) and improved the repayment rates (Karmakar, 1999). The SHG-banking is highly profitable to banks and beneficial to SHGs and their members (Karduck and Seibel, 2004). The SHG lending is more profitable and has lower default rate for banks (less than one percent as compared to 11-12 percent of their regular portfolios) (Basu and Srivastava, 2005). Recovery rates for SHG loans stand above 99 percent (Gupta, 2008 and Rajan, 2009).

The impact was found to be cost effective when SHGs are functioning under non-governmental organisations (Patel, 2002). SHG-Bank linkage project under NABARD was considered as part of the new micro finance emphasising flexibility, responsiveness and sensitivity in providing financial services to the rural poor women (Kaladhar, 1997).

The important features that contributed to the success of SHGs i.e., group lending were socio-economic homogeneity of the group, small size, active participation, voluntary mode, joint liability (Huppi and Feder, 1990), non-political nature, similarities of the needs and problems of group members (Singh, 1995 and Rao, 2002), peer monitoring and group pressure (Wydick, 1999a). Studies related to the impact of micro finance on the economic and social conditions of the members proved that the income, savings and loan had increased due to the intervention of SHG-Bank Linkage Programme (NABARD, 2000; Harper, 2002; Manthri, 2004; Anjugam, 2005; Jerinabi, 2006 and Pandey, 2008).

Micro credit has given women in India an opportunity to become agents of change. Poor women, who are in the forefront of the micro credit movement in the country, use small loans to jumpstart a long chain of activity. Keeping in view the
immense inherent potential in SHGs in mobilising savings and in credit multiplication, the banks are considering micro credit as one of their important marketing avenues. The importance of micro credit has created a universal acceptance for the concept, the world over, declaring the year 2005 as the “International year of Micro Credit”.

In recent years, in its wider dimension micro credit known as micro finance has become a much-favoured intervention for poverty alleviation in the developing countries and least developed countries (Jerinabi, 2008).

The role of micro finance as the most suitable and feasible alternative in accomplishing the goals of growth and poverty alleviation is now well recognised. Micro finance embodies the basic democratic ethos of self-development through a participatory approach. The experiment of micro finance in India through the conduit of SHGs has demonstrated considerable democratic functioning and group dynamism. Their adroitness in assessing and appraising the credit needs of members, their business like functioning and efficiency in recycling the funds often with repayment rates near cent percent have proved that this is among the best alternatives in improving the credit delivery to the poor. Recognising their importance, both the Reserve Bank and NABARD have been spearheading the promotion and linkage of SHGs to the banking system through refinance support and initiating other proactive policies and systems. The programme of micro finance has made rapid strides in India (Gupta, 2008).

1.11 STATEMENT OF THE PROBLEM

In the last two decades, micro finance programme has shown an increasing trend in terms of both linkages and disbursement of loans to the rural poor. Banks are pumping credit enormously because they find it profitable to provide credit to the poor. The evaluation of micro finance institutions has revealed that they are successful in outreach with the clients.

There are empirical evidences which show that the involvement of women associated with the micro finance SHG-Bank Linkage Programmes has been on the
rise, resulting in a greater awareness and confidence amongst them. The various studies conducted proved that the women had developed abundant self-confidence and self-esteem through SHG movement. Not only poverty but also social and gender issues could be tackled effectively through this process. Further the SHGs are fast emerging agencies for the socio-economic development of the rural areas. The government is also keen in raising the standard of living of those rural poor through various developmental schemes. Women’s participation in the SHG-Bank Linkage Programme has paved the way for the speedy development of economic and productive activities.

In general, micro finance is a path towards empowering the most marginalised among the poor to take charge of their life’s requirements. It has been believed that through micro finance, they are better positioned to access not only financial services but also the resources such as group support, accessibility to markets and other related benefits. While micro finance is looked upon as a financially viable approach to address economic vulnerability, it has demonstrated the potential of building up the social capital of the poorest communities. To find out concrete and suitable facts to the above mentioned views, a systematic study was needed. The results of the empirical evidences could be used in making necessary changes in the developmental programmes for women empowerment. Finance is fundamental for any programme and plays a vital role in all developmental activities. Hence a study on “IMPACT OF MICRO FINANCE THROUGH SHG – BANK LINKAGE PROGRAMME ON RURAL WOMEN IN COIMBATORE DISTRICT” was undertaken.

1.12 SCOPE OF THE STUDY

The financing of SHG is a significant factor that contributes to the development of the SHG member’s initiatives. The SHG is a social and an economic organisation that relies on its members’ own resources and gradually supplements its resources from the banking system. It builds on the collective decision-making abilities of the members and their capacity to utilise effectively the available resources for the all round development of the members and the people around them.
The growth and linkage of SHGs are found to be growing in an enormous way at the grass root level, after the introduction of SGSY programme.

In this context, an attempt has been made to analyse the economic impact of the programme on income-generation, savings, employment generation, asset creation of the members and their social empowerment. The study also focuses on the functional pattern of SHGs and their members from the financial perspectives, viz., in terms of savings mobilisation, delivery of credit, management of funds, training, income-generating activities, marketing problems and repayment of loans. The overall result that emerges from the study would provide a scope for formulating the policies relating to the effectiveness of the SHG’s functioning and to enhance its scope to cover more sections of the society under the SHGs’ umbrella.

1.13 OBJECTIVES OF THE STUDY

The objectives of the study are:

1. To understand the organisation, management and financial performance of SHGs in the rural areas of selected blocks in Coimbatore District.
2. To analyse the socio-economic factors influencing the members in the choice of ownership of the micro enterprises.
3. To examine the extent of participation of SHG members in micro financing and
4. To study the impact of micro finance through SHG-Bank Linkage Programme on income, savings, employment generation, asset creation, decision-making skills and overall empowerment of the members.

1.14 HYPOTHESES FRAMED

- There is no functional relationship between the choice of enterprises and socio-economic conditions of the members.
- There is no significant difference in the level of income, savings, personal assets, business assets, indebtedness and decision-making capacity of the members before and after SHG period.
1.15 OPERATIONAL DEFINITIONS

a. **Group-Owned Micro Enterprises (GOME) and Single-Owned Micro Enterprises (SOME):**
   GOME denotes Group-Owned Micro Enterprises. If two or more members join together to start a business within the group and share the returns, it is termed as GOME. SOME denotes Single-Owned Micro Enterprises. If the SHG members initiate micro enterprises on their own without joining with other group members, it is termed as SOME.

b. **Investments:** The amount contributed by the members in the business including their own and borrowed.

c. **Income:** Income denotes income earned through the micro enterprises.

1.16 LIMITATIONS

1. As the study is based on the primary data collected through interview method, the reliability depends on the true response of the SHG office bearers and members. However, adequate care has been taken to elicit true response through cross checks.

2. The study was confined to one district and it may have some limitations of comparison across boundaries. Nevertheless, all efforts have been put forth to make the study as objective as possible.

3. Only women SHGs have been taken for the study though a number of men SHGs also exist.

4. Only those SHG members who are engaged in income-generating activities have been considered for the study.
1.17 ORGANISATION OF THE STUDY

The study is organised under the following five chapters.

Chapter I : INTRODUCTION

Problem focus, scope, objectives, hypotheses and limitations of the study are presented.

Chapter II : REVIEW OF LITERATURE

A brief review of various related studies is presented.

Chapter III : METHODOLOGY

The locale of the study, profile of the study area, sampling design, period of the study and analytical tools used in the study are presented.

Chapter IV : RESULTS AND DISCUSSION

The results obtained from the analysis of data and specific inferences drawn from the results are presented.

Chapter V : SUMMARY AND CONCLUSION

A summary of findings and practically viable suggestions are presented.