CHAPTER III

SHGs: Catalysts for Social Capital Formation in Kerala
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3.1 Introduction

Group life is unavoidable for man as he is by nature a social being. Whatever be his capacity and ability he needs some sort of an associational life which enables him to think and act in a higher perspective. From time immemorial it has been convinced that human beings acquire their individuality and personality only in situations of group life. Advantages of social life, benefits or opportunities of civilized life and possibilities of socio-economic progress have been acquired by human beings only when they came to the understanding of the wider potentialities of group life. Group life provided them the possibilities of mutual help and assistance on the basis of sharing of ideas and views. Therefore it is basically and fundamentally true that group life is the natural corollary of the basic quality of human beings.

Self-Help Groups, though emerged as an innovative mechanism of attracting people into groups, in fact emerged out of the fundamental nature of human beings. In the contemporary socio-political terminology, SHGs are generally viewed as informal organizations which came into being with the objective of providing a common roof for a small number of women to come forward for collective action and enabling them to stand on their own. Now SHGs are widely recognized by the political systems both national and international as an effective means of transforming the rural political system into a civil society capable of generating sufficient amount of social capital necessary for the all-round development of the locality. It becomes a trend almost all over the world to provide a legal sanction to such groups by the governments after understanding the invaluable potentialities of such groups in the process of
attaining progress and development at all levels.

The present chapter is going to deal with the role the SHGs are playing in the formulation of social capital in a theoretical perspective. With this broad aim in mind, the scheme of the chapter is designed in such a way as to provide an insight into the real functioning of SHGs, the various aspects of the system of micro-financing and the concept of social capital. Before concluding, the chapter gives a special reference on the actual experience of the Malanadu Development Society (MDS), which emerged as a pioneer organization meant for SHGs and micro-financing in the districts of Kottayam, Idukki and Pathanamthitta in the state of Kerala to which belong the universe of the present study.

3.2 Self-Help Groups: New Vistas

In the early 1990’s, backed by some prominent non-Government Organisations and Public Sector Financial Institutions, Self-Help Group movement started in the country, more as an experimental and tentative step to explore a new approach. Over the years, the movement gained not only legitimacy, but also generated lot of aspirations and expectations amongst those involved in public policy making. The culmination of this was the Ministry of Rural Development recognizing the poor in rural areas in poverty alleviation programmes. Subsequently, many other departments of government and other institutions have also joined the effort. Today, Self help Group Movement has almost stabilized in the country, though in different degrees. One important aspect is that most of the Self-Help Groups in the country are with women as members of the groups. So Self-Help Group movement can also be called a movement of the women.
Consequent upon nationalisation of commercial banks in 1969, there has been lot of emphasis on poverty alleviation schemes by Government by expansion of rural credit through rural and semi urban branches of commercial banks. But serving of small loans was not cost effective and it is difficult for the bankers to ensure credit flow to the deserving and proper end use of funds in terms of asset creation and monitoring the performance of such assets and eventually recovery. Even financing through co-operative sector has never been a success. The financial Institutions have laid more emphasis on schematic lending and asset creation overlooking consumption requirements of the poor which has led to large scale diversion of funds lent to the poor and created problem of recovery for banks. (Harper 2003:9)

In our country, credit is being provided to the rural poor by a multitude of financial institutions like commercial banks, regional banks, regional rural banks, co-operatives etc., still about 28% of our rural poor approach money lenders, traders, and other informal credit institutions for their credit needs. Further the problem of rural employment and under employment is a massive one. This can only be solved through self-employment. There is no other reason for a craftsman, village artisan and weaver to become an entrepreneur and run his own little enterprise other than the lack of credit facilities. Despite the vast expansion of the formal rural credit outlets, access to credit continues to be difficult for the poor and in particular the rural poor women and dependence of the rural poor on money lenders continues in many areas especially for meeting emergent requirements, such dependence is pronounced in the case of marginal farmers, landless laborours, petty traders and rural artisans belonging to the socially and economically backward classes and tribes whose propensity to save is limited or
too small to be mopped up by banks. The major complaint against formal credit institutions is the denial of timely and adequate credit with simple systems and procedures to suit the rural poor. The formal credit delivery system acceptable to the banks caused inconvenience with its inbuilt formalities viz. documentations, restricted banking hours, loan amount, purpose of loan, proximity factor etc. The search, therefore, was for a new paradigm of micro-finance coupled with inconvenience and simplicity, which would provide easy credit access to the poor and needy among the rural population. Thus, the SHGs concept emerged and has become a conduit of Rural Credit Delivery System. (MoRD 2004:1)

The SHGs concept is a silent revolution taking place in the Rural Credit delivery system in many parts of the world. It is being viewed in the banking parleys world over as the banking for the poor in the 21st century and offers immense scope for reaching the under reached or un-served poor. SHGs emerged in the direction of helping rural poor in forming groups to have their own banks to come out of their grief and to better their living conditions through voluntary participation in thrift and credit whose main focus is on flexibility, transparency and autonomy with sensitivity and responsiveness of the participants.

Self-Help Group, a group of rural poor generally comprising small or marginal farmers, landless agricultural labourers, rural artisans, womenfolk and other micro-entrepreneurs organise themselves to achieve socio-economic development by raising resources at their level initially supplemented in some cases by funds available from NGOs as seed money for issuing small emergency loans, either for consumption or production purposes or for both and linking with bank subsequently with the help of non-governmental organisations (NGOs). It
can be a formal and informal group. The concept underlies the principle of thrift credit and other financial services and products of very small amount to the poor in rural areas to enable them to raise their income level and improve their living standards. (Mosely and David 1998:783)

SHGs of women in India have been recognized as an effective strategy for the empowerment of women in rural as well as urban areas bringing women together from all spheres of life to fight for their rights. The access to credit can be seen as the motivational factor behind the formation of SHGs and the bond that sustains the groups over time. However, SHGs have a potential that goes beyond mere economics of loan management. Once a group has been formed, the credit link is established and the group meets on a regular basis and gradually the groups tend to take up a much wider social role. More precisely the SHGs provide a forum in which people can meet on a regular basis and discus various issues or concerns that the members face in their day-to-day life which itself act as the basic source of social capital generation.

SHGs were initially promoted by some NGOs in response to the failure of formal bank institutions to reach the poor households. The idea was based on prevalence of informal serving and credit groups in villages that enabled poor people to pool their money and lend it out to their members. The innovation of SHGs was in forming groups exclusively of the poor, having small group size and convincing formal banks to lend them (Prasad 2006: 2).

The emergence and successful functioning of many SHGs initiated and supported by NGOs across the country has proved this. However, the major challenge was the risk involved in the repayment of loans. The Grameen Bank
(Bangladesh) came in with a unique solution to this problem. In 1970, the practice of peer group monitoring to reduce the lending risk was introduced as an alternative to physical collateral. In India, SEWA which as the trade union for woman later entered the field of micro credit has, grown into the biggest women’s co-operative bank in the country. In South India, MYRADA was the first NGO to introduce micro-credit in the 1980s (Fisher and Sriram 2002: 53)

3.2.1 Characteristics of SHGs

i. The ideal size of an SHG is 10 to 20 members.

ii. Group need not be registered (Informal Group)

iii. From a family, only one person can become a member of an SHG.

iv. Though, SHG has no gender bias, the group normally consists of either men or women. Mixed groups are generally not preferred.

v. Women’s groups are generally found to perform better. They are better in savings and they usually ensure proper use of loans.

vi. The members should preferably have homogeneous background in terms of socio-economic status, common economic activity and interest. This makes it easier for the members to interact freely with each other.

vii. In the existing SHGs a new member can be inducted with the consent of all existing members. He or she may make up for subscription made by other members since the inception of the group.

viii. All members of SHG may not necessarily be below poverty line but it is desirable to cover more poor.
ix. A minor cannot become a member of SHG.

x. Group should have cohesiveness and collective approach. This is possible only if the members of the group are: (a) living in similar conditions (b) Same kind of livelihood (c) same place of origins (d) similar experience of poverty.

xi. Village Panchayat leaders should not normally be the office bearers or leaders of the SHG

xii. A member of NGO should not become office bearer.

xiii. There should not be any interference from local authorities. They should be autonomous, non-political and have no outside influence. (NABARD 2001:6)

### 3.2.2 Need for SHG Formation

Individually, a poor person tends to be a rather tentative, uncertain in his behaviour but group membership smoothens the rough edges of his behaviour pattern, making him more reliable as a borrower. A poor person feels exposed to all kinds of hazards, he requires guidance and advice from people he knows and can trust. Membership in a group gives him a feeling of protection. Thus, formation of a group would ensure the best participation of the poor in a credit programme.

The approach towards poverty alleviation should be self-help. Others should help the poor to help themselves. It is felt that individual effort is too inadequate to improve their fate. This brings about the necessary for organizing them in a group by which they get the benefit of collective perception, collective decision making and collective implementation of programmes for common
benefits. The organization holds power and provides strength; it can be an ant- 
dote to the helplessness of the poor.

Savings plus credit can then be a good starting point for group formations 
called self-help groups. There is a great incentive to form a group if people feel 
that it is the only way to have access to credit. Smaller groups would also reduce 
the concentration of power in a single person. If the group takes a shape on its 
own, interaction and group dynamics ensure that group solidarity and a group 
‘consciousness’ are fostered.

It is true that SHGs have been fundamentally entities for savings and 
borrowings. But this may have been true of an earlier generation of SHGs. 
Today, in some parts of the country, SHGs are taking up new roles and 
responsibilities that lie at the very core of livelihood security for the poor. 
Indeed, as institutions of social capital, they offer great potential for addressing 
the concerns of the poor. (www.outlookindia.com)

3.2.3 Advantages of SHGs

1. Many of the NGOs through SHGs aim at creating people centered 
organizations which can take up various developmental causes on 
participatory principles. Some of the NGOs even consider SHGs as an 
effective alternative to bigger co-operatives which are ridden with the 
problem of lack of cohesiveness. Being small with mostly socially 
homogeneous membership, the SHGs can attain better cohesiveness which 
can lead to even their economic endurace. Again because of their small
size, SHGs can achieve effective member control over and participation in decision making of the group (Shylendra 1999 :3)

2. The SHGs being promoted by NGOs all over are predominantly for women. The NGOs perceive SHGs as instruments which can help achieve objectives like women’s empowerment and gender equality. By providing access to and control over savings and credit to women through SHGs, the NGOs intend to empower women economically.

3. Further, the SHGs though created primarily for the sake of streamlining the credit delivery for the poor, can help members of the group to collectively organize entrepreneurial activities for production and marketing and for obtaining inputs and such services on better terms using their collective bargaining strength. The SHGs can also be used as channels in providing certain other financial services like insurance to the poor.

4. SHGs have helped the members to develop their leadership qualities which are useful not only within the group but also in their interaction and participation in other institutions. More importantly it has given a large number of members the strength and encouragement to participate in the larger social sphere.

Over all, the SHGs are innovative organizations promoted with multi-pronged goals which range from serving as instruments of financial intermediation to promoting a sense of reciprocity capable of generating social capital among the poor and women.
SHGs have usually two or three elected representatives Viz. President, Secretary and Treasurer who are rotated periodically. The leaders are responsible for convening meetings, resolving conflicts, maintenance of books, operation of bank accounts and cash dealings. All the decisions are taken in open meetings in a participatory way. Cash dealing is carried out during the meetings. The group leaders are trained by NGOs in maintaining books of attendance, minutes of meetings, savings, credit and repayments (Srinivasan and Rao 1996 : 6)

3.3 SHGs in India

Though the promotion of SHGs by external intervention in India is of recent origin, there appears to be a fairly good progress in this regard. It is mainly the NGOs of various hues which have taken keen interest and initiative across the country in promoting savings and credit in SHGs. While there is no readily available data, even going by the information of SHGs linked with nationalized banks, the spread is quite significant. Despite taking varied forms, some commonality however could be observed in the progress and performance of SHGs in the country.

A major feature of the performance of SHGs is their almost exclusive targeting or coverage of the poorer section like small farmers, agricultural labourers, artisans, scheduled castes and tribes. Even within these categories of population, the SHGs have largely targeted the women. This has been possible mainly due to the emphasis of the NGOs promoting SHGs to work mainly with the downtrodden like the tribals, landless and especially the women from these categories.
Most of the SHGs have been able to quite successfully promote regular saving habits even among the poor households. The SHGs of many NGOs have generated big funds out of the regular savings sufficient enough to meet the members demand for loanable funds. Though mostly of compulsory nature, these savings appear to be working towards making SHGs self-reliant besides increasing the member’s stake in their functioning.

With funds mobilized through savings and borrowing from banks, the SHGs are able to meet amazingly diverse loan demands of the members for both production and household purposes. In contrast to the formal agencies, the diversity in loan purpose appears to be their striking feature. Their autonomy and flexibility as well as easy access to information over member’s activities seem to have enabled the SHGs to meet such diverse loan demands of the members. Catering to diverse loan needs also appears to have become the major strength of SHGs in supplanting the borrowings of the poor from private money lenders. At the same time the loan amounts from those SHG are also quite small indicating the dominance of petty borrowers among members of SHGs. (Gupta 2003:68)

Despite not following collateral based lending like formal agencies, the SHGs have been able to register exceedingly high loan recoveries. A combination of factors like peer monitoring, easy and flexible loaning procedures, higher interest rates, effective screening, flexible repayment schedules, etc, seem to have positively influenced the loan recovery performance of SHGs. (Ramakrishna and Krishnamoorthy 2003:52)

The studies on SHGs also reveal that SHGs promoted by NGOs appear to be, from inception, dependent upon the NGOs for their various managerial and
other requirements. From mobilization and motivation of members to training of leaders to maintenance of accounts, to management of funds, the NGOs are actively supporting the SHGs. At the same time as a step towards making the SHGs self-reliant, some of the NGOs whose SHGs have attained maturity have worked out or are in the process of working out strategies for their withdrawal. This includes formation of apex bodies of federation of SHGs for transferring their responsibilities.

Thus, the above review reveals that though the progress of SHG is limited in terms of spread, they certainly seem to hold a good potential in the field of rural credit for the poor. Precisely based on such an assessment, NABARD has an ambitious plan of expanding SHGs all over the country and promote them as an instrument which can supplement the institutional agencies in effectively reaching the rural poor.

3.3.1 **SHGs as the Root of Micro-Finance**

Self Help Groups are voluntary associations of people formed to attain certain collective goals, both economic and social. SHGs are normally formed of the poor coming from rural or semi-urban areas. Each group consists of 10 to 20 members of small and marginal formers, landless, agricultural labourers, rural artisans, women folk, and micro-entrepreneurs. A group would be exclusively male or female, or even mixed. However, majority of SHGs are female groups. The philosophy behind formation of these groups should be ‘self-help’ and ‘peer support’. The initialization of the SHGs can be done by cultivating the habit of micro-savings among members. These will be a great inducement to save, if the members feel that this is a good way to access credit. In other words, generation
of the concept of self-help and formation of self-help groups form the viable route to micro-finance (Nath 2005:13)

The fundamental premise on which modern micro-finance programmes are run are that borrowers are the best judges of their own situation and know best how to save and how to use credit when it is available. In many micro credit systems, savings generated by the members of a peer-lending group are re-lent among the group’s members, creating a second loan portfolio whose interest becomes an additional source of income to the borrowers. Each individual member has the opportunity to choose the income generating activity appropriate to her circumstances. If she/he is involved in group lending, she/he is always fed with constructive criticisms and advice from the members of her/his group. In the way, the programmes can stimulate both individual creativity and participatory planning by a group of peers.

One of the innovations being tried out in the field of rural credit in many developing countries including India to help the rural poor especially women, to gain better access to credit facilities is the attempt to promote micro-level savings and credit self-help groups. The rural poor are being encouraged both by the non-government organizations and formal rural financial institutions to organize themselves in to small solidarity groups which enable them to overcome many of the hassles they face while dealing with the formal credit agencies. In India, the formal rural financial institutions like commercial banks and regional rural banks are into the promotion of SHGs as a matter of NABARD’s [National Bank for Agriculture and Rural Development] new policy of improving the institutional credit delivery system for the rural poor through adopting innovative practices. The NGOs are interested in the concept of SHGs as a part of their strategy
towards creating alternate people’s institutions which can help supplement their developmental activities as well as help attain bigger goals like poverty alleviation and empowerment of women (Shylendra 1999:1)

Access to institutional credit for the poor is considered important from two main angles. The availability of capital may help rural poor acquire new assets and technology leading to higher employment and income generation and productivity enhancement. Second, easy and timely availability of institutional credit may also help them get out of the clutches of the exploitative money lenders which in itself are considered as a better-off situation for them.

Despite many policy thrusts in the past under institutional lending, effective access to credit has remained elusive for the rural poor like small and marginal farmers, landless labourers and artisans. The collateral based lending policy has been one of the major hurdles faced by the poor and assetless. Even specialized institutions created for the poor like the regional rural banks [RRBs] or programmes like Integrated Rural Development Programme [IRDP] implemented for the poor could not succeed fully in reaching and improving the access of the rural poor. While programmes like IRDP were beset with many design related problems leading to leakages; the RRBs continued with the conventional collateral based lending leading to its failure as institutional reform for the rural poor.

The neo-classical economists analyzing the rural financial markets in the developing countries attribute the failure of institutional agencies to reach effectively the poor mainly to the subsidized cheap credit policy. To them, the failure is due to the inability of the institutional agencies to cover higher marginal
costs associated with serving large number of small borrowers who get eliminated in the process.

Innovations like SHGs which help overcome some of the above problems in reaching the rural poor, therefore, become important. The SHGs have acquired policy significance in many developing countries following the success of Grameen Bank of Bangladesh in adopting group based approach to its credit and savings programmes. The peer monitoring which is the result of group liability ensures better loan utilization and recovery. Besides targeting the poor quite effectively, the Grameen Bank has been able to consistently achieve very high recovery rates. Further, the Grameen Bank, through group based approach, has also been able to successfully integrate regular savings into its lending programme.

3.4 Micro-Finance: A New Paradigm

‘Lasting peace cannot be achieved unless large population groups find ways in which to breakout of poverty. Micro-credit is one such means’, said Ole Danbolt Mjøes, Chairman of the Norwegian Nobel Committee (The Hindu, 14th Oct., 2006).

Modern or new paradigm of micro-financial services are reaching perhaps as many as 24 million people world wide. Some are being provided by existing banks, which have added micro-finance to their product portfolio; others by specialized micro-finance institutions (MFIs); and yet others by non-governmental organizations (NGOs) which offer financial products to their clients along with other services such as primary healthcare or education. The
numbers being served are growing rapidly in rich as well as poor countries, and particularly in India, where micro-finance started late, but where the need for it is greater than in any other country in the world. There is no fixed and standardized method of service delivery, nor is there one with a diverse and increasingly competitive ‘industry’. Modern micro-finance is built on a number of findings, which are quite novel to traditional bankers and others, such as the facts that women are better customers than men; that very poor people can save, invest profitably, and repay; and that the provision of financial services to the poor need not be dependent on heavy subsidies. (Harper 2003:9)

The origin of Micro-finance can be historically traced back to 1944 when the co-operative movement was started in Germany by Raiffeisin Society and by Rochdale Pioneers in England. The term Micro-finance actually gained sensitization and generated awareness in the mid 1990s after the World Summit for Social Development was held in Copenhagen in 1995. This summit underscored the significance of access to credit to low income women and vulnerable groups. The issue received a major fillip again in the World Micro-Credit Summit of Washington D.C. in February, 1997. This summit announced a countdown for eradicating poverty of 100 million poorest families, especially women with micro-credit for self employment within the year 2005. Micro-finance now means providing small scale financial services to people who operate very small or micro enterprises, who work in agriculture, fishing and herding, who provide services and other individuals or groups at the local levels of developing countries both rural and urban. (Robinson 1996:157)

Micro-Finance includes within its gamut both micro-credit and micro-savings even though, the terms micro-credit and micro-finance have been used as
synonyms. Micro-actually implies that the size of the savings and credit is very small. Basically, before this term was coined, there were formal systems to provide credit to the rural and semi-urban areas of financial institutions throughout the world and even in India. The effectiveness and success of these systems have been a matter of great debate and research.

The new term ‘micro-finance’ is perceived to be a paradigm shift in the quality of delivery of finance to micro-entrepreneurs. The old paradigm of Micro-finance envisaged providing credit to poor people basically residing in rural and semi-urban areas at subsidized rates of interest through public or Government financial institutions. The new micro-finance continues to target the rural and urban poor households with emphasis on women borrowers, provision of finance for asset creation and on the principle of “Borrower knows best” (Kaladhar 1997:2690). Essential features of modern Micro-finance concept include delivery of credit and then facilities in a convenient and user-friendly way, quick disbursement of small and short loans, maintenance of high recovery rates through peer pressure, incentives of access to larger loans immediately following successful repayment of the first loan, encouraging and accepting savings through group decisions and peer support and linking credit with savings. The new paradigm emphasizes financial intermediation with self-sustainability of institutions and qualitative or quantitative outreach to the poor. (Robinson 1996:160)

Micro-finance also includes within its gamut entire range of financial services and non-financial services. These include entrepreneurship development, capacity building and skill upgradation so as to equip them with the necessary financial and marketing expertise to tackle micro-enterprise problems.
Around the globe, the United Nations Development Programme seeks to promote approaches that focus on reducing human poverty, emphasizing the importance of equity, social inclusion, women’s empowerment and human rights for poverty reduction. A key priority is to make a pivotal difference in reducing extreme poverty and hunger by half within 2015, the first and perhaps the most critical Millennium Development goal of all. Efficient financial systems are vital for the prosperity of a community and nation as a whole. To ensure that poor people are included in the benefits of development, it is necessary that these vast numbers have consistent access to financial services, access that can translate into a key clement of economic growth and poverty alleviation. However, micro-finance is much more than simply an income generation tool. By directly empowering poor people, particularly women, it has become one of the key driving mechanisms towards meeting Millennium Development Goals (Burra, Joy and Rejani 2005:23)

The essential goal is to strengthen and spread the word on available and viable micro-financial services, which offer the possibility to many to improve their own situations through their own efforts. Micro-credit and micro-finance will, however, reach the maximum number of poor clients with the optimal effect only when they are recognized as a national priority, integrated into the financial sector, and complemented by measures for skill development and social mobilization.

Micro-credit as a tool for poverty alleviation and empowerment, particularly of women, has gained credence in development dialogue the world over. The provision of micro-credit involves initiatives on the part of state and non-state organizations in making available very small amounts of credit to poor
clients. There is an acute need among the poor for credit, both for consumption and production, which often forms the deciding line between survival and succumbing to poverty. In other words, credit is sought for basic requirements such as food, as well as income generation activities. The rationale of micro-credit is based on the hypothesis that the poor can be relied upon to return on time the money that they borrow. It has been proved that the poor are capable of thrift and savings.

Nobel laureate Muhammed Yunus called for “a social stock market to list a new variety of business-social business-to do good to people on a no loss, no dividend basis”. He said human beings not only enjoyed making money but were also being good to others. But while doing social business we do not want to lose money, we want to reach out to people. People needed help in the areas of health, education, safe drinking water and cheap medicine. Profit maximization need not be the only aim. Just as in the conventional stock market people looked for the best business to invest in, the social stock market would also have a listing of business in which people could put their money. In social business one was the owner and one could keep it alive oneself, while in philanthropy, one was constantly looking out for money to give others.” (The Hindu, 4th Feb., 2007) Poverty was not created by the poor but by the system and the frame work and the theories taught in classrooms. For a world without poverty we have to go back to those very concepts and free them.

Muhammed Yunus said, “Credit, an important tool to eradicate poverty, was a human right, only one third of the population has access to credit while the rest are not creditworthy for the system. We have left two-thirds of the world’s poor, disadvantaged and without a starting point. The seeds of poverty arose
from institutions, policies and concepts made by people. Micro-credit is a little tool to help unleash the part of energy which is there in every human being. Poor people are like bonsai. They all have the capabilities to rise up like big trees but the problem is they are planted in flower pots. Reaching out to the poorest strata of society, including beggars and the physically challenged, the Bangladesh Grameen bank disbursed about half a billion dollars annually to seven million people through 21000 staff members. Today 90 percent of the poor in Bangladesh have access to micro-credit. ” (The Hindu, 3rd Feb, 2007)

N.G.O.s have become important social organizations in the last two decades. They have changed their focus from relief and rehabilitation in to development work including rural finance, organizing and empowering the poor to access resources and services, advocacy, research and development, infrastructure development, and many others. As an instrument to address poverty, there are increasing empirical evidences that micro-finance is an important vehicle for development. Micro-finance seems to provide impetus to trigger more development. From 7th March to 9th March 2003, the Madurai Symposium known as Conference on Micro-Finance and Development thoroughly discussed the various aspects of Micro-finance. The symposium collectively discussed microfinance, agricultural development and food security, micro-finance and social security, microfinance and non-farm activities, micro-finance and information technology, micro-finance and aids, micro-finance and disability, micro-finance and education, micro-finance and health, micro-finance and joint forest management, micro-finance and tank fed agriculture, micro-finance and watershed development etc.
3.4.1 Micro-Enterprise Finance: Is there a Conflict between Growth and Poverty Alleviation

Micro-enterprise finance has generated enormous enthusiasm among aid donors and government organizations as an instrument for reducing poverty in a manner that is financially self-sustaining. Although something of a consensus has emerged concerning the principles by which such institutions should be designed, however, we know little about their impact. The idea of attempting to reduce poverty in developing countries through the provision of loans by specialized financial institutions to micro enterprises urban and rural has in recent years, generated enthusiasm bordering on hysteria. Politically, it appeals to the left as being redistributive and a diverse approach to alleviate poverty and to the right as facilitating the emergence of an independent self-sustaining “Penny capitalism”. Financially, institutions such as the Grameen Bank of Bangladesh, The BKKs of Indonesia and Bancosol of Bolivia have often achieved higher loan recovery rates than those achieved by commercial banks in the same country in spite of lending to poor, uncollateralized individuals, making it appear that a reliable organizational technology for lending to the poor of developing countries now exists (Mosley and David 1998 :783).

The major comparative studies of micro-finance avoid calculations of poverty impact, often treating the fact that small loans are being made as in itself proof that the poor are being reached and the fact that loans are being repaid as proof that incomes have increased. As a consequence, we remain rather ignorant about the poverty impact of existing microfinance schemes, and a fortiori about the possibilities for extending the “standard technology” outside the experimental target groups so far reached and into the banking sector more generally (Mosely
For a long time, governments, international aid organizations, non-governmental organizations and development banks have invested vast amounts of resources to provide credit to peasants and commercial farmers in order to accelerate development. Meanwhile, the questions of how to best develop effective and efficient rural financial policies has been debated as development perspectives were changing. Since the 1950s, two perspectives have crystallized from which two distinct financial policies have been developed. First, the period 1960s to the early 1980s can be explained by one development model, where subsidised credit policies prevailed under a greater state involvement in the economy. In this period, rural development programmes or special development banks provided credit and technical assistance to small farmers in order to adopt “green revolution” technologies and increase productivity. Also called the ‘productive approach’ this perspective underlies supervised or directed credit policies.

For this perspective to emerge it was assumed that the peasant sector would improve its situation if it had access to credits under ‘soft’ contractual conditions. In this sense, a kind of ‘vicious circle; of poverty would be broken with rural credits. (Burra, Joy and Rajani 2005:32). Consequently, rural credit emerged as an ‘instrument’ aimed at reducing poverty by increasing production and income.

Despite good motivations, policies that emerged from this approach were sectoral and have been unsuccessful, at least in the financial sense, since they lost an inordinate volume of capital with each passing year. With the fiscal crisis,
inflationary and debt problems during the 1980s, this approach was seriously questioned. Fungibility problems, high transaction costs, lack of saving services, low recovery rates, limited access of rural poor, and dependency in government resources constituted the main causes for its decay. Based on a complete break with the previous paradigm and stimulated by the adoption of liberalization polices since the 1980s, a new perspective of rural finance emerged; the ‘financial market’ approach. Subsidized credit evolved in to rural finance, encompassing the financing of both farming and rural non-farm activities, as well as integrating the issue of local savings mobilization. Market interest rates increasingly prevailed, loans became demand driven and institutions were evaluated on a cost-recovery basis. There was a tendency to reduce state intervention by allowing financial markets to play the most dominant role (Beverman and Guasch 1986:1254).

As a response to liberalization policies and the withdrawal of state, a first generation of MFIs emerged. Also called micro-credit institutions (MCIs) they evolved in many legal forms, such as NGOs, credit unions, co-operatives, commercial banks and in combination with state-led programmes. They received the label of ‘micro’ due to the small size of their transactions and savings deposits and ‘finance’ because they were aimed at providing safe and reliable financial services to the poor. MFIs shared several features with the financial market approach. They attempted to spread the financial market sector, including a broad range of services. They also persisted in high repayment results, positive interest rates and the intention of building up sustainable institutions. Since the middle 1980s several MFIs like Banco Sol in Bolivia, K-Rep in Kenya, BRI in Indonesia and Grameen Bank-now in about hundred countries-emerged and
expanded in developing countries (Martin 2003:648)

Since the late 1990s, a second generation of MFIs (also called innovative financial institutions) seems to be emerging. In this approach, a re-regulation of financial services is believed to contribute at re-conciliating efficiency objectives with welfare concerns; or productive and re-distributive impact with financial sustainability (Mosely and David 1996:10).

3.5 Genesis of Micro-Finance in India

The genesis and development of the system of micro-finance in India needs to be looked upon from the point of view of its emergence in relation to the formal and informal sectors.

3.5.1 Developments in the Formal Sector

The enactment of the Co-operative Credit Societies Act in 1904 could be considered as the beginning of micro-finance in India. The co-operative credit system was established primarily to combat the problems of usury and indebtedness of the farmers to moneylenders and to bring together small means for promoting thrift and mutual help for development. The co-operative credit agencies included the primary agriculture credit society at the village level, which was the basic unit in the short-term credit structure and were federated in to the central co-operative banks at the district level. These were, in turn, federated at the state level as apex co-operative banks (Nath 2005:17). After independence, the government of India appointed a number of committees to review the arrangements for institutional credit delivery. The recommendations
of these committees, therefore dealt more with the need for streamlining the flow of credit to the rural sectors, mainly agriculture sector.

3.5.1 Nationalisation of Banks

After the nationalization of commercial banks in 1969, the country witnessed not only rapid expansion of the banking network in the rural and semi-urban areas but also an increased flow of credit to the priority sectors like agriculture, small scale, tiny, cottage, and village industries. The induction of the commercial banks into the realm of rural credit also ensured that a larger proportion of the rural poor, especially marginal and small farmers, rural artisans, had access to banking facilities.

3.5.1.2 Regional Rural Banks

The working group on Rural Banks, appointed by the Government of India in 1975, recommended the setting up of state sponsored, regionally based and rural oriented banks called Regional Rural Banks. The RRBs were to be established with the major objective of developing the rural economy by providing credit and other facilities to agricultural, trade, industry and other productive activities in the rural areas particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs (Tiwari 1999:9)

3.5.1.3 Establishment of NABARD

In 1979, the RBI, at the instance of the government of India, constituted a committee to review arrangements for Agriculture and Rural Development under the chairmanship of B. Shivaraman. Stressing the need to provide the rural poor
with access to institutional credit, the committee in its report stated “the lack of assets coupled with lending policies based on assets lead to reduced opportunities of the rural poor to avail of credit facilities for improving their incomes. Thus rural poverty is also the result of an inequitable access to resources and lack of institutional backing. The former requires transfer of capital resources to give them a better base for production and the latter requires a more realistic credit policy and comprehensive infrastructure. The capital base and productive capacity of the rural poor will have to be improved and strengthened with the aid of Institutional support”. On the need to adopt innovations in credit delivery, the committee observed, “the normal criterion of banking that a family of the poor is not credit worthy will have to give place to the concept that many of the poor can be brought in to the mainstream of economic development through credit worthy programmes. National Bank of Agriculture and Rural Development was founded in June 1982 on the recommendations of the committee for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of the integrated rural development. These observations of the committee have been the guiding principles for the National Bank in its quest for innovations to improve the access of the institutional credit for the poor. Prior to the formation of the National Bank, the emphasis in financing the weaker sections was largely confined to the agricultural sector due to the national priority of attaining self-sufficiency in food production. Since its inception in 1982, National Bank’s efforts have been directed towards extending the coverage of weaker sections in other sub-sectors of the rural economy.

3.5.1.4 Integrated Rural Development Programme

The focus of the direct attack on poverty got a further impetus when the
GOI combined the Command Area Development, Drought Prone Areas Programme, into a new programme called the Integrated Rural Development Programme in 1978-79 (Varma 1996:3). IRDP, which was initially taken up in 2300 blocks, was extended to all the blocks of the country on 2nd October 1980. The main thrust of the programme was to help the poorest of the poor in rural areas. The target groups under the programme are the rural poor belonging to the families below poverty line and comprise small and marginal farmers, agricultural labourers, rural artisans, etc., whose annual family income does not exceed the poverty line of Rs.11000 at 1991-92 prices.

3.5.1.5 Swarnjayanti Gram Swarozgar Yojana (SGSY)

Past experience showed that due to the multiplicity of programmes, the emphasis was on achieving the targets of the individual programmes rather than focusing on the core issue of achieving sustainable income generation for the poor. Lack of co-ordination among the implementing agencies also diluted the efficacy of the programmes. A series of evaluation studies conducted by various agencies documented several weaknesses in its implementation. On the recommendations of the Hashim Committee, the Government of India restructured all the poverty alleviation programmes under one umbrella scheme “Swarnajayanti Gram Swarozagar Yojana” (SGSY) from 1st April 1999. (Nath 2003:43).

The objective of the SGSY is to bring the assisted poor families above the poverty line in three years, by providing them with income generating assets through a mix of bank credit and government subsidy to ensure that the family has a monthly income of at least Rs.2000. The focus of the scheme will be on
group approach and organizing the poor into Self Help Groups (SHGs).

3.5.2 Developments in the Informal Sector

Development interventions in the rural areas by Voluntary Agencies (VAs) or, as they came to be known later, Non-Governmental Organizations [NGOs] dates back the pre-independence days. These interventions emanated from the prevailing situation of mass poverty, due to high levels of illiteracy and social discrimination as well as the inability of the official delivery mechanism to reach the benefits of social and economic development to the weaker sections of the society. The role of VAs or NGOs, which was initially confined to the social aspects of development, was later on enlarged to help the poor and weaker sections of the rural society in their economic pursuits. This foray by the VAs or NGOs into the economic development could also be attributed to the inability of the formal credit institutions to cover a large section of the rural poor, despite the expansion in the network of the bank branches in the rural areas.

3.5.3 Linkage between Formal and Informal Sectors

The National Bank’s involvement with Self-Help Groups came about in 1986, when the sixth General Assembly of APRACA at Kathamndu in Nepal considered a proposal for promotion of linkage between banking institutions and self-help groups in rural savings, mobilization and credit delivery to the rural poor. As a consequence, NABARD conducted an All India Survey of existing SHGs, operating in the country and gained insights into the dynamics of group formations and their operations, the key role of the NGOs/VAs in organizing and promoting SHGs. It organized workshops and National consultations to share the experiences and to chalk out the future strategy for specialised micro –finance programmes. Based on the feed back obtained, NABARD
launched a pilot project in 1992 for linking 500 SHGs with commercial banks. Linking of SHGs with banks has evolved as a cost effective and transparent supplementary credit system for reaching the unreached rural poor with advantage to both the banks and the rural poor. Besides building mutual trust and confidence between the banks and the rural poor, the linkage is expected to promote thrift and inculcate credit discipline among the rural poor (Nanda 1998:23)

In any case, over the past few years at least the idea has caught on many banks, including the bigger foreign banks which are in to micro-credit in a big way. Quite significantly all these banks are viewing micro-lending as a commercial proposition, one in which they can earn money. There have been some successful attempts in different parts of the country to dispense small loans to groups of people including women borrowers. But impressive as these attempts were, they have not been translated in to national level programmes worthy of emulation by other banks or, more importantly, adopted by policy makers (Narasimham 2006:16).

3.6 SHGs in Kerala

The last fifteen years have witnessed an unprecedented increase in the formation of SHGs all over Kerala. Women’s organizations tied to political parties have not been able to address women’s survival related problem especially at the grass-root level in Kerala with any modicum of success. The women who are associated with these political outfits find themselves not only marginalised in politics but also are lagging behind in meeting some of their basic needs. The effect of globalization on the lives of poor women also is an additional factor accounting for the rise of these groups. The gradual withdrawal
of subsidies on food and other essential items and the privatization of certain aspects of social services seem to have affected the family budget of many women and the self-help groups are seen as means to mitigate the burden. NGOs had also been instrumental in the formation of self help groups.

The active support of the NABARD was one important factor that played a key role in the formation of these groups in the early period. There are so many other NGOs which have played a prominent role in the formations and progress of SHGs in Kerala (Appendix:I). Perhaps the most important factor that led to the rise of these groups is the provision of ten percent of the total plan fund that each Panchayat at all the three tiers is required to spend on projects exclusively meant for women. In the absence of suitable projects, many of the self-help groups have been entrusted with money to launch women specific projects. The introduction of Kudumbasree and the provision in the Swarnjayanthi Grama Swarozagar Yojana ie. group approach to rural development which will be the thrust during the Ninth plan, have all given a fillip to the genesis of self-help groups in Kerala.

Unlike in other parts of the country, where non-governmental organizations have been in the forefront of SHG formation, in Kerala the intervening role of the gram a panchayats, has been the major factor accounting for the rise of these groups on an extensive scale.

The success of SEWA of Ahamadabad, MYRADA of Mysore, and several others experiments in different other parts of the country, has attracted many states for replicating this strategy. It has been widely accepted that the programme, if taken up and implemented in the right sense, would be very
effective in poverty eradication, women empowerment and formation of social capital. SHGs in Kerala have made significant strides in this field. Earlier efforts made by some NGOs were confined mostly to a few areas or remained rather scattered, making the concept relatively unknown and non-replicable. Historically, many church based development institutions in Kerala have been promoting credit unions. A credit union is a typical system, which organizes the poor into large groups of 150 to 200 members and pools their meager savings for their common benefit. Here also the basic objective has been to help the poor meet emergent needs and come out of the clutches of money lenders. These credit unions lacked the participatory decision making found in SHGs. During the late 1980s this drawback was realized and under the guidance of NABARD many voluntary agencies reorganized their credit unions into smaller and more effective SHGs. Moreover, there seemed to have a notable change in the attitudes of the banks in the sense that they are ready to offer financial assistance to the SHGs with a view to enhancing their thrift-credit system. (Appendix:II)

NGOs have been identified as the best promotional agency because of their long experience in working with local people. The success stories reveal their contribution towards nurturing and making women groups self-reliant. NGOs under the guidance of NABARD have promoted groups, some of which have reached a self-reliant stage. It needs to be high-lighted that these groups still remain apolitical, effectively responding to the needs of the community without actually becoming bureaucratic.

3.6.1 Community Development Society (CDS): A New Strategy

The CDS strategy, a modified version of SHG was introduced in 1993 as
part of implementation of the centrally sponsored Urban Basic Services for Poor [UBSP] and UNICEF assisted Community Based Nutrition Programme [CBNP]. Women from poor families identified through a transparent process using the nine point non-economic criteria were organized into Neighborhood groups of 15-40 families. The nine factors identified are: scheduled castes and tribes, only one or more adult family members being employed, Kutcha or thatched house, lack of household sanitary latrines, non-availability of drinking water, family having two meals or less per day, regular use of alcohol by a family member and family having at least one child below the age of five years.

The NHGs organized at the grass roots level are federated democratically into Area Development Society [ADS] at ward level and these are further federated into CDS, which would be a registered body at the district level. The entire three tier structure is envisaged as an extension of the Panchayath Raj system providing a support system as well as a delivery mechanism for the unified implementation of all poverty eradication programmes. The approach is relied on fusion of formal and informal sectors for the development of the below-poverty-line families with focus on women and children. Departing from the traditional approach of heavily subsidized support, it aims at self-help. Probably the most important activity that is being implemented through the CDS system is the formation of thrift and credit societies (TCS).

The success of Alappuzha CDS and its smooth replication in Malappuram inspired the state government for CDS expansion throughout Kerala. The Rural Poverty Eradication Mission known as Kudumbasree is the outcome of this and it envisages eradication of poverty from the state over a period of 10 years. This is being done by organizing poor women into group and empowering them.
3.7 Poverty Scenario in Kerala

Kerala’s recent initiatives in democratic decentralization have brought to the fore issues related to poverty and the role of different tiers of local government in poverty reduction. As participatory micro-level planning is being institutionalized, the need for a correct estimation of poverty and the question of a socially acceptable method for identifying the poor has assumed importance.

3.7.1 Poverty Assessment

3.7.1.1 Poverty Assessment through Sample Surveys

Like in the rest of the country NSS consumer Expenditure data have been used to identify the extent of poverty in the state. It is based on this assessment that central government funds for various anti-poverty programmes are released to the state (Economic Review, 2007:381). From the 61st round of the National Survey conducted in 2004-05, it is estimated that all India Poverty in 2004-05 was 28.7 percent in rural areas, 25.9 percent in Urban areas and 27.9% overall. But in Kerala it was 13.2% in rural areas and 20.6 percent in urban areas during 2004-05.

3.7.1.2 Other Measures Related to Poverty Assessment

The Human Poverty India (HPI) using the UNDP methodology is 15 for Kerala whereas it is 36.7 for the whole country. Similarly, the Human Development Index for Kerala has been calculated as 0.638 whereas it is only 0.451 for the whole country. The HDI and HPI values of Kerala and some Asian countries make interesting comparison.
### TABLE 3.1

**HDI and HPI Values for Kerala and Some Asian Countries**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kerala</td>
<td>0.638</td>
<td>15.0</td>
</tr>
<tr>
<td>India</td>
<td>0.451</td>
<td>36.7</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.716</td>
<td>20.7</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.838</td>
<td>11.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.834</td>
<td>N.A.</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.679</td>
<td>20.8</td>
</tr>
<tr>
<td>China</td>
<td>0.650</td>
<td>17.5</td>
</tr>
</tbody>
</table>


### 3.7.1.3.1 Innovative Initiatives in Assessment of Poverty

In the early 90s, a break-through was made in the assessment of poverty in a pilot project on Urban Basic Services Programme in Alleppey town, which was supported by UNICEF. It was felt that the conventional head count system was too much remote from the people and that a transparent index based on well recognised features of poverty would be more acceptable. Trained community Volunteers and ICDS volunteers in seven wards of Alleppey conducted a survey of 5728 families. The analysis of the survey leads to the development of a set of nine criteria for identifying the most vulnerable families who were classified as risk families. The risk index or poverty index was formulated consisting of the above mentioned nine non-monitory factors. (Economic Review, 2007:383)
3.7.2 Poverty Reduction Strategies

3.7.2.1 People’s Planning

A government spearheading campaign to mobilise lakhs of people for planning may be unheard in other states of India. However, this is what happened in Kerala, where the investment made in human, material and epistemic terms for the cause of participatory planning for poverty reductions does not perhaps have parallels anywhere in the developing world. This is in some ways an example of the operation of state-society synergy for poverty reduction. The Left Front government came to power in May 1996, which coincided with the preparatory period of the ninth plan of the state. Seizing the opportunity, the state government announced the ninth plan of the state as “people’s plan” and took a significant decision to devolve 35 to 40 percent of the development funds of the state to the three-tier panchayats and municipalities, primarily on the basis of the criterion of population, with due weight given to Panchayats having sizeable population belonging to SC and ST. The campaign sought to address the theme of poverty, the unsustainability of the enviable gains made by Kerala in the social sector and the increasing stagnation in the productive sectors by means of participatory planning. The process started with sector-based needs identification in the grama sabhas. Special provisions were given in the grama sabha to discuss poverty and poverty-related issues. [Chathukulam, 2003:72]

3.7.2.2 Neighbourhood Groups

One of the direct results of the “People’s Planning” exercise was the unprecedented growth registered in the number of rural institutions. These new
associational forms were created for meeting certain requirements of the planning exercise. Institutions like Task Forces and Beneficiary committees were created for the purpose of project formulation and implementation respectively. In addition many panchayats have neighbourhood groups (NHGs) known as Ayalkkottam. Each NHG has a number of self-help groups of women functioning within it. In addition, new institutions which almost like a core committee of the grama sabha known as ward committee also have been formed in some Panchayaths.

3.7.3 New Strategy of Poverty Reduction

The failure of anti-poverty programmes in the past can be attributed to the fixation of target, lack of involvement of beneficiaries, absence of poor understanding of poverty and its causes and manifestations, the top down approach and the over dependence on bureaucracy. Kerala is seeking to achieve a break through in participatory poverty reduction through Kudumbasree, which is implemented by the State Poverty Eradication Mission through the local governments. All urban, local governments and village panchayats have been included in Kudumbasree.

3.7.3.1. Kudumbasree Programmes in Rural Areas.

The South Indian state of Kerala has long been held as a model of development. It is often cited as an example of what public action and mass mobilization can achieve in conjunction with responsive democratic governments. Caste reform movements of the 19th and 20th centuries, and peasant and labour movements in the second half of the 20th century, led to widespread
radical reforms. Despite its poverty, Kerala has achieved human development results that are outstanding in comparison with the rest of India. Gender equality gains [including inclusion of women in education] helped reduce fertility rates and improve maternal and child health. But advances in social development failed to spur economic development. Poverty is a crucial problem facing all developing and underdeveloped countries in the modern world. It is felt that the problem of poverty can be solved through a concerted effort by the state. Feasible opportunities can be provided to the deprived and the destitute by means of lending asset creating facilities. Women in households are the cruellest victims of deprivation and destitution. So any poverty eradication programmes must aim at improving the standard of living and environment of the women communities. It is through creating livelihood opportunities for women that they can be archived and the micro credit and self-help groupings are a better source for improving the standard of living of people.

Inspired by the innovations in participatory development in the early and mid-1990s the Government of Kerala, India, initiated Kudumbasree in 1998 to alleviate poverty in the state by 2008 by empowering women through collective actions. (Kudumbasree State Mission, 2008:8) The Government of Kerala has introduced a novel scheme of poverty eradication based on micro-finance namely Kudumbasree. The scheme aims at improving the living levels of the poor women in rural and urban areas. It seeks to bring the poor women folks together to form the grass root organizations to help enhance their economic security. The projects aim at removing poverty among rural women households through setting up of micro-credit and productive enterprises. The activities such as micro-credit and micro- enterprises under the scheme were undertaken by the locally formed
Community Development societies consisting of rural households.

The locally formed Community Development Societies consisting of poor women are undertaking the activities such as micro-credit and micro-enterprises. The *Kudumbashree* programme of Kerala is a globally acknowledged model of poverty eradication and women empowerment at grass-roots level with the gender environment and democratic process components intersecting each other successfully. The programme has been found very effective since women got involved in the activities. Women who were homebound and unable to interact with outsiders earlier are found to be more confident and articulate decision makers.

The Kerala State Poverty Eradication Mission in 1992 on an experimental basis launched an alternative way to identify the poor and to redefine the nature and causes of poverty apart from the conventional methods based on income. This new method was launched in seven wards of Alappuzha municipality. The successful CDS model was replicated in the various districts of the state with the support of UNICEF and national government. Through this Act, Community Development Society system was implemented in all urban local bodies of the state. The phenomenal success of Alappuzha model encouraged the government to extend the CDS schemes to other districts under the name of the *Kudumbasree* programme. Its object is to “eradicate absolute poverty in ten years through concerted community action under the leadership of Local Self Governments, by facilitating organization of the poor combining self-help groups to tackle the multiple dimension and manifestation of poverty. *Kudumbasree* is a women centered programme to enable and enlighten the poor women of Kerala to realize their potential and strengthen them to contribute to the development of their
family, community and in turn society as a whole. The mission encourages the resourcefulness of poor women in terms of skills, entrepreneurship and managerial capabilities make them empowered. (www.kudumbasree.org)

3.7.3.2. Community Based Organizations for the Poor

The Kudumbasree programme covered the entire rural areas in the state and formed 168157 NHGs, 15832 ADS and 999 CDS [Economic Review, 2007:385] Community Based Organization, which has a coverage of 3243395 families, mobilized a sum of Rs.8480312526 crores as Thrift fund and disbursed credit to the tune of Rs.21861166334 crores to its members.(Appendix:III)

3.7.3.3 Linkage Banking

The linkage banking programme was launched during 2002-2003 after proper grading of the NHGs as per NABARD norms. During 2002-2003 and up to 31st October, 2007, 108562 NHGs were graded and 86805 were linked with banks. A sum of Rs.48385.98 Lakh has been made available to the NHGs as loan (Appendix:IV)

3.7.3.4. Lease Land Farming

The Lease Land Farming Programme, initiated in the rural areas during the year 2002-2003 has been successfully extended to 820 Grama Panchayaths [Economic Review, 2007:385]. In these Panchayaths 27316 NHGs consisting of 223779 families have participated in the programme. During the year 2006-2007, through this programme 46782.36 acres of land have been brought under cultivation [Appendix:V]
3.7.3.5 Bala Sabha

During 2004-05, Bala Sabhas that intends to prevent intergenerational transmission of poverty, has been extended to the rural area also. So far 41872 Bala Sabhas have been formed with 728978 children [Appendix:VI]

3.7.3.6 Micro-Enterprises in Rural Areas

The state budget provides support to set up micro-enterprises of women. It has been set up in the pattern of the SGSY. So far 3165 groups of micro-enterprises of women have been set up in the rural areas. The activities are diverse and innovative in nature. Apart from this, about 1155 individual enterprises are also functioning in the rural areas (Appendies: VII, VIII)

3.7.3.7 Self-sufficient, Self-reliant and Sustainable CDS

The scaling up of kudumbasree programme to rural areas has been completed and the CDS system is in vogue in grama panchayats. But still there is a lot to go to achieve the end goal of kudumbasree. Therefore, it has been decided to develop a few panchayats, at least one from each district as a model in poverty alleviation with the objective as total eradication of poverty, the rural programme self-sufficient, self-reliant and sustainable CDS has been launched [Economic Review, 2007: 386].

3.8 Role of Malanadu Development Society in Social Capital Generation

MDS came into being as a pioneer voluntary association with the wider objective of attaining sustainable and integrated development of the people of
Kottayam, Idukki and Pathanamthitta districts of the State of Kerala. It acts as the official social work organization of the Catholic Diocese of Kanjirappally and assumed the status of a legal entity with its registration on 18th July, 1977 under the Travancore-Cochin Literary Scientific and Charitable Societies Act, XII of 1955. It is considered as a pioneer NGO aimed at pooling the resources both natural and human with a view to attaining maximum progress and development to the people in the region (MDS Profile 1995:6)

M.DS envisioned that development itself needs to be re-defined. It believes that development has to be sustainable in the long run. From the very inception it has not been ready to compromise the chances of the survival of the future generation for the comforts of the present generation. Therefore, the concept of sustainability has been the essence of the developmental vision of the MDS. The specific objective of the MDS is to enhance the quality of life of its beneficiaries through decentralized institution building, participatory development process and application of sustainable technologies respecting our environment culture and heritage.

The structural arrangement of the Malanadu Developmental Society needs a special reference for it functions on the basis of the micro-level units constituted at the grass-roots level as the base. Here the noteworthy point is that the MDS showed its farsightedness in establishing an organization giving primary attention to the micro units before the general public or formal governmental institutions thought in such a direction. (MDS Annual Report: 2001)

The MDS has a well-defined net work of numerous grass-roots level self-help groups on the basis of which the whole structure of the organization is
erected. Actually, the different aspects of the functions of the MDS are carried on through the active performance of a number of SHGs, each of which is constituted by a handful of women as members. The experiences with regard to the functioning and effectiveness of SHGs are highly positive. It spearheads different types of activities for the purpose of creating a healthy collective life among the members of the group. The major activities include thrift and credit habits among the members, regular trainings on leadership, participatory process, community organization, institution building, decentralization, entrepreneurship development for the members, awareness building campaigns, Village development planning and small scale industries (M.DS Annual Report 2006). All the above mentioned activities are initiated and implemented by the MDS on the assumption that such activities prompt the members to develop a feeling of unity and integrity among them either directly or indirectly.

3.9 A Profile of SHGs

The present study concentrates on the nature and functioning of SHGs in the selected centers of MDS, which is the universe of the research. Here it is considered as highly valuable to provide some of the relevant aspects of the SHGs which may highlight the real essence of the nature and working of the groups. Though the detailed empirical analysis of the SHGs in terms of their role in the process of social capital generation is being carried on in the ensuing chapter, a basic information relating to the number of SHGs, their average size, age, distance to the link bank and the details of their financial performance has been of great significance particularly taking in to consideration the fact that rural women were by and large attracted to the SHGs due to financial interest. It is equally true that once SHGs emerged and began to function in full swing
their economic interest may be overridden by the social interest which in turn helps the process of social capital generation. The following table is intended for the same purpose.

**TABLE 3.2**

**A Profile of SHGs**

<table>
<thead>
<tr>
<th>Area</th>
<th>No of SHGs</th>
<th>Average size of SHGs</th>
<th>Average age of SHGs</th>
<th>Average distance from village to bank</th>
<th>Individual monthly savings</th>
<th>Amount of F.D. in bank</th>
<th>Idle Fund</th>
<th>Average amount of loan per member</th>
<th>Average time to taken to sanction the loan</th>
<th>Periodical audit</th>
<th>Regular in loan repayment</th>
<th>Regular in loan repayment</th>
<th>Default groups</th>
<th>Loan adequate</th>
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<td>4 Km</td>
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<td>Nil</td>
<td>Double</td>
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<td>Yes</td>
<td>Yes</td>
<td>Regular</td>
<td>Nil</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Panackachira</td>
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<td>15</td>
<td>8</td>
<td>7 Km</td>
<td>Nil</td>
<td>Nil</td>
<td>Double</td>
<td>1 week</td>
<td>Yes</td>
<td>Yes</td>
<td>Regular</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<td>10</td>
<td>14</td>
<td>8</td>
<td>1 km</td>
<td>Nominal</td>
<td>Nil</td>
<td>Double</td>
<td>1 week</td>
<td>Yes</td>
<td>Yes</td>
<td>Regular</td>
<td>Nil</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Source: Records from the various SHGs*

With regard to the general profile of the SHGs, the table shows that there are 36 SHGs consisting of the three regions of the study. As per the figures in the table the average size of SHGs is 15 for both Thampalakkadu and Panackachira centers whereas it is 14 with regard to the Paloorkavu region. Coming to the variable of average age of SHGs, the table shows that it is 11 in the case of Thampalakkadu and 8 each in the case of Panackachira and Paloorkavu regions. Each SHG has to be connected with a link bank and it is informed that the link bank for Thampalakkadu is the North Malabar Grameen Bank and its average distance is 4kms and the link bank of Panackachira is the State Bank of India and its average distance is 7kms and that of Paloorkavu is
the *Paloorkkavu* Service Co-operative Bank with an average distance of 1km. It is evident from the table that the SHGs in the entire three regions have been functioning with an individual monthly savings of Rs.40 each. It is further noticeable that the SHGs belonging to the *Thampakkadu* and *Panackachira* Regions have no fixed deposit, whereas the *Paloorkavu* Region is having a negligible amount of fixed deposit in the bank. The table indicates that there is practically no idle fund relating to the financial activities of SHGs in all the three regions whereas the average amount of loan available to the SHG members shall be fixed at two times of the actual amount of their savings in the SHGs. The table again shows that the average processing time taken for the sanction of loans has been not more than one week. It is shown in the table that there has been auditing on a regular basis from the mother agency of MDS with regard to the financial transactions of SHGs in all the three regions. The table further shows that the members are regular in repaying their loans taken from the SHGs and therefore there will be no defaulters in this regard. A notable information of the table is that all the members in all the three regions expressed the same view that the sanctioned loan is more or less adequate enough to meet their diverse demands which clearly indicates that all the members are fully satisfied with the financial services offered by their respective SHGs.

All the groups met at a previously decided place and time. Every week, meetings are held in time. Most of the meetings are held on Sundays. The meeting starts with prayer, welcome speech, report of the secretary, discussion based on the report and activities of the week, and other common issue, presentation and discussion on that, receipt of savings, disbursal of loans, vote of thanks and national anthem. In more than 70% of the SHGs, the meeting venue
is rotated among the member households. Only 20% of SHGs always met in a fixed place. The remaining, are held in the houses of the office bearers. There is a tendency to exclude those who fail to participate consecutively in a number of meetings. Participation rate is very high (Interview, 13th December 2006.)

3.10 **Role of SHGs in the Formation of Social Capital in Kerala**

To organize is the basis of any social or group life of human beings. Organisations of any kind automatically inculcate a feeling of adjustment among its members in the sense that it stands for the realization of common good instead of serving the particular interests of single individuals. Therefore, such organizations irrespective of their nature, structure and activities, do influence the collective life of the society either directly or indirectly.

Voluntary organizations are of different types, coming into being with varied interest and moving towards different directions. Taking into consideration the different voluntary organizations such as Lions Club, Rotary club, Y.M.C.A., Jaycees Y.W.C.A., Inner Wheel, Grandh Sala Sangh etc. have a common feature in the sense that they are more or less under the control and domination of the upper strata of the society. Here what is significant especially from the angle of the present study is to assess how far these organizations are helpful in the process of development particularly at the rural level. On the basis of the experience there are doubts as to the effectiveness of such organizations in providing meaningful contributions towards the wider objective of rural development. It was mainly because of the fact that such organizations emerged in no way exclusively meant for the purpose of rural development. However it is unrealistic to underestimate such organizations for they do positively influence
the different sections of the society in one way or the other. Here it is to be noticed that such voluntary organizations have helped to a reasonable extent in creating a sense of collective life at least among the members of the respective organizations. The accumulation of such a feeling of collective life itself may be treated as a positive starting point towards generating some sort of social capital. But the fact is that due to various reasons they could not succeed in connecting the social capital towards the process of rural development.

It seems that the main reason for the failure of voluntary organizations in making use of the social capital which they generated in whatever amount to the broad objective of rural development may be that such organizations have been controlled by the socially and economically affluent sections of the society.

At this point of discussion we should bear in mind that rural development on the basis of social capital can be achieved only with the help of organizations which emerged out of the desires and aspirations of the rural people themselves. Here what is basically required is that whatever be the nature and other aspects of organizations, they should take the rural people, for whom they exist and function, into confidence.

Here comes the role of SHGs as a meaningful agent in the formation and accumulation of social capital towards the final goal of rural development. The study of the formation of social capital through SHGs in Kerala is highly relevant topic especially in the contemporary socio-economic and political environment in Kerala. It is generally accepted that the emergence of SHGs as a forum for collective action especially among rural people promoted to a large extent, the formation of social capital in the true sense of the term, though certain elements
or components of the same were present in the society even before. In the peculiar socio-political situation of Kerala, the formation of social capital by any means will have multi-dimensional implications. Here the role of SHGs cannot be under estimated because they help reciprocity, mutual trust and collective action among their members. In this process, the role of economic factors needs special reference. It may lead to civic participation, collective action, interpersonal trust, political knowledge, tolerance, associational life etc among the people.

On the basis of the information collected from the direct interaction with the animators, office bearers, ordinary members of SHGs and the elected representatives of the local bodies of the concerned region as part of the field investigation, it is understood that the SHGs in general offer opportunities in abundance for their collective life leading to the formation of social capital. After getting sufficient energy in terms of relevant data from such interaction the researcher decided to have a close observation of the multifarious activities of SHGs with the objective in mind to find out factors and situations actually supporting them and also in what amount such occasions provide social capital among them.

Well conceived and well established theoretical strategies have nothing to do in the practical sense while attempting to assess the above mentioned situations and occasions with which members of SHGs are likely to interact and co-operate for common good. What is possible and desirable is to look in to the actual and day to day life situations among them.
SHGs act as vibrant agencies providing ample opportunities for cultural programmes, celebrations of festivals of different types for its members and their family members. There are occasions in which the members as well as their family members come together to conduct their own cultural programmes which help them to relax from worries and tensions. They are able to overcome the religious and caste feelings while celebrating such festivals in common. It helps them to extend unconditional help and assistance especially during occasions of funeral. These and many other similar occasions contribute much to develop a healthy associational life not only among the members but also in the locality in which these groups are functioning (Interview, 26th Nov. 2006)

One of the most important contributions of SHGs is to provide opportunities to the women members of SHGs the habit of reading. It is understood that majority of them started reading news papers as a habit after joining with the SHGs. It further helped them to have mutual sharing of views and ideas. Sometimes such interactions lead them to participate in some sort of agitational politics. It is a fact that such occasions widened the horizon of their political knowledge which in turn acts as a source of social capital formation among them. (Interview, 12th Dec., 2006)

It is evident that the members of the SHGs are eager to visit the aged and the sick in the families of SHG members. Moreover they are ready to extend necessary help and assistance in such situations. Such occasions help them to develop a meaningful interpersonal trust among them which will definitely contribute much to the process of social capital formation (Interview 16th Dec, 2006.)
SHGs conduct lecture classes, seminars and even symposium on relevant topics for inculcating some sort of civic awareness among them. Special attention is given to remind the members of the necessity of casting votes. Such occasions of classes and seminars contribute much to widen the civic awareness of the members of SHGs (Interview 18th Dec, 2006).

It is understood that the SHG members have got first hand information regarding the various schemes and projects of the governments at different levels from their interactions with the organizations. Such information helped the SHG members in creating a positive confidence in the legitimate government to a considerable extent. (Interview 30th Dec, 2006).

### 3.11 Conclusion

Now it can be concluded that SHGs remain as a catalyst in the formation of social capital among the rural women in Kerala. From the analytical examination of the real functioning of SHGs particularly in a theoretical perspective it seems that any study on social capital will not be complete if it neglects the working of SHGs which act as the viable mechanism of micro-financing especially in the rural scenario of the Kerala political system. From the very inception of India as an independent nation, serious efforts have been made from governments at different levels to formulate and implement various schemes and projects aiming at the ultimate direction of rural development. Fortunately or unfortunately majority of such programmes and schemes either failed totally or reached halfway. Both central and state governments have been struggling hard to find a substantive mechanism to fulfill the final objective of rural development. It was at this juncture, that there emerged the magic strategies of micro-financing and
SHGs as a permanent or long standing means of social capital as a pre-requisite for the final goal of rural development. Here it can be further stated that the general socio-economic, political and cultural background of Kerala has been all the more conducive to create social capital to a considerable extent and to make use of such capital for the developmental needs of the rural people. Therefore, it is high time that the governments gave serious attention towards the mechanism of SHGs and Micro-Financing for the wider objective of addressing the different issues of the body politic.