CHAPTER I

INTRODUCTION
Socio-economic empowerment has been considered instrumental for holistic development of the nation. Financial liberalization after 1991 decimated the formal system of institutional credit in rural India. If effectively utilized, credit is an efficient tool in boosting economic development. The government’s recent initiatives to streamline credit operations and delivery system through microfinance movement can definitely help in the revival of rural economy and empowerment of the rural poor. Microcredit intervention programme has been well recognized the world over as an effective tool for poverty alleviation and improving socio-economic conditions of the rural poor. In our country also, microcredit is making a strong headway in its efforts to reduce poverty and empower the rural poor.

Even though the formal banking system had spread over the rural areas in India, 39% of the nation’s rural people are still depending on informal banking people namely moneylenders, landlords, relatives, private financiers, chittals etc. Reasons are many-urgency of money at occasions, increased frequency of transactions
and the possibility of getting larger amounts of loan. Generally the formal banking people neglect the rural people and are reluctant to give them loan. The word ‘credit’ has originated from a Latin word ‘credere’ meaning to believe or entrust. This trust in turn historically has depended on two elements, the borrower’s reputation and the availability of collaterals against which claim can be made in case of default. Formal financial institutions perceive these two elements to be lacking in the poor. The poor are not known to the bank nor do they have material value to pledge against risk. Self-Help Groups (SHGs) have become instrumental to overcome this situation and to improve the thrift habit of the rural people. In Kerala this programme was first started in Alappuzha in 1992 as a deposit collection programme. Later the programme was successfully extended all over the state. SHGs are small, informal and homogeneous groups of 10-20 members. The upper size of an SHG, however, has been made mandatory at 20 because any group larger than this would need to be registered under the Indian legal system. Further, it is easier only in small groups to foster true democratic culture where all the members participate actively in the
debate and decision-making process. Groups are expected to be homogeneous so that the members do not have conflicting interest and all the members can participate freely without any fear. They come together for addressing their common problems.

The SHGs after being formed, start collecting a fixed amount of thrift from each member regularly. After accumulating a reasonable amount of deposit, the group starts lending it to its members. Number of applicants may be large, but resource will be limited. This forces them to take appropriate decision to identify the neediest person with reference to endowment level and the purpose of the loan. A free and fair discussion removes the element of subjectivity from the decision-making process, makes the borrower understand the value of the credit and the importance of repayment and accountability to the group. The repayment of the loan along with interest and regular thrift enlarge the working fund and hence increase the scope of lending. The group then approaches the bank where it has opened the savings account. If the bank is satisfied with the group about the genuineness of demand
for credit, credit handling capacity of the group members, repayment behavior within the group, accounting system, maintenance of the records etc., then the bank links the group and it extends a term loan of small amount to the group. The group in turn continues to take decisions as in the past, the only difference being it has a higher amount of resource now. This joint liability, decision making process and peer pressure at the group level are the most important safeguards for the banks to do business with the poor, illiterate and informal groups. Thus a sustainable financial relationship between the banks and the poor people (SHG) develop for their mutual benefit. In India NABARD play an important leadership role for the promotion and nurturing of SHGs. The microfinance initiative of NABARD has emerged as the largest microfinance programme in the world. With a modest target of 500 SHGs in 1992, banks have credit linked more than 2.5 million SHGs as on 31st March 2007 which is ahead of one million SHGs programmed to be credit linked by 2007. Non-Governmental Organizations (NGOs), Banks, Farmers’ development clubs, Government agencies and individual self-employed volunteers or agents, are also working hand
in hand with the NABARD for the promotion of this programme. The NABARD also plays a vital role in developing Self-Help and mutual help among members and to increase the saving habits and to inculcate the habit of prompt repayment of loans. They are not giving importance to subsidies, but importance is given for the improvement of poor people and empowerment of women.

The role of NGOs in promoting SHG programme in Kerala is really praiseworthy. They act as a connecting link between SHGs and banks. Most of the SHGs in Kerala were formed by the NGOs. The NGOs are promoting, supervising, monitoring, financing and training the SHGs. MSS, NIDS, TSS, MITRANIKETEN, CHASS, Gandhi Smaraka Grama Seva Kendra, RASTA, KESS, KAIROS, KGNS, Shreyas, Gramavikas Kendra, Boodhan Vikas Mandal, SRI, Shalom Trust, ESAF, Nair Service Society and SNDP are some of the important NGOs in Kerala. We have large resources in our country. But we are not properly channelizing these resources in a productive manner for the development of our economy. People are not utilizing their skills and knowledge properly and effectively and are not willing to
accept the responsibilities. Reluctance on the part of the people to courageously undertake the projects, lack of co-ordination among members, lack of ambition to achieve the objectives, non affiliation to NGOs and difficulty in marketing the products produced by the members are the main problems faced by the SHGs.

People with self respect and confidence are the important requisites for a developed nation. SHGs form the platform for acquiring these qualities. Discussions, seminars, camps, training programmes, arts, cultural and sports festivals, celebrations, weekly meetings etc. at the group level, federation level, and regional level enhance the personality of the group members. As family members sharing their happiness and sorrows, SHG members also share their happiness and sorrows with their fellow members. The co-operation, respect and love for each other create a homely feeling in the group and this will lead to the rapid progress of the group.

The activities of women in Kerala were restricted to the four walls of their houses. Only very few came out for
social work with confidence. Women were always victims of social evils and harassment. Now the scenario has changed. SHGs also have their role in this respect. They consider women empowerment as an important aspect which cannot be ignored. The involvement of women in SHGs has made them more confident and enthusiastic that many are leaders in local bodies. The attitude of men towards women has also changed, they now appreciate the potential of women and are ready to include them in decision making process.

SHGs have become a regular component of the Indian financial system. SHGs help the rural people whenever they are in need of money. The members of the SHG can take loan from the group, can avoid money lenders and private financiers and can also escape from high interest rates charged by these people. The members can also start Microenterprises for their livelihood and generate income for the family and improve their standard of living.

With the emergence of SHGs, the approach of the banks to the lower sections or poor people has much
improved. Earlier, banks were reluctant to provide them loan because of their lapse in repayment. The problem was solved when the SHGs accepted loans from the bank for the benefit of the poor. The SHGs are successful in creating awareness among their members about the problem of non payment of loans and its consequences. This is evidenced by the fact that at present the rate of repayment of loans by the members of SHGs is 95 to 100% and the banks are also ready to provide them loans. It is worth mentioning in this context that the main drawback of the government programmes like IRDP was that the defaulters were more.

A typical rural women’s self-help group is a good example of capacity building for prospective entrepreneurs. Its aims include enabling members with no educational or industrial or entrepreneurial background to become self-dependent and self reliant by developing and enhancing the decision-making capacity of members and instilling in them the strength and confidence for solving their problems. SHGs also work as tiny empowerment centers for women. They not only learn to manage their finances but discuss social maladies like alcoholism and domestic violence and
discuss ways to tackle them collectively. They also learn to deal with Government officials and other NGOs efficiently. The SHG experience has proved that ‘poverty is not a chance but a matter of choice’. The poor women in rural Kerala have well understood the meaning of this old saying and are choosing not to remain poor and curse their fate any more.

SHG members utilize their spare time very effectively in generating income for their family. Loans and advances which are provided by the banks and the government through these SHGs will help them to enter into new enterprises in villages which will provide opportunities for employment and thus the development of the rural areas. Recent trend of shifting from the traditional businesses like tailoring, goat and cattle rearing, bakery etc. to high tech business applying the modern technology is a very revolutionary and positive change in the business field. SHGs play an important role in the transfer of technology to user group population. However, it is strongly felt that the pace of transfer and popularization of technologies
must be accelerated so that even the small farmer can benefit from new technologies.

Federation of groups at regional level will greatly help to solve effectively the problems of marketing. Products, produced by a group can be marketed through other groups and this will enable to check the flow of money outside the village. This will function as an efficient network marketing system and the exploitation by the intermediaries in the marketing field could be avoided. The outcome is maximum profit to the group members. The co-operation among groups will help to withstand the influx of multinational companies and their marketing systems to some extent.

A healthy environment is a requisite for progress. Human values should not be sidelined in the process of economic development. SHGs consider this as very important and are incorporating programmes to develop a good, cultured and social surrounding. Equally important is the natural environment. It is challenging to maintain a pollution free environment. SHGs are orienting their activities in this direction also. By cautioning about the
hazards of use of plastics, chemical fertilizers, pesticides etc. and popularizing gardening, vegetable cultivation, use of biofertilizers, vermicomposting, use of paper bags, biogas etc., SHGs are engaged in promoting environmental protection and sustainable development.

Decentralized planning gives ample opportunities for the public to directly involve in decision making. SHGs encourage their members to participate in the meetings of grama sabhas and the like bodies and to discuss the matter presented there in SHG meetings. Thus the members are made aware of the latest developments as well as rights and duties envisaged in the constitution and the statutes. This will help to achieve self-sufficiency and thereby, financial well being of the nation. SHG is not an organization or enterprise; it is a great concept which can lead the nation to progress. As Gandhiji believed, the heart of India lies in villages, and self-sufficient villages will lead to a self-sufficient nation.
PILOT STUDY

A pilot study was conducted during April-May 2000 with respect to the Performance Evaluation of SHGs formed under Madappally Service Co-operative bank and Changanacherry Social Service Society with an objective to study the income, savings, utilization of loan taken and occupational status of SHG members and to analyze the increase in the total assets, after becoming the members of SHG. Studies were conducted by personally interviewing 100 members of SHG with the help of structured questionnaire and the data was analyzed statistically.

Findings of the Pilot Study

The members of the group were earning an income ranging from Rs. 2000/-to 3000/-per month and their monthly savings was between Rs.30/-to 40/-. Fifty percent of the respondents resorted to animal husbandry while twenty one percent to textile and embroidery works and the rest to other activities like cycle repair, umbrella making work, running petty shop etc. Forty percent of the respondents have achieved accretion to their livestock,
while eighteen percent have acquired radio and television; seventeen percent of the members have invested their income in construction or repair of their houses. Ten percent of them have spent for gold ornaments; eight percent have purchased motor pumps and seven percent purchased home appliances. Seventy one percent of the respondents who were engaged in animal husbandry and thirty three percent of the respondents engaged in textile and embroidery work have fully utilized their loan amounts for the purpose for which it was granted. Degree of misutilization was highest in the case of members who were engaged in other activities. The study revealed that the members have become capable enough to handle more amount of money on their income generating activities if it is made available as loans.

PRESENT STUDY

Present study was conducted to assess and evaluate the performance of the SHGs in Kerala. Attempt was also made to assess the socio-economic improvement of the individuals after becoming members of the SHGs, the role of the institutions like NABARD, banks and NGOs and to
identify the deficiencies in the implementation of the programme.

**Need and significance of the study**

In spite of the rapid growth of self-help groups in India, the full potential of the self-help groups remain untapped. One of the reasons may be the lack of systematic research and solid methodological foundations. Most of the previous studies emphasized improvement of the access of the poor to microfinance rather than just Microcredit. Such research studies and action-oriented research projects led to the evolution of ‘Self-Help Groups (SHG) Bank linkage’ model as a core strategy that could be used by the banking systems for providing financial services to the poor who were bypassed by their own network. But still there are areas of SHG financial management such as internal controls, accounting and management etc. that need to be improved. Little is known about how helpful SHGs are to the members, and what kind of social impact they have brought about. Impact assessment being rather limited so far, it is hard to measure and quantify the effect of this Indian microcredit experience on the poverty situation in India. There is a need
for closer study to support the system so that the country can eradicate poverty in future.

Kerala is a state with a high level of literacy but affected with severe unemployment. The state ranks high in terms of social development but is still industrially backward. The state has also a very good network of bank branches and is well connected with small and medium townships. There is ample scope for rural empowerment through SHGs in Kerala. The rural mass can organize themselves as SHGs and initiate measures for their socio-economic well being. Any study in this regard is therefore relevant and justifiable.

**Statement of the problem**

The formal financial institutions have not been able to reach the poor households, particularly women, in the unorganized sector for very long time. This gave rise to the concept of microfinance to the poorest segment along with a new set of credit delivery techniques. With the support of NGOs, an informal sector comprising Self-Help Groups started mobilizing savings of their members and lending
these resources among the members on a micro scale. The potential of these SHGs to develop as local financial intermediaries to reach the poor has gained recognition due to their community based participatory approach. This microfinance scheme led to the upliftment of the people, especially in rural areas, through provision of a broad range of financial services such as granting of loans, deposits, payment services, money transfers, insurance to the poor and the low income households, their Microenterprises etc. It enabled people in the backward areas to come forward to have a dynamic change in their standard of living. In this contest, the researcher feels it necessary to conduct a study on the performance of the SHGs in Kerala. Hence the study is titled as the ‘Performance Evaluation of Self-Help Groups Programme in Kerala.’

**Objectives of the present study**

On the basis of the present research problem and the theoretical perspective for investigating the problem, the following research questions have been formulated. These research questions formed the objectives of this study.
1. To evaluate the performance of SHG programme in Kerala.

2. To evaluate the socio-economic improvement among the individuals after becoming the members of the SHG.

3. To assess the role of the institutions like NABARD, banks and NGOs which are associated with SHG in the state and to identify the deficiencies in the implementation of the programme.

4. To give recommendations to the government and banking authorities on the basis of the findings and conclusions arrived from the study.

**Null Hypothesis**

1) There is no increase in the income of the members after joining the SHG

2) There is no significant difference in the savings of the members after becoming the members of SHG.

3) There is no variation in the assets of SHG members of the various districts in the state.
4) There is no relation between income and educational status of the SHG members.

5) There is no significant relation between savings and educational status of the members.

6) There is no significant difference in the social status of the respondents after becoming members of the SHG.

Methodology

The study was conducted in three stages. In the first stage, a pilot study was conducted among hundred SHG members in Madappally Service Co-operative bank and Changanacherry Social Service Society. In the second stage, data was collected from the publications of RBI, NABARD, NIPM, Department of Rural Development, Government of India, Kerala State Planning board, Centre for Developmental Studies and various research publications on related topics from various Universities in the State. Internet services were used for collecting the information from the national and international scene. In the third stage, primary data was collected through field surveys. For this purpose a structured interview schedule was prepared
and the data was collected by personally interviewing SHG members and bank managers. A questionnaire was set which could provide qualitative and quantitative information regarding SHG members in the state. The questionnaire was finalized after conducting the pilot study. Most of the SHG members were interviewed in the group meetings. Coding plan was set for computer tabulations.

**Survey design**

For the convenience of the study, the state of Kerala comprising fourteen districts was divided into six regions –

1) Thiruvananthapuram, Kollam and Pathanamthitta

2) Kottayam, Alappuzha and Ernakulam

3) Idukki and Wayanad

4) Kozhikode and Malappuram

5) Palakkad and Thrissur and

6) Kannur and Kasargode.
From regions one to four, 600 respondents and from regions five and six, 400 respondents each were interviewed. The total sample size comprised 3200 SHG members. 50 bank managers were also interviewed on the basis of the objectives of the study. The data collected were statistically analyzed. Percentage, paired t-test, Chi-square test, and ANOVA were the statistical tools used for the analyses of the primary data.

**Period of study**

The survey was conducted during the year 2004-2005. The study covered a period of five years from 2000-2001.

**Limitations of the study**

In the process of collection and analysis of data proper care has been taken. Still, the study has certain limitations.

1. Reluctance from the part of members in giving true data regarding their income, savings, assets etc. This is due to the fear that they may loose subsidies or other
concessions from the government and also that they may be forced to remit more tax to the government.

2. Many of the members have membership in more than one SHG, hence special attention was needed to avoid error in the data provided by them.

3. The income based on household generally tends to be under reported. This is because people do not like to reveal the correct figures of their income and expenditure. Many of the members were not having regular income and hence there was difficulty in assessing their monthly income.

4. The study was on the basis of data supplemented by the respondents who do not keep proper records of their income and expenditure. Sufficient care has been taken by incorporating adequate cross checks in the interview schedule.

**Chapterisation of the study report**

The study report is presented in five chapters. The first chapter as “Introduction” deals with Introduction to the SHG programme, its need and significance, statement
of the problem, objectives, methodology, survey design, period of study, limitations and chapterisation. The second chapter involves a detailed “Review of literature” about Microfinance and SHGs. The third chapter, “SHG an overview” gives a historical background, comprehensive theoretical frame work of SHGs, SHG-bank linkage programme, role of NABARD, NGOs and commercial banks in promoting SHGs and working and impact of SHGs. The fourth chapter, “The Socio-economic impact of SHG in Kerala” presents the data analysis which involves the impact on income, savings and assets of the SHG members. The last chapter contains “Summary, findings, suggestions and conclusion”.