CHAPTER II

REVIEW OF LITERATURE
Nothing, arguably, is as important today in the political economy of development as an adequate recognition of political, economic, and social participation and leadership of women (Amartya Sen, 1999). A sustainable future for many people living in absolute poverty is a prerequisite for global peace and development. Rural women play a significant role in the domestic and socio-economic life of the society and therefore, development is not possible without developing this segment of the society.

According to Microcredit Summit, 1997, held at Washington DC, financial liberalization is a crucial component of the programmes of economic reforms and the availability of microfinance facilities has raised the hopes of millions of the poorest households who are benefiting from these services. Presently the Microcredit approach is viewed as being able to rectify the major weaknesses of the banking system itself.
2.1. Microfinance

Microfinance is not a recent development, and neither is the development of regulation and supervision of Microfinance Institutions (MFIs). The writings of Lewis Mumford trace the historical notion of ‘neighbourhood’ in Western countries (Mumford, 1961). According to him the neighborhood was a concept familiar to Greek city planners and a component of Greek city plans and planning as it developed during the 7th century BC. The Greek form of planning was based on the standard gridiron and divided the city into definite ‘neighbourhoods’, which were physical entities that took the shape of super blocks. Mumford contends that this appears to be the ‘first historic example of a deliberately fabricated neighbourhood unit’.

Since independence, in 1947, Government of India has been concerned to provide affordable credit facility to the rural producer in competition with the private money lender. To this end it had taken a variety of measures such as the following:
1. Created Co-operative Banks for short time finance and Land Development Banks for long time finance at the State, District and Locality levels.


3. Set up regulatory framework specifying *inter alia*, maximum interest rate for particular categories of loan, minimum statutory ratios for assets deposited with the RBI and minimum share of commercial banks portfolios which must go to specified priority sectors including agriculture.

4. Set up a number of lines of credit in favour of rural and urban low income groups at prices even lower than the statutory minimum interest rates for each sector. The most important of these is the Integrated Rural Development Programme (Mosely, 1966) \(^3\).

(Hossain, 1988)\(^4\) opined that the first effort in institutionalizing rural credit was made by the Government of India in the first decade of the present century with the passing of the Co-operative societies Act in 1904 to support the
country's predominantly agricultural economy. Though the country witnessed significant growth of the commercial banks since then, their involvement in rural lending was negligible till the mid-sixties. Following the introduction of social control in 1967 by the Government of India & later nationalization of major Commercial Banks in 1969, these banks also were directed to involve themselves in rural lending. Later in 1975, Government of India also introduced a specialized state sponsored, regionally based and rural oriented Regional Rural Banks with the objective of accelerating rural economic development of the identified target groups i.e., weaker sections comprising small and marginal farmers, agricultural labourers, artisans, small entrepreneurs etc. Hossain concluded that, microfinance in general, helps the poor although all participants may not benefit equally.

The peculiar disadvantages faced by women are due to relative lack of assets – human, natural, physical, social and financial. Distribution of human assets such as the capacity for basic labour, skills and good health is heavily biased against women. They work longer hours than men
in every country. Women carry 53% of the total burden of work in developing countries and 51% in industrial countries. Most of their work remains unpaid, unrecognized and under valued. Women’s labour force participation has risen by only 4% in 20 years from 36% in 1970 to 40% in 1990. Women normally receive a much lower average wage than men. All religions in the world record a higher rate of unemployment among women than among men (UNDP, 1995).5

Montgomery et al., (1996)6 studied the impact of credit for women’s empowerment. Their main objective was to assess the impact of credit programmes for the poor and they came to the conclusion that access to loans had empowered women. The main effect was the increase in the social status of loan receiving women.

Rangarajan (1996)7 has opined that microcredit is the favored alternative to the present system because the transaction costs of banks and other financial institutions can be lowered significantly if these costs are passed on to NGOs or Self-Help groups, and also because NGOs are
expected to perform better than formal sector credit institutions in respect of the recovery of loans. Microcredit institutions may also provide facilities for savings and other financial service. Microcredit as discussed in the international literature is associated with the following recurring empirical features:

- very small loans,
- no collateral,
- borrowers from among the rural and urban poor,
- loans for income generation through market based self employment,
- the formation of borrower groups, and
- privatization, generally through the mechanism of NGO control over disbursement and the determination of the terms and conditions attached to each loan. Rangarajan (1997) 8.

Since formal institutions rarely lend to the poor, special institutional arrangement become necessary to extend credit to those who have no collateral to offer.
Microfinance, by providing small loans and saving facilities to those who have been excluded from commercial financial services, has been promoted as a key strategy for reducing poverty in all its forms by agencies all over the world. Microcredit has been defined as programmes that provide credit for self employment and other financial and business services including savings and technical assistance to very poor persons (Microcredit Summit, 1997)\(^9\).

Now a days microfinance represents something more than microcredit – it also refers to savings, insurance, pawns and remittance in some to a much wider range of financial services Ajay Tankha (1999)\(^{10}\). Thus microfinance refers to the entire range of financial and non financial services including skill up gradation and entrepreneurship development rendered to the poor for enabling them to overcome poverty.

Ahmad(1999)\(^{11}\) through a case study on thrift groups in Assam highlighted that women are coming to the administration directly for their just rights and to address their grievances boldly. It proved that Self Help Groups are
successful in North East India even in the midst of insurgency.

Poverty is a multidimensional concept implying lack of income, lack of resources, deprivation of the means of livelihood and vulnerability to economic shocks. Modern thinkers brought ideas of social exclusion and lack of sustainable livelihood also in the spectrum of poverty. Amartya Sen defines poverty as lack of entitlements and capabilities (Amartya Sen, 1999)\(^1\).

Osman (2000)\(^12\) in his article remarked that Microfinance schemes alone cannot alleviate poverty. The battle for total eradication of poverty requires combining Microfinance schemes with parallel, complementary programmes addressing the social and cultural dimensions of want, privation, impoverishment and dispossession.

Task Force on Supportive and Regulatory Framework for Microfinance in India defined microfinance as the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi
urban or urban areas enabling them to raise their income levels and improve living standards (NABARD, 2000)\textsuperscript{13}. A major challenge for microcredit schemes in future is the viability of non-farm economic activities. Two major problems are, finding an economic activity that will yield a rate of profit necessary to cover the interest rate on the loan and marketing of the produce. The main market for non-farm activities is in urban areas. When these activities are taken up by rural women, the produced goods hardly meet the required standards of the urban market. It is more due to lack of proper education and facilities. Moreover, the distance also imposes a cost of marketing, which plays against the group’s objectives Madheswaran and Dharmadhikary (2001)\textsuperscript{14}.

The microcredit programmes by the informal sector in India have evolved over the years. There is no single appropriate form of legislation for institutions undertaking Microcredit. Institutions have been getting registered under different legislations, categorized under three heads:
• Non profit MFIs

• Societies registered under the Societies Registration Act, 1860 or similar State Acts.

• Public Trusts registered under the Indian Trust Act, 1882

• Non-profit companies registered under Section 25 of the 135 Companies Act, 1956 (Dasgupta, 2001)\textsuperscript{15}.

After more than five decades of independence, the formal financial institutions (FIs) have not been able to ensure better and even distribution of rural credit. Out of 63 million operational holdings below one hectare of land, less than 25 percent had access to formal agricultural credit in 1990-91 (Desai and Namboodiri, 2001)\textsuperscript{16}. Financial liberalization after 1991 decimated the formal system of institutional credit in rural India. It represented a clear and explicit reversal of the policy of social and development banking, such as it was, and contributed in no small way to the extreme deprivation and distress of which the rural poor in India have been victims over the last decade. (Ramachandran and Swaminathan, 2002)\textsuperscript{17}.
Microfinance movement in its present form is the valuable contribution of Bangladesh to the world and Prof. Mohammed Yunus is considered the father of modern Microfinance movement. Mostly the rural poor were caught in the clutches of money lenders as their access to credit from the banking system was constrained due to lack of collaterals and their ignorance. Hence, a beginning was made with a research project at Jabra village by Prof. Mohammed Yunus of Chittagong University way back in 1976 by giving small loans without collaterals to the poor who were organized into small groups. The idea worked well and demand for credit increased manifold. The process was repeated and the institution promoted by Yunus expanded its operations and came into existence as a specialized institution for financing the rural poor under Grameen Bank Ordinance of the Government of Bangladesh in 1983. The success of Grameen Bank model inspired its replication in one or the other form in many parts of the world. Under Bangladesh model, borrowers or savers join together to form groups of five members to transact the business. The philosophy of voluntarism and one for all and all for one is the backbone of Microfinance movement. The group also
leads to mutual empowerment along with the advantage of peer pressure on the behavior of group members (Vasanthakumari and Sharma, 2002)\textsuperscript{18}.

Falaiye (2002)\textsuperscript{19} in his study on the impact of Microcredit on rural Nigerian women finds that the Microcredit has positively changed the clients’ self-esteem and confidence, leadership abilities and decision making process, contributing to their household’s well being and increasingly seeking out solutions to their own problems and the community. Impact assessment of microfinance interventions in Ghana and South Africa by Afrane(2003)\textsuperscript{20} strongly confirms that microfinance interventions have achieved significant improvement in terms of increased business income, improved access to life enhancing facilities, and empowerment of people, particularly women.

Jameela (2003)\textsuperscript{21} in her research study titled “Empowerment of women-instruments and process” opined that the microcredit scheme has helped many families below poverty line to get an additional income. As a result, many poverty stricken families were liberated malady. The
involvement of the women in the groups significantly contributed in improving their quality of life, social status and self confidence.

Despite its exploitative nature, informal lenders still continue to occupy a considerable share of the rural credit market. Financing through SHGs can effectively reduce the dependence on informal money lenders. Comparatively higher repayment rates indicate the unambiguous superiority of the bank-SHG-client relationship (Vatta, 2003)\textsuperscript{22}.

The most significant impact of microfinance is to keep those just above the poverty line from falling below it particularly through building assets, financing a diversification of household income and smoothing consumption through emergency finance. The Dantwala committee on RRBs in its report, concluded that the agricultural credit advanced by commercial banks had been additive and unable to fill the geographical credit gap not covered by the co-operatives. Complicated rules, regulations and lending procedures, little participation of the poor and intervention by politicians and bureaucrats in the
functioning of these institutions further aggravate this problem.

The terms microcredit and microfinance have risen spectacularly to fame in the development profession and in development literature in the last decade and a half (Ramachandran and Swaminathan, 2004)\textsuperscript{23}. The review of studies related to credit accessibility simply demonstrates that the direct access to institutional credit to rural women was very limited.

Sinha (2005)\textsuperscript{24} in his study has observed that microfinance is making a significant contribution to both the savings and borrowing of the poor in the country. According to him the main use of microcredit is for direct investment. The post-nationalization period in the banking sector, around 1969, witnessed a substantial amount of resources being earmarked towards meeting the credit needs of the poor. There were several objectives for the bank nationalization strategy including expanding the outreach of financial services to neglected sectors. As a result of this strategy, the banking network underwent an
expansion phase without comparables in the world (Singh, 2005). But the public sector banks, have consistently failed to meet the target to reach weaker sections of the society. This indicates that while the banks have been able to reach the priority sector target in overall terms, their ability to penetrate to the weaker sections, or make small loans, is still inadequate. The growth in 'other priority sectors' indicates a growth in sectors like export, housing, education, etc, rather than those that deal with the poor and the vulnerable. However, public sector banks have achieved a greater penetration compared to private sector banks vis-à-vis the weaker sections. The new generation private sector banks, interestingly, have not reached out to the weaker sections at all. It appears that alternate mechanisms need to be worked out to ensure that these banks reach the poor.

RRBs were created to offer targeted lending in rural areas. Their performance over the years has not been very heartening. Though in the past few years many of them have turned around from their extended state of sickness, the loans as a percentage of resources at their command
(credit-deposit ratio) has been on the decline since 1997, but for an improvement in 2003. This indicates that the turning around of RRBs has been at the cost of access to credit to rural areas. In 1997 the year when the deployment of credit was the highest (CD ratio 50 percent), NPA was also the highest (37 percent) and the system as a whole was incurring losses. With a consistently falling NPA ratio since 1997, it appears that RRBs can get back to their basic business of lending. Given a stable and low interest rate regime, opportunities for arbitrage in the money market and interest earnings from investments -major sources of income in the past years -are going to have limited impact on the bottom lines of the RRBs (Sriram, 2005)\textsuperscript{26}.

Microfinance through the network of co-operatives, commercial banks, regional rural banks, NABARD and NGO’s has largely a supply driven recent approach. Microfinance institutions are other than banks which are engaged in providing financial services to the poor. Over the last 25 years, the Microfinance Institutions have become more formalised and are now being managed in a professional manner, using the same procedures and
information systems as commercial banks. Initially, principally focussed on the provision of microcredit, the range of services available has broadened and diversified to include housing loans, education loans, money transfers, microsavings and microinsurance, covering illness, death and natural catastrophe risks (Planet Finance, 2006)²⁷.

2.2. Role of NABARD

That same year of Prof. Yunus’s microcredit experiment, in Bolivia, PRODEM, a non profit microfinance organization was set up, which was later to become the Banco Sol -Bolivia’s best bank. It started by lending small sums to groups of three or more people through a revolving fund. In 1992, PRODEM changed its status from non-profit making association to a private deposit and lending bank, under the name of Banco Sol. It is in this background that NABARD conducted studies in the mid-eighties that brought out the simple fact that the most important and immediate banking needs of the poor households, in the order of their priority were:
(a) opportunities to keep safe their occasional small surpluses in the form of thrift, (b) access to loans to meet emergent needs, and hassle free access to financial services and products, including loans for micro-enterprises. Viewed against this demand, there were serious limitations on the supply side, as the existing products and services of the banking system were largely meant for a different type of customer segment. In trying to fulfill the credit needs of the poor for financial services, the banks had to contend with regulated interest rates, high transaction costs and high cost of mobilization of funds.

Kanchana Karkar (1995)\textsuperscript{28} in her study opined that the dependence on money lenders reduced to a large extent due to the substantial increase in income through the effective implementation of DWCRA programme. The findings also cited an improvement in the literary rate among girls. The programme through sympathetic co-operation enables the women to solve their long lasting problems.
In cases where credit was made available to the poor through special programmes, absence of an integrated savings component and something to fall back upon in case of any adversity was leading to poor repayment performance. The problem was further confounded, as the users were unable to distinguish between the State support (grants/relieves) and bank credit as the rural and agricultural banking system was getting identified with the State. The political expediency for ‘removing poverty at a stroke’ was putting resources for running Microenterprises in the hands of the poor without nurturing them to handle such resources. The high cost of appraisal and monitoring led many banks to jettison those systems in the context of low value advances aggravating the already vitiated repayment climate further. Based on the studies mentioned above and the results of action research conducted, NABARD developed the Self-Help Group [SHG] -Bank Linkage approach as the core strategy that could be used by the banking system in India for increasing their outreach to the poor. The strategy involved forming SHGs of the poor, encouraging them to pool their thrift regularly and using the pooled thrift to make small interest bearing
loans to members, and in the process learning the nuance of financial discipline (Kim Wilson 2002)\textsuperscript{29}.

Further in 1999, RBI set up a Microcredit Special Cell to suggest appropriate measures for up-scaling, mainstreaming and smoothening flow of microcredit. Based on the report, a number of measures were taken. Important among them are freedom to choose any model or branch in any area, freedom to prescribe their own lending rates, devise their own loan and saving products and related terms and conditions, deregulation of interest rates charged on Microfinance institutions by the banks and exemption of non-profit NBFCs from registration and prudential regulations (Vasanthakumari and Sharma, 2002)\textsuperscript{18}.

The SHG-Bank Linkage Programme has emerged as the most important credit delivery mechanism for reaching the unreached and underreached in ensuring socio-economic empowerment of the poor, particularly women. In microcredit, NABARD’s role has been two fold-promotional and financial. Promotional efforts assume the form of the SHG-Bank Linkage programme facilitating training.
Financial involvement is in terms of providing refinance, revolving fund assistance and grants. Over the last decade Microfinance has become an accepted institutional framework for taking financial services to the poor. Microfinance has now evolved into a type of independent financial system of its own and there are a number of variants in Microfinance institutions and systems. But broadly they can be classified into two - the individual approach and the group approach. An example of the group approach, where the group itself not the individual member is the client, is the Self-Help group programme in India. (Siebel and Dave, 2002) 30.

The period from 1969 to the present can be considered as a phase representing a revolutionary change in banking policy with the nationalization of India’s 14 major commercial banks in 1969. This was also the early phase of the ‘green revolution’ in rural India and one of the objectives of the nationalization of banks was, for the state to gain access to new liquidity, particularly among rich farmers, in the countryside. The declared objectives of the new policy with respect to rural banking - what came to be
known as “social and development banking” -were (i) to provide banking services in previously unbanked or underbanked rural areas, (ii) to provide substantial credit to specific activities including agriculture and cottage industries and (iii) to provide credit to certain disadvantaged groups such as Dalit and Scheduled Tribe households (Chavan and Ramakumar, 2002)\textsuperscript{31}.

The NABARD had formulated guidelines and norms regarding the functioning of SHGs which may be written or oral. They may be decided in the initial meetings or they may evolve over a period of time depending upon the need of the group (Kropp and Suran, 2002)\textsuperscript{32}. Poverty levels in villages with microfinance programmes have declined more than in villages without these programmes. These studies and numerous others indicate that microfinance can improve overall income, increase decision making power, and provide general self-empowerment (Khandker, 2005)\textsuperscript{33}. Since its appearance in the middle of the 1980s, the growth of microfinance has been considerable. In 1997, there were more than a thousand microfinance institutions in existence affecting 7.5 million of the poor. In 2005 the aim
was to reach the 100 million poorest individuals in the world. The goal was reached: today there are 10,000 institutions reaching more than 100 million micro entrepreneurs. Further more, according to a CGAP survey in January 2006, there are around 500 million poor borrowers; 84% are in Asia and 50% in two countries-China and India; but three quarters are clients of public institutions, where the repayment rates are very low. Only 100 million borrowers may be defined as micro borrowers from MFIs. The repayment rate within the allotted time for Microcredits from MFIs is 98% against 50% for public programmes. Today a billion dollar is committed in the microfinance sector each year for total outstanding loans of around 20 billion dollars (Planet Finance 2006) 27.

The exact benefits that microfinance brings to individuals and society may be difficult to measure from a technical standpoint, which is why there are relatively few rigorous studies about impact compared to the reach of microfinance. From studies and research, however, it is apparent that microfinance is an important catalyst for poverty alleviation (Magner, 2007) 34.
2.3. Role of NGOs

As per NABARD guidelines, the NGOs have been playing an active role in fostering the growth of SHGs for furtherance of their basic objectives. It has been observed that NGOs, as a fundamental principle of their developmental role, always aim to make the rural poor economically self-sufficient through development of individuals with group support of his fellow villagers. This traditional concept took an interesting turn with the introduction of linkage of the SHGs with the formal banking system, started by NABARD in India through Pilot Project from the year 1991-92. Consequently, the role of NGOs also assumed an additional dimension to economic upliftment of the poor.

NGOs actively involve in supervising, monitoring and enforcing loan repayments. When the activities of NGO-controlled Microcredit projects are scaled up, the relative burden of administrative costs tends to increase. An evaluation of SEWA bank, a bank set up by the Self Employed Women’s Association (SEWA) showed that the proportion of over dues to total advances was actually
marginally higher than the corresponding ratio for public sector banks. Scaling up NGO-controlled Microcredit, it appears, can generate problems similar to those faced by traditional banking institutions. The corrective measures being taken by SEWA Bank to address the problem of overdue loans involve greater supervision and monitoring (Ghosh, 2001) 35.

NGOs are trusts or societies which promote SHGs for bank linkage. NGO/MFIs which are themselves financial intermediaries are not included in it. SHG promotion may be a major or a minor part of the NGOs work, but it must have the clear aim of linking the SHGs to a bank for savings and credit. The NGO may pay for this from its own resources, or from a NABARD or similar grant (Malcom Harper, 2002) 36.

For the NGOs, the shift from charitable work and services to income-generating activities was a natural outgrowth of their collective and cumulative experience in helping organize community groups. Additionally, the expansion of the informal sector, especially in the poor
neighbourhood where NGO activities concentrated, led to an awareness of this sector of people in regulated, unlicensed, low resource, “marginal” activities which were critical to the survival of the poor, especially women (Otero, 1994) 37.

Rajasekhar (2000)38 in his study entitled “Microfinance programme and women empowerment: a study of two NGO’s from Kerala”, analyses the contribution made by microfinance programmes initiated by the two NGO’s-Shreayas and RASTA-to poverty alleviation and women empowerment in the state of Kerala. The study concluded that microfinance programme don’t automatically lead to poverty alleviation and women empowerment. As compared to Shreays, RASTA is more successful in poverty alleviation and women empowerment. In the case of Shreays, women has been disempowered as the loan had not been utilized for the purpose for which it has been sanctioned. The better participation of members in RASTA’s programmes resulted in saving and credit operations that helped to satisfy women needs thereby contributing to poverty alleviation and women empowerment.
Through the SHG-bank linkage programme, the RBI and NABARD have tried to promote relationship banking by improving the existing relationship between the poor and bankers with the social intermediation of NGOs. The Indian model is predominantly a “Linkage Model,” which draws upon the strengths of various partners: NGOs, who are best in mobilizing the poor and building their capacities, and bankers, whose financial strength is financing. As compared to other countries where parallel model of lending to the poor is predominant, the Indian linkage model tries to use the existing formal financial network to increase the outreach to the poor, while ensuring the necessary flexibility of operations for both bankers and the poor (Hema Bensal, 2003)\textsuperscript{39}.

NGOs have always played the dominant role in promoting as opposed to financing SHGs, but number of NGOs has themselves become involved in financial intermediation. Malcolm Harper (2005)\textsuperscript{40} in his study titled ‘ICICI Bank and Microfinance in India’ have listed possible reasons for this as
• the NABARD programme is focused on financing SHGs in rural areas. There is no comparable programme for the growing number of poor people in the cities, and some MFIs are filling this gap.

• there is a relatively small but very fast-growing group of Grameen replicates in India, which operate in areas of extreme poverty, or in urban areas, where SHGs are less prevalent. NABARD does not refinance Grameen-type loans, or urban loans, and NABARD-sponsored training relates entirely to the SHG methodology.

• India is well-banked in relation to its low level of development, but some of the poorer rural areas are not well-served, and many local branch managers are still not convinced of the merits of SHGs as customers. SHGs prefer to borrow from an NGO whose staff they know, rather than with a socially ‘distant’ banker who may still not be willing even to allow them to open a savings account.
• NGOs are always in search of ‘sustainability’ and for income sources that do not depend on donor goodwill. Microfinance is seen as a way of doing this.

Higher and better repayment requires more staff and closer monitoring or higher transaction costs. Confederation of NGOs in Rural India (CNRI) is an apex body with over 2,000 member-NGOs engaged in multifarious activities ranging from Self-Help group formation, income generation, marketing and agency work for insurance companies for life and non-life products and for banks and financial institutions to environment protection, watershed management, handicrafts, textiles, traditional medicinal plants and HR development (Business Line, 2006) 41.

2.4. Self-Help Groups (SHGs)

Forming and nurturing small, homogeneous and participatory self-help groups (SHGs) of the poor has today emerged as a potent tool for human development. This process enables the poor, especially the women from the poor households, to collectively identify and analyze the problems they face in the perspective of their social and
economic environment. It helps them to pool their meager resources, human and financial, and prioritize their use for solving their own problems (www.nabard.org). Self-Help Groups form the basic constituent unit of the microfinance movement in India. An SHG is a group of a few individuals – usually poor and often women – who pool their savings into a fund from which they can borrow as and when necessary. Such a group is linked with a bank – a rural, co-operative or commercial bank– where they maintain a group account. Over time the bank begins to lend to the group as a unit, without collateral, relying on self-monitoring and peer pressure within the group for repayment of these loans.

Although the term Self-Help group is used in different countries to describe a variety of financial and non financial associations, in India, it refers to a group of 10 – 20 poor women who band together for financial services, beginning with periodic, compulsory savings and then mainly loans and sometimes social services as well. SHGs are managed by their members, with varying degree of external support.
The SHG movement added a very significant dimension as it is linked with the microfinance. The concept of SHG is not something very new. Katz and Bender provided a comprehensive definition of Self-Help groups. "Self-Help Groups are voluntary, small group structures for mutual aid and the accomplishment of a special purpose. They are usually formed by peers, who have come together for mutual assistance in satisfying a common need, overcoming a common handicap or life-disrupting problem, and bringing about desired social, and/or personal change". The initiators and members of such groups perceive that their needs are not or cannot be met by or through existing social institutions. Self-Help Groups emphasize face-to-face social interactions and the assumption of personal responsibility by members. They often provide material assistance as well as emotional support (Katz and Bender, 1976).

Many of the SHGs began as charitable and disaster relief organizations operating in rural and urban areas, while others were formed specifically to bring multinational corporate funds to the aid of the poor. Charitable and welfare
organisations started with short-term goals, but work turned out to be never-ending. From direct assistance and welfare, they were transformed over time into organisations which focused on “helping the poor, help themselves”. By the early 1970s, their work concentrated on working with neighbourhood or village groups on Self-Help initiatives and grassroot economic projects (Korten, 1987)\textsuperscript{44}.

Studies reveal that certain elements become crucial or critical for the successful formation and functioning of the groups. These include voluntary nature of the group, small size and homogeneity of membership, transparent and participative decision-making and brisk use of funds for micro-enterprise creation (Fernandez, 1994)\textsuperscript{45}.

The most comprehensive study on SHGs in Kerala has been the one by Oommen (1999)\textsuperscript{46}. He covered all the districts and municipalities in the State, in which the Urban Community Development Societies are functioning. The study had reviewed the progress of the programme under four heads: impact on poverty, income-generating programmes, thrift and credit societies and women empowerment.
Puhazhendhi (1999) analyzed the functioning of SHGs, in performance, sustainability, empowerment of women, economic impact on the members, future potentials etc. He observed that SHGs in Tamil Nadu are performing well towards social change and transformation. The emerging trends are leading to positive direction of empowerment of members and promotion of microfinance.

Manimekali and Rajeswari (2000) in their study “Empowerment of Women through Self-Help Groups” attempts to find out the socio-economic conditions of SHG members i.e. women in rural Microenterprises, the nature of their economic activity and performance, the problems and prospect of Microenterprises of rural women, the contribution of Society for Education Village Action and Empowerment (SEVAE). The study concluded that the SHG has contributed to women empowerment in various ways (1) Women have been considered in decision making affairs of the family as the other members consult or listen to the views of the female in the aspects of the education of the children, property purchase, getting loan and the like. (2) Women have become owners of Microenterprises from the
status of agricultural labourers. (3) The income of the group members have improved several times as clear from the mean income before and after taking Microenterprises.

Vijay D Kulkarni (2001) explored the issue of changing status of women in households and the empowerment that is taking place through the Self-Help Group activity, in his article “Empowerment of women through SHGs”. He tried to understand the difference between the members and the non-members of SHGs from the study village. The study found that empowerment has taken place across caste/class and brought them together as women. These women have learned to take decisions for them and developed the capacity to exercise certain amount of control over the socio-economic and political conditions that determine their lives.

Satish (2001) in his paper raised certain issues related to the functioning of SHGs. Adequate care should be taken to ensure homogeneity of socio-economic status of the members, while forming SHGs. The process of SHG formation has to be systematic, whether a Bank or an NGO forms it. He
emphasized that SHGs experiment has to be spread throughout rural India rather than being concentrated in a few pockets of the country. NGO's are more suited for forming and nurturing of the SHGs, and therefore, it is essential to strengthen them and their resources so that they should increasingly undertake this work.

In a case study on selected SHGs and NHGs (Jaya. S. Anand, 2002) reported that Groups promoted by each NGO have their own individual ways of functioning, as there exists no rigid rules and operational regulations which govern them. According to her, most striking advantage of the SHGs was the thrift component which the members accepted as an ‘informal bank at their doorstep’. It was observed that both external and internal factors play an active role in making the groups self-reliant. When the roles of the coordinator and the promoting agency were identified as the most important external factors, it was the group leaders who determined the pace of growth of the group in the long run. The group leaders, who earlier had some experience in the management of Mahila Samajams or similar associations made more significant contributions to
the success of the groups than group leaders without such past experience. The groups have provided a forum for women to express their concerns and articulate their aspirations for change and enabled them to see and know what is happening outside the house. Several groups have become centers for initiating social action against the dowry system, alcoholism, illiteracy, and divorce. Though some groups have succeeded in improving the extent and levels of political participation of the members, women’s active and effective involvement in local planning and decision-making is yet to take place. One major impact of SHGs promoted by the Grameen Bank on the women members has been the creation of awareness about newer economic opportunities available to women and the abilities needed to tap them. It is seen that despite three to four years of functioning, there are members who remain unemployed but are willing to take up an economic activity provided sufficient guidance and credit is made available. None of the groups are seen to be taking efforts to help the members to identify suitable income-generating activities based on their skills and aptitudes. In spite of several drawbacks, members unanimously expressed the view that
some improvement in their livelihood had taken place as a result of their increased confidence and ability to cope with difficulties. However, very few members appeared motivated to challenge the conventional gender role assumptions. (Jaya S. Anand, 2002)\textsuperscript{51}.

The roots of the SHG model lie partly in indigenous savings systems of India and partly in the group-based model of Grameen Bank in Bangladesh, though it differs from it in several aspects. The Indian experience is distinctive in that the groups are mostly formed by women, they are formed through grassroot mobilisation with the help of NGOs and they are engaged in both poverty alleviation and empowerment activities (Malcolm Harper, 2002)\textsuperscript{52}.

Review of studies on multi perspective evaluation on Indian Microfinance system by international Microfinance experts like Seibel, Kropp, Harper, and Puhazhendi and Badatya at a seminar on SHG-Bank linkage during November 25-26, 2002 (www.nabard.org)\textsuperscript{42} reveals that SHG-Bank linkage in the country has brought significant
changes on the rural economy. Seibel’s study on profitability establishes that SHGs portfolio is profitable, despite the lower rates of interest charged by some banks, mainly due to ‘nil’ Non Performing Assets (NPAs). SHG banking was found to be a robust financial product, performing well both in healthy and distressed financial institutions. While appreciating the philosophy of SHG-Bank linkage programme, Kropp in his holistic review suggested that the vision-2007 for reaching out to one third of the rural poor through this programme was quite realistic. Being predominantly women focused, SHG-Bank linkage is the first step towards feminization of the (micro) banking portfolio of Indian banks. Harper in his study, compared strengths and credit deposit ratios of 20-30 percent. Some of the important reasons pointed out for the constraints associated with microfinance are non-productive loans and procedural delays for productive loans, inflexibility and delay in sanction and disbursement, high transaction costs, high interest rates and lack of training.

The study on economic impact of the programme by Puhazhendi and Badatya for NABARD (2002), covering
115 members from 60 SHGs in three backward eastern states viz., Chattisgarh, Orissa, and Jharkhand revealed that there was significant increase in assets (up by 30 percent) and income level (up by 23 percent) of the members, with more than 80 percent members coming from SC/ST and backward classes. The study by MYRADA on social empowerment of the women members of SHGs reconfirmed the general belief that women empowerment was the major outcome of the SHG-bank linkage programme (MYRADA Publication, 2002)\textsuperscript{54}.

Hema Vyas’s (2003)\textsuperscript{55} research on influence of microfinance programme of SEWA Bank in India and on women’s financial decision making within the household confirms that clients have gained from programme membership; it has improved their knowledge, skill, attitude and financial decision making power.

Aloysius Fernandez, Executive Director, MYRADA while participating in a discussion on Microfinance in India described the role of MYRADA as an NGO. He points out that the poor do not need microfinance alone. A large
number of people do not want credit. They are part of SHGs because they have other social needs – some are ill, others aged, and they need other kinds of help. Our SHGs are engaged in getting pensions for the old and medical care for the sick, as responsibilities that they themselves have adopted (Aloysius Fernandez, 2003).  

Christabell (2003) in her research study on “Women empowerment through capacity building” points out that, though the amount of loan offered by SHGs was not sufficient for establishing enterprises, majority of the members avoid loans from other sources, such as local moneylenders. According to the study, participation in meeting of the SHG by members is seen declining. Even among the majority of highly performed groups, attendance of members was not high. In some groups dropping out of the members affected the smooth functioning of the SHG.  

High transaction costs (TC) is one of the impediments to bank loans to the poor in low income countries. Bank TC can be lowered substantially by lending to self-help groups as financial intermediaries. Under the SHG Banking
Programme of the National Bank for Agriculture and Rural Development (NABARD) in India, over one million self-help groups with 16 million members (90 percent women), were linked to 36,000 bank branches and financial co-operatives at commercial interest rates. As the programme, which in contrast to former programmes is not mandatory, continues to grow rapidly, the question becomes all the more pertinent whether the success of financial intermediation by SHGs is due to overall lower TC or a shifting of TC to SHGs and their members. In Karnataka State, 78 SHGs with 1160 members were selected for a pilot study. TC of SHGs was found to be low, comprising real costs of 0.62 percent and opportunity costs of 0.60 percent of loans outstanding to members. Real costs of members were 0.04 percent and opportunity costs 2.3 percent. It is concluded that SHGs are an efficient intermediary for bank loans to vast numbers of the rural poor (Karduck and Seibel, 2004)\textsuperscript{58}.

In June 2004, Loyola Extension Services, of Loyola College of Social Sciences, Thiruvananthapuram, conducted a comparative study of Self-Help Groups (SHGs), organized and promoted by Non-Governmental Organizations and
Kudumbasree in Kerala. Study clearly indicates that in the constitution and functioning of SHGs, there is a wide variation observed among the SHGs of NGOs and between the SHGs of Kudumbasree. Even the poor women in Kerala are well informed of their rights and duties but knowledge of respondents about government welfare programmes was found much low. For majority of the respondents the motivating factor for joining the SHGs was economic factors, which included inculcating savings habit and getting easy loan at a reduced rate of interest. Awareness classes on health and health related topics were given due importance by all the NGOs and Kudumbasree. Another area of capacity building was achieved through the trainings given in self-employment programmes. Most of the SHGs reported the problem of dropouts from their groups (www.nrcw.nic.in)\(^59\).

SHG banking or linking banks and self-help groups in India is the largest and fastest-growing microfinance programme in the developing world (Seibel, 2005)\(^60\). The Self-Help Group approach to the development of rural poor appears to be an effective and viable proposition as a
supplementary Microcredit delivery system. The models of linkage between SHGs and FFAs could be specific to the needs of the group. A strong linkage and continued development dialogue between the SHGs and FFAs appear to be the panacea for many of the ills in the present system (Planning Commission Report, 2005) \(^6\).

APMAS (Mahila Abhivruddhi Society, Andhra Pradesh) was founded in 2001 as a state level technical support institution to provide capacity building, quality rating, research and advocacy services to SHGs and others in the sector. This organization was founded after extensive consultations between the Government of Andhra Pradesh and experienced NGOs on how to support the development of strong SHGs that would be sustainable and effective.

APMAS provides four distinct services. They provide quality rating services of SHGs and SHG Federations which evaluates their financial and organizational quality on a multi-point scale that they have collaboratively developed with M-CRIL of Delhi. They also have quality enhancement service group that provides capacity building services to
SHGs and other stakeholders. Their research and advocacy group publishes several in-depth research studies analyzing several SHG related issues and also organizes several technical workshops annually. They have also recently developed a livelihoods promotion line of service which provides technical support on livelihoods (Reddy and Manak, 2005) 62.

One of the reasons for the lack luster performance of both public and private sector banks in extending credit to weaker sections is their high level of NPAs. While credit under the Swarnjayanti Gram Swarojgar Yojna scheme across states has been extended in proportion to the poor in the population, this is not so in the case of SHG credit that has been growing at the rate of 120 percent per annum. However, growth in SHG credit has been uneven. The southern states are seen as SHG-developed states while Bihar and Madhya Pradesh are among those characterized as SHG-backward. Besides the SHG model in extending credit to weaker sections, other different models exist for extending microcredit to the poor and weaker sections. (Dasgupta, 2005) 63.
In a study titled ‘Impact of microfinance through SHG-Bank linkage in India: a micro study’, Kumar (2005) postulates that non-productive loans and procedural delays, high interest rates and lack of training etc. are the major constraints affecting the growth. His paper examines some of the impacts of SHGs-Bank linkage through a micro study of Athmallick Block, one of the backward regions of the backward state of Orissa, which is also a drought prone and flood affected area. The study finds that impacts were not substantial and calls for immediate interventions for the sustainability of the programme.

Loyola College of Social Sciences, Thiruvananthapuram conducted a socio-economic survey on SHGs in coastal areas of Kerala in 2006. According to the survey, majority of SHGs in the coastal areas are functioning satisfactorily. SHGs became the major source of aspiration for livelihood and income generation for the majority of coastal people. Kudumbasree is the predominant agency promoting the SHGs in the coastal areas. Women SHGs have domination in Kerala. 60 percent of SHGs are involved in economic activities in the coastal areas. Analysis of problems emerging in the economic
activities of the SHGs revealed that marketing is the most important problem faced by SHGs followed by transportation and raw materials problems (TEAP, 2006).

Several studies revealed that certain elements/factors are crucial for the successful functioning of an SHG. They may be categorized as external and internal. The external factors usually include an agency that promotes and motivates the members. The internal factors contributing to group success include: i) the presence of an educated, sincere, and dynamic leader, ii) stability in leadership, iii) homogeneity in membership (members belonging to same income or social strata, etc.) and iv) democracy and transparency (Jaya. S. Anand, 2006).

Research shows that women invest a larger portion of their income in the household and family well-being, particularly in the well-being of their children. Women also prove to be more financially responsible and have more effective peer pressure mechanisms, which leads to better repayment performance (Sudha Krishnan, 2006).
An impact study conducted in seven wards with 2003 risk families in Alappuzha by the Department of Statistics, University of Kerala, revealed that families with less than two meals per day had gone down from 57 percent in 1993 to 44.50 percent in 1996, families with one or more illiterates fell from 26.5 percent to 17.8 percent and families with persons addicted to alcohol declined from 32.5 percent to 22.10 percent (Nidheesh, 2007)\(^68\).

Microfinance in India has focused largely on women. In India, the recent spurt in microfinance activity can be attributed to the growth of Self-Help Groups as well as Non-Governmental organizations and microfinance institutions. This, however, remain largely concentrated in southern states (Tewari, 2007)\(^69\). The SHG-Bank linkage programme, launched in 1992 by the National Bank for Agriculture and Rural Development (NABARD), stimulated the development of many SHGs nationwide (Jennifer et al., 2007)\(^70\).

A major handicap of the informal structure of SHGs is the absence of a good auditing and maintenance mechanism. The entire thrust is on formation and bank linkage. Unfortunately,
several groups, particularly those which are formed hastily and artificially, receive little attention for continued activity once government handouts for group formation and training are drawn by facilitators. Hence, they tend to stop functioning after some time, which implies that hard earned savings of group members fall into the hands of the last set of borrowers and are then not recovered. The need for inspection and audit cannot be denied even where groups have only mobilized their own savings and have not yet accessed bank finance. SHG federations could do the audit or facilitators themselves could be trained and supervised for the purpose (SU, 2007) 71.

The most prominent national level Microfinance apex organization providing Microcredit services for women in India is the National Credit Fund for women or the Rashtriya Mahila Kosha (RMK). Evidence shows that groups of women are better customers than men and they are better managers of resources. Benefits of loans are spread wider among the household if loans are routed through women. Mixed groups are often inappropriate in Indian society. Record of all male groups is worse than that of all women groups, everywhere (Tushir et al., 2007) 72.
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