Micro lending is a development strategy accepted world over as an effective tool for poverty alleviation and improving socio-economic conditions of the rural poor. In India the recent spurt in microcredit activity can be attributed to the growth of Self–Help Groups (SHGs) as well as Non-Governmental Organisations. SHGs are playing a major role in poverty reduction and women's empowerment in the country.

In development sector SHG movement can be considered as a noble mission to reach millions of poor house holds who are hitherto having no access to credit from any formal financial institutions and are depending upon local money lenders on exorbitant, daily or weekly interests. NABARD developed the Self Help Group - Bank Linkage approach as the core strategy that could be used by the banking system in India for extending their outreach to the poor. With the emergence of SHGs, the approaches of the banks to the lower sections or poor people have much improved. Joint liability, decision making process and peer pressure at the group level are the most important safeguards for the banks to do business with these poor, illiterate and informal groups. NGOs act as a connecting link between SHGs and banks. Most of the SHGs in Kerala are formed by the NGOs. They are promoting, supervising, monitoring, financing and training the SHGs.