Chapter 7
Micro Credit with Special Emphasis on SHG-Bank Linkage: A Case

7.1. Introduction

There has been a tremendous improvement in the emergence, growth and performance of institutional credit in India. Cooperatives, Commercial Banks, Regional Rural Banks and Micro Finance Institutions have strengthened their footings in West Bengal as well. In the late 1990s, the self-help group-bank linkage programme has also been successful in some parts of the state. However, still a very substantial proportion of rural population is still without access to formal financial sector. Jones (1994, 2004) opines that the myriad of informal agents constitute a great range of financial service providers across the country.

In the country as a whole, the share of debt of cultivators from formal sources rose from 18 per cent in 1961-62 to 63 per cent in 1981-82. During the same period, the combined share of professional moneylenders, agriculturists and traders decreased from 70 per cent to 23 per cent. So it appeared that the endeavour to make the rural community free from the clutches of moneylenders’ class has been successful. But the figures for 1991-2001 compel us to worry about the success of formal finance. In 1991, the share of formal debt to total indebtedness of rural households has very slightly increased to 64 per cent. In 2002, the share of institutional credit actually decreased to 54 per cent. The share of debt originated from moneylenders in overall share of rural debt has increased from 18 per cent in 1991 to 30 per cent in 2002 in the country as a whole. So it still remained a puzzling fact that after a lot of policies and programmes designed to institutionalize rural credit, one third of rural credit is still provided by informal lenders. In our study area, 30 per cent (30%) of total rural credit is provided by informal lenders. But this figure becomes higher (46%) when we exclude large farmers from our sample indicating
serious institutional exclusion of poorer farmers in West Bengal. In the underdeveloped region, access to formal finance is much more limited as here 67 per cent of agricultural credit is provided by informal lenders. Thorat (2006) observes that too much emphasis has been laid on quantitative targets rather than qualitative aspects of lending. Banks have been unsuccessful to internalize lending as a viable business activity and have seen it as a social obligation. Hardiman (1996) noted that cooperatives also did not provide an effective replacement of moneylenders. Cooperatives have failed to replace the informal lenders in terms of loan use, timeliness, discretion, amounts requested and granted and flexibility in repayment. In addition to the above phenomena another puzzling paradox is that nearly 90 per cent of households reporting no debt are headed by small and marginal farmers. They report no debt, formal as well as informal, meaning financial exclusion (Jones, Thorat, Williams, 2007).

Institutional exclusion has been observed from our sample survey also. This exclusion is more acute in the underdeveloped region. In the developed Bardhaman region, 26.5 per cent of total number of households does not borrow. In the underdeveloped Baruipur region, 40.7 per cent of total number of households does not take loan from any source. In the developed region, percentage of borrowing households increases with improvement in economic status whereas in the underdeveloped region, percentage of borrowing households does not increase with the improvement in economic status meaning no significant financial inclusion.

7.2. Micro Credit with special emphasis on SHG- Bank Linkage Programme

The incident of financial exclusion prompted us to set another important objective of our study as to identify the factors in informal finance which makes the access to credit easy and flexible for small and marginal farmers and to find out the ways to incorporate them into formal financial institutions. The micro finance institutions embody the features of the flexibilities of informal
finance but certainly are not exploitative in spite of high rate of interest. It is also free from the
hassles of other formal financial institutions like commercial banks etc. To study our objective,
we have framed the hypothesis that the positive features of informal sources of finance can be
incorporated in formal financial agencies to make the credit situation easy for poor farmers and
increase the income position of households. In this chapter, we would deal with this objective
with the help of a case study.

**Transaction Cost and Micro Credit**

Transaction costs, on the one hand, are high for formal financial agencies like banks and other
financial institutions for screening applications, identifying clients, identifying land records etc.
On the other hand, the borrowers incur huge transaction costs for visiting formal financial
institutions after applying for a loan and before getting it.

In the cases of informal finance, transaction costs are less both for the borrowers and for the
lenders. To avoid transaction costs of formal finance, poor farmers prefer borrowing from
informal sector in spite of high rate of interest. Hence, it has been a constant endeavor of policy
makers and development planners to identify the forces behind low transaction costs of informal
finance and to incorporate the positive factors of flexible lending procedures of informal finance
in the formal financial agencies. The SHG-Bank linkage programme and the Joint Liability
Group model of Micro Financial Institutions have the potentiality to provide a solution to the
problems of high transaction costs of formal finance and that of the exorbitant rate of interest of
informal finance provided by money lenders.

A lending institution incurs three kinds of costs at the time of providing a loan. These are the
costs of money that it lends, the cost of prudent financial practices like provision for loan
defaults and the costs of transaction which includes the costs of screening and identifying the
clients, processing of applications, documentation, disbursing the loans, collecting repayments and the follow up. The transaction cost in the micro credit sector is high. Because of the small size of average loan, the transaction costs on a percentage basis become high for a micro loan. But in spite of these high transaction costs, the recovery rate and the repayment scenario are much better for micro credit institutions compared to formal financial agencies like banks etc. Basically, two types of models of micro finance institutions are prevalent in India: Self Help Group –Bank linkage model and the Joint Liability Group model.

**Direct Transaction Costs**

This is defined as the cost of the transactor (usually the field worker) doing the group loan transaction. Its three main components are group formation costs, costs of direct administrative activities and cost of monitoring.

Costs of group formation and training include the cost of collection, salary and conveyance of the field workers, costs of formation and training of the group with the objective of using it to deliver credit.

Costs of direct administrative activities comprise cost of appraisal, disbursement, documentation, the cost of supervision and other administrative costs.

Monitoring cost is the cost of checks on utilization and collection of installments.

**Indirect Transaction Costs**

While direct transaction costs capture the human resource costs of the branch, there are other costs such as rent, electricity charges and other maintenance costs. Indirect transaction costs mainly include fixed costs of the branch office, regional office and head office.
Under the micro finance model, the micro finance institutions go to self help groups or to individuals to lend as well as to collect deposits. Some micro finance institutions even offer extension services and marketing support to their clients. Hence, in spite of high interest rate, credit outstanding offered by micro finance institutions has been of the order of 30 to 40 per cent.

**Risks of Recovery**

The formal financial institutions become worried to lend to the poor for recovery risks and default. They also insist on marketable collaterals. This issue has been taken care by both types of micro finance institutions. In the case of SHG Bank linkage model, the group guarantees the loan on behalf of individual loanee. In this case, the financial institutions first organize the groups and then lend through self help groups. The Grameen Bank model or the Agency model which follow the strategy of direct lending to individuals lend through 'joint liability groups'. This is how they can mitigate the risk of default if any individual migrates to some other areas or fails to repay because of some other reasons.

**7.3. Definition of Self Help Group**

A Self Help Group is a registered or unregistered group of individuals having homogenous social and economic background voluntarily coming together to save small amounts at regular intervals. They should mutually agree to contribute to a common fund to meet their emergency needs. The group members use peer pressure for proper end-use of credit and the timely repayment of the loan. Here peer pressure is used as an effective substitute for collaterals.

The SHG- Bank linkage programme was initiated in 1992 which tried to facilitate smooth flow of bank credit to self help groups.

**7.4. Evolution of Self Help Groups**

Evolution of Self Help Groups at three levels have been observed by economists
At one level

Households use micro finance to meet survival requirements where small savings and loans serve as a buffer in the event of emergency or to smoothen consumption or even repay previous debt and give more liquidity during loan time.

At the second level

Subsistence needs are met through micro finance where a household begins to use microfinance to diversify its basket of income generating activities or to meet working capital requirements in traditional activities.

At the third level

Micro finance may be used to set up an enterprise or facilitate entry into employment so that the household becomes sustainable.

**Grameen Bank Model**

In this model, a bank unit is set up covering an area of 15 to 22 villages with a field manager and a number of other staff. The manager and the field workers visit villages and familiarize themselves with the locality. They identify the clientele, explain to them the purpose of their operations, mode and functions. In the first stage, only two from a group of five prospective borrowers are identified to get a loan. It is observed whether members are conforming to rules of the bank. If the first two borrowers repay the loans, principal as well as interest over a period of fifty weeks, then only other members of the group become eligible for loan. In this case, collective responsibility of the group serves as collateral.

7.5. The Performance of SHGs in West Bengal

In West Bengal, the total outstanding SHG loan is Rs. 726 crores till February 2009. However, per group bank loan in the state (Rs.26286) is lower than the national average (Rs.
During 2008-09, nearly 60000 groups have been formed in the state under SHG-Bank linkage programme. At present, West Bengal is placed in the sixth position in SHG programme in the country. According to statistics published by Planning Commission in 2001 the population per SHG in the state is 2457 whereas the corresponding figure for India as a whole is 1432.

Table 7.1 The Performance of SHGs in West Bengal

<table>
<thead>
<tr>
<th>No. of SHGs</th>
<th>4.13 lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Outstanding SHG loan</td>
<td>Rs. 726 crores</td>
</tr>
<tr>
<td>Per Group Bank Loan</td>
<td>Rs. 26286</td>
</tr>
<tr>
<td>Savings linked groups(number)</td>
<td>1.65 lakhs</td>
</tr>
<tr>
<td>Credit linked groups(number)</td>
<td>93000</td>
</tr>
</tbody>
</table>

Source: NABARD.

The growth of SHG linkage across all banks has been remarkable in the last four or five years, but has also been remarkably uneven. The better-off states, mainly in the South, have dominated the linkage programme, while the states in the poorer North and East of India, where it is so much more needed in the struggle against poverty, have lagged behind. The same weaknesses that constrain development in general seem to have constrained SHG linkage too. The Financial Express quotes that in Bengal, in 2004-05, 41,013 groups have been formed. Out of these, 16,210 groups were linked with cooperative banks, 12,112 groups have been formed by commercial banks and 12,691 groups have been formed by regional rural banks. The United Bank of India is the best record holder of all commercial banks.

The following table shows the overall SHG linkage performance for selected states, in terms of the number of people, of rural people and below poverty line (BPL) rural people per linked SHG.
<table>
<thead>
<tr>
<th>State</th>
<th>SHGs Linked Population</th>
<th>SHGs</th>
<th>Popn per Rural</th>
<th>Popn</th>
<th>Per Rural BPL</th>
<th>SHGs BPL per</th>
</tr>
</thead>
<tbody>
<tr>
<td>AP</td>
<td>281338</td>
<td>75727541</td>
<td>269</td>
<td>55223944</td>
<td>196</td>
<td>5813000</td>
</tr>
<tr>
<td>NE (total)</td>
<td>4069</td>
<td>36731819</td>
<td>9027</td>
<td>33003499</td>
<td>8111</td>
<td>13153000</td>
</tr>
<tr>
<td>Bihar</td>
<td>15926</td>
<td>109788224</td>
<td>6894</td>
<td>95122327</td>
<td>5973</td>
<td>37651000</td>
</tr>
<tr>
<td>Gujarat</td>
<td>13875</td>
<td>50596992</td>
<td>3647</td>
<td>31697615</td>
<td>2285</td>
<td>3980000</td>
</tr>
<tr>
<td>Haryana</td>
<td>1524</td>
<td>21082989</td>
<td>13834</td>
<td>14968850</td>
<td>9822</td>
<td>1194000</td>
</tr>
<tr>
<td>HP</td>
<td>8875</td>
<td>6077248</td>
<td>685</td>
<td>5482367</td>
<td>618</td>
<td>4840000</td>
</tr>
<tr>
<td>J and K</td>
<td>888</td>
<td>10069917</td>
<td>11340</td>
<td>7564608</td>
<td>8519</td>
<td>2970000</td>
</tr>
<tr>
<td>Karnataka</td>
<td>62178</td>
<td>52733958</td>
<td>848</td>
<td>34814100</td>
<td>560</td>
<td>5991000</td>
</tr>
<tr>
<td>Kerala</td>
<td>21012</td>
<td>31838619</td>
<td>1515</td>
<td>25571484</td>
<td>1217</td>
<td>2097000</td>
</tr>
<tr>
<td>MP (incl ‘garh)</td>
<td>22034</td>
<td>81181074</td>
<td>3684</td>
<td>60903155</td>
<td>2764</td>
<td>21732000</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>28065</td>
<td>96752247</td>
<td>3447</td>
<td>55732513</td>
<td>1986</td>
<td>12512000</td>
</tr>
<tr>
<td>Orissa</td>
<td>42272</td>
<td>36706920</td>
<td>868</td>
<td>31210602</td>
<td>738</td>
<td>14369000</td>
</tr>
<tr>
<td>Punjab</td>
<td>842</td>
<td>24289296</td>
<td>28847</td>
<td>16043730</td>
<td>19054</td>
<td>1020000</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>22742</td>
<td>56473122</td>
<td>2483</td>
<td>43267678</td>
<td>1903</td>
<td>5506000</td>
</tr>
<tr>
<td>TN</td>
<td>98410</td>
<td>62110839</td>
<td>631</td>
<td>34869286</td>
<td>354</td>
<td>8051000</td>
</tr>
<tr>
<td>UP incl U’chal</td>
<td>59549</td>
<td>174532421</td>
<td>2931</td>
<td>137849547</td>
<td>2315</td>
<td>41201000</td>
</tr>
<tr>
<td>WBengal</td>
<td>32647</td>
<td>80221171</td>
<td>2457</td>
<td>57734690</td>
<td>1768</td>
<td>18011000</td>
</tr>
<tr>
<td>All India</td>
<td>717360</td>
<td>1027015247</td>
<td>1432</td>
<td>741660293</td>
<td>1034</td>
<td>193020000</td>
</tr>
</tbody>
</table>

Source: Planning Commission, GOI; Census of India, 2001
In West Bengal, Cooperative Banks have maximum share. They have 51 per cent share in the SHG market. This performance is at variance with other states of eastern and northern India. This has its origin in the strong political support to cooperatives in the state.

In the next section, we have made an attempt to narrate our experiences about the performance of a Self Help Group functioning in Baruipur block of South 24 Parganas district. Data were collected on the bases of interviews with SHG members as well as officials involved with the formation of the group. Data related to asset structure, net income, mean savings, amount of loan from formal financial agencies, amount of loan from informal lenders have been collected. Information has also been collected regarding repayment rate. All information have been collected for pre and post SHG involvement in the credit scenario. Impact is measured as the difference in the magnitude of a given parameter between pre and post SHG situations to test the validity of our hypothesis.

Observations from the field study:

In our study area, Self Help Groups have been formed in linkage with banks both in Bardhaman and Baruipur block. We have studied the contribution of one of the self help groups in providing credit and in creating employment opportunities on the bases of certain parameters in Baruipur block. We have analysed the credit situation under three circumstances: one, where credit has been provided by bank, two, where credit has been provided by the self help group and three, where credit has been provided by informal lenders. We have studied 60 farm households in Baruipur block dividing them into three categories. Each category comprised twenty households. Categorisation of households has been done according to their sources of borrowing. Twenty households belonging to category I borrowed from banks, another twenty households forming the second category, the self help group, borrowed from their group under the SHG-
Bank linkage scheme and the rest twenty households forming the third category borrowed from traders and moneylenders.

A comparative analysis has been made of the credit situations under three different circumstances on the bases of average rate of interest, amount of loan, purpose of borrowing, collateral offered and the recovery rate.

<table>
<thead>
<tr>
<th>Table 7.3: Credit Situation for Financing from Banks, SHG and Informal Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Items</strong></td>
</tr>
<tr>
<td>Average Rate of Interest per annum(%)</td>
</tr>
<tr>
<td>Amount Borrowed per household (Rs.)</td>
</tr>
<tr>
<td>Purpose of Loan</td>
</tr>
<tr>
<td>Collateral</td>
</tr>
<tr>
<td>Repayment Rate(%)</td>
</tr>
</tbody>
</table>

Source: Field Data

It is worthwhile to observe that effective rate of interest of SHG is much higher than banks but the recovery rate of loans is 100 per cent for SHG loan. It is also noteworthy that although the amount of loan per household is less in the case of SHG loan than other two types of loan, SHG loan has been taken for investment purposes. Ten members of the group purchased either bullock or buffalo with the borrowed money. Five others purchased agricultural machinery. The probable reason here is that the group has been able to inculcate the habit of investment among its members. Some members of the group have borrowed for consumption purposes also.

The group lends money to the group members without pledging any marketable collateral. Pressure of the peer group has been used as collateral in the case of SHG lending.
Other activities undertaken by the group

The SHG has undertaken income generating activities also using local resources. The group members make mats and hand bags of different sizes using leaves of a particular plant, grown locally. The group has also purchased six machines used for making mats and bags from the leaves. The Self Help Group has a link with a Non Government Organization which helps in marketing of the products.

Determinants of Interest rate:

We have interacted with the group members to know about the costs for running the Self Help Group which act as the determinants of interest rate charged by the SHG.

<table>
<thead>
<tr>
<th>Determinants of Interest Rates on Micro Credit</th>
<th>Annual Percentage Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Financial Cost of Funds</td>
<td>8</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>11</td>
</tr>
<tr>
<td>Loan Losses</td>
<td>2</td>
</tr>
<tr>
<td>Desired capitalization rate</td>
<td>3</td>
</tr>
<tr>
<td>Annual Effective Interest Rate</td>
<td>24</td>
</tr>
</tbody>
</table>

The costs incurred by the SHG in lending money has been made up of three main components (i) Financial Costs or costs of raising money for making loans, (ii) Operating Expenses or costs for staff, travel and other administrative costs of servicing the loans and (iii) Risk Costs or costs of covering for the risk of losing capital on account of the inability of the institution to recover loans in the cases of willful and non willful default.
**Financial Cost**

Small credit lending institutions like the credit co-operatives and the MFIs may not have sufficient deposits, to undertake credit activity on their own. These institutions therefore, depend on agencies like the NABARD, the SIDBI, the Rashtriya Mahila Kosh or borrow from the commercial banks (including the RRBs) for refinancing facility.

**Operating Cost**

Salaries, account for the major cost of these institutions. The sustainability of microfinance at low interest charges thus depends greatly on staff efficiency, which, in its turn, depends on how many clients a staff member is able to deal with. By and large, MFIs in India are able to service some 150-250 clients per staff (Development Policy Division, Planning Commission, 2007)

**Provision for Loan Losses (risk costs)**

Generally, 2 per cent of the loan outstanding is set aside as the normal loan losses. This also has included this cost to determine the final rate of interest for lending.

**Need for ‘capitalization’**

According to the report of the working Group on Competitive Micro Credit Market in India, the interest rate charged on bank credit is one of the most important instruments of building ‘reserves’ through higher profits. This strengthens the capacity of these institutions for both leveraging higher borrowings from lenders / banks as well as to attract more equity due to the ability to pay higher dividends to the shareholders. The interest rate, charged by this SHG, has included this cost for capitalization for determining the interest rate. A rate of interest of 24 per cent of this SHG has been a composition of all these four components.

The Self help Group collect savings and deliver credits at the doorstep of its members and at a time when it is required. Hence, in spite of high effective interest rate it is preferred to other
formal sector loan. The borrowers can also get rid of the exorbitant rates of interest charged by the informal lenders. Hence, SHG loan is preferred to informal sector loan although both are available without marketable collateral and at less transaction costs.

The following section discusses about the interaction made with the officials involved with the formation of Self Help Group. The responses of fifteen officials were studied to know the impact of SHG intervention.

*Views of officials involved with the formation of SHGs*

An interaction has been made with the officials involved with the formation of Self Help Group. The responses of fifteen officials were studied to know the impact of SHG intervention on certain parameters related to economic condition of SHG members.

Following opinions have been expressed by the officials involved in the formation of SHGs.

First, 65 per cent of the officials felt that Self Help Group helps farm households in adopting HYV technology.

Secondly, 72 per cent of them commented that Self Help Group helps in generating marketable surplus.

Thirdly, 90 per cent of the officials observed that Self Help Group makes access to credit easier.

Fourthly, 70 per cent of them felt that Self Help Group enhances net income of farm households.

*Socio-Economic Profile*

*Economic Activity*

Farm activity is the main activity of the members of the Self Help Group of our study.
Level of Literacy:

About 30 per cent of the SHG member households are illiterate. Members who studied up to primary level are 50 per cent and members studying up to secondary and higher secondary levels were reported at 10 per cent each.

Family size

Nearly 70 per cent of the sample households had family sizes ranging between 4-6 members and 30 per cent reported a family size of more than 6 members.

Small & Marginal Farmers/Agricultural Labourers

The classification of the member households based on land holding pattern revealed that the marginal farmers constituted the major share of 51 per cent followed by small farmers (32%) and agricultural labourers (17%).

Impact of SHG Bank Linkage Programme on SHG Members:

An attempt has been made in this section to quantify the impact of Micro Finance Programme on living standards of SHG members and compared it with the same of the control group i.e., with the farm households who have taken loan from other sources other than SHG in the pre and post SHG situation.
Table 7.4: Impact of SHG Intervention on Average Income and Asset Position of Farm Households

<table>
<thead>
<tr>
<th>Sources of credit</th>
<th>Asset structure</th>
<th>Net income (Rs.) in 3 months</th>
<th>Mean savings (Rs.)</th>
<th>Average amount of loan per hh (Rs.)</th>
<th>Informal loan taken (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before</td>
<td>1 bullock</td>
<td>A deficit of Rs. 5000</td>
<td>Nil</td>
<td>Rs. 4000</td>
<td>Rs. 5000</td>
</tr>
<tr>
<td>After</td>
<td>1 bullock</td>
<td></td>
<td>Nil</td>
<td>Rs. 2000</td>
<td></td>
</tr>
<tr>
<td><strong>Informal lenders</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before</td>
<td>Nil</td>
<td>A deficit of Rs. 7500</td>
<td>Nil</td>
<td>Rs. 10000</td>
<td>Rs. 12000</td>
</tr>
<tr>
<td>After</td>
<td>Nil</td>
<td></td>
<td>Nil</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SHG</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before</td>
<td>Nil</td>
<td>A deficit of Rs. 8000</td>
<td>Rs. 857</td>
<td>Rs. 10000</td>
<td>Rs. 6000</td>
</tr>
<tr>
<td>After</td>
<td>1 bullock,</td>
<td>A net income of Rs. 6000 in 3 months</td>
<td>Rs. 5000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>agricultural implements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Data

The data from the field survey show that there has been an increase in net income, mean savings, asset creation and value of assets of SHG members taking loan through SHG Bank linkage programme. Our findings are corroborated by the findings of Puhazhendi and Badatya (2002).

In the following section, we have described the socio-economic profiles of the member SHG households like level of economic activity, level of literacy, family size, etc. The next subsection describes the impact of SHG intervention on its members in terms of asset creation, saving and borrowing patterns and income.

**Persons experiencing improved Mean Savings**

Savings is one of the important parameters for evaluating the performance of SHG intervention. About 75 per cent of SHG members reported increase in their mean savings rate after SHG
involvement. The estimated mean annual savings was worked out to Rs.857 during the pre-SHG situations which increased to Rs. 2,000 during post SHG situations.

**Purpose of Loan:**

The purpose of loan availed by the sample members were classified into three categories: production purpose, investment purpose and consumption purpose loan. Production purpose loan taken by SHG members includes purchase of inputs for agriculture, seeds, fertilizers etc. Loan for consumption purposes includes loans for settlement of old debts from money lenders and loans for contingency purposes such as medical expenditure and other social functions like, marriage etc. Investment purpose loan includes purchase of machinery, bullocks, buffalos etc. Data also indicate that loans were well distributed among the SHG members. Loan repayment was considerably satisfactory as 85.4 per cent of the members have promptly repaid the loan. The average loan period was fixed at 8-10 months which in most cases is repaid in monthly installments.

**Value of Assets**

The value of assets owned by the group member households during post SHG situation was on an average worth Rs.5,500 whereas it was Rs.4,950 during the pre-SHG situation. Thus there was an average increase in the value of assets after joining the SHG. The milch cattle/poultry reported highest increase (67%) in asset value in the post-SHG situations followed by consumer durables (21%) and work animals (16%). After joining the group, some members purchased buffalo and bullocks etc., which they did not have earlier, to diversify their income sources. This resulted in increased average value of assets held by the members under these heads.
\textit{Average Loan Amount}

On an average, the loan amount received by the member during the post SHG situation worked out to Rs.5000 which was Rs. 10000 in the pre-SHG situation indicating that dependence on loan has been reduced for the SHG members.

\textit{Frequency Distribution of Borrowings}

Implementation of the programme positively impacted and improved the access to the rural poor to credit. About 55 per cent of the members were non-borrowers during pre-SHG situation whereas it was only 15 per cent during the post-SHG situation. The frequency distribution of SHG members according to level of borrowings revealed that the proportion of loans between Rs.1,000 to Rs.5,000 had increased from 35 percent to about 65 per cent between pre and post-SHG situations. Similarly, the proportion of loans between Rs.5,000 to Rs.20,000 increased by two times from about 9 percent in the pre-SHG situation to about 18 per cent in the post-SHG situation.

\textit{Income Generation}

There has been an improvement in the income position of the members of the group as a result of SHG intervention. The average net income of the SHG members has increased from a deficit of Rs.8000 in three months’ period to a surplus of Rs. 6000 in pre-SHG and post-SHG situations respectively.

\textbf{7.6. Conclusion}

This chapter deals with one of our objectives which attempts to identify the positive factors inherent in informal finance and to incorporate them in formal financial sector through a suitable channel. We have tested the hypothesis that the factors leading to easy and accessible loan of informal sector can be successfully adapted by formal financial sector to bring in improved
standard of living. The hypothesis has been found to be true. In order to test the hypothesis, we have emphasized on SHG-Bank linkage programme.

We have dealt with a case of SHG involvement in providing loan and compared this situation with two other situations where the loan is provided by banks and by informal sources. It has been found that the impact of SHG intervention has brought an improvement in mean savings, value of assets, increased percentage of persons having improved level of savings and reduction of the dependence on borrowing.