# CHAPTER-III

ROLE OF MICRO FINANCE AND SELF HELP GROUPS IN WOMEN EMPOWERMENT

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CHAPTER-III
ROLE OF MICRO FINANCE AND SELF HELP GROUPS IN WOMEN EMPOWERMENT

3.0 Introduction

Micro finance has emerged as a major hope for the millions of rural/urban poor for dealing with ‘poverty and dignity’. Poverty is a multi-sectoral problem and does not fit into any one of the sectors. Hence, an innovative approach is the need of the hour rather than the sectoral approach in addressing the poverty. United Nations has set Millennium Development Goals in 2000 and one of the goals is to halve the proportion of people suffering from poverty and hunger by 2015 (N. Jeyeseelan, 2004)\(^1\). Under this context, the Micro finance is emerging as a poverty reduction and women empowerment tool.

The concept of Self Help Groups (SHGs) is the most exciting discovery in the context of micro finance. The Indian micro finance scene is dominated by SHGs and their linkage with banks. Owing to the importance of micro finance and self help groups in the eradication of poverty and in the empowerment of women, this chapter is devoted to analyse the role of both in women empowerment.

3.1 Micro Finance and Women Empowerment

In India, the concept of micro finance was introduced by NABARD in the nineties to bridge the gap between demand and supply of funds in the lower rungs of the Indian economy. It aims at the eradication of rural and urban poverty through the linkage of SHGs with Micro Finance Institutions.

3.1.1. The Concept of Micro Finance

Micro finance is a concept that is helping the poor to avail of and create opportunities for economic growth. In India micro finance has fuelled the efforts of rural development,
women empowerment and wealth generation by providing small-scale savings, credit, insurance and other financial services to poor and low-income households. Micro finance thus serves as a means to empower the poor and provides a valuable tool to help the economic development process.

The concept of micro financing and self-employment activities in rural areas has developed considerably over the last two decades. It is working neither on donation/charity nor on subsidy. It is basically rotational investment done to motivate the poor to empower themselves and practice the dictum ‘save for the future and use those resources during the time of need.’ Theoretically, micro finance also known as micro credit or micro lending means making provisions for smaller working capital loans to the self-employed or self-employment seeking poor.

Micro credit has been defined as the extension of small loans to be given in multiple doses based on the absorption capacity of the needy beneficiaries, who are too poor to qualify for formal bank loans, as they have no assets to offer as collateral security against loans (Tripathy, 2006). ‘Micro-credit’ may be defined as the credit and repeated credit provided in small measures to suit the recipient’s requirements, with a comfortable pace of repayment and at an appropriate rate of interest (Nashi, 2004). Micro credit has been defined by the Micro Credit Summit held in Washington D.C. in February 1997 as “programmes that provide credit for self-employment and other financial and business services to very poor persons. Micro finance can be interpreted in a broader context both as micro credit and micro savings, even though micro credit and micro finance have come to be used interchangeably”. However when the term ‘micro finance’ is used it implies some other services accompanying credit, viz., facilities for saving and availability of services for insurance of the assets acquired with micro credit.

Micro finance has come to be referred to as a small scale financial service (including savings, credit, insurance, business services and technical assistance) provided to rural people who operate small or micro enterprises, provide services, work for wages or commissions and other individuals and groups working at local levels (Samapti Guha and Gautum Gupta, 2005).

NABARD has defined micro finance as “provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban
areas for enabling them to raise their income levels, and to improve living standards” (Indira Misra, 2003). In other words, Micro finance refers to the financial requirements of the individual borrowers to carry out various economic activities at the grass root level.

Robinson defined microfinance as, “small scale financial services provided to the people who work in agriculture, fishing and herding; who work for wages or commission; and other individuals and groups at the local levels of developing countries both rural and urban” (Lekshmi R. Kulshreshta and Archna Gupta, 2002). Micro credit/micro finance is thus the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans or it can be defined as small-scale financial services to clients who are economically active in various urban and rural areas. Micro finance has become the most preferred route to meet the credit requirements of the poor.

The World Development Report (WDR) describes microfinance as a market based formal mechanism to mitigate the risks faced by the poor people as against the informal group based mechanism like savings and credit associations (Tara S. Nair, 2001). The most prominent national level microfinance apex organisation providing microfinance services for women in India, the National Credit Fund for Women or the Rashtriya Mahila Kosh, defines microfinance as a set of services comprising the following activities: (a) micro credit: small loans; primarily for income generation activities, but also for consumption and contingency needs. (b) micro savings: thrift or small savings from borrowers’ own resources (Archana Sinha, 2004).

Micro finance by definition refers to the entire range of financial and non-financial services, including skill upgradation and entrepreneurship development rendered to the poor for enabling them to overcome poverty, with special emphasis on empowering women. The operational framework of microfinance, therefore, essentially rests on the premises that; (a) formation of a self employment enterprise is a viable alternate means of alleviating poverty; (b) lack of access to capital assets/credit acts as a constraint on the existing and potential micro enterprises; and (c) the poor are capable of saving despite their poor income level.

Micro finance is thus a financial service of small quantity provided by financial institutions to the poor. These financial services may include savings, credit, insurance, leasing, money-transfer, equity transaction, etc., that is, any type of financial service
provided to customers to meet their normal financial needs; with the only qualification that (1) transaction value is small, and (2) customers are poor (Rajaram Dasgupta 2005). In essence, therefore, micro finance could be referred to as an institutional mechanism of providing credit support in small amount and usually linked with small groups along with other complementary support such as training and other related services to the people with poor resources and skills for enabling them to take up economic activities. In the November 1995 Micro Credit Summit, U.S. first lady Hillary Clinton wrote: ‘micro enterprise is the heart of development because micro enterprise programmes work - they lift women and families out of poverty. It is called micro but its impact on people is macro; we have seen that it takes just a few dollars, often as little it takes as dollar 10, to help a woman gain self employment, lift her and her family out of poverty. It is not a hand out; it is a helping hand.’ (Lekshmi R. Kulshreshta and Archna Gupta, 2002).

3.1.2. Trickle up Approach of Micro Finance

Most of the developed nations of the world started their growth path from the development of the agriculture sector. For a long time it was felt that the growth of developing countries is dependent on the growth path of developed countries, i.e. through the trickle down strategy. This is the economic theory which advocates letting businesses flourish, since their profits will ultimately trickle down to lower income individuals and the rest of the economy. In other words, this is a theory of economic development that claims higher standards of living for the poor will develop gradually with economic growth. The same applied on the macro level in the individual countries, which started believing on the concept of laissez-faire policy. However, there were countries like India and Israel, which did not believe in the free market economy and continued with their public expenditure programmes. Along with it, attention was made to make India a self-sustained economy at least from the view point of the agriculture sector. However, it took a long time to realise that if the gains of development have to go to the poor, then some different strategy has to be adopted.

When the Grameen Bank of Bangladesh started its foray into micro finance in the middle of 1970s it was realised that it can definitely be a good way for the benefit of the poor. Then it was the realised that it is not the trickle down approach but it is the trickle up approach which should be adopted to upgrade the living of the poor. Trickle up would therefore mean that the benefit should be directly provided to the poor so that they can
invest it accordingly for their own development and would try to improve their living standard. The countries were providing direct finance earlier also, but since the late 1970s it was realised that if one wants benefits to be passed to the poor ensuring its true use and accountability then micro finance is the best alternative.

In the development paradigm, micro finance has evolved as a need-based policy and programme to cater to the so far neglected target groups (women, poor, rural, deprived, etc.). Its evolution is based on the concern of all developing countries for empowerment of the poor and alleviation of poverty. Development organisations and policy makers have included access to credit for poor people as a major aspect of many poverty alleviation programmes. Micro finance programmes have in the recent past become one of the more promising ways to use scarce development funds to achieve the objectives of poverty alleviation. The basic idea of micro finance is simple: if poor people are provided access to financial services including credit, they may very well be able to start or expand a micro enterprise that will allow them to break out of poverty.

3.1.3. Features of Micro Finance

Micro finance is distinctly different from other populist poverty alleviation schemes. It must be understood that all small loans are not micro finance. Were that so, India would be the world leader in micro credit as 80% of the loans disbursed by public sector banks in India are on an average less than Rs.25,000 yet these are far from the periphery of micro credit (Lekshmi R. Kulshreshta and Archna Gupta, 2002).

Loans under micro finance programmes are very small, on an average less than dollar 100 by world standards and in hundreds of rupees by Indian standards. Micro finance continues to target the rural and urban households, with emphasis on women borrowers, provision of finance for creation of assets and their maintenance and bringing in greater quality of services. Micro finance providers themselves identify the beneficiaries independently or through NGOs. Credit follows thrift. The first stage is the formation of groups by individuals themselves, followed by the mobilisation of petty savings and recycling this by lending to group members. The repayment period is generally very short. The transactions are to be undertaken by mutual consent in truly informal manner. Loans are devoid of any concessionality and bear a comparatively higher rate of interest. It is a significant departure from earlier exercises in providing credit to the poor through financial institutions at subsidised rates with high default rates.
RBI has not imposed any minimum or maximum ceiling on the loan amount, assuming that the banks will be in a position to understand the underlying idea. The micro finance operates on the principle “borrower knows the best”. The operational strategy under the new micro finance involves several features such as simple procedures for reviewing and approving loan applications, delivery of credit and related services at commercial rates of interest in a convenient and user-friendly way; quick disbursement of small and short term loans; clear recovery procedures and strategies; maintaining high repayment rates and incentives of access to larger loans immediately following successful repayment of first loan (Lekshmi R. Kulshreshta and Archna Gupta, 2002)\(^{12}\).

In a nutshell, the important features of micro credit are:

1. Micro finance is a tool for the empowerment of poor women.
2. Loans under micro finance programmes are very small;
3. Micro finance targets the poor rural and urban households;
4. Credit under micro finance follows thrift, i.e., mobilise savings and lend the same;
5. Low transaction cost due to group lending;
6. Transparency in operation;
7. Short repayment period;
8. Simple procedures for reviewing, processing and approving loan applications and delivering credit;
9. Chances of misutilisation are rare and there is assured repayment.
10. Peer pressure act as the collateral security required for loans;
11. Need based loan disbursements;
12. Prompt repayment; and
13. There is no ceiling from the RBI in respect of minimum and maximum amounts.

The following are the main features of micro finance services provided by Rashtriya Mahila Kosh (RMK): (i) It is a tool for the empowerment of the poorest. (ii) The higher the income and better the asset position of the borrower, the lower the incremental benefit from further equal doses of micro credit is likely to be. (iii) Delivery is normally through Self Help Groups. (iv) It is essentially for promoting self-employment. The opportunities of wage employment are limited in developing countries - micro finance increases the productivity of self employment in the informal sector of the economy - generally used for (a) direct income generation (b) rearrangement of assets and liabilities for the
Microfinance is not just a financing system but a tool for social change, especially for women. It does not spring from market forces alone - it is potentially welfare enhancing – there is public interest in promoting the growth of microfinance - this is what makes it acceptable as a valid goal for public policy.

### 3.1.4. Significance of Micro-finance

Microfinance revolution is increasingly demand-led as contrasted to the supply-led State sponsored rural credit. Microfinance is profitable for banks/microfinance institutions adopting a profit-centric approach with customer-friendly savings and loan products.

Innovations by institutions across countries reveal that the poor are bankable and microenterprise finance through repayment incentive structure, streamlined administration and market-based pricing is sustainable. Since 36 percent of the credit needs in the rural areas is still met by informal sources namely, money lenders, landlords, friends and relatives, microfinance is a contextually significant policy (Manoranjan Sharma, 2005). Credit is vital to the poor for overcoming the inevitable and common imbalance between income and expenditure. Credit is also crucial to the poor for income-generating activities, like investing in their marginal farms or other small-scale self-employment ventures. Their access to formal banking channels, however, is limited due to their low resource base as well as due to the nature of formal credit institutions. The popularity of the microfinance self-help groups stems from widespread recognition that formal banking channels are largely ineffective in catering to the credit needs of the poor.

Tiny savings and loans are generally an unattractive business proposition for formal banking institutions. In addition to disincentives faced by the banks, there are also problems faced by the poor in accessing loans from formal banking institutions. For example, to minimize risks, banks demand collateral security that the average microborrower does not possess. Banks also insist on complicated procedures that are too time consuming and often too complicated for the poor and illiterate. Even in the implementation of direct lending programmes formal institutions find it difficult to overcome the problem of targeting. The experience is that the rich and powerful typically manage to corner the scarce loanable funds. Thus, formal banking channels remain largely inaccessible to the poor in India. As a result, the poor continue to be dependent on
informal sector lending, paying exorbitant rates or underselling the product and their labour power to the creditor. It was in response to these limitations in formal banking channels that micro credit mechanisms were innovated.

A quote from the former U.N. Secretary-General Kofi Annan’s video message on the launch of the International Year of Micro credit on 18th November 2004 also shows the significance of micro finance. “Micro finance has proved its value, in many countries, as a weapon against poverty and hunger. It really can change people’s lives for the better - especially the lives of those who need it most…. Let us be clear. Micro finance is not charity. It is a way to extend the same rights and services to low-income households that are available to everyone else. It is recognition that poor people are the solution, not the problem. It is a way to build on their energy, and vision. It is a way to grow productive enterprises, and so allow communities to prosper.”

3.1.5. Micro Financing: Shift from the Traditional Banking System

Micro financing has turned out to be an effective strategy for institutional financing agencies. For the financing institutions, the group lending minimises the transaction cost and at the same time they can make available small loans through group. Chances of misutilisation are rare and there is assured repayment because of peer monitoring by the group. The group concept has enabled them to create savings habit and minimise extravagance.

Besides, size and clientele group, what makes micro credit different from normal credit is that the latter is ‘walk-in’ and the former is ‘walk-out’ business for the Financial Institution. Unlike normal credit, micro credit is limited with collateral substitute and credit plus services. Micro credit thus becomes distinct from other regular credit where not only credit amount is small and clientele is poor, but also credit is provided with ‘collateral substitute’ instead of traditional collateral and non-financial services for increasing the productivity of credit (Rajaram Dasgupta, 2005).15

From the beneficiaries view point the system has been found beneficial because of the minimal procedural formalities, access to institutional credit without collateral offering, full autonomy in the selection of activity, and the availability of thrift for meeting urgent needs. Besides, the flexible repayment schedule enables them to repay as and when it is convenient. The group will see to it that prompt repayment is made as they are likely to get repeat loans. The limited skill needed for filling the forms and the absence of
procedural formalities have made the programme customer-friendly. The micro sized supplementary income generating activities pursued by the members defy the conventional standards of unit cost and unit size prescribed by banks and government departments. The smaller unit size allows the women to pursue the activities in their spare time and contribute to the family’s development.

Figure 3.1 outlines the different features between formal banking channels and micro finance channels. In contrast to formal banking, micro credit is characterized by small size, shorter loan duration, emphasis on thrift, and the absence of collateral security and informal procedures. In the absence of collateral security and formal documents there can be little legal recourse against defaulters. Peer group pressure, however, has proven even more effective than loan repayment mechanisms in the formal banking system. While the banking system is a purely commercial organization, the lower tiers in the micro finance system are social organizations and motivated by non-economic objectives.

**Figure 3.1 Comparison of Micro Finance and Formal Banking**

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<th>Formal Banking</th>
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<td>Size of Loan</td>
<td>Small/tiny size of credit</td>
<td>Medium/large credit</td>
</tr>
<tr>
<td>Duration of Loan</td>
<td>Short duration</td>
<td>Medium and long duration</td>
</tr>
<tr>
<td>Thrift</td>
<td>Emphasis on thrift as well as loan</td>
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<td>Screening and Monitoring</td>
<td>Group formation and informal methods</td>
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<td>Enforcement of Repayment</td>
<td>Peer pressure and weekly repayment</td>
<td>Collateral and legal pressures for repayment</td>
</tr>
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<td>Nature of Organization</td>
<td>Social organizational form</td>
<td>Commercial organizational form</td>
</tr>
<tr>
<td>Motivation</td>
<td>Self-help motivated</td>
<td>Profit motivated</td>
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<tr>
<td>Outreach</td>
<td>Access to poor without collateral (all members)</td>
<td>Access limited</td>
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**3.1.6. Evolution of Micro Finance**

The idea of micro finance somewhat strictly rolls around the philosophy of Muhammad Yunus of Bangladesh (Nobel laureate) who initiated organising poorest of the poor into self help groups namely Bangladesh Grameen Bank (BGB) in the year 1976, and make them realize the very basic ‘theory of survival’. It began in 1976 with lending of $27 to
42 poor people in a village next to the university campus where he was teaching economics. He had no intention of making a wave. Nor was he planning to create a bank for the poor. He had a very modest goal. He was trying to free 42 people from the clutches of money lenders by giving them the money they owed to the moneylenders, in order to repay them and become free from exploitation.

He was teaching in the Chittagong University while a famine raged in Bangladesh in 1974. It was uncomfortable to teach elegant theories of economics when people were dying of hunger. He felt totally irrelevant. He tried to make himself in some way relevant by going out to the poor people living in the village next the university campus. Initially he looked for any little thing that he could do to make the life of a poor individual slightly tolerable. One thing led to another. He kept seeing how people suffered because they could not find tiny amounts of money to carry on with their livelihood activities. To solve this problem, they went to moneylenders. Moneylenders turned them into slave-labour with unbelievable loan conditions. He wanted to see how many people there were in the village in this situation. He made a list. The list contained 42 names, the total amount they needed was $27. It was shock to the economic professor who taught his students about the national five-year plan and the rationale for investing billions of dollars to overcome poverty. The professor did not know that people go through misery because they did not have access to a few pennies, let alone a whole dollar. Even if the government invests those billions of dollars in big projects, this need of the poor will still not be addressed. He tried to address this problem by way of an emotional response: he gave the money from his pocket. He did not know that it would create emotional counter response from the people who got the money. They thought it was nothing less than a miracle. He thought if he could make so many people happy with such a small amount of money, why not do more of the same. He decided to link the poor people in the village with the bank located in the campus, but the bank refused to get involved. They argued that the poor are not creditworthy. He pleaded with them to give him a chance to try. They refused. Ultimately when he offered to become the guarantor for these loans, they reluctantly agreed. He started giving loans to poor people in Jobra and was pleasantly surprised to see that it was working perfectly. He continued to expand the programme. Several stages later, they converted the project into a formal bank, named, Grameen Bank, in 1983.
Gradually a new word, ‘micro credit’ was coined for these kinds of collateral-free tiny loans for income generating activities of the poor. The Grameen idea spread all over the world. Independent studies of micro credit programmes show that providing easy and affordable access to credit and other financial services to poor families can have a host of positive impacts on their livelihoods. A large number of impact studies done on the Grameen Bank have shown a significant impact on the lives of its members across wide range of economic and social indicators, including moving out of poverty, improved nutrition, better housing and sanitation, lower birth rate, lower child mortality, better access to education for the children, greater empowerment of women, and increased participation of women in social and political activities (Muhammed Yunus, 2004)\(^\text{16}\).

However, the world wide awareness and importance of micro finance for the upliftment of the poor has been growing over the years as different countries are attempting to device ways and means to enhance the access of the poor to credit facilities. As a result, an intense debate has erupted among the planners, bankers and officials of the government and non-governmental organisations as to how financial services can be provided to the poor in an effective, efficient and sustainable manner. Finally, the attempt and the idea has been praised world wide and the interest reached a new peak with a Micro Credit Summit held in February 1997 in Washington which was considered the first step of a decade-long campaign that seeks to ensure delivery of credit for self employment by 2005 to hundred million of the world’s poorest families especially the women of those families.

It was in such an environment that micro finance emerged as an innovation the world over. It was evolving into an effective system for provision of financial services to the poor households, more specifically micro enterprises. Internationally several variants of micro finance technologies have evolved in the last two decades as also a wide range of institutions (Satish, 2005)\(^\text{17}\).

### 3.1.7. Methodologies of Micro Finance

Micro finance generally works on different methodologies. The methodologies can be classified into five groups:

#### 3.1.7(i) Grameen and Solidarity model

People form groups of 3 to 8 persons on the condition that each of them would be assuming responsibility for the lending and other financial operations for the other
members of the group. Lending as well as repayment is directly to and from the individuals but with the guarantee of other group members. Grameen Bank in Bangladesh has perfected this technology and it has been adopted in many countries with modifications to suit local conditions and culture. The programmes of Banco Sol in Bolivia and most of the solidarity group model in Latin America follow this methodology.

3.1.7(ii) The Group Approach

The Group Approach delegates the entire financial process to the group rather than the financial institutions. Savings, loans, loan repayments are taken care of at the group level. These groups are in turn linked to a financial or a micro finance institution for sourcing of additional funds as well as depositing their savings. Best example of this type of technology is the Self Help Groups-bank linkage programmes in India.

3.1.7(iii) Individual Credit

Credit given directly to individuals also forms a part of the micro finance technology. Many institutions have adopted the individual credit route for micro finance where loan appraisal, loan disbursements and loan repayments as well as saving collections are all done on an individual basis. These technologies are predominant in the BRI-UNIT Desha in Indonesia as well as priority sector lending by banks in India especially the Regional Rural Banks and co-operative banks.

3.1.7(iv) Community Banking

This model is, to an extent, an expansion of group approach where the basic financial necessities of the poor especially the women are met through the community banking system. The community or village banks are organised with 30-50 members. These banks in turn borrow from the programme implementing institution and on-lend to the members. A prominent example of this type of micro finance institution is the Village Bank of FINCA in Latin America, which had been replicated in Africa and Central Asia.

3.1.7(v) Credit Unions and Co-operatives

Credit Unions and co-operatives are member-owned organisations providing credit and other financial services to their members. The apex bodies provide technical and financial support to the federating units. SANASA of Sri Lanka is a successful example of rural credit co-operative as micro finance service provider (Satish, 2005).
3.1.8. Micro Finance Institutions

Micro finance institutions (MFIs) are those, which provide arrangements for thrift, credit, and other financial services, mainly to the poor, enabling them to raise their income. According to NABARD task force, “MFI is an institution dealing with provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards.”

3.1.9. Importance of Micro Finance Institutions

Micro Finance Institutions are now ubiquitous in developing countries. They have promoted women’s entry into income earning occupations and have had an impact on women’s empowerment. The two main economic functions of MFIs are savings and credit. As credit organisations, they have solved the problem of how to extent credit to those who have no assets to pledge. The system of group guarantee combined with individual responsibility is the innovation that has enabled credit to be extended to hundreds of millions of poor, assetless women around the world. While credit is the main function of MFI, from which they earn an interest income or service charges, MFIs begin with the promotion of savings. Most institutions require a period of regular savings before individuals and groups can graduate to receiving credit.

Regular savings is promoted as a habit. For poor women and their households, not accustomed to savings, this is even a new way of life. Developing a capacity for individual savings can foster a sense of self-reliance. One of the most demanding things about poverty that women often mention is that of having to depend on handouts from others. Regular savings can provide a fund, even if not very large, to fall back on when in need. Very poor women mentioned that with savings they were able to meet some medical emergencies and school expenses. Women see that they can manage their affairs and do not have to run to moneylenders and traders every time.

Over the years numerous rituals have been established around with the regular activities of MFIs. Meetings of Velugu SHGs in Andhra Predesh, India begin with a song and then savings and loan repayments are collected and entered into account books. The repetition of songs and other rituals, like the Grameen Bank pledge, only reinforce the ethical character of the activity. One promoter of savings, through SHGs among Mumbai
pavement dwellers, compared regular savings to a moral discipline that is absolutely essential to life as breathing (D.N., 2005).  

The role of savings has been differently internalized by different social groups. The poorest with their limited incomes end up without any savings. They have to turn to moneylenders and the like for sudden expenditures. The point is not that savings can only be done by surplus households. But deficit households also can carry out some savings, which they can turn to in an emergency. Moreover they would lose less of their income (via interest and loan repayment) to moneylenders and traders than they did earlier. Further, savings leads to accumulation of assets.

What is important for the women themselves and their households also has an important social function – that of raising the rate of household savings. One of the cornerstones of high performing Asian economies has been their high rate of savings and investment. This macro economic factor is facilitated by the promotion of household savings, even among poorer households, that MFIs have facilitated. Thus the macro economic factor of savings as a proportion of GNP improves with the promotion of savings by MFIs.

Savings promotes capital accumulation. In Bangladesh, for instance, where MFIs like Grameen Bank and BRAC have emerged as large corporations. In the case of SHGs in India, often MFIs have more funds than their members can borrow, and this excess then ends up, in one way or other, in the commercial banking system. All in all, MFIs by extending the ethic of savings right down to the poorer sections of society have promoted capital accumulations, both by poor women and their households and within the economy as a whole (D.N, 2005).

The Ninth Plan objective was to double the flow of funds to agriculture and allied activities to boost the rural economy. The recent innovation in this area is to strengthen the Micro Finance Institutions by ensuring systematic participation of the village people in their functioning. There has been a shift of emphasis from formal credit institutions to informal credit institutions. The Gupta Committee (1998) on Agriculture Credit prescribed strategies to enhance the credit flow to NGOs and SHGs and suggested liberal attitude to these institutions. In the recent years several NGOs participated in the SHG-Bank Linkage Programme to extend credit services to the hard-core and assetless poor. The diverse organisational structure of the voluntary organisations necessitated the formulation of a national policy framework to streamline their functioning with regard to
micro credit throughout the country. The SHGs as new MFIs started operating since late 1980s and early nineties and have spread all over the country.

3.1.10. Classification of Micro Finance Institutions (MFIs)

NABARD categorised three types of Micro Finance Institutions:

(i) Not-for Profit MFIs:
   (a) Societies registered under Societies Registration Act, 1860 or similar State Act;
   (b) Public Trusts registered under the Indian Act, 1882;
   (c) Non-Profit Companies registered under Section 25 of the Companies Act, 1956;

(ii) Mutual Benefit MFIs:
   (a) State Credit Co-operatives;
   (b) National Credit Co-operatives;
   (c) Mutually Aided Co-operative Societies; and

(iii) Non-Banking Financial Companies (NBFCs) registered under the Companies Act, 1956.

The definition and classification of MFIs indicate that there are three important types of such institutions. These are:

(i) the Co-operatives;
(ii) the Self Help Groups;
(iii) the Non-Banking Financial Companies.

The Co-operatives had been in the field for about a century with a strong presence with weaker sections of the rural people. The SHG concept originated in the 1990s is mostly identified as the entry of commercial banks in the micro credit market through a ‘Participatory Approach’ of the rural people. The NBFCs finally are not confined to rural areas alone, but grown as small-scale banks and tried to provide credit and other financial services at attractive rates of interest. Till now the Co-operative Sector is under the control of the State Governments and the NBFCs under the control of RBI. The Self Help Groups as of now are linked to the banking sector and thus to some extent guided by
the rules and regulations of the RBI and the Central Government (Patro, Patnaik and Priyasi Nayak, 2001)\textsuperscript{21}.

3.1.11. Micro Enterprises

Darkness can be removed only by bringing in light. Similarly, poverty can be eradicated only by bringing in prosperity. Micro enterprise development is considered as a launching vehicle to reach the destination.

Micro enterprise is defined in terms of investment up to Rs. 25 lakh in plant and machinery. This is the largest segment of our organised industrial sector. As per the Annual Survey of Industries 1992-93, micro enterprises accounted for 23% of the total registered industrial units with the largest employment, constituting 11% of the total industrial labour force. Only 3% of small-scale industries are managed by women entrepreneurs as per 1992 statistics (Sundari and Geetha, 2000)\textsuperscript{22}.

Government of India from time to time has introduced various programmes for alleviation of rural poverty like extension of credit to priority sectors, development of khadi and village industries, self employment programmes like Development of Women and Children in Rural Area (DWCRA), Jawahar Rozgar Yojana (JRY), Integrated Rural Development Programme (IRDP), etc., but unfortunately these measures have not really reached the most needy beneficiaries, particularly the rural poor women.

Poverty is often the consequence of unemployment and being gender related, leads to feminization of poverty. To eliminate poverty particularly that affects women, they should be encouraged to undertake micro enterprises with available credit facilities from banks and through micro credit. Micro enterprises are considered as a growth engine that triggers developmental process. Micro enterprises have emerged as a real boon for the poor. Besides solving the problem of poverty, it helps generate additional income for families in both rural and urban sectors. Tailoring, embroidery work, pickle making, fruits canning, book binding, soaps and candle making provide ample prospects for illiterate and poor women to make a livelihood. Further, it is ideal for many women who prefer part-time employment. Most women conforming to the conventional and traditional roles accept domestic responsibilities as mothers and wives. Self-employment opportunities facilitate women to have flexible working hours. Besides it trains them to acquire entrepreneurial ability and at the same time obtain economic independence. In most economically depressed poor sections, men desert the families shirking their
responsibilities as principal earners. In such cases it becomes the women’s lot to provide for family and children. These female-headed households are the poorest of the poor, because women have less access than men to training, credit, property, resources and jobs.

Development of micro enterprises helps create immediate employment opportunities involving a number of women at low investment level. Besides, it provides full utilisation of capital and also reduces wastage of human resources particularly women. All these become a reality only if we tackle the problems involved in it. The main hurdles are lack of finance, technical knowledge, of training, quality control, storage facilities, communication and market information, use of obsolete and primitive technology and inadequate motivation (Manoharan and Girija, 2005).

3.2. Self Help Groups and Women Empowerment

“Self realisation and self initiative are the two most powerful weapons to wash poverty out from the world map”. This dynamic quotation of world’s greatest economist Chanakya is being translated to one word that is SHG. It is proverbially true that there is a great strength in unity. Once a group of people unite, they become a strength to reckon with. They gain strength from each other for development or when it comes to fighting together. Micro finance through Self Help Group (SHG) has become a ladder for the poor to bring them up not only economically but also socially, mentally and attitudinally (Rimjhim Mousumy Das, 2004). Self Help Group approach, in the recent years, has been rightly recognised as the best way of socio-economic empowerment of people living below poverty line in India and elsewhere.

3.2.1. The Concept of Self-Help Groups

The concept of Self Help Groups is the most exciting discovery in the context of Micro Finance. The SHGs are informal groups of persons joining together in order to share a common concern or programme. These groups are formed voluntarily and managed democratically. Their membership consists of homogeneous individuals. The objective of SHG is the common good of members and possibly of others around them. Thus, Self Help Groups, the small, economically homogeneous affinity group of rural poor voluntarily coming together for thrift, credit and other mutual help, seem to be the best
vehicles for socio-economic empowerment. The great merit of SHGs has been their ability to inculcate among the members the sound habits of thrift and banking.

A self help group is defined as a group consisting of people who have personal experience of a similar issue or life situation, either directly or through their family and friends. Sharing experiences enables them to give each other a unique quality of mutual support and to pool practical information and ways of coping.

Self Help Groups are small informal association of the poor created at the grass root level for the purpose of enabling members to reap economic benefits out of mutual help, solidarity and joint responsibility. Self Help Group are formed voluntarily by the rural and urban poor to save and contribute to a common fund to be lent to its members as per group decision and for working together for social and economic uplift of their families and community.

A self help group is defined as a “self governed, peer controlled informal group of people with similar socio economic background and having a desire to collectively perform common purpose”. Self Help Groups have been able to mobilize small savings either on weekly or monthly basis from persons who were not expected to have any savings. They have been able to effectively recycle the resources generated among the members for meeting the productive and emergent credit needs of members of the group.

**3.2.2. The Features of Self Help Groups**

According to D’ Souza (1999)\(^2\), the SHGs are basically small informal groups, characterized by voluntary membership, a democratic and consultative structure of governance, economic participation of members, autonomy, education and training and concern for the poor. Apart from a number of things the members do as a group, they pool their savings and lend within the group to meet the credit needs of the members. Creation of a common fund by regular contribution of members and issuance of loan with minimum documents and often without any security are, in fact, the key features of SHGs (Karmakar, 1999)\(^2\).

Fund generation in the initial stages may be substantially low in these groups. Such funds though meagre, will be supplemented by external resources mainly, loans from banks or grants given by NGOs, which promote them. SHGs offer to members preliminary banking services characterized by cost effectiveness, flexibility and freedom from defaults. Assessment of the credit needs of members is done periodically at group
meetings. The claims for credit are settled within the group by consensus. In case of any surplus, the amount is deposited in the bank or post offices. Defaulters are subjected to severe penalties but such occurrences are unusual. There is always peer group pressure on those who avail loan which, to a large extent, prevents defaults. The influence of the group on members is very powerful because it can put actions against defaulters and monitor the behaviour of members in order to forestall default.

3.2.3. Need and Importance of Self Help Groups

Self Help Groups are necessary to overcome exploitation, create confidence for the economic self-reliance of rural people, particularly among women who are mostly invisible in the social structure. These groups enable them to come together for common objective and gain strength from each other to deal with exploitation, which they are facing in several forms. A group becomes the basis for action and change. It also helps building of relationship for mutual trust between the promoting organisation and the rural poor through constant contact and genuine efforts. Self Help Groups play an important role in differentiating between consumer credit and production credit; analysing the credit system for its implication and changes in the economy, culture and social position of the target groups; providing easy access to credit and facilitating group/organisation for effective control; ensuring repayment and continuity through group dynamics; setting viable norms for interest rates, repayment schedules, gestation period, extension, writing of bad debts; and assisting group members in getting access to the formal credit institutions. Thus, Self Help Group disburses micro credit to the rural women for the purpose of making them enterprising women and encouraging them to enter into entrepreneurial activities. Credit needs of the rural and urban poor women are fulfilled totally through the SHGs. SHGs enhance equality of status of women as participants, decision-makers and beneficiaries in the democratic, economic, social and cultural spheres of life.

3.2.4. Role of Self Help Groups

Self Help Group members have a common perception of need and importance towards collective action. These groups promote savings among members and use the pooled resources to meet the emergent needs of their members including the consumption needs. The regular savings of SHG members form a precious resource base, if the savings are properly accounted for and are revolved to give resource to the needy. SHGs that begin
on savings first - credit later principle, naturally inculcate a discipline of regular savings and timely repayments. When the savings of all are to be used to benefit a few members, the non-receivers naturally exercise a peer pressure on the users for timely repayment because it is only after receiving these repayments that a resource is created with which the others can get loans. On stabilization of these processes, the SHG members can get more loans and the loan amount can be progressively increased.

It is expected that within the group, there should be true democratic culture in which all the members must participate actively in the decision-making process by taking part in the debate rather we should say discussion. Though the cohesiveness among the members would be increased due to homogeneity of the groups in terms of education, occupation, income distribution, sex composition, etc., the long term stability of SHGs depends on their members’ loyalty to it and the adequacy of SHGs to meet the growing needs of the members. It is obvious that collective work, leadership with fixed tenure, mutual trust and co-operative philosophy would be the driving force for SHGs. The basic objective of self help groups is to develop saving capability among the poorest sections of the society, which in turn reduce dependence on financial institutions and develop self-reliance. Where funds generation is low in the initial phases due to low saving capacities, this is supplemented by external resources. Thus Self Help Groups have been able to provide primitive banking service to its members that are cost effective, flexible and without defaults. They can play pivotal role in:

(i) Creating economic self-reliance of rural poor by meeting consumption and production credit needs as and when they arise. This will prevent exploitation of poorer sections from non-institutional credit sources.

(ii) Developing group dynamics, building leadership quality to realise their potentiality and self-belief.

(iii) Assisting the members to complete the formalities and documentation required to obtain credit from bank.

(iv) Helping banks in recovery of credit by motivating members for prompt repayment of loans.

(v) Procuring high cost inputs that could not be bought individually.

(vi) Training members in the use of extension services and government support.
Thus Self Help Groups undertake entrepreneurial activities at smaller level with minimum capital requirements. The women led Self Help Groups have successfully demonstrated how to mobilize and manage thrift, appraise credit needs and enforce financial self discipline. The Self Help Groups have the potential to ignite socio-economic revolution in rural India.

3.2.5. Formation of Self-Help Groups

An SHG both in principle and in practice is a group of individual members who by free associations, come together for a common collective purpose. In practice, SHGs comprise individual members known to each other, coming from the same village community and even neighbourhood. That is they are homogeneous and have certain pre-group social binding factor in the context of micro finance. SHGs are formed around the theme of savings and credit. A small group of individuals become members, and pool their savings on a regular basis form a collective fund. This fund is then rotated as credit among the members through self-generated norms. Hence the basis of the SHG is the mutuality and trust in depositing individual saving in group funds. Once the initial trust is established, the incentives or motivation for a member is the access provided to financial services through the common pool fund, which is higher than the individual fund saved.

In cases where the groups have been given a reasonable operating shape by promotional agencies like non-governmental organisations, and an SHG thus formed is stabilised, (through repeated rotations of their own savings converted to mutual credit), it is possible to introduce external funds. This completes the cycle of SHG and micro finance. Even though conceptually, the micro finance–based SHG is fairly simple, its management in a sustainable manner is quite complex and investment intensive (Satish, 2005).

Phases of Group Formation

There are two phases of group formation; (a) Pre-formation and (b) Formation.

(a) Pre-formation

This phase include the identification of village, identification of the target group to be addressed with in the village, providing the identified group with the sound logic on the efficacy of SHGs and motivating them to come together. The habit of sitting together and
conducting meetings is also established during this phase. Suspicion, fear and anxiety of members about the group are discussed and dealt with. Gradually, like-minded people come together and decide to form a SHG. Thus the first step is initial interaction, which envisages meeting people in their own settings so as to have a pulse of their preferences and perceptions.

\(b\) The formation of group

In the phase of group formation, if a conflict between individual interest and group interest surfaces, it has to be dealt with. Thus a set of procedures to be followed by the group, rules to be adhered to by the members and roles of leaders emerge after intense discussion. The bye-laws of the group evolve from such rules. This process has to be undertaken internally with only facilitation from an NGO or a bank representative. As the group is formed, members come under one head and they decide the name and number of members in the group. The bye-laws also are formed according to which working of the group is undertaken. On the violation of the rules, a member can be terminated from the group. An inter-se agreement is formed which is stamped as a general power of attorney.

The SHG after being formed starts collecting a fixed amount of thrift from each member regularly (mostly weekly) for about six months. It only collects thrift and no loan is given to any member. Firstly, the working fund generated out of small thrift is negligible in the initial period. Secondly, it tests the patience and tries to instill mutual trust among the members. During this period the groups are expected to open a savings account with a financial institution which would like to extend credit.

After accumulating a reasonable amount of resource, the group starts lending to its members for petty consumption needs. Claimants may be large but resource is small. This forces them to take appropriate decision to identify the most needy person with regard to endowment level. A free and fair discussion removes the element of subjectivity from the decision-making process; makes the borrowers understand the value of credit and the importance of repayment and accountability to the group.

The repayment of loan along with interest and regular thrift enlarge the working fund and increase the scope of lending. Not withstanding this, the working fund generated by the group may not be adequate to meet all types of credit needs of all the members. The group then approaches the Financial Institutions where it had opened the savings account. If the bank is satisfied with the group in terms of genuineness of demand for credit; credit
handling capacity of the members; repayment behaviour within the group and the accounting system and maintenance of records, it extends a term loan of smaller amount to the group. The group in turn continues to take decision as in the past, the only difference being it has now higher amount of resource. In addition, the group is jointly liable to the bank for repayment. The group’s responsibility in monitoring the members therefore increases. This joint liability provides incentives or compels the group to undertake the burden of selection, monitoring and enforcement that would otherwise fall on the lender.

Executive of the group constitutes of the President, the Secretary and the Cashier. They are selected by the members themselves with verbal approval. Executive members should have an attitude to serve and work for the group. The group members should have confidence in the executive. The executive performs all functions on behalf of the group.

Basically three registers are prepared: (a) Execution Register in which all the execution undertaken during the meeting and an agenda for the next meeting are recorded - is kept by the secretary. (b) Loan Register in which all the concerned information of loan sanctioning is recorded - is kept by the cashier. (c) The Saving Register which records the saving account of the group - is kept by the secretary. The pass book to each individual is given to keep their personal record and this is also updated during the meeting and verified by the cashier. The animators are trained thoroughly in various facets of group formation before they are assigned their responsibility.

3.2.6. Linking Self Help Groups with Banks

NABARD launched a pilot project in early 1990s for linking SHGs with formal lending institutions to promote the habit of thrift. NABARD provided refinance to banks for on-lending to SHGs. Experiences of some countries have brought to light the fact that SHGs play a significant role in mobilising substantial amounts of savings and provide large number of loans to the members.

3.2.6a Procedure for Extending Bank Finance

Banks may lend directly to SHGs or through bulk lending to NGOs for on-lending to groups. If lending is directly from bank to the group, the quantum of credit given to the groups should be in proportion to the savings mobilized by the group. Savings-credit ratio may be 1:1 or 1:2 initially which can be raised to 1:4 depending on the confidence gained by the bank. Linking programmes is advantageous to banks, SHGs and also NGOs.
Advantage of Linkage Programme to Banks

1) Mobilisation of small savings.
2) The problem of dealing efficiently and economically with a large number of small borrowers is overcome through self help groups.
3) As the task of assessing individual credit needs, sanctioning, supervising credit and monitoring the repayment are externalized, the transaction cost is considerably reduced.
4) Assured and timely repayment because of group supervision, which leads to faster recycling of funds.

Advantages to SHGs

1) They enjoy total autonomy in thrift and credit management.
2) Access to larger amount of funds.
3) Striving for gradual improvement in the economic status of each member.
4) Promoting SHG-members as quality micro-entrepreneurs.
5) Lending to empowerment of the poor.

Advantages to NGOs

1) Recognition as socio-economic change agents.
2) Emergence as bridge between poor and the bank

3.2.6b Models of Self Help Groups – Non-Governmental Organisations - Bank Linkage

There are mainly three models related to SHGs – NGOs - Bank Linkage. They are:

Model-I: SHGs formed by the NGO and linked to the bank

In this model, NGOs would organise the poor into SHGs, undertake training for awareness building, entrepreneurship and skill training, help in arranging inputs, extension and marketing, introduce saving and lending, help in maintenance of accounts and link them with the banks for credit requirements. Banks directly provide loans to SHGs with recommendation of the NGOs. In this model NGO acts as facilitators.

Model –II: NGO forms SHGs and perform financial intermediation role as on lender to SHGs after sourcing loans from bank.

In this case, besides acting as facilitator, the NGO also works as financial intermediary. Here the loan is given to the NGOs by the bank for on-lending the SHGs/individuals. In this linkage model NGO would be legally responsible for repayment; and would bear the risk of non-payment. Involvement of NGOs in micro credit system would have positive
influence as they are grass root agencies with good information about borrowers. At the same time, NGOs would be in a position to help rural poor particularly women to bring them above poverty line and create rural employment. People’s participation have been tremendous in NGO-organised SHGs.

**Model-III: Bank –SHG Association**

In this case, banks directly promote self help groups. Here the bank assumes to play the role of NGOs and ensure linkage with SHGs. This SHG-NGO-Bank integration is very much essential to credit delivery, for self-employment and other business activities which could be an effective vaccine against poverty. The ultimate goal of this linkage programme is not just promotion of SHGs, but poverty eradication. It is an established fact that micro credit is an important means of poverty alleviation. The SHG root is one of the cost effective methods of credit flow to the poor who need most (Sabyasachi Das, 2003).

3.2.6c Assessing a Self Help Group for Linkage

For any financing institution, appraisal is very important for ensuring the utility of the loan and repayment of the loan. Bankers generally appraise the project and the borrower. In case of SHG financing, most of the project appraisal norms like assessing the cost benefit and profits will not be workable due to the peculiarities of SHG financing. For considering a loan application for financing, the Financer has to evaluate the capacity and character of the prospective borrower. SHGs also being customers have to be appraised before extending credit facilities. But the assessment of credit-worthiness of a SHG is very different from that of an individual. SHGs are not to be assessed in terms of their ability to provide collateral or guarantees of net worth. The SHGs have to be assessed in terms of group dynamics like cohesion, vibrancy, goal-oriented action, participation of members, democratic decision and collective leadership. The appraiser has to see whether the group is functioning actually as a group, why the members have come together, whether it is for obtaining loan from bank or the group sees other purposes, what is the group discipline and whether it is sustainable.

3.2.6d Rating of Self Help Groups for Linkage

NABARD gives a rating-scale (Ref: Appendix-B) for assessing the SHGs for bank-linkage and on the basis of that rating-scale, banks assess the SHGs for the linkage based on the following criteria.

Selection Criteria of SHGs for Linkage to Bank Loan

1. SHG scoring more than 120 marks out of maximum of 150 marks could be chosen for credit linkage.
2. SHG scoring less than 120 marks will have to be further developed before linkage.

3.2.7 Refinance Assistance provided by NABARD

Self Help Group is a viable organised set up to disburse micro credit to the rural women and encourage them in entrepreneurial activities. SHGs and micro credit are the solutions to speed up the socio-economic development of poor women.

NABARD has been working as a catalyst in promoting and linking more and more SHGs to the banking system. A Micro Finance Development Fund has been constituted in NABARD. This would be utilized for scaling up the SHG-linkage programme and supporting other micro credit initiatives. Special emphasis is provided for building the capacities of the poor with particular emphasis on vulnerable sections including women, scheduled castes and scheduled tribes. The refinance assistance provided by NABARD with regard to micro credit presented in Table 3.1 reveals that commercial banks and regional rural banks have developed linkage to 4,61,478 SHGs as on 31.03.2002. The cumulative credit disbursed by them is Rs.545.46 crores as on 31.03.2002. The amount of refinance provided so far is Rs.395.73 crores.

Table 3.1 Growth of Micro Finance in India

<table>
<thead>
<tr>
<th>Year</th>
<th>No: of SHGs</th>
<th>Bank Loan</th>
<th>NABARD Refinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>255</td>
<td>0.289</td>
<td>0.268</td>
</tr>
<tr>
<td>1993-94</td>
<td>620</td>
<td>0.650</td>
<td>0.459</td>
</tr>
<tr>
<td>1994-95</td>
<td>2112</td>
<td>2.440</td>
<td>2.303</td>
</tr>
<tr>
<td>1995-96</td>
<td>4757</td>
<td>6.058</td>
<td>5.661</td>
</tr>
<tr>
<td>1996-97</td>
<td>8598</td>
<td>11.840</td>
<td>10.650</td>
</tr>
<tr>
<td>1997-98</td>
<td>14317</td>
<td>23.760</td>
<td>21.380</td>
</tr>
<tr>
<td>1998-99</td>
<td>32995</td>
<td>57.070</td>
<td>52.060</td>
</tr>
<tr>
<td>1999-2000</td>
<td>114775</td>
<td>192.870</td>
<td>150.130</td>
</tr>
<tr>
<td>2000-2001</td>
<td>263825</td>
<td>480.870</td>
<td>250.620</td>
</tr>
<tr>
<td>2001-2002</td>
<td>461478</td>
<td>545.46</td>
<td>395.73</td>
</tr>
</tbody>
</table>

Source: Kurukshetra, April 2005

As per current growth rate, by 2008 NABARD aims at linking one million SHGs involving 20 million poor households with the help of 4000 Non-Government Organisations and 1000 Micro Finance Institutions (Kamalakannan, April 2005)30.

3.2.8. Micro Finance: Instrument for Women’s Empowerment

Although men, as well as women, face difficulties in establishing a new enterprise, women have more barriers to overcome. They include negative socio-cultural attitudes, legal barriers, practical external barriers, lack of education, personal difficulties, etc. In spite of this, for women and especially for poor women, micro enterprise ownership has
emerged as a strategy for economical survival. One of the most essential factors contributing to success in micro entrepreneurship is access to capital and financial services. For various reasons, women have had less access to these services than men.

In this context, credit for micro enterprise development has been a crucial issue over the past two decades. Research has shown that investing in women offers the most effective means to improve health, nutrition, hygiene, and educational standards for families and consequently for the whole of society. Thus, a special support for women in both financial and non-financial services is necessary.

Women depend largely on their own limited cash resources or, in some cases, loans extended from family members for investment capital. Smaller amounts of investment capital effectively limit women to a narrow range of low-return activities, which require minimal capital outlays, few tools and equipment and which rely on farm produce or inexpensive raw-materials.

In general, women need access to small loans (especially for working capital), innovative forms of collateral, frequent repayment schedules corresponding to the cash flows of their enterprises, simpler application procedures and improved access to saving accounts.

Among the various measures targeted towards women’s empowerment, the provision of microfinance or small credit assumes crucial importance. Micro Finance is emerging as a powerful instrument for poverty alleviation in the new economy. In India, microfinance scene is dominated by self help groups - bank linkage programme, aimed at providing a cost effective mechanism for providing financial services to the ‘unreached poor’. Based on the philosophy of peer pressure and group savings as collateral substitute, the SHG programme has been successful not only in meeting peculiar needs of the rural poor, but also in strengthening collective self help capacities of the poor at the local level, leading to their empowerment.

Micro credit or micro finance for the poor and women has received extensive recognition as a strategy for poverty reduction and for economic empowerment. Development practitioners in India and other developing countries often argue that the exaggerated focus on micro credit as a solution for poverty has led to neglect by the state and public institutions in addressing employment and livelihood needs of the poor. With the onset of the structural adjustment programmes in the early nineties, state spending on social sectors has been declining. In a country like India, economic uncertainties, loss of
livelihood, inflation, lack of access to natural resources, declining employment, increasing social unrest, national disaster, etc., make the poor extremely vulnerable. In this context it would be necessary to ensure that the poor are empowered to access development resources and use it to their greatest benefits. (Archana Sinha, 2004)\textsuperscript{31}.

Micro credit aims at organising people particularly around credit and building capacities to manage money. The focus is on getting the poor to mobilise their own funds, building their capacities and empowering them to leverage external credit. Learning to manage money and rotate funds builds women’s capacities and confidence to intervene in local development and local governance beyond the limited goals of ensuring access to credit.

Before 1990s credit schemes for rural women were almost negligible. The concept of women’s credit was evolved on the insistence by women oriented studies that highlighted the discrimination and struggle of women in having access to credit. However, there is a perceptible gap in financing genuine credit needs of the poor especially women in the rural sector.

There are certain misconceptions that the poor people need loan at subsidised rates of interest on soft terms, they lack education, skills, capacity to save, credit worthiness and therefore are not bankable. Nevertheless, the experiences of several SHGs reveal that rural poor are actually efficient managers of credit and finance. Availability of timely and adequate credit is essential for them to undertake any economic activity rather than credit subsidy.

The Government measures have attempted to help the poor by implementing different poverty alleviation programmes but with little success. Most of them are target-based involving lengthy procedures for loan disbursements, high transaction cost and lack of supervision and monitoring. Since the credit requirements of the rural poor cannot be adopted on project lending approach as it is in the case of organised sector, there emerged the need for an informal credit supply through SHGs. The rural poor with the assistance from NGOs have demonstrated their potential for self help in achieving economic and financial strength. Various case studies show that there is a positive correlation between credit availability and women’s empowerment (Archana Sinha, 2004)\textsuperscript{32}.

\textbf{3.2.9. Self Help Groups for Women Empowerment}

Self Help Groups have become a powerful instrument in providing access of banking services to poor and also in mobilising their small savings. Many studies highlight that
SHGs have been successful in inculcating saving habits among the poor, enabling the rural households to take up larger productive activities, empowering the poor women and in reducing their dependence on exploitative local moneylenders. The programme of micro financing through SHGs with the intervention of NGOs and the support from the government has shown many positive impacts on rural poor women which leads to their empowerment. The impacts of micro finance through SHGs are described below:

(i) Increased Savings

SHGs have helped to generate and collect small savings from rural women who were hitherto considered incapable of having any capacity to save. The regular savings, though they are small, provide a fund for rural poor women to fall back on when in need, otherwise they will have to depend on hand outs from others. The SHGs inculcate the habit of regular savings among poor women, which has been instrumental for their empowerment.

(ii) Access to Credit

The SHGs have extended the credit facility to the needy women/households who are having no assets to pledge. The system of group guarantee combined with individual responsibility is the innovation that has enabled the credit to be expanded to millions of poor and assetless women across India. The SHGs have facilitated the rural women to fulfil their credit requirements both for meeting emergent consumption needs as well as small production requirements. This has been achieved without requirements of collateral, complex loan and at a low transaction cost. Access of women to credit facilities ultimately result in their empowerment.

(iii) Regular Repayment of Loans

The SHGs have been able to build social collateral and peer pressure to ensure that payments come on time. Non Performing Assets (NPA) is a non-issue in SHGs-Bank linkage programme. The SHGs have been successful in building an impersonal market relation between financial intermediaries and the clients by breaking the earlier patron-client relation. The ethic of repayment of SHGs has radiated beyond that circle in the economy, as there has been an improvement in overall loan recovery of commercial bank branches in areas where SHGs have been functioning. They had large NPAs mainly out of government’s poverty alleviation programmes. But with the spread of SHGs even these NPAs are reported to have come down by as much as 80
per cent. As a result, banks are ready to provide more loans to the needy women through their self help groups. This has created confidence in them, which leads to their empowerment.

(iv) **Choice of Appropriate Avocations**

In SHG-Bank linkage programme the selection of the productive activities by the borrower is as per their own choice and hence the rate of success among the SHG members is very high. This is, perhaps, the main reason for cent percent repayment of loans and also increase in their living standards.

(v) **Commercialisation of Economic Life**

In order to earn money, the members of SHGs have to necessarily increase activities on a commercial scale. What was formerly produced for domestic consumption or for gifts by the SHG members have now begun to be produced for marketing after the formation of the SHGs. The system of loans and repayment invariably encourages production on commercial principle. This has resulted in the enhancement of their income.

(vi) **Changed Life Styles:**

The long standing SHGs brought attitudinal change among their members. By making their activities commercial, the SHGs created a sense of productive partnership among the members. They are trained in discharging group responsibilities. Though majority of them are illiterate, they have learnt to keep accounts. The SHGs imbibe in them the sense of democratic spirit and secular approach. These attitudinal changes of women have brought perceptible changes in social, cultural and political life of the rural folk.

Although there is remarkable success in SHGs micro financing, the movement has its own constraints also.

(i) **Small Scale Operation**

The SHGs collect savings and advance loan of a meagre scale. As on March 2002, advances by SHGs formed only 0.15% of outstanding priority sector loans and 0.5% of accounts of scheduled commercial banks. There is a need for upscaling their activities. The performance of SHGs cannot be measured primarily in terms of the repayment rate and continuity and sustainability. The upscaling of their financial services warrants the
consideration of certain vital development issues like efficiency, productivity, and opportunity cost of using the financial resources.

(ii) Winners and Losers:

The success of a woman member is judged by her conformity to the norms of the SHG – i.e. regular savings, timely repayment, work to earn income and the ability to control the household expenditure, particularly that of her husband. This being the case, there are many women who may be called ‘winners’ and some others ‘losers’. Some women are not able to repay their loans and make regular savings. There are instances of women who borrowed at high rates of interest from moneylenders in order to keep up with their SHGs repayment commitments. This is because when hundred and more women start the commercial production of goods and services in the same line, it is inevitable that some will not be able to find market and make profit. Those who fail to make a profit, are labelled as losers. Equality of opportunity does not yield equality of well-being.

Moreover the success of a petty business depends not only on capital investment, but also on marketing skills, quality of products/services, location of business, etc., which are not same to all women. Some women, even if they are commercially successful in making profit, are not able to save and repay loan simply because they have no control over their household expenditure or that of their drunken husbands. Thus along with winners, there are losers. Such problems cannot be solved by micro credit alone.

(iii) Lack of Sustainability and Self-Sufficiency:

The majority of the SHGs are too small. The scale of their business is not viable as the members are very poor. The group found to be self-sufficient and sustainable usually, is formed by the better off among the poor people, who are just above the poverty line. A few studies suggest that the SHGs that are financially self-sufficient and sustainable tend to be those that do not serve the poorest borrowers. Many of the SHGs still depend on subsidy or grant from the donor agencies or on concessional funds from external agencies. A study has revealed that only 33% of the SHGs survived after three years of existence.

(iv) No Security

The SHGs work on mutual trust and confidence of the members. The deposits of the SHGs are not secured or safe. The SHGs are not allowed to accept deposits from non-
members either. Further, SHGs do not have any statutory redressal mechanism to resolve disputes.

(v) Poor Impact on Income and Employment

The SHGs are successful in imbibing banking habits among their members. But the impact of micro financing on the income, employment and levels of living of their members are marginal. Many of them are not able to cross the poverty line. It requires an additional injection of investments (Chandrakavate, 2006)\textsuperscript{33}.

3.3 Conclusion

Micro finance, the development buzzword of the nineties, is an important tool for poverty alleviation and women empowerment. The SHGs have proved beyond doubt that they are the fastest growing and the most cost effective micro financial initiatives in the world. The self-help groups (SHGs) are the latest breed of the micro finance industries in India. In India, efforts are made to promote micro finance in a sustainable manner. An important vehicle for this has been the SHG programme and its linkage with banks. Though SHGs existed even before the linkage programme, the banks could not recognise their potential as business clients and both operated independently, without knowing the strength of the other. Intervening to forge a linkage, NABARD was instrumental in the emergence of a very strong micro finance movement in the country. In spite of the various constraints and inherent limitations, micro finance and SHGs have been playing a major role in the empowerment of women.

References:-


11. Ibid., p.105.

12. Ibid., p.105.


18. Ibid., pp.1731-1732.


20. Ibid., p.276.


31. Archana, Sinha, op.cit., p.34.

32. Ibid., p.34-35.