"Micro credit is a critical antipoverty tool, a wise investment in human capital. When the poorest, especially women receive credit, they become economic actors with power to improve not only their own lives, but in a widening circle of impact, the lives of their families, their communities and their relations".

- Kofi Annan
Secretary General, United Nation

1.1 INTRODUCTION

India has a population of 1027.01 million with 742 million living in rural areas¹. About 40 per cent of the rural population and 23.62 per cent of the urban population are estimated to be living below the poverty line². The urban and rural poor have been dependent on money lenders for their financial needs, such as marriage in the family, illness or other emergency needs, as the formal credit system of banks, by and large, is beyond the reach of the poor. This provides an opportunity for money lenders to exploit the situation.

The prime need of the hour is to ensure that the poor live with dignity, sufficiency and responsibility. It is also recognised that the poor people are bankable and that they themselves are likely to have a better appreciation of their socio-economic situation. The activities of Self Help Groups (SHGs)
have emerged as a sustainable approach to make credit facilities available to the poor at their doorstep in a simple and flexible manner.

1.2 SELF HELP GROUPS: EVOLUTION, CONCEPT AND FEATURES

(i) Evolution of SHGs

The genesis of SHGs could be traced to "Mutual Aid" in Indian village community. In traditional rural societies, self-help takes various forms. Activities like housing / farm operations, which have to be completed within stipulated time, depend upon such arrangements. Likewise, people share implements required in agricultural production. Sharing of irrigation water / bullocks necessitates a management based on self-help. However, in the West, the theoretical approach to collective action was among others, developed by Olson and he says people will participate in collective action when they are organised in small groups when the expected private benefits from the collective action exceed the expected private costs of participation.\(^3\)

The existence of traditional saving groups has been well documented and has a long and successful history in India. Informal SHGs oriented to saving and credit functions are not a new phenomenon.\(^4\) Some forms of credit instruments were in operation even before 1904 when the Co-operative Credit Societies Act was passed. Credit instruments such as Nidhis and Chit Funds were popular, especially in South India. They had several distinguishing features, such as, encouraging thrift, mobilising small savings and inculcating in the members the habits of punctuality and planning for future. The useful
role played by these instruments in the rural areas as important sources of credit to people with moderate needs has been well recognised.

The SHG is defined as a voluntary group valuing personal interactions and mutual aid as a means of altering or ameliorating the problems perceived as alterable, pressing, and personal by most of its participants. These groups are voluntary associations of people formed to attain certain collective goals that could be economic, social or both. The policy planners and development planners cherish the myth that poor people do not have the spirit to thrift, but recent reports from different parts of the globe challenge this.

Since the SHGs in India are informal groups, their legal status has not been defined. What they initially intended was to bring together people, particularly economically weaker sections and to undertake activities of mutual interest. Members of SHGs have no risk taking ability, hardly anything to offer as guarantee against availing loans from formal Rural Financial Institutions (RFIs) and limited earning opportunities. However, thrift, credit and income generating activities emerged as the major activities of the SHGs. In other words, the SHGs evolved a system for collective savings, group consumption credit, as well as, integrating social and economic goals among small groups.

The initial growth of SHGs has been in areas where they received support from Non-Government Organisations (NGOs). The NGOs supported not only in the formation of SHGs but also in identifying economic activities, imparting training, and even financial support in the initial stage. The critical
areas in forming the groups at the beginning were their size and composition, homogeneity, group discipline, saving habits and sustainability. By offering saving services, a financial institution can promote greater customer loyalty and loan repayment discipline, thus reducing the institution's cost of funds for on-lending and overall transaction cost. Moreover, RFIs can also improve their viability by expanding their volume of business. Subsequently, the SHGs have been linked with banks for saving and credit operations. Bank linkage model evolved as a core strategy that could be used by the banking system for increasing its outreach to the poorest of the poor who were hitherto getting by-passed by it.

(ii) Concept of SHG

The Self Help Groups (SHGs) are voluntary associations of people formed to attain a collective goal. People who are homogenous with respect to social background, heritage, caste or traditional occupation come together for a common cause to raise and manage resources for the benefit of the group members.

The process by which the group of people with a common objective are facilitated to come together in order to participate in the development activities (i.e.) savings, credit, income generation, etc., is called GROUP FORMATION.

Although the SHGs can be formed for any development activity, for the financial institutions to use them as a conduit for banking activities, the SHGs
should be practising thrift and credit and be familiar with money management.

(iii) Features of SHGs

Generally, SHGs encompass several activities of men and women but the Indian focus is on financial aspects of SHGs. In addition to India, this financial SHG concept is being promoted in Bangladesh, Indonesia, Thailand, Philippines, Nepal, Sri Lanka, etc. The salient features of SHGs are

(i) Homogenous in terms of economic status and interest and an affinity group.

(ii) Small in size and their membership per group range from 10 to 20 people.

(iii) They are non-political and voluntary and follow democratic culture.

(iv) They hold weekly meetings and mostly during non-working hours.

(v) They have the transparency among themselves and they have the collective accountability of financial transactions in the group.

(iv) Functions

(i) Conduct regular weekly meetings;

(ii) Promote saving attitude and habit among the members;

(iii) Indulge in credit management;
(iv) Build the common-fund slowly and systematically; and
(v) Establish linkage with bank and government department.

A typical SHG model is depicted in Figure 1. Some of the features might vary from one SHG to another promoted by various NGOs, banks, etc.

**Household Resources**

- Physical Capital (Limited)
- Human Capital

Promoters
(NGOs, Banks, etc.)

Access to credit
Training to members
Technical guidance

SHG
(10 TO 20 MEMBERS)

Loan to members
Community action
Common Investments

Investment
- On-farm
- Off-farm
- Education

Consumption
- Nutrition
- Health

Clearing of old debts
Social obligation

Increased employment
Income - saving, and empowerment

**FIGURE 1**

A TYPICAL SHG MODEL
(v) Significance of SHGs

SHGs are necessary to overcome exploitation, create confidence for economic self-reliance in the poor, particularly in women who are mostly invisible in the social structure. The SHGs become the basis 'for action and change' and build a relationship of mutual trust between the promoting organisation and the rural poor through constant contact and genuine efforts. Credit delivery through thrift and credit groups (SHGs) emerges as an alternative to the existing system of credit disbursement by the banks. SHGs have been found to help inculcate among their members sound habits of thrift, saving and banking.

Self-help approach is fast gaining acceptance internationally as the most appropriate instrument to reach out to the poorest of the poor in a most effective way. Experience in various countries has brought to light the fact that SHGs play a significant role in mobilising substantial amounts of saving and providing loans to the members. SHGs have also been able to bring about positive improvement in a number of social indicators such as literacy and health.

SHGs promote participatory credit management and fill a vacuum created by the ineffective, rigid formal credit necessity of adopting a flexible mechanism sensitive to the needs and conditions of the people for whom these are meant. Rescheduling of loans in times of genuine hardships, recognising the consumption requirements of the people along with their
production needs and the need to address social problems are all considered\(^{14}\).

The benefits of SHGs, that have primarily been formed in India as micro credit groups for economic empowerment of women and the weaker sections are: that they provide a via media for development of saving habit among the poor; have access to large quantum of resources; provide a window for better technology and skill upgradation, have access to various promotional assistance and assurance of freedom, self reliance and empowerment. Collectivisation implies cohesion of the group and enables the members of the group to perceive common interests and act collectively. In contrast to formal organisations, self help is highly personal, non-hierarchical and without division of labour. Self-help favours experience over expertise\(^{15}\).

1.3 MICRO CREDIT – NEED AND EMERGENCE

The structure of rural financial market in India is dualistic consisting of both formal and informal financial intermediaries. A consensus is growing among researchers that the formal financial sector is not effectively serving the rural population in the Third World Countries\(^ {16}\). This is mainly attributed to the failure of financial intermediaries in fulfilling their basic functions namely, production credit to finance income generating activities, consumption credit to maintain and expand human productive capacity and quality saving schemes for increasing risk bearing capacity of the rural households. Moreover, these institutions have failed to promote any of their social objectives\(^{17}\). To reach the poor, institutional innovations are needed that
enable services to be expanded, while substantially reducing transaction costs for both financial institutions and clients. In many countries in the world, micro credit programmes have succeeded in generating self employment by providing access to small capital to people living in poverty.

The performance of formal financial institutions particularly in their lending to the poor in India has been unsatisfactory. They face a number of constraints in broadening their services to the poor. As a result of the inaccessibility of the formal banking system to the poor, micro financial institutions emerged, which act as an impetus for community action. There has been a surge of interest in micro finance in the recent past, particularly in the context of reaching the poor families in a more effective way. As an informal supplementary credit delivery mechanism by lending at a group level, the Self Help Groups (SHGs) came into existence.

Finance is basic to any economic activity. The basic philosophy of rural finance is the dispensation of loans at a concessional rate through administrative control targeting the rural people engaged either in agricultural or non-agricultural activities. But it is felt that a large number of poverty stricken people and particularly the women, who constitute a significant number, still remain outside the ambit of institutional finance. In order to give a new approach to rural finance, National Bank for Agricultural and Rural Development (NABARD) had introduced the 'Self Help Groups' in 1992 which is generally treated as finance to a small group. This new approach, in other words, is known as Micro Credit.
Micro credit programmes extend small loans to poor people for self employment projects that generate income, allowing them to care for themselves and their families. In most cases, micro credit programmes offer a combination of services and resources to their clients in addition to credit for self-employment. These often include savings, training networking and peer support. It is ironical that micro enterprises are often unorganised, decentralised and unprotected and their contribution to the economy often remains unorganised.

In February 1997, a summit was convened in Washington to review and give direction for financing to the poorest people in the under-developed countries. The summit defined its goal to Micro-finance those “programmes that provide credit for self-employment and other financial and business services (including savings and other technical assistance) to very poor persons”. Micro level financial schemes help people help themselves by starting small income generation projects and activities.

The maximum experimentation with micro-credit can be seen in Bangladesh, where it has been extensively used for reaching the poorest sections of the society. It has proved to be a most powerful weapon to fight poverty. During the seventies many initiatives were taken in developed and developing countries in Asia, Africa and Latin America. The approach of micro-credit consisted of Self Help Groups (SHGs), Revolving Savings and Credit Associations (ROSCAS), Solidarity Groups, Money Store, etc. Some of the examples outside India are Philippine Commercial and Industrial Bank,
Rural Bank of Ghana and Grameen Bank (Bangladesh)\textsuperscript{23}. The Grameen Bank set up in 1976 by Muhammad Yunus, is one of the most popular models for providing micro-credit to poor. At present 90 per cent of the members are women\textsuperscript{24}.

In India, Self Employed Women’s Association (SEWA) in Gujarat and Madhya Pradesh, Mysore Resettlement Development Agency (MYRADA) in Karnataka, Professional Assistance for Development Action (PRADAN) in Rajasthan, Association of Sarva Seva Farms (ASSEFA) in Tamil Nadu, New Public School Society in Uttar Pradesh, and other organisations took up the initiative. The credit needs of groups are met in a convenient, flexible and cost-effective way.

NABARD’s efforts of improving the access of the rural poor to formal banking services through SHGs has gathered momentum during the last few years. It not only extends 100 per cent refinance facilities to the banks at concessional interest rate, but it has also taken various promotional initiatives to expand SHG-Bank linkage programme\textsuperscript{25}. Small Industries Development Bank of India (SIDBI) also extends credit facilities through NGOs and more than 150 NGOs had availed credit facilities from SIDBI for on-lending to small borrowers\textsuperscript{26}.

The Department of Women and Child Development launched the Indira Mahila Yojana (IMY) in 1995 as a central sector project for the holistic empowerment of women in 200 blocks. Under this programme, efforts are being made for setting up of SHGs of women. IMY aims to fill up the gaps
where suitable NGOs are not available to take up micro credit programme\textsuperscript{27}. Rashtriya Mahila Kosh (RMK) was set up in March 1993, with the objective of extending credit limits to poor women through NGOs, Women Development Corporations (WDC), Co-operative Societies and Indira Mahila Block Samitees and taking up other promotional and advocacy roles to achieve economic self reliance for women. Credit facilities are extended at eight per cent interest, which, in turn, is lent to SHGs at the interest rate of 12 per cent per annum. SHGs can lend to the women members at an interest rate not exceeding the State Bank of India (SBI) interest rate on unsecured advances. NGOs can also extend loan facilities to individual women where SHGs do not exist\textsuperscript{28}.

1.4 EMPOWERMENT OF WOMEN

The Global Conference on Women's Empowerment, 1988, highlighted Empowerment as the surest way of making women "partners in development". Development on the other hand should ultimately become a process of empowerment. Empowerment is an active process enabling women to realise their full identity and power in all spheres of life.

Although women form nearly half of the human capital in the country. They are still the most deprived and neglected segments of society despite the constitutional guarantee for equal rights and privileges for men and women. Women continue to be victims of a process of economic, social, cultural and political marginalization. Women are viewed as homemakers and are not encouraged to undertake professions to which men have a natural
access. On the other hand, half of the world's food is produced by women working in the fields and they constitute 1/3 of the world's labour force. Although woman does double the amount of work and contributes doubly to the economy, she is considered a burden and instances of female infanticide and foeticide bear testimony to this. Empowerment is a multifaceted process encompassing aspects such as enhancing awareness, increasing access to resources—economics, social and political. It comprises an equally important component of mobilisation and organisation of women into groups, because these groups form the basis for solidarity, strength and collective action.

Empowerment of women is a critical factor in the eradication of poverty, as the women are the key contributors to the economy and to combating poverty through both remunerative and unremunerative work at home, in the community and in the work place. Gainful employment has been viewed as a critical entry point for women's integration in development.

Women's participation in income generating activities is believed to increase their status and decision-making power. With employment women do not remain as 'objects' of social change but become 'agents' of it. They cease from being 'consumers' of economic goods and services and turn into 'producers'. They participate in social reproduction as well as reproduction of labour for the next generation.

In many cases, micro-credit has been a crucial element in increasing women's economic opportunities. When done well, it gives women the ability
to make a living on a sustainable basis. Micro-credit could unleash the economic potential of hundreds of millions of the world’s poorest.

The country’s response to the challenges of equality, development and peace is the "empowerment strategy". The challenge before the society is to evolve strategies to break the stereotypes of the past by solving problems of poverty, illiteracy, environmental degradation, violence, gender inequality, etc. Hence self help groups and micro credit should be seen as components of a solution to accelerate the socio-economic development particularly, of the rural poor women in India. A judicious mix of Micro Credit along with other activities with emphasis on development and empowerment strategies and processes would certainly make Micro Credit an effective instrument of social and economic development particularly, of women in a holistic and integrated manner.32

In the light of this, a world-wide effort to reach many of the poorest families with micro-credit was launched. Eighteen months after the Beijing Conference on 2 – 4, February 1997, more than 2900 people representing 1500 institutions from 137 countries gathered at the Micro-Credit Summit in Washington, DC. Together they set the ambitious goal of reaching 100 million of the world’s poorest families, especially the women of those families with credit for self employment and other financial and business services by the year 2005.
1.5 STATEMENT OF THE PROBLEM

Integrated Rural Development Programme (IRDP) launched for poverty alleviation in India was a target-oriented programme with the focus on identifying the poorest of the poor and helping them to acquire productive assets through bank loans and subsidy from the Government. The underlying assumption was that lack of productive assets was responsible for the poor being unable to better their lot. The IRDP, however, was not as successful as was visualised.

In 1982-83, Development of Women and Children in Rural Areas (DWCRA) was launched in 50 districts as a sub-scheme of IRDP. This was an attempt to involve women more intensively in economic activities. The focus of DWCRA was on economic activities for rural women to be taken up in groups. This was to enable them to overcome their inhibitions for activities they had never before undertaken, like going to the bank, buying an asset, keeping accounts, etc. Another objective of the group was to enable women to take a larger amount of loan, so that, by pooling their individual loans, they could start a viable non-farm activity. The DWCRA scheme was implemented, like IRDP, through bank branches and District Rural Development Agencies (DRDA).

DWCRA too met with a limited success. The scheme as a whole failed to take off. It was seen that the economic activities, although well thought out, were not really feasible in the long run. It was observed that women were not
ready to take on entrepreneurial roles; all they wanted was small loans for specific requirements, which were mainly for consumption purposes.

Despite these schemes and several others [Training of Rural Youth for Self-Employment (TRYSEM), Supply of Improved Toolkits to Rural Artisans (SITRA)], the credit and poverty problem in the rural area continues. According to the Government of India's Ministry of Rural Development, "while the antipoverty programmes have been strengthened in successive years and while in terms of percentage, poverty levels have reduced from 56.44 per cent of India's population in 1973-74 to 37.27 per cent in 1993-94, the number of rural poor has, more or less, remained static and is estimated to be about 244 million people. The rural poor are still dependent on informal sources of credit despite an impressive expansion of bank branch network. Although this dependence has come down from 83.7 per cent of the rural population in 1961 to 36 per cent in 1991, the problem still persists. It is not difficult to reckon the effect of such a large percentage of poor on the country's development. Obviously, the situation needs to be redressed quickly. It is in this context that the self employment programmes assume significance for, they alone can provide income to the rural poor on a sustainable basis."

The major problem with most schemes for poverty alleviation and channelising credit to the rural areas seems to be that they are not based on realistic assumptions and analysis of the rural credit markets. In earlier schemes, like IRDP, DWCRA, etc. the beneficiaries perceived the loan as a grant. They did not feel the responsibility of time or the mechanism for
monitoring the repayment. This led to poor loan recovery and resulted in the scheme becoming non-viable. In contrast, the repayment of loans in micro credit schemes using SHGs is reported to be satisfactory from almost all places. This may be due to the fact that the concept of SHG in Micro Credit Schemes is based on the theory of asymmetric information and peer monitoring.

The credit needs of the rural poor are determined in a complex socio-economic milieu where it is difficult to adopt project lending approach and where the dividing line between credit for consumption and productive purposes is blurred. Under the circumstances, a non-formal agency in the form of self help groups of the poor could emerge as a promising partner of the formal agencies.

Dissatisfaction with the result of many formal credit programmes has stimulated searches for modalities that may provide effective financial services to rural poor particularly to women. Taking the lesson from the experiences of other developing countries like Bangladesh, Indonesia, Bolivia and Philippines where combination of formal and informal finance provides sustained and valuable services to poor, a few Non-Governmental Organisations (NGOs) in India, started experimenting the innovative scheme of Self Help Groups which are also called as Thrift and Credit Groups.

In India, over the years, various poverty alleviation programmes have been initiated by Government as well as voluntary organisations. Despite these efforts, not much difference is seen in the magnitude of poverty. Micro
credit has now emerged as a financial strategy to reach the urban and rural poor and is emerging as a movement at the global level. Over the last two decades, Micro Credit has acquired greater dimension and recognition as an instrument for meeting the credit needs of the poor for starting up their Income Generating Activities (IGA) or Micro Enterprises (ME). The institution of Self Help Groups (SHGs) has provided strength to Micro Credit System.

Presiding over the Micro Credit Summit, 2001, organised by All India Women's Conference, New Delhi, Shri. Yeshwant Sinha, Honourable Minister of Finance, Government of India, stressed the need for micro credit programmes as a tool for poverty alleviation and empowerment of women.

Micro enterprises are important sources of income and employment for a significant proportion of the rural poor. In fact, this sub-sector is perceived to be an essential part of survival strategy of poor households. The relationship between micro enterprises and poverty reduction is coming up for serious consideration among the policy makers and development programme implementers.

In this context an action research on "Micro Credit Management by Women's Self Help Groups (SHGs)" was taken up to document the experiences of the SHGs in promoting micro enterprises through micro credit interventions and evaluate the impact of the programme.
1.6 OBJECTIVES OF THE STUDY

The objectives of the study were to

- initiate Self Help Groups (SHGs) in the rural and urban areas
- motivate the SHGs to undertake income generation activities, availing the micro credit facilities in existence and
- study the impact of the efforts on the SHGs in quantitative and qualitative dimensions.

1.7 SOURCES OF DATA

The study is based on both primary and secondary data.

Two separate interview schedules were administered to the members and the leaders of the SHGs initiated by the investigator to get information on their profile, saving details and lending operations. The data pertaining to incremental income, assets created and employment generated were elicited through another interview schedule administered on the micro entrepreneurs both during the pre credit and post credit period.

The data were also collected from the secondary sources namely, the records and monthly statements maintained by the groups. Participant observation technique was also used for collecting information from the members of the SHGs.
Two specially designed score cards were developed to study the social
benefits that accrued to the members of the SHGs.

1.8 TOOLS USED IN THE ANALYSIS OF DATA

For interpreting, summarising and analysing the collected data, the
tools such as paired ‘t’ test, correlation analysis, regression analysis,
chi square test and ratio analysis were extensively used. Besides,
percentages, means, standard deviation, co-efficient of variation, graphs and
diagrams were used wherever necessary to compare the data. Analysis was
also carried out to compare the findings of the urban and rural areas and the
performance of micro enterprises among different categories of activity
studied under different sectors.

SWOT analysis was done to assess the strengths and weaknesses of
the SHGs in Micro Credit Management.

1.9 PERIOD OF THE STUDY

As the study aims at evaluating the performance of micro credit
programme in the pre and post credit conditions, it was felt that the reference
period selected should be such that it would allow sufficient time for the
programme to have its full impact on the economic and social conditions of
the beneficiaries. Considering this, the reference period has been fixed as
1999-2000. Thus, those respondents who obtained the assistance, either at
the end of 1996-97 or at the beginning of 1997-98, had been selected and
subsequently, a pilot visit to the areas revealed that the women started
gaining income only in the year 1997-98. Therefore, the year 1996-97 had been considered as the base year and 1999-2000 was taken as the reference period.

1.10 SCOPE OF THE STUDY

The current study, which was basically an action research, provided an opportunity to bring an awareness among women about their situation, discrimination of rights and opportunities as a step towards gender equality. Collective awareness-building provides a sense of group identity and the power of working as a group. Collectivisation implies cohesion of the group. Cohesion enables the members of the group to perceive common interests and act collectively. It facilitates

- Capacity building and skill development especially the ability to plan, make decisions, organise, manage and carry out activities, deal with people and institutions in the world around them.
- Participation and greater control and decision making power in the home, community and society.
- Wider scope for the NGOs to attempt group approach.
- Creation of favourable policy environment for SHGs to easily open their bank account.
- Constitution of high powered task force to make recommendations with regard to policy and regulation of the micro finance sector.
This action research helped the women to strengthen their economic activities, create positive linkages and support for access to raw materials, skill training, marketing opportunities and credit needs.

The findings and suggestions will throw light on certain broad features of the country and as such the study may be of practical use in formulating better plans.

1.11 LIMITATIONS OF THE STUDY

- The data for the present study was collected through personal interview method. Since the beneficiary groups did not maintain proper accounts and most of them were uneducated, the possibility of data bias exists and hence the data collected would only be an approximation of actual facts.

- Due to time constraint, only 40 groups could be formed for the study. Their performance and functioning might not be uniform as compared to the existing groups functioning in the Coimbatore district and Karamadai Panchayat Union.

1.12 CHAPTERISATION

Chapter 1 consists of introduction, concept and evolution of SHGs, emergence of micro credit, women empowerment, statement of the problem, objectives of the study, period of the study, sources and tools used for analysis of data, the scope and the limitations of the study.
Chapter 2 describes the growth of SHGs in India.

Chapter 3 reviews the studies related to Micro Credit and Group Dynamics.

Chapter 4 presents the methodology used in the study.

Chapter 5 evaluates the performance of the SHGs initiated by the researcher.

Chapter 6 analyses the impact of micro credit on SHG members. This chapter is divided into four sections.

Section I portrays the socio-economic profile of the micro entrepreneurs.

Section II brings out the economic returns from the micro enterprises undertaken by the SHG members.

Section III examines the social benefits accrued to the members in terms of group dynamics and empowerment of women.

Section IV appraises the strengths and weaknesses of the SHGs in implementing the micro credit scheme.

Chapter 7 presents the summary of the findings, bringing out the suggestions and policy implications.
REFERENCES


