CHAPTER - 3
EVOLUTION AND GROWTH OF MICRO FINANCE

3.1. Evolution of Micro finance in India

Indian Micro finance scenario is dominated by the SHG based credit delivery system. SHG-Bank linkage concept was evolved by Asia Pacific Rural and Agricultural Credit Association (APRACA), Bangkok and German Agency for Technical cooperation (GTZ) during the workshop in NANJING in China in 1986 and the action projects were implemented in Indonesia, Phillipines, Thailand and India. In India, the SHG-Bank linkage project was launched by NABARD in 1992 as a pilot project with the RBI’s recognition of informal groups in July 1991.

But, earlier Indian Bank, Tamilnadu corporation for development of women limited and selected NGOs implemented Self help groups based Poverty alleviation program targeting rural women with the International Fund for Agricultural Development (IFAD) assistance since 1989 in selected districts of Tamilnadu. Indian Bank, as a sole banker to the IFAD project, lent Rs4800 lakhs to 5200 SHGs benefiting 87500 rural women.

Foundation for Development Co-operation (FDC) undertook a major project titled “Banking with the poor” in the Asia-Pacific region in October 1990. Under the project, it convened the first regional workshop in Manila in May 1991 for major Asian banks and experienced NGOs. VYSYA Bank and MYRADA NGO had agreed during the workshop, to test out trial linkages through Self Help Groups in India and the first linkage by VYSYA bank was made in Mudugooli village. Thus, In India, MYRADA NGO and VYSYA Bank also tried the group lending methodology before the launch of the SHG-Bank linkage program by NABARD. Lending through Self Help Groups emerged as an alternate credit delivery model suitable both to the poor as well as to the financial institutions.
3.2. Enabling Policy Support for Micro Finance

In India, RBI and NABARD played a key role in creating a conducive policy environment for the development of Microfinance sector. RBI’s\(^1\) (1991) first circular sent to all scheduled commercial banks contained the following instructions — “NABARD is launching a pilot project for SHG-Bank linkage program to cover 500 self help groups and it will support the pilot project by way of refinance, provide the technical support and guidance to the agencies participating in the program. As this is a novel concept to be tried in the country on a pilot basis and needs all possible support, it may be necessary to deviate somewhat from the existing norms applicable to lending by commercial banks. The banks are advised to actively participate in the pilot project. Banks may charge the interest on the finance provided to the groups at the rate indicated by NABARD. Further the groups will be free to decide on the interest rate to be charged to its members, provided the rate of interest is not excessive. While the present norms relating to margin, security, as also the scale of finance and unit cost will broadly guide the banks for lending to the SHG, deviations there from can be made by the banks where deemed necessary.” This guideline by the regulator was considered to be the most radical as it had given a total flexibility by relaxing the norms related with margin, security and unit costs so that the sector will evolve over a period.

NABARD’s\(^2\) (1992) circular issued detailed operational guidelines to banks for implementation of the SHG-Bank linkage program. NABARD’s\(^3\) (1993) circular to all the Registrar of co-operative societies in all states carried the message that the linkage program is extended to co-operative banks also. NABARD’s\(^4\) (1994)

\(^1\) - RPCD no.PLAN BC13/PL-09.22/90-91 dated 24th July 1991
\(^2\) - NB.DPD.FS.4631/92-A/91-92 dated 26th February 1992
\(^3\) - NB.DPD.SHG.618/92-A/93-94 DPD 14/93 dated 29th May 1993
\(^4\) - NB.DPD.SHG.2353/92-A/94-95 dated 19th October 1994
circular clarified the legal position in respect of the size of the group. "section 11 (2) of the companies act forbids any company, association or partnership consisting of more than 20 persons for the purpose of carrying on any business that has for its object the acquisition of gain by the said association or by the individual members thereof, unless it is registered as a company under the companies act. As the SHGs will be availing loan from the banks with a view to developing and ameliorating socio-economic conditions of the individual members and their respective families, the said group will be covered by the provision under the section 11 of the companies act. Such an association would not be recognized by law and it can not sue to recover any debt or other property nor can be sued to recover money lent to it to carry out its object.". In view of this section, NABARD advised banks to have SHGs with not more than 20 persons for the linkage activities.

RBI's\(^5\) (1996) circular, to all scheduled commercial banks dealt with the follow up actions to be taken by the banks for the recommendations submitted by the working group on NGOs and SHGs headed by Sri.S.K.Kalia. The important recommendations, adopted by RBI for follow up by the banks are as here under.

- SHG linkage to be treated as a separate segment in Other Priority Sector (OPS) as advances to SHGs.
- Branch to include the SHG lending in service area plan
- Lead bank to circulate the names of NGOs in background papers of service area credit plan.
- Service area norms for SHGs relaxed
- Uniform documentation for SHG lending introduced.
- Training to branch managers and officers of banks to be arranged.
- SHG linkage to be added in corporate plan and training curriculum

\(^5\) - RPCD.No.PL.BC.120/04.09./22/95-96 dated 2\(^{nd}\) April 1996
Even though the SHGs have members with defaulted overdues, such SHGs can also be assisted with SHG loans. But that SHG should not finance for that particular overdue member.

RBI to review the SHG lending by banks every half year.

NABARD's\(^6\) (1997) circular prohibits blocking of group’s savings in group’s SB account by banks as collateral for providing loans to SHGs. This practice deprives the SHGs of their savings otherwise available to them for loaning to their members.

RBI\(^7\) (2000) in its circular, advised banks that micro credit extended by them through any models or through any conduit / intermediary will be reckoned as their priority sector lending i.e banks can lend to MFIs adopting other than SHG mechanism for providing micro credit to the poor. Such microcredit can be provided to individuals or groups which do not conform to basic characteristics of SHGs and such non-SHG groups could be small groups like grameen type groups (membership 5), small cooperatives, etc where the management of savings and the credit decisions rest mainly with the MFI.

NABARD’s\(^8\) (2000) circular to all scheduled banks and RRBs contained the provision for refinance support at the rate of 80 percent to banks for financing MFIs adopting other than SHG mechanism (Grameen type of groups) for providing micro credit.

Task force on supportive policy and regulatory framework for microfinance, constituted by NABARD submitted its report in October 1999 and the Government and the RBI has yet to decide about the regulatory framework. Even

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\(^6\) - NB.DPD.NFS./H-5253/CDID/92-A/96-97 dated 21\(^{st}\) February 1997

\(^7\) - RPCD.PL.BC.62/04.09.01/99-2000 dated 18\(^{th}\) February 2000

\(^8\) - NB.MCID 250/mfi –1 (Gen)/2000-01 dated 29\(^{th}\) June 2000
the Policy conference held by Sa-dhan in January 2005 and by NABARD in May 2005 also emphasized the need for evolving an exclusive regulatory framework for micro finance.

Thus, the RBI and NABARD with their enabling policy support, created a conducive atmosphere for the competition among the micro finance players and for evolving different models to suit our Indian diverse context, which will trigger the growth of the Micro finance sector.

3.3. Operational aspects of SHG

i) Self Help Group in Indian context

In Indian context, SHG is an informal association of 10 to 20 poor like-minded persons in a village, with a common objective of helping themselves mutually and also striving for their economic as well as social advancement and also for their overall village development. NGOs form SHGs

ii). Eligibility criteria for SHG membership

- Person from the poorest household (women, men or both )
- Those, residing in the same village
- Generally, if women, married are preferable
- 18 to 60 years of age
- Preference is given to include widows, women headed households, tribals, landless, handicapped, socially neglected and hut dwellers.

iii). Group processes

The SHGs follow distinct processes, then only they become operationally stabilized over a period of time, say 6 months to one year from the date of inception of the SHG.
a. Rules and regulations

The SHGs will evolve the rules and regulations over a period of its operations, as and when the need for the same is felt. However, the NGOs or the bankers or the project Officials may facilitate the SHGs to evolve the rules. An illustrative list of rules commonly followed by SHGs is as follows.

- Group meetings on fixed days or dates and at fixed time.
- Group to conduct the meeting as per the agenda.
- Group can collect the fine from absentees.
- Groups should have two third presence of members in the meeting for taking important decisions.
- All financial transactions of the members be held in public in the group meetings only.
- All groups meetings, discussions and decisions taken are properly recorded in the resolution note and signed by the members present.
- Group can decide about how much to save (For example, not less than Rs20 per fortnight or Rs10 per week), what is the maximum sanga loan size, its interest and terms of repayment.
- Groups can decide about the tenure of leadership.

b. Group meetings

The SHG conduct its group meetings on fixed days /dates at fixed times convenient to the members. Normally, the meetings take place in the evenings. Monthly two meetings is most common among the SHGs. But, weekly meetings are better, as it will have frequent face to face interaction among members, which will result in better understanding among the members. The group meeting will be conducted as per the agenda namely, prayer, pledge, attendance, review of previous minutes of the meeting, collection of savings, subscription, sanga loan / bank loan repayments, discussion on credit sanctions, delivery of credit, planning for village development activities, passing the resolutions by recording them in the
resolution note, reading out and getting the members signature in the resolution note. By observing the Group meetings keenly, we can know the group dynamism (how the members express their opinions freely, how the view of other members are sought and valued while arriving at a decision by the group and how the leaders encourage other members to take responsibility) in the SHG, which is a key factor in the rating of the group.

c. SHG funds management
The SHG collects the savings from their members in the group meetings held every week, fortnight or monthly. Weekly savings is the best option, as it will be easy for the group members to save in small amounts. SHG rotates the savings among its members as sanga loans for various purposes. The purpose will be prioritized by the group in the meeting. The interest on sanga loan collected from the members will be a major source of revenue for the SHGs.

All the funds are properly accounted for in specified books of accounts of the SHG. The SHG maintains the savings bank account in its name, in a bank of its choice. (As the service area norms have been relaxed for the SHGs). Keeping the account with the service area bank is preferable. The account is to be operated jointly by the SHG leaders or representatives. The group will maintain a nominal balance Rs100 to 500 only as cash at hand and the rest will be deposited in the bank.

The members who have opted to save more, are not granted with any special benefits, except to the proportionate increased share in the dividend distributions made out of the interest income. The NGO or Project staff are not handling the SHG’s money. Animator / Representatives should not collect any money privately from the members on behalf of the group. The
SHG takes the lending decision more judiciously, in the group meeting and it is recorded in the resolution book. After a period of 3 to 5 years, the SHG will review its sanga loan interest, repayment, loan size norms and can introduce appropriate changes as felt by the group.

d. Linkage with institutions
Over a period of time, SHGs create linkages with NGO, bank, Mahalir Thittam project office, panchayat level federation of SHGs, panchayat raj institutions, insurance companies, block development office, schools, fair price shop, veterinary hospital, primary health centre, agriculture department and so on and enable their members to access these services, hitherto unreached by them.

3.4. SHG -Bank Linkage Program
a. Lending Process
Once, the SHGs get stabilized functionally, which normally takes a period of 6 months to one year, depending upon the inputs that go in building up of the SHGs. The SHGs are graded by the bankers based on the core functional parameters namely meetings conducted, attendance, regularity of savings, rotation of savings as loans disbursed, repayment and book keeping. Those, SHGs scoring a higher marks above the cut off level, are linked to bank credit. Initially, small doses of loans are given in multiples of their savings and for subsequent loans, the loan size is increased. The SHG loan repayment is high, due to the peer pressure of the group. In SHG bank linkage program, no other collateral is taken by the bank. Peer pressure acts as the collateral.

b. Eligibility criteria for bank credit
The basic criteria for selection of a SHG for bank linkage, are

- The group should have completed minimum 6 months
- The group should have promoted savings and credit operations
❖ The group should maintain the minutes and accounts books.
❖ The group should not have more than 20 members.
❖ The Umbrella support of a NGO is desirable
❖ The group should be rated both quantitatively and qualitatively using the rating tool provided by the bank.

Bankers need to have an interaction with the members of the entire group to assess the qualitative features of the SHG. (For example, assessing the members participation level - by observing the group proceedings for a few minutes, we can know, whether the SHG is dominated by a few or all the members take active part in the deliberations). The quantitative aspects can be verified from the records maintained by the groups. The Bankers can make use of the available grading/rating tool to rate the performance of the SHGs.

c. Loan Size
Loan size is sanctioned in multiples of group's savings, interest earned and in proportion to the SHG's credit absorption capacity. (savings: credit 1:4 ratio).

d. Margin
No margin needs to be taken from the group.

e. Purpose
The SHG shall on-lend the SHG loan to its members for any purpose, as decided by the group. (Even for consumption purposes also).

f. Interest rate
Bank to SHG: Interest rate is deregulated. (now not exceeding Prime Lending Rate (PLR) of respective bank).

SHG to members: as decided by the group.

g. Security
No collateral is taken. Only peer (Group) pressure is the security. All members are jointly and severally liable.

**h. Type of facility**
It is offered either as term loan or cash credit – running facility.

**i. Repayment**
Repayment period without any holiday period may be prescribed in consultation with the SHG.

**j. Sector:** Priority Sector.

**k. Documentation**
Inter-se agreement signed by all the members and Articles of agreement signed by the office-bearers of the SHG.

Other than direct SHG-Bank linkage program, various subsidized credit programs are offered through SHGs and various banks have brought out several exclusive products / projects / processes for SHGs, the details of which are given in Appendix I.

### 3.5. Integration with Other Programs

Microfinance component is inbuilt in all the major programs like watershed development, wasteland development, Land reclamation projects, forest management programs and poverty alleviation programs like Swarna jeyanthi Gram Swarojgar Yojana (SGSY) and Swarna Jeyanthi Sahakari Rojgar Yojana (SJSRY). Under the above mentioned programs, SHGs are used to deliver their program services to the rural areas.

### 3.6. Micro Finance Delivery Models

As Indian rural context is diverse, no one model emerged as fits for all. Various models are in practice as herein below.
a. NGO as a Social Intermediary

In this model, the NGO has no financial role and only act as a social intermediary. NGO facilitates direct credit linkage of SHGs with banks. The NGOs assist the banks in monitoring the credit linked SHGs.

Exhibit 3.1. NGO as a social intermediary

b. NGO as Financial Intermediary

In this model, the NGO has a financial role. i.e. NGO obtains loan from a bank and adds a margin to it and then on-lends to the SHG.

Exhibit 3.2. NGO as a financial intermediary

c. Bank as Self Help Group Promoting Institution

In this model, the promotion of groups is done by Banks themselves. Initially, NGOs train the bankers in social mobilization. Later, the bank acts as a Self Help group Promoting Institution (SHPI) E.g. Cauvery grameen bank, Mysore in Karnataka trained by MYRADA promoted the SHGs and credit linked them.

Exhibit 3.3. Bank as SHPI.
d. Joint venture
Under this model, Bank and NGO jointly float a new structure as a Micro Finance Institution (MFI) to deliver the microcredit. E.g. HDFC bank and Palmyrah Workers Development society (PWDS), Marthandam have jointly contributed to the equity capital of the new outfit and floated the MFI – Indian Association for Savings and Credit (IASC), Coimbatore.

*Exhibit.3.4. Joint venture*

![Diagram of Joint venture]

- NGO
- Bank
- New MFI by bank and the NGO
- Self help group

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e. Bulk lending to NGOs and Federations of SHGs
Under this model, the banks or wholesalers in microfinance like NABARD, SIDBI's Foundation for Microcredit (SFMC), Friends of Women's World Banking (FWWB) and Rashtriya Mahila Kosh (RMK) provide loan funds to the NGOs / apex bodies of SHGs like federation of SHGs, which in turn on-lend to SHGs.

*Exhibit.3.5. Bulk lending to NGOs / Federations.*

- Wholesaler in MF / Banks
- Federation of SHGs or NGOs
- SHG

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f. NGO-MFIs
Under this model, the NGOs are transforming themselves into Micro Finance Institutions to offer the micro credit and other financial services to the poorest of the poor.
Each model has its own advantages and disadvantages. But, most commonly found model is the one in which the NGO acts as a social intermediary.

3.7. Legal and Regulatory framework

At present, India does not have a separate legal and regulatory framework exclusively for the Micro finance sector. MFIs operate under the various existing legal options. SEWA bank, SHARE Microfin limited, Indian Association of Savings and Credit, BASIX group’s Sarvodaya Nano Finance limited, Vattara Kalanjiums (Block level apex bodies of SHGs) of DHAN foundation, CASHPOR Financial and Technical Services (CFTS), SKS, Grameen koota and SANGAMITHRA are prominent among the many MFIs in the field. Dr.Erhard W.Kropp et al (2002) observed that the increased cost of 20 to 45 percent interest per annum charged by NGO MFIs is due to the fact that these programs have been exclusively designed to reach the poor and because of small transactions and lack of economy of scale. The MFI can be registered as a non-profit or a profit organization or a mutual benefit organization under different laws. The comparison among the three non-profit forms is shown in Exhibit.3.7.

a. For non-profit organization

MFIs under this category can be registered either as a society under the societies registration act 1960 or as a trust under the Indian trusts act 1920 or as a section 25 company under the companies act 1956. In India, around 800 -1000 MFIs are functioning and only 12 MFIs reach more than 100000 clients. Majority of the MFIs operate on a smaller scale reaching clients from 500 to 1500 per MFI. An
analysis of 36 leading MFIs by Jindal and Sharma showed that 89 percent of MFIs were subsidy dependent.

**Exhibit 3.7. Comparison among the non-profit forms**

<table>
<thead>
<tr>
<th>Sl.no.</th>
<th>Parameter</th>
<th>Society</th>
<th>Trust</th>
<th>Section 25 company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Registration process</td>
<td>Easy</td>
<td>Easy</td>
<td>Not easy</td>
</tr>
<tr>
<td>2</td>
<td>Ownership</td>
<td>No ownership</td>
<td>No ownership</td>
<td>Ownership with shareholders</td>
</tr>
<tr>
<td>3</td>
<td>Governance</td>
<td>Governed by a elected or nominated board</td>
<td>Governed by a self appointed board of trustees</td>
<td>Governed by an elected board of directors</td>
</tr>
<tr>
<td>4</td>
<td>Regulatory authority</td>
<td>Registrar of societies</td>
<td>Registrar of trusts</td>
<td>Registrar of companies</td>
</tr>
<tr>
<td>5</td>
<td>Deposits acceptance</td>
<td>Can not take deposits</td>
<td>Can not take deposits</td>
<td>Can not take deposits</td>
</tr>
<tr>
<td>6</td>
<td>Accountability</td>
<td>Less accountability</td>
<td>Less accountability</td>
<td>Greater accountability</td>
</tr>
<tr>
<td>7</td>
<td>Minimum members</td>
<td>7 members</td>
<td>2 members</td>
<td>2 members</td>
</tr>
<tr>
<td>8</td>
<td>Submission of statutory returns</td>
<td>Required</td>
<td>Not required</td>
<td>Required</td>
</tr>
<tr>
<td>9</td>
<td>Possibility for Govt. Interference</td>
<td>High</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>10</td>
<td>Leverage</td>
<td>No leverage</td>
<td>No leverage</td>
<td>Can leverage debt</td>
</tr>
<tr>
<td>11</td>
<td>Access to equity</td>
<td>No</td>
<td>No</td>
<td>Can raise equity</td>
</tr>
</tbody>
</table>

Source: Office of Registrar of societies and Office of the Registrar of companies.

During the process of transformation into a MFI, the NGOs should be guided carefully to choose its appropriate legal form according to its vision, mission and objectives of the new outfit.
b. For profit organization

NGOs which are well stabilized in the financial intermediation role with a sound capital base (minimum of Rs200 lakhs) and have the professional capacity, they can think of this option, to register as a Non Banking Finance Company (NBFC) under the Companies act 1956. MFIs need to get a license from RBI. To facilitate close monitoring, federations of SHGs (More details on the federations of SHGs are given in the Appendix-II) at the block level are used as an intermediary structure by the NBFCs.

c. For mutual benefit organization

The MFIs can also be registered under the co-operative laws of the state or under the central multi state co-operatives act. For large scale operations, the urban co-operative bank form is suitable (E.g. SEWA bank, Ahmedabad). The main drawback in co-operative form is the frequent interference by the officials from the office of Registrar of Co-operatives and the politicians involvement. The board can be superseded by appointment of a special officer by the Registrar. Andhra Pradesh’s Mutually Aided Co-operative Societies (MACS) act provides for flexibility and there is less scope for interference by outsiders and there is high accountability.

As of now, the MFIs account for 8 percent of the total institution based microcredit portfolio in India. The government, RBI and NABARD are under the process of evolving a risk tiered regulatory framework for micro finance in consultation with the stakeholders to mould the growth of the micro finance sector in an orderly way.

3.8. Demand for Micro finance

As per the study by Mahajan, Vijay et al (1998), it has been estimated that India has 400 million poor (75 million households) and their credit requirements are estimated to be Rs495000 millions as shown in Table. 3.1.
### Table 3.1. Annual credit requirements of poor households

<table>
<thead>
<tr>
<th>Category</th>
<th>Households (million)</th>
<th>Annual credit need per household (Rs.)</th>
<th>Total credit needs (Rupees, in millions) per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>60</td>
<td>6000</td>
<td>360000</td>
</tr>
<tr>
<td>Urban</td>
<td>15</td>
<td>9000</td>
<td>135000</td>
</tr>
<tr>
<td>Total</td>
<td>75</td>
<td>-</td>
<td>495000</td>
</tr>
</tbody>
</table>

Source: Mahajan, Vijay et al. (1998).

The rural poor households need a credit of Rs.6000 per annum, while the urban poor households need a credit of Rs.9000 per annum.

#### 3.9. Supply channels for Micro finance

NABARD, SIDBI Foundation for Micro Credit (SFMC), Rashtriya Mahila Kosh (RMK) and Friends of Women’s World Banking form the apex wholesalers, whereas commercial banks, regional rural banks and co-operative banks form the retailers. The role of different stakeholders is presented in Exhibit 3.8.

#### 3.9.1. Apex Wholesalers

The growth of the microfinance sector has been demand driven. Under Indian Context, NABARD and SFMC are the important apex institutions involved in promoting microfinance, while NABARD promotes the SHG-Bank linkage program model and SFMC promotes the MFI model of microfinance. Rashtriya Mahila Kosh and Friends of Women’s World Banking also are deemed as apex institutions delivering wholesale microfinance to NGOs and MFIs. Apex institutions advise the regulator of the banks and the Government of India on policy matters and help the microfinance industry to have an enabling and supportive policy environment.
Exhibit 3.8. Stakeholders of Microfinance sector in India.
a. NABARD

In India, NABARD plays a vital role in promoting the SHG bank linkage program by conducting various training programs, taking up evaluation studies, supporting NGOs with SHG promotion grants and giving refinance to banks for SHG loans.

b. SFMC

SFMC (SIDBI Foundation for Microcredit) was set up by Small Industry Development Bank of India (SIDBI) in January 1999. SFMC provides loan funds, grant support for capacity building and infrastructure, Equity to MFIs and encourages peer learning through seminars/workshops. SFMC advocates policy dialogues and changes. Upto 31.3.2006, SFMC has sanctioned Rs7600 millions benefiting 2.6 million poor. The micro finance portfolio outstanding as on 31st Mar 2006 was Rs3390 millions and it is targeted to raise it to Rs7500 million by Mar 2007.

c. Rashtriya Mahila Kosh (RMK)

National Credit Fund for women (RMK) was set up in March 1993 by Department of Women and child development, Government of India, Ministry of Human resources development. The fund’s corpus was Rs.310 millions and its objective is to make available the credit to the poor women unreached by the formal banks. RMK lends to NGOs, co-operatives, women development corporations and other intermediaries at 8 percent and the intermediaries will lend to SHGs not more than 18 percent. Upto 31.5.2006 cumulatively, RMK has disbursed Rs.14987.72 lakhs to 55434 SHGs benefiting 549641 poor women. It has published a list of blacklisted NGOs in their website, which is a far reaching strategy to share the vital credit information with the others in the market.

d. Friends of Women’s World Banking (FWWB)

Friends of Women’s World Banking, India, (FWWB) is one of the first few institutions created as an affiliate of Women’s World Banking in 1982 with an aim to empower poor and asset-less rural and urban women. FWWB India is based at Ahmedabad. FWWB provides revolving loan fund to NGOs, Federations of SHGs
and Co-operatives for onlending to poor women. Upto October 2004 cumulatively, FWWB disbursed loans to the tune of Rs.146.76 crores through 270 organizations and the outstanding portfolio at the end of October 2004 was Rs.67.88 crores.

3.9.2. Retailers
Commercial banks, Regional Rural Banks (RRBs) and Co-operative banks form the retailers. The retailer’s network is very strong in India. As of 31st March 2006, 501 banks (commercial banks-47, RRBs-124 and Cooperatives-330) participated in the SHG bank linkage program in India through its 41082 branches.

a.Commercial Banks
SHG Bank linkage program has been taken up by all the 27 public sector banks and 20 private sector banks. During 2004-05, State Bank of India credit linked the highest number of SHGs (118722 SHGs) followed by Indian overseas bank (22230 SHGs) and Andhra Bank (19887 SHGs). Among the private sector banks, Dhanlaxmi bank credit linked the highest number of SHGs (3503) followed by the ICICI bank (2988) and the Vysya Bank (1630).

b.Regional Rural Banks
All the 196 RRBs in the country participated in the SHG bank linkage program. During the year 2004-05, maximum number of SHGs have been credit linked by the Pandyan gramin bank in Tamilnadu (6822 SHGs) followed by Malaprabha gramin bank (5188 SHGs) in Karnataka and Pragjyotish gaonalia bank (5172 SHGs) in Assam.

c.Co-operative Banks
Around 330 cooperative banks participated in the SHG Bank linkage program. During the year 2004-05, highest number of SHGs (6414 SHGs) have been linked by Hooghly DCCB (District Central Cooperative Bank) - in West Bengal.
followed by Chandrapur DCCB (3669 SHGs) in Maharastra and South canara DCCB (3193 SHGs) in Karnataka.

Upto March 2006, all banks put together credit linked 2238525 SHGs cumulatively, disbursing SHG loans of Rs.113970 millions. Cumulatively, upto March 2006, 32.98 million poor families (164.9 million poor persons) accessed microfinance. Totally 4323 NGOs and 501 banks (commercial banks 47, cooperatives -330 and RRBs- 124) have been involved. NABARD has set an ambitious target of reaching 225 million poor by credit linking 30 lakh SHGs by 2010.

Due to the above concerted efforts from all stakeholders, the SHG based microfinance program in India has grown as the largest microfinance program in the world.

3.10 Role of Networks
Networks of MFI's like Sa-Dhan (Association of Community development finance Institutions), INDNET (Indian Network of Grameen Replicators) and VANI (Voluntary Action Network India) are playing a vital role for evolving standards in the NGO / Microfinance industry, enabling sharing of best practices and capacity building of their partner MFI's and advocating policy changes in the development / micro finance sector at the apex level.

3.11. Role of State Governments
The state governments have evinced a keen interest in implementing many state sponsored and externally aided programs, (Mahalir Thittam in Tamilnadu, South Asia Poverty Alleviation Project in Andhra Pradesh, Sthree Sakthi project in Karnataka and Maharastra Rural Credit Project in Maharastra) which have paved the way for the continued growth of SHGs in their states.
3.12. Growth of SHGs

As per the NABARD's report on SHGs, it has been estimated that 400 women join the SHGs every hour in India and one new NGO join the microfinance program every day. The growth of SHGs is not evenly spread out in India. The southern states especially Andhra Pradesh and Tamilnadu leads the SHG movement, as the respective state governments also have given more thrust on the microfinance sector by having an exclusive program for ensuring the sustained growth and also they have a number of good and strong NGOs, which is more important for nurturing the SHGs by giving timely capacity building inputs. The growth of credit linked SHGs in India is given in Table 3.2.

Table 3.2.

Growth in number of credit linked SHGs in India.

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>Years</th>
<th>New SHGs provided bank loan during the year</th>
<th>Cumulative number of SHGs provided with the bank loan upto 31st March.</th>
<th>Percentage of growth of cumulative number of SHGs linked over the previous year.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1999-00</td>
<td>81780</td>
<td>114775</td>
<td>247.8</td>
</tr>
<tr>
<td>2</td>
<td>2000-01</td>
<td>149050</td>
<td>263825</td>
<td>129.8</td>
</tr>
<tr>
<td>3</td>
<td>2001-02</td>
<td>197653</td>
<td>461478</td>
<td>74.9</td>
</tr>
<tr>
<td>4</td>
<td>2002-03</td>
<td>255882</td>
<td>717360</td>
<td>55.4</td>
</tr>
<tr>
<td>5</td>
<td>2003-04</td>
<td>361731</td>
<td>1079091</td>
<td>50.4</td>
</tr>
<tr>
<td>6</td>
<td>2004-05</td>
<td>539365</td>
<td>1618456</td>
<td>50.0</td>
</tr>
<tr>
<td>7</td>
<td>2005-06</td>
<td>620069</td>
<td>2238525</td>
<td>38.3</td>
</tr>
</tbody>
</table>

Source: MCID, NABARD, Mumbai.

From the table 3.2, it is obvious that even though the number of new SHGs credit linked keeps on increasing every year, the percentage of growth over the previous
year shows a decline, in the last few years. It shows that the program is going to change from expansion phase to a stabilization phase. During the stabilization phase, more focus has to be given on the measures to improve the quality dimensions of SHGs and MFIs.

The SHG-Bank linkage program’s cumulative loan disbursement progress since 1992 is given in Table.3.3.

Table.3.3.
Progress under cumulative SHG loan disbursements.

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Upto March</th>
<th>31st March</th>
<th>Cumulative number of SHGs financed</th>
<th>Cumulative bank loan disbursed. Rs in Million</th>
<th>Average loan size per SHG. (in Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1992-99</td>
<td>32,995</td>
<td></td>
<td>571</td>
<td>17306</td>
</tr>
<tr>
<td>2</td>
<td>1999-00</td>
<td>1,14,775</td>
<td></td>
<td>1930</td>
<td>16816</td>
</tr>
<tr>
<td>3</td>
<td>2000-01</td>
<td>2,63,825</td>
<td></td>
<td>4809</td>
<td>18228</td>
</tr>
<tr>
<td>4</td>
<td>2001-02</td>
<td>4,61,478</td>
<td></td>
<td>10263</td>
<td>22262</td>
</tr>
<tr>
<td>5</td>
<td>2002-03</td>
<td>7,17,360</td>
<td></td>
<td>20487</td>
<td>28559</td>
</tr>
<tr>
<td>6</td>
<td>2003-04</td>
<td>10,79,091</td>
<td></td>
<td>39042</td>
<td>36180</td>
</tr>
<tr>
<td>7</td>
<td>2004-05</td>
<td>16,18,456</td>
<td></td>
<td>68985</td>
<td>42624</td>
</tr>
<tr>
<td>8</td>
<td>2005-06</td>
<td>22,38,525</td>
<td></td>
<td>113970</td>
<td>50913</td>
</tr>
</tbody>
</table>

Source: Reports on Progress of SHG-Bank linkage in India, MCID, NABARD, Mumbai.

Even though the average loan size per SHG keeps on increasing over the years and it has reached from Rs.17306 as on 31.3.1999 to Rs.50913 as of 31st March 2006, the average SHG loan availed per family as of March 2006 is only Rs.3637, which shows that a wide scope exists for credit deepening.

The agency wise distribution of SHGs credit linked and SHG bank loan disbursed are given in Table.3.4. The contribution by the commercial banks is commendable as it accounted for 52 percent of the total number of credit linked
SHGs and 60 percent of the total SHG loan amount disbursed. The Regional rural banks accounted for 35 percent of the total number of credit linked SHGs and 30 percent of the total SHG loan amount disbursed. The co-operative bank’s share is lower, as many of the co-operative banks are in problems and not able to lend due to their unviable operations and frequent waivers announced by the government.

Table.3.4.
Agency-wise cumulative position of SHGs financed upto 31.3.05.

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>Agency</th>
<th>Number of SHGs linked</th>
<th>Percentage to total number of SHGs linked</th>
<th>Bank loan disbursed Rs in Million.</th>
<th>Percentage to total bank loan disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Commercial Banks</td>
<td>8,43,473</td>
<td>52</td>
<td>41,590.19</td>
<td>60</td>
</tr>
<tr>
<td>2</td>
<td>Regional rural banks</td>
<td>5,63,846</td>
<td>35</td>
<td>20,995.47</td>
<td>30</td>
</tr>
<tr>
<td>3</td>
<td>Co-operatives</td>
<td>2,11,137</td>
<td>13</td>
<td>6,398.94</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>16,18,456</td>
<td>100</td>
<td>68,984.60</td>
<td>100</td>
</tr>
</tbody>
</table>


As per the data available from NABARD, the percentage of SHG lending under different models over the last four years, is shown in Table.3.5.

Table.3.5.
SHG lending under different models.

<table>
<thead>
<tr>
<th>For the period ending 31st March.</th>
<th>Percentage of SHGs linked in</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model I</td>
</tr>
<tr>
<td>2002-03</td>
<td>20</td>
</tr>
<tr>
<td>2003-04</td>
<td>20</td>
</tr>
<tr>
<td>2004-05</td>
<td>21</td>
</tr>
<tr>
<td>2005-06</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: SHG Progress reports 2002-06, MCID, NABARD, Mumbai.

Model: I - SHGs formed and financed by banks
Model: II - SHGs formed by NGOs and other agencies other than banks, but directly financed by banks

Model: III - SHGs financed by banks through NGOs and other agencies as financial intermediaries.

Table 3.5 shows that the share of the Model I has increased from 20 percent as of 2002-03 to 21 percent as of 2005-06, which indicates that the banks view the microfinance sector as a potential one and that is why they are going ahead even with formation of groups by themselves, besides offering credit linkages. The Model II, which is a predominant model is constant at 72 percent during the last four years.

3.13. SHG progress in Tamilnadu

In Tamilnadu, the State government is implementing the MAHALIR THITTAM (Women Development Project) through Tamilnadu corporation for development of women limited and NGOs since 1997-98. In the first phase (97-98), Mahalir Thittam was launched in 14 districts, in the second phase (98-99) additional seven districts were included and in 99-2000, it was extended to all the districts of Tamilnadu. The objectives of the Mahalir Thittam project are Social empowerment, Economic empowerment and Capacity building of the poorest and most disadvantaged women in the state.

Social empowerment through

- Equal status, participation and powers of decision making of women at the household level, community, village levels and in democratic institutions.
- Overcoming social, cultural and religious barriers to achieve equality of status and recognition of women/girls in their day-to-day affairs and on matters concerning them

Economic empowerment through

- Greater access to financial resources outside the household
- Reduced vulnerability of poor women to crisis situations like famine, flood, riots, death and accidents in the family.
- Significant increase in women’s own income and the power to retain / save such income and use it at her discretion.
- Equal access and control over various resources at the household level.
- Financial self reliance of women, both in the household and in the external environment.

Capacity building through:
- Better awareness on health, education, environment and legal rights.
- Improve functional literacy and numeracy.
- Better communication skills.
- Better leadership skills.

Under Mahalir Thittam, as of 31.3.06, there were 315724 SHGs, enrolling 50,37,832 women as SHG members and their cumulative savings was Rs.103769.41 lakhs. The progress under the SHG-Bank linkage program in Tamilnadu is given in Table.3.6.

**Table.3.6.**

**Progress under SHG bank linkage program in Tamilnadu.**

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>Year</th>
<th>During the year</th>
<th>Cumulative upto the year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.of SHGs linked</td>
<td>SHG Bank loan disbursed</td>
</tr>
<tr>
<td>1</td>
<td>2001-02</td>
<td>27382</td>
<td>1041.44</td>
</tr>
<tr>
<td>2</td>
<td>2002-03</td>
<td>35701</td>
<td>2228.45</td>
</tr>
<tr>
<td>3</td>
<td>2003-04</td>
<td>51851</td>
<td>5059.09</td>
</tr>
<tr>
<td>4</td>
<td>2004-05</td>
<td>70437</td>
<td>7464.75</td>
</tr>
<tr>
<td>5</td>
<td>2005-06</td>
<td>92080</td>
<td>10342.87</td>
</tr>
</tbody>
</table>

Source: SHG Progress reports 2001-06, NABARD, MCID, Mumbai.
The Table 3.6 shows that during the year 2005-06, the number of SHGs financed in Tamilnadu registered a 41.7 percent growth over the March 2005, whereas bank loan disbursed during the year 2005-06, marked a 61.6 percent growth over the March 2005 level, progress of which is one among the best in the country.

3.14. SHG Progress in Madurai and Ramanathapuram districts

In both Madurai and Ramanathapuram districts, IFAD assisted Tamilnadu women development project was also implemented. Under the IFAD project, systematic trainings were given to all stakeholders namely, NGOs, Bankers, Government officials and SHG leaders. The capacity building package given to SHG leaders was very intensive, which paved a way for the better take-off of the SHG bank linkage program in Madurai and Ramanathapuram districts.

Mahalir Thittam is also under implementation in both the districts. One of the unique features of the Mahalir Thittam is the training offered to the individual SHG members on basics of SHG management. PIU besides arranging training to NGOs and bankers, also arranges workshops to elicit the problems at the operational level and strives to find the solutions through threadbare discussions and exchange of views. Exposure visits are also arranged. NGOs train the SHG leaders and SHG members as per the training modules prescribed by Mahalir Thittam. For promoting micro enterprise development, PIU also organizes Entrepreneurship Development Programs (EDP) to motivate SHG members for enterprise promotion and this is followed by Skill trainings to impart specific activity based skills. It also offers support to SHGs in their marketing efforts by making arrangements for SHGs to participate in exhibitions and sell their products. PIU has supplied mobile tents to SHGs for putting up marketing stalls in public places. The progress under the SHG Bank linkage program in Madurai and Ramanathapuram districts is presented in Table 3.7.
Table 3.7.

Comparison of performance under SHG bank linkage program
in Madurai and Ramanathapuram districts.

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>Year</th>
<th>SHGs credit linked in Madurai district</th>
<th>SHGs credit linked in Ramanathapuram district</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(Cumulative position as at the end of the year)</td>
<td>(Cumulative position as at the end of the year)</td>
</tr>
<tr>
<td></td>
<td>Number of SHGs</td>
<td>SHG loan disbursed</td>
<td>Percentage of growth in loan disbursed over the previous year.</td>
</tr>
<tr>
<td>1</td>
<td>2000-01</td>
<td>2172</td>
<td>108.96</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>3275</td>
<td>161.75</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>4433</td>
<td>285.06</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>7828</td>
<td>725.01</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>10273</td>
<td>1010.17</td>
</tr>
</tbody>
</table>

Source: Reports on SHG Bank linkage program (2000-2005) from NABARD, Micro Credit Innovations Department, Mumbai.
As per the table 3.7, the performance in Madurai district in terms of number of SHGs credit linked and the SHG loan disbursed, is found as 10273 SHGs credit linked cumulatively as of March 2005, with SHG bank loan disbursements of Rs. 1010.17 millions. Ramanathapuram district has recorded a higher per cent of growth than that of Madurai district except for the year 2003-04. The better performance may also be due to the good support of NABARD to small NGOs for SHG promotion in Ramanathapuram district.

**Progress under Mahalir Thittam.**

The progress of SHGs formed and women enrolled under Mahalir Thittam is presented in table 3.8. It is found that the SHGs formed in Madurai district has increased by 5351 SHGs from 3306 SHGs in March 2002 to 8657 SHGs in March 2006. The women enrolled in Madurai district increased by 65046 women from 65202 women in March 2002 to 130248 in March 2006. It is further observed that the SHGs formed in Ramanathapuram district has increased by 4181 SHGs from 3192 SHGs in March 2002 to 7373 SHGs in March 2006. The women enrolled in Ramanathapuram district increased by 66070 women from 61894 women in March 2002 to 127964 in March 2006.

In both the districts, the growth in respect of SHGs formed and the members enrolled is higher during the year 2005-06. This may be attributed to the fact that as the state elections were forthcoming during that period, the government promoted more new SHGs through Block Development Officers (BDOs). Such SHGs formed by the government officials have not received sufficient training inputs and hence, they are weak. In some groups, multiple memberships (where one member joins more than one SHG at the same time, in order to get
more than one loan) were also observed as the BDOs have not used proper screening tests, while enrolling members for their new groups.

Table 3.9 shows the progress in savings mobilized and sanga loan disbursed. The average individual SHG member savings in Madurai district has grown by Rs.1109 between March 2002 and March 2006, while the same has gone up by Rs.2191 in Ramanathapuram district. The number of times, the savings rotated (Savings rotation= Total Sanga loan disbursed / Total savings) as sanga loan is an indicator that the SHG is very active in fulfilling the financial needs of the SHG members. It is observed from the table 3.9 that the savings rotation in Madurai district is coming down from 3.65 as of March 2002 to 2.96 as of March 2006, whereas in Ramanathapuram district the savings rotation is increasing from 2.77 as of March 2002 to 3.15 as of March 2006. This may be due to more frequent use of sanga loans to manage the crisis situations like drought, which are more common in Ramanathapuram district. It is further revealed that in Ramanathapuram district, the sanga loan was used by the SHG members as venture capital to experiment with launching of new micro enterprises, which has been highlighted in the case study 1, given in appendix – 3. Table 3.10 shows the progress of Mahalir Thittam SHGs under SGSY loan disbursements. Even though the growth reported seems to be commendable, the SHG members during the survey expressed their difficulties in accessing these loans, as the time lag involved was around 8 to 10 months for getting the loan amount. Table 3.11 presents the progress under TAHDCO, which is widely fluctuating. It was observed that TAHDCO loans are also not preferred by the SHG members, as it involved more transaction cost to the members by way of many visits to offices and in some cases bribes too.
Table 3.8

**Cumulative progress of SHG outreach under Mahalir Thittam.**

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>For the year ending</th>
<th>Madurai district.</th>
<th>Ramanathapuram district.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SHGs formed</td>
<td>Percentage growth over previous year</td>
<td>Women enrolled</td>
</tr>
<tr>
<td>1</td>
<td>31.3.2002</td>
<td>3306</td>
<td>--</td>
</tr>
<tr>
<td>2</td>
<td>31.3.2003</td>
<td>3820</td>
<td>15.5</td>
</tr>
<tr>
<td>3</td>
<td>31.3.2004</td>
<td>5143</td>
<td>34.6</td>
</tr>
<tr>
<td>4</td>
<td>31.3.2005</td>
<td>5551</td>
<td>7.9</td>
</tr>
<tr>
<td>5</td>
<td>31.3.2006</td>
<td>8657</td>
<td>55.9</td>
</tr>
</tbody>
</table>

Source: Progress reports 2002-06, Mahalir Thittam Project offices, Madurai and Ramanathapuram.

** - The progress pertains to the NGOs participating in Mahalir Thittam only and not of all the NGOs in the district.

Table 3.9.

Cumulative progress of savings mobilized and sanga loan disbursed under Mahalir Thittam.

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>For the year ending</th>
<th>Madurai district.</th>
<th>Ramanathapuram district.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Savings of SHG members</td>
<td>Per member savings in rupees</td>
<td>Sanga loan disbursed</td>
</tr>
<tr>
<td>1</td>
<td>31.3.2002</td>
<td>770.93</td>
<td>1182</td>
</tr>
<tr>
<td>2</td>
<td>31.3.2003</td>
<td>1085.01</td>
<td>1435</td>
</tr>
<tr>
<td>3</td>
<td>31.3.2004</td>
<td>1585.80</td>
<td>1795</td>
</tr>
<tr>
<td>4</td>
<td>31.3.2005</td>
<td>1966.03</td>
<td>2208</td>
</tr>
<tr>
<td>5</td>
<td>31.3.2006</td>
<td>2983.97</td>
<td>2291</td>
</tr>
</tbody>
</table>

Source: Progress reports 2002-06, Mahalir Thittam Project offices, Madurai and Ramanathapuram.
Table 3.10.
Cumulative progress of loan disbursements under SGSY in Mahalir Thittam SHGs.
Rupees in lakhs.

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>For the year ending</th>
<th>Madurai district.</th>
<th>Ramanathapuram district.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Revolving fund loan</td>
<td>Percentage growth over previous year</td>
</tr>
<tr>
<td>1</td>
<td>31.3.2003</td>
<td>137.50</td>
<td>--</td>
</tr>
<tr>
<td>2</td>
<td>31.3.2004</td>
<td>200.25</td>
<td>45.6</td>
</tr>
<tr>
<td>3</td>
<td>31.3.2005</td>
<td>309.00</td>
<td>54.3</td>
</tr>
<tr>
<td>4</td>
<td>31.3.2006</td>
<td>597.18</td>
<td>93.3</td>
</tr>
</tbody>
</table>

Source: Progress reports 2003-06, Mahalir Thittam Project offices, Madurai and Ramanathapuram.

Table 3.11.
Cumulative progress of loan disbursements under TAHDCO in Mahalir Thittam SHGs.
Rupees in lakhs.

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>For the year ending</th>
<th>TAHDCO loan</th>
<th>Percentage growth over previous year</th>
<th>TAHDCO loan</th>
<th>Percentage growth over previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>31.3.2003</td>
<td>3.26</td>
<td>--</td>
<td>3.2</td>
<td>--</td>
</tr>
<tr>
<td>2</td>
<td>31.3.2004</td>
<td>246.53</td>
<td>7462.2</td>
<td>41.39</td>
<td>1193.4</td>
</tr>
<tr>
<td>3</td>
<td>31.3.2005</td>
<td>734.00</td>
<td>197.7</td>
<td>71.0</td>
<td>71.5</td>
</tr>
<tr>
<td>4</td>
<td>31.3.2006</td>
<td>968.12</td>
<td>31.9</td>
<td>379.34</td>
<td>434.3</td>
</tr>
</tbody>
</table>

Source: Progress reports 2003-06, Mahalir Thittam Project offices, Madurai and Ramanathapuram.
3.15. Performance of SHGs of the respondents

In both Usilampatti and Paramakudi blocks, as the IFAD project was implemented earlier, due to the spread effects, many SHGs emerged on their own. The analysis of the data collected from the SHG profile sheets and financial returns (as of 31.3.2004) of 80 SHGs, from which respondents were drawn, revealed the rotation of savings, profit sharing and drop outs.

Table 3.12.

<table>
<thead>
<tr>
<th>Sl. no</th>
<th>Block</th>
<th>Total Savings</th>
<th>Sanga loan disbursed</th>
<th>Rotation of savings = sanga loan disbursed / savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Paramakudi (47 SHGs)</td>
<td>1546625</td>
<td>5200389</td>
<td>3.36</td>
</tr>
<tr>
<td>2</td>
<td>Usilampatti (33 SHGs)</td>
<td>1874132</td>
<td>7541084</td>
<td>4.02</td>
</tr>
<tr>
<td>3</td>
<td>Total study area</td>
<td>3420757</td>
<td>12741473</td>
<td>3.72</td>
</tr>
</tbody>
</table>

Source: Compiled from the MIS (Management Information System) report of NGOs ICCW and SARADA for the year ending 31.3.2004

From table 3.12, it is found the SHGs of respondents in Paramakudi block have rotated their savings 3.36 times, well over the Ramanathapuram district SHGs’ performance of 3.11 times as of March 2004 (See table 3.9) and the SHGs of respondents in Usilampatti block have rotated their savings 4.02 times, well over the Madurai district SHGs’ performance of 3.13 times as of March 2004 (See table 3.9). The Usilampatti SHGs’ better performance may be due to the fact that more number of SHGs (20 out of total 33 SHGs) are more than 5 years old.
Profit sharing and savings returned.

Table 3.13.

Savings returned and Profit distributed.

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>Block</th>
<th>Total Savings</th>
<th>Savings returned</th>
<th>Profit distributed</th>
<th>*Net total savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Paramakudi (47 SHGs)</td>
<td>1546625</td>
<td>6500</td>
<td>--</td>
<td>1540125</td>
</tr>
<tr>
<td>2</td>
<td>Usilampatti (33 SHGs)</td>
<td>1874132</td>
<td>51400</td>
<td>508188</td>
<td>1314544</td>
</tr>
<tr>
<td>3</td>
<td>Total study area (80 SHGs from which respondents drawn)</td>
<td>3420757</td>
<td>57900</td>
<td>508188</td>
<td>2854669</td>
</tr>
</tbody>
</table>

Source: Compiled from the MIS (Management Information System) report of NGOs ICCW and SARADA for the year ending 31.3.2004

(* Net total savings = Total savings – savings returned and Profit distributed.)

SHGs generally return the savings to their members, when they drop out of the SHG due to migration or for the reason of not willing to adhere to the rules and regulations of SHGs. In Paramakudi block, an amount of Rs.6500 was returned to drop outs, while in Usilampatti block Rs.51400 was returned to the drop outs during the year 2003-04. The profit sharing has not taken place in Paramakudi block, where the SHGs are relatively young SHGs, when compared with the SHGs in Usilampatti block. Table 3.13 shows that in Usilampatti block, the profit sharing has taken place during the year 2003-04 and the profit amount shared was Rs.508188. It is the usual practice of very old SHGs, to share a part of their common fund, when they accumulate a larger profit over a period. Some SHGs give away this profit share as cash during festivals and some give away this profit in kind as consumer articles during the anniversary celebrations of the SHGs. Net total savings is the amount
available with the SHGs as common fund as on 31.3.2004 after the distribution of the profit.

**Drop outs**

One or two from a group may drop out either because of migration or unwillingness to adhere to the rules of SHGs or death of the member and so on. Some times, on hearing the benefit from fellow members, new members may also join the SHGs. So, the net reduction of 5 to 10 percent of drop out is a common phenomenon.

Table 3.14.

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>Block</th>
<th>Number of members</th>
<th>Net reduction (drop outs)</th>
<th>Drop out rate (as a percentage to the inception level)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>At the inception</td>
<td>Current status</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Paramakudi SHGs</td>
<td>901</td>
<td>799</td>
<td>102</td>
</tr>
<tr>
<td>2</td>
<td>Usilampatti (33 SHGs)</td>
<td>641</td>
<td>594</td>
<td>47</td>
</tr>
<tr>
<td>3</td>
<td>Total study area (80 SHGs from which respondents drawn)</td>
<td>1542</td>
<td>1393</td>
<td>149</td>
</tr>
</tbody>
</table>


From the table 3.14, it is observed that the drop out rate in Paramakudi block is 11.32, which is slightly more than the accepted common level of 10 percent. In Usilampatti block, the drop out rate is 7.33 percent, which is distinctly well below the accepted common level of 10 percent. The overall drop out for all the 80 SHGs together is 9.66, which also comes within the common accepted
level of 10 percent. The client retention is a strong indication that the clients value the micro financial services provided by the SHG-Bank linkage program.

3.16. Summary

As Indian context is very diverse and unique, different models of micro finance delivery are being practiced. RBI and NABARD are playing a key role in ensuring an enabling policy support. As of now, there is not an exclusive law in India to regulate the micro finance sector. Networks and State governments have contributed to the development of the program and the SHGs are being integrated with other program components. The progress under the SHG bank linkage program in India, has been recording an exponential growth during the last few years. Even though the average loan size per SHG keeps on increasing over the years and it has reached Rs.50913 as of March 2006, the average SHG loan availed per family as of March 2006 is only Rs3637, which shows that a wide scope exists for credit deepening. During the year 2005-06, the number of SHGs financed in Tamilnadu registered a 41.7 percent growth over the March 2005, whereas bank loan disbursed during the year 2005-06, marked a 61.6 percent growth over the March 2005 level. While the performance in terms of number of SHGs credit linked and the SHG loan disbursed, is more in Madurai district with 10273 SHGs credit linked cumulatively as of March 2005, with SHG bank loan disbursements of Rs.1010.17 millions, Ramanathapuram district has recorded a higher per cent of growth for the last 3 years than that of Madurai district except for the year 2003-04. In some SHGs, the profit is distributed as cash and in some SHGs as consumer articles. The overall drop out for all the 80 SHGs together is 9.66, which also comes within the common accepted level of 10 percent. The client retention is a strong indication that the clients value the micro financial services provided by the SHG-Bank linkage program.
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