Chapter- 1
Introduction

1.1 Background

The failure of formal institutions in the world to serve the poor people has effectively led to a review of the informal financial systems. But it has been observed from the very beginning that the informal financial system is highly exploitative type and charging a very high rate of interest from the poor masses. To bridge a gap between the formal and informal systems, Prof. Mohammad Yunus had started a research project or system of finance, as an experiment, on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh in 1979 and established the Grammen Bank in 1983. As a result of that, this new experiment has changed the life of many poor people and improved their economic condition from the below poverty line in Bangladesh. This new financial system was named as Micro Finance.

In recent times, the microfinance has received increased attention among the researchers and financial service providers as a good alternative in the credit market. Although, the concept of microfinance is not a new one for the world. Small informal savings and credit groups have been operated from centuries across the world from Ghana to Mexico to India and beyond. In Europe, as early as in the 15th century, the Catholic Church founded pawn shops as an alternative to usurious moneylenders. These pawn shops spread throughout the urban areas of Europe in the 15th century. Formal credit and saving institutions for the poor have also been working around the world for generations, offering financial services for customers who were traditionally neglected by the
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commercial banks. The Irish Loan Fund system, started in the early 1700s, is an early example of this kind of concept. In the 1800s, Europe has seen the emergence of larger and more formal savings and credit institutions that focused primarily on the rural and urban poor. In this direction, a financial cooperative system was developed in Germany. Its aim was to help the rural population from their dependence on moneylenders and to improve their welfare. Furthermore, the movement emerged in France in 1865 and Quebec in 1900. Many among the present day financial cooperatives are working in Africa, Latin America and Asia to find their roots from the European movement. Microfinance in Asia has also much longer history. Though little seems to be known about the early history of the HUI in China, Chit funds in India, Susus in Ghana, Tandas in Mexico, Cheetu in Sri Lanka, Tontines in West Africa, Pasanaku in Bolivia and the Paluwagan in Philippines. Another early example is the Indonesian People's Credit Banks that opened in 1895 and become the largest microfinance system in Indonesia.

Meanwhile, the 1970s saw the birth of microcredit programme in Bangladesh, Brazil and India. Thereafter, a few other countries began lending to poor woman entrepreneurs. Examples of early pioneers include Grameen Bank in Bangladesh, American for Community Cooperation in Other Nations (ACCIION) which began in Latin America and then spread to the United States and Africa, Rotating Savings and Credit Associations (ROSCAs) in Nigeria which is an association of some early financial institutions and Self Employed Women's Association Bank in India which is a bank owned by a women's trade union. In the 1980s, microcredit programme throughout the world has improved on the original methodologies and defined conventional wisdom about financing for the poor people. Specifically, over the past 10 years, microfinance has rapidly evolved and expanded from the relatively narrow field of microcredit to a more comprehensive concept of microfinance.
1.2 Concept of Microfinance

In a simple language, microfinance means provision of financial services at a small scale to the rural and urban poor including the self employed people. Broadly speaking microfinance refers to small scale financial services for both credit and deposits that are provided to the people who are involved in farming or fishing or herds or small scale traders that means they operate small and microentreprise where goods are produced, recycled, repaired or traded, provide services, work for wages or commission, gain income from renting out small amount of land, vehicles, draft animals or machinery and tools and to other individuals and local groups in the developing countries in both urban and rural areas (Robinson Marguerite S., 2001)

The term microfinance sometimes is used interchangeably with the term microcredit. However, microcredit refers to provisions of loan in small quantities/amounts for unsalaried borrowers with little or no collateral. On the other hand, the term microfinance has a broader meaning covering other financial services like saving, insurance, leasing, money transfer, equity transaction etc. Thus, microfinance is a financial service of small quantity, provided by financial institutions to the poor people. As a matter of fact, any type of financial services, provided to customers to meet their normal financial needs: life cycle, economic opportunity and emergency is known as microfinance (Gupta and Rao, 2003). In this way, microfinance may be defines as the provision of a broad range of financial services to poor, low income households, deprived sections of the society and micro- enterprises usually lacking access to formal financial institutions.

1.3 Need of Microfinance

It is a known fact that low income countries have lack of credit and they are unable to get enough income. So they cannot start their own small business. The
Consultative Group to Assist the Poor (CGAP) have highlighted the serious concern of the international community to reduce the levels of poverty, both in terms of income levels and deprivation of basic needs for a decent living. In the recent times, microfinance has been recognized and accepted as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor, especially for women. By the definition, microfinance refers to the entire range of financial services rendered to the poor. It also includes skill upgradation and entrepreneurial development that would enable them to overcome the poverty. The concept of microfinance essentially rests on the premises that (a) to make investment to start up or expand their business, thus improving employment and income, (b) to accumulate assets over time and to hold part of their financial reserves as an income earning, secure and liquid form which affords clear advantage in traditional forms of saving, and (c) to balance fluctuating income and expenditure better in risks and emergencies. Thus, microfinance could be referred to as providing credit support, usually in a very small amount, along with training and other related services to the people with poor resources and skills but they are in a position to undertake micro scale economic activities. Generally speaking, microfinance clients are poor and low-income people who do not have access to formal financial institutions. Moreover, microfinance clients are often self-employed, household-based entrepreneurs such as small retail shop keepers, street vendors, artisan, farmers and service providers. In this way, it may be concluded that microfinance is needed for poverty alleviation, women empowerment and financial inclusion.

1.4 Approaches of Microfinance

At present, two different approaches have been identified for the evolution of the microfinance industry (Christen and Drake, 2002). They are the Latin American model and the South-Asian model. The Latin American model may be called as the commercial
model. It has been recognized from the outset that its significance are because of allying with the formal financial system rather than donors or targeted government programmes. Focus on social and community development for the poor and marginalized women is not clear due to its absence in this system. There is an accent instead of enterprise creation and growth. However, the South-Asian model, largely based on the strategic and operational features of the Grameen model has its spotlight clearly on women and poor people.

In India, this industry has grown under two different systems of patronage i.e. Self Help Group (SHG) – Bank Linkage Model and Micro Finance Institutions- Bank Linkage Model. The SHG – Bank Linkage Model involves Self Help Groups (SHGs) financed directly by the banks viz., commercial banks (public sector and private sector), Regional Rural Banks (RRBs) and Cooperative Banks. While, in Micro Finance Institutions (MFIs)- Bank Linkage Model, MFIs are linked to the banks. Banks provide financial assistance to MFIs so that these MFIs can further provide financial assistance to the SHGs. Both the models have their target at poor and women, predominantly. In the absence of any suitable legal and regulatory framework to carry on with the business of financial service provision, most players in the latter category have devised strategies to circumvent the governmental gaze in the most innovative ways.

1.5 Micro Financing in India

The micro financing schemes in India came with the introduction of SHG concept by National Bank for Agriculture and Rural Development (NABARD) for the first time in the government sector. At the non-government level, Self –Employment Association of Women (SEWA) founded by Ela Bhatt was the first of its kind as Grameen Bank in Bangladesh. Later on several other organizations such as Society for Helping Awakening Rural Poor through Education (SHARE) in Hyderabad, Mysore Resettlement and
Development Authority (MYRADA) in Karnataka, Women’s Welfare Forum (WWF) in Chennai and various other organizations in different parts of Southern India proved to be very successful economically through the micro credit programmes. The SEWA has pioneered an economic revolution amongst the poorest women of Gujarat since 1972. Small Industries Development Bank of India (SIDBI) has started a major project in this direction entitled SIDBI foundation for microcredit providing a complete range of financial and non financial services relating to MFIs. The NABARD concept of SHGs is extensively prevalent in India. Furthermore, NABARD a bank for rural development has conceived the concept of SHGs with full support and vigour. It has succeeded in establishing that self- help is the best help for the progress of poor people. There are three approaches emerged in the SHG concept. (i) Non Government Organizations (NGOs) facilitated SHGs in which the NGOs would be helping the members to form the group and arrange to get the support from financial agencies directly just playing a facilitator’s role. (ii) NGO intermediated in which not only the NGO would form and organize the groups but also extend credit directly to the members either getting from banks or other promotional agencies. (iii) Directly formed SHGs which are formed by the banks and credit is being extended directly to them without any facilitating or intermediating agencies. It is necessary to find out which one among these approaches would be sustainable so that the contribution of SHGs from their starting years would continue to exist for further development.

1.6 Concept of SHG

The SHG is a small voluntary association of poor people preferably from the same socio- economic background. They come together for the purpose of solving their common problems through SHG. The number of members in one SHG does not exceed twenty. The groups have been recommended to be informal to keep them away from the
bureaucracy, corruption, unnecessary administrative expenditure and profit motive. The size of SHG is twenty because any group larger than this would need to be registered under the Indian legal system. These groups are expected to foster a true democratic culture where all the members participate actively by taking part in the debate and decision-making process which is possible only in the small groups. Groups are expected to be homogeneous so that the members do not have conflicting interest and all the members can participate freely without any fear. After being formed, generally by external agency, group starts collecting a fixed amount from each member regularly. For about six months it only collects amount, no loan is given to any member. During this period the groups are expected to open a saving account with the Financial Institutions (FIs). After accumulating a reasonable amount of resources, the group starts lending to its members for petty consumption needs. The repayment of the loan with interest and regular amount enlarge the working fund and increase the scope of lending. The groups are jointly liable to the bank for repayment. Therefore, the joint liability, decision-making process and pressure at the group level are the most important aspects for the banks to do business with the poor, illiterate and informal groups. Their demand for loan is for consumption, health, education, marriages, and petty production, petty trade etc. In this way, SHG approach is acting as the key element for reducing unemployment. Social mobilizations being self-supporting and self-governing organizations are devoid of bureaucratization and politicization.

The financial institutions that promote the SHGs are NABARD, SIDBI, Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC), Commercial Banks and NGO's. A SHG may have all women group, all men group, or even a mixed group. However, it has been experienced that women's groups perform better for all the important activities of SHG. There is yet no
availability of any formal official publications on different statistics of the SHG. However, NABARD has brought out some basic data on the SHG. According to this, 7960000 SHGs are working in India as on March 31, 2012 and 90 per cent SHGs are found women groups. Linked with micro finance, the SHG movement has now been accepted as an effective intervention strategy for poverty alleviation and reducing unemployment. The SHG linked micro finance includes such credits which are provided to the rural poor on easy terms and conditions and give access to their several income generation activities. Considering this important concept of welfare, the future strategy of credit institutions would have to include the strengthening of credit delivery system for increasing employment opportunities in the unemployed sector.

1.7 Progress of SHGs Linkage Programme in India

Being the main facilitator of SHGs movement in India, efforts were also made by the NABARD to popularize its project among the banks and NGOs through organizing series of workshops, conferences, training programmes and seminars at different levels. The response received from the banks and NGOs were encouraging and positive. Besides building mutual trust and confidence between the banks and the rural poor, the linkage is expected to promote thrift, and inculcate credit discipline among the rural poor (Nanda, 1998). In this direction, the NABARD is providing hundred per cent refinance facility to the banks at very concessional rate of interest per annum, training facilities to bank officials and field staff of NGOs. The efforts of NABARD are increasing the formal banking services to the rural poor in India. With this, the programme has registered a significant growth in term of its wide coverage. Today, this unique programme in India has involved about 4000 partners and has blossomed as decentralised and a fastest growing microfinance initiative in the world. It has started from beginning with a small number of 255 SHGs being linked during 1992-93 and then a total of 1148000 are credit
Introduction

linked with banks by March, 2012. It indicates that the progress of SHGs linked programme in the first decade was found very high. It was highest in 2008-09. But in the recent years, its progress is negative and it is declining after 2008-09. The year wise progress of SHGs bank linkage programme with annual growth rate in percentage has been presented in the following Table 1.7.

Table 1.7: Year Wise Progress of SHGs Linkage Programme in India.

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Years</th>
<th>Number of SHGs Linked</th>
<th>Annual Growth Rate in Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1992-93</td>
<td>255</td>
<td>---</td>
</tr>
<tr>
<td>2.</td>
<td>1993-94</td>
<td>365</td>
<td>43.14</td>
</tr>
<tr>
<td>3.</td>
<td>1994-95</td>
<td>1502</td>
<td>311.51</td>
</tr>
<tr>
<td>4.</td>
<td>1995-96</td>
<td>2635</td>
<td>75.43</td>
</tr>
<tr>
<td>5.</td>
<td>1996-97</td>
<td>3841</td>
<td>45.77</td>
</tr>
<tr>
<td>6.</td>
<td>1997-98</td>
<td>5719</td>
<td>48.89</td>
</tr>
<tr>
<td>7.</td>
<td>1998-99</td>
<td>18678</td>
<td>226.60</td>
</tr>
<tr>
<td>8.</td>
<td>1999-2000</td>
<td>81780</td>
<td>337.84</td>
</tr>
<tr>
<td>9.</td>
<td>2000-01</td>
<td>149050</td>
<td>82.26</td>
</tr>
<tr>
<td>10.</td>
<td>2001-02</td>
<td>197653</td>
<td>32.61</td>
</tr>
<tr>
<td>11.</td>
<td>2002-03</td>
<td>255882</td>
<td>29.46</td>
</tr>
<tr>
<td>12.</td>
<td>2003-04</td>
<td>361731</td>
<td>41.37</td>
</tr>
<tr>
<td>13.</td>
<td>2004-05</td>
<td>539365</td>
<td>49.11</td>
</tr>
<tr>
<td>14.</td>
<td>2005-06</td>
<td>620109</td>
<td>14.97</td>
</tr>
<tr>
<td>15.</td>
<td>2006-07</td>
<td>1105749</td>
<td>78.32</td>
</tr>
<tr>
<td>16.</td>
<td>2007-08</td>
<td>1227770</td>
<td>11.04</td>
</tr>
<tr>
<td>17.</td>
<td>2008-09</td>
<td>1609586</td>
<td>31.10</td>
</tr>
<tr>
<td>18.</td>
<td>2009-10</td>
<td>1586822</td>
<td>-1.41</td>
</tr>
<tr>
<td>19.</td>
<td>2010-11</td>
<td>1196134</td>
<td>-24.62</td>
</tr>
<tr>
<td>20.</td>
<td>2011-12</td>
<td>1148000</td>
<td>-4.02</td>
</tr>
</tbody>
</table>

Source: NABARD’s Reports on Microfinance in India in various years
1.8 Profile of Jhajjar District of Haryana state

Jhajjar is one of the rural area district of Haryana state, India. Jhajjar district was carved out of district Rohtak on July 15, 1997. Basically the name Jhajjar originated from the name of Sh. Chhaju Ram who inhabited first in this area. It is also believed that it was originated from Jharnagar, a natural fountain. A third derivation is from Jhajjai, a water vessel, because the surface drainage of the country for miles around runs into the town as into a sink. The district headquarter is situated in Jhajjar town at a distance of about 65 km from Delhi. Other towns in the district are Bahadurgarh and Beri.

1.8.1 Physical and Climate Features of the District

The district lies in the south east of Haryana state. The district is located between 28°33’N and 28°42’S latitude and 76°28’45’’ W and 76°84’15’’ E longitude. On its north lies Rohtak district and in the South lies the Rewari district. In the East lies Delhi, and in the West lies Bhiwani district. The district headquarter lies on the National Highway No.71. The altitude of the district is about 715 ft. above mean sea level and a slope from South to North from Rewari towards Jhajjar is around 40 feet. The district falls within the classified arid and semi-arid zones. Broadly four types of soil are available in the district i.e. clay, loamy clay, loamy sandy and sandy. Hot summer, cold winter and merger rain fall are the main climatic characteristics of Jhajjar district.

1.8.2 Area and Population of the District

The district is having an area of 1934 square kms which is 3.77 per cent of the total area of state Haryana. The total population of the district is 9,56,907 as per the census 2011. The density of population is 522 person per sq. km. The growth rate of population is 8.73 per cent. The rural population is 74.60 per cent of the total population and urban population is 1,95,081 (14.01 per cent). Thus, the major population is residing in rural area. The component of male and female population is 5,4,303 and 4,42,604
respectively. The population of Jhajjar town is 48,447. The other towns are, Bahadurgarh with population of 1,70,426 and Beri with population of 16,162. The sex-ratio of the district is very low when it is compared with other districts of the country.

1.8.3 Administrative Setup of the District

There are 265 villages and 247 panchayats in the district as per 2011 census. It has three Sub- Divisions, four Tehsil and one Sub- Tehsil. In fact, it has been divided into five administrative blocks named as Jhajjar, Beri, Matanhail, Sahalawas and Bahadurgarh.

1.8.4 Economy of the District

The economy of the district is primarily agriculture based economy. About 3,92,527 (57.58 per cent) of total workers are engaged in agriculture and other allied activities. Out of total geographical area of the district, only 77.38 per cent area is under cultivation. The main crops in Rabi season are Wheat, Gram, Barley, Mustard, Sugar Cane. In the Kharif season are Cotton, Paddy, Jawar, Bajra, Gawar, Arhar and Moong. On the industrial front, district is now witnessing industrial growth at faster pace by providing good infrastructure to the industries. At present 1477 small scale industrial units are working. Besides this, 37 large and medium units also exist in the district such as Surya Roshni Ltd., Hindustan Sanitary Wares & Industries Ltd., Parle Hindustan National Glass & Industries Ltd., Parle Biscuits Ltd., Merino Panel Products Ltd, Relaxo Footwear Ltd., etc. All villages have electricity facilities and they are well connected by all weather pucca roads. The district is also well provided with other essential services like drinking water facilities, postal service, education and health services etc.

1.9 Significance of the Study

The significance of the present study is very much in the area of poverty alleviation, employment generation and other welfare schemes related to SHGs. Poor and
women are considered as the deprived sections of the society who have a very few resources of income. Our social customs, rituals and caste system became a hindrance in their way to get opportunities of employment or participate in income generating activities. Condition of poor and women in Haryana is worse because of the existence of feudal social structure. They do not get proper schooling, married at minor age and the sex ratio in Haryana is miserably far below the average sex ratio of India. Consequently, poor and women are not economically independent and thus, they cannot play a dominant role in income generating activities due to backwardness. Due to worst social conditions a single women cannot be allowed to come out from her house for participating in income generating activities. So there is dire need of a social movement for economic improvement of poor through SHGs. The efforts in this direction will change them politically and socially, automatically. Economic improvement is possible only when SHGs have effective working and their working depend upon most influenced factors which determine the effective working of SHGs. If we find these factors, effective functioning of SHGs can be maintained over the periods. So it is necessary to evaluate measurements for working of the SHGs and its impact of participation on beneficiaries after joining the SHGs. In view of the facts mentioned above, it becomes a need of the hour to take up the issue of SHGs in Haryana. The concept of SHGs provides the benefits of economies of scale, cost effective alternative for different financial services, collective learning, democratic and participatory culture. Moreover, the significance of SHGs is based on cooperation rather than competition. This present course of study provides information about the working of SHGs and its impact of participation on various aspects of beneficiaries. The present study has been carried out under the heading of “Micro Finance and Self Help Groups: A Case Study of Jhajjar District of Haryana”. The present
study takes a strong opinion that it will go a long way in contributing particularly for socio-economic development of the state.

1.10 Objectives of the Study

Keeping in view of this, the present study was undertaken with the following specific objectives:

(i). To analyse the SHGs in terms of their composition, organizational structure and socio-economic conditions.

(ii). To examine the impact of SHGs on the members of SHGs.

(iii). To examine and evaluate the working of SHGs.

1.11 Scope of the Study

The present study is an attempt to explore working of SHGs and its impact of participation on various aspects of beneficiaries in the Jhajjar district of Haryana. Moreover, the study provides in depth information on various aspects of working of SHGs and its impacts on participants of SHGs. The findings of the study would provide useful information for the policy makers, bankers, FIs, NGOs, researchers and field functionaries regarding the working and impacts of SHGs.

1.12 Limitations of the Study

The present study being undertaken as a student research project so it has obviously limitations as regard the restricted locale of the study, sample size, money and other resources, which is generally encountered by a single investigator. The study also suffers from the usual limitations of primary data based analysis. However, the adequate care was taken to make the sample representative. The sample size was not taken very large and hence the conclusions of the study need to be confirmed on the basis of more detailed and wide based analysis before formulating any generalization. However, pre-test of the schedule was also done. But some time responses were based more on
respondent’s subjective perception rather than actual position because most of respondents were financial illiterate. Moreover, the objectives of the study are largely limited to the information provided by the respondents.

1.13 Scheme of Chapterization

The entire work carried out in this thesis has been categorised in the form of six chapters which are given below:

Chapter-1: Introduction

It deals with the general introduction of the topic, meaning and definition of micro finance, origin and concept of SHG, significance of the study, specific objectives and limitations of the study.

Chapter-2: Review of Literature

This chapter contains a brief review of literature related to the objectives of the study to identify the gaps in the available stream of this specified field of research.

Chapter-3: Methodology

Sources of data, sampling design and statistical techniques which were used for drawing the results and conclusions have been discussed under this chapter.

Chapter-4: Composition, Organizational Structure, and Socio- Economic Conditions of Self Help Groups

This chapter is divided into three sections. Section 3.1 discusses about the composition of SHGs. Section 3.2 contains organizational structure of SHGs and section 3.3 is related to socio- economic conditions of SHGs.

Chapter-5: Results and Discussion

Under this chapter the results from working and impacts of SHGs have been divided into two sections. Section 5.1 discusses about the working of SHGs related to their joining, meeting, saving, loaning and training of members of SHGs. Section 5.2
measures the impacts of participation in SHGs on income, expenditure, investment, saving and employment of respondents of SHGs.

Chapter-6: Conclusions and Suggestions

A scope for further research along with conclusions and suggestions has been given under this chapter.