CHAPTER-1
INTRODUCTION

1.0 INTRODUCTION

Commitment of our Nation to welfare of the poor and the weak is well evident from the fact that “Justice-Social, Economic and Political” has been kept as the first among the objectives in the Preamble of the Constitution of India. This was considered both necessary and essential for constituting India into a sovereign, socialist, secular, democratic, republic. On account of various historical and social factors, persons belonging to the Scheduled Castes, Scheduled Tribes and other Backward Classes, often referred to as "Dalits", have limited access to assets and opportunities. This has affected their achieving equality of status and opportunity vis-a-vis others, as envisaged under the Constitution. With a view to overcome the constraints and achieve the desired objectives, several specific provisions have been made in the Constitution itself for empowerment of the weaker sections. Besides, special legislations have been enacted and numbers of plans and programmes have been launched from time to time by the Governments, both at Central and State level, for welfare of the weaker sections.

Majority of people in our country live in the rural areas and earn their livelihood from agriculture related activities. However ownership of land in the rural India has remained skewed and bulk of the poor have no land of their own. Various proactive legislative and administrative measures taken by the Government since independence have improved the position to some extent. However, it is obvious that there are inherent constraints in bringing about welfare of the weaker sections based on land based activities alone. In view of the large population and limited financial resources available with a developing country, credit plays a critical role in economic empowerment of the poor and the disadvantaged. With this understanding, provision of credit as such and
under various credit linked poverty alleviation programmes have been taken up from time to time.

One of the most essential features of development is the transformation of society, which embraces the movement from traditional relations, social norms, and traditional ways of health care, education and traditional methods of production to more modern ones. The changes associated with development provide societies as well as the individuals more control and influence over their own destiny. Development enriches the lives of individuals by widening horizons of the choices and freedoms and at the same time by reducing their sense of isolation. Hence, the development strategy must be aimed at facilitating the transformation of society in identifying the potential catalysts and barriers to change.

The development priorities differ from country to country, yet there are some common elements. The most important is education, because without education a country cannot develop i.e. cannot attract and build modern industries and cannot adopt new modified technologies rapidly in the rural sector. Education also enables people to learn, to acquire values and standards of behaviour, and also to accept and help engender transformation. Knowledge, like education, enriches the human spirit and with education and health, it leads to a more productive society. The power of Knowledge is enormous as with increased knowledge, the output that can be produced with the limited resources can be multiplied in magnitude. The Capacity building of the individuals is must to empower them for social transformation, economic development, participation in development process and representation in governance. Hence a country aspiring to develop must have institutions, entrepreneurship and leadership to catalyze, absorb and manage the process of change and the changed society. Self Help Group is the recent instrument adopted both by the government and civil society to empower the people especially women.
1.1 WHAT IS EMPOWERMENT?

The concept of empowerment has been the subject of much intellectual discourse and analysis. United Nations (2001) defined empowerment as the processes by which women take control and ownership of their lives through expansion of their choices. It is the process of acquiring the ability to make strategic life choices in a context where this ability has previously been denied. The core elements of empowerment have been defined as agency (the ability to define one’s goal and act upon them), awareness of gendered power structure, self esteem and self confidence. Empowerment can take place at a hierarchy of different levels – individual, household, community and societal - and is facilitated by providing encouraging factors (e.g. exposure to new activities, which can build capacities) and removing inhibiting factors (e.g. lack of resources and skills).

Two vital process have been identified as important for empowerment. The first is social mobilization and collective agency, as poor women often lack the basic capabilities and self confidence to counter and challenge existing disparities and barriers against them. Often, change agents are needed to catalyse social mobilization consciously. Secondly, the process of social mobilization needs to be accompanied and complemented by economic security. As long as the disadvantaged suffer from economic deprivation and livelihood insecurity, they will not be in a position to mobilized.

In this study, empowerment of women means the enabling environment in which women could take a decision as she feels/desires about her life either social economical or political. Educational empowerment of SHG women denotes the situation/environment in which Self Help Group educated women members are capable of taking better decisions independently in the spheres of her life either at family affairs or undertaking economic activities.
1.2 SELF HELP GROUP (SHG)

The Self Help Group (SHG) is considered as a voluntary association of poor people with similar socio economic background. They are involved in solving their common problems through self-help and mutual help. It creates small savings among the members and the amount is deposited in the bank. The SHGs have a membership of 15 – 20 members.

A self help group is also defined as a voluntary group valuing personal interaction and mutual aid as a means of altering or ameliorating problems perceived as alterable pressing and personal by most of its members.

It is also defined as a group of rural poor generally comprising of small/marginal farmers, land less agricultural labourers, rural artisans, women folk and other micro entrepreneurs who organize themselves to, achieve socio-economic development by raising resource at their level initially and linking with the bank subsequently with the help of NGOs (www.aidindia.org).

Self help group is a small voluntary association of poor people, preferably from the same economic background. They come together for the purpose of solving their common problems through self-help and mutual help. The SHG promotes small savings among its members. The savings are kept with bank. This common fund is in the name of the SHG. Usually, the number of members in one SHG does not exceed twenty. The concept of SHG is based on the following principles, viz.

Self-help supplemented with mutual help can be a powerful vehicle for the poor in their socio economic development, participative financial services management is more responsible and efficient; poor need not only credit support, but also savings and other services; poor can save and are bankable and SHGs as clients, results in wider outreach, lower transaction cost and much lower risk costs for the banks.
NABARD defined SHG as a group of about 20 people from a homogeneous class who come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use their pooled resource to make small interest bearing loans to their members. The process helps them imbibe the prioritization of needs, setting terms and conditions and accounts keeping. This gradually builds financial discipline in all of them. They also learn to handle resources of a size that is much beyond individual capacities of any of them. Bank loans are given without any collateral and at market interest rates. The groups continue to decide the terms of loans to their own members. Since the groups own accumulated savings are part and parcel of the aggregate loans made by the groups to their members, peer pressure ensures timely repayments (NABARD, 2001-02).

The implicit objectives of the SHG is to combat social evils by increasing people’s participation through their empowerment. The emphasis is also on human resource development. The SHGs are generally of small size. Such small sized SHGs not only ensure active participation, but also promote group dynamics in decision making and greater transparency. Moreover, separate SHGs for men and women are more conducive for addressing the issues of gender imbalances. Also SHGs frame their own rules and regulations to suit their local conditions. Though the primary objective of micro-finance interventions is to help the poor to surmount poverty, they also assist them to undertake financially viable enterprises, which could be taken up by the banks for commercial lending.

SHG in this thesis is defined as a group of members who have voluntarily come together to form a group with an objective of empowering economically and socially, contribute savings and thrift, invest the savings in productive enterprises or lend the savings among the group members to further improve their quality of life.
1.3 CLASSIFICATION OF SHGs:

The SHGs are classified into five categories and are defined as follows.

Model I: SHGs formed and financed by banks

SHG formed directly by banks under this model, the banks themselves act as SHPIs informing and nurturing groups, opening their savings accounts and providing them with bank credit.

Model II: SHGs formed by NGOs, and formal agencies but directly financed by banks

This is called as NGO Facilitated SHGs. This appears to be the most popular model amongst bankers. Under this model, NGOs and formal agencies in the field of micro finance act as facilitators. They propagate the message, organize groups, train them in thrift and credit management and nurture them over a period. Banks in due course, link these groups by directly providing loans to them. More than 70% of the SHGs are linked through this model.

Model III: SHGs financed by banks using NGOs as financial intermediaries:

In this model, NGOs take on the dual role of facilitators and financial intermediaries. They help in formation of SHGs, nurturing them, training them in thrift and credit management. Eventually, the NGOs approach banks for bulk loan assistance for on lending to these SHGs. Apart from these three models, which has been conceived by NABARD, in this study other two models were identified.

Model IV: Completely Self-Supported SHGs:

This category of SHGs are entirely formed and supported by the group members, neither getting any assistance or support from bank nor
from NGOs. By observing the groups formed in the neighborhood areas, these groups have initiated themselves and function as others models mentioned above.

**Model V: NGO Guided but self supported SHGs:**

Yet another category of SHGs which are very rarely found are the SHGs formed and initiated by the NGOs, guided by them on the rules and regulations, accounts to be maintained etc. But no financial support either directly or through the linkage with banks is arranged but only the savings of the members is used for internal lending as well as for starting an enterprise. Of all the four groups mentioned above, this group seems to be different, self-dependent and accordingly may be encouraged. However, by not getting any external support, the size of the enterprises initiated may be too small and also expansion is not possible.

**1.4 Common Characteristics of SHGs**

The following characteristics are common for all the SHGs. [i] Each group should contain 15 to 20 members. [ii] The members of this group should live below the poverty line. [iii] It has identical interest/common occupation/social heritage, homogenity and affinity. [iv] This group creates self-help, awareness, and economic and social empowerment to the poors. [v] The self-help group inculcates the thrift and savings habit among the members of each group. [vi] SHG have full support from Government as well as non-government organisation to enhance it. [vii] Each group maintains simple records and documents, which exhibit meetings, savings, and expenditures and store other extra curricular activities. [viii] This group has a principle of collective leadership and mutual discussions. [ix] This group get loans in micro-level from banks and some social service organisation.
1.5 OBJECTIVES OF SHGS

The primary objective of SHG includes economic and social empowerment and also the skill development.

1.5.1 ECONOMIC EMPOWERMENT

- To cultivate savings habits
- To meet out the small and immediate credit needs of the members of the Group from within themselves.
- To utilize the borrowed loans properly and also to repay them promptly
- To increase the family income
- To see that the earnings of the members to go in for their sustained economic development
- To obtain Bank loans and also to get the benefits of the Government Welfare measures in a proper manner.
- To eliminate the local moneylenders.
- To learn how to reach the market for the produced goods [without the middlemen like brokers/agents].

1.5.2 SOCIAL DEVELOPMENT

- In the midst of the women groups – a sense of “We for ourselves” to be cultivated
- To remove the caste creed feeling, etc and to inculcate a sense of oneness among themselves.
- To cultivate a sense of social awareness
- To improve their living standards and also to make them capable of decision making.
- To improve the skill of the womenfolk
- To satisfy the needs of the members among themselves in the village folk.
• To totally eliminate the atrocities against the women by imparting education among the women members
• To participate in the village administration etc.

1.5.3 SKILL IMPROVEMENT:

The following are expected to accrue to the members

• To impart the skilled development in the financial management
• To get the minimum required practical education
• To acquire and improve the technical skill.
• To impart self-confidence
• To organize themselves as a disciplined and integrated group
• To acquire oratorical and leadership qualities.

These developments cannot take place in the short span of time. It will be the result after a longer period. To start with the economic empowerment may be the result while the social empowerment would take some time to realize.

1.6 MICRO CREDIT IN INDIA

1.6.1 HISTORICAL PERSPECTIVE

Our country has a tradition of mobilising thrift, which in turn meet the credit needs of the rural areas locally. At the time of independence, the cooperative sector was playing a leading role in meeting the credit requirement of the rural area and formal institutional sources contributed only a meager 3% of the total credit needs. After independence, provision of institutional finance i.e. loan from the Banks and other financial institutions to the weaker sections was given considerable importance. As a matter of fact, economic empowerment of the weaker sections was one of the main reasons for nationalisation of Commercial Banks in 1969. Subsequently, the Commercial and Regional Rural Banks have played an important role in implementation of various credit linked schemes like the
integrated Rural Development Programme, the Prime Ministers Rozgar Yojana, Swaran Jayanthi Gram Swarojgar Yojana etc. Not withstanding these measures, access of the weaker sections to institutional credit continues to be much below the desired level.

1.6.2 LIMITATION OF FORMAL CHANNELS

Various studies have indicated that cumbersome procedure; insistence on collaterals / guarantee, mobilisation of promoter's contribution etc. are some of the major factors affecting provision of adequate credit to the poor in general and the weaker section in particular. The concept of micro finance was introduced for overcoming the existing constraints and providing adequate credit to the poor by following a simple procedure. It envisages mobilising thrift and supplementing it with loan from the financial institutions. Non-Government Organisations of repute working in the area are sought to be associated for forming Self Help Groups and providing managerial skill to the groups. Linking the banking institutions with the Self-Help Groups (SHG) in mobilising rural saving for meeting the credit needs of the rural areas was recommended in 1986 in the 6th General Assembly of Asia and Pacific Regional Agriculture Credit Association held at Kathmandu, Nepal. Subsequently in 1988-89, the National Bank for Agriculture and Rural Development (NABARD) conducted a study of non government organisations and based on the findings, launched a pilot project in 1992 for assisting 500 self-help groups through commercial banks. 225 self-help groups were linked with banks during 1992-93, which indicated a modest beginning of micro finance in India. By the end of March 2008, about 12.28 lakh groups have been covered under this programme. As on 31.3.2008, 50.09 lakh SHG maintained savings worth Rs.3785 crore with banking sector. (NABARD Annual Report 2008-09). It has been found that this system has several merits namely near cent per cent recovery, low transaction cost, monitoring being easy and less time consuming.
This has also strengthened saving habits among the group members. Besides, Rashtriya Mahila Kosh (RMK) was set up, under the aegis of the Department of Women and Child Development, in March 1993 took up provision of micro finance with particular focus on the women groups without any collateral security.

1.6.3 MICRO CREDIT /MICRO FINANCE:

The concepts of micro credit and micro finance are usually used interchangeably. But Micro credit is always dovetailed with thrift and hence micro finance is a more appropriate expression rather than credit. It includes the whole gamut of financial services like thrift, credit, insurance, leasing of equipment, remittance etc required by the poor.

Micro credit is the credit of meager amount of money which plays an important role to enhance the human life which should be used in proper way to achieve income generation, removal of poverty, creation of employment etc.

1.6.4 VARIOUS FORMS OF MICRO FINANCING

Micro finance is generally routed through small groups commonly known as Self Help Groups (SHGs) which not only serve as a platform to supervise the activities of each other but also provides social collaterals. Loan amount to the member of the SHG is based on the amount of the savings of the SHG and is recovered generally in 12 monthly installments. Loans are repeated and gradually increased; thus establishing relationship with banking.

Globalization and economic liberalization have opened up tremendous opportunities for development and growth resulting in the modifications of livelihood strategies. However, these changes are making the marginalized and poor sections of society more vulnerable in the absence of adequate safety net. Keeping in view the widespread rural
poverty, there is need not only to ameliorate the economic conditions of marginalized and disadvantaged social groups, but also to transform the social structures. In the context of rural women, their economic condition becomes more vulnerable due to unequal distribution of resources. Poverty and deprivation increase gender inequality, which favours a policy for empowerment of women by increasing their access to credit through SHG’s so as to enable them to acquire the capability and assets that can help to facilitate realize strategic gender needs (Sudan, 2004). The SHG’s can be built on social capital of the local community especially women to carry out thrift and credit activities to initiate micro-income generating activities to eke out a sustainable livelihood (Moser, 1989).

During the recent past, the new type of institutions have been promoted to meet the credit needs of those groups who have been excluded from formal credit markets. SHG’s are mostly informal groups whose members have a common perception and impulse towards collective action. These groups promote savings among the members and use, the pooled resources to meet their emergent needs including the consumption needs. Sometimes, the generated internal savings are supplemented by external resources/loans by NGO’s and banking institutions promoting them. SHG’s are thus able to provide banking services to their members, which though may not be sophisticated yet are cost effective, simple, flexible, accessible to the members and above all, without any default in the repayments. The linking of SHG’s to banks helps in overcoming the problem of high transaction costs to banks in providing credit to the poor, by transferring some banking responsibilities, such as loan appraisal, follow up, recovery etc. to the poor themselves (Satish, 2001). In the rural context, SHG’s have facilitated the poor, especially the women to overcome the existing constraints grappling the formal credit institutions. These groups provide considerable social protection and income opportunities to their members. These institutions have sought to explore new ways and alternatives based on value-system, introduce new relationships and take into account the social and
economic aspects of collective living and livelihood improvement. Besides, they also help facilitate the poor women to overcome the difficulty of providing collateral guarantee to raise the finance to initiate micro-income generating activities. Due to better performance, the SHG’s have acquired a prominent status to maximize social and financial returns (Sudan, 2004).

Since late 1970’s, there have been increasing realization, that one of the obstacles preventing the poor from improving their lives was the lack of access to financial sources. Attempts have been made to develop more sustainable and reachable financial systems, in place of previously discredited schemes of direct credit to meet women’s expressed needs for improved access to credit, particularly to small loans, multi production strategies and thereby to improve the livelihood of their families, thrift and credit of SHG’s have been promoted, both by the governments, as well as NGO’s and other donor agencies. Micro-credit has been advocated as the new Panacea for reduction of poverty. Its potential for economic empowerment of women has also been variously looked at. Importantly group formation is crucial to the empowerment process as women draw strength from number. The group provides: (1) confidence and mutual support for women striving to social change; (2) a forum in which women can critically analyze their situations and devise collective strategies to overcome their difficulties; (3) a framework for awareness training, confidence building, dissemination of information and delivery of services and for developing communal self reliance and collective action; and (4) a vehicle for the promotion of economic activities (Mennai, 2003).

Poverty in India is predominantly rural in character and is more pronounced among vulnerable groups like SC’s, ST’s and Women. These social groups belong to landless and small farming classes, experience unemployment and are dependent on wage employment. Mostly they are engaged in low productivity activities of agriculture and allied sector. Therefore poverty alleviation needs increase in agricultural productivity
and transfer of substantial proportion of labour-force from farm-sector to non-farm sector including other more productive employment areas (Srinivasan). The most commonly adopted poverty alleviation approaches have been state-driven, donor-funded and top down. The development agencies and governments which have striven for poverty alleviation, designed their programmes and projects on certain assumptions in the external expert stance. However, many cultural, economic and political barriers effectively prevent the poor from having any real stake in development activities. Therefore, reaching the poor requires working with them to learn about their needs, understanding how development decisions are made in their communities and identifying institutions and mechanisms that can get opportunities and recourses into their own hands. This can happen through investments in human capital such as education and health, investments in social capital such as local level institutions and participatory process and support for community based development efforts planned and implemented from bottom up (Srinivasan). In this context, an alternative design of poverty elimination involves people's participation and resources. In this context, micro-enterprises have been recognized for their significant role in poverty reduction by creating self-employment opportunities, supplementing agricultural income, linking agricultural households to local markets through the sale and exchange of products and providing a source of employment for household members where wage employment is scarce.

Interestingly, the Self Help Groups Linkage Programme has been showing faster progress as well as high rate of success. The initiative in this regard has been taken by the NABARD, by sponsoring an Action Research Project in 1986-87. It attempted to bring together four trends and derived strength from the positive environment created by these independent of each other. These are

- maturing and expanding SHG movement initiated by the NGO sector;
- focus on micro-credit to the poor as a strategy for poverty alleviation;
- ongoing national policy commitment to improve access to finance for the poor;
- Policy environment through financial sector reforms to increase banking out reach.

Self Help Groups form the social capital which facilitate financial linkage of poor borrowers with Formal Financial Institutions (FFI's) in India. The basic principles on which the SHG’s function are (Srinivasan, 1996);

- The SHG is a network of members who fulfill locational criteria. They are resident in the area and are homogeneous.
- They have rules/norms regarding their functioning.
- Savings first, credit thereafter. Personalized services suiting the requirements of the members are ensured.
- SHG’s hold regular meetings to ensure participation of members in the activities of the group.
- SHG’s maintain accounts.
- Group leaders are elected by members and rotated periodically.
- Transparency in operations of the group and participatory decision-making ensure that the benefits to members are evenly distributed.
- Market rates of interest on savings and credit are charged.
- Group liability and peer pressure act as substitutes for traditional collateral for loans.
1.6.5 CONCEPTUALISATION OF SHG’S BANK

The Self Help Groups are voluntary associations of people formed to achieve both social and economic goals. The concept of micro-financing rural poor for self-employment was started by Prof. Muhammad Yunus of Bangladesh and is now being followed in more than 52 countries around the globe. Many international NGO’s such as, Foundation for International Community Assistance (FINCA), Americans for Community Cooperation in other Nations (ACCION), Women's World Banking, Freedom from Hunger etc. are executing various projects, through their partners mostly in developing countries.

The concept of SHG mainly revolves around the reasons that may lead to the genesis of self-help as a way to mitigate the problems faced by a set of people. According to Merton the development of contemporary forms of SHG's is generally ascribed to Alcoholic Anonymous, which was initiated in 1935 in USA (Merton 1994). As per Kingree, the concept of SHG's can be traced to collection of people to informal groups with an aim to overcome the problems related to a particular negative status. Jacobs and Powell reported that SHG’s have proliferated in recent years, serving more people and addressing many types of status related problems.

Social scientists have forwarded various definitions for SHG. Gregory and Marry (1994) have defined SHG's as being cost free, member governed, peer led group made up of people, who share the same problems or situations. Kurtz (1997) has defined SHG as a supportive, educational, usually change oriented mutual aid group that addresses a single life problem or condition shared by all members. Gupta (1996) has described SHG's as the voluntary response in the form of informal groups, of poor, to their marginalization - social, economic and political. Similarly Singh (1995) has defined SHG's as voluntary associations of people formed to collectively perform certain activities of their common interest. Nanda (1995) has defined SHG's as informal
groups of people who have a common perception of need and impulse towards collective action. According to him rural credit delivery system in India is affected with many a problems most noticeable being siphoning off subsidies and concessions meant for poorest of the poor by not so poor, poor credit discipline among the borrowers resulting in low recovery of dues, high transactions cost involved in serving large number of small borrowers who frequently require low quantum of credit and costly proposition of providing saving facilities to scattered rural populace. Price Water House Report (1995) has also stated that rural credit delivery system is also burdened with low quality loans, high levels of over dues, substantially high proportion of non-performing assets resulting into non-viability and un-sustainability of the rural banking industry. A study conducted by the World Bank (1991) has also conclusively revealed that lack of people’s participation in developmental activities does not foster entrepreneurial abilities, which results in low take off of developmental projects.

The growing realization among the rural poor to collectively pool their small savings so as to create a corpus of funds to cater to their emerging credit needs underlined the emergence of SHG's and other group related saving and credit activities in many developing countries such as Bangladesh, Indonesia, Bolivia and India.

According to Parsons (1951), groups must accomplish the following four functional tasks to remain in equilibrium:

- Integration – ensuring that members of groups fit together;
- Adoption – ensuring that groups change to cope with demands of the environment;
- Pattern maintenance – ensuring that groups define and sustain their basic purposes, identities, procedures; and
- Goal attainment – ensuring that groups pursuing and accomplish their task.
As pointed out by Cartwright (1968) four interacting sets of variable determines a member’s attraction to a group:

- The need for affiliation, recognition and security;
- Incentives and resources available through the group such as prestige of the members, the group grades, its programme activities, and its style of operation;
- The subjective expectation of members about the beneficial or detrimental consequents of the group; and
- A comparison of the group to other group experience.

Mckean, Margaret (1987) has highlighted salient features of a successful group:

- Community of owners have to be well defined, self conscious, and self governing with political independence to act collectively, as it deems appropriate;
- The distribution of rights in and benefits to collective good has to be a careful balance of the inegalitarien and egalitarien traits that economically efficient;
- Rules must be easily enforced, highly specific and conservative with regard to the sustainability of collective action, and
- Enforcement of rules must be members themselves rather than by an overlord of authority of government to ensure that it is both through and impartial.

1.7 SHG LINKAGE- THE INDIAN EXPERIENCE

The SHG movement in India is basically aimed at utilizing the SHG’s as an 'intermediary' between the banks and the rural poor to help drastically reduce transaction costs for both the banks and the rural clients (Nanda, 1995). NABARD with its head quarters at Mumbai, is an
Apex Development Bank in India for financing and promoting agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts so as to promote integrated rural development. In the wake of banking sector reforms invoked in early 1990’s the role of commercial banks in providing credit to rural poor came under intensive debate vis-à-vis the sustainability of entire banking operation for providing banking services—both in terms of savings and credit—to the rural poor. Sheokand (1998) has indicated that as the rural poor’s share in availing formal sector credit got further marginalized, NABARD, in 1992 launched the SHG - Bank linkage programme with the policy backup of the Reserve Bank of India (Sheokand, 1998). According to Shanmugam(1998) the SHG - Bank linkage programme initiated by NABARD, in active collaboration with Non-Governmental Organisations (NGOs), aimed at enhancing the coverage of rural poor under institutional credit thereby focusing on poverty alleviation and empowerment (Shanmugam, 1998). Prior to this, NABARD's initiative in promoting active partnership between banks and SHGs was encouraged by the findings of a study conducted in 1988-89 by NABARD in collaboration with member institutions of Asia Pacific Rural and Agricultural Credit Association (APRACA), Manila. The study covered 43 NGOs involved in promoting savings and credit to SHGs in 11 states of the country.

As per a NABARD report (1995) the scheme on SHGs was made applicable to RRBs and co-operative banks of the country in 1993 and in April'96, RBI advised the banks that lending to SHGs should be considered as an additional segment under priority sector advances and it be integrated with mainstream normal credit operation. Rao and Dasgupta (1999) have commented that the SHG-bank linkage programme has gained considerable movement in southern region of the country, though the northern states too are also now catching up fast and an overwhelming (78%) of the listed SHGs are Women Self Help Groups (WSHG’s). Since the inceptions of NABARD promoted SHG linkage
programme there has been an appreciable increase both in formation of SHG and their linkage with the banks.

The concept and importance of SHGs has been accepted and adopted by policy makers and they will form the backbone of rural poverty alleviation strategies, implemented by Government of India.

1.7.1 GENESIS OF SHGS.

Self Help in essence is forging 'collaborative' ties between individuals who need each other's co-operation in solving their day-to-day crisis. Lawson and Anderson (1996) have defined collaboration "as a process of pooling resources, linking and allying with one another to develop innovative, new responses for tackling social problems including poverty. Bailey and Koney (1996), have pointed out that collaboration is necessary to address social issues that require multi-agency approach to alleviate them. SHGs are one such medium to achieve social collaboration. Graham and Barter (1999) have described collaboration as a relational system in which two or more stake holders pool together resources in order to meet objectives that neither could meet individually. 'Collaboration' differs from 'co-operation' in the sense that co-operation facilitates support and assistance for meeting the goals that are specific to an individual stake-holder, whereas collaboration insists on goals that are mutually agreed upon based on an established value base to which all stake-holders have a commitment. According to Hord (1986) collaboration proposes joints sharing and decision making in the interest of change, as well as changes in relationships to facilitate these ends. He has also indicated that motivation to engage or refrain collaboration are necessarily influenced by differences among stakeholders in expertise, status, empowerment and access to external and internal resources.
1.7.2 FORMATION AND DEVELOPMENT OF SHGS

According to Rao et. al. (1999) a systematic and scientific approach in the formation of SHGs is of paramount importance to the long term sustainability of these informal community based organizations. It has been observed by Fernandes (1992) that SHGs formed and promoted for limited purposes of availing subsidy laced bank loans, grants and other materialistic benefit generally disintegrate, while according to Srinivasan and Rao (1996) the SHGs developed for genuine purpose of self help in the wake of needs had much better chances of long term sustainability.

SHGs like any other type of groups have distinct phases through which they pass over a period of time. According to Johnson and Johnson (1994) there have been well over 100 theories to describe the development stages of groups. Hill and Gruner (1973) have opined that most of these theories are based on Sequential Stage Theory while others are best described as in the Recurring Phase Theory.

Theories based on sequential stage of group development are based on the identification of definite phases in the life cycle of a group. The most famous of these theories has been proposed by Tuckman (1965) and Johnson (1977). Tuckman studied a number of groups of varying nature and objectives such as therapy, training, and focus groups and identified four distinct development stages, viz. Forming, Storming, Norming and Performing. These distinct stages are characterized by the specific focus attributed by the groups during each stage and the related consequences on the behaviour of the members.

Forming Stage is marked with initial attraction towards each other in a group. The stage is characterized by initial euphoria of coming together, chaos and uncertainty. Kruger and King (1998) have indicated that during forming stage each member tries to figure out his/her own role in the group and gets indulged in evaluating his likely individual gains vis-
à-vis group objectives. Lingering suspicion and anxiety prevail among the group members during this stage.

Storming Stage is earmarked by the expression of varying thoughts by the individual members, which reflects the prevailing conflict and confusion in the group. Kruger and King (1998) have indicated that this stage is completed with the evolution of leadership and decision-making capabilities within the group.

Norming Stage is reached when the group under the chosen leader/s starts evolving group norms and the group’s solidarity comes into force. The group becomes more cohesive and development oriented as gradually the individualistic tendencies are replaced by the collectivism.

Performing Stage is the state of readiness. The readiness to act. Leadership is established, role clarity is developed and the group behaves in a unified manner so as to achieve its mission with the help of collective action. Gerber (1994) as quoted by Harper (1995) has also identified the above four stages in the development of SHG’s. Other researchers such as Moreland and Levine (1982 and 1988) have identified stages of development based on the status of membership and proposed a sequential theory based on the membership. They termed the various stages of group development as prospective membership stage, new member stage, full member stage, marginal member stage and ex-member stage. Similarly Worcheal et al (1992) have also identified six sequential stages of group development, which have been identified on the basis of prevailing ‘feelings’ in the members. These are discontent stage, participative stage, identifying with the group stage, involvement in the group activities stage, proactive involvement stage and disintegration stage.

Based on Tuckman’s theory, Johnson and Johnson (1997) have identified seven stages in the development of co-operative learning groups. These are (i) defining and structuring procedures and becoming oriented, (ii) conforming to procedures and getting acquainted, (iii)
recognizing mutuality and building trust, (iv) Rebelling and differentiating, (v) committing to and take ownership of the goals, procedures, and other members, (vi) functioning maturely and productively and (vii) terminating.

In contrast to sequential stage theories, the recurring phase theories underline the issues that prop up in a group from time to time and thus affect the group behaviour. In essence, the recurring phase theories place more emphasis on the issues instead of individual feelings as is the case with the sequential stage theories.

The other noticeable difference between the sequential stage and recurring phase theory is that the former is of irreversible nature, i.e. the stages are fixed in a chronological order and are never repeated, while, the latter is based on re-occurrence of phases depending on the issues being confronted by the groups.

1.7.3 SELF HELP GROUPS AND LINKAGE PROGRAMEE

The Indian Experience of SHG Linkage Programme is unique in some respects. RBI and NABARD have tried to promote 'relationship banking' i.e. improving the existing relationship between the poor and bankers with the social intermediation by NGOs. The Indian model is predominantly "linkage model", which draws upon the strengths of various partners - NGOs (who are the best in mobilizing and capacity building of poor) and bankers (whose strength is financing). Thus, as compared to other countries, where "parallel" model of lending to poor (i.e. NGOs acting as financial intermediaries) is predominant, the Indian linkage banking tries to use the existing formal financial network to increase the outreach to the poor while ensuring necessary flexibility of operations for both the bankers and the poor. Thus in nutshell, the SHG Linkage programme offers a win-win situation for the credit delivery system comprising banks of all types.
1.7.4 SHG LINKAGE MODELS

Broadly, three different models have emerged under the linkage programme in the country which is shown below as a flow chart.

**MODEL - I**

- **NGO**
  - Promotion, Training, & Helping in linkage
  - SHGs
  - Banks

**MODEL – II**

NGOs as Financial Intermediaries

- **NGO**
  - Promotion, Training & Providing Credit Support
  - SHGs
  - Banks

**MODEL – III**

Banks as SHPIs

- **Banks**
  - Promotion, Training & Providing Credit Support
  - SHGs

Source: Nanda, Y.C(1995)
Each of the three models can be qualitatively assessed to arrive at the strategic significance and scope for widespread adoption. Criteria for evaluation may include factors like

- transaction cost of lending for the banks
- transaction cost of borrowing for SHGs and poor
- risk of funds and guarantee of repayment
- load (costs) of co-ordination and management
- ease of adoption by all stakeholders
- smoothness and ease of providing credit to the poor and its repayment
- quick replicability
- social and economic impact on SHG movement
- extent of social investment required

SOME BASIC FEATURES OF SHGS PROMOTED BY NGOS/BANKS

<table>
<thead>
<tr>
<th></th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Homogeneity in terms of economic/ socio-economic status, common identity of activities etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Nature of target groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Generally poor and weaker sections of the people in rural areas and particularly women.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Selected/ elected teacher and duty generally rotated. Holds meeting regularly.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Financial instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>(a) Common fund Created of savings, interest earned on loan, donations etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>(b) Savings mobilization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>While in certain cases no fixed rate of savings, in some cases regular and fixed rate of savings, and in some cases as per capacity of the members.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>(c) Loaning</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Decided by the purpose, quantum and the resources available with the SHGs. Purpose of loans for individuals include consumption, clearing outside debt, social, medical, education, business, agriculture etc. and loans for common production activities.</td>
</tr>
</tbody>
</table>
(d) Repayment period | Generally lower than prescribed by banks.
---|---
(e) Rate of interest | Varies from 12 to 20 percent. In a few cases the interest rates are determined by the NGOs.
5. Linkage with banks | Banks treats SHGs as borrowers.


The Self Help Group approach to the development of rural poor appears to be an effective and viable proposition as a supplementary micro credit delivery system. The above models of linkage between SHGs and Banks could be specific to the needs of the group. A strong linkage and continued development dialogue between the SHGs and Financial Institutions appear to be the panacea for many of the ills in the present system.

The Indian micro credit sector is characterized by a variety of micro credit service providers. These include various apex financial institutions like SIDBI and NABARD, Government owned Societies like Rashtriya Mahila Kosh, formal sector financial institutions, Commercial Banks, Regional Rural Banks, in addition to member-based institutions like Cooperative, Mutually Aided Cooperative Societies, SHG Federations, private sector companies like specialized NBFCs, Societies, Trusts, etc. Beside the existence of such a large number of players in the organized/semi-organized sector, the rural credit market in India is still largely dominated by the all pervading network of indigenous money lenders.

There are a multitude of Non-Governmental Organizations who can be virtually found in all villages and blocks of India. Most of these NGOs have similar origin in that they started off as social service and welfare organizations with a focus on helping the poor and needy in times of disaster, famine or epidemic. The emphasis, therefore, was mainly on social and welfare activities like housing, health, education, safe drinking
water, sanitation, etc. However, with the growing popularity of micro credit in India, these NGOs have also taken up micro credit activity as a part of their overall service strategy. While some have adopted micro credit as their core activity, a large number of such institutions, have adopted multiple operations with a limited investment in micro credit.

The micro credit institutions (MFIs) in India today offer a variety of products, follow different pricing strategies, adopt varied credit delivery models and have different legal forms and organizational structures.

1.8 APEX MICRO FINANCE INSTITUTIONS IN INDIA

- National Bank for Agriculture and Rural Development (NABARD)
- Small Industries Development Bank of India (SIDBI)
- Rashtriya Mahila Kosh (RMK)
- Rashtriya Gramin Vikash Nidhi (RGVN)
- Friends of women’s World Banking (FWWB)

1.8.1 TYPE OF INSTITUTIONS

The micro credit programmes by the informal sector in India have evolved over the years. There is no single appropriate form of legislation for institutions undertaking micro credit. Institutions have been getting registered under different legislations, categorized under three heads (Dasgupta, 2001).

Non-profit MFIs

- Societies registered under the Societies Registration Act, 1860 or similar State Acts.
- Public Trusts registered under the Indian Trust Act, 1882
- Non-profit companies registered under Section 25 of the Companies Act, 1956
Mutual Benefit Companies

- State Credit Cooperatives
- National Credit Cooperatives
- Mutually Aided Cooperative Societies

FOR PROFIT MFIS

- NBFCs registered under the Companies Act, 1956

1.9 Micro Credit by Corporations

With a view to overcome the difficulties faced by the Scheduled Castes (SC) and Scheduled Tribes (ST) in getting institutional finance, National SC & ST Finance & Development Corporation (NSFDC) was set up in 1989 as a national level financing organisation under the aegis of the erstwhile Ministry of Welfare. Main mandate of this corporation was to provide adequate loan to the target group at a lower rate of interest than that charged by the banks. Subsequently, national level Corporations were set up for providing similar facilities to persons belonging to Other Backward Classes, Minorities and Safai Karamcharis. These Corporations are provided share capital by the government, which is used for giving loan to the target groups. Initially these corporations were providing loan indirectly through the State level Channelising Agencies (SCA). Persons belonging to the target groups and having income below double the poverty line are assisted for taking up economically viable activities.

Based on the experience of NABARD and Rashtriya Mahila Kosh, these National Corporations took up provision of micro finance with help of Non-Government organisations for meeting the smaller loan requirements and covering larger number of beneficiaries. The Corporations took several specific steps for facilitating provision of micro finance, such as, (i) liberalization of procedures for sanctioning the loan
initially and repeating it subsequently, (ii) Introducing provision of Revolving Fund for assisting reputed Non-Government Organizations, having previous experience in the field of micro finance, (iii) Liberalization rate of interest (iv) Support for capacity building measures like organization of training, workshop and (v) For marketing their products by participating in fairs etc.

1.10 OBJECTIVES OF THE STUDY

1. To study the functioning of SHG in the Tamil Nadu with special reference to Tirunelveli district in terms of evaluation of SHG in Tamil Nadu, dynamics of Mahalir Thittam, Group formation by NGOs, Savings and coverage, women enrolled, Grading of SHGs, Bank Linkage, Loan performance, Social classification etc.

2. To study the beneficiaries of micro credit in terms of their socio economic status such as social categorization, religion, age Group, marital status, age and literacy level of husbands, literacy, size and type of family, head of family, type of houses, amenities in the houses, family assets, participation in the local bodies, employment status – pre and post - SHG income status pre and post – SHG and decision making on income – pre and post joining SHG.

3. To study functioning of self help groups in terms of Duration of Membership, Motivation to join SHG, Size of SHG, status in SHG, frequency of meeting, attendance of meeting, reason for not attendance, decision making, agenda of meetings, method of savings, purpose of savings, method of utilization of savings, participation in awareness programme, operation of bank account, impact on employment generation and income generation, access to credit, quantum of credit availed,
4 To identify the significant association, if any, between education level of SHG members and their attendance in meeting, loan accessed, repayment of loan, participation in awareness programme, income generation before and after training, decision making in the family and participation in local bodies.

5 To study the perception of the SHG, community leaders and bankers about the functioning of Self Help Group.

1.11 ORGANISATION OF THE THESIS

This report has been presented in Six chapters. Chapter one presents the definition and functioning of SHGs in India and with special reference Tamil Nadu, definition of micro credit, types of Micro Credits, Type of micro credit institutions in India and in Tamil Nadu and the objectives of the study.

Chapter two gives brief profile of the state of Tamil Nadu, and Tirunelveli District, Role, functioning and performance of Tamil Nadu Corporation for Women Development (TNCDW) with special reference to Mahalir Thittam in Tirunelveli District.

Chapter three briefly presents the review of literature with regard to the studies previously conducted on empowerment of women through SHGs and micro credit in India and outside the country. Chapter four presents the background, statement of the problem, objectives of the study, hypotheses, and Research methodology etc.

Chapter five deals with the Data analysis and Interpretation which is presented in three section. In the first section socio-economic profile of the respondents has been dealt with (objective 2). Second section deals with the functioning of the SHG in terms of Duration of Membership,
Motivation to join SHG, Size of SHG, status in SHG, frequency of meeting, attendance of meeting, reason for not attendance, decision making, agenda of meetings, method of savings, purpose of savings, method of utilization of savings, participation in awareness programme, operation of bank account, impact on employment generation and income generation, access to credit, quantum of credit availed, repayment of credit availed, impediments encountered in the process, and the association, if any, between education level of SHG members and their attendance in meetings, loan accessed, repayment of loan, participation in awareness programme, income generation before and after training, decision making in the family has been tested and incorporated in the relevant portion (objective 3 and 4) and the Third section gives the perception of the SHG, community leaders and bankers about the functioning of Self Help Group (objective 5).

In the last chapter (Six) Summing up of the whole report which includes research methodology, major findings, conclusions, policy recommendations and the suggestions for further research have been given.

1.12 CONCLUSION

In this chapter the researcher has presented the various aspects of Self Help Group such as definition, classification of SHGs, objectives and characteristics of SHGs, Micro Credit in India, definitions, various forms of Micro Financing, conceptualization of SHG Bank, SHG Linkages- the Indian experience, Various forms of Micro finance Institutions in India and the objectives of the study. In the present scenario of globalization, accessibility of credit is an important aspect for the poor people who are mostly amongst the weaker section of the society. In the recent past, SHG is one of the preferred mechanism for extending credit to the people both by the government and civil society. The researcher has been motivated to see how far education of women members of SHG has
helped towards accessibility of loan, repayment of loan, status of women in society etc.

The next chapter deals with the functioning of SHG in the Tamil Nadu with special reference to Tirunelveli district in terms of evaluation of SHG in Tamil Nadu, dynamics of Mahalir Thittam, Group formation by NGOs, Savings and coverage, women enrolled, Grading of SHGs, Bank Linkage, Loan performance, Social classification etc.