CHAPTER II  
NATURE, SCOPE, OBJECTIVES AND RESEARCH METHODS OF THE STUDY

This Chapter has been divided into two sections i.e. A and B. Section A deals with nature, scope, objectives and Research Methodology. The Section B is devoted to review of literature.

Introduction:

Section A: -

The study of Self Help Group (SHGs) is related to practical problems of Indian society. It has been observed that “The medium to long term objectives should be to ensure inclusion of all segments in the mainstream institutions while taking advantage of the flexibility of multiplicity of model of delivery a wide range of financial services.” (Gurmeet Singh’s article” Micro finance an innovation in rural credit system” in Kurukshetra, Feb. 2009, Vol.57, No.4, p-6) In view of this a critical study of SHGs require research support. On this basis evolution of SHGs can be possible. In this work SHGs in Beed district have been studied and methodology being used for such evaluation has been testified here.

Micro finance plays a key role in accelerating rural development programs. It has been pointed that “So it is finally clear that the role of Micro finance institutions is very important in rural development and poverty eradication. It is in this context that one needs to appreciate the role played by micro finance institutions, Government, NGOs and social organizations. “(Ibid, p-6). The role play by all these segments can be examined by conducting scientific research. The endeavors made in his chapter will be clearly illustrated how the research design is used and developed here.

In the socio economic change Self Help Groups are playing a key role in developing countries. The credit of establishing Self Help Groups goes to Dr. Muhammad Yunus of Bangladesh. Dr. Muhammad Yunus who was professor in Chittagang University, Bangladesh, formed Self Help Groups in Jabara village in

This was a model effort which has inspired many Asian countries including India. About the concept of self help groups in one of his articles, Dr. Yunus has observed.

Thus his novel ideas have inspired many developing countries who are bringing socio economic change. These SHGs have not only provided economic base and credit but they have also fostered confidence in these rural communities.

Being a sub continent Indian people are also undergoing through the same phase of transition. Hence SHGs are relevant to Indian conditions. About the conceptual frame of SHGs it has been rightly observed that “SHGs can be defined as a set of persons with common interest and having interpersonal relations who agree to share risks and benefits through self designed rules and reciprocity in behaviour.”

On this background the relevance and significance of the study to Marathwada region must be examined.

**Significance of study:**

The Marathwada region falls in Sayadri ranges, Satpuda hills and Gondwan.

Marathwada is one of the economically backward region of Maharashtra State. The process of economic growth is very slow in Marathwada in comparison with other regions of the State. As a result, the region has been characterized by poverty, unemployment and illiteracy. The Government has been trying its best in implementing poverty eradication programs, viz., IRDP (Integrated Rural Development Program), PMRY (Pradhan Mantri Rojgar Yojna), TRYSEM, (Training of Rural Youth for Self Employment) SJSRY etc. The Government has also set up promotional and financial institutions for assisting poor people, particularly people living below poverty line (BPL) and belonging to backward classes. There are different development schemes which are more than 20. Few of them can be cited as Cleanliness Campaign for the rural and urban slum dwellers, Civil supply scheme, social forestry scheme, etc. In 1994, Maharashtra Government has declared special women’s development program. The policy
document stated that in environment will be created for socio economic development of women, leading towards equity. In Government jobs 30% reservation has been granted to women community. In order to increase the economic stability of women a special women fund has been raised by Central Government and State Government has decided to support it. The GOM has also a scheme to award a Ahiliyabai Holkar Award for full time social workers. 20% reservation for women has been granted in ITI admission on district level. In the revised 2001 development policy of the Government for the women, it has been directed that 10% of the funds in the social welfare must be reserved for women. In recent few years the GoM has actively supported women’s Self Help Groups. The cooperative sector has been directed to help in all respects for organization of such self help groups. Maharashtra being a leading in SHGs, this present research work is very much significant in the perspective of socio economic change.

Beed district is one of the 8 districts of Marathwada region, which is the most economically backward district in Marathwada. The pace of economic growth in the district is very slow. Naturally the district is lagging behind of other districts in the region. A number of NGOs have been working and implementing self help groups program a component of SGSY in Beed district. The present study has been undertaken to take review of SHGs program in the district and its impact on economic growth in Beed district. As per a local study group there are 3,570 SHGs in Beed district as on 31st March, 2007. However, taking into consideration the number of poor families living below poverty line in Beed district, there is need of promotion of more and more SHGs to benefit the poorest of the poor.

Self Help Group is a group of 10 to 20 poor people belonging to different families below poverty line has been proven its importance for undertaking collective business activities, generating employment and income. The SHGs and banking linkage program has emerged as a primary micro finance for the poorest of the poor people living in rural as well as urban areas.

At present there are 16, 18,476 SHGs operating in India as on 31st March, 2005. More than 90% of the total SHGs are women SHGs. All these SHGs are linked with 32,294 bank branches. Around 24.25 Million house holds have been assisted with bank loan of Rs. 68.98 in India.
SHG program is seen as a strategic program for eradication of poverty and empowerment of poor people and particularly women. NABARD had started microfinance program in the year 1991-92 to assist poor masses in the country. At present NABARD has been working as a pioneer institution assisting RRBs, Commercial banks, Cooperative banks and NGOs for effective implementation of Self Help Group program in India. A number of research studies on SHGs program have inferred that this program is instrumental in improving the economical and social conditions of poor members of the group through collective saving, lending the funds to the members and encouraging collective entrepreneurship. In the context of increasing poverty and growing number of unemployment, the SHGs program has a very crucial role to play in eradication of poverty in rural as well as urban areas of our country.

It has been rightly pointed that “SHGs means a voluntary groups valuing personal interaction and mutual aid as means of altering or ameliorating problems perceived as alterable, pressing and personal by most of its participants.” This study is related to SHGs in Marathwada region in general and Beed district in particular.

The Beed district derives its name from that of the headquarters town Bid, earlier known as Bhir for the origin of which two explanations are given. The town by itself is a set in a bollow or a “Beel” into the scrap of the Balaghat plateau trenched by Bandsura river and hence the name Bhir the term “Beel” having undergone transformation in course of time into Beed or Bid. Secondly the Persian word “Bhir” meaning water, might also explain the origin of the name. Thus Beed has very hoary past and challenging future. The study of SHGs is related to prosperous future of Beed district.

This study has been undertaken to probe into the problems i.e.(i) whether the SHGs have really helped in up grading social and economic conditions of the members? If so, to what extent? (ii) Whether these groups are successful in collecting savings, fulfilling the economic needs of the group members, employment and income generation and assets creation? (iii) Whether the groups are instrumental in employment generation, the researcher has attempted to study these problems in detail with the data and formed out the impact of socio-economic impact of SHGs on lives of poor members?
Relevance:

Micro finance has become a popular scheme in different states of South India. Making this movement more effective requires research support. The Universities are playing a key role while evaluating this scheme. It has been observed that “The University can act an intermediary in spreading the SHGs in its area of operation. The student university linkage can be extended to the families of the students. The University system in a competitive era has to find out new extension activities, which benefit the society in general and the poor in particular.” (Patil J.F. and Patil V.S. “Theory and practice of Micro Finance” Shivaji University, Kolhapur, 2005, p-42). Hence University should undertake such research projects in order to examine the role played by micro finance agencies. This is also significant in the democratic system of our country. It has been observed that “India is the largest democracy in the world. Quality of this giant democracy can be further improved by linkage of local governments with SHGs.” (Ibid., p-42)

The micro finance is more relevant scheme for developing countries. It has been observed that “Muhammad Yunus, born 1940, is a Bangladeshi banker and the developer and founder of concept of micro credit. In 1976, Yunus founded the Gramin bank to make available loans to poor Bangladeshis. Since than the Gramin bank has issued more than $3 billion in loans to some 2.4 million borrowers.” (Dr. K. Mema Sundra Raju and others’ article “Outreaching Unbanked rural marginalized groups”, Kurukshetra, Feb. 2009, p-12) It has been further observed that “To ensure repayment, the bank uses a system of solidarity groups.” (Ibid., p-12) Thus, this study will be relevant with the conditions in Maharashtra in general and Beed district in particular. Being a backward district in Marathwada, the study can be more relevant to the developing regions in the backward states of India.
Objectives of the study.

The principal objectives of the study are as under:

1. To take review of the emergence of SHGs program in Marathwada region
2. To study the role of NABARD, DRDA, Role of cooperative banks, and NGOs in implementation of the SHGs program in Marathwada and to make some suggestions for improvement of their working.
3. To make an appraisal of the progress of SHGs in Beed district
4. To study the problems and difficulties faced by SHGs and suggest some remedies to overcome the problems
5. To study the socioeconomic impact of SHGs program on the members of the group
6. To know about the financial viability of SHGs in Beed district and make some suggestions in this regard and
7. To elicit the information/data for the collateral to or incidental with either above cited objectives.

Scope of the study:

Any research topic requires specific scope for outlining the research topic.

It has been observed that “Social research is a method of studying, analyzing and conceptualizing social life in order to extend, modify, correct or verify knowledge, whether that knowledge aids in construction of a theory or in practice of an art.” (Young P.V. “Scientific Surveys and Research” Prentice Hall, p-52)

Hence the scope of the research topic must be assigned properly. Slazenger has observed that “One should not consider these orientations as comprising a perfect dichotomy. As we shall see later, there is nothing practical as a good theory and that endeavours to solve practical problems have many a times given birth to theories. That is, practice is quite often blessing for the development of theory.” (Slazenger D and M.I Stephenson “Social Research, Encyclopedia of the Social Sciences”, Vol. IX, 330 The McMillan Co, 1930,)
In view of this the scope of the research study can be described below:
The present study shall take a critical review of the SHGs program and its impact on economic development process in Beed district. The scope of the study can be divided into three dimensions viz.,

**Geographical Scope:**
The study is confined to Beed district (consisting 11 taluka) which is the most economically backward district in Maharashtra State.

**Operational Scope:**
The study covers SHGs operating in rural as well as in urban areas of the Beed district. The stress will be given on the process of formation of SHGs, their functioning and performance. The study will also cover the performance of different promotional and financial agencies assisting SHGs in the District.

**Temporal Scope:**
The study will be based on an intensive analysis of data for a period from 1999-2000 to 2006-07 i.e. for eight years.

The data collected requires scientific analysis. It has been observed that “In many developing countries micro finance is being looked upon as a successful means to alleviate poverty and bring about development among the rural community, particularly the women folk. The major form of micro finance in India is based on women’s SHGs.” (Divy Ninad Koul and Giresh Moha, Kurukshetra, Feb 2009, p-13) In order to examine this micro finance scheme and its performance in Beed district, this research project has been undertaken and data from 1999 to 2007 has been used for this analysis.

**Sampling Design:**
For the purpose of the study, simple random sampling method has been used. On 31st March, 2005 there were 2,500 credit linked SHGs in Beed district. In order to give due representation to each block of the district, 250 SHGs (i.e. 10% of the aggregate 2,500 SHGs on 31st March, 2005) were selected from 11 blocks as shown in table 2.1 considering constraints, two members from each groups were selected and interacted to collect the responses. In all 500 group members were interacted to collect responses.
Table -2.1 -Position of credit linked SHGs in Beed District as on 31st March, 2005

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>District</th>
<th>No. of SHGs</th>
<th>Sample SHG</th>
<th>Sample of SHG members</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Beed</td>
<td>463</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>2</td>
<td>Ambajogai</td>
<td>168</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>3</td>
<td>Kaij</td>
<td>166</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>4</td>
<td>Georai</td>
<td>190</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>5</td>
<td>Wadwani</td>
<td>124</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>6</td>
<td>Majalgaon</td>
<td>257</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>7</td>
<td>Dharur</td>
<td>205</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>8</td>
<td>Parali</td>
<td>183</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>9</td>
<td>Shirur</td>
<td>134</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>10</td>
<td>Ashti</td>
<td>306</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>11</td>
<td>Patoda</td>
<td>260</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Total:</td>
<td></td>
<td>2,456</td>
<td>250</td>
<td>250</td>
</tr>
</tbody>
</table>

Data collection:

In order to collect primary data, a well structured questionnaire was prepared specially for the SHG members (250 members). Another questionnaire was prepared to collect the information, views and opinions of the office bearers of the NGOs and Bank Officers. The secondary data was tapped from the books, reports, journals, newspapers, unpublished thesis and websites relevant to the research topic.

Data Analysis:

The data were collected and processed systematically. As per requirements, tables, charts and graphs have been used for presenting the data. For analysis purpose, simple average, percentage and ratios have been used.
Concepts used in the study

1. **Self Help Group**- Self Help Group are voluntary small group of 10 to 20 poor people comes together to solving their similar problems with helping each other in that particular areas.

2. **Resource Mobilization**- Resource mobilization should be distinguished from resource provision. Resource mobilization means the pooling of resources natural, material and financial of the SHG members whereas resources provision stands for the provision of resources from external source. The idea of pooling the members’ own resources is based on the principle that every-body owns some resources (however limited) which if combined can constitute a substantial improvement to their individual situations little drops make the ocean.

3. **Self Management**- Self Management is the kernel of SHGs and wherever a SHG exists it has to manage its various activities, be it financial management, savings/loan management, resource management of income generating activities, organizational management, conflict management, bank transaction etc. Usually these groups have trained leadership / membership and manage their funds, records and all other operations by themselves. They are really grass-root level community based institutions of the people constituted by the people themselves for the benefit of the people.

4. **Sustainability**- Sustainability should be the ultimate goal of SHGs; sustainability refers to the capabilities of SHGs to continue in a sustained manner without depending on external agencies.

5. **Formation process of SHG**- The process through which selected people, usually poor representing a specific economic strata of society, with some specific identity (of caste, occupation, origin etc.) are encouraged to form small homogeneous group for the purpose of participating in development activities i.e. savings, credit, income generation etc. is called ‘Group Formation’ or ‘Group Promotion’ or ‘Group Evolution’

6. **linkage**- Linkage means to establish “link” or join. Linkage of group means functional relationship between a group and a bank. But the term “linkage” is commonly used when a credit relationship starts. In other words, ‘when a group takes credit form a bank, the actual linkage starts’
7. Direct Linkage: - In direct linkage, the SHGs can be directly linked with the bank (without an intermediary). In this case, the group will itself be responsible for repayment of the loan. The rate of interest charged to the group is fixed by the bank. In this type of linkage, a group comes to the bank and approaches for credit linkage or a banker goes to the group looking at its performance for establishing linkage or a group is sponsored by an NGO to get a loan for further-leading to its members. The bank, in consultation with the group prepares a repayment schedule.

8. Indirect Linkage: - In case of SHGs where a local/service area bank branch does not have adequate confidence for leading to the group or in case where SHGs for various reasons do not want to be linked directly with the bank, the bank can finance such SHGs through the NGO that has promoted them.

9. Cold Money, Worm Money: Banks find it easier to lend money to the groups as the members have developed a credit history. ‘Cold (outside) money’ gets added to the own ‘warm money’ in the hands of the groups, which have become structures, which are able to enforce credit discipline by among the members.

10. Capacity Building of SHGs: SHGs that are in existence for about six months and have demonstrated the potential of viable group enters the third stage, wherein it receives the Revolving Fund from DRDA and Banks as a cash credit facility.

11. Taken up economic activities: Once the SHG has demonstrated that it has successfully passed through the second stage, it is eligible to receive the assistance for economic activities. This is in the form of loan and subsidy. There are two ways in which a SHG can receive this assistance.

12. Importance of Savings: The poor people desperately need savings because they are vulnerable to fluctuations and irregularity of income. They need to save money on a regular manner, so that they can draw on it to buy the necessities during days when they have no income.

13. Mandatory or Regular Savings: To ensure internal resource generation and to establish peer pressure mechanism on borrowers, all members are required to save equal amounts in the group fund. This is called mandatory or regular savings.

14. Voluntary or additional savings: To encourage higher internal capital generation and lesser dependence on external funds, members are allowed to save more amounts over and above the mandatory savings, in the group fund depending upon their capacity to save. This is called voluntary or additional savings.
15. **Minutes Book**: Minutes book is an important and basic book, which contains record of the proceedings of the group meeting and the names of members present in the meeting. It also records the financial transactions taken on the day of the meeting. It helps the members to review the past, decisions, action required and the follow up needed in the future.

16. **Micro-finance**: Microfinance is about providing thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas, for enabling them to raise their income levels and to improve their living standard. (NABARD 1999)

17. **Revolving Fund**: The revolving fund is provided to the groups to augment the group corpus so as to enable more number of members to access loans and also to facilitate increase in the per capita loan available to the members.

18. **SHG Bank Linkage**: NABARD launched a pilot project for linking Self Help Groups (SHGs) in 1991-92 as an alternative mechanism for providing hassle-free banking services to rural poor and reduce their dependence on exploitative informal credit delivery system consisting of money lenders, land lords, traders, etc. Simultaneously, it helped banks in reducing their transaction costs and risk costs in delivering small loans. This programme is called as ‘SHG-Bank Linkage’ and is an unique and most cost-effective micro-finance initiative in the world. Over a period of a decade and half, the programme has emerged as the largest micro-finance outreach programme in the world.

19. **Micro-credit**: Microcredit is about extending small loans to poor people for self employment projects that generate income, allowing them to care for themselves and their families.

20. **Internal Lending**: The group must start internal lending immediately as per the need of the members with a collective decision. Unless it starts internal lending, the repayment behavior of the members can not be known and no financial institution will come forward to sanction loan to the group.

**Limitations of study:**

The major limitation of the study is that all the SHGs are not necessarily registered groups. So there is possibility of incomplete records or non-availability of record regarding their functioning. There is lack of maintenance of up to date records. In case of women SHGs the members are reluctant to give information due to traditional pressure. However, in spite of these limitations, every possible effort has been made to throw adequate light on various aspects of SHGs programs in Beed district and the quality of research work has been maintained.
(B) Review of Literature

In this section, it has been attempted to review the earlier research studies by the scholars.

Dr. Aherwadkar\(^1\) in his paper said that development of a healthy and sustained SHG-Bank linkage is a function of all the three variables viz. NGOs, Banks and SHGs themselves. If any of these fails to deliver, it is certainly bound to affect the way ahead of the SHG-Bank linkage. The SHG movement today is standing at the cross roads. If it is to play the crucial role of an alternative credit delivery system significantly, a thought needs to be given to the adequacy of the present credit delivery structure which hinges on the prevalent banking system. If the system doesn’t respond to the needs, a restructuring of the system with an independent financial institution exclusively catering to the flow of rural credit through the SHGs backed by NGO on the pattern of Bangladesh Gramin Bank may be thought of.

Dr. S. Sahastrabuddhe and others\(^2\) indicated that the sustained growth of SHGs and micro credit, requires a very effective catalyst, one who would performed all those functions which are performed by the facilitation. It is for this reason that we can describe the sponsoring agency as the catalyst entrepreneur.

Dr. A. B. Mane\(^3\) revealed that co-operative banks play very vital role in rural lending and has also accepted SHG financing as a business proposition. Co-operative banks as well as their national federation (NAFSCOB) has emphasized the need to adopt micro credit as a very effective tool to develop co-operatives. Recent SHG-Bank linkage data indicate that co-operative banks have marked higher growth rate in SHG financing.

S. Pawar\(^4\) disclosed that micro finance through SHG is a cost effective way of social, financial and psychological empowerment of weaker sections. A banker can also derive the satisfaction of fulfilling his social responsibility through a commercially viable activity. The bankers need not consider micro finance a drag on their resources. In fact, it could be transformed into a profitable activity in the long run. Lastly he hopes that, dedication and commitment of the bankers to the concept and its implementation with zeal well make the SHG bank linkage programme a grand success.
K.V. Marulkar and others\textsuperscript{5} described that even though SHGs have evolved and are being emerged as important intermediaries, one has to be very cautious as to whether SHGs continue to do the hard work in the area of microfinance. Some of the positive events given a satisfactory conclusion that the access to the credit is becoming easy and client friendly. DCCBs in Bihar, Ajmer have started programs like banking with the poor, through SHGs. Some of the NGOs are now promoting federations of SHGs. These are just the indicators of future development.

Even within SHGs, some federations are evolved to provide services like auditing, monitoring, education, training, management etc. Some federations are undertaking resource balancing among SHGs and also doing the financial intermeditation. The experimentation is still needed to examine the financial sustainability, organizational efficiency and value-addition achieved by these federations. Finally, the SHGs operate on the broad foundation aimed at banking for the poor. Banking for the poor should not be poor banking and hence sustainability of SHGs must ensured for achieving the goal in microfinance.

T. F. Thekkekara\textsuperscript{6} noticed that Weak groups were formed, without the group ideology and identity, by the DRDA Machinery that Proved ineffective as trainers. The discipline of internal lending and accounting were not instilled in the group. The groups were formed with the intention of cashing in on the loan and subsidy. When the promised loans also failed to materialized, the groups disbanded. An important issue which emerged was the necessity to first forge a relationship of mutual trust and reliance before expecting the group to move forward with entrepreneurship. This needs time as well as training and capacity building. Equally important, is building up of women’s accountancy and literacy skills.

V.P. Katti\textsuperscript{7} reported that banking habits should be developed amongst members, so that linkages will swing up. Literacy rate should be increased in rural area. A proper and expanded machinery should set up to supervise and persuade SHGs. The village committee organizers should take lead in inspiring the groups and also conduct regular meetings and impart technical/vocational training to these groups. All commercial bank should take collective action to bring social reform that is particularly to empower the poor women. They should accept it as their moral responsibility.
V.V. Buche\(^8\) observed that introduction of ‘Insurance cover’ to SHG members of credit linked SHGs at cheaper rates as a matter of ‘social security’ to poor. Financing to SHGs under ‘KCC’ scheme with coverage under PAIs or suitable insurance coverage as stated above. More focused attention on capacity building of SHGs with special reference to EACs/EAPs and also EDPs. Need for more co-ordination between the MCED / MITCON/ Banks/ ATMA/ DRDA/ DICs etc. Awards / facilitations appreciations of performances at regional/ district level by NABARD. Exemption of stamp duty on SHG financing to SHGs up to Rs. One lakh. Provision of budget for exposure visit of SHGs on the lines of MRCP.

M.A. Lokhande\(^9\) concluded that considering the vast number of poor, discriminated and underprivileged women and the need of financial services, there is tremendous scope of micro-financing through WSHGs in India. The SHPIs, NBFCs, Banks and voluntary organizations are supported to play a crucial role in micro-finance market. In order to achieve the objective of poverty of eradication, every poor persons should have easy access to credit for starting small economic activities based on local resources. WSHGs, as it is evident, have been instrumental in promoting women entrepreneurship. So conducive environment is needed to be created in the country to give boost to women Self Help Groups. Majority of the women do not have their own property and even earning women have no right to spend their own earnings. Formal financial system still is average to provide financial services to women. In order to empower women economically, there is need of providing easy access to credit on one hand and promotion of women entrepreneurship on the other side. As it is evident from Gramin Bank project of Bangladesh, women and poor, is provided with small amounts of loans (micro credit) for small economic activities (micro enterprises) can be effective for eradication of unemployment and poverty. Women Self Help Groups can play a very positive role in socio economic empowerment of poor women. The micro credit summit (1997) held at Washington had stressed on provision of credit to 100 million of the world’s poorest families overcome the problems of underemployment and poverty. MF can play a crucial role in achieving millennium developments goals and reducing the world poverty by 50% by the end of 2015. India is the home to 22% of the world poor (10\(^{th}\) Five year Plan-2002-2007) poverty reduction is possible by providing easy access to credit for small entrepreneurial activities. Empowerment of women can be promoted
through socio economic activities at grass root level. Confidence built up by SHGs helps women members to fight against injustice and secure their rights.

**P.Satish** observed that there are a large number of existing groups in rural India. Nearly 30 percent of the SHGs covered under the present study evolved from PEGs. It is easy to carve SHGs out of PEGs as members are aware of the dynamics of their groups. However adequate care should be taken to ensure homogeneity of socio-economic status of the members, while forming SHGs out of PEGs. Several SHGs included very poor members but no conscious attempt was made by the promoters to include exclusively the poorest of a village while forming an SHG as they felt that only after the SHG concept has trickled down to the poorest strata of the village society, it was possible to organize them into groups. The process of SHG formation has to be systematic whether it is formed by a bank or an NGO. The Basic steps in pre-formation are similar to both these agencies. However, due to their nearness to the people and flexibility of operations, the NGOs seen to be better equipped to undertake SHG formation. More of the SHGs have faced initial resistance in their efforts, but with the perseverance of their members, the resistance could be overcome. The SHG experiment has so far been successful in a few pockets of the country. But it is essential that this spreads throughout rural India. As the NGOs are more suited for forming and nurturing of the SHGs, it is essential to strengthen them and their resources so that they would increasingly undertake this work.

**C.L.Dadhich** presents that the OBGP has attracted worldwide attention when David Gibbons and Helen Todd published a piece titled “Oriental Bank does micro lending” in a bulletin of Cashpor Inc. (Gibbon and Todd, 1999). The Project has established beyond iota of doubt that properly designed and effectively implemented micro finance can be a means not only to alleviate poverty and empower women but also be a visible economic and financial proportion. However, there is scope for further refinement. The positive and liberal approach adopted by the central banking authority of the country will surely facilitate the further improvement and development of micro finance system in India.

**Kim Wilson** suggests that some significant changes have taken place at both the village and household levels due to participation in this program. The SHGs are unified and action oriented and have played a key role in both raising
awareness among villagers and in implementing measures to help their committees prepare for floods. Some of the limitations of the program as identified by the women are: 1) that the villagers are still recovering from the flood of 2000 so the villagers do not have funds available to invest in some of the important disaster preparedness infrastructure that would really help them. 2) Some women feel that they are not allowed to use their SHG loans to purchase necessary materials to prepare for flood. They think that they can only use the loans for productive business purposes and therefore many of them are not as prepared for flood as they could be. 3) There is interest among the women in becoming more actively involved in the Gram Panchayat but women perceive that it would be too costly or complicated for them to become elected officials.

Mishra\(^{13}\) neatly explains how SHGs emerged as means of widening access to institutional credit in many parts of India. Also they are beginning to take up social concerns. He gives the experience of SHGs in a tribal area of Orissa. Where women fought against centuries old socially accepted consumption of liquor. Although the enthusiasm and response in all the villages were not similar and there were in fact setbacks, the overall response to the anti-liquor “gram yatra” was excellent.

H.S. Shylendra\(^{14}\) concluded that micro-finance is an intervention which has emerged in response to the need to address the challenge of financial inclusion. The entry of NGOs in financial intermediation has to be seen from this angle. Using strengths of social intermediation, NGOs so far have shown considerable potential in contributing to the cause. Formal institutions have failed, and therefore it has become necessary that NGOs are helped in overcoming their constraints, so that they are able to play the role of financial intermediation more effectively. The bill’s relevance comes mainly from this perspective. The bill aims at creating an enabling provision for the NGOs to deliver micro finance in an integrated way and seeks to achieve this by prescribing relatively liberal prudential norms. However, the bill suffers from quite a few limitations. The aim of financial inclusion is sought to be achieved only by regulating a narrow set of institutions. The bill fails to recognize the reality that NGOs can play only a supplementary role and that formal institutions need to contribute in a major way for the cause. Further the bill is institution-focused in nature and leaves out a certain set of MFIs like NBFCs and section 25 companies. On both counts the bill
is a case of “missing the forest for the trees.” The other major limitation is the intrusive nature of the bill. It has brought co-operatives into the fold of regulation by wrongly assuming that they lack any legal framework. Also MFIs not accepting deposits have been included for the purpose of inspection and reporting. There is a need for the bill to pay attention to safety of deposits and in ensuring affordable lending rates. Simultaneously, efforts are needed to ensure that the poor and women are able to exercise control and ownership over MFIs. Moreover, the Government has to ensure that all the stakeholders are duly consulted before the bill is passed.

M.Swaminathan disclosed that NGO-controlled micro credit organizations do not incur lower transactions costs than banks but that are able to transfer these costs to others—donors and borrowers. We also argued that one important component of high administrative costs was the cost of monitoring so as to ensure regular repayment.

The lesson from the micro credit experience is that small scale rural credit is indeed necessary. However, rural credit policy must build on the strengths of the banking system in India as its mainstay. Banks have many advantages over private micro credit organisations as providers of small scale loans. They have advantages of scale; the banking system in India has a reach and spread that NGO-controlled micro credit can not begin to match; banks can cross subsidies loans; bank are better placed to provide specialised training to their employees in development banking, banks are better placed to co-ordinate banking activity with development administrations, local governments and SHGs and banks are better able than private micro credit organizations to offer a wide range of financial services to barrowers. For the state to withdraw form the filed and hand over small scale credit to NGO-controlled micro credit organizations is, in effect, to undermine and weaken a major national asset, the widespread rural banking system.

The Indian banking system has many weakness, and in many ways, has failed to fulfill the objectives of social and development banking in rural India. The present reversal of policy in the era of financial liberlisation is a further setback to the expansion of rural credit. The banking system can and must improve its functioning by working with local governments and local voluntary organisations. Some of the transactions cost of loans, cost for banks as well as for
borrowers can be lowered when banks work in an innovative way with Panchayats and SHGs.

**P. Ghate** revealed that it would seem a great opportunity lost not to bring MFIs registered as NBFCs and $ 25 companies into the bill in respect of their micro finance activities, although not in respect of reserve, accounts, audits and other prudential requirements which would continue to be governed by NBFC regulations. It would seem desirable to officially announce the intention, prior to enactment of the bill; of excluding co-operatives from the provisions of the bill relating to the promotion and regulation of thrift.

**S.Vasudevan** denotes that some significant changes have taken place at both the village and household levels due to participation in this program. The SHGs are unified and action-oriented and have played a key role in both raising awareness among villagers and in implementing measures to help their communities. Prepare for floods, some of the limitations of the program as identified by the women are (1) that the villagers are still recovering from the flood of 2000 so the villages do not have funds available to invest in some of the important disaster preparedness infrastructure that would really help them. (2) Some women feel that they are not allowed to use their SHG loans to purchase necessary materials to prepare for flood. They think that they can only use the loans for productive business purposes, and therefore many of them are not as prepared for flood as they could be. (3) There is interest among the women in becoming more actively involved in the Gram Panchayat but women perceive that it would be too costly or complicated for them to become elected officials.

**S.K. Datta and others** recorded that SHGs provides various services such as business loan, consumption loan, loan for settlement of old debt and loan for other contingency purposes to their members. They also further observed that long term stability of SHGs depends on the members’ loyalty to it and in turn the adequacy of SHGs to meet the growing needs of their members. Members’ loyalty to SHGs will likely to undergo a transformation due to their inherent design feature of small size of the group and the limited saving capacity of marginal groups. With increased business turnover when the enterprise and activities started by SHG members become stable, the ability of their members’ to handle independently and progressively their economic affairs will increase. At the same time, the members perception of increasing opportunity cost of involvement in the group
activity would likely to contribute to their drop out from the SHGs. Another serious constraint would be that individual investments and working capital requirements are bound to exceed the capacity of SHGs to provide enough capital. In such likely situation, the members would try to establish direct business relationship with the banks or seek out sources of external fund for financing their projects. Another likely scenario is that where there is intense competition among the members pursuing similar occupations, non-cooperative behavior with divergent interest will emerge to undermine the long term stability of the group.

A. Y. Pangannavar\textsuperscript{19} observed for the requirements of Self Help Group programme is the right approach to create Self-employment opportunities so as to supplement the income and assets of the rural poor. The SHG programme provides the rural poor women the access to micro-credit. It encourages rural women entrepreneurship and rural women empowerment. To resume the SHG programme is the right participatory approach for eradication of rural poverty and paradigm of rural development.

S. Madheswaran and others\textsuperscript{20} concluded regarding credit to rural women to help them uplift their economic status, that micro-credit should be used to meet the current demands of the rural women whether, these are for health, education or consumption purposes; this will lead to a gradual improvement in the quality of their life and will enable them to identify activities for economic betterment and in this process they will learn fiscal discipline and be ready to take on market oriented economic activities, they further concluded that, for poverty alleviation and empowerment of women, intervention should be a continuous process, with intervention at a steady pace rather than with target-oriented intensive efforts at sporadic intervals. Apart from the agencies involved in implementing the MRCP, other departments like social welfare departments, tribal research centre and local NGO may be involved to see whether the benefits of the programme are reaching the really needy people. This will be a more effective way of targeting the poorest of the poor.

HSK Tangirala\textsuperscript{21} indicates that the co-operatives are playing a tremendous role in the economic development of its members and in alleviation of poverty in the country. In the advent of the SHGs, the co-operatives has got another tool in its toolbox to quicken the process of developing the members financially.
In India, the thrift co-operatives and their federations are incorporated under the mutually Aided co-operative societies (MACs) Act 1995, a new law enacted in the state of Andhra Pradesh, similar laws have since been enacted in six other states. The MACs is not enough for the member economic developments even the societies with the old act too should start the SHGs with their members to argument to economic development.

For the purpose of economic development the co-operatives have to form the SHGs with the help of the members increase their competencies and capabilities. The support, advice and coaching is required from the co-operatives through formal or informal network, to the SHGs to get the business from all the local people, The activities might be deposit mobilization, recovery management in case of credit co-operatives, procurement and sale activities in case of manufacture based co-operatives. However, even the related diversification of the activities are useful provided the needs of the members fulfilled and the ultimate goal of poverty alleviation take place.

M. Shah et al 22 observed for the requirement of finance in rural India, that strengthening of the SHG-Bank linkage programme, with the state (especially NABARD) bearing promotional costs in the initial years. SHG federations must be facilitated and linked to various apex development agencies so that they become a vehicle of micro finance human, development and sustainable livelihoods for the rural poor.

Strict public vigilance, including maximum permissible interest rate bands, on the functioning of MFIs, to ensure that they operate on a level playing field, within the same social canvas that animates other players in the sector.

Amarjeet Kaur 23 suggested that people felt need and problem are to be identified before the implementation of the development programme. It is observed that the real benefit does not percolate to the needy people because of lack of proper planning and identification of problem. So it is suggested that problematic areas and problems of the people should be identified and accordingly development programme should be initiated.

Awareness and action plan of the programme should be communicated to the people. So that they can take interest in its implementation. Otherwise lack of motivations and information about the programme make the scheme partial failure
and finally leads to wastage of time and money. So before starting any pro-
gramme, people should be fully informed motivated and prepared for it.

The state agencies should formulate SHGs and finance them on strict crite-
ria of income generations and poverty alleviations and overall rural development. The proper scrutiny of members of SHGs is a pre-
quisite for financial supports and economic development.

For the purpose of economic development the co-operatives have to form
the SHGs with the help of the members, increase their competencies and capabili-
ties. The support advice and coaching is required form the co-operatives though formal of informal.

T. Ramachandran and others disclose that SHGs have the power to
create a socio-economic revolution in the rural areas of our country. SHGs have
not only produced tangible assets and improved living conditions of the members,
but also helped in charging much of their social outlook and attitudes. In the study
area SHGs have served the cause of women empowerment, social solidarity and
socio-economic betterment of the poor.

R. Dasgupta evident that the government instead is required to create an
environment where genuine NGOs can perform effectively as SHPIs and banks
can conduct business with SHGs on their own. The right type of incentives for
banks in term of grading, income tax benefit, performance appraisal and reward
and punishment etc. are the better tools and should be tried first. Government can
promote SHPIs in NGO lacking regions through well established and well ac-
cepted SHPIs and continuation of support depending upon their performance.
Banks, on the other hand, should be left free to evaluate SHPIs and SHGs for con-
ducting business with them. The subsidy amount may be used for infrastructure,
training, backward and forward linkages and other requirement of the poor, not
the poor borrowers alone.

All these are likely to improve the opportunity for investment by the poor.
Simultaneously, the poor will improve their savings potential, credit-handling ca-
pacity and access to financial institutions, inculcate entrepreneurial skill, develop
on urge for investment and also increase the risk taking attitude through SHGs.
Only then will investment credit fructify. Government needs to ensure adequate
flow of credit to the poor according to their needs and facilitate opportunities of
income generation. Along with monitoring mandatory credit, government needs to
monitor efficacy of the credit through appropriate tools. (Dasgupta, 1994) The SHGs should be considered as one of the best means to counter social and financial exclusion and enhance economic political and social citizenship. (Rogaly et al., 1999) not an end in itself.

K Sivachithappa denoted that a number of important results have emerged out of the study. These results are in contrast to the findings of a number of earlier studies. Some of the disagreements of this study with the either studies are: the income impact of the extreme poor is lower, the poorest borrowers may tend to have lower levels of assets accumulation, borrowers taking more number of loans generate more income larger organizations have larger outreach and formal schooling is an essential criterion for exerting better effect of SHG on income generation.

It can be concluded from the results of the present study that SHG based micro-finance and bank linkage programme has better outreach and positive impact on poverty. However, there is a need to improve the process of empowerment through proper policy initiatives.

A.Y. Pangannanvar suggested that Self Help Groups programme is the right approach to create self-employment opportunities so as to supplement the income and assets of the rural poor. The SHG Programme provides the rural poor women the access to micro-credit. It encourages rural women entrepreneurship and rural women empowerment.

To resume the SHG Programme is the right participatory approach for eradication of rural poverty and a paradigm of rural development.

Kropp Erhaed of GTZ (German Organization) reports emerging lessons from the SHGs in the Asian Countries. NGO led credit Programmes in Bangladesh, Indonesia and mutual assistance credit groups in other parts of Asia used group responsibility and peer monitoring in guiding financial to lend to ruralities without any traditional form of collateral. However, he frankly records that the institutions are yet to prove their sustainability for, most of them now depend on grants and subsidized (low interest) loans from multilateral and bilateral donors.

Ramanathan traces the origin of SHGs to the ineffectiveness of supervised rural credit programmes felt by the members of APRACA in the workshop held in China in 1986. The sixth General Assembly of Africa of APRACA held in
Nepal decided to launch SHG linkage programme. In Sri Lanka, some of the operating SHGs emerged voluntarily and others took birth due to SHPIs. While in the farmer members belong to different income groups in the latter membership was given to specific target groups. It is observed that smaller to groups, visibility is more brighter and also better managed. The SHGs evolved many instruments to promote thrift among members. They generated a common fund from internal savings to grant small emergency loans. Some SHGs supplemented the common fund with seed money or contributions from Self Help Promoting Institutions (SHPIs). Upon 1993, the rate of loan recovery was around 90%. A close analysis of recovery performance revealed that over one half of the total SHGs reported 95% recovery, a fourth of the SHGs posted 75% to 95% recovery of loans. On the whole the performance was fairly well compared to other borrowers from the formal banking system.

Noor observed linkage banking and reports regional status of linking banks and SHGs covering Indonesia, Thailand, Philippines, India, Nepal and Bangladesh. He says that the seeds of linkage banking were sown in 1986 and today SHGs are widely accepted as an alternative for collective credit delivery to the rural poor. He discusses variants of linkages and the models followed in Indonesia, Thailand and Philippines. It is reported that by December 1984, six members of Asia Pacific Rural & Agricultural Credit Association (APRACA) initiated the project of linking Self Help Groups with banks. The author gives details of number of SHGs, Self Help Promoting Institutions (SHPIs), participating banks, amounts of the deposits and loans. It is happy to note from the paper that, the repayment rate of SHGs was 100% in Thailand, 99% in Bangladesh, 96% in Indonesia and 68% in Philippines. For the APRACA countries as a whole, the repayment rate was 86% by December 1994.

Most studies concluded that microcredit positively contributes to poverty reduction. Microcredit, therefore, may help to solve the poverty problem. This seems to be good news. However, there is much discussion about the question of the extent to which microfinance reaches the core poor. Here a new measurement problem arises i.e. how to identify the core poor. (Dunford 2006) Nevertheless, Khandker (2005) and Eda Rural Systems (2004) find that the extremely poor benefit more from microfinance than the moderately poor. On the other hand,
several other studies indicate that it is the “better off” poor rather than the core poor who stand to benefit most. Evidence for this is given in, e.g. Hulme and Mostey (1996) and Copestake et al (2005).

It is also important to know what casts are involved in making microfinance a successful instrument to combat poverty. Even if micro-credit positively contributes to a reduction in poverty, it is unclear to what extent these results can not be reached by others more cast efficient instruments. Providing micro-finance is a costly business due to high transaction and information cost. Recent research shows that most micro finance programmes are still depending on donor subsidies to meet the high cost i.e. they are not financially sustainable (Cull et al 2007).
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