Chapter- 3

THEORETICAL FRAMEWORK
AND
EMPIRICAL EXPERIENCES

Conceptual Frame and Theoretical Premises
Empirical Experiences in other Asian Countries
Indian Experience
Self Help Groups: Structure and Organisation
Chapter 3

THEORETICAL FRAMEWORK
AND EMPIRICAL EXPERIENCES

3.1. Introduction

Development is a process by which the members of a society increase their personal and institutional capacities to mobilize and manage their resources to produce sustainable and justly distributed improvements in the quality of life consistent with their own aspirations. Given this meaning of development, rural development is of utmost significance for all the developing nations in view of the large populations living in their rural areas. In this chapter, it is attempted to understand the conceptual frame and theoretical premises of the concepts involved in rural development and thereby lay the foundation for understanding the concepts and structure of Self Help Groups in order to evaluate their economic impact on the development of rural economy.

3.2 Conceptual Frame and Theoretical Premises

3.2.1 Rural Development

*Rural Development* is the term widely used in the developing countries of Asia and Africa as majority of the countries in these continents is predominantly rural in character. The broad consensus is that ‘rural development’ connotes development of those activities, which mainly concern the rural people. These activities include agriculture and allied activities, rural non-farm sector, economic and social infrastructure, community services and above all human resources in rural areas. Rural areas are broadly considered as those areas, which are outside the jurisdiction of municipal corporations, municipal committees, and notified areas.
3.2.1.1 Definitions of ‘Rural Development’

The core meaning and the purpose of rural development is to improve the economic and social well-being of rural people. In this background, let us understand a few definitions of the term ‘rural development’.

Robert Chambers says, “Rural Development is a strategy to enable a specific group of people particularly poor rural women and men, to gain for themselves and their children more of what they want and need”\(^{24}\).

Katar Singh provides a comprehensive definition of rural development as follows: “Rural Development is a process of developing and utilizing natural and human resources, technologies, infrastructural facilities, institutions and organisations, and government policies and programmes to encourage and speed up economic growth in rural areas, and to provide jobs, and to improve the quality of rural life towards self-sustenance”. In a nutshell, the process of rural development must represent the entire gamut of change by which a social system moves away from a state of life perceived as unsatisfactory towards a materially and spiritually better condition of life\(^{25}\).

3.2.1.2 Need for Rural Development

In a country like India where about, 72.22% population of India continues to live in villages (according to 2001 census) rural development assumes special importance due to specific problems of rural areas such as rural backwardness from ages, massive poverty, large scale unemployment, poor basic infrastructure, small and unorganized rural entrepreneurs, traditional farming technologies, inadequate support

---

\(^{24}\) Robert chambers, Rural Development: Putting the last first (London Longman, 1983)

services for agriculture, rural indebtedness, undeveloped human capital due to illiteracy and inadequate health services. With this premise, rural development is indeed very much needed for enrichment and betterment of the overall quality of rural life through appropriate development of manpower resources, infrastructural facilities and provision of minimum needs and livelihood.

3.2.1.3 Rural Finance and Rural Development

Rural finance today has become an important topic for discussion in banking circles in the developing countries more particularly in the Asia-Pacific region with two-thirds of population dependent on the agricultural sector and nearly 72% of poor still living in the rural areas. Indian experience in rural finance has been of distinct nature and has an interesting history. History of rural credit, poverty alleviation and microfinance are interwoven in India and any effort to understand one without reference to the others, can only lead to fragmented understanding. In the development strategy adopted by Independent India, Institutional credit was perceived as a powerful instrument for alleviating poverty. The stance of the policy on rural credit was to ensure that sufficient and timely credit reached as expeditiously as possible to as large a segment of the rural population at reasonable rates of interest. The strategy devised for this purpose comprised; (a) Expansion of the institutional structure (b) Directed lending to disadvantaged borrowers and sectors and (c) Interest rates supported by subsidies.

Accordingly, several initiatives have been undertaken since 1950s to strengthen the institutional rural credit system. Apart from taking various measures to strengthen the working of co-operative credit institutions, which have traditionally

---

played a dominant role in financing agriculture, the commercial banks were also
inducted into rural financing since seventies. The rural branch network of commercial
banks was expanded substantially and certain policy prescriptions and mandates were
imposed on the banking system in order to ensure greater flow of credit to agriculture
and other preferred sectors.

Consequently, rapid strides were made in the development of rural banking in
India. The nationalisation of Imperial Bank in 1955, 14 major Commercial Banks in
1969, and another 6 Commercial Banks in 1980, the setting up of Regional Rural
Banks (RRBs) in 1975, and the formation of NABARD in 1982, have enabled the
creation of a strong financial infrastructure for the development of credit in the rural
sector.

A multi agency approach has been adapted for rural credit delivery involving
Commercial Banks, RRBs and Cooperatives. A vigorous rural branch expansion
programme by Commercial Banks was undertaken to increase the rural credit flow.
Of over 62,000 branches of Scheduled Banks, 35,000 or 56% are now operating in the
rural areas. RRBs have over 14500 branches specially catering to the credit needs of
the rural sector. In addition, there are 84,000 PACSs in the villages.

Notwithstanding the phenomenal progress seen in the rural credit structure, the
formal part of the rural credit system suffers from shortcomings like, high default
rates, high transaction costs, absence of collaterals, infirmities in implementation of
schemes, an attitude of poor are not bankable, and an attitude of carefully disguised
cynicism towards the poor.
3.2.1.4 Approaches to Rural Development in India

The process of rural development in India began from the pre-independence era. The wave of rural development enthused social reformers to undertake a number of experiments in rural development. Some of the notable among the pre-independence period are; Sriniketan experiment initiated by Rabindranath Tagore, Marthandam Experiment by Dr. Spencer Hatch of the Young Men's Christian Association, Gurgoan Experiment by F.L.Brayne, Baroda Experiment launched by the princely state of Baroda and Sewagram Experiment of Mahatma Gandhi.

During the Post-Independence period in India there have been organised efforts for rural development. India has adopted various approaches for rural development and these can be broadly classified as below:

1. **Community Approach:** This was a broad based approach and aimed at securing total development of both material and human resources.

2. **Growth oriented Approach:** Launched during the middle of the Second Five Year Plan in India, focus of these programmes (such as IADP, ICDP and HYVP) was on increased production with the philosophy that the benefits of increased production would gradually “trickle down” to the poor. However, this approach helped only the rich farmers in rural areas and failed to make any dent in the basic problem of poverty and unemployment.

3. **Target Group Approach:** Under this approach programmes like SFDA, MFAL, FWP, NREP, RLEG and JRY were initiated in phased manner. The target group approach to some extent is opined to be successful in delivering benefits of development programmes to the poor.
4. **Area Development Approach:** Under this approach, a specific area was taken for development. The programmes included DPAP, DDP, HADP and TADP. To some extent it is found to be successful in reducing inter-regional disparities by promoting the development of backward areas.

5. **Welfare Approach:** The means used in this Welfare Approach are free provisions of services and civic amenities in the rural areas through programmes like MNP and ANP, etc. The main problem with this approach was that it requires resources that are beyond the means of the government.

6. **Integrated Rural Development Approach:** This approach took an integrated view of rural poverty and unemployment and tried to address economic, commercial, organisational, technological and political bases of these problems. However, due to the inefficient implementation of the programme and also due to the political intervention and corruption at implementation levels this programme could not deliver the intended results.\(^{27}\)

With all these approaches to rural development, it is widely recognised that many of our development projects did not resolutely base their efforts on people’s participation, which was the main reason for their failure. Accordingly, in India, a new approach—the concept of sustainable rural development has emerged with emphasis on sustainability. The same is elucidated in the ensuing section.

3.2.1.5 **The Concept of Sustainable Rural Development**

The term *Sustainable Rural Development* in a broader context connotes a development that meets the needs of present generation without compromising the needs of future generation. Further, it involves ‘people’s participation’ which is felt to

be a prime requisite for rural development to succeed, as it will lead to sustainable impact on the livelihood of rural people. Sustainable rural development also envisages protection of natural resources, physical and human capital so that posterity do get, if not more, at least as much as the present generation has inherited from the past.

The concept of Sustainable Rural Development has the following desired situation:

<table>
<thead>
<tr>
<th>Present Position</th>
<th>Desired New Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource poor</td>
<td>Resourceful</td>
</tr>
<tr>
<td>Dependent</td>
<td>Independent</td>
</tr>
<tr>
<td>Individual effort</td>
<td>Group Synergy</td>
</tr>
<tr>
<td>Programme Beneficiaries</td>
<td>Programme owners</td>
</tr>
<tr>
<td>Unskilled and illiterate</td>
<td>Good in life skills and capable</td>
</tr>
<tr>
<td>Powerless</td>
<td>Empowered</td>
</tr>
</tbody>
</table>

In this direction, the Self Help Group system provides an approach most suited for sustainable rural development through the participation of the rural people.

3.2.1.6 The Self Help Group Approach for Rural Development

In the context of rural development, the active involvement of stakeholders especially in decision-making and activities is the essence of people’s participation. As such, there is a need to unleash the people’s energy towards sustainable rural development through Self Help Group approach. The key to unleash people’s energy lies in empowering them and facilitating them to find their own solutions. In empowering the people, innovations in organising people have a great role to play-the crux being designing people’s organisations for effective problem solving. It is in this backdrop that the Self Help Group approach provides an approach that aims at sustainable rural development through the participation of the rural people.
Dr. V. Rengarajan\textsuperscript{28} (July 2001) opines that the Self Help Group approach follows the theory of noble laureate Amartya Sen and is an appropriate technology for micro level operation, which is required in the new millennium to focus attention from market to social welfare, human capital and empowerment of the poor.

Thus, it is widely acknowledged that Self Group Approach with its significant role in providing access to credit for the poor and thereby reduction of poverty is a most suitable approach for achieving rural development. In the ensuing section, the concept and importance of microfinance and its usefulness as a strategy for rural development is discussed.

3.2.2 Microfinance: Scope and Significance

Microfinance, to most, means providing very poor families with very small loans (micro credit) to help them engage in productive activities or grow their tiny businesses. Over time, microfinance has come to include a broader range of services (credit, savings, insurance, etc.) as we have come to realise that the poor and the very poor that lack access to traditional formal financial institutions require a variety of financial products. The Micro-credit Summit held in Washington launched a global movement for 'credit for self-employment' to reach 100 million of the world's poorest families by the year 2005\textsuperscript{29}. In the last two decades, many Microfinance Organisations\textsuperscript{30} were able to reach significant number of poor by providing economic opportunities, facilitating empowerment through group processes and enhancing social security.

\textsuperscript{28} Dr. Rengarajan V, (July 2001). "Microfinance Technology for Poverty Alleviation", International consultant on Microfinance

\textsuperscript{29} P. Jagadeesh Gandhi, "Help from within" The Hindu Business Line (Bangalore), Monday, April 23, 2001

\textsuperscript{30} This Thesis uses the terminology of microfinance organisations (MFOs) instead of the more commonly used microfinance institutions (MFIs) since 'organisations' better describe the diverse type of entities involved in microfinance.
Under microfinance, 'Thrift' implies savings created by postponing almost necessary consumption while 'savings' imply the existence of surplus wealth. Outreach and sustainability have often been cited as the twin pillars for successful micro-finance. Sustainable microfinance requires good social intermediation and prudent financial intermediation. As such, microfinance has more relevance in the process of rural development involving people's participation.

3.2.2.1. Definition of Microfinance

Microfinance was originally conceived of as an alternative to both banks, which in most developing countries serve only 5-20% of the population and informal and semi-formal sources of finance for the poor such as moneylenders. Microfinance is differentiated from commercial lending by the concepts of joint liability or group lending, dynamic incentives that allow for an increase in size of loans over time, regular repayments schedules and alternative collateral through obligatory savings.

The Task force on Micro-finance constituted by National Bank for Agriculture and Rural Development (NABARD) in India suggested a working definition of micro-finance as "provision of thrift, credit and other financial services and products of very small amounts to the poor to enable them to raise their income and improve their living standards". The upper limit of amount is fixed at Rs. 25000 to be categorised as micro-finance.

32 Report of Task Force on Supportive Policy and Regulatory Framework for Microfinance headed by Y.C. Nanda, Managing Director NABARD
"Microfinance is a financial service of small quantity provided by financial institutions to the poor". These financial services may include savings, credit, insurance, leasing, money transfer, equity transfer etc. that is any type of financial service provided to customers to meet their financial needs (Dasgupta and Rao, 2003) with the only qualification that (i) transaction value is small (ii) customers are poor.

Microfinance, defined by CGAP (2003 a) as "a credit methodology that employs effective collateral substitutes to deliver and recover short-term, working capital loans to micro entrepreneurs," has demonstrated success as a poverty reduction strategy.

According to Dr. V. Rengarajan, Microfinance comprises of small savings, savings based (group loan mostly for consumption) bank credit for income generating activities, payment services, money transfer, insurance, linkage between credit and noncredit and tied lending (tie up with marketing for repayment).

These definitions of Microfinance enable us to understand that it is indeed a package of financial services, which augur well for the poor. In the light of the above definitions the objectives of microfinance are discussed here below.

3.2.2.2 Objectives Microfinance

The prime objective of microfinance is to provide a range of financial services to the needy resource poor. Microfinance aims to reduce poverty. Microfinance is
only a means, not an end and the ultimate goal is to reduce poverty\textsuperscript{37}. Microfinance transcends rural areas and includes both on-farm and off-farm enterprises.

Accordingly, one can find a broadening of the concept of microfinance. The poor need sustainable financial services, viz., Micro-savings deposit facilities for the safekeeping of savings, consumption-smoothing, emergencies and accumulation of resources for self-financing of investments. Micro-credit with access to loans of various sizes and maturities for external financing of investments, consumption-smoothing and for emergencies. Micro-insurance including specialized insurance services (life, health, accident or cattle insurance) and non-specialized services (providing social protection through access to one’s savings or to credit in cases of emergency) for risk management, social security, loan protection... plus other financial services, for example micro leasing, supplemented by non-financial services. Besides providing a wholesome package of financial services most suitable for the poor, microfinance in India is aimed at alleviation of poverty also.

3.2.2.3 Relevance of Microfinance

According to the World Bank (WB), only seven percent of the poor have been covered by institutional credit. Experiences have shown that the poor are able to work their way out of poverty if provided with adequate and timely credit. Further, the experiences also affirm that they are credit-worthy too. The following features of microfinance make it worth of serious consideration: (1) It mobilises the poor into groups (2) Makes credit / finance available and accessible to the poor (3) Change the old image of the poor as non-bankable (4) Micro-credit benefits the poor (5) Gives realistic interest rate that the poor are able to repay (6) Mobilising members savings

\textsuperscript{37} SFMC Research team on Impact assessment of microfinance, SIDBI, Lucknow, INDIA - July 2002
3.2.2.4 Microfinance Helps the Poor

Experience shows that microfinance can help the poor to increase income, build viable businesses, and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change. By providing access to financial services, microfinance plays an important role in the fight against the many aspects of poverty.

Microfinance improves the opportunity to save for the poor. It enhances the opportunity to acquire a productive asset and reduces dependency on moneylenders. It also reduces the interest burden on total borrowings. The poor can cope with the vulnerable situations by being the clients of microfinance. Further, microfinance provides an empowering opportunity for women.

3.2.2.5 Limitations of Microfinance

Microfinance is not a panacea for all the ills in the process of rural development. Many studies have shown that microfinance too has some limitations, which are to be understood for better understanding of the concept of microfinance. Some of the limitations are listed here below:

- Studies have shown that most poor people have benefited from microfinance programmes but that narrow targeting is not necessarily a condition for reaching the poorest. Some large-scale non-targeted schemes have proven to reach the poorest.
• It should not be seen as the only solution to poverty alleviation. In certain circumstances other interventions sometimes could be more effective than micro-finance. For example, in the case of natural disaster situations, micro-finance needs other complementary interventions, like subsidies for responding to the needs of those clients who have lost their capital and personal belongings and do not have any liquidity to pay their current debts.

• Microfinance is not appropriate for all the poor people. For example, micro-enterprises owned by the poor are not ready for or do not need financial products. In other cases, micro-entrepreneurs are not creditworthy.

3.2.2.6 Microfinance: A “Win-Win” Proposition

Microfinance offers potential advantages to all stakeholders viz., the Poor, the NGOs and the banks. The linkage between banks and SHGs with the NGOs as facilitators / financial intermediaries as a mechanism for channeling credit to the poor on a sustainable basis, offers a number of potential advantages:

For the Poor:

1. A via media for development of thrift habit among the poor.
2. Access to larger quantum of resources.
3. Availability of emergent consumption / production credit at the door step.

For NGOs

1. Synergy in operating social programmes with economic programmes.
2. Increases the outreach to the poor through credit plus approach.
3. Recognition as socio-economic change agents.
4. Avenue for performing financial intermediation in unbanked-backward areas.
5. Emergence as bridge between banks and poor.
6. Propagation of innovative credit delivery approaches.

For the Banks:

1. Reduction in transaction cost by way of externalization of a part of the credit cycle (appraisal, disbursal, supervision, and repayment)
3. Assured and timely repayment leading to faster recycling of funds.
4. An opportunity for expansion of business and coverage of poor clientele.
5. Prospects of future quality clients.

The above features explain how microfinance benefits all the concerned and leads to rural development. Further, in view of the widespread role being played by Self Help Groups (SHGs) in spreading organized microfinance in India it is desirable in this context to understand briefly at this stage the concept of self-help and Self Help Groups.

3.2.3 Self Help Groups (SHGs)

3.2.3.1 Conceptual Frame

The sine-qua-non of the Self-Help Group concept is mutual self-help enlightened with self-interest and co-operative spirit. Self-help supplemented with
mutual-help can be a powerful vehicle for Poor's efforts in socio-economic upward movement. Participative financial services management is more efficient and responsive. Poor can save and are bankable. Poor need not only credit support but also savings and other services. Small affinity groups of poor, with initial outside support, can effectively manage and supervise micro-credit among their members. "As a methodology, Self-help group (SHG) facilitates the service provider (government, development agencies) to reach the poor communities on a wider scale and at lower costs"\(^{39}\).

Further, collective wisdom of the group and peer pressure is a valuable collateral substitute for availing loans. These groups act as a micro-enterprise stage for a majority of rural poor, facilitating wider outreach, lower transaction cost and much lower risk costs. A common bond like caste, sub-caste, blood, community, place of origin or activity links the members of group. These groups are generally affinity groups.

The group approach provides a forum for collective savings and collective learning which the rural people find more "friendly" and which is consequently more effective than the individual or classroom approach that is commonly adopted. The groups foster an entrepreneurial culture where each member realises that while she/he needs the support of the group to achieve her/his objectives, the group also in turn requires her/his support in adequate measure. The groups provide a firm base for dialogue and co-operation in programmes with other institutions. The Groups provide participatory and empowering culture. These groups also provide the benefits of economies of scales in reducing costs in certain areas of the production process, which the members may decide to undertake as a common action.

The “Group” structure provides a centrifugal set up and the group psychology helps in forming a peer pressure which binds the members more cohesively and ensure their accountability and commitment to implement the schemes / projects. Also it is conducive for prompt recoveries and creation of rural thrift in view of the group’s social objectives to help the members in financial distress on account of any genuine problems apart from the activity adopted. The groups also provide cost effective credit delivery system, as the transaction cost of lending decrease sharply both to the banks and borrowers. The above are the conceptual premises around which the SHGs have evolved.

3.2.3.2 The Indian Font of Self Help Groups

The Indian heritage has its role in strong community afflictions and identification. The social fabric is endowed with the spirit of self-help and community help. The combination of the spirit of self-help and community service is harnessed in extending financial services for the poor by the experience of some of the pioneering NGOs and banks.

Indian SHGs are homogeneous groups of about 15 to 20 poor people in each group. Every member saves a small amount regularly. Pooled savings of the group are kept in a savings bank account in SHG’s name. SHG uses the pooled thrift to give interest-bearing loans to members based on the decisions taken in-group meetings. Every member learns prioritisation and financial discipline. Their capacities to think and handle larger resources improve with the group activity. Depending on the SHG’s maturity, bank gives loan to the SHG as a multiple of the pooled savings. Bank loan thus gets added to the SHG kitty and thus adequate and sustained access to financial
services is provided to the poor. With all this transaction costs of both the poor and bank are reduced.

The experiences reveal that when these resource poor people are organized into small thrift and credit management groups or Self-Help Groups (SHGs) they not only become bankable but also reveal an inner strength to fight the socio-economic injustice to which they have been subjected for decades.

3.3 Empirical Experiences in other Asian countries

Rural development has received importance in economic thinking the world over. Several institutions, examined notably, those in Indonesia and Bangladesh have achieved high coverage on a national scale. The Grameen bank’s market outreach covers almost half the villages in Bangladesh reaching more than 2 million very poor clients. In Indonesia, the BRI Unit Desas serve about 1 million savers. Most of the programmes are growing at such a rapid rate averaging 25 to 100 percent annual increases in clients, total assets and loan disbursed.

An attempt is made here below to take a quick impression of the empirical experiences of some of the select Asian countries around India.

3.3.1 BANGLADESH

The Grameen Bank of Bangladesh started by Professor Mohammed Yunus as an experimental project in 1976 in the village Jobra has been the most widely acclaimed development “success story” of the 1980s. It has grown from a micro project into the country’s fourth largest bank by providing loans to conveniently unbankable clientele who almost have nothing to offer as security for loans. Its
members own 92% of the Grameen Bank; the Government owns the remaining 8%.

Grameen Bank (GB) claims that in September 2002, it had 2.4 million borrowers, 95 percent of whom are women. With 1,175 branches, GB provides services in 41,000 villages, covering more than 60 percent of the total villages in Bangladesh\(^\text{40}\).

Grameen Bank of Bangladesh claims that its positive impact on its poor and formerly poor borrowers has been documented in many independent studies carried out by external agencies including the World Bank, the International Food Research Policy Institute (IFPRI) and the Bangladesh Institute of Development Studies (BIDS)\(^\text{41}\).

H. I. Latifee\(^\text{42}\) of Grameen Trust writes in a seminar paper that Grameen has been widely researched and recognized for making a difference in the lives of its members. According to a study based on a household survey in an area where Grameen has been operating for more than a decade, about 50% of the Grameen households have crossed the poverty line. Another 25% was about to cross it and the rest struggling mainly because of health reasons. Another study examining the economic effects of Grameen on the life of its borrowers compared the situations ‘before’ and ‘after’, ‘with’ and ‘without’ Grameen. It considered the effects of Grameen operation on capital accumulation, employment, income levels and poverty alleviation. The study found that without any capital base at the beginning, the Grameen borrowers started accumulating capital as they joined Grameen. Grameen loan is required to be paid back in small installments every week. The borrowers pay

\(^{40}\) Grameen Bank Website
\(^{41}\) Ibid.
the installment from generated income, leaving the original capital intact. Their capital base usually increases in large amounts as they go for subsequent loans. They go for medium and long-term investments, such as the purchase of cattle, machinery, tools or equipment with their expanded capital base.

According to H.I. Latifee, a World Bank study found that profits from Grameen-financed businesses were increasing borrowers’ consumption by 18% per year, and that the percentage of Grameen borrowers living in extreme poverty were reduced by 70% within 4-2 years of joining. The Grameen operation not only reduced poverty and improved welfare of participating households, but also enhanced households’ capacity to sustain their gains overtime. Grameen borrowers have been found to improve their conditions in terms of housing and clothing too. Women are the owners of 92% of these houses. They hold the title for the land on which houses are built. This was unthinkable for them before they joined Grameen. Saving has always been an integral part of the Grameen programme. It is designed to address production and other risks as well as market imperfections. Compulsory savings are mobilised in group funds under Grameen system.

To sum up, the transformation of the powerless group of people into a potent economic force has taken place. In some areas it has even transformed into a large vote bank that has the potential to influence government action and policies in favour of the poor people. Women seem to have been particularly benefited in terms of status, reduced dependency, improved living conditions and better nutritional standards for their children. Grameen Bank has demonstrated that the poor can utilise credit and other inputs efficiently and productively when their awareness is raised and when they work in a group. The Grameen experience has been widely seized upon by
the other countries, particularly the developing countries as a potential model for transfer and replication of institutional innovation.

It is noteworthy to mention here that the founder of Grameen Bank of Bangladesh Prof. Mohammed Yunus has been conferred with the prestigious Nobel Prize – 2006 for his pioneering work in the field of microfinance and thereby contributing for peace and development of the region. This is indeed recognition of effectiveness of the microfinance activity for economic development of the poor. This has in a way heralded the usefulness of the microfinance activity for economic development of the poor at the international level.

3.3.2 SRLANKA

Microfinance activity in Srilanka is making a steady progress with the active involvement of Government as well as Non-Government Organisations. The SHGs operating in Srilanka could be divided into two categories; (a) those emerged voluntarily (b) those formed by Self Help Promotion Institutions [SHPIs].

The SHPIs in Srilanka have played a vital role in organizing the rural poor into SHGs. The SHPIs or the NGOs numbering about 250 operate in Srilanka. They are involved in different type of activities. The CARE International, Redd Barna, World Vision International, Thrift and Credit Cooperative Societies [TCCS], Multi Purpose Cooperative Societies [MPCS] and the Sarvodaya Economic Enterprise Development Service [SEEDS] are some of the leading SHPIs in Srilanka which have done a great service in organizing SHGs with a view to promote income generating activities to overcome poverty in the rural areas. SHPIs in Srilanka have developed linkages between the banks and the SHGs by acting as the intermediaries between the two. An
important feature of the linkage model is that savings of the members are linked up automatically with credit provided by the commercial banks.

To summarise, the linkages have attained substantial results in group formation, disbursement of credit, recovery and training of beneficiaries.

3.3.3. INDONESIA

In countries such as Indonesia where access to formal finance by small farmers and micro entrepreneurs is limited, SHGs are important providers of financial services. SHGs are important elements of the societal self-organisation through which their members improve their participation in development. This approach has been implemented in Indonesia in order to establish business relationships between commercial banks, rural banks, NGOs and SHGs.

Indonesia was the first country to implement a project - “linking banks with SHGs” based on the decision of the APRACA Conference in Nanjing, China, of 1986. PHBK, standing for Proyek Pengembangam Hebugan Bank Dengam KSM [Project linking banks with Self Help Groups] is a financial system development project carried out by the central bank of Indonesia, Bank Indonesia [BI] with the technical assistance from GTZ [German agency for Technical Cooperation]. PHBK’s goal is to improve the rural financial system by facilitating commercial linkages between banks and SHGs consisting of micro entrepreneurs and small farmers.

Hans Dieter Seibel and Uben Parhusip\(^\text{43}\) (1998) opine that Indonesia has made great progress in extending financial services to almost all segments of the population.

---

\(^{43}\) Hans Dieter Seibel and Uben Parhusip. 1998. Microfinance in Indonesia: An Assessment of Microfinance Institutions-Banking with the Poor, Economics and Sociology Occasional Paper No. 2365, Rural Finance Programme, Department of Agricultural Economics, The Ohio State University, 2120 Fyffe Road, Columbus, Ohio 43210-1099
Instead of replicating successes of other countries, Indonesia, over a period of hundreds of years, has found its own unique way of coping with poverty. Bank Rakyat Indonesia with its almost three million small borrowers and eighteen million small savers is perhaps the biggest single provider of financial services. Numerous other banks, including provincial government-owned banks and private banks like Bank Dagang Bali have extended their services to the poorer sections of the population, including Self Help Groups of the poor.

Indonesia has come to be considered by many, including World Bank sources, as a model country both with regard to its success in poverty reduction in recent decades and with regard to the vigor and diversity of its microfinance sector as it evolved over the past one hundred years. The development of its rural financial institutions has been remarkable, as a commentator rightly describes it as 'the world's laboratory of rural financial market experiments'. Decision-makers in countries that are just about to embark on such a course may greatly benefit from a thorough exposure to some of the experiences in Indonesia. The Indonesian experience shows that viability and sustainability can be attained in banking with the poor and the near poor.

3.3.4. THAILAND

The SHG-bank linkage project in Thailand is basically designed to establish a viable linkage between the well-organized grass root level formal groups, Production Credit Groups (PCGs), and the bank. Presently, Bank for Agriculture and Agricultural Cooperatives (BAAC) is the implementing bank for the project. Ultimately, the PCGs are promoted to work as village banks. Funds are made available to PCGs for on-lending to their members as also for undertaking other activities by the BAAC on the
basis of their deposits with the latter. Community Development Department (Government Organization) provides institutional development support by way of meetings, workshops, seminars, and etc. besides sanctioning grants, etc. The main activities of PCGs are running village shops, paddy banks and rice mills besides providing production credit to its members. Rate of interest on loans ranges from 15% to 18% per annum.

In the hilly areas of northern Thailand, predominantly inhabited by tribals, the linkage programme is being pursued as an integrated approach for rural development. The programme aims at encouraging people's participation, self-reliance of local groups, improving social services and appropriate agricultural and environmental conservation practices, improved crop management, crop diversification, integration of livestock, forest protection and community based land use planning.

3.3.5. PHILIPPINES

The SHG-bank linkage programme in Philippines is of recent origin. The pilot project was started in late 1990 with the technical assistance of German Agency for Technical Cooperation (GTZ). Land Bank of Philippines in association with the People's Council for Rural Savings and Finance [PCRSF] is implementing the project. The existing cooperatives and other farmers' institutions / organisations, which have legal status are strengthened by augmenting their own capital fund base. The cooperatives carry out their functions directly or through chapters. The chapters are sub-divided groups of memberships operating in a defined / allotted area and are termed as SHGs.

A variety of loans are made available to the members through cooperatives. Some of such are agricultural production loans, livestock loans, livelihood loans,
commodity loans and aqua marine project loans. The ultimate borrower has to pay an annual rate of interest ranging from 24% to 40% on borrowed funds from cooperatives / SHGs. The average interest rate of borrowings by the cooperatives is not more than 12% p.a.

To sum up, the common man in the countryside shows enthusiasm about linkage programme and greater participation of field functionaries at grass root level was visible. SHPIs actively provide extension services to the members of SHG to create awareness amongst them.

3.3.6. NEPAL

Microfinance activity in Nepal is gaining momentum since the Agricultural Development Bank of Nepal [ADBN] introduced the Group Credit Scheme in 1975 with the initiation of the Small Farmers Development Programme. Under this programme, small, marginal and landless farmers and village craftsmen earning an annual per capita income less than Rs. 2500 are organized into groups consisting of 5 to 12 members. The programme made special efforts to enable these people to receive socio-economic services through governmental and non-governmental organisations (NGOs). The Small Farmer Group members are oriented and trained to plan, implement and evaluate the programmes that help to raise their under privileged socio-economic status.

The Group Lending Programme provides assistance in adult literacy, orientation and skill development, sanitation, drinking water and environmental conservation. Further, it also supports programmes for raising awareness, enhancing self-reliance, and improving the living conditions of the group members. This programme has undertaken various community activities, such as community
irrigation schemes, community forestry, and community drinking water schemes. All these activities are run with the active involvement of users in the process of decision-making and management.

To sum up, the empirical experiences of the South Asian countries thus far reported have demonstrated that using NGOs and SHGs to develop and operate microfinance programmes has proved to be the best practice so far devised to reach the poorest of the poor in our region. Some of the salient elements observed are:

1. The poor need credit.
2. NGOs do well through building SHGs of the poor.
3. Some development banks have excelled as SHPIs.
4. NGOs and Development Banks like Grameen Banks have 'comparative advantage' in dealing with the poor.
5. SHGs need simple but comprehensive guidelines.
6. Interest rates ought to be market related.
7. NGOs need more financial and technical assistance.
8. Exchange programmes are needed for NGOs, bankers and SHGs.
9. Apex level cooperation is considered necessary.

3.4. Indian Experience

3.4.1. The Traditional Approach to Rural Finance

The transformation in the financial sector all over the world since a decade, signalled for re-examination of existing approaches to various types of finances including rural financing. The traditional perspective on rural finance envisages active government role in rural financial markets and leans heavily toward direct interventions. It dates back to 1950s, when Keynesian economic thinking was
inspiring successful interventions at the macroeconomic level. The results of traditional approach to rural finance have been varied across the countries. Nevertheless, they have been generally poor or modest at the best.

Traditional focus on disbursing agricultural credit had three misplaced emphasis. Firstly, in focusing on disbursement the traditional approach has emphasised quantity of lending over quality. This approach has reduced financial deepening and constrained long term economic growth. Secondly, in focusing on agriculture, the traditional approach has neglected significant opportunities for growth and risk diversification in non-farm rural enterprises. Thirdly, in focusing on credit the traditional approach has ignored savings mobilization – the forgotten half of rural finance. In view of this, microfinance with its several advantages and suitabilities to the rural Indian set up has gained acceptance and emphasis on its spread in order to reach the unreached.

3.4.2. Emergence of Self Help Group Approach in India

Microfinance is not an entirely new activity in India. Banking institutions have been, over the years, providing microfinance in their own way under various poverty alleviation programmes. Co-operative institutions, the Regional Rural Banks (RRBs) and the rural branches of commercial banks, the latter two since the early 1970s have been providing credit to the poor under a variety of schemes.

Notwithstanding the above, the table below presents a sea-gap in the perspectives between the demand side and supply side with regard to the financing of poor by the formal credit structure in India. While the demand side perspective represents that of the subject of microfinance i.e., the poor, the supply side perspective represents that of the policy makers and the bureaucracy.
### Demand Side and Supply Side Perspectives

<table>
<thead>
<tr>
<th>Demand Side Perspective</th>
<th>Supply Side Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Need for comprehensive banking services over and above credit.</td>
<td>1. Credit alone is the need of the poor.</td>
</tr>
<tr>
<td>2. Savings products and access are equally important.</td>
<td>2. Poor cannot save.</td>
</tr>
<tr>
<td>3. Credit needs are of primary importance for the poor.</td>
<td>3. Poor cannot repay consumption loans given sparingly. Difficult to be handled.</td>
</tr>
<tr>
<td>4. Credit needs are smaller, emergent, frequent and an amalgamation of consumption and productive purpose.</td>
<td>4. Only economically viable units can be supported. Systems do not permit meeting emergent and frequent credit needs, as they are felt to be not viable.</td>
</tr>
<tr>
<td>5. Dividing line between productive and consumption loans is paper-thin.</td>
<td>5. Productive loans shall not be diverted for consumption purposes.</td>
</tr>
<tr>
<td>6. Rate of interest is not the determinant for selection of credit source.</td>
<td>6. Poor cannot afford higher interest rates, need to be consessional.</td>
</tr>
<tr>
<td>7. Do not have collaterals to offer as security.</td>
<td>7. Unsecured loans are highly risky.</td>
</tr>
<tr>
<td>8. Need credit at doorsteps without hassles.</td>
<td>8. Cannot reach all villages, especially in tribal and backward areas because of design and cost.</td>
</tr>
<tr>
<td>9. Social security is a felt need.</td>
<td>9. Unsecured loans are highly risky.</td>
</tr>
<tr>
<td>10. Socio-economic empowerment can help economic upward movement.</td>
<td>10. Systems do not envisage empowerment as an agenda.</td>
</tr>
<tr>
<td>11. Poor women, if empowered can contribute significantly for family welfare.</td>
<td>11. Woman is not the head of the family. She cannot manage credit properly.</td>
</tr>
<tr>
<td>12. Subsidy is welcome if available.</td>
<td>12. Poor avail loans primarily for subsidy.</td>
</tr>
<tr>
<td>13. Government programmes are charity.</td>
<td>13. Political System has given wrong signals.</td>
</tr>
<tr>
<td>14. It is easier to deal with own participative institutions.</td>
<td>14. Co-operatives were meant for this. However, poor were marginalized.</td>
</tr>
<tr>
<td>15. Economic decisions for the poor are best felt to them. A favorable environment can lead to prudent exercise of such decisions.</td>
<td>15. The planners and executives know better as to what is in the best interests of the poor.</td>
</tr>
</tbody>
</table>
This reveals the gap between the demand side and supply side perceptions, which created a wedge between delivery system and the beneficiaries. To make the credit delivery system user friendly and to cater to their requirements there is an urgent need to narrow down the above-mentioned gaps. These perceptions have contributed for public perception as well as the policy makers' inclination for the emergence of Self Help Group approach in India.

As a sequel to the above, the genesis of Self-Help Groups as alternate management systems for savings and credit predominantly in rural areas, owes its emergence to a number of experiments and experiences in quest of dependable, self-sustaining and self-regulating machinery. An organised effort for the growth of SHG approach in India has emerged owing to the initiatives of NABARD since 1982 onwards with the sincere efforts of the NGOs and the banks in particular and the support of the government in general. In this regard it is desirable to know about the microfinance institutions in India.

3.4.3. Microfinance Institutions in India

Microfinance in an organised manner in India was started in the early 1980s, with small efforts of forming informal Self-Help Groups (SHG) providing access to much-needed savings and credit services. From this small beginning, the microfinance sector has grown significantly in the past decades thanks mainly to the initiatives of the NGOs and the Regional Rural Banks in various parts of the country. Microfinance institutions in the Indian context can be classified as “Mainstream” and “Alternative” Microfinance Institutions (MFIs). “Mainstream” MFIs include National Bank for Agriculture and Rural Development [NABARD], Small Industries Development Bank of India [SIDBI], Housing Development Finance Corporation [HDFC], Commercial
Banks, Regional Rural Banks (RRBs), the co-operatives etc. “Alternative” MFIs like SEWA, MYRADA, PRADAN, CDF, WWF, Manavodaya, RGVN, DHAN Foundation, Chinmaya Tapovan Trust, etc., have come up to fill the gap between the demand and supply for microfinance. With this understanding of microfinance institutions in India let us analyse the emergence of microfinance in India.

National Institutions like Rashtreeya mahila Kosh (RMK), Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) are devoting significant time and financial resources on microfinance. In addition to the homegrown models of SHGs and Mutually Aided Cooperative Societies (MACS), the country has learnt from other microfinance experiments across the world, particularly Bangladesh, Indonesia, Thailand, and Bolivia, in terms of delivery of micro financial services. Further, microfinance in India has several value attributes.

3.4.4. Value Attributes of Microfinance in India

In India microfinance is generally understood, but not clearly defined. For instance, if a SHG gives a loan for an economic activity, it is seen as microfinance. But if a commercial bank gives a similar loan, it is unlikely that it would be treated as microfinance. In the Indian context there are some Value Attributes of Microfinance:

A. Microfinance is an activity undertaken by the alternate sector (NGOs). Therefore, a loan given by a market intermediary to a small borrower is not seen as microfinance. However, when a NGO gives a similar loan it is treated as microfinance. It is assumed that microfinance is given with a laudable intention and has institutional and non-exploitative
connotations. Therefore, microfinance meant here not by form but by the intent of the lender.

B. Microfinance is something done predominantly with the poor. Banks usually do not qualify to be Microfinance Organisations (MFOs) because they do not predominantly cater to the poor. However, there is ambivalence about the Regional Rural Banks (RRBs) and the new Local Area Banks (LABs). In normal course one would not ascribe the value attribute of a MFO to them.

C. Microfinance grows out of developmental roots. This can be termed as the “alternative commercial sector.” MFOs classified under this head are promoted by the alternative sector and target the poor. However, these MFOs need not necessarily be “developmental” in incorporation. There are MFOs that are offshoots of NGOs, and run commercially. There are commercial MFOs promoted by people who have developmental credentials.

D. Reserve Bank of India (RBI) has defined microfinance by specifying criteria for exempting Microfinance organisations from its registration guidelines. This definition is limited to non-for-profit companies.

With this understanding of the conceptual and theoretical aspects of rural development, microfinance and thereby Self Help Groups, and the related empirical experiences in the Asian countries and also more particularly in the Indian context, it is now appropriate to introduce the structural and organisational aspects of Self Help Groups in detail. The ensuing section of this chapter is an attempt to understand and analyse the structure and organizational aspects of Self Help Groups in depth.
3.5. Self Help Groups: Structure and Organisation

3.5.1. Self Help Groups (SHGs)

Self-Help Group is a tiny economically homogeneous affinity group of 10 to 20 rural resource-poor persons who have voluntarily come together:

- to save small amounts regularly as thrift
- to mutually contribute to a common fund
- to finance their emergent credit needs.
- to have collective decision making
- to solve conflicts through collective leadership and mutual discussion
- to provide loans based on group decisions at market driven rates

Self Help Group (SHG) is a group of people having a common goal of socio-economic sustainable development, discussing their problems and resolving it through appropriate participatory decision making.

To understand the structure and functioning of SHG, a model Rules and byelaws of an SHG is presented in Appendix 3.1.

3.5.2. Group Formation – The Process

In the following paragraphs an attempt has been made to explain the process of group formation. It involves four stages and they are as follows:

1. **Forming**: This is the period when habits of coming together, sitting and meeting are established but little else that is tangible is accomplished. In this stage suspicion, fear and anxiety of members about the group are discussed and dealt with.
2. **Storming:** In this stage, conflicts between individual interest and group interest surface and are dealt with and leadership starts emerging. Procedures, rules and roles are established for reconciling conflicting interests and resolving various problems.

3. **Norming:** In this stage, trust among group members develops and the group becomes cohesive unit, which leads to the emergence of individual and group empowerment.

4. **Performing:** This is the final stage when the group becomes operational and starts performing various group functions that benefit its members.

### 3.5.3. Some Propositions about Group Evolution

The traditional theory of group behaviour has two basic variants i.e. casual variant and the formal variant. In its casual form, the traditional view is that groups are ubiquitous and this is due to a fundamental human propensity to form and join associations. It means that man feels a “felt need” to huddle together. Interpreting in the famous Italian political philosopher Gaetano Mosca’s words as quoted in Olson’s theory “men have instinct for herding together and fighting with other herds”. In our modern context, it means that people join together for a common cause and with others for the furtherance of the cause as a herd or group. It implies that there should be a “felt need” or reason for people to come together.

The formal variant traditional view also emphasizes the ubiquity of groups but attributes this to a different reason. It attempts to explain the group affiliations of present day out of the primitive societies of earlier days. It says that primary groups or small groups like family and kinship groups are predominant in primitive societies. Mac lover as quoted in Olson, describes this as “under more simple conditions of
society social expressions or interests are mainly through class or caste groups, kin groups, and other unorganized or loosely organized solidarities. This explains the theoretical propositions about group evolution in general. Against this background, in the next section, an effort has been made to discuss the formation of Self Help Group.

3.5.4. Formation of Self Help Group

The process of group formation involves a series of tasks carried out in a sequence. The following diagram depicts the significant activities involved in this process.

![Diagram showing the process of group formation]

Selection of village

Identifying the poor

Seeding the concept

Formation of groups

Reorientation on concept

Regularising the systems

It is desirable to understand the principles and intentions involved in each of the activities identified above.

---

3.5.4.1. Selection of village

It involves three aspects, which are briefly explained below.

A. **Principles** involved are; (a) Supporting the needy first (b) Suitability to the village and (c) Greater stakes and ownership by village community.

B. **Criteria** developed are; (a) Remoteness of the village (b) Lack of the infrastructure (c) Possibilities of formation of villages into clusters and (d) Population of poor.

C. **Method of Selection** employed is (a) Observation by visiting the villages (b) Informal interaction with village people (c) Processing secondary data and (d) Cross checking with other sources of information about the village.

3.5.4.2. Identifying the poor:

The principles and the process involved are explained below.

A. **Principles** involved are; (a) Resources are scarce and hence they should be prudently distributed to the needy (b) To reduce the gap between ‘haves’ and ‘have-nots’ in the society (c) Poor are marginalized in the society and hence they need support and guidance and (d) People participation in identifying the needy.

B. **Process** employed are; (a) Village Mapping (b) Wealth Ranking (c) Participatory Rural Appraisal (PRA) techniques\(^{45}\) and (d) Sharing information with villagers.

---

\(^{45}\) PRA techniques, which became popular in the early 1990s, are tools used to collect reliable information regarding a village, street, etc. by a process of consultation with area residents, often in a group. The tools are cost effective when compared to conventional survey methods.
3.5.4.3. Seeding the Concept

This process is undertaken in the following method.

- Special meeting of the identified families is convened.
- Group leaders / active volunteers are identified and they are convinced about the concept first and then doubts if any are clarified.
- If required an exposure visit of the identified people is arranged to have on the spot first hand impressions about a Self Help Group.
- Facilitating a discussion about the existing savings and credit practices.
- Reinforce the concepts and need for collective action and forming the group.

3.5.4.4. Formation of Groups

This stage involves (a) Arranging group meeting (b) Naming the Group (c) Framing the Group’s guidelines (Rules and bye laws), policies, norms etc. (d) Selection of office bearers (e) Deciding about savings/thrift norms (f) Deciding about the Books/documents to be maintained (g) Once again reinforcing the concept of SHGs and (h) Finalising the formation by documenting the formation process and obtaining the signatures of the members.

3.5.4.5. Reorientation of Concept

It is intended to reinforce the concepts and the need for collective action and group culture.

3.5.4.6. Regularising the System

The steps for regularising group level systems are: (1) to ensure that proceedings of the group meetings are written every month and read at the end of
every meeting. All members have to sign in the proceedings book. (2) Simple accounting system and necessary books are opened and maintained from the day one. Each member should get a passbook and entries are made every month. (3) Reading out all the norms and creating awareness among all members about the norms. (4) To ensure that the norms are followed strictly. (5) Training input to group accountants and office bearers is provided. Role of office bearers is clarified to ensure that each one takes their responsibility.

3.5.5. Promotion and Development of SHGs

SHGs are organic in terms of their development and pass through various stages to get stabilised. The stabilisation process is influenced by various factors which include age of the group, membership and awareness, cohesion, leadership, interaction among members and activities. To begin with, groups need to stabilise the regularity of meetings, ensure attendance by all members, maintain the books of accounts, completing regular transactions of savings and lending among members with little or no outside support. Further, group has to ensure the equitable distribution of loans to needy members and regular repayment. The money available with the group is limited compared to growing demands. Group goes through a process of suspicion and doubt (in issuing of loan) to trust and confidence. Group moves from total informal stage to the stage of framing agreeable norms and following them regularly. The leadership gets established and most of the conflicts are managed internally. This process of stabilisation confirms that the group reaches about one year age.

At this stage the role of Promoting Agency / Voluntary Agency / NGO will change from promoter-cum-facilitator to coach enabling the groups to manage on
their own. Group becomes a passive owner of the development process than just a participant of these roles initiating various processes with proaction. A regular assessment of groups is very critical to initiate appropriate process of development.

3.5.6 Growth Path of SHG:

Normally, an SHG passes through several stages of development with different focuses in their approaches towards attainment of objectives. Some of the important and common stages of development of an SHG are presented in Table 3.1 for easy discernment.

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Stage of Development</th>
<th>Period</th>
<th>Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Pre-Formation</td>
<td>1-2 Months</td>
<td>• Identifying the poor through participatory methods.</td>
</tr>
<tr>
<td>2.</td>
<td>Formation</td>
<td>2-6 Months</td>
<td>• Evolving Group norms and bye laws.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Regularizing Group meetings.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Pooling of savings, issue and collection of small loans.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Group cohesion and adjustment, systems of accounts.</td>
</tr>
<tr>
<td>3.</td>
<td>Stabilization – I</td>
<td>6-12 months</td>
<td>• Leadership and stabilization.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Handling of Group level transactions independently or with less support from NGO/VA.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Cluster interactions.</td>
</tr>
<tr>
<td>4.</td>
<td>Stabilization-II</td>
<td>12-18 months</td>
<td>• Initiation of income generating programmes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Linkages with local banks.</td>
</tr>
<tr>
<td>5.</td>
<td>Growth</td>
<td>18-24 months</td>
<td>• Expansion of income generating programme.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Firming up the Bank linkages.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Addressing common issues.</td>
</tr>
<tr>
<td>6.</td>
<td>Expansion</td>
<td>Above 24 months</td>
<td>• Creation of assets for the Groups and members</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Increase in turnover.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Improve interactions with bank.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Approaches for formation of federations.</td>
</tr>
</tbody>
</table>
Grading of Groups

Group development is however a very notable process where the following indicators are developed for grading and assessing the stabilisation of groups:

1. **Group Meeting:** Aspects of (a) Regularity (b) Attention (c) Conduct of meetings.

2. **Functional Aspects:** Aspects of (a) Regular savings (b) Issue of loans (c) Regular repayments (d) Maintenance of Accounts and (d) Framing and following of norms.

3. **Equity of loan:** Aspects of (a) Number of loans v/s members (b) Average loan size (c) Purposes and turnover and (d) Demand v/s catering the needs.

4. **Leadership:** Effectiveness in (a) Problem solving (b) Collective decision-making (d) Initiatives and work sharing and (e) Cohesion and adjustment.

5. **Knowledge of members:** Clarity about the (a) Purpose of the Group (b) Roles and Responsibilities (c) Financial details and (d) Programmes and contacts with other neighboring groups.

3.5.7. **SHG in a Bird’s Eye View:**

The nature, formulation, characteristics and functions of an SHG are captured in a *bird’s eye view* for quick understanding.
Self Help Group (SHG) is a group of people having a common goal of socio-economic sustainable development, discussing their problems and resolving it through appropriate participatory decision making.

3.5.8. Annotations on Concept and Functioning of SHGs

Some of the interpretations about the concept and functioning of the SHGs are presented here below:

Functioning of the Groups:

1. Bye-laws

SHGs like any other organization, frame certain rules to be followed by the members. The promoters facilitate the group in framing the rules. The rules are also
known as byelaws and they relate to: (A) Objectives of the groups (B) Meetings – time and periodicity (C) Savings – amount, periodicity and rate of interest (D) Credit – procedure for sanction, ceiling amount, purposes, rate of interest, repayment mode and period etc. (E) Fines – in case of default in attending meetings, savings and credit repayment; Group may also levy fines for pan chewing, beedi smoking etc. (F) Leadership – election or nomination of leaders, rotation of leaders etc. and (G) Accounting – procedures for accounting, banking etc. The above norms may be written or oral. They may be decided in the meetings or they may evolve over a period of time.

2. Meetings

The group decides the periodicity of the meetings i.e. weekly, fortnightly or monthly. They also decide on the time of the meeting. Decision on time and periodicity helps in regular conduct of meetings. The important aspects related to meetings are; (a) Regularity of meetings (b) The attendance rate of members in the meetings (c) Punctuality and conduct of members in the meetings and (d) Appropriate disciplinary measures to deal with errant members

3. Maintenance of Books

The number and types of books to be maintained is normally suggested by the Promoting Agency / Voluntary Agency / NGO and differs from Promoter to Promoter. Promoters normally impart training to literate members of the groups in maintenance of books and in case of groups of illiterate members either the NGOs or literate villagers maintain the books on behalf of group members. Some of the indispensable books maintained by the SHGs are (a) Proceedings cum Attendance Book (b) Savings Accounts Book (c) Loan Accounts Book and (d) Cash Book.

78
4. Leadership

Two or three group members are elected as the leaders. Initially the opinion makers are selected as the leaders and over a period of time they are expected to be rotated. The group leaders are expected to: (a) regularly convene and conduct the meetings (b) help the group members in taking decisions (c) resolve conflicts (d) maintain books of accounts and (e) travel to bank branch for operation of accounts.

5. Awareness of Group

Apart from meeting the emergent credit requirement of the members, the SHGs also help in awareness raising and empowerment of the group members by joint action. Members are expected to; (a) know the purpose and philosophy of group formation (b) know the operations and activities of the group viz., the savings and credit of the group as well as the individual member’s savings and credit details (c) participate in group discussions and decision-making (d) help solve the problems that are raised in the meetings (e) work as a cohesive group and (f) have transparent dealings.

3.5.9. Theories about Group Functioning and Stability of Groups

In this section, an effort is made to review some theoretical propositions about the functioning and stability / survival of SHGs.

3.5.9.1. The Hardin's Thesis

The Hardin’s thesis (Hardin, 1968, as quoted in Singh 1994 pp 13.14) of “The tragedy of the commons” is the dominant paradigm of analyzing the problems of...
collective action involved in using common pool resources (CPRs). The thesis illustrates the failure of collective actions when the perceived actions cost the individual.

3.5.9.2. Buchanan's and Tullock's Theory

Buchanan and Tullock (1995 as quoted in Singh 1994, p.p. 35' 37) ask this question: "What are the conditions under which a group comprising free and rational utility maximizing individual’s choice to formulate and abide by a set of rules of collective action such as restrained use of common pool resource?". And their answer to the question is "A group would choose a collective mode of action when each of its individual members finds it profitable to act collectively rather individually, i.e. when his perceived costs are less than his perceived benefits from the collective action. The perceived costs include both external costs and decision making costs."

3.5.9.3. The Prisoner's Dilemma (PD) Game

The conventional Prisoner's Dilemma has been described by Singh, (1994, pp 39.42), following Campbell. The learning from the dilemma game could be, if any two persons are allowed to communicate and enter into a mutually binding contract and trust each other, they can make good and long lasting decisions which are favourable to both of them. However, the outcome of the dilemma is determined by its structure\(^7\). The classic PD game is analogous to many situations that prevail in groups and group action. Extending the lesson from the Game Theory to the groups of individual will require bringing the group members together on a common platform and having them enter into mutually binding contracts.

3.5.9.4. Olson’s Theory (1965)

According to Katar Singh and Raji Gain\textsuperscript{48}, Olson’s theory (1965, pp 34, 45) says that in smaller groups, each of the members or majority of the members find that his private gain from collective good or activity is more than his private gain from doing it individually. Olson also asserts that in smaller groups, it is possible to have 100% participation of the group member, and a close monitoring of the actions of all members is also possible, which he pinpoints as essential for group stability (p. 40). He describes why in large meetings, no clear decisions are taken (p. 53).

3.5.9.5. Ostrom’s Propositions

According to Katar Singh and Raji Gain\textsuperscript{49}, Ostrom (1990, pp 89, 102) proposes that access to and use of common pool resources be regulated by a set of mutually accepted rules. She further proposes that close monitoring of the behaviour to detect and minimize opportunities for free riding, striking or breaking of rules is necessary for success of collective action.

3.5.9.6. Axelrod’s Propositions

Axelrod (1984, as quoted in Singh 1994, p. 42) advances several propositions dealing with the emergence of co-operation narrated in Prisoner’s Dilemmas. The most important among them is the treat of and willingness and ability to retaliate against deflections. This in his opinion is vital to the emergence of co-operation.

3.5.9.7. Oakerson’s Propositions

Oakerson (1986, as quoted in Singh 1994, pp 43, 44) proposes that pattern of interaction, presence or absence of reciprocity among its members and decision-

\textsuperscript{48} Ibid.
making arrangements will determine whether a group will succeed or not in the just use of resources in the larger interest of the group. Reciprocity requires that members of the group contribute positively to each other’s welfare not necessarily on quid pro quo basis, but over a period of time. The decision-making arrangements consist of rules, norms, customs, and traditions etc. that influence individual and collective choices in the use of common pool resources.

From the above paragraphs, we can identify the following factors for having substantial impact on formation and sustainability of SHGs.

i. Felt need for group formation and identification with the objective of group formation.

ii. Some sort of ‘homogeneity’ among the members

iii. Feeling of ‘solidarity’ among group members

iv. Existence and evolution of byelaws / rules and regulations and their enforcement by members themselves.

v. ‘Participation’ of all members and democracy in group functioning.

vi. Quality of ‘leadership’ and procedure of selecting leaders

vii. Substantial private net ‘benefits’ from collective action vis-à-vis individual action.

viii. ‘Transparency’ in operations and functioning of groups.

3.5.10. The SHG-bank linkage

The SHG-bank linkage Programme has its origins in a GTZ-sponsored project in Indonesia. Launched in 1992 in India, early results achieved by SHGs promoted by NGOs such as MYRADA, prompted NABARD to offer refinance to banks for

---

50 Ibid.
collateral free loans to groups, progressively up to four times the level of the group’s savings / deposits. SHGs thus "linked" became micro-banks able to access funds from the formal banking system. The linkage permitted the reduction of transaction costs of banks through the externalisation of costs of servicing individual loans and also ensuring their repayment through the peer pressure mechanism.\footnote{Ajay Tankha, Development Consultant, Sa-Dhan, New Delhi: Self-help Groups as Financial Intermediaries in India: Cost of Promotion, Sustainability and Impact}

SHG-banking is a programme that helps to promote financial transactions between the formal rural banking system in India comprising of public and private sector commercial banks, regional rural banks and cooperative banks and the informal Self Help Groups. SHGs usually start by making voluntary thrift on a regular -mostly fortnightly or monthly basis (contractual savings). They use this pooled resource (as quasi-equity) together with the external bank loan to provide interest-bearing loans to their members. Such loan provides additional liquidity or purchasing power for use in any of the borrower’s production, investment, or consumption activities.

SHG-banking through SHGs and the existing decentralised formal banking network including several organisations in the formal and non-formal sectors as banking partners allow for large-scale outreach of microfinance services to the poor in India. These banking services (depositing savings, taking loans) are made available at low cost, are easily accessible and flexible enough to meet poor people’s needs.\footnote{Dr. Erhard W. Kropp (formerly Senior Economist, GTZ, and Consultant) and Dr B S Suran, mCID, NABARD, Study of Linking Banks and (financial) SHGs in India, Published by NABARD}

Involvement of SHGs with banks could help in overcoming the problem of high transaction costs in providing credit to the poor, by passing on some banking responsibilities including loan appraisal, following and recovery etc. to the poor themselves. In addition, the character of the voluntary association and their real
relations with members offered ways of overcoming the problem of collateral, excessive documentation and physical access which reduced the capacity of the formal institution to serve the poor.\footnote{Sheokand, S.M. No date. Reorienting banking with the poor: The SHG-bank linkage way. Paper presented at the Bankers Institute for Rural Development, Workshop on Kick starting Micro-Finance, A Challenge for the Indian Banks. National Bank for Agriculture and Rural Development, Mumbai, India.}

Given this background, the objectives of the SHG-bank linkage programme are:

1. To evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal financial institutions.

2. To build mutual trust and confidence between the bankers and the rural poor, and

3. To encourage banking activity, both on the thrift and credit sides, in a segment of the population that the formal financial institution usually find difficult to reach.

Before financing the SHG under the linkage programme, the banks use a Check List to assess the performance of the SHG to understand whether the group qualifies for linkage. The Checklist to assess the performance of an SHG is presented in Appendix-3.2.

3.5.11. SHG-bank linkage models

Broadly three different models have emerged under the linkage programme in the country.
MODEL - 1: NGOs as SHPIs

Here groups are formed and supported by NGOs or government agencies. The dominant model, it accounted for 72% of cumulative loans of banks by March 2005.

MODEL - 2: NGOs as Financial Intermediaries

In this model NGOs act as both facilitators and MF intermediaries, and often federate SHGs into apex organisations to facilitate inter-group lending and larger access to funds. Cumulative bank loans through this channel were 7% of total by March 2005.

MODEL - 3: Banks as SHPIs

In this model the bank itself promotes and nurtures the self-help groups until they reach maturity. It accounted for 21% of cumulative bank loan provided till the end of March 2005.
In India:

About 72% of the linkage is through model-1

About 7% of the linkage is through model-2

About 21% of the linkage is through model-3

Each of the three models can be assessed to arrive at the strategic significance and scope for widespread adoption. Further, the advantages and limitations of the different models of SHG-bank linkage are presented in the Table 3.2 here below:
<table>
<thead>
<tr>
<th>MODEL</th>
<th>ADVANTAGES</th>
<th>LIMITATIONS</th>
</tr>
</thead>
</table>
| **MODEL-1** | • Each partner institution plays a role best suited for it. Banks lend, NGOs organize poor into SHGs, and SHGs manage the finance in their own interest.  
• The whole system is localized.  
• SHGs and local NGO learn to deal with an accessible bank branch and vice-versa. | • In spite of wider acceptance of the model, majority of the field bankers are yet to be sensitized and do not view it as banking mandate.  
• In many places, it is still difficult to open an SB account for an SHG.  
• Absence of NGOs in many parts of India affects the spread of the linkage programme. |
| **MODEL-2** | • It further reduces the transaction cost and risk cost of the bank as the banks lend a larger sum to an NGO, which guarantees repayments. | • NGOs are not traditionally equipped to work as financial intermediaries.  
• Calls for substantial investment in capacity building of NGOs.  
• Adds one or more intermediary structure.  
• Wide scale adoption not possible. |
| **MODEL-3** | • Exposes bankers to social realities first hand.  
• A Possible solution where NGOs are not present.  
• Avoids another intermediary. | • Wide scale application may not be feasible because of other priorities of bankers |
Indirect Effects of SHG-bank Linkage

There are multiple other benefits, which are difficult to quantify yet they deserve mentioning. There are claims that some of the indirect and intangible effects may be more important than the direct effects. *Indirect Commercial Benefits for banks* include spill-over effects, resulting in (a) increased overall vibrancy in branches where large underutilized capacities exist, resulting in higher overall volumes of deposits and loans (b) improved loan recovery due to the influence of SHG members on other villagers (c) substantially invigorated business in primary cooperatives (d) Better service extended to all clients; decline of Gheda banking [Gheda banks (a Punjabi term) are those which require many visits] and (e) expected future growth of business with SHGs and individual members. *Indirect Commercial Benefits at village level* reportedly include the following (a) the spreading of thrift among members and non-members, resulting in improvement in self-reliance and self-financing (b) Excellent credit culture, with SHG members fully observing their loan obligations and spill-over effects on other villagers (c) income-generating activities of SHG members, with growth of assets and incomes (d) gaining entrepreneurial experience. *Intangible Social Benefits* are (a) self-confidence and self-discipline among women, resulting in a more active life (b) empowerment of women in community development programmes, civic affairs and local politics and improved women’s literacy (c) vaccination of children and better health (d) improved sanitation and access to drinking water (e) changing male attitudes and behaviour, reduction in drinking and smoking (f) voicing of objections against child marriage, child labour and dowry.
3.5.12. The Uniqueness of SHG-bank Linkage

Some of the unique features of the linkage programme are:

1. **Decision Making:** Members make decisions collectively. SHG concept offers opportunity for participative decision making on conduct of meetings, thrift and credit decisions. The participative process makes the group a responsible borrower.

2. **Financial Services:** SHGs provide the needed financial services to the members at doorstep. A World Bank study has brought out that rural poor need four types of financial services, viz, consumption credit, savings, production credit and insurance.

3. **Supplementary for formal banking:** SHG linkage does not supplant the banking system, but it supplements the formal banking.

4. **Cutting Costs:** SHG linkage cuts costs for both banks and borrowers.

5. **Shorter Repayment Terms:** Smaller and shorter repayment schedule ensures faster recycling of funds, greater fiscal prudence in the poor and drives away the slackness and complacency that tends to set-in, in long duration credit cycles.

6. **Banker Friendly:** The linkage mechanism has proved that where minimum follow up was observed, the repayments were as high as 95-100%.

7. **Peer Pressure as Collateral:** The SHG linkage emphasizes peer pressure within the group as substitute to collateral.
8. **Quality Clients**: The SHGs are turning out to be quality clients in view of better credit management, mobilization of thrift, low transaction costs and near full repayments.

9. **Client Preparation**: The members of SHGs who over a period of time graduate to the stages of micro entrepreneurs will turn out to be clients conversant with healthy credit discipline.

10. **Exclusive Poor Focus**: SHGs have exclusive focus on absolute have-nots, who have been bypassed by the system. Social banking does not have any meaning if the lowest strata of the society and the unreached are not covered.

11. **NGOs as Partners in the Process**: Through the linkage programme, the policy makers, banks and NGOs have become involved in the SHG movement. For the first time NGOs joined hands with the banks in pursuing development agenda.

Further, the *Milestones of SHG-bank Linkage Programme* piloted by NABARD in India is depicted in a table for easy comprehension in Appendix-3.3.

The SHG– bank linkage programme offers a *win-win situation* for all the participants and the same is presented in the *Table 3.3* here below:
Table 3.3: Win-Win Situation in SHG-bank Linkage Programme

<table>
<thead>
<tr>
<th>For SHGs</th>
<th>For NGOs</th>
<th>For Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. A via-media for development of thrift habit among the poor.</td>
<td>A. Facilitates deepening of their developmental efforts.</td>
<td>a. Reduction in transaction cost by way of externalization of a part of the credit cycle (appraisal disbursal, supervision, and repayment)</td>
</tr>
<tr>
<td>3. Availability of emergent consumption/production credit at the door step.</td>
<td>C. Increases the outreach to the poor through credit plus approach.</td>
<td>c. Assured and timely repayment leading to faster recycling of funds.</td>
</tr>
<tr>
<td></td>
<td>E. Avenue for performing financial intermediation in unbanked and backward areas.</td>
<td>e. Prospects of future quality clients.</td>
</tr>
<tr>
<td></td>
<td>F. Emergence as bridge between banks and poor.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>G. Propagation of innovative credit delivery approaches.</td>
<td></td>
</tr>
</tbody>
</table>

3.5.13. Salient Features of SHG Approach

Some of the salient features are summarised here below:

1. **Small and Fixed Savings at Frequent Intervals:** Small and fixed savings made at regular intervals coupled with conditions like compulsory attendance, penal provisions to ensure timely attendance, saving, repayment etc forms a deterrent for the rich to join the SHG system- thereby enables exclusion of the rich.
2. **Self-Selection:** The members select their own members to form groups. The members residing in the same neighborhood ensure better character screening and tend to exclude deviant behaved ones.

3. **Focus on Women:** As regular meetings and savings are compulsory ingredients in the product design, it becomes more suitable for the women clients- as group formation and participatory meetings is a natural ally for the women to follow.

4. **Savings First and Credit Later:** The saving first concept enables the poor to gradually understand the importance of saving, appreciate the nuances of credit concept using their own money before seeking external support (credit) for fulfilling future needs. The poor tend to understand and respect the terms of credit better.

5. **Intra Group Appraisal Systems and Prioritization:** Essentials of good credit management like (peer) appraisal for credit needs (checking the antecedents and needs before sanction), (peer) monitoring – end use of credit; (peer sympathy) re-scheduling in case of crisis and (peer pressure) collateral in case of willful non-payment etc all seems to coexist in the system - making it one of the best approaches for providing financial services to the poor.

6. **Credit Rationing:** The approach of prioritization i.e.: meeting critical needs first serves as a useful tool for intra-group lending. This ensures the potential credit takers/users to meticulously follow up credit already dispensed, as future credit disbursals rely on repayments by the existing credit users.
7. **Market Rates of Interest:** Self-determined interest rates are normally market related. Sub-market interest rates could spell doom; distort the use and direction of credit.

8. **Progressive Lending:** The practice of repeat loans and often-higher doses is followed by SHGs in their intra-group loaning, thereby enticing prompt repayments.

9. **A Multiple-Eyed Operation:** The operations of the SHG are transacted in-group meetings thus enabling high trust levels and openness in the SHG system. The banking transactions are also generally conducted by SHG members facilitating openness and freedom from unfair practices.

10. **Social Agenda:** Available statistics indicate a dependency of 35-40% of rural households on non-institutional sources for credit needs. SHG linkage offers a better way of teaching with the magnitude of social agenda. NGO's have recognized the SHG as a vehicle for carrying and deepening of their developmental agenda.

11. **Empowerment:** The greatest feature of the SHG movement is in empowerment process that it initiates among the poor particularly women. Behavioural change and self-reliance is ushered in along with provision of financial services may shape the members not only as quality bank clients but also as groups and prepared citizens amenable to absorption of other services.
3.6 Conclusion

The Self Help Group approach in India uses the existing large network of banks to bring financial services to the resource poor particularly the women. This approach has indeed made considerable impact on the rural economy owing to its well accepted conceptual frame, flexibility in structure and organisation of Self Help Groups, availability of motivated support from organised institutional network of banks, co-operative institutions, dedicated NGOs / VAs / Government Organisations and favourable Governments both at the states and at the Centre. In the next chapter an attempt is made to present the macro-level impact of SHG-Approach on the dimensions of rural development such as poverty reduction, women empowerment, environment sustainability, employment generation, etc.